UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

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.

Delaware	**91-1292054**
(State of Incorporation)	(I.R.S. Employer Identification No.)

19300 International Boulevard, Seattle, Washington 98188

Telephone: (206) 392-5040

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

Common Stock, $1.00 Par Value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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:
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 ☒

As of January 31, 2013, shares of common stock outstanding totaled 70,341,799. The aggregate market value of the shares of common stock of Alaska Air Group, Inc. held by nonaffiliates on June 30, 2012, was approximately $2.5 billion (based on the closing price of $35.90 per share on the New York Stock Exchange on that date).

DOCUMENTS INCORPORATED BY REFERENCE
Portions of Definitive Proxy Statement relating to 2013 Annual Meeting of Shareholders are incorporated by reference in Part III.

ALASKA AIR GROUP, INC.

ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

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As used in this Form 10-K, the terms "Air Group," the "Company," "our," "we" and "us," 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-K 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.

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 in this Form 10-K, see “Item 1A: Risk Factors.” Please consider our forward-looking statements in light of those risks as you read this report.

PART I

ITEM 1. OUR BUSINESS

Alaska Air Group operates Alaska Airlines and Horizon Air, which together with its partner regional airlines, serve 95 cities through an expansive network in Alaska, the Lower 48, Hawaii, Canada and Mexico. During 2012, we carried 26 million passengers while earning record full-year adjusted earnings of $339 million.

Our objective is to be one of the most respected domestic airlines by our customers, employees, and shareholders. We believe our success depends on our ability to provide safe air transportation, develop relationships with customers by providing exceptional customer service, and maintain a competitive cost structure to increase our profitability, provide low fares and grow our network. Over the past decade, we have worked to transform our company to achieve these objectives. In 2012, Alaska Airlines ranked “Highest in Customer Satisfaction among Traditional Network Carriers” by J.D. Power and Associates for the fifth year in a row. For the ninth consecutive year, we have reported an adjusted annual profit, allowing us to strengthen our balance sheet and achieve an after-tax return on invested capital of 13% in 2012, surpassing our 10% goal for the third year in a row. In addition, over the past decade, we have diversified our network to better respond to the seasonality in our business and provide more destinations for our customers. As we look to the future, we will build on the success of the past few years by executing our strategic plan — the Five Focus Areas:

Safety and Compliance
We have an unwavering commitment to run a safe and compliant operation, and we will not compromise this commitment in the pursuit of other initiatives. Alaska and Horizon, in coordination with the FAA, began implementing a Safety Management System to better identify and manage risk. Both airlines achieved Level One certification in 2012 and plan to achieve Level Two certification in 2013.

People Focus
While aircraft and technology enable us to provide air transportation, we recognize this is fundamentally a people business and our success depends on our employees. Strengthening our "small company feel" will allow our employees to execute as a united team on the frontlines and behind the scenes. All Air Group employees have attended or will soon attend our Flight Path program, a one-day workshop to share the future vision for our company. In addition, all employees participate in the Performance-Based Pay (PBP) and Operational Performance Rewards (OPR) programs, which encourage employees to work together to achieve metrics related to safety, profitability, low costs and customer satisfaction. Over the last four years, our incentive programs have paid out over $325 million.

Hassle-Free Customer Experience
We want to be the easiest airline to fly, which we will do by improving each step of the customer's journey from booking a ticket to our in-flight experience. During 2012, we launched a new mobile website, m.alaskaair.com, which provides customers quick and easy access to important travel information from any handheld mobile device or tablet, including the ability to purchase tickets, track flight details, check-in, get mobile boarding passes, and view optional upgrades. After the successful launch of booking on our mobile website, we upgraded our Android app in December 2012 and iPhone app in January 2013 to allow our customers to book tickets using our apps. We introduced self-bag tagging to four locations in 2012, which allows customers to print and attach their own luggage tags from a self-service kiosk in the airport lobby or, as part of a pilot program, at home during web check-in. The Transportation Security Administration (TSA) launched their Pre-Check Program in 17 of our locations, which allows eligible customers to opt-in for reduced screening requirements. As passengers take more control of their travel experience, we are able to reduce the time it takes a customer to move from the airport curb to the aircraft.

We have also made improvements to our airport gate areas. At Los Angeles International Airport (LAX), Alaska moved to a newly renovated Terminal 6, which includes our Airport of the Future design, new common use systems, additional gates, and convenient connections with international flights. At Seattle-Tacoma International Airport (Sea-Tac), the Port of Seattle Commission gave final design authorization to renovate the North Satellite to better serve passengers and consolidate our operations. The project will include modernizing facilities, enhanced traveler amenities, adding three gates, and building a new roof-top Boardroom. We also enhanced the customer experience by adding more power outlets to gate areas at six airport locations. We expect construction on this project to commence in late 2013.

We continued to improve our in-flight experience by taking delivery of our first B737 aircraft with the Boeing Sky Interior. The interior includes variable ambient cabin lighting, larger window recesses, and overhead bins which provide more headroom, all designed to offer a greater sense of space. All future B737 aircraft deliveries will include the Boeing Sky Interior.

Energetic and Compelling Brand

We are fortunate to have high brand awareness and customer loyalty in the Pacific Northwest and Alaska. For us to keep growing in new markets like California, Hawaii and cities in the mid-continental and eastern U.S., we believe we must better understand what is important to our new customers, and position our brand appropriately to help differentiate us from the competition. We use our brand and technology to develop more direct relationships with our customers through more personalized marketing. Our website, alaskaair.com, is tailored to each customer based on their location and viewing history. In 2012, approximately 54% of our ticket sales were made through alaskaair.com and our goal is 60% in 2013. Similarly, our email marketing is highly targeted and personalized by allowing customers to choose which types of messages they want to receive, such as fare sale, new markets, offers from partner airlines and monthly Mileage Plan activity. As a result, we increase ticket sales and reduce our ticket distribution costs by providing the right marketing messages to the right people at the right time.

We use social platforms, such as Facebook and Twitter, to give customers a new way to connect with our brand and provide exceptional customer service throughout their journey. In 2012, our Facebook fans grew by 47% and our Twitter followers increased 38%. And as we expand our network, we are dedicated to becoming part of the communities we serve. In 2012, employees participated in over 235 community events, including the "Spirit of the Islands" paint-the-plane contest with the winning artwork adorning one of our B737-800 aircraft. We also sponsor a number of local teams in the cities we serve, such as the Seattle Mariners and Portland Timbers.

Low Fares, Low Costs and Network Growth

In order to profitably provide low fares to our customers while returning value to our shareholders, we believe we must maintain a competitive cost structure. In 2012, we lowered our unit costs, excluding fuel, by 0.8% on a consolidated basis, representing the 10th such annual reduction out of the past 11 years. We achieved this through a continued focus on productivity. In 2012, we increased employee productivity by 3.5% and will continue to focus on that metric through several tools as we leverage growth. We also continue to reduce fuel costs by flying fuel-efficient aircraft, which have reduced our fuel burn as measured by available seat miles flown per gallon by 13.4% over the last five years, and by decreasing our exposure to the volatility of jet fuel prices through our fuel hedge program. Looking forward, we have committed to purchasing 34 737-900ER and 37 737 MAX aircraft, with deliveries in 2013 to 2022, to position us for growth and ensure we will continue to operate the quietest and most fuel-efficient aircraft available for the foreseeable future.

In 2012, we added 21 new markets to our network and exited six as we continued to better match supply with demand. We diversified our network further to offer more utility to our customers by adding flights to Hawaii and expanding to cities in the mid-continental and eastern U.S., such as Kansas City, San Antonio, and Philadelphia. We will also add new routes from Seattle to Salt Lake City and San Diego to Boston and Lihue in 2013.

AIR GROUP

Alaska Air Group is a Delaware corporation incorporated in 1985 and the holding company of Alaska Airlines and Horizon Air. Although Alaska and Horizon both operate as airlines, their business plans, competition, and economic risks differ substantially. Alaska Airlines is an Alaska corporation that was organized in 1932 and incorporated in 1937. Horizon Air Industries is a Washington corporation that first began service and was incorporated in 1981. Horizon was acquired by Air Group in 1986. Alaska operates a fleet of passenger jets (mainline) and contracts with Horizon, SkyWest Airlines, Inc. (SkyWest) and Peninsula Airways, Inc. (PenAir) for regional capacity under which Alaska receives all passenger revenue from those flights. Horizon operates a fleet of turboprop aircraft and sells all of its capacity to Alaska pursuant to a capacity purchase arrangement.

We attempt to deploy aircraft into the network in a way that best optimizes our revenues and profitability, reduces our seasonality, and takes advantage of demand in areas where other carriers have either exited or don't have the ability to serve.

The percentage of our capacity by market is as follows:

	2012	2011	2010	2009	2008
West Coast	35%	37%	41%	45%	48%
Alaska	17%	18%	19%	20%	20%
Transcon/midcon	19%	19%	19%	17%	18%
Hawaii	20%	16%	11%	7%	4%
Mexico	7%	9%	8%	8%	7%
Canada	2%	1%	2%	3%	3%
Total	100%	100%	100%	100%	100%

MAINLINE

We offer extensive north/south service within the western U.S., Canada and Mexico, and passenger and dedicated cargo services to and within the state of Alaska. We also provide long-haul east/west service to Hawaii and 17 cities in the mid-continental and eastern U.S., primarily from Seattle, where we have our largest concentration of departures; although we do offer long-haul departures from other cities as well.

In 2012, we carried 19 million revenue passengers in our mainline operations, and we carry more passengers between Alaska and the U.S. mainland than any other airline. Based on the number of passengers carried in 2012, Alaska's leading airports are Seattle, Los Angeles, Anchorage and Portland. Based on 2012 revenues, the leading nonstop routes are Seattle-Anchorage, Seattle-Los Angeles, Seattle-Las Vegas, and Seattle-San Diego. At December 31, 2012, Alaska's operating fleet consisted of 124 Boeing 737 jet aircraft, compared to 117 aircraft as of December 31, 2011.

The percentage of mainline passenger traffic by market and average stage length is presented below:

	2012	2011	2010	2009	2008
West Coast	29%	31%	33%	36%	40%
Within Alaska and between Alaska and the U.S. mainland	16%	17%	19%	21%	21%
Transcon/midcon	22%	22%	24%	23%	22%
Hawaii	23%	19%	14%	9%	5%
Mexico	8%	9%	8%	9%	9%
Canada	2%	2%	2%	2%	3%
Total	100%	100%	100%	100%	100%
Average Stage Length	1,161	1,114	1,085	1,034	979

REGIONAL

Our regional operations consists of flights operated by Horizon, SkyWest and Penair. In 2012, our regional operations carried approximately 7 million revenue passengers, primarily in the states of Washington, Oregon, Idaho and California. Horizon is the largest regional airline in the Pacific Northwest and represented over 90% of Air Group's regional revenue passengers during 2012, 2011, and 2010, respectively.

Based on 2012 passenger enplanements on regional aircraft, our leading airports are Seattle and Portland. Based on revenues in 2012, our leading nonstop routes are Seattle-Portland, Seattle-Spokane, and Seattle-Boise. At December 31, 2012, Horizon's operating fleet consisted of 48 Bombardier Q400 turboprop aircraft. Horizon flights are listed under Alaska's designator code in airline reservation systems, and in all customer-facing locations.

The percentage of regional passenger traffic by market and average stage length is presented below:

	2012	2011	2010	2009	2008
West Coast	69%	67%	70%	70%	72%
Pacific Northwest	20%	21%	19%	20%	18%
Canada	8%	8%	8%	7%	8%
Within Alaska	2%	2%	2%	2%	2%
Mexico	1%	2%	1%	1%	—%
Total	100%	100%	100%	100%	100%
Average Stage Length	294	309	333	327	322

INDUSTRY CONDITIONS, COMPETITION, AND ALLIANCES

GENERAL

The airline industry is highly competitive, subject to various uncertainties, and has historically been characterized by low profit margins. Uncertainties include general economic conditions, volatile fuel prices, industry instability, new competition, a largely unionized work force, the need to finance large capital expenditures and the related availability of capital, government regulation, and potential aircraft incidents. Airlines have high fixed costs, primarily for wages, aircraft fuel, aircraft ownership, and facilities rents. Because expenses of a flight do not vary significantly based on the number of passengers carried, a relatively small change in the number of passengers or in pricing has a disproportionate effect on an airline's operating and financial results. In other words, a minor shortfall in expected revenue levels could cause a disproportionately negative impact on our operating and financial results. Passenger demand and ticket prices are, to a large measure, influenced by the general state of the economy, current global economic and political events, and total available airline seat capacity.

In 2012, the industry continued to exercise capacity discipline due to economic uncertainty and volatile fuel prices. This allowed the industry to report stronger adjusted pretax profit margins compared to 2011.

FUEL

Our business and financial results are highly affected by the price and, potentially, the availability of aircraft fuel. The cost of aircraft fuel is volatile and outside of our control, and it can have a significant and immediate impact on our operating results. Over the past five years, aircraft fuel expense ranged from 21% to 36% of operating expenses. Fuel prices are impacted by changes in both the price of crude oil and refining margins, and can vary by region in the U.S.

The price of crude oil spiked in 2008 with a high of nearly $150 per barrel in July 2008 and dropped significantly to an average of $62 per barrel in 2009. We saw upward pressure on fuel prices again with an average crude oil price of just over $80 per barrel in 2010, $95 per barrel in 2011 and $94 per barrel in 2012. For us, a $1 per barrel increase in the price of oil equates to approximately $10 million of additional fuel cost annually. Said another way, a one-cent change in our fuel price per gallon will impact our expected annual fuel cost by approximately $4 million per year.

Refining margins, which represent the price of refining crude oil into aircraft fuel, are a smaller portion of the overall price of jet fuel, but also contributed to the overall price volatility in recent years. Refining margin prices reached a high of $45 per barrel in May 2008, before they dropped to an average price of $10 per barrel in 2009 and $14 a barrel in 2010. Refining margin prices more than doubled to $33 a barrel in 2011 and increased again to $36 a barrel in 2012.

Generally, West Coast aircraft fuel prices are somewhat higher and more volatile than prices in the Gulf Coast or on the East Coast, putting our mainline operation at a slight competitive disadvantage. Our average raw fuel cost per gallon increased 2% in 2012, 36% in 2011, and 27% in 2010.

The percentage of our aircraft fuel expense by crude and refining margins, as well as the percentage of our aircraft fuel expense of operating expenses:

	2012	2011	2010	2009	2008
Crude oil	65%	70%	79%	82%	68%
Refining margins	25%	24%	14%	13%	16%
Other[a]	10%	6%	7%	5%	16%
Total	100%	100%	100%	100%	100%
Aircraft fuel expense	35%	34%	27%	21%	36%

(a) Other includes gains and losses on settled fuel hedges, unrealized mark-to-market fuel hedge gains or losses, taxes and other into-plane costs.

We use crude oil call options and jet fuel refining margin swap contracts as hedges to decrease our exposure to the volatility of jet fuel prices. Both call options and swaps effectively cap our pricing for the crude oil and refining margin components, limiting our exposure to increasing fuel prices for about half of our planned fuel consumption. With the call option contracts, we still benefit from the decline in crude oil prices, as there is no future cash exposure above the premiums we pay to enter into the contracts. The swap contracts do not require an upfront premium, but do expose us to future cash outlays in the event actual prices are below the swap price during the hedge period.

We believe that operating fuel-efficient aircraft is the best hedge against high fuel prices. Alaska operates an all-Boeing 737 fleet and Horizon operates an all-Q400 turboprop fleet. Alaska's fuel burn expressed in available seat miles flown per gallon (ASMs/g) improved from 72.6 ASMs/g in 2008 to 76.6 ASMs/g in 2012. These reductions have not only reduced our fuel cost, but also the amount of greenhouse gases and other pollutants that our operations emit.

COMPETITION

Competition in the airline industry is intense. We believe the principal competitive factors in the industry that are important to customers are:

- safety record and reputation,
- fares,
- non-ticket fees,
- flight schedules,
- customer service,
- routes served,
- frequent flier programs,
- on-time arrivals,
- baggage handling,
- on-board amenities,
- type of aircraft, and
- codesharing relationships.

We compete with one or more domestic or foreign airlines on most of our routes, including both major legacy carriers and low-cost carriers. Due to its short-haul markets, our regional operations occasionally compete with ground transportation in many markets. Both carriers, to some extent, also compete with technology such as video conferencing and internet-based meeting tools that have changed the need for, or frequency of face-to-face business meetings.

ALLIANCES WITH OTHER AIRLINES

We have marketing alliances with a number of airlines that provide reciprocal frequent flyer mileage credit and redemption privileges as well as codesharing on certain flights as shown in the table below. Alliances are an important part of our strategy and enhance our revenues by:

- offering our customers more travel destinations and better mileage credit/redemption opportunities;
- giving our Mileage Plan program a competitive advantage because of our partnership with carriers from two of the three major global alliances (Oneworld and Skyteam);
- giving us access to more connecting traffic from other airlines; and
- providing members of our alliance partners' frequent flyer programs an opportunity to travel on Alaska and its regional affiliates while earning mileage credit in our partners' programs.

Most of our codeshare relationships are free-sell codeshares, where the marketing carrier sells seats on the operating carrier's flights from the operating carrier's inventory, but takes no inventory risk. Our marketing agreements have various termination dates, and at any time, one or more may be in the process of renegotiation. American Airlines and Delta Air Lines are our primary codeshare partners. They participate in two of the three major global alliances.

Our marketing alliances with other airlines are as follows:

	Frequent Flyer Agreement	Codeshare — Alaska Flight # on Flights Operated by Other Airline	Codeshare — Other Airline Flight # on Flights Operated by Alaska / Horizon / SkyWest
Major U.S. or International Airlines			
Aeromexico[(a)]	Yes	No	Yes
American Airlines/American Eagle	Yes	Yes	Yes
Air France	Yes	No	Yes
British Airways	Yes	No	No
Cathay Pacific Airways	Yes	No	Yes
Delta Air Lines[(b)]	Yes	Yes	Yes
Emirates	Yes	No	No
Icelandair	Yes	No	Yes
KLM	Yes	No	Yes
Korean Air	Yes	No	Yes
Lan S.A.	Yes	No	Yes
Air Pacific[(c)]	Yes	No	Yes
Qantas	Yes	No	Yes
Regional Airlines			
SkyWest[(c)]	Yes	Yes	No
Era Alaska	Yes	Yes	No
PenAir[(c)]	Yes	Yes	No
Kenmore Air[(c)]	Yes	No	No

(a) Alaska and Aeromexico launched a new codeshare partnership in December 2012, and plan to commence a reciprocal frequent flyer partnership by March 31, 2013.

(b) Alaska has codeshare agreements with the Delta Connection carriers SkyWest, ExpressJet, Pinnacle, and Compass as part of its agreement with Delta.

(c) These airlines do not have their own frequent flyer program. However, Alaska's Mileage Plan members can earn and redeem miles on these airlines' route systems.

TICKET DISTRIBUTION

Airline tickets are distributed through three primary channels:

- *Alaskaair.com:* It is less expensive for us to sell through this direct channel and, as a result, we continue to take steps to drive more business to our website. In addition, we believe this channel is preferable from a branding and customer-relationship standpoint in that we can establish ongoing communication with the customer and tailor offers accordingly.

- *Traditional and online travel agencies:* Both traditional and online travel agencies typically use Global Distribution Systems (GDS), such as Sabre, to obtain their fare and inventory data from airlines. Bookings made through these agencies result in a fee that is charged to the airline. Many of our large corporate customers require us to use these agencies. Some of our competitors do not use this distribution channel and, as a result, have lower ticket distribution costs.

- *Reservation call centers:* These call centers are located in Phoenix, AZ, Kent, WA, and Boise, ID. We generally charge a $15 fee for booking reservations through these call centers.

Our sales by channel are as follows:

	2012	2011	2010	2009	2008
Alaskaair.com	54%	51%	48%	45%	48%
Traditional agencies	27%	28%	28%	32%	28%
Online travel agencies	13%	13%	15%	11%	14%
Reservation call centers	6%	8%	9%	12%	10%
Total	100%	100%	100%	100%	100%

SEASONALITY AND OTHER FACTORS

Our results of operations for any interim period are not necessarily indicative of those for the entire year because our business is subject to seasonal fluctuations. Our profitability is generally lowest during the first and fourth quarters due principally to lower traffic. Profitability typically increases in the second quarter and then reaches its highest level during the third quarter as a result of vacation travel, including increased activity in the state of Alaska. However, we have taken steps over the past few years to better respond to the seasonality of our operations by adding flights to leisure destinations, like Hawaii, and expanding to cities in the mid-continental and eastern U.S.

In addition to passenger loads, factors that could cause our quarterly operating results to vary include:

- general economic conditions and resulting changes in passenger demand,

- pricing initiatives by us or our competitors,

- changes in fuel costs,

- the timing and amount of maintenance expenditures (both planned and unplanned),

- increases or decreases in passenger and volume-driven variable costs, and

- labor actions.

Many of the markets we serve experience inclement weather conditions in the winter, causing increased costs associated with deicing aircraft, canceling flights, and reaccommodate displaced passengers. Due to our geographic area of operations, we can be more susceptible to adverse weather conditions, particularly in the state of Alaska and the Pacific Northwest, than some of our competitors, who may be better able to spread weather-related risks over larger route systems.

No material part of our business or that of our subsidiaries is dependent upon a single customer, or upon a few high-volume customers.

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EMPLOYEES

Our business is labor intensive. As of December 31, 2012, we employed 12,932 (9,954 at Alaska and 2,978 at Horizon) active full-time and part-time employees. Wages and benefits, including variable incentive pay, represented approximately 42% and 41% of our total non-fuel operating expenses in 2012 and 2011, respectively.

Most major airlines, including ours, have employee groups that are covered by collective bargaining agreements. Airlines with unionized work forces have higher labor costs than carriers without unionized work forces, and they may not have the ability to adjust labor costs downward quickly enough to respond to new competition. New entrants into the U.S. airline industry generally do not have unionized work forces, and often have lower costs and more liberal work rules. At December 31, 2012, labor unions represented 83% of Alaska's and 49% of Horizon's employees. Our relations with our U.S. labor organizations are governed by the Railway Labor Act (RLA). Under this act, collective bargaining agreements do not expire but instead become amendable as of a stated date. If either party wishes to modify the terms of any such agreement, it must notify the other party in the manner prescribed by the RLA and/or described in the agreement. After receipt of such notice, the parties must meet for direct negotiations, and if no agreement is reached, either party may request the National Mediation Board (NMB) to initiate a process including mediation, arbitration, and a potential "cooling off" period that must be followed before either party may engage in self-help.

Alaska's union contracts at December 31, 2012 were as follows:

Union	Employee Group	Number of Active Employees	Contract Status
Air Line Pilots Association International (ALPA)	Pilots	1,452	Amendable 4/1/2013
Association of Flight Attendants (AFA)	Flight attendants	2,987	In Negotiations
International Association of Machinists and Aerospace Workers (IAM)	Ramp service and stock clerks	573	Amendable 7/19/2018
IAM	Clerical, office and passenger service	2,496	Amendable 1/1/2014
Aircraft Mechanics Fraternal Association (AMFA)	Mechanics, inspectors and cleaners	624	Amendable 10/17/2016
Mexico Workers Association of Air Transport	Mexico airport personnel	83	Amendable 9/1/2013
Transport Workers Union of America (TWU)	Dispatchers	39	Amendable 3/24/2015

Horizon's union contracts at December 31, 2012 were as follows:

Union	Employee Group	Number of Active Employees	Contract Status
International Brotherhood of Teamsters (IBT)	Pilots	550	Amendable 12/11/2018
AFA	Flight attendants	505	In Negotiations
IBT	Mechanics and related classifications	298	Amendable 12/16/2014
TWU	Dispatchers	18	Amendable 8/26/2014
National Automobile, Aerospace, Transportation and General Workers	Station personnel in Vancouver and Victoria, BC, Canada	46	Amendable 2/14/2016
IAM	Maintenance Stores	34	In Negotiations

EXECUTIVE OFFICERS

The executive officers of Alaska Air Group, Inc. and executive officers of Alaska and Horizon who have significant decision-making responsibilities, their positions and their respective ages are as follows:

Name	Position	Age	Air Group or Subsidiary Officer Since
Bradley Tilden	President and Chief Executive Officer of Alaska Air Group, Inc. and Alaska Airlines, Inc. and Chief Executive Officer of Horizon Air Industries, Inc.	52	1994
Glenn Johnson	Executive Vice President of Alaska Air Group, Inc. and President of Horizon Air Industries, Inc.	54	1991
Keith Loveless	Executive Vice President, General Counsel and Corporate Secretary of Alaska Air Group, Inc. and Alaska Airlines, Inc.	56	1996
Benito Minicucci	Executive Vice President/Operations and Chief Operating Officer of Alaska Airlines, Inc.	46	2004
Brandon Pedersen	Vice President/Finance and Chief Financial Officer of Alaska Air Group, Inc. and Alaska Airlines, Inc.	46	2003

Mr. Tilden joined Alaska Airlines in 1991, became Controller of Alaska Air Group and Alaska Airlines in 1994, Chief Financial Officer in February 2000, Executive Vice President/Finance and Chief Financial Officer in January 2002, Executive Vice President/Finance and Planning in 2007, and President of Alaska Airlines in December 2008. He is a member of Air Group's Management Executive Committee and was elected to the Air Group Board in 2010. He was elected Chief Executive Officer of Alaska Air Group, Alaska Airlines and Horizon Air Industries in May 2012.

Mr. Johnson joined Alaska Airlines in 1982, became Vice President/Controller and Treasurer of Horizon Air Industries in 1991 and Vice President/Customer Services in 2002. He returned to Alaska Airlines in 2003 where he has served in several roles, including Vice President/Finance and Controller and Vice President/Finance and Treasurer. He served as Senior Vice President/Customer Service – Airports from January 2006 through April 2007 and in April 2007, he was elected Executive Vice President/Airports and Maintenance and Engineering. He was elected Executive Vice President/Finance and Chief Financial Officer of Alaska Air Group and Alaska Airlines in December 2008. He was elected President of Horizon Air Industries in June 2010. He was elected Executive Vice President Alaska Air Group in November 2012. He is a member of Air Group's Management Executive Committee.

Mr. Loveless became Corporate Secretary and Assistant General Counsel of Alaska Air Group and Alaska Airlines in 1996. In 1999, he was named Vice President/Legal and Corporate Affairs, General Counsel and Corporate Secretary of Alaska Air Group and Alaska Airlines. He was elected Executive Vice President Alaska Air Group in November 2012. He is a member of Air Group's Management Executive Committee.

Mr. Minicucci joined Alaska Airlines in 2004 as Staff Vice President of Maintenance and Engineering and was promoted to Vice President of Seattle Operations in June 2008. He was elected Executive Vice President/Operations and Chief Operating Officer of Alaska Airlines in December 2008. He is a member of Air Group's Management Executive Committee.

Mr. Pedersen joined Alaska Airlines in 2003 as Staff Vice President/Finance and Controller of Alaska Air Group and Alaska Airlines and was elected Vice President/Finance and Controller for both entities in 2006. He was elected Vice President/Finance and Chief Financial Officer of Alaska Air Group and Alaska Airlines in June 2010. He is a member of Air Group's Management Executive Committee.

REGULATION

GENERAL

The airline industry is highly regulated. The Department of Transportation (DOT), the Federal Aviation Administration (FAA) and the Transportation Security Administration (TSA) exercise significant regulatory authority over air carriers.

- *DOT:* In order to provide passenger and cargo air transportation in the U.S., a domestic airline is required to hold a certificate of public convenience and necessity issued by the DOT. Subject to certain individual airport capacity, noise and other restrictions, this certificate permits an air carrier to operate between any two points in the U.S. Certificates do not expire, but may be revoked for failure to comply with federal aviation statutes, regulations, orders or the terms of the certificates. While airlines are permitted to establish their own fares without governmental regulation, the DOT has jurisdiction over the approval of international codeshare agreements, marketing alliance agreements between major domestic carriers, international and some domestic route authorities, Essential Air Service market subsidies, carrier liability for personal or property damage, and certain airport rates and charges disputes. International treaties may also contain restrictions or requirements for flying outside of the U.S. and impose different carrier liability limits than those applicable to domestic flights. The DOT has recently been active in implementing a variety of “passenger protection” regulations, covering subjects such as advertising, passenger communications, denied boarding compensation and tarmac delay response. Beginning January 2012, we began adhering to the DOT's full-fare advertising rule, which requires quoted fares to include all applicable government taxes and fees. International fares and rates are subject to the jurisdiction of the governments of the foreign countries we serve. Beginning in July 2012, DOT rules stipulated that airlines must charge passengers the same checked baggage fee on all legs of a journey covered by a single ticket, even if the passenger's journey involves flights on multiple carriers with different checked baggage fees.

- *FAA:* The FAA, through Federal Aviation Regulations (FARs), generally regulates all aspects of airline operations, including establishing personnel, maintenance and flight operation standards. Domestic airlines are required to hold a valid air carrier operating certificate issued by the FAA. Pursuant to these regulations we have established, and the FAA has approved, our operations specifications and a maintenance program for each type of aircraft we operate. The maintenance program provides for the ongoing maintenance of such aircraft, ranging from frequent routine inspections to major overhauls. From time to time the FAA issues airworthiness directives (ADs) that must be incorporated into our aircraft maintenance program and operations. All airlines are subject to enforcement actions that are brought by the FAA from time to time for alleged violations of FARs or ADs. At this time, we are not aware of any enforcement proceedings that could either materially affect our financial position or impact our authority to operate. New FAA rules regarding pilot flight time, duty period and rest came into effect in 2012. The rule limits flight time to eight to nine hours and duty period to nine to 14 hours. In addition, the rule requires 10-hour minimum rest periods prior to the duty period and at least 30 consecutive hours free from duty on a weekly basis. The rule also places 28-day and annual limits on actual flight time.

- *TSA:* Airlines serving the U.S. must operate a TSA-approved Aircraft Operator Standard Security Program (AOSSP), and comply with TSA Security Directives (SDs) and regulations. Airlines are subject to enforcement actions that are brought by the TSA from time to time for alleged violations of the AOSSP, SDs or security regulations. We are not aware of any enforcement proceedings that could either materially affect our financial position or impact our authority to operate. Under TSA authority, we are also required to collect a September 11 Security Fee of $2.50 per enplanement from passengers and remit that sum to the government to fund aviation security measures. Carriers also pay the TSA a security infrastructure fee to cover passenger and property screening costs. These security infrastructure fees amounted to $13 million each year in 2012, 2011 and 2010.

The Department of Justice and DOT have jurisdiction over airline antitrust matters. The U.S. Postal Service has jurisdiction over certain aspects of the transportation of mail and related services. Labor relations in the air transportation industry are regulated under the Railway Labor Act. To the extent we continue to fly to foreign countries and pursue alliances with international carriers, we may be subject to certain regulations of foreign agencies.

ENVIRONMENTAL AND OCCUPATIONAL SAFETY MATTERS

We are subject to various laws and government regulations concerning environmental matters and employee safety and health in the U.S. and other countries. U.S. federal laws that have a particular effect on us include the Airport Noise and Capacity Act of 1990, the Clean Air Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act, Superfund Amendments and Reauthorization Act, and the Oil Pollution Control Act. We are also subject to the oversight of the Occupational Safety and Health Administration (OSHA) concerning employee safety and health matters. The U.S. Environmental Protection Agency, OSHA, and other federal agencies have been authorized to create and enforce regulations that have an impact on our operations. In addition to these federal activities, various states have been delegated certain authorities under these federal statutes. Many state and local governments have adopted environmental and employee safety and health laws and regulations. We maintain our safety, health and environmental programs in order to meet or exceed these requirements.

We expect there will be legislation in the future to reduce carbon and other greenhouse gas emissions. Alaska and Horizon have transitioned to more fuel-efficient aircraft fleets, thereby greatly reducing our total emissions.

The Airport Noise and Capacity Act recognizes the rights of airport operators with noise problems to implement local noise abatement programs so long as they do not interfere unreasonably with interstate or foreign commerce or the national air transportation system. Authorities in several cities have established aircraft noise reduction programs, including the imposition of nighttime curfews. We believe we have sufficient scheduling flexibility to accommodate local noise restrictions.

Although we do not currently anticipate that these regulatory matters, individually or collectively, will have a material effect on our financial condition, results of operations or cash flows, new regulations or compliance issues that we do not currently anticipate could have the potential to harm our financial condition, results of operations or cash flows in future periods.

INSURANCE

We carry Airline Hull, Spares and Comprehensive Legal Liability Insurance in amounts and of the type generally consistent with industry practice to cover damage to aircraft, spare parts and spare engines, as well as bodily injury and property damage to passengers and third parties. Since the September 11, 2001 attacks, this insurance program excludes coverage for War and Allied Perils, including hijacking, terrorism, malicious acts, strikes, riots, civil commotion and other identified perils. So, like other airlines, the company has purchased war risk coverage for such events through the U.S. government.

We believe that our emphasis on safety and our state-of-the-art flight deck safety technology help to control the cost of aviation insurance.

WHERE YOU CAN FIND MORE INFORMATION

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 available on our website at *www.alaskaair.com,* free of charge, as soon as reasonably practicable after the electronic filing of these reports with the Securities and Exchange Commission. The information contained on our website is not a part of this annual report on Form 10-K.

ITEM 1A. RISK FACTORS

If any of the following occurs, our business, financial condition and results of operations could suffer. In such case, the trading price of our common stock could also decline. We operate in a continually changing business environment. In this environment, new risks may emerge and already identified risks may vary significantly in terms of impact and likelihood of occurrence. Management cannot predict such developments, nor can it assess the impact, if any, on our business of such new risk factors or of events described in any forward-looking statements.

We have adopted an enterprise wide Risk Analysis and Oversight Program designed to identify the various risks faced by the organization, assign responsibility for managing those risks to individual executives as well as align these risks with Board oversight. These enterprise-level identified risks have been aligned to the risk factors discussed below.

SAFETY, COMPLIANCE AND OPERATIONAL EXCELLENCE

Our reputation and financial results could be harmed in the event of an airline accident or incident.

An accident or incident involving one of our aircraft or an aircraft operated by one of our codeshare partners or CPA carriers could involve a significant loss of life and result in a loss of confidence in our airlines by the flying public and/or aviation authorities. We could experience significant claims from injured passengers, by-standers and surviving relatives, as well as costs for the repair or replacement of a damaged aircraft and its consequential temporary or permanent loss from service. We maintain liability insurance in amounts and of the type generally consistent with industry practice, as do our codeshare partners and CPA carriers. However, the amount of such coverage may not be adequate to fully cover all claims and we may be forced to bear substantial economic losses from an accident. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our business and financial results. Moreover, any aircraft accident or incident, even if fully insured and even if it does not involve one of our aircraft, could cause a public perception that our airlines or the equipment they fly are less safe or reliable than other transportation alternatives, which would harm our business.

Changes in government regulation imposing additional requirements and restrictions on our operations or on the airports at which we operate could increase our operating costs and result in service delays and disruptions.

Airlines are subject to extensive regulatory and legal requirements, both domestically and internationally, that involve significant compliance costs. In the last several years, Congress has passed laws, and the U.S. DOT, the TSA and the FAA have issued regulations that have required significant expenditures relating to the maintenance and operation of airlines and establishment of consumer protections. Similarly, many aspects of an airline's operations are subject to increasingly stringent federal, state and local laws protecting the environment.

Because of significantly higher security and other costs incurred by airports since September 11, 2001, many airports have increased their rates and charges to air carriers. Additional laws, regulations, taxes, and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce the demand for air travel. Although lawmakers may impose these additional fees and view them as "pass-through" costs, we believe that a higher total ticket price will influence consumer purchase and travel decisions and may result in an overall decline in passenger traffic, which would harm our business.

The airline industry continues to face potential security concerns and related costs.

The terrorist attacks of September 11, 2001 and their aftermath negatively affected the airline industry, including our company. Additional terrorist attacks, the fear of such attacks or other hostilities involving the U.S. could have a further significant negative effect on the airline industry, including us, and could:

- significantly reduce passenger traffic and yields as a result of a potentially dramatic drop in demand for air travel;
- significantly increase security and insurance costs;
- make war risk or other insurance unavailable or extremely expensive;
- increase fuel costs and the volatility of fuel prices;
- increase costs from airport shutdowns, flight cancellations and delays resulting from security breaches and perceived safety threats; and
- result in a grounding of commercial air traffic by the FAA.

The occurrence of any of these events would harm our business, financial condition and results of operations.

We rely on third-party vendors for certain critical activities.

We have historically relied on outside vendors for a variety of services and functions critical to our business, including airframe and engine maintenance, ground handling, fueling, computer reservation system hosting, telecommunication systems, and information technology infrastructure and services. As part of our cost-reduction efforts, our reliance on outside vendors has increased and may continue to do so in the future, especially since we rely on timely and effective third-party performance in conjunction with many of our technology-related initiatives. In addition, in recent years, Alaska and Horizon have subcontracted their heavy aircraft maintenance, fleet service, facilities maintenance, and ground handling services at certain airports, including Seattle-Tacoma International Airport, to outside vendors.

Even though we strive to formalize agreements with these vendors that define expected service levels, our use of outside vendors increases our exposure to several risks. In the event that one or more vendors go into bankruptcy, ceases operation or fails to perform as promised, replacement services may not be readily available at competitive rates, or at all. If one of our vendors fails to perform adequately, we may experience increased costs, delays, maintenance issues, safety issues or negative public perception of our airline. Vendor bankruptcies, unionization, regulatory compliance issues or significant changes in the competitive marketplace among suppliers could adversely affect vendor services or force us to renegotiate existing agreements on less favorable terms. These events could result in disruptions in our operations or increases in our cost structure.

Our operations are often affected by factors beyond our control, including delays, cancellations, and other conditions, which could harm our business, financial condition and results of operations.

Like other airlines, our operations often are affected by delays, cancellations and other conditions caused by factors largely beyond our control.

Other conditions that might impact our operations include:

- air traffic congestion at airports or other air traffic control problems;
- adverse weather conditions;
- increased security measures or breaches in security;
- international or domestic conflicts or terrorist activity; and
- other changes in business conditions.

Due to our concentration of flights in the Pacific Northwest and Alaska, we believe a large portion of our operation is more susceptible to adverse weather conditions than that of many of our competitors. A general reduction in airline passenger traffic as a result of any of the above-mentioned factors could harm our business, financial condition and results of operations.

STRATEGY

The airline industry is highly competitive. If we cannot successfully compete in the marketplace, our business, financial condition and operating results will be materially adversely affected.

We face significant competition with respect to routes, services, and fares. Some of our competitors have lower costs than we do and compete directly against us in our markets. We continue to strive toward aggressive cost-reduction goals that are an important part of our business strategy of offering the best value to passengers through competitive fares while achieving acceptable profit margins and return on capital. If we are unable to reduce our costs over the long-term and achieve sustained targeted return on invested capital, we will likely not be able to grow our business in the future or weather industry downturns and therefore our financial results may suffer.

We depend on a few key markets to be successful.

Our strategy is to focus on serving a few key markets, including Seattle, Portland, Los Angeles, Hawaii and Anchorage. A significant portion of our flights occur to and from our Seattle hub. In 2012, passengers to and from Seattle accounted for 61% of our total passengers.

We believe that concentrating our service offerings in this way allows us to maximize our investment in personnel, aircraft, and ground facilities, as well as to gain greater advantage from sales and marketing efforts in those regions. As a result, we remain highly dependent on our key markets. Our business could be harmed by any circumstances causing a reduction in demand for air transportation in our key markets. An increase in competition in our key markets could also cause us to reduce fares or take other competitive measures that could harm our business, financial condition and results of operations.

Economic uncertainty or another recession would likely impact demand for our product and could harm our financial condition and results of operations.

The recent U.S. and global economic recession resulted in a decline in demand for air travel. While some economic indicators are showing signs of growth, unemployment remains high in some of our key markets. Given that the strength of the U.S. and global economies have an impact on the demand for air travel, a long-term economic slump could result in a need to adjust our capacity plans, which could harm our business, financial condition and results of operations.

We are dependent on a limited number of suppliers for aircraft and parts.

Alaska is dependent on Boeing as its sole supplier for aircraft and many aircraft parts. Horizon is similarly dependent on Bombardier. Additionally, each carrier is dependent on sole suppliers for aircraft engines. As a result, we are more vulnerable to any problems associated with the supply of those aircraft and parts, including design defects, mechanical problems, contractual performance by the manufacturers, or adverse perception by the public that would result in customer avoidance or in actions by the FAA resulting in an inability to operate our aircraft.

We rely on partner airlines for codeshare and frequent flyer marketing arrangements.

Alaska and Horizon are parties to marketing agreements with a number of domestic and international air carriers, or “partners," including, but not limited to, American Airlines and Delta Air Lines. These agreements provide that certain flight segments operated by us are held out as partner “codeshare” flights and that certain partner flights are held out for sale as Alaska codeshare flights. In addition, the agreements generally provide that members of Alaska’s Mileage Plan program can earn miles on or redeem miles for partner flights and vice versa. We receive a significant amount of revenue from flights sold under codeshare arrangements. In addition, we believe that the frequent flyer arrangements are an important part of our Mileage Plan program. The loss of a significant partner or certain partner flights through bankruptcy, consolidation, or otherwise, could have a negative effect on our revenues or the attractiveness of our Mileage Plan, which we believe is a source of competitive advantage.

INFORMATION TECHNOLOGY

We rely heavily on automated systems to operate our business, and a failure to invest in new technology, or a disruption of our current systems or their operators could harm our business.

We depend on automated systems to operate our business, including our airline reservation system, our telecommunication systems, our website, our maintenance systems, our check-in kiosks, and other systems. Substantially all of our tickets are issued to passengers as electronic tickets and the majority of our customers check in using our website or our airport kiosks. We depend on our reservation system to be able to issue, track and accept these electronic tickets. In order for our operations to work efficiently, we must continue to invest in new technology to ensure that our website, reservation system, and check-in systems are able to accommodate a high volume of traffic, maintain secure information, and deliver important flight information. Substantial or repeated website, reservations system or telecommunication systems failures or service disruptions could reduce the attractiveness of our services and cause our customers to do business with another airline. In addition, we rely on other automated systems for crew scheduling, flight dispatch, and other operational needs. Disruptions, untimely recovery, or a breach of these systems could result in the loss of important data, an increase of our expenses, an impact on our operational performance, or a possible temporary cessation of our operations.

If we do not maintain the privacy and security of our information, we could damage our reputation and incur substantial legal and regulatory costs.

We accept, store, and transmit information about our customers, our employees, our business partners and our business. In addition, we frequently rely on third-party hosting sites and data processors, including cloud providers. Our sensitive information relies on secure transmission over public and private networks. A compromise of our systems, the security of our infrastructure, or those of other business partners that result in our information being accessed or stolen by unauthorized persons could adversely affect our operations and our reputation.

FINANCIAL CONDITION AND FINANCIAL MARKETS

Our business, financial condition, and results of operations are substantially exposed to the volatility of jet fuel prices. Increases in jet fuel costs would harm our business.

Fuel costs constitute a significant portion of our total operating expenses, accounting for 35%, 34% and 27% of total operating expenses for the years ended 2012, 2011 and 2010, respectively. Future increases in the price of jet fuel may harm our business, financial condition and results of operations, unless we are able to increase fares or add additional ancillary fees to attempt to recover increasing fuel costs.

The outcome of the resolution process, and any subsequent challenge, through which new lease terms at Sea-Tac will be set cannot be predicted with certainty.

Our lease with the Port of Seattle for terminal space at Seattle-Tacoma International Airport expired on December 31, 2012. Negotiations for a new lease have thus far been unsuccessful. Absent a negotiated lease, federal law requires the Port to set new rates by means of a resolution. The Company and other Sea-Tac carriers may accept the new resolution or ask the DOT to set them aside as unreasonable under federal law. The resolution process and any subsequent challenge by us or other airlines will not interrupt our tenancy at Sea-Tac.

Our continuing obligation to fund our traditional defined-benefit pension plans could negatively affect our ability to compete in the marketplace.

Our defined-benefit pension plan assets are subject to market risk. If market returns are poor in the future or if interest rates used to discount our future obligation decrease, any future obligation to make additional cash contributions in accordance with the Pension Protection Act of 2006 could increase and harm our liquidity. Poor market returns or low interest rates could lead to higher pension expense in our consolidated statements of operations. The calculation of pension expense is dependent on many assumptions that are more fully described in "Critical Accounting Estimates" and Note 1 to our consolidated financial statements.

Increases in insurance costs or reductions in insurance coverage would harm our business, financial condition and results of operations.

Aviation insurers could increase their premiums in the event of additional terrorist attacks, hijackings, airline accidents or other events adversely affecting the airline industry. Furthermore, the full hull and liability war risk insurance provided by the government is currently mandated through December 31, 2013. Although the government may again extend the deadline for providing such coverage, we cannot be certain that any extension will occur, or if it does, for how long the extension will last. It is expected that, should the government stop providing such coverage to the airline industry, the premiums charged by aviation insurers for this coverage will be substantially higher than the premiums currently charged by the government and the coverage will be much more limited, including smaller aggregate limits and shorter cancellation periods. Significant increases in insurance premiums would adversely affect our business, financial condition and results of operations.

BRAND AND REPUTATION

As we evolve our brand to appeal to a changing demographic and grow into new markets, we will engage in strategic initiatives that may not be favorably received by all Customers .

We continue to focus on strategic initiatives designed to increase our brand appeal to a diverse and evolving demographic of airline travelers. These efforts could include significant improvements to our in-airport and on-board environments, increasing our direct customer relationships through improvements to our purchasing portals (digital and mobile), and optimization of our customer loyalty programs.

If in pursuit of these efforts we may negatively affect our reputation with some of our existing customer base, which could result in an adverse impact on our business and financial results.

LABOR RELATIONS AND LABOR STRATEGY

A significant increase in labor costs, unsuccessful attempts to strengthen our relationships with union employees, or loss of key personnel could adversely affect our business and results of operations.

Labor costs are a significant component of our total expenses, accounting for approximately 42%, 41% and 43% of our non-fuel operating expenses in 2012, 2011 and 2010, respectively. Each of our represented employee groups has a separate collective bargaining agreement, and could make demands that would increase our operating expenses and adversely affect our financial performance if we agree to them.

As of December 31, 2012, labor unions represented approximately 83% of Alaska's and 49% of Horizon's employees. Although we have been successful in maturing communications, negotiating approaches, and other strategies to enhance workforce engagement in the Company's long-term vision, future uncertainty around open contracts could be a distraction, affecting employee focus in our business and diverting management's attention from other projects and issues.

We compete against the major U.S. airlines and other businesses for labor in many highly skilled positions. If we are unable to hire, train and retain qualified employees at a reasonable cost, sustain employee engagement in the Company's strategic vision, or if we are unsuccessful at implementing succession plans for our key staff, we may be unable to grow or sustain our business. In such case, our operating results and business prospects could be harmed.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

AIRCRAFT

The following table describes the aircraft we operate and their average age at December 31, 2012:

Aircraft Type	Seats	Owned	Leased	Total	Average Age in Years
B737 Freighters & Combis	0/72	6	—	6	19.2
B737-400/700	124/144	17	24	41	15.1
B737-800/900/900ER	157/172/ 181	67	10	77	5.4
B737 Passenger Aircraft		84	34	118	8.8
Total Mainline Fleet		90	34	124	9.3
Q400	76	33	15	48	6.6
Total		123	49	172	8.5

"Management's Discussion and Analysis of Financial Condition and Results of Operations" discusses future orders and options for additional aircraft.

Many of our owned aircraft secure long-term debt arrangements or collateralize our revolving credit facility. See further discussion in "Liquidity and Capital Resources."

Alaska's leased B737 aircraft have lease expiration dates between 2013 and 2021. Horizon's leased Q400 aircraft have expiration dates in 2018. Horizon also has two owned and 14 leased CRJ-700 aircraft that are subleased to third-party carriers. The head leases on the 14 leased CRJ-700 aircraft have expiration dates between 2018 and 2020. Alaska and Horizon have the option to extend most of the leases for additional periods, or the right to purchase the aircraft at the end of the lease term, usually at the then-fair-market value of the aircraft.

GROUND FACILITIES AND SERVICES

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

Alaska owns several buildings located at or near Seattle-Tacoma International Airport (Sea-Tac) near Seattle, WA. These include a multi-bay hangar and shops complex (used primarily for line maintenance), a flight operations and training center, an air cargo facility, an information technology office and datacenter, and various other commercial office buildings, including its Seattle corporate headquarters complex. Alaska also leases a stores warehouse and additional office space in Kent, WA for its call center functions. Alaska's major facilities outside of Seattle include a regional headquarters building, an air cargo facility and a hangar/office facility in Anchorage, AK, as well as leased call center facilities in Phoenix, AZ and Boise, ID. Alaska uses its own employees for ground handling services at most of its airports in the state of Alaska. At other airports throughout its system, those services are contracted to various third-party vendors.

Horizon owns its Seattle corporate headquarters building. It leases an operations, training, and aircraft maintenance facility in Portland and Spokane, as well as line maintenance stations in Boise, Bellingham, Eugene, San Jose, Medford, Redmond, Seattle, and Spokane.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

As of December 31, 2012, there were 70,376,543 shares of common stock of Alaska Air Group, Inc. issued and outstanding and 2,921 shareholders of record. We have not paid dividends on the common stock since 1992 and have no plans to do so in the immediate future. Our common stock is listed on the New York Stock Exchange (symbol: ALK). The following table shows the trading range of Alaska Air Group, Inc. common stock on the New York Stock Exchange:

	2012		2011	
	High	**Low**	**High**	**Low**
First Quarter	**$ 39.77**	**$ 33.69**	$ 32.50	$ 28.08
Second Quarter	**36.62**	**31.29**	35.04	29.50
Third Quarter	**38.46**	**32.69**	35.31	25.90
Fourth Quarter	**45.15**	**34.57**	38.57	25.55

On February 15, 2012, the board of directors declared a two-for-one split of the Company's common stock by means of a stock distribution. The additional shares were distributed on March 16, 2012, to the shareholders of record on March 2, 2012. The stock split increased the Company's outstanding shares from approximately 36 million shares to about 71 million shares. Our historical outstanding shares were recast upon the distribution.

SALES OF NON-REGISTERED SECURITIES

None

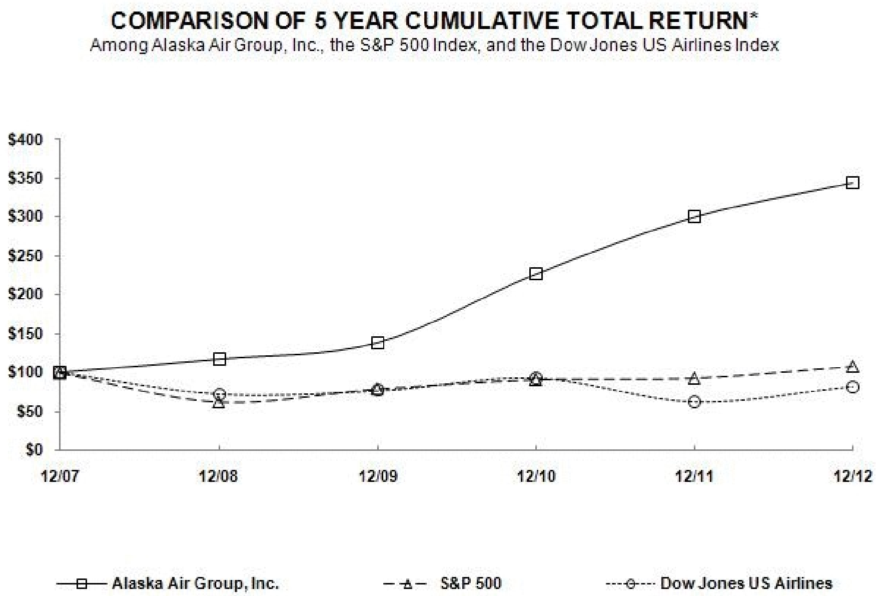
PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares (or units) Purchased as Part of Publicly Announced Plans or Programs	Maximum remaining dollar value of shares that can be purchased under the plan
October 1, 2012 – October 31, 2012	12,000	$ 38.03	12,000	
November 1, 2012 – November 30, 2012	110,510	40.78	110,510	
December 1, 2012 – December 31, 2012	80,000	43.44	80,000	
Total	202,510	$ 41.67	202,510	$ 242

Purchased pursuant to a $250 million repurchase plan authorized by the Board of Directors in September 2012. The plan has no expiration date, but is expected to be completed in December 2014.

PERFORMANCE GRAPH

The following graph compares our cumulative total stockholder return since December 31, 2007 with the S&P 500 Index and the Dow Jones U.S. Airlines Index. The graph assumes that the value of the investment in our common stock and each index (including reinvestment of dividends) was $100 on December 31, 2007.



*$100 invested on 12/31/07 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

	2012	2011	2010	2009	2008
CONSOLIDATED OPERATING RESULTS *(audited)*					
Year Ended December 31 (in millions, except per share amounts):					
Operating Revenues	**4,657**	4,318	3,832	3,400	3,663
Operating Expenses	**4,125**	3,869	3,361	3,133	3,835
Operating Income (Loss)	**532**	449	471	267	(172)
Nonoperating expense, net of interest capitalized [a]	**(18)**	(55)	(65)	(64)	(41)
Income (loss) before income tax	**514**	394	406	203	(213)
Net Income (Loss)	**316**	245	251	122	(136)
Average basic shares outstanding	**70.708**	71.755	71.644	71.630	72.686
Average diluted shares outstanding	**71.784**	73.421	73.571	72.308	72.686
Basic earnings (loss) per share	**4.47**	3.41	3.50	1.70	(1.87)
Diluted earnings (loss) per share	**4.40**	3.33	3.41	1.69	(1.87)
CONSOLIDATED FINANCIAL POSITION *(audited)*					
At End of Period (in millions):					
Total assets	**5,505**	5,167	5,017	4,996	4,836
Long-term debt, including current portion	**1,032**	1,307	1,534	1,855	1,841
Shareholders' equity	**1,421**	1,174	1,106	872	662
OPERATING STATISTICS *(unaudited)*					
Consolidated: [b]					
Revenue passengers (000)	**25,896**	24,790	23,334	22,320	24,199
Revenue passenger miles (RPM) (000,000) "traffic"	**27,007**	25,032	22,841	20,811	21,390
Available seat miles (ASM) (000,000) "capacity"	**31,428**	29,627	27,736	26,501	27,908
Load factor	**85.9%**	84.5%	82.4%	78.5%	76.6%
Yield	**14.92¢**	14.81¢	14.30¢	14.16¢	15.27¢
Passenger revenues per ASM (PRASM)	**12.82¢**	12.51¢	11.78¢	11.12¢	11.70¢
Operating revenues per ASM (RASM)	**14.82¢**	14.57¢	13.82¢	12.83¢	13.12¢
Operating expenses per ASM, excluding fuel and noted items (CASMex) [c]	**8.48¢**	8.55¢	8.82¢	9.20¢	8.47¢
Average number of full-time equivalent employees (FTE)	**11,955**	11,840	11,696	12,223	13,327
Mainline:					
Revenue passengers (000)	**18,526**	17,810	16,514	15,561	16,809
RPMs (000,000) "traffic"	**24,417**	22,586	20,350	18,362	18,712
ASMs (000,000) "capacity"	**28,180**	26,517	24,434	23,144	24,218
Load factor	**86.6%**	85.2%	83.3%	79.3%	77.3%
Yield	**13.45¢**	13.26¢	12.75¢	12.60¢	13.62¢
PRASM	**11.65¢**	11.29¢	10.62¢	10.00¢	10.52¢
CASMex [c]	**7.56¢**	7.60¢	7.85¢	8.26¢	7.49¢
Operating fleet at period-end	**124**	117	114	115	110
Regional: [d]					
Revenue passengers (000)	**7,371**	6,980	6,820	6,759	7,390
RPMs (000,000) "traffic"	**2,590**	2,446	2,491	2,449	2,678
ASMs (000,000) "capacity"	**3,247**	3,110	3,302	3,357	3,690
Load factor	**79.8%**	78.6%	75.4%	73.0%	72.6%
Yield	**28.81¢**	29.13¢	26.95¢	25.88¢	26.79¢
PRASM	**22.98¢**	22.94¢	20.33¢	18.88¢	19.44¢
Operating fleet at period-end (Horizon only)	**48**	48	54	58	59

(a) Includes capitalized interest of $18 million, $12 million, $6 million, $8 million, and $23 million for 2012, 2011, 2010, 2009, and 2008, respectively.

(b) Includes flights operated by SkyWest beginning in May 2011 and flights operated by PenAir under Capacity Purchase Agreements (CPA).

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

(d) Data presented includes information related to regional CPAs, except for operating fleet.

ITEM 7. 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 the Company, our operations and our present business environment. MD&A is provided as a supplement to – and should be read in conjunction with – our 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 Part I, "Item 1A. Risk Factors." This overview summarizes the MD&A, which includes the following sections:

- *Year in Review*—highlights from 2012 outlining some of the major events that happened during the year and how they affected our financial performance.
- *Results of Operations*—an in-depth analysis of the results of our operations for the three years presented in our consolidated financial statements. We believe this analysis will help the reader better understand our consolidated statements of operations. Financial and statistical data is also included here. This section includes forward-looking statements regarding our view of 2013.
- *Liquidity and Capital Resources*—an analysis of cash flows, sources and uses of cash, contractual obligations, commitments and off-balance sheet arrangements, and an overview of financial position.
- *Critical Accounting Estimates*—a discussion of our accounting estimates that involve significant judgment and uncertainties.

YEAR IN REVIEW

Our 2012 consolidated pretax income was $514 million compared to $394 million in 2011. The $120 million improvement was primarily due to the $339 million increase in revenues, partially offset by the $161 million increase in aircraft fuel expense and $95 million increase in other operating expenses. Our improvement in revenues was primarily due to a 7.9% increase in traffic and a 0.7% increase in yield. The increase in fuel cost was driven by the 2.2% increase in raw cost per gallon on a 6.0% increase in consumption.

See "Results of Operations" below for further discussion of changes in revenues and operating expenses and our reconciliation of Non-GAAP measures to the most directly comparable GAAP measure.

Accomplishments and Highlights

Accomplishments and highlights from 2012 include:

- Reported record adjusted earnings for 2012, marking our ninth consecutive year in which we reported an adjusted profit.
- Air Group employees earned $88 million in incentive pay, or more than one-month's pay for most employees. Over the last four years, employees have earned more than $325 million in incentive pay, averaging 8% of annual pay for most employees.
- Signed an aircraft purchase agreement with The Boeing Company for 50 new 737 aircraft, including 37 of Boeing's new 737 MAX aircraft with deliveries expected in 2015 through 2022.
- Improved employee productivity by 3.5 percent compared to the fourth quarter of 2011.
- Carried a record number passengers in 2012 and achieved a record load factor of 85.9 percent, up 1.4 points from the prior year.
- Completed renovation of Terminal 6 at Los Angeles International Airport (LAX) in March, which includes the Airport of the Future design, new common use systems, additional gates and convenient connections with international flights.

- Repurchased 1,685,951 shares of common stock for approximately $60 million. Since 2007, Air Group has used $320 million to repurchase 18 million shares.
- Lowered adjusted debt-to-total capitalization ratio by 8 points to 54 percent since December 31, 2011 and by 27 points from 81 percent at the end of 2008.
- Held $1.3 billion in unrestricted cash and marketable securities as of December 31, 2012.
- Achieved trailing twelve-month return on invested capital of 13 percent, surpassing the 10 percent goal for the third year in a row.
- Contributed $110 million to the defined-benefit pension plans during 2012, bringing the total over four years to approximately $540 million, despite having no required contribution.

Awards and Recognitions

Awards and recognitions from 2012 include:

- For the fifth year in a row, Alaska Airlines ranked “Highest in Customer Satisfaction among Traditional Network Carriers” by J.D. Power and Associates.
- Received "2012 Global Vision Award" by Travel + Leisure magazine for Alaska Airlines' sustainability efforts.
- Alaska Airlines named "Best Regional Airline in North America" at the 2012 World Airline Awards.
- Alaska Airlines earned "Eco-Partnership of the Year Award" by Air Transport World magazine.
- Recognized Alaska Air Group as the 2011 Best Company in the Northwest by The Seattle Times.
- Alaska Airlines received "2012 Fly Quiet Bravo Award" by the Port of Seattle Commission.
- Won the "Platinum" award for Alaska Airlines' excellence in baggage handling from the International Air Transport Association, the first carrier in North America and only the second in the world to earn that title.

New Markets

In 2012, we added non-stop routes to our network as follows:

New Non-Stop Routes Between	Frequency (Weekly)	Start Date
San Jose to Palm Springs	Daily (Seasonal)	2/17/2012
Seattle to Kansas City	Daily	3/12/2012
Portland to Long Beach	Daily	3/12/2012
Oakland to Honolulu	Daily	4/10/2012
San Jose to Honolulu	Daily	4/10/2012
San Diego to Santa Rosa	Daily	6/4/2012
San Diego to Fresno	2x Daily	6/4/2012
San Diego to Monterey	Daily	6/4/2012
Reno to San Jose	2x Daily	6/4/2012
Portland to Bellingham	Daily (Seasonal)	6/4/2012
Portland to Bozeman	Daily (Seasonal)	6/4/2012
Portland to Santa Barbara	Daily (Seasonal)	6/4/2012
Seattle to Philadelphia	Daily	6/11/2012
Seattle to Fort Lauderdale (replaced Seattle to Miami)	Daily	7/16/2012
Portland to Pasco	Daily	8/27/2012
Portland to Washington, D.C.	Daily	8/28/2012
Seattle to San Antonio	Daily	9/17/2012
San Diego to Orlando	5x Weekly	10/11/2012
Portland to Lihue	4x Weekly (Seasonal)	11/5/2012
Bellingham to Kahului	4x Weekly (Seasonal)	11/8/2012
Anchorage to Kona	1x Weekly (Seasonal)	11/10/2012

We will also add new cities and non-stop routes in 2013 as follows:

New Non-Stop Routes Between	Frequency (Weekly)	Start Date
Seattle to Salt Lake City	Twice Daily	4/4/2013
San Diego and Boston	Daily	3/29/2013
San Diego and Lihue	Daily (Seasonal)	6/7/2013

Alliances with Other Airlines

In October 2012, Delta Air Lines announced expanded service to Asia through Seattle. Delta will add a flight between Seattle and Shanghai beginning in June 2013 and is proposing a flight between Seattle and Tokyo-Haneda to begin in March 2013. Through our existing codeshare partnership, Delta is able to connect passengers to more than 50 destinations on the Alaska route network via Seattle. Increasing international flow traffic will help support Alaska's continued capacity expansion in Seattle and beyond.

In December 2012, we announced a new code-sharing and frequent flier agreement with Aeromexico. The new agreement will allow Aeromexico and our customers the ability to connect across 45 cities around Mexico and 11 countries in Central and South America. We also announced enhanced frequent flier awards benefits with Emirates, allowing members to redeem awards for travel on each others' programs in addition to earning miles on a reciprocal basis as established when the partnership began in March 2012.

In February 2013, we announced an expansion of the existing code-share agreement with American Airlines, allowing passengers from both carriers greater access to their combined route networks. New American code on our northern California to Hawaii flights will continue to support our growth in these markets. American passengers will also find greater access to new mid- and trans-continental flights on us, helping build brand awareness and demand in many of our newest destinations. Additionally, we will code-share on 19 more American routes, including 13 new destinations to which our customers will be able to book travel through alaskaair.com.

Update on Labor Negotiations

In July 2012, our ramp and stores agents, represented by the International Association of Machinists and Aerospace Workers (IAM), ratified a six-year contract by a 91% margin before the amendable date. The contract provides for an initial wage increase of 2.5% followed by 1.5% annual increases over the six-year term, and contains important productivity improvements. It also offers both the Company and our employees the certainty that comes with a long-term deal.
In December 2012, we entered into a six-year agreement with Horizon's pilot union, represented by the International Brotherhood of Teamsters (IBT), for an extension of their contract through December 2018. The deal is mutually beneficial to both the company and our pilots and calls for a signing bonus, wage step increases and productivity gains over the term of the contract. We also ratified a three-year agreement with Horizon's station personnel in Vancouver and Victoria, represented by the National Automobile, Aerospace, Transportation and General Workers, in January 2013.

We are currently in negotiations with Alaska's and Horizon's flight attendants, represented by the Association of Flight Attendants (AFA), whose contracts became amendable in April 2012 and December 2011, respectively. In addition, we are in early discussions with Alaska's pilots, represented by the Airline Pilots Association (ALPA), whose contract is amendable in April 2013. We are also in negotiations with Horizon's maintenance store employees, represented by IAM.

Stock Repurchase

In 2012, we repurchased 1,685,951 shares of our common stock for $60 million under the share repurchase plans authorized by our Board of Directors. Since 2007, we have repurchased 18 million shares of common stock under such programs for $320 million for an average price of approximately $17 per share.

Outlook

Our primary focus every year is to run safe, compliant and reliable operations at our airlines. In addition to our primary objective, we will remain focused on providing a hassle-free experience for our customers. Specifically, we plan to enhance mobile features and expand our self-bag tagging capabilities. Additionally, as part of our strategy of enhancing our brand, we are considering ways to enhance the onboard experience, such as seats, cabin layout, seat power, and in-flight entertainment.

Our biggest concerns going forward are increased competition in our markets, particularly low-cost competitors, and our unsigned labor agreements. Our goal is to sign labor agreements prior to the amendable date to to avoid the negative impacts of prolonged negotiations and provide our employees with the long-term stability that helps promote higher customer satisfaction. To combat low-cost competitors, we took delivery of four B737-900ER aircraft in 2012 and will take delivery of an additional nine in 2013, which will provide additional efficiencies in fuel consumption and overall unit cost reductions.

Our advance bookings suggest our load factors will be up 0.5 pts in February and flat in March compared to the same periods in 2012 on an expected 8.5% increase in capacity for the first quarter of 2013.

RESULTS OF OPERATIONS

2012 COMPARED WITH 2011

Our consolidated net income for 2012 was $316 million, or $4.40 per diluted share, compared to net income of $245 million, or $3.33 per diluted share, in 2011. 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. For 2012, we recognized net mark-to-market losses of $38 million ($23 million after tax, or $0.33 per share) compared to losses of $30 million ($18 million after tax, or $0.26 per share) in 2011.

- In 2011, we incurred $39 million ($24 million after tax, of $0.33 per share) in expense as part of Horizon's fleet transition to an all Q400 fleet.

ADJUSTED (NON-GAAP) RESULTS AND PER-SHARE AMOUNTS

We believe disclosure of earnings excluding the impact of these individual charges is useful information to investors because:

- 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, thus the information allows investors to better understand the changes in variable incentive pay expense in our consolidated statements of operations;
- 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; and
- It is consistent with how we present information in our quarterly earnings press releases.

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 special charges, our adjusted consolidated net income for 2012 was $339 million, or $4.73 per diluted share, compared to an adjusted consolidated net income of $287 million, or $3.92 per share, in 2011.

	Years Ended December 31,			
	2012		2011	
(in millions, except per share amounts)	Dollars	Diluted EPS	Dollars	Diluted EPS
Net income and diluted EPS as reported	**$ 316**	**$ 4.40**	$ 245	$ 3.33
Fleet transition costs, net of tax	—	—	24	0.33
Mark-to-market fuel hedge adjustments, net of tax	**23**	**0.33**	18	0.26
Non-GAAP adjusted income and per share amounts	**$ 339**	**$ 4.73**	$ 287	$ 3.92

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

Below are operating statistics we use to measure operating performance. We often refer to unit revenues and adjusted unit costs, which is a non-GAAP measure.

	Twelve Months Ended December 31,				
	2012	2011	Change	2010	Change
Consolidated Operating Statistics: [a]					
Revenue passengers (000)	**25,896**	24,790	4.5 %	23,334	6.2 %
RPMs (000,000) "traffic"	**27,007**	25,032	7.9 %	22,841	9.6 %
ASMs (000,000) "capacity"	**31,428**	29,627	6.1 %	27,736	6.8 %
Load factor	**85.9%**	84.5%	1.4 pts	82.4%	2.1 pts
Yield	**14.92¢**	14.81¢	0.7 %	14.30¢	3.6 %
PRASM	**12.82¢**	12.51¢	2.5 %	11.78¢	6.2 %
CASM excluding fuel and fleet transition costs[a]	**8.48¢**	8.55¢	(0.8)%	8.82¢	(3.1)%
Economic fuel cost per gallon[b]	**$ 3.37**	$ 3.18	6.0 %	$ 2.37	34.2 %
Fuel gallons (000,000)	**422**	398	6.0 %	377	5.6 %
Average number of full-time equivalent employees	**11,955**	11,840	1.0 %	11,696	1.2 %
Mainline Operating Statistics:					
Revenue passengers (000)	**18,526**	17,810	4.0 %	16,514	7.8 %
RPMs (000,000) "traffic"	**24,417**	22,586	8.1 %	20,350	11.0 %
ASMs (000,000) "capacity"	**28,180**	26,517	6.3 %	24,434	8.5 %
Load factor	**86.6%**	85.2%	1.4 pts	83.3%	1.9 pts
Yield	**13.45¢**	13.26¢	1.4 %	12.75¢	4.0 %
PRASM	**11.65¢**	11.29¢	3.2 %	10.62¢	6.3 %
CASM excluding fuel[b]	**7.56¢**	7.60¢	(0.5)%	7.85¢	(3.2)%
Economic fuel cost per gallon[b]	**$ 3.36**	$ 3.18	5.7 %	$ 2.37	34.2 %
Fuel gallons (000,000)	**368**	346	6.4 %	320	8.1 %
Average number of full-time equivalent employees	**9,178**	8,916	2.9 %	8,651	3.1 %
Aircraft utilization	**10.7**	10.5	1.9 %	10.0	5.0 %
Average aircraft stage length	**1,161**	1,114	4.2 %	1,085	2.7 %
Mainline operating fleet at period-end	**124**	117	7 a/c	114	3 a/c
Regional Operating Statistics: [c]					
Revenue passengers (000)	**7,371**	6,980	5.6 %	6,820	2.3 %
RPMs (000,000) "traffic"	**2,590**	2,446	5.9 %	2,491	(1.8)%
ASMs (000,000) "capacity"	**3,247**	3,110	4.4 %	3,302	(5.8)%
Load factor	**79.8%**	78.6%	1.2 pts	75.4%	3.2 pts
Yield	**28.81¢**	29.13¢	(1.1)%	26.95¢	8.1 %
PRASM	**22.98¢**	22.94¢	0.2 %	20.33¢	12.8 %

(a) Except for FTEs, data includes information related to regional CPA flying with Horizon, SkyWest and PenAir.
(b) See reconciliation of this measure to the most directly related GAAP measure in the "Results of Operations" section.
(c) Data presented includes information related to regional CPAs.

OPERATING REVENUES

Total operating revenues increased $339 million, or 8%, during 2012 compared to the same period in 2011. The changes are summarized in the following table:

	Year Ended December 31,		
(in millions)	**2012**	**2011**	**% Change**
Passenger			
Mainline	**$ 3,284**	$ 2,995	10
Regional	**746**	713	5
Total passenger revenue	**$ 4,030**	$ 3,708	9
Freight and mail	**111**	109	2
Other - net	**516**	501	3
Total operating revenues	**$ 4,657**	$ 4,318	8

Passenger Revenue – Mainline

Mainline passenger revenue for 2012 increased by 10% on a 6.3% increase in capacity and a 3.2% increase in PRASM compared to 2011. The increase in capacity was driven by new routes added in 2012, most of which were to and from Hawaii. The increase in PRASM was driven by a 1.4% increase in ticket yield and a 1.4-point increase in load factor compared to the prior year. The increase in yield is due to strong demand throughout the year, while the increase in load factor is due to adding more traffic in our high density markets.

Passenger Revenue – Regional

Regional passenger revenue increased by $33 million, or 5%, compared to 2011 on a 4.4% increase in capacity and flat PRASM compared to 2011. PRASM was affected by a 1.1% decrease in ticket yield, offset by a 1.2-point increase in load factor compared to the prior year. The decrease in yield is due to increased competition in certain markets, while the increase in load factor is due to better matching of supply with demand.

Freight and Mail

Freight and mail revenue increased $2 million, or 2%, primarily due to higher freight volumes and an increase in fuel and security surcharges, which offset a decrease in mail volumes.

Other – Net

Other—net revenue increased $15 million, or 3%, from 2011. This is primarily due to an increase in our Mileage Plan revenues of 7% and buy-on-board sales of 20%. Buy-on-board improved due to an increase in food sales of 24% and beverage sales of 14%. These increases were partially offset by a decrease in bag fees of 2% due to general shifts in customer behavior and our Club 49 program that launched in the fourth quarter of 2011, which waives the checked bag fee for residents in the state of Alaska who have joined the program.

OPERATING EXPENSES

Total operating expenses increased $256 million, or 7%, compared to 2011 mostly as a result of higher fuel costs. 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:

	Year Ended December 31,		
(in millions)	**2012**	**2011**	**% Change**
Fuel expense	**$ 1,459**	$ 1,298	12
Non-fuel expenses	**2,666**	2,571	4
Total Operating Expenses	**$ 4,125**	$ 3,869	7

Significant operating expense variances from 2011 are more fully described below.

Wages and Benefits

Wages and benefits increased during 2012 by $47 million, or 5%, compared to 2011. The primary components of wages and benefits are shown in the following table:

	Year Ended December 31,		
(in millions)	**2012**	**2011**	**% Change**
Wages	**$ 726**	$ 703	3
Pension and defined-contribution retirement benefits	**103**	88	17
Medical benefits	**109**	108	1
Other benefits and payroll taxes	**100**	92	9
Total wages and benefits	**$ 1,038**	$ 991	5

Wages increased 3% on a 1% increase in FTEs as a result of increased flying and higher wage rates throughout our different employee groups which have wage step increase in their contracts. The contracts with the different employee groups contain important productivity improvements, which resulted in a 3.5% increase in the number of passengers handled per FTE.

Pension and other retirement-related benefits increased 17% primarily due to a decrease in the discount rate on the future benefit obligation compared to the prior year. The impact of lower rates resulted in an increase in our pension expense.

Medical benefits increased 1% from the prior year primarily due to an increase in employee health-care claims, partially offset by a decline in post-retirement medical expense.

Other benefits and payroll taxes increased 9% from the prior year due to increased workers' compensation expense of $4 million as a result of higher loss rates in more recent claim years and increased stock-based compensation of $4 million.

We expect wages and benefits to be 6% to 7% higher in 2013 compared to 2012 on a 3% to 4% increase in FTEs, as well as inflation in medical benefits of 10%. Pension and other retirement-related benefits is expected to be flat compared to 2012.

Variable Incentive Pay

Variable incentive pay expense increased from $72 million in 2011 to $88 million in 2012. The increase is due to actual results exceeding our target results of financial and operational performance more so than in the prior year.

If we meet targets established under our Performance Based Pay and Operational Performance Rewards programs, we expect variable incentive pay will be approximately $60 million in 2013. If we exceed the targets, variable incentive pay will be higher. If we do not achieve targets, it will be lower.

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 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.

Aircraft fuel expense increased $161 million, or 12% compared to 2011. The elements of the change are illustrated in the following table:

	Year Ended December 31,							
	2012				2011			
(in millions, except for per gallon amounts)	Dollars		Cost/Gal		Dollars		Cost/Gal	
Raw or "into-plane" fuel cost	**$**	**1,397**	**$**	**3.31**	$	1,289	$	3.24
(Gains) losses on settled hedges		**24**		**0.06**		(21)		(0.06)
Consolidated economic fuel expense	**$**	**1,421**	**$**	**3.37**	$	1,268	$	3.18
Mark-to-market fuel hedge adjustments		**38**		**0.09**		30		0.08
GAAP fuel expense	**$**	**1,459**	**$**	**3.46**	$	1,298	$	3.26
Fuel gallons		**422**				398		

Fuel gallons consumed increased 6.0% in line with the increase in departures and block hours.

The raw fuel price per gallon increased 2.2% as a result of higher West Coast jet fuel prices. West Coast jet fuel prices are impacted by both the price of crude oil, as well as refining margins associated with the conversion of crude oil to jet fuel. The increase in raw fuel price per gallon during 2012 was due to the increase in refining margins of 10.3%, offset by the decrease in crude oil of 1.3%, as compared to the prior year.

We also evaluate economic fuel expense, which we define as raw fuel expense adjusted for the cash we receive from, or pay to, hedge counterparties for hedges that settle during the period, and for 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.

Losses recognized for hedges that settled during the year was $24 million in 2012, compared to gains of $21 million in 2011. 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 approximately 3% higher in the first quarter of 2013 than the first quarter of 2012 due to the increased premium costs related to our fuel hedge program. As both oil prices and refining margins are volatile, we are unable to forecast the full-year cost with any certainty.

Aircraft Maintenance

Aircraft maintenance increased by $16 million, or 8%, compared to the prior year, primarily due to a $13 million increase in unscheduled engine removals for our Q400 aircraft and an $8 million increase related to our 737-800 aircraft related to heavier airframe checks, offset by a $12 million decrease due to lighter airframe checks for our 737-400 aircraft.

We expect aircraft maintenance to be approximately 10% higher in 2013 due to an increase in lease return costs and scheduled maintenance events for our B737 aircraft, offset by lower maintenance costs for our Q400 aircraft.

Aircraft Rent

Aircraft rent was flat compared to the prior-year period primarily due to lower rent expense for 13 fewer CRJ 700 aircraft of $3 million and three B737-400 aircraft lease extensions of $2 million, offset by additional rent expense for three B737-700 aircraft which were sold and leased back of $3 million.

We expect aircraft rent to be flat in 2013 as we intend to return six B737 aircraft in the fourth quarter of 2013.

Landing Fees and Other Rentals

Landing fees and other rentals increased $5 million, or 2%, primarily due to higher facilities rents of $5 million and increased landing fees of $4 million due to increased departures of 1.8%. These increases were partially offset by lower rents at LAX of $8 million.

We expect landing fees and other rentals to be slightly higher in 2013 due to an expected increase in departures.

Contracted Services

Contracted services increased $15 million, or 8%, primarily due to an increase in passengers of 4.5% and capacity purchase flying of $13 million related to SkyWest, which began in May 2011. Additionally, we experienced higher passenger and ramp handling of $2 million as a result of an increase in the number of flights to airports where outside vendors are used.

We expect contracted services to be higher in 2013 to handle expected growth in the number of passengers.

Selling Expenses

Selling expenses decreased by $7 million, or 4%, compared to 2011 as a result of lower fees related to debit card purchases of $4 million and flat global distribution system (GDS) fees, offset by an increase in advertising and promotional activities of $2 million.

We expect selling expense will be higher in 2013, primarily due to increased advertising and promotional activities and revenue related costs, such as credit card commissions.

Depreciation and Amortization

Depreciation and amortization increased $17 million, or 7%, compared to the prior year. This is primarily due to additional depreciation expense for the annualization of B737 aircraft and Q400 aircraft delivered in 2011, as well as the deliveries of B737 aircraft in 2012. In addition, we incurred depreciation of $6 million since we placed Terminal 6 at LAX into service in March 2012. These increases were offset by a decrease in depreciation expense for the CRJ 700 aircraft removed from the fleet in 2011 and other assets that became fully depreciated or were removed from operation.

We expect depreciation and amortization to be higher in 2013 in line with our nine aircraft deliveries and the annualization of seven aircraft deliveries in 2012.

Food and Beverage Service

Food and beverage costs increased $12 million, or 18%, from the prior year due to an increased number of passengers of 4.5%, increase in sales of buy-on-board products of 20%, the higher cost of some of our premium products served on board, and increased costs associated with food delivery.

We expect food and beverage costs to be higher in 2013 due to an anticipated increase in sales in line with an expected increase in the number of passengers.

Other Operating Expenses

Other operating expenses increased $13 million, or 6%, compared to 2011. The increase is primarily driven by higher IT and professional service costs of $8 million associated with our key initiatives and infrastructure improvements, and higher personnel non-wage costs such as hotels, meals and per diems of $7 million.

We expect other operating expenses to be higher in 2013 due to an expected increase in IT spending of approximately $20 million and higher professional service costs.

Fleet Transition and Restructuring Related Expenses

Fleet transition costs decreased $39 million, as we completed our transition to an all-Q400 fleet at Horizon in 2011.

Operating Costs per Available Seat Mile

Our operating costs per ASM (CASM) are summarized below:

	Year Ended December 31,		
	2012	**2011**	**% Change**
Consolidated:			
Total operating expenses per ASM (CASM)	**13.12¢**	13.06¢	0.5
Less the following components:			
Aircraft fuel, including hedging gains and losses	**4.64**	4.38	5.9
Fleet transition costs	**—**	0.13	NM
CASM, excluding fuel and fleet transition costs	**8.48¢**	8.55¢	(0.8)
Mainline:			
Total mainline operating expenses per ASM (CASM)	**12.09¢**	11.87¢	1.9
Less the following components:			
Aircraft fuel, including hedging gains and losses	**4.53**	4.27	6.1
CASM, excluding fuel	**7.56¢**	7.60¢	(0.5)

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.

- 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.

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Our current expectations for capacity and operating costs per ASM are summarized below:

	Forecast Q1 2013	Change Y-O-Y	Forecast Full Year 2013	Change Y-O-Y
Consolidated:				
Capacity (ASMs in millions)	7,950 - 8,000	~ 8.5%	33,600 - 34,100	~ 7.5%
Cost per ASM excluding fuel and special items (cents)	8.79 - 8.84	flat	8.35 - 8.40	~ (1)%
Mainline:				
Capacity (ASMs in millions)	7,150 - 7,200	~ 9%	30,150 - 30,650	~ 8%
Cost per ASM excluding fuel and special items (cents)	7.88 - 7.93	flat	7.50 - 7.55	~ (0.5)%

CONSOLIDATED NONOPERATING INCOME (EXPENSE)

Net nonoperating expense decreased $37 million from 2011. This is due to lower interest expense of $13 million on lower average outstanding debt balances and additional capitalized interest due to higher levels of aircraft purchase deposits and capital expenditures. Additionally, we incurred pre-payment penalties of $8 million and an impairment charge of $6 million on an owned aircraft that was leased to another carrier that filed for bankruptcy protection in the prior year. The decrease was partially offset by lower interest income earned on our marketable securities portfolio.

CONSOLIDATED INCOME TAX EXPENSE

Our effective income tax rate for 2012 was 38.5% compared to 37.9% for 2011. The difference between the effective tax rates and our statutory tax rate of approximately 37.5% is due primarily to miscellaneous non-deductible expenses.

Our effective tax rate can vary significantly between quarters and for the full year, depending on the magnitude of non-deductible expenses in proportion to pretax results.

2011 COMPARED WITH 2010

Our consolidated net income for 2011 was $245 million, or $3.33 per diluted share, compared to net income of $251 million, or $3.41 per diluted share, in 2010. Significant items impacting the comparability between the periods were as follows:

- Both periods included adjustments to reflect the timing of net unrealized mark-to-market gains or losses related to our fuel hedge positions. For 2011, we recognized net mark-to-market losses of $30 million ($18 million after tax, or $0.26 per share) compared to losses of $5 million ($4 million after tax, or $0.05 per share) in 2010.

- 2011 included Horizon fleet transition costs of $39 million ($24 million after tax, of $0.33 per share) compared to $13 million ($8 million, or $0.11 per share) in 2010.

Excluding the mark-to-market adjustments and other special charges, our adjusted consolidated net income for 2011 was $287 million, or $3.92 per diluted share, compared to an adjusted consolidated net income of $263 million, or $3.57 per share, in 2010.

	Year Ended December 31,			
	2011		2010	
(in millions, except per share amounts)	Dollars	Diluted EPS	Dollars	Diluted EPS
Net income and diluted EPS as reported	**$ 245**	**$ 3.33**	$ 251	$ 3.41
Fleet transition costs, net of tax	**24**	**0.33**	8	0.11
Mark-to-market fuel hedge adjustments, net of tax	**18**	**0.26**	4	0.05
Non-GAAP adjusted income and per share amounts	**$ 287**	**$ 3.92**	$ 263	$ 3.57

OPERATING REVENUES

Total operating revenues increased $486 million, or 13%, during 2011 compared to the same period in 2010. The changes are summarized in the following table:

	Year Ended December 31,		
(in millions)	2011	2010	% Change
Passenger			
Mainline	**$ 2,995**	$ 2,595	15
Regional	**713**	671	6
Total passenger revenue	**$ 3,708**	$ 3,266	14
Freight and mail	**109**	106	2
Other - net	**501**	460	9
Total operating revenues	**$ 4,318**	$ 3,832	13

Passenger Revenue – Mainline

Mainline passenger revenue for 2011 increased by 15% on an 8.5% increase in capacity and a 6.2% increase in passenger revenue per available seat mile (PRASM) compared to 2010. The increase in capacity was driven by the annualization of new routes added in 2010 and new routes in 2011, most of which was Hawaii. The increase in PRASM was driven by a 4.0% rise in ticket yield and a 1.9-point increase in load factor compared to the prior year. The increase in yield was due to an increase in prices to help offset the 36% increase in raw fuel costs.

Passenger Revenue – Regional

Regional passenger revenue increased by $42 million, or 6%, compared to 2010 on a 12.8% increase in PRASM compared to 2010, despite a 5.8% decline in capacity. The increase in PRASM was driven by an 8.1% increase in ticket yield and a 3.2-point increase in load factor compared to the prior year. The decline in capacity and increase in load factors was due to better matching supply with demand in the regional network.

Freight and Mail

Freight and mail revenue increased $3 million, or 2%, primarily due to freight fuel surcharge increases of $5 million offset by lower mail revenue on lower volume.

Other – Net

Other-net revenue increased $41 million, or 9%, from 2010. The increase was primarily due to an increase in our Mileage Plan revenues of $12 million with higher commissions driven by a larger number of miles sold to our affinity card partner and a contractual rate increase for those sold miles. Additionally, food and beverages sales increased $4 million due to increased volumes.

OPERATING EXPENSES

Total operating expenses increased $508 million, or 15%, compared to 2010 mostly as a result of significantly higher fuel costs. 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:

	Year Ended December 31,		
(in millions)	2011	2010	% Change
Fuel expense	**$ 1,298**	$ 901	44
Non-fuel expenses	**2,571**	2,460	5
Total Operating Expenses	**$ 3,869**	$ 3,361	15

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

Wages and Benefits

Wages and benefits increased during 2011 by $30 million, or 3%, compared to 2010. The primary components of wages and benefits are shown in the following table:

	Year Ended December 31,		
(in millions)	**2011**	**2010**	**% Change**
Wages	**$ 703**	$ 674	4
Pension and defined-contribution retirement benefits	**88**	93	(5)
Medical benefits	**108**	109	(1)
Other benefits and payroll taxes	**92**	85	8
Total wages and benefits	**$ 991**	$ 961	3

Wages increased 4% on a 1.2% increase in FTEs 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 5% compared to 2010.

Pension and other retirement-related benefits decreased 5% 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 1% from the prior year primarily due to a decline in employee healthcare claims, partially offset by an increase in post-retirement medical expense.

Other benefits and payroll taxes increased 8% from the prior year due to increases in our Workers Compensation and Disability Plan as well as increased payroll taxes in line with increased wages.

Variable Incentive Pay

Variable incentive pay expense decreased from $92 million in 2010 to $72 million in 2011. The decrease was due to the fact that in 2010 our financial and operational results exceeded targets more so than in 2011.

Aircraft Fuel

Aircraft fuel expense increased $397 million, or 44% compared to 2010. The elements of the change are illustrated in the following table:

	Year Ended December 31,			
	2011		**2010**	
(in millions, except for per gallon amounts)	**Dollars**	**Cost/Gal**	**Dollars**	**Cost/Gal**
Raw or "into-plane" fuel cost	**$ 1,289**	**$ 3.24**	$ 899	$ 2.38
Gains on settled hedges	**(21)**	**(0.06)**	(3)	(0.01)
Consolidated economic fuel expense	**$ 1,268**	**$ 3.18**	$ 896	$ 2.37
Mark-to-mark fuel hedge adjustments	**30**	**0.08**	5	0.01
GAAP fuel expense	**$ 1,298**	**$ 3.26**	$ 901	$ 2.38
Fuel gallons	**398**		377	

Fuel gallons consumed increased 5.6%, primarily as a result of a 5% increase in block hours and a slight increase in fuel burn per block hour as a result of higher load factors.

The raw fuel price per gallon increased 36.1% as a result of higher West Coast jet fuel prices. The average prices of crude oil and refining margins during 2011 were higher by approximately 19% and 141% respectively, as compared to 2010.

Gains recognized for hedges that settled during the year was $21 million in 2011, compared to gains of $3 million in 2010.

Aircraft Maintenance

Aircraft maintenance decreased by $11 million, or 5%, compared to the prior year primarily due to lower costs associated with the return of leased aircraft and lower costs due to the phaseout of the CRJ fleet, offset by increased airframe check costs and components.

Aircraft Rent

Aircraft rent decreased $23 million, or 16%, compared to the prior-year period primarily due to $14 million less rent related to 11 fewer CRJ 700 aircraft and $6 million less rent related to five fewer B737 aircraft leased in 2011 compared to 2010.

Landing Fees and Other Rentals

Landing fees and other rentals increased $5 million, or 2%, primarily due to a $4 million increase in facilities rents across our network and a $2 million increase in our landing fee expenses. Mainline landing fee expenses increased due to a 9% increase in departures, partially offset by a 10% decrease in our regional departures.

Contracted Services

Contracted services increased $22 million, or 14%, primarily due to an increase in capacity purchased flying of $13 million compared to the prior year as the new agreement with SkyWest began in May 2011. Additionally, we experienced higher passenger handling of $3 million as a result of an increase in the number of flights to airports where vendors are used and an increase in contract labor of $2 million.

Selling Expenses

Selling expenses increased by $21 million, or 14%, compared to 2010 as a result of higher travel agent and ticket distribution costs of $11 million and credit card commissions of $6 million due to increased revenues of 13%.

Depreciation and Amortization

Depreciation and amortization increased $17 million, or 7%, compared to the prior year. This is primarily due to additional depreciation expense of $18 million for B737 aircraft, $7 million increase in Q400 aircraft depreciation, offset by a decrease of $4 million in CRJ 700 aircraft and other assets that became fully depreciated or were removed from operation.

Food and Beverage Service

Food and beverage costs increased $10 million, or 17%, from the prior year due to an increased number of passengers, increased sales of buy on board products, a higher cost of some of our fresh food items served on board, and increased costs associated with food delivery.

Other Operating Expenses

Other operating expenses increased $34 million, or 17%, compared to 2010. The increase is primarily driven by higher personnel non-wage costs such as hotels, meals and per diems of $8 million and higher professional service costs of $7 million as well as higher costs for communications, property taxes, passenger remunerations, and deicing.

Fleet Transition and Restructuring Related Expenses

Fleet transition costs increased $26 million, as we finalized our transition to an all-Q400 fleet. The increase was directly due to net charges of $28 million related to the removal of the CRJ-700 aircraft and related inventory and a loss on the final disposition of Q200 aircraft of $11 million in 2011.

Operating Costs per Available Seat Mile (CASM)

Our operating costs per ASM are summarized below:

	Year Ended December 31,		
	2011	**2010**	**% Change**
Consolidated:			
Total operating expenses per ASM (CASM)	**13.06¢**	12.12¢	7.8
Less the following components:			
Aircraft fuel, including hedging gains and losses	**4.38**	3.25	34.8
Fleet transition costs	**0.13**	0.05	NM
CASM, excluding fuel and fleet transition costs	**8.55¢**	8.82¢	(3.1)
Mainline:			
Total mainline operating expenses per ASM (CASM)	**11.87¢**	10.96¢	8.3
Less the following components:			
Aircraft fuel, including hedging gains and losses	**4.27**	3.11	37.3
CASM, excluding fuel	**7.60¢**	7.85¢	(3.2)

NM - Not Meaningful

CONSOLIDATED NONOPERATING INCOME (EXPENSE)

Net nonoperating expense was $55 million in 2011 compared to $65 million in 2010. The $10 million decrease is due to lower interest expense due to payments on maturing debt and prepayments of debt in 2011, higher capitalized interest due to higher levels of capital expenditures, offset by lower investment returns in our marketable securities portfolio, and an impairment charge of $6 million on an owned aircraft that was leased to another carrier that filed for bankruptcy protection, and other-than-temporary-impairments on mortgage-backed securities.

CONSOLIDATED INCOME TAX EXPENSE

Our effective income tax rate for 2011 was 37.9%, compared to 38.1% for 2010. The difference between the effective tax rates for both periods and our statutory tax rate of approximately 37.8% is due primarily to miscellaneous non-deductible expenses, such as per diems.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are:

- Our existing cash and marketable securities balance of $1.3 billion, which represents 27% of trailing 12 months' revenue, and our expected cash from operations;
- Our 45 unencumbered aircraft as of December 31, 2012 in our operating fleet that could be financed, if necessary;
- Our combined $200 million bank line-of-credit facilities, with currently none outstanding;

In 2012, we took free and clear delivery of four B737-900ER, three B737-800 aircraft, and two Q400 aircraft. We paid off outstanding debt associated with seven aircraft totaling $103 million and made scheduled debt payments totaling $172 million. In addition, we continued to return capital to our shareholders by repurchasing $60 million of our common stock in 2012, which included stock repurchases under a new $250 million program authorized by the Board in September 2012. Finally, we made voluntary contributions to our qualified defined-benefit pension plans of $110 million in 2012, although there were no funding requirements. We will continue to focus on preserving a strong liquidity position and evaluate our cash needs as conditions change.

The overall strength of our balance sheet was one of the contributing factors for Standard & Poor's recent decision to change our outlook from "Stable" to "Positive" in 2012.

We believe that our current cash and marketable securities balance 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 securities that meet our overall investment strategy of maintaining and securing investment principal. Our investment portfolio is managed by reputable firms that adhere to our investment policy that sets forth investment objectives, approved and prohibited investments, and duration and credit quality guidelines. Our policy and the portfolio managers are continually reviewed to ensure that the investments are aligned with our strategy. As of December 31, 2012, we had a $12 million unrealized gain on our $1.3 billion 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)	**December 31, 2012**	December 31, 2011	Change
Cash and marketable securities	**$ 1,252**	$ 1,141	$ 111
Cash and marketable securities as a percentage of trailing twelve months revenue	**27%**	26%	1 pt
Long-term debt, net of current portion	**871**	1,099	(228)
Shareholders’ equity	**1,421**	1,174	247
Long-term debt-to-capital assuming aircraft operating leases are capitalized at seven times annualized rent	**54%:46%**	62%:38%	(8pts)

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

Cash provided by operating activities was $753 million in 2012, compared to $696 million in the prior year. The $57 million increase was primarily driven by $339 million in increased revenue, offset by higher fuel of $161 million and higher non-fuel operating costs to support increased revenues and capacity. Also, cash received from the sale of miles under our mileage plan program increased approximately $30 million due a 5% increase in miles sold with a 4% increase in rate. In addition, we made voluntary contributions to our qualified pension plan of $110 million versus $133 million in the prior year, and we paid cash taxes of $78 million in the current year compared to $8 million in 2011.

We typically generate positive cash flows from operations, and expect to use a portion to invest in capital expenditures.

Cash Used in Investing Activities

Cash used in investing activities was $645 million during 2012, compared to $403 million in 2011. Our capital expenditures were $518 million, or $131 million higher than in 2011. This is due to the delivery of four B737-900ER aircraft, three B737-800 aircraft and two Q400 aircraft, compared to three B737-800 aircraft in the prior year, as well as purchase deposits for the nine B737-900ER aircraft to be delivered next year and initial deposits related to our new Boeing agreements.

In 2012, we entered into a new agreement and modified existing agreements with Boeing to acquire 50 737 aircraft, including 37 of Boeing's new 737 MAX aircraft. This order positions Alaska to replace aging aircraft over the next decade, including the phase out of nearly all of its 737-400 aircraft by the end of 2017, and continue to operate one of the most modern, environmentally friendly, comfortable and fuel-efficient fleets in the United States.

We now have firm commitments for 71 B737 aircraft through 2022 with options to acquire up to 69 additional 737 NextGen (NG) aircraft and MAX aircraft in 2015 through 2024. The options for both NG and MAX aircraft will give Alaska the flexibility, but not the obligation, to grow the fleet assuming profitability and return on invested capital targets can be met. The new agreements will result in increased capital spending over the next ten years depending on how many of our options are exercised.

The table below reflects total expected capital expenditures and the additional expenditures if options were exercised. These options will be exercised only if we believe return on invested capital targets can be meet:

	2012 Actuals	2013	2014	2015	2016
Aircraft and aircraft purchase deposits - firm	$ 455	$ 330	$ 285	$ 230	$ 180
Other flight equipment	24	45	50	25	25
Other property and equipment	39	85	85	75	75
Total property and equipment additions	$ 518	$ 460	$ 420	$ 330	$ 280
Aircraft and aircraft deposits related to Alaska options, if exercised [(a)]	$ —	$ 35	$ 185	$ 480	$ 340
Aircraft and aircraft deposits related to Horizon options, if exercised [(a)]	$ —	$ 75	$ 105	$ 50	$ —

(a) Alaska has options to acquire 69 B737 aircraft with deliveries in 2015 through 2024. Horizon has options to acquire 10 Q400 aircraft with deliveries in 2013 to 2015.

In addition, our capital expenditures related to Terminal 6 at Los Angeles International Airports (LAX) were lower by $53 million, as we placed the assets constructed for others into service in March. For financial reporting purposes, this asset will remain on our balance sheet as we did not qualify for sale accounting due to our continuing involvement with the facility. Over the last two years we have been reimbursed $182 million, which is classified as a financing activity in the consolidated statement of cash flows.

Cash Used by Financing Activities

Cash used by financing activities was $88 million during 2012, compared to $281 million in the prior year. During the current year, we had scheduled debt payments of $172 million, debt prepayments of $103 million, and stock repurchases of $60 million, partially offset by proceeds of $49 million related to three B737-700 sale-leasebacks.

In addition, we received reimbursement from Los Angeles World Airport (LAWA) for our construction of Terminal 6 at LAX of $178 million.

We plan to meet our capital and operating commitments through internally generated funds from operations and cash and marketable securities on hand, along with additional debt financing if necessary.

Bank Line-of-Credit Facility

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 August 2015, are secured by aircraft. Borrowings on the other $100 million facility are secured by certain accounts receivable, spare engines, spare parts and ground service equipment. We modified the first facility in 2012 by extending the term from March 2013 to August 2015 and the second facility in 2011 by extending the term from March 2014 to March 2016, and reduced the commitment fee for both facilities. The Company has no immediate plans to borrow using either of these facilities.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Aircraft Purchase Commitments

Overall, we have firm orders to purchase 71 aircraft. We have options to acquire 69 additional B737 aircraft and options to acquire 10 Q400 aircraft.

The following table summarizes aircraft purchase commitments by year:

	Actual Fleet Count		Expected Fleet Activity			
Aircraft	**Dec 31, 2011**	**Dec 31, 2012**	**2013 Changes**	**Dec 31, 2013**	**2014 Changes**	**Dec 31, 2014**
B737 Freighters & Combis	6	6	—	6	(3)	3
B737 Passenger Aircraft	111	118	3	121	—	121
Total Mainline Fleet	117	124	3	127	(3)	124
Q400	48	48	—	48	—	48
Total	165	172	3	175	(3)	172

We expect to pay for the firm future aircraft deliveries in 2013 with cash on hand. For future firm orders and if we exercise our options for additional deliveries, we may finance the aircraft through internally generated cash, long-term debt, or lease arrangements.

Future Fuel Hedge Positions

We use both call options for crude oil futures and swap agreements for jet fuel refining margins to hedge against price volatility of future jet fuel consumption. We have refining margin swaps in place for approximately 50% of our first quarter 2013 estimated jet fuel purchases at an average price of 89 cents per gallon. Our crude oil positions are as follows:

	Approximate % of Expected Fuel Requirements	Weighted-Average Crude Oil Price per Barrel	Average Premium Cost per Barrel
First Quarter 2013	50%	$98	$12
Second Quarter 2013	50%	$99	$12
Third Quarter 2013	50%	$101	$11
Fourth Quarter 2013	50%	$102	$10
Full Year 2013	**50%**	**$100**	**$11**
First Quarter 2014	44%	$102	$10
Second Quarter 2014	39%	$102	$10
Third Quarter 2014	33%	$101	$9
Fourth Quarter 2014	27%	$103	$8
Full Year 2014	**35%**	**$102**	**$10**
First Quarter 2015	22%	$103	$8
Second Quarter 2015	17%	$101	$7
Third Quarter 2015	11%	$105	$7
Fourth Quarter 2015	6%	$106	$7
Full Year 2015	**14%**	**$103**	**$7**

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 December 31, 2012.

(in millions)	2013	2014	2015	2016	2017	Beyond 2017	Total
Current and long-term debt obligations	$ 161	$ 117	$ 113	$ 111	$ 116	$ 414	$ 1,032
Operating lease commitments[(a)]	189	168	135	104	69	209	874
Aircraft purchase commitments	372	332	254	204	322	1,488	2,972
Interest obligations[(b)]	50	42	37	31	26	44	230
Other obligations[(c)]	49	44	27	18	19	8	165
Total	$ 821	$ 703	$ 566	$ 468	$ 552	$ 2,163	$ 5,273

(a) Operating lease commitments generally include aircraft operating leases, airport property and hangar leases, office space, and other equipment leases.

(b) For variable-rate debt, future obligations are shown above using interest rates in effect as of December 31, 2012.

(c) Includes minimum obligations under our long-term power-by-the-hour maintenance agreements and obligations associated with third-party CPAs with SkyWest and PenAir. Refer to the "Commitments" note in the consolidated financial statements for further information.

Pension Obligations

The table above excludes contributions to our various pension plans, which we estimate to be $35 million to $50 million per year, although there are no minimum required contributions. The unfunded liability for our qualified defined-benefit pension plans was $335 million at December 31, 2012 compared to $306 million at December 31, 2011. This results in an 82% funded status on a projected benefit obligation basis compared to 81% funded as of December 31, 2011.

Credit Card Agreements

We have agreements with a number of credit card companies to process the sale of tickets and other services. Under these agreements, there are material adverse change clauses that, if triggered, could result in the credit card companies holding back a reserve from our credit card receivables. Under one such agreement, we could be required to maintain a reserve if our credit rating is downgraded to or below a rating specified by the agreement or our cash and marketable securities balance fell below $500 million. Under another such agreement, we could be required to maintain a reserve if our cash and marketable securities balance fell below $500 million. We are not currently required to maintain any reserve under these agreements, but if we were, our financial position and liquidity could be materially harmed.

Deferred Income Taxes

For federal income tax purposes, the majority of our assets are fully depreciated over a seven-year life using an accelerated depreciation method. For financial reporting purposes, the majority of our assets are depreciated over 15 to 20 years to an estimated salvage value using the straight-line basis. This difference has created a significant deferred tax liability. At some point in the future the depreciation basis will reverse, potentially resulting in an increase in income taxes paid.

While it is possible that we could have material cash obligations for this deferred liability at some point in the future, we cannot estimate the timing of long-term cash flows with reasonable accuracy. Taxable income and cash taxes payable in the short term are impacted by many items, including the amount of book income generated, which can be volatile depending on revenue and fuel prices, level of pension funding (which is generally not known until late each year), whether "bonus depreciation" provisions are available, as well as other legislative changes that are out of our control.

In 2012, we made tax payments of $78 million. In 2013, if we have similar financial performance our cash taxes may be significantly more due to utilization of federal net operating losses and alternative minimum tax credits in 2012. However, this is highly dependent on actual taxable income and other factors that are difficult to estimate at this time.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of our financial position and results of operations in this MD&A is based upon our consolidated financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect our financial position and results of operations. See Note 1 to the consolidated financial statements for a description of our significant accounting policies.

Critical accounting estimates are defined as those that reflect significant management judgment and uncertainties and that potentially may result in materially different results under varying assumptions and conditions. Management has identified the following critical accounting estimates and has discussed the development, selection and disclosure of these policies with our audit committee.

MILEAGE PLAN

Our Mileage Plan loyalty program awards miles to member passengers who fly on our airlines and many of our travel partners. Additionally, we sell miles to third parties, such as our bank partner, for cash. In either case, the outstanding miles may be redeemed for travel on our airlines or any of our travel partners. As long as the Mileage Plan is in existence, we have an obligation to provide this future travel.

For miles earned by passengers who fly on us or our travel partners, we recognize a liability and a corresponding selling expense representing the incremental cost associated with the obligation to provide travel in the future. For miles sold to third parties, a portion of the sales proceeds are recorded as deferred revenue and recognized when the award transportation is provided. The commission component of these sales proceeds (defined as the proceeds we receive from the sale of mileage credits minus the amount we defer) is recorded as other-net revenue in the period that miles are sold. This represents services provided by the Company to its business partners and relates primarily to the use of the Company's logo and trademarks along with access to the Company's Mileage Plan members. Commission revenue recognized for the years ended December 31, 2012, 2011 and 2010 was $143 million, $138 million and $124 million, respectively. The deferred revenue is recognized as passenger revenue when awards are issued and flown on one of our airlines, and as other-net revenue for awards issued and flown on partner airlines.

At December 31, 2012, we had approximately 131 billion miles outstanding, resulting in an aggregate liability and deferred revenue balance of $730 million. Both the liability and the deferred revenue are determined based on several assumptions that require significant management judgment to estimate and formulate. There are uncertainties inherent in estimates; therefore, an incorrect assumption could greatly affect the amount and/or timing of revenue recognition or Mileage Plan expenses. The most significant assumptions in accounting for the Mileage Plan are described below.

1. The rate at which we defer sales proceeds from sold miles:

We defer an amount that represents our estimate of the selling price of award travel by looking to the sales prices of comparable paid travel. As our estimates of selling price change, the amount we defer changes, resulting in the recognition of a higher or lower portion of the cash proceeds from the sale of miles as commission revenue in any given period. A 1% increase in the estimated selling price of travel (and related deferral rate) would decrease commission revenue by approximately $3 million. This amount would instead be recognized in a future period when award travel takes place.

2. The number of miles that will not be redeemed for travel (breakage):

The liability for outstanding Mileage Plan mileage credits includes all mileage credits that are expected to be redeemed, including mileage credits earned by members whose mileage account balances have not yet reached the minimum mileage credit level to redeem an award. Our estimates of the number of miles that will not be redeemed (breakage) consider historical activity in our members' accounts and other factors. A hypothetical 1% change in our estimate of breakage (currently 12% in the aggregate) has approximately an $8 million effect on the liability.

3. The number of miles used per award:

We estimate how many miles will be used per award. For example, our members may redeem credit for award travel to various locations or choose between a highly restricted award and an unrestricted award. Our estimates are based on the current requirements in our Mileage Plan program and historical travel redemption patterns.

4. The number of awards redeemed for travel on our airlines versus other airlines:

The cost for us to carry an award passenger is typically lower than the cost we will pay to our travel partners. We estimate the number of awards that will be redeemed on our airlines versus on our travel partners and accrue the estimated costs based on historical redemption patterns. If the number of awards redeemed on our travel partner is higher or lower than estimated, we may need to adjust our liability and corresponding expense.

5. *The costs that will be incurred to provide award travel:*

When a frequent flyer travels on his or her award ticket on one of our airlines, incremental costs such as food, fuel and insurance are incurred to carry that passenger. We estimate what these costs will be (excluding any contribution to overhead and profit) and accrue a liability. If the passenger travels on another airline on an award ticket, we often must pay the other airline for carrying the passenger. The other airline costs are based on negotiated agreements and are often substantially higher than the costs we would incur to carry that passenger. We estimate how much we will pay to other airlines for future travel awards based on historical redemptions and settlements with other carriers and accrue a liability accordingly. The costs actually incurred by us or paid to other airlines may be higher or lower than the costs that were estimated and accrued, and therefore we may need to adjust our liability and recognize a corresponding expense.

We regularly review significant Mileage Plan assumptions and change our assumptions if facts and circumstances indicate that a change is necessary. Any such change in assumptions could have a significant effect on our financial position and results of operations.

PENSION PLANS

Accounting rules require recognition of the overfunded or underfunded status of an entity's defined-benefit pension and other postretirement plans as an asset or liability in the financial statements and requires recognition of the funded status in other comprehensive income. Pension expense is recognized on an accrual basis over employees' approximate service periods and is generally independent of funding decisions or requirements. We recognized expense for our qualified defined-benefit pension plans of $57 million, $42 million, and $50 million in 2012, 2011, and 2010, respectively. We expect the 2013 expense to be approximately $50 million.

The calculation of pension expense and the corresponding liability requires the use of a number of important assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate. Changes in these assumptions can result in different expense and liability amounts, and future actual experience can differ from these assumptions.

Pension expense increases as the expected rate of return on pension plan assets decreases. As of December 31, 2012, we estimate that the pension plan assets will generate a long-term rate of return of 7.25%, which is consistent with the expected rate at December 31, 2011. This rate was developed using historical data, the current value of the underlying assets, as well as long-term inflation assumptions. We regularly review the actual asset allocation and periodically rebalance investments as appropriate. This expected long-term rate of return on plan assets at December 31, 2012 is based on an allocation of U.S. and non-U.S. equities and U.S. fixed-income securities. Decreasing the expected long-term rate of return by 0.50% (from 7.25% to 6.75%) would increase our estimated 2013 pension expense by approximately $8 million.

Pension liability and future pension expense increase as the discount rate is reduced. We discounted future pension obligations using a rate of 3.95% and 4.65% at December 31, 2012 and 2011, respectively. The discount rate at December 31, 2012 was determined using current rates earned on high-quality long-term bonds with maturities that correspond with the estimated cash distributions from the pension plans. Decreasing the discount rate by 0.5% (from 3.95% to 3.45%) would increase our projected benefit obligation at December 31, 2012 by approximately $142 million and increase estimated 2013 pension expense by approximately $11 million.

All of our defined-benefit pension plans are now closed to new entrants. Additionally, benefits in our non-union defined-benefit plans will be frozen January 1, 2014.

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

LONG-LIVED ASSETS

As of December 31, 2012, we had approximately $3.6 billion of property and equipment and related assets, net of accumulated depreciation. In accounting for these long-lived assets, we make estimates about the expected useful lives of the assets, changes in fleet plans, the expected residual values of the assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the long-lived assets, management decisions regarding the future use of the assets, a significant change in the long-lived assets condition, and operating cash flow losses associated with the use of the long-lived asset.

There is inherent risk in estimating the fair value of our aircraft and related parts and their salvage values at the time of impairment. Actual proceeds upon disposition of the aircraft or related parts could be materially less than expected, resulting in additional loss. Our estimate of salvage value at the time of disposal could also change, requiring us to increase the depreciation expense on the affected aircraft.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We have interest-rate risk on our variable-rate debt obligations and our available-for-sale marketable investment portfolio, and commodity-price risk in jet fuel required to operate our aircraft fleet. We purchase the majority of our jet fuel at prevailing market prices and seek to manage market risk through execution of our hedging strategy and other means. We have market-sensitive instruments in the form of fixed-rate debt instruments, and financial derivative instruments used to hedge our exposure to jet-fuel price increases and interest-rate increases. We do not purchase or hold any derivative financial instruments for trading purposes.

Aircraft Fuel

Currently, our fuel-hedging portfolio consists of crude oil call options and jet fuel refining margin swap contracts. Both call options and swaps effectively cap our pricing for the crude oil and refining margin components, limiting our exposure to increasing fuel prices for about half of our planned fuel consumption. With the call option contracts, we still benefit from the decline in crude oil prices, as there is no future cash exposure above the premiums we pay to enter into the contracts. The swap contracts do not require an upfront premium, but do expose us to future cash outlays in the event actual prices are below the swap price during the hedge period. 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 December 31, 2012 would increase or decrease the fair value of our crude oil hedge portfolio by approximately $112 million and $35 million, respectively.

Our portfolio value of fuel hedge contracts was $64 million at December 31, 2012 compared to a portfolio value of $107 million at December 31, 2011. We do not have any collateral held by counterparties to these agreements as of December 31, 2012.

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 "Derivative Instruments" note in our consolidated financial statements.

Interest Rates

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. A hypothetical 10% change in the average interest rates incurred on variable-rate debt during 2012 would correspondingly change our net earnings and cash flows associated with these items by less than $1 million. In order to help mitigate the risk of interest rate fluctuations, we have fixed the interest rates on certain existing variable-rate debt agreements. Our variable-rate debt is approximately 18% of our total long-term debt at December 31, 2012 compared to 23% at December 31, 2011.

We also have investments in marketable securities, which are exposed to market risk associated with changes in interest rates. If short-term interest rates were to average 1% more than they did in 2012, interest income would increase by approximately $12 million.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SELECTED QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (unaudited)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
(in millions, except per share)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Operating revenues	**$ 1,039**	$ 965	**$ 1,213**	$ 1,110	**$ 1,272**	$ 1,198	**$ 1,132**	$ 1,044
Operating income	**72**	134	**116**	58	**270**	143	**74**	114
Net income	**41**	74	**68**	29	**163**	78	**44**	64
Basic earnings per share[(a)]	**0.57**	1.03	**0.95**	0.40	**2.30**	1.08	**0.62**	0.90
Diluted earnings per per share[(a)]	**0.56**	1.01	**0.93**	0.39	**2.27**	1.06	**0.61**	0.88

(a) For earnings per share, the sum of the quarters may not equal the total for the full year due to rounding.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Alaska Air Group, Inc.:

We have audited the accompanying consolidated balance sheets of Alaska Air Group, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive operations, shareholders' equity, and cash flows for each of the years in the three -year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alaska Air Group, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three -year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Alaska Air Group, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 14, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Seattle, Washington
February 14, 2013

ALASKA AIR GROUP, INC.

CONSOLIDATED BALANCE SHEETS

As of December 31 *(in millions)*	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 122	$ 102
Marketable securities	1,130	1,039
Total cash and marketable securities	1,252	1,141
Receivables - less allowance for doubtful accounts of $0 and $1	130	136
Inventories and supplies - net	58	44
Deferred income taxes	148	134
Fuel hedge contracts	26	47
Prepaid expenses and other current assets	123	94
Total Current Assets	1,737	1,596
Property and Equipment		
Aircraft and other flight equipment	4,248	4,042
Other property and equipment	855	762
Deposits for future flight equipment	369	234
	5,472	5,038
Less accumulated depreciation and amortization	1,863	1,665
Total Property and Equipment - Net	3,609	3,373
Fuel Hedge Contracts	39	70
Other Assets	120	128
Total Assets	$ 5,505	$ 5,167

See accompanying notes to consolidated financial statements.

ALASKA AIR GROUP, INC.

CONSOLIDATED BALANCE SHEETS - *(continued)*

As of December 31 *(in millions except share amounts)*	2012	2011
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 65**	$ 104
Accrued aircraft rent	**18**	32
Accrued wages, vacation and payroll taxes	**184**	164
Other accrued liabilities	**539**	513
Air traffic liability	**534**	489
Current portion of long-term debt	**161**	208
Total Current Liabilities	**1,501**	1,510
Long-Term Debt, Net of Current Portion	**871**	1,099
Other Liabilities and Credits		
Deferred income taxes	**446**	363
Deferred revenue	**443**	410
Obligation for pension and postretirement medical benefits	**489**	463
Other liabilities	**334**	148
	1,712	1,384
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $1 par value Authorized: 5,000,000 shares, none issued or outstanding	**—**	—
Common stock, $1 par value Authorized: 100,000,000 shares, Issued: 2012 - 70,376,543 shares; 2011 - 75,733,044 shares	**70**	76
Capital in excess of par value	**660**	802
Treasury stock (common), at cost: 2012 - 0 shares; 2011 - 4,783,494 shares	**—**	(125)
Accumulated other comprehensive loss	**(436)**	(390)
Retained earnings	**1,127**	811
	1,421	1,174
Total Liabilities and Shareholders' Equity	**$ 5,505**	$ 5,167

See accompanying notes to consolidated financial statements.

ALASKA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended December 31 *(in millions, except per share amounts)*	2012	2011	2010
Operating Revenues			
Passenger			
Mainline	$ 3,284	$ 2,995	$ 2,595
Regional	746	713	671
Total passenger revenue	4,030	3,708	3,266
Freight and mail	111	109	106
Other - net	516	501	460
Total Operating Revenues	4,657	4,318	3,832
Operating Expenses			
Wages and benefits	1,038	991	961
Variable incentive pay	88	72	92
Aircraft fuel, including hedging gains and losses	1,459	1,298	901
Aircraft maintenance	222	206	217
Aircraft rent	116	116	139
Landing fees and other rentals	243	238	233
Contracted services	200	185	163
Selling expenses	168	175	154
Depreciation and amortization	264	247	230
Food and beverage service	79	67	57
Other	248	235	201
Fleet transition and restructuring related expenses	—	39	13
Total Operating Expenses	4,125	3,869	3,361
Operating Income	532	449	471
Nonoperating Income (Expense)			
Interest income	19	22	29
Interest expense	(64)	(87)	(108)
Interest capitalized	18	12	6
Other - net	9	(2)	8
	(18)	(55)	(65)
Income before income tax	514	394	406
Income tax expense	198	149	155
Net Income	$ 316	$ 245	$ 251
Basic Earnings Per Share:	$ 4.47	$ 3.41	$ 3.50
Diluted Earnings Per Share:	$ 4.40	$ 3.33	$ 3.41
Shares used for computation:			
Basic	70.708	71.755	71.644
Diluted	71.784	73.421	73.571

See accompanying notes to consolidated financial statements.

ALASKA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS

Year Ended December 31 (in millions)	2012	2011	2010
Net Income	**$ 316**	$ 245	$ 251
Other comprehensive income (loss):			
Related to marketable securities:			
Unrealized holding gains (losses) arising during the period	**9**	(1)	7
Reclassification adjustment for gains included in net income	**(7)**	(3)	(8)
Income tax benefit (expense)	**(1)**	1	—
Total	**1**	(3)	(1)
Related to employee benefit plans:			
Amortization of net actuarial items and prior service costs	**(68)**	(175)	(31)
Income tax benefit	**25**	65	12
Total	**(43)**	(110)	(19)
Related to interest rate derivative instruments:			
Unrealized holding losses arising during the period	**(4)**	(20)	(11)
Income tax benefit	**—**	10	4
Total	**(4)**	(10)	(7)
Other comprehensive loss	**(46)**	(123)	(27)
Comprehensive income	**$ 270**	$ 122	$ 224

See accompanying notes to consolidated financial statements.

ALASKA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

(in millions)	*Common Stock Outstanding*	Common Stock	Capital in Excess of Par Value	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balances at December 31, 2009	*71.182*	$ 72	$ 731	$ (6)	$ (240)	$ 315	$ 872
2010 net income						251	251
Other comprehensive loss					(27)		(27)
Common stock repurchase	*(2.001)*	—	—	(45)			(45)
Stock-based compensation	—	—	14	—			14
Treasury stock issued under stock plans	*0.333*	—	—	5			5
Stock issued for employee stock purchase plan	*0.031*	—	—	—			—
Stock issued under stock plans	*2.303*	2	34	—			36
Balances at December 31, 2010	*71.848*	74	779	(46)	(267)	566	1,106
2011 net income						245	245
Other comprehensive loss					(123)		(123)
Common stock repurchase	*(2.618)*	—	—	(79)			(79)
Stock-based compensation	—	—	12	—			12
Treasury stock issued under stock plans	*0.007*	—	—	—			—
Stock issued for employee stock purchase plan	*0.126*	—	3	—			3
Stock issued under stock plans	*1.587*	2	8	—			10
Balances at December 31, 2011	*70.950*	76	802	(125)	(390)	811	1,174
2012 net income						316	316
Other comprehensive loss					(46)		(46)
Common stock repurchase	*(1.686)*	(2)	(58)	—			(60)
Stock-based compensation	—	—	15	—			15
Retirement of treasury stock	—	(5)	(120)	125			—
Stock issued for employee stock purchase plan	*0.157*	—	4	—			4
Stock issued under stock plans	*0.956*	1	17	—			18
Balances at December 31, 2012	*70.377*	$ 70	$ 660	$ —	$ (436)	$ 1,127	$ 1,421

See accompanying notes to consolidated financial statements.

ALASKA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 *(in millions)*	2012	2011	2010
Cash flows from operating activities:			
Net income	**$ 316**	$ 245	$ 251
Adjustments to reconcile net income to net cash provided by operating activities:			
Fleet transition and restructuring related charges	**—**	39	13
Depreciation and amortization	**264**	247	230
Stock-based compensation and other	**10**	17	9
Changes in certain assets and liabilities:			
Changes in fair values of open fuel hedge contracts	**43**	14	(14)
Changes in deferred income taxes	**94**	145	145
Increase (decrease) in air traffic liability	**45**	67	56
Increase (decrease) in deferred revenue	**33**	7	(32)
Increase (decrease) in other long-term liabilities	**4**	70	29
Pension contribution	**(114)**	(141)	(151)
Other - net	**58**	(14)	17
Net cash provided by operating activities	**753**	696	553
Cash flows from investing activities:			
Property and equipment additions:			
Aircraft and aircraft purchase deposits	**(455)**	(318)	(139)
Other flight equipment	**(24)**	(35)	(27)
Other property and equipment	**(39)**	(34)	(19)
Total property and equipment additions	**(518)**	(387)	(185)
Assets constructed for others (Terminal 6 at LAX)	**(56)**	(109)	(29)
Purchases of marketable securities	**(1,130)**	(884)	(1,022)
Sales and maturities of marketable securities	**1,048**	956	931
Proceeds from disposition of assets and changes in restricted deposits	**11**	21	10
Net cash used in investing activities	**(645)**	(403)	(295)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	**—**	107	—
Proceeds from sale-leaseback transactions, net	**49**	—	—
Long-term debt payments	**(275)**	(334)	(321)
Common stock repurchases	**(60)**	(80)	(45)
Proceeds and tax benefit from issuance of common stock	**31**	19	37
Terminal 6 at LAX reimbursement	**178**	4	—
Other financing activities	**(11)**	3	(3)
Net cash used in financing activities	**(88)**	(281)	(332)
Net increase (decrease) in cash and cash equivalents	**20**	12	(74)
Cash and cash equivalents at beginning of year	**102**	90	164
Cash and cash equivalents at end of year	**$ 122**	$ 102	$ 90
Supplemental disclosure:			
Cash paid during the year for:			
Interest (net of amount capitalized)	**$ 46**	$ 74	$ 106
Income taxes	**78**	8	—
Non-cash transactions:			
Relocation credit and assets constructed related to Terminal 6 at LAX	**—**	16	7

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alaska Air Group, Inc.
December 31, 2012

NOTE 1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The consolidated financial statements include the accounts of Alaska Air Group, Inc. (Air Group or the Company) and its subsidiaries, Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon), through which the Company conducts substantially all of its operations. All significant intercompany balances and transactions have been eliminated. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and their preparation requires the use of management's estimates. Actual results may differ from these estimates.

Reclassifications

Certain reclassifications have been made to conform the prior-year data to the current format. During the second quarter of 2012, the Company changed the classification of ancillary revenues, such as checked-bag fees, ticket change fees, and others, from "Passenger revenue" to "Other-net" revenue to enhance comparability of passenger revenue among peers in the industry. The Company has reclassified ancillary revenues in the current period and all prior periods, with the reclassification having no impact on total revenue for any of the respective periods. The table below shows operating revenues originally reported in the Form 10-K for the years ended December 31, 2011 and 2010 and the effect of the reclassification on the consolidated statement of operations (in millions):

	December 31, 2011		December 31, 2010	
	As Reclassified	Reported	As Reclassified	Reported
Operating Revenues				
Passenger				
Mainline	**$ 2,995**	$ 3,176	**$ 2,595**	$ 2,763
Regional	**713**	775	**671**	726
Total passenger revenue	**3,708**	3,951	**3,266**	3,489
Freight and mail	**109**	109	**106**	106
Other - net	**501**	258	**460**	237
Total Operating Revenues	**$ 4,318**	$ 4,318	**$ 3,832**	$ 3,832

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less, such as money market funds, commercial paper and certificates of deposit. They are carried at cost, which approximates market value. The Company reduces cash balances when checks are disbursed. Due to the time delay in checks clearing the banks, the Company normally maintains a negative balance in its cash disbursement accounts, which is reported as a current liability. The amount of the negative cash balance was $14 million and $26 million at December 31, 2012 and 2011, respectively, and is included in accounts payable, with the change in the balance during the year included in other financing activities in the consolidated statements of cash flows.

The Company has restricted cash balances primarily used to guarantee various letters of credit, self-insurance programs, or other contractual rights. Restricted cash consists of highly liquid securities with original maturities of three months or less. They are carried at cost, which approximates fair value.

Marketable Securities

Investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. All cash equivalents and short-term investments are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Changes in market value, excluding other-than-temporary impairments, are reflected in accumulated other comprehensive loss (AOCL).

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Company uses a systematic methodology that considers available quantitative and qualitative evidence in evaluating potential impairment. If the cost of an investment exceeds its fair value, management evaluates, among other factors, general market conditions, credit quality of debt instrument issuers, the duration and extent to which the fair value is less than cost, our intent and ability to hold, or plans to sell, the investment. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to Other-net in the consolidated statements of operations and a new cost basis in the investment is established.

Receivables

Receivables are due on demand and consist primarily of airline traffic (including credit card) receivables, Mileage Plan partners, amounts due from other airlines related to interline agreements, government tax authorities, and other miscellaneous amounts due to the Company, and are net of an allowance for doubtful accounts. Management determines the allowance for doubtful accounts based on known troubled accounts and historical experience applied to an aging of accounts.

Inventories and Supplies—net

Expendable aircraft parts, materials and supplies are stated at average cost and are included in inventories and supplies —net. An obsolescence allowance for expendable parts is accrued based on estimated lives of the corresponding fleet type and salvage values. Surplus inventories are carried at their net realizable value. The allowance for all non-surplus expendable inventories was $ 26 million and $23 million at December 31, 2012 and 2011, respectively. Inventory and supplies—net also includes fuel inventory of $23 million and $20 million at December 31, 2012 and 2011, respectively. Repairable and rotable aircraft parts inventories are included in flight equipment.

Property, Equipment and Depreciation

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

Aircraft and related flight equipment:	
Boeing 737 aircraft	20 years
Bombardier Q400	15 years
Buildings	25-30 years
Minor building and land improvements	10 years
Capitalized leases and leasehold improvements	Shorter of lease term or estimated useful life
Computer hardware and software	3-5 years
Other furniture and equipment	5-10 years

"Related flight equipment" includes rotable and repairable spare inventories, which are depreciated over the associated fleet life unless otherwise noted.

Interest is capitalized on flight equipment purchase deposits as a cost of the related asset, and is depreciated over the estimated useful life of the asset. The capitalized interest is based on the Company's weighted-average borrowing rate.

Maintenance and repairs, other than engine maintenance on B737-400, -700 and -900 engines, are expensed when incurred. Major modifications that extend the life or improve the usefulness of aircraft are capitalized and depreciated over their estimated period of use. Maintenance on B737-400, -700 and -900 engines is covered under power-by-the-hour agreements with third parties, whereby the Company pays a determinable amount, and transfers risk, to a third party. The Company expenses the contract amounts based on engine usage.

The Company evaluates long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the total carrying amount of an asset or asset group may not be recoverable. The Company groups assets for purposes of such reviews at the lowest level for which identifiable cash flows of the asset group are largely independent of the cash flows of other groups of assets and liabilities. An impairment loss is considered when estimated future undiscounted cash flows expected to result from the use of the asset or asset group and its eventual disposition are less than its carrying amount. If the asset or asset group is not considered recoverable, a write-down equal to the excess of the carrying amount over the fair value will be recorded.

Internally Used Software Costs

The Company capitalizes costs to develop internal-use software that are incurred in the application development stage. Amortization commences when the software is ready for its intended use and the amortization period is the estimated useful life of the software, generally three to five years. Capitalized costs primarily include contract labor and payroll costs of the individuals dedicated to the development of internal-use software.

Deferred Revenue

Deferred revenue results primarily from the sale of Mileage Plan miles to third-parties. This revenue is recognized when award transportation is provided or over the term of the applicable agreement.

Operating Leases

The Company leases aircraft, airport and terminal facilities, office space, and other equipment under operating leases. Some of these lease agreements contain rent escalation clauses or rent holidays. For scheduled rent escalation clauses during the lease terms or for rental payments commencing at a date other than the date of initial occupancy, the Company records minimum rental expenses on a straight-line basis over the terms of the leases in the consolidated statements of operations.

Leased Aircraft Return Costs

Cash payments associated with returning leased aircraft are accrued when it is probable that a cash payment will be made and that amount is reasonably estimable. Any accrual is based on the time remaining on the lease, planned aircraft usage and the provisions included in the lease agreement, although the actual amount due to any lessor upon return will not be known with certainty until lease termination.

As leased aircraft are returned, any payments are charged against the established accrual. The accrual is part of other current and long-term liabilities, and was $2 million and $2 million as of December 31, 2012 and December 31, 2011, respectively.

Revenue Recognition

Passenger revenue is recognized when the passenger travels. Tickets sold but not yet used are reported as air traffic liability until travel or date of expiration. Air traffic liability includes approximately $26 million and $22 million related to travel credits for future travel, as of December 31, 2012 and December 31, 2011, respectively. These credits are recognized into revenue either when the passenger travels or the date of expiration, which is twelve months from issuance. Commissions to travel agents and related fees are expensed when the related revenue is recognized. Passenger traffic commissions and related fees not yet recognized are included as a prepaid expense. Taxes collected from passengers, including transportation excise taxes, airport and security fees and other fees, are recorded on a net basis within passenger revenue in the consolidated statements of operations. Due to complex pricing structures, refund and exchange policies, and interline agreements with other airlines, certain amounts are recognized as revenue using estimates regarding both the timing of the revenue recognition and the amount of revenue to be recognized. These estimates are based on the Company's historical data.

Freight and mail revenues are recognized when service is provided.

Other—net revenues are primarily related to the Mileage Plan and they are recognized as described in the "Mileage Plan" paragraph below. Other—net also includes certain ancillary or non-ticket revenues, such as checked-bag fees, reservations fees, ticket change fees, on-board food and beverage sales, and to a much lesser extent commissions from car and hotel vendors, and from the sales of travel insurance. These items are recognized as revenue when the related services are provided. Boardroom (airport lounge) memberships are recognized as revenue over the membership period.

Mileage Plan

Alaska operates a frequent flyer program ("Mileage Plan") that provides travel awards to members based on accumulated mileage. For miles earned by flying on Alaska or Horizon and through airline partners, the estimated cost of providing award travel is recognized as a selling expense and accrued as a liability as miles are earned and accumulated.

Alaska also sells miles to non-airline partners, such as hotels, car rental agencies, and a major bank that offers Alaska Airlines affinity credit cards. The Company defers the portion of the sales proceeds that represents the estimated selling price of the award transportation and recognizes that amount as revenue when the award transportation is provided. The deferred proceeds are recognized as passenger revenue for awards redeemed and flown on Alaska or Horizon, and as other-net revenue for awards redeemed and flown on other airlines (less the cost paid to the other airlines based on contractual agreements). The portion of the sales proceeds not deferred is recognized as commission income in the period that the mileage credits are sold and included in other revenue —net in the consolidated statements of operations.

Alaska's Mileage Plan deferred revenue and liabilities on the consolidated balance sheets as of December 31 (in millions):

	2012	2011
Current Liabilities:		
Other accrued liabilities	**$ 285**	$ 271
Other Liabilities and Credits:		
Deferred revenue	**428**	392
Other liabilities	**17**	17
Total	**$ 730**	$ 680

The amounts recorded in other accrued liabilities relate primarily to deferred revenue expected to be realized within one year, including $ 39 million and $39 million at December 31, 2012 and 2011, respectively, associated with Mileage Plan awards issued but not yet flown.

Alaska's Mileage Plan revenue included in the consolidated statements of operations for the years ended December 31 (in millions):

	2012	2011	2010
Passenger revenues	**$ 183**	$ 201	$ 190
Other-net revenues	**209**	195	183
Total Mileage Plan revenues	**$ 392**	$ 396	$ 373

Other—net revenues includes commission revenue of $143 million, $138 million, and $124 million in 2012, 2011, and 2010, respectively.

Selling Expenses

Selling expenses include credit card fees, global distribution systems charges, the estimated cost of Mileage Plan travel awards earned through air travel, advertising, promotional costs, commissions, and incentives. Advertising production costs are expensed the first time the advertising takes place. Advertising expense was $16 million, $16 million, and $16 million during the years ended December 31, 2012, 2011, and 2010, respectively.

Derivative Financial Instruments

The Company's operations are significantly impacted by changes in aircraft fuel prices and interest rates. In an effort to manage our exposure to these risks, the Company periodically enters into fuel and interest rate derivative instruments. These derivative instruments are recognized at fair value on the balance sheet and changes in the fair value is recognized in AOCL or in the consolidated statements of operations, depending on the nature of the instrument.

The Company does not hold or issue derivative fuel hedge contracts for trading purposes and does not apply hedge accounting. For cash flow hedges related to our interest rate swaps, the effective portion of the derivative represents the change in fair value of the hedge that offsets the change in fair value of the hedged item. To the extent the change in the fair value of the hedge does not perfectly offset the change in the fair value of the hedged item, the ineffective portion of the hedge is immediately recognized in interest expense.

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.

The Company has elected not to use the Fair Value Option for non-financial instruments, and accordingly those assets and liabilities are carried at amortized cost. For financial instruments, those assets and liabilities are carried at fair value and are determined based on the market approach or income approach depending upon the level of inputs used.

Income Taxes

The Company uses the asset and liability approach for accounting and reporting income taxes. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance would be established, if necessary, for the amount of any tax benefits that, based on available evidence, are not expected to be realized. The Company accounts for unrecognized tax benefits in accordance with the accounting standards.

Stock-Based Compensation

Accounting standards require companies to recognize as expense the fair value of stock options and other equity-based compensation issued to employees as of the grant date. These standards apply to all stock awards that the Company grants to employees as well as the Company's Employee Stock Purchase Plan (ESPP), which features a look-back provision and allows employees to purchase stock at a 15% discount. All stock-based compensation expense is recorded in wages and benefits in the consolidated statements of operations.

Earnings Per Share (EPS)

Diluted EPS is calculated by dividing net income by the average common shares outstanding plus additional common shares that would have been outstanding assuming the exercise of in-the-money stock options and restricted stock units, using the treasury-stock method. In 2012, 2011, and 2010, antidilutive stock options excluded from the calculation of EPS were not material.

NOTE 2. CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES

Components for cash, cash equivalents and marketable securities (in millions):

December 31, 2012	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$ 28	$ —	$ —	$ 28
Cash equivalents	94	—	—	94
Cash and cash equivalents	122	—	—	122
U.S. government and agency securities	271	1	—	272
Foreign government bonds	50	1	—	51
Asset-back securities	61	1	—	62
Mortgage-back securities	137	1	(1)	137
Corporate notes and bonds	577	8	—	585
Municipal securities	23	—	—	23
Marketable securities	1,119	12	(1)	1,130
Total	$ 1,241	$ 12	$ (1)	$ 1,252

December 31, 2011	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$ 62	$ —	$ —	$ 62
Cash equivalents	40	—	—	40
Cash and cash equivalents	102	—	—	102
U.S. government and agency securities	293	3	—	296
Foreign government bonds	24	1	—	25
Asset-back securities	58	—	—	58
Mortgage-back securities	124	1	—	125
Corporate notes and bonds	519	7	(3)	523
Municipal securities	12	—	—	12
Marketable securities	1,030	12	(3)	1,039
Total	$ 1,132	$ 12	$ (3)	$ 1,141

Unrealized losses from fixed-income securities are primarily attributable to changes in interest rates. Management does not believe any remaining unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence as of December 31, 2012.

Activity for marketable securities for the years ended December 31 (in millions):

	2012	2011	2010
Proceeds from sales and maturities	**$ 1,048**	$ 956	$ 931
Gross realized gains	**9**	8	10
Gross realized losses	**(2)**	(3)	(2)
Other-than-temporary impairments on investments	**—**	(2)	—

Debt investment maturities as of December 31, 2012 (in millions):

December 31, 2012	Cost Basis	Fair Value
Due in one year or less	$ 211	$ 212
Due after one year through five years	898	908
Due after five years through 10 years	10	10
Due after 10 years	—	—
Total	$ 1,119	$ 1,130

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.

As of December 31, 2012, the Company had fuel hedge contracts outstanding covering 454 million gallons of crude oil that will be settled from January 2013 to December 2015. Refer to the contractual obligations and commitments section of Item 7 for further information.

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 Boeing 737-800 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 February 2020 through March 2021 to coincide with the lease termination dates.

Fair Values of Derivative Instruments

Fair values of derivative instruments on the consolidated balance sheet as of December 31 (in millions):

	2012	2011
Derivative Instruments Not Designated as Hedges		
Fuel hedge contracts		
Fuel hedge contracts, current assets	**$ 26**	$ 47
Fuel hedge contracts, noncurrent assets	**39**	70
Fuel hedge contracts, current liabilities	**(1)**	$ (10)
Derivative Instruments Designated as Hedges		
Interest rate swaps		
Other accrued liabilities	**(6)**	(5)
Other liabilities	**(27)**	(24)
Losses in accumulated other comprehensive loss (AOCL)	**(33)**	(29)

The net cash received (paid) for new positions and settlements was $(19) million, $16 million, and $(16) million during 2012, 2011, and 2010, respectively.

Pretax effect of derivative instruments on earnings (fuel hedges) and AOCL (interest rate swaps) at December 31 (in millions):

	2012	2011	2010
Derivative Instruments Not Designated as Hedges			
Fuel hedge contracts			
Losses recognized in aircraft fuel expense	**$ (62)**	$ (9)	$ (2)
Derivative Instruments Designated as Hedges			
Interest rate swaps			
Losses recognized in aircraft rent	**(6)**	(6)	(6)
Losses recognized in other comprehensive income (OCI)	**(10)**	(26)	(17)

The amounts shown as recognized in aircraft rent for cash flow hedges (interest rate swaps) represent the realized losses transferred out of AOCL to aircraft rent. The amounts shown as recognized in OCI are prior to the losses recognized in aircraft rent during the period. The Company expects $6 million to be reclassified from OCI to aircraft rent within the next twelve months.

Credit Risk and Collateral

The Company is exposed to credit losses in the event of non-performance by counterparties to these derivative instruments. To mitigate exposure, the Company periodically reviews the risk of counterparty nonperformance by monitoring the absolute exposure levels and credit ratings. The Company maintains security agreements with a number of its counterparties which may require the Company to post collateral if the fair value of the selected derivative instruments fall below specified mark-to-market thresholds. The posted collateral does not offset the fair value of the derivative instruments and is included in "Prepaid expenses and other current assets" on the consolidated balance sheet.

The Company posted collateral of $15 million, $1 million and nil as of December 31, 2012, 2011 and 2010, respectively. The collateral was provided to one counterparty associated with the net liability position of the interest rate swap agreements offset by the net asset position of the fuel hedge contracts under a master netting arrangement.

NOTE 4. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments on a Recurring Basis

Fair values of financial instruments on the consolidated balance sheet (in millions):

December 31, 2012	Level 1	Level 2	Total
Assets			
Marketable securities			
U.S. government securities	$ 272	$ —	$ 272
Foreign government bonds	—	51	51
Asset-back securities	—	62	62
Mortgage-back securities	—	137	137
Corporate notes and bonds	—	585	585
Municipal securities	—	23	23
Derivative instruments			
Fuel hedge contracts			
Call options	—	65	65
Liabilities			
Derivative instruments			
Fuel hedge contracts			
Swap agreements	—	(1)	(1)
Interest rate swap agreements	—	(33)	(33)

December 31, 2011		Level 1		Level 2		Total
Assets						
Marketable securities						
U.S. government securities	$	296	$	—	$	296
Foreign government bonds		—		25		25
Asset-back securities		—		58		58
Mortgage-back securities		—		125		125
Corporate notes and bonds		—		523		523
Municipal securities		—		12		12
Derivative instruments						
Fuel hedge contracts						
Call options		—		117		117
Liabilities						
Derivative instruments						
Fuel hedge contracts						
Swap agreements		—		(10)		(10)
Interest rate swap agreements	$	—	$	(29)	$	(29)

The Company uses the market and income approach to determine the fair value of marketable securities. U.S. government securities are Level 1 as the fair value is based on quoted prices in active markets. Foreign governments bonds, asset-back securities, mortgage-back securities, corporate notes and bonds, and municipal securities are Level 2 as the fair value is based on industry standard valuation models that are calculated based on observable inputs such as quoted interest rates, yield curves, credit ratings of the security and other observable market information.

The Company uses the market approach and the income approach to determine the fair value of derivative instruments. Fuel hedge contracts that are not traded on a public exchange are Level 2 as the fair value is primarily based on inputs which are readily available in active markets or can be derived from information available in active markets. The fair value for call options is determined utilizing an option pricing model based on inputs that are readily available in active markets, or can be derived from information available in active markets. In addition, the fair value considers the exposure to credit losses in the event of non-performance by counterparties. The fair value of jet fuel refining margins is determined based on inputs readily available in public markets and provided by brokers who regularly trade these contracts. Interest rate swap agreements are Level 2 as 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.

The Company has no other financial assets that are measured at fair value on a nonrecurring basis at December 31, 2012.

Fair Value of Other Financial Instruments

The Company used the following methods and assumptions to determine the fair value of financial instruments that are not recognized at fair value as described below.

Cash and Cash Equivalents: Carried at amortized costs which approximate fair value.

Debt: The carrying amounts of the Company's variable-rate debt approximate fair values. For fixed-rate debt, the Company uses the income approach to determine the estimated fair value, by using discounted cash flow using the Company's current borrowing rate.

Fixed-rate debt that is not carried at fair value on the consolidated balance sheet and the estimated fair value of long-term fixed-rate debt as of December 31 (in millions):

		2012		2011
Carrying Amount	**$**	**844**	$	1,003
Fair value		**915**		1,076

NOTE 5. ASSETS CONSTRUCTED FOR OTHERS (TERMINAL 6 AT LAX)

In March 2012, the Company placed into service assets constructed for others (Terminal 6 at LAX), including a new baggage system, additional gates, new common use systems, expansion of security screening checkpoints, and a new ticket lobby, all of which were constructed for the City of Los Angeles and Los Angeles World Airports (LAWA). Additionally, the Company placed into service proprietary renovations in the ticketing lobby and at the new gates included in Terminal 6. During the fourth quarter of 2012, the Company was reimbursed for substantially all of the non-proprietary renovations.

For accounting and financial reporting purposes, the Company is considered to be the owners of the assets constructed for others and did not qualify for sale and leaseback accounting when the non-proprietary assets were transferred to the City of Los Angeles due to the Company's continuing involvement with the project. As a result, all of the costs incurred to fund the project are included in "Other property and equipment" and all amounts that have been and will be reimbursed will be in "Other liabilities" on the balance sheet. These assets and liabilities were as follows as of December 31 (in millions):

	2012	2011
Proprietary assets of T6 at LAX	$ 17	$ 9
Assets constructed for others (T6 at LAX)	199	143
Other property and equipment	216	152
Reimbursement for assets constructed	187	12
Deferred interest income	14	6
Other liabilities	$ 201	$ 18

The assets will be depreciated over the life of the lease based on the straight-line method, while the liability will amortize on the effective interest method based on the lease rental payments. Because the Company will only operate a small portion of the gates in the new terminal, the asset and liability will depreciate and amortize to an estimated fair value at the end of the lease term, at which time we may terminate the lease of the assets and derecognize our obligation or we may extend our lease term.

Future minimum payments related to the Terminal 6 lease are included in facility leases described in the "Commitments and Contingencies" note.

NOTE 6. LONG-TERM DEBT

Long-term debt obligations were as follows at December 31 (in millions):

	2012	2011
Fixed-rate notes payable due through 2024	**$ 844**	$ 1,003
Variable-rate notes payable due through 2023	**188**	304
Long-term debt	**1,032**	1,307
Less current portion	**161**	208
	$ 871	$ 1,099
Weighted-average fixed-interest rate	**5.8%**	5.8%
Weighted-average variable-interest rate	**2.0%**	1.9%

All of the Company’s borrowings were secured by aircraft.

During 2012, the Company made scheduled debt payments of $172 million. The Company also prepaid the full debt balance on seven outstanding aircraft debt agreements totaling $103 million. In 2011, the Company borrowed approximately $107 million for six of the Q400 aircraft delivered in 2011. As of December 31, 2012, none of the Company's borrowings were restricted by covenants.

At December 31, 2012, long-term debt principal payments for the next five years and thereafter are as follows (in millions):

	Total
2013	$ 161
2014	117
2015	113
2016	111
2017	116
Thereafter	414
Total principal payments	$ 1,032

Bank Line 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 are secured by aircraft. Borrowings on the other $100 million facility are secured by certain accounts receivable, spare engines, spare parts and ground service equipment. The Company modified the first facility in 2012 by extending the term from March 2013 to August 2015 and the second facility in 2011 by extending the term from March 2014 to March 2016, and reduced the commitment fee for both facilities. 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 was in compliance with this covenant at December 31, 2012.

NOTE 7. INCOME TAXES

Deferred Income Taxes

Deferred income taxes reflect the impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and such amounts for tax purposes. Primarily due to differences in depreciation rates for federal income tax purposes and for financial reporting purposes, the Company has generated a net deferred tax liability.

Deferred tax (assets) and liabilities comprise the following at December 31 (in millions):

	2012	2011
Excess of tax over book depreciation	**$ 842**	$ 795
Other—net	**19**	17
Gross deferred tax liabilities	**861**	812
Mileage Plan	**(265)**	(242)
AMT and other tax credits	**(1)**	(53)
Inventory obsolescence	**(15)**	(13)
Deferred gains	**(13)**	(14)
Employee benefits	**(230)**	(218)
Loss carryforwards	**—**	(13)
Fuel hedge contracts	**(18)**	(3)
Other—net	**(21)**	(27)
Gross deferred tax assets	**(563)**	(583)
Net deferred tax liabilities	**298**	229
Current deferred tax asset	**(148)**	(134)
Noncurrent deferred tax liability	**446**	363
Net deferred tax liability	**$ 298**	$ 229

As a result of certain realization requirements of ASC 718, Compensation - Stock Compensation, deferred assets and liabilities did not include certain deferred tax assets at December 31, 2011, that arose directly from the tax deductions related to equity compensation in excess of compensation recognized for financial reporting. Those deferred tax assets included loss carryforwards of $10 million as of December 31, 2011. The Company used ASC 740 ordering for purposes of determining when excess tax benefits have been realized. During 2012, the Company recognized all of the previously unrecognized deferred tax assets related to the excess tax benefits of stock compensation, which decreased "Deferred income taxes" and increased "Capital in excess of par."

The Company has concluded that it is more likely than not that its deferred tax assets will be realizable and thus no valuation allowance has been recorded as of December 31, 2012. This conclusion is based on the expected future reversals of existing taxable temporary differences, anticipated future taxable income, and the potential for future tax planning strategies to generate taxable income, if needed. The Company will continue to reassess the need for a valuation allowance during each future reporting period.

Components of Income Tax Expense

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

	2012	2011	2010
Current tax expense (benefit):			
Federal	**$ 83**	—	$ 7
State	**11**	4	3
Total current	**94**	4	10
Deferred tax expense:			
Federal	**94**	135	132
State	**10**	10	13
Total deferred	**104**	145	145
Total tax expense related to income	**$ 198**	$ 149	$ 155

Income Tax Rate Reconciliation

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

	2012	2011	2010
Income before income tax	**$ 514**	$ 394	$ 406
Expected tax expense	**180**	138	142
Nondeductible expenses	**3**	1	2
State income taxes	**14**	10	11
Other—net	**1**	—	—
Actual tax expense	**$ 198**	$ 149	$ 155
Effective tax rate	**38.5%**	37.9%	38.1%

Uncertain Tax Positions

The Company has identified its federal tax return and its state tax returns in Alaska, Oregon, and California as “major” tax jurisdictions. A summary of the Company's jurisdictions and the periods that are subject to examination are as follows:

Jurisdiction	Period
Federal	2009 to 2011
Alaska	2009 to 2011
California	2008 to 2011
Oregon	2002 to 2011

The 2002 to 2007 Oregon tax returns are subject to examination only to the extent of net operating loss carryforwards from those years that were utilized in 2010 and later years.

At December 31, 2012, the total amount of unrecognized tax benefits is recorded as a liability, all of which would impact the effective tax rate. Unrecognized tax benefits on uncertain tax positions were not material as of December 31, 2012, 2011 and 2010. No interest or penalties related to these tax positions were accrued as of December 31, 2012.

NOTE 8. EMPLOYEE BENEFIT PLANS

Four defined-benefit and five defined-contribution retirement plans cover various employee groups of Alaska and Horizon. The defined-benefit plans provide benefits based on an employee's term of service and average compensation for a specified period of time before retirement. The qualified defined-benefit pension plans are closed to new entrants.

Accounting standards require recognition of the overfunded or underfunded status of an entity's defined-benefit pension and other postretirement plan as an asset or liability in the financial statements and requires recognition of the funded status in AOCL.

Qualified Defined-Benefit Pension Plans

The Company's pension plans are funded as required by the Employee Retirement Income Security Act of 1974 (ERISA).
The defined-benefit plan assets consist primarily of marketable equity and fixed-income securities. The Company uses a December 31 measurement date for these plans.

Weighted average assumptions used to determine benefit obligations as of December 31:

Discount rates of 3.95% and 4.65% were used as of December 31, 2012 and 2011, respectively. For 2012, the rate of compensation increase used varied from 3.05% to 4.02%, depending on the related work group. For 2011, the rate of compensation increases was 2.94% to 4.17%.

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

Discount rates of 4.65%, 5.55%, and 5.85% were used for the years ended December 31, 2012, 2011, and 2010, respectively. Expected return on plan assets used was 7.25%, 7.75% and 7.75% for the years ended December 31, 2012, 2011, and 2010, respectively. The rate of compensation increase used varied from 2.94% to 4.17% for the year ended December 31, 2012, 2.99% to 4.35% for the year ended December 31, 2011, and 3.21% to 4.53% for the year ended 2010, depending on the plan and the related work group.

In determining the discount rate used, the Company's policy is to use the rates at the end of the year on high-quality long-term bonds with maturities that closely match the expected timing of future cash distributions from the plan. In determining the expected return on plan assets, the Company assesses the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Plan assets are invested in common commingled trust funds invested in equity and fixed income securities. The asset allocation of the funds in the qualified defined-benefit plans, by asset category, is as follows as of December 31:

	2012	2011
Asset category:		
Money market fund	**5%**	1%
Domestic equity securities	**43%**	45%
Non-U.S. equity securities	**20%**	20%
Fixed income securities	**32%**	34%
Plan assets	**100%**	100%

The Company’s investment policy focuses on achieving maximum returns at a reasonable risk for pension assets over a full market cycle. The Company uses a fund manager and invests in various asset classes to diversify risk. Target allocations for the primary asset classes are approximately:

Domestic equities:	37% - 52%
Non-U.S. equities:	15% - 25%
Fixed income:	30% - 42%

Pension assets are rebalanced periodically to maintain these target asset allocations. An individual equity investment will not exceed 10% of the entire equity portfolio. Fixed-income securities carry a minimum “A” rating by Moody’s and/or Standard and Poor’s and the average life of the bond portfolio may not exceed ten years. The Company does not currently intend to invest plan assets in the Company’s common stock.

As of December 31, 2012, other than the money market fund, all assets were invested in common commingled trust funds. The Company uses the net asset values of these funds to determine fair value as allowed using the practical expediency method outlined in the accounting standards. Plan asset by fund category and fair value hierarchy level as of December 31 (dollars in millions):

	2012	2011	Level
Fund type:			
Money market fund	**$ 75**	$ 12	1
U.S. equity market fund	**654**	579	2
Non-U.S. equity fund	**304**	256	2
Credit bond index fund	**102**	—	2
U.S. debt index fund	**—**	75	2
Government/credit bond index fund	**403**	366	2
Plan assets	**$ 1,538**	$ 1,288	

Nonqualified Defined-Benefit Pension Plan

Alaska also maintains an unfunded, noncontributory defined-benefit plan for certain elected officers. This plan uses a December 31 measurement date.

Weighted average assumptions used to determine benefit obligations as of December 31:

Discount rates of 3.95% and 4.65% were used as of December 31, 2012 and 2011, respectively. The rate of compensation increase used was 5.00% as of December 31, 2012 and 2011.

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

Discount rates of 4.65%, 5.55%, and 5.85% were used for the years ended December 31, 2012, 2011, and 2010, respectively. The rate of compensation increase used was 7.00% per year during the first four years of employment and 5.00% thereafter for the year ended December 31, 2012. The rate of compensation increase used was 5.00% for the years ended December 31, 2011 and 2010.

Combined Disclosures for Defined-Benefit Pension Plans

The following table sets forth the status of the plans as of December 31 (in millions):

	Qualified		Nonqualified	
	2012	**2011**	**2012**	**2011**
Projected benefit obligation (PBO)				
Beginning of year	**$ 1,594**	$ 1,343	**$ 43**	$ 41
Service cost	**38**	35	**1**	1
Interest cost	**73**	73	**2**	2
Plan amendments	**—**	(21)	**—**	1
Actuarial (gain) loss	**214**	206	**(2)**	3
Benefits paid	**(46)**	(42)	**(2)**	(5)
End of year	**$ 1,873**	$ 1,594	**$ 42**	$ 43
Plan assets at fair value				
Beginning of year	**$ 1,288**	$ 1,143	**$ —**	$ —
Actual return on plan assets	**186**	54	**—**	—
Employer contributions	**110**	133	**2**	5
Benefits paid	**(46)**	(42)	**(2)**	(5)
End of year	**$ 1,538**	$ 1,288	**$ —**	$ —
Funded status (unfunded)	**$ (335)**	$ (306)	**$ (42)**	$ (43)
Percent funded	**82%**	81%	**—**	—

The accumulated benefit obligation for the combined qualified defined-benefit pension plans was $1,733 million and $1,483 million at December 31, 2012 and 2011, respectively. The accumulated benefit obligation for the nonqualified defined-benefit plan was $41 million and $42 million at December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, the amounts recognized in the consolidated balance sheets were as follows (in millions):

	2012		2011	
	Qualified	**Nonqualified**	**Qualified**	**Nonqualified**
Accrued benefit liability-current	**$ —**	**$ 2**	$ —	$ 2
Accrued benefit liability-long term	**335**	**40**	306	41
Total liability recognized	**$ 335**	**$ 42**	$ 306	$ 43

AMOUNTS NOT YET REFLECTED IN NET PERIODIC BENEFIT COST AND INCLUDED IN AOCL:

	2012		2011	
	Qualified	**Nonqualified**	**Qualified**	**Nonqualified**
Prior service credit	**$ (15)**	**$ —**	$ (15)	$ —
Net loss	**695**	**9**	613	12
Amount recognized in AOCL (pretax)	**$ 680**	**$ 9**	$ 598	$ 12

The expected amortization of prior service credit and net loss from AOCL in 2013 is $1 million and $43 million, respectively, for the qualified defined-benefit pension plans. For the nonqualified defined-benefit pension plans, the expected combined amortization of prior service cost and net loss from AOCL in 2013 is $1 million.

Net pension expense for the defined-benefit plans included the following components for the years ended December 31 (in millions):

	Qualified			Nonqualified		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Service cost	**$ 38**	$ 35	$ 32	**$ 1**	$ 1	$ 1
Interest cost	**73**	73	68	**2**	2	2
Expected return on assets	**(93)**	(88)	(71)	**—**	—	—
Amortization of prior service cost	**(1)**	(1)	(1)	**—**	—	—
Recognized actuarial loss	**40**	23	22	**1**	1	—
Net pension expense	**$ 57**	$ 42	$ 50	**$ 4**	$ 4	$ 3

Historically, the Company's practice has been to contribute to the qualified defined-benefit pension plans in an amount equal to the greater of 1) the minimum required by law, 2) the Pension Protection Act (PPA) target liability, or 3) the service cost as actuarially calculated. There are no current funding requirements for the Company's plans in 2013. However, the funding in 2013 is estimated to be $35 million to $50 million. The Company expects to contribute approximately $2 million to the nonqualified defined-benefit pension plans during 2013.

Future benefits expected to be paid over the next ten years under the defined-benefit pension plans from the assets of those plans as of December 31, 2012 (in millions):

	Qualified	Nonqualified
2013	$ 60	$ 2
2014	75	3
2015	78	3
2016	79	5
2017	95	3
2018 - 2022	532	23

Postretirement Medical Benefits

The Company allows retirees to continue their medical, dental, and vision benefits by paying all or a portion of the active employee plan premium until eligible for Medicare, currently age 65. This results in a subsidy to retirees, because the premiums received by the Company are less than the actual cost of the retirees' claims. The accumulated postretirement benefit obligation (APBO) for this subsidy is unfunded. This liability was determined using an assumed discount rate of 3.95% and 4.65% at December 31, 2012 and 2011, respectively. The Company does not believe the U.S. Health Care Reform: The Patient Protection and Affordable Care Act and The Health Care and Education Reconciliation Act will have a significant impact on the Company's cost for postretirement medical benefits.

(in millions)	2012	2011
Accumulated postretirement benefit obligation		
Beginning of year	**$ 120**	$ 133
Service cost	**5**	6
Interest cost	**5**	7
Actuarial gain	**(11)**	(23)
Benefits paid	**(2)**	(3)
End of year	**$ 117**	$ 120
Plan assets at fair value		
Beginning of year	**$ —**	$ —
Employer contributions	**2**	3
Benefits paid	**(2)**	(3)
End of year	**$ —**	$ —
Funded status (unfunded)	**$ (117)**	$ (120)

As of December 31, 2012 and 2011, the amounts recognized in the consolidated balance sheets (in millions):

	2012	2011
Accrued benefit liability-current	**$ 4**	$ 4
Accrued benefit liability-long term	**113**	116
Total liability recognized	**$ 117**	$ 120

AMOUNTS NOT YET REFLECTED IN NET PERIODIC BENEFIT COST AND INCLUDED IN AOCL:

(in millions)	2012	2011
Prior service cost	**$ 2**	$ 2
Net gain	**(15)**	(4)
Amount recognized in AOCL (pretax)	**$ (13)**	$ (2)

The Company uses a December 31 measurement date to assess obligations associated with the subsidy of retiree medical costs. Net periodic benefit cost for the postretirement medical plans included the following components for the years ended December 31 (in millions):

	2012	2011	2010
Service cost	**$ 5**	$ 6	$ 5
Interest cost	**5**	7	7
Amortization of prior service cost	**1**	1	—
Recognized actuarial (gain) loss	**(1)**	1	—
Net periodic benefit cost	**$ 10**	$ 15	$ 12

This is an unfunded plan. The Company expects to contribute approximately $4 million to the postretirement medical benefits plan in 2013, which is equal to the expected benefit payments.

Future benefits expected to be paid over the next ten years under the postretirement medical benefits plan as of December 31, 2012 (in millions):

2013	$	4
2014		5
2015		5
2016		6
2017		7
2018– 2022		43

The assumed health care cost trend rates to determine the expected 2013 benefits cost are 8.3%, 8.3%, 5.0% and 4.0% for medical, prescription drugs, dental and vision costs, respectively. The assumed trend rate declines steadily through 2028 where the ultimate assumed trend rates are 4.7% for medical, prescription drugs and dental, and 4.0% for vision.

A 1% higher or lower trend rate in health care costs has the following effect on the Company's postretirement medical plans for the years ended December 31 (in millions):

	2012		2011		2010	
Change in service and interest cost						
1% higher trend rate	**$**	**2**	$	2	$	2
1% lower trend rate		**(1)**		(2)		(2)
Change in year-end postretirement benefit obligation						
1% higher trend rate	**$**	**14**	$	14	$	16
1% lower trend rate		**(12)**		(13)		(14)

Defined-Contribution Plans

The defined-contribution plans are deferred compensation plans under section 401(k) of the Internal Revenue Code. All of these plans require Company contributions. Total expense for the defined-contribution plans was $43 million, $42 million, and $40 million in 2012, 2011, and 2010, respectively.

The Company also has a noncontributory, unfunded defined-contribution plan for certain elected officers of the Company who are ineligible for the nonqualified defined-benefit pension plan. Amounts recorded as liabilities under the plan are not material to the consolidated balance sheet at December 31, 2012 and 2011.

Pilot Long-term Disability Benefits

Alaska maintains a long-term disability plan for its pilots. The long-term disability plan does not have a service requirement. Therefore, the liability is calculated based on estimated future benefit payments associated with pilots that were assumed to be disabled on a long-term basis as of December 31, 2012 and does not include any assumptions for future disability. The liability includes the discounted expected future benefit payments and medical costs. The total liability was $11 million and $8 million, which was recorded net of a prefunded trust account of $1 million and $1 million, and included in long-term other liabilities on the consolidated balance sheets as of December 31, 2012 and 2011, respectively.

Employee Incentive-Pay Plans

Alaska and Horizon have employee incentive plans that pay employees based on certain financial and operational metrics. The aggregate expense under these plans in 2012, 2011 and 2010 was $88 million, $72 million, and $92 million, respectively. The plans are summarized below:

- *Performance-Based Pay* (PBP) is a program that rewards all employees. The program is based on four separate metrics related to Air Group profitability, safety, achievement of unit-cost goals, and employee engagement as measured by customer satisfaction.

- The *Operational Performance Rewards Program* entitles all Air Group employees to quarterly payouts of up to $300 per person if certain operational and customer service objectives are met.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Future minimum fixed payments for commitments as of December 31, 2012 (in millions):

	Aircraft Leases	Facility Leases	Aircraft Commitments	Capacity Purchase Agreements	Engine Maintenance
2013	$ 142	$ 47	$ 372	$ 17	$ 32
2014	126	42	332	18	26
2015	104	31	254	18	9
2016	82	22	204	18	—
2017	51	18	322	19	—
Thereafter	80	129	1,488	8	—
Total	$ 585	$ 289	$ 2,972	$ 98	$ 67

Lease Commitments

At December 31, 2012, the Company had lease contracts for 63 aircraft, which have remaining noncancelable lease terms ranging from 2013 to 2021. Of these aircraft, 14 are non-operating (i.e. not in the Company's fleet) and subleased to third-party carriers. In 2012, the Company entered into an agreement to sell and leaseback three B737-700 aircraft. The lease terms were less than two years and qualify as operating leases. The sale of the aircraft resulted in a gain of $3 million, which was deferred and is being amortized over the life of the leases to aircraft rent expense on the consolidated statement of operations. The majority of airport and terminal facilities are also leased. Rent expense was $275 million, $275 million, and $295 million, in 2012, 2011, and 2010, respectively.

Aircraft Commitments

In 2012, the Company entered into a new agreement and modified existing agreements with Boeing to acquire 50 new B737 aircraft. As of December 31, 2012, the Company is committed to purchasing 71 B737 aircraft, including 34 B737-900ER aircraft and 37 B737 MAX aircraft, with deliveries in 2013 through 2022. In addition, the Company has options to purchase an additional 69 B737 aircraft and ten Q400 aircraft.

Capacity Purchase Agreements (CPAs)

At December 31, 2012, Alaska had CPAs with three carriers, including the Company's wholly-owned subsidiary, Horizon. Beginning January 1, 2011, Horizon sold 100% of its capacity under a CPA with Alaska. On May 14, 2011, SkyWest Airlines, Inc. began flying certain routes under a CPA with Alaska. In addition, Alaska has a CPA with PenAir to fly certain routes in the state of Alaska. Under these agreements, Alaska pays the carriers an amount which is based on a determination of their cost of operating those flights and other factors intended to approximate market rates for those services. Future payments (excluding Horizon) are based on minimum levels of flying by the third-party carriers, which could differ materially due to variable payments based on actual levels of flying and certain costs associated with operating flights such as fuel.

Engine Maintenance

The Company had power-by-the-hour maintenance agreements for all B737-400, B737-700 and B737-900 engines at December 31, 2012. These agreements transfer risk to third-party service providers and fix the amount the Company pays per flight hour in exchange for maintenance and repairs under a predefined maintenance program. Future payments are based on minimum flight hours. Accordingly, payments could differ materially based on actual flight hours.

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 these 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.

NOTE 10. SHAREHOLDERS' EQUITY

Common Stock Split

On February 15, 2012, the Board of Directors declared a two-for-one split of the Company's common stock by means of a stock distribution. The additional shares were distributed on March 16, 2012, to the shareholders of record on March 2, 2012. The stock split increased the Company's outstanding shares from approximately 36 million shares as of December 31, 2011 to about 71 million shares. Historical outstanding shares and per share amounts were recast upon the distribution.

Common Stock Repurchase

In September 2012, the Board of Directors authorized a $250 million share repurchase program, which does not have an expiration date, but is expected to be completed by December 2014. In February 2012, the Board of Directors authorized a $50 million share repurchase program, which was completed in September 2012. In June 2011, the Board of Directors authorized a $50 million share repurchase program, which was completed in January 2012. In June 2010, the Board of Directors authorized a $50 million share repurchase program, which was completed in April 2011. In June 2009, the Board of Directors authorized a $50 million share repurchase program, which was completed in May 2010.

Share repurchase activity as of December 31 (in millions, except shares):

	2012		2011		2010	
	Shares	Amount	Shares	Amount	Shares	Amount
$250 million Repurchase Program	202,510	$ 8	—	$ —	—	$ —
2012 Repurchase Program	1,437,101	50	—	—	—	—
2011 Repurchase Program	46,340	2	1,595,000	48	—	—
2010 Repurchase Program	—	—	1,023,600	31	710,000	19
2009 Repurchase Program	—	—	—	—	1,291,496	26
	1,685,951	$ 60	2,618,600	$ 79	2,001,496	$ 45

Retirement of Treasury Shares

In 2012, the Company retired 4,829,834 common shares that had been held in treasury. This action did not impact the total number of common shares outstanding.

Accumulated Other Comprehensive Loss (AOCL)

AOCL consisted of the following at December 31 (in millions, net of tax):

	2012	2011
Unrealized gain on marketable securities considered available-for-sale	**$ (7)**	$ (6)
Related to employee benefit plans	**423**	380
Related to interest rate derivatives	**20**	16
	$ 436	$ 390

NOTE 11. STOCK-BASED COMPENSATION PLANS

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

	2012	2011	2010
Stock options	**$ 2**	$ 3	$ 4
Stock awards	**11**	8	9
Deferred stock awards	**1**	—	—
Employee stock purchase plan	**1**	1	1
Stock-based compensation	**$ 15**	$ 12	$ 14
Tax benefit related to stock-based compensation	**$ 5**	$ 4	$ 5

Unrecognized stock-based compensation for non-vested options and awards and the weighted-average period the expense will be recognized for the year ended December 31, 2012 (in millions):

	Amount	Weighted-Average Period
Stock options	**$ 2**	0.7
Stock awards	**5**	0.4
Unrecognized stock-based compensation	**$ 7**	0.5

The Company has various equity incentive plans under which it may grant stock awards to directors, officers and employees. The Company also has an employee stock purchase plan (ESPP).

The Company is authorized to issue 18 million shares of common stock under these plans and as of December 31, 2012, of which 9,410,755 shares remain available for future grants of either options or stock awards.

Stock Options

Stock options to purchase common stock are granted at the fair market value of the stock on the date of grant. The stock options granted have terms of up to ten years.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in the years ended December 31:

	2012	2011	2010
Expected volatility	**55%**	56%	55%
Expected term	**6 years**	6 years	6 years
Risk-free interest rate	**1.08%**	2.26%	2.78%
Expected dividend yield	**—**	—	—
Weighted-average grant date fair value per share	**$ 17.23**	$ 16.40	$ 9.03
Estimated fair value of options granted (millions)	**$ 2**	$ 2	$ 2

The expected market price volatility is based on the historical volatility. The expected term is based on the estimated period of time until exercise based on historical experience. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The dividend yield is zero as the Company does not pay dividends and has no plans to do so in the immediate future. The expected forfeiture rates are based on historical experience.

The tables below summarize stock option activity for the year ended December 31, 2012:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Life (Years)	Aggregate Intrinsic Value (in millions)
Outstanding, December 31, 2011	1,301,596	$ 17.02	6.5	$ 27
Granted	120,750	38.13		
Exercised	(471,806)	14.43		
Forfeited or expired	(8,816)	20.43		
Outstanding, December 31, 2012	941,724	$ 20.99	6.2	$ 21
Exercisable, December 31, 2012	**447,288**	**$ 17.61**	**5.0**	**$ 11**
Vested or expected to vest, December 31, 2012	**939,448**	**$ 20.99**	**6.2**	**$ 21**

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	2012	2011	2010
Intrinsic value of option exercises	**$ 11**	$ 20	$ 23
Cash received from stock option exercises	**7**	17	37
Tax benefit related to stock option exercises	**4**	8	9
Fair value of options vested	**4**	3	4

Stock Awards

Restricted stock units (RSUs) are awarded to eligible employees and entitle the grantee to receive shares of common stock at the end of the vest period. The fair value of the RSUs is based on the stock price on the date of grant. The RSUs "cliff vest" after three years, or the period from the date of grant to the employee's retirement eligibility, and expense is recognized accordingly. Performance Share Unit (PSUs) are awarded to certain executives to receive shares of common stock if specific performance goals and market conditions are achieved. There are several tranches of PSUs which vest when performance goals and market conditions are met.

The following table summarizes information about outstanding stock awards:

	Number of Units	Weighted-Average Grant Date Fair Value	Weighted-Average Contractual Life (Years)	Aggregate Intrinsic Value (in millions)
Non-vested, December 31, 2011	1,123,002	$ 19.30	0.7	$ 42
Granted	343,763	30.65		
Vested	(689,906)	15.32		
Forfeited	(22,566)	14.86		
Non-vested, December 31, 2012	754,293	$ 28.06	0.6	$ 33

Deferred Stock Awards

Deferred Stock Units (DSUs) are awarded to members of its Board of Directors as part of their retainers. The underlying common shares are issued upon retirement from the Board, but require no future service period. As a result, the entire intrinsic value of the awards is expensed on the date of grant.

Employee Stock Purchase Plan (ESPP)

The ESPP allows employees to purchase common stock at 85% of the stock price on the first day of the offering period or the specified purchase date, whichever is lower. Employees may contribute up to 10% of their base earnings during the offering period to purchase stock. Employees purchased 157,373, 125,564, and 31,098 shares in 2012, 2011, and 2010 under the ESPP.

NOTE 12. FLEET TRANSITION AND RESTRUCTURING RELATED EXPENSES

The table below summarizes fleet transition and restructuring related expenses for the years ended December 31 (in millions):

	2012	2011	2010
Horizon Fleet Transition - CRJ-700	$ —	$ 28	$ 10
Horizon Fleet Transition - Q200	—	11	—
Horizon Restructuring	—	—	3
Total	$ —	$ 39	$ 13

Horizon Fleet Transition

In 2011, Horizon completed its transition to an all-Q400 fleet, which included the sublease of CRJ-700 aircraft to a third-party carrier and removal of all residual CRJ-700 inventory. Additionally, Horizon removed all Q200 aircraft from operation in 2009 through either lease termination or sublease. In 2011, the Company terminated the underlying subleases and sold the remaining Q200 aircraft.

Horizon Restructuring

During 2010, the Company announced its decision to outsource the remaining heavy maintenance functions for Horizon aircraft. As a result of this decision, Horizon eliminated approximately 100 positions in the maintenance division resulting in a charge for separation pay.

NOTE 13. OPERATING SEGMENT INFORMATION

Air Group has two operating airlines - Alaska Airlines and Horizon Air. Each is a regulated airline with separate management teams. 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). Prior to 2011, Horizon operated a hybrid model where it sold a portion of its capacity to Alaska and had its own passenger revenues. Additionally, Alaska signed a signed a capacity agreement with SkyWest in May 2011, and continued its CPA with PenAir. To manage the two operating airlines and the revenues and expenses associated with the CPAs, management views the business in three operating segments.

Alaska Mainline - The Boeing 737 part of Alaska's business.

Alaska Regional - Alaska's shorter distance network. In this segment, Alaska Regional records actual on board passenger revenue, less costs such as fuel, distribution costs, and payments made to Horizon, SkyWest and PenAir under CPAs. Additionally, Alaska Regional includes a small allocation of corporate overhead such as IT, finance and other administrative costs incurred by Alaska and on behalf of Horizon.

Horizon - Horizon operates regional aircraft. All of Horizon's capacity is sold to Alaska under a CPA. Expenses included those typically borne by regional airlines such as crew costs, ownership costs, and maintenance costs.

Additionally, the following table reports “Air Group adjusted”, which is not a measure determined in accordance with GAAP. The Company's chief operating decision-makers and others in management use this measure to evaluate operational performance and determine resources allocations. Adjustments are further explained below in reconciling to consolidated GAAP results.

Operating segment information is as follows (in millions):

Year ended December 31, 2012	Alaska Mainline	Alaska Regional	Horizon	Consolidating	Air Group Adjusted[(a)]	Special Charges	Consolidated
Operating revenues							
Passenger							
Mainline	$ 3,284	$ —	$ —	$ —	$ 3,284	$ —	$ 3,284
Regional	—	746	—	—	746	—	746
Total passenger revenues	3,284	746	—	—	4,030	—	4,030
CPA revenues	—	—	369	(369)	—	—	—
Freight and mail	107	4	—	—	111	—	111
Other-net	448	61	7	—	516	—	516
Total operating revenues	3,839	811	376	(369)	4,657	—	4,657
Operating expenses							
Operating expenses, excluding fuel	2,131	566	338	(369)	2,666	—	2,666
Economic fuel[(c)]	1,238	183	—	—	1,421	38	1,459
Total operating expenses	3,369	749	338	(369)	4,087	38	4,125
Nonoperating income (expense)							
Interest income	19	—	—	—	19	—	19
Interest expense	(47)	—	(16)	(1)	(64)	—	(64)
Other	24	—	2	1	27	—	27
	(4)	—	(14)	—	(18)	—	(18)
Income (loss) before income tax	$ 466	$ 62	$ 24	$ —	$ 552	$ (38)	$ 514

Year ended December 31, 2011	Alaska Mainline	Alaska Regional	Horizon	Consolidating	Air Group Adjusted[(a)]	Special Charges	Consolidated
Operating revenues							
Passenger							
Mainline	$ 2,995	$ —	$ —	$ —	$ 2,995	$ —	$ 2,995
Regional	—	713	—	—	713	—	713
Total passenger revenues	2,995	713	—	—	3,708	—	3,708
CPA revenues	—	—	369	(369)	—	—	—
Freight and mail	105	4	—	—	109	—	109
Other-net	431	62	8	—	501	—	501
Total operating revenues	3,531	779	377	(369)	4,318	—	4,318
Operating expenses							
Operating expenses, excluding fuel[(b)]	2,015	544	340	(367)	2,532	39	2,571
Economic fuel[(c)]	1,101	167	—	—	1,268	30	1,298
Total operating expenses	3,116	711	340	(367)	3,800	69	3,869
Nonoperating income (expense)							
Interest income	24	—	—	(2)	22	—	22
Interest expense	(72)	—	(17)	2	(87)	—	(87)
Other	8	—	2		10	—	10
	(40)	—	(15)	—	(55)	—	(55)
Income (loss) before income tax	$ 375	$ 68	$ 22	$ (2)	$ 463	$ (69)	$ 394

Year ended December 31, 2010	Alaska Mainline	Alaska Regional	Horizon	Consolidating	Air Group Adjusted[a]	Special Charges	Consolidated
Operating revenues							
Passenger							
Mainline	$ 2,595	$ —	$ —	$ —	$ 2,595	$ —	$ 2,595
Regional	—	308	363	—	671	—	671
Total passenger revenues	2,595	308	363	—	3,266	—	3,266
CPA revenues	—	—	274	(274)	—	—	—
Freight and mail	102	2	2	—	106	—	106
Other-net	397	23	40	—	460	—	460
Total operating revenues	3,094	333	679	(274)	3,832	—	3,832
Operating expenses							
Operating expenses, excluding fuel[b]	1,917	299	502	(271)	2,447	13	2,460
Economic fuel[c]	757	—	139	—	896	5	901
Total operating expenses	2,674	299	641	(271)	3,343	18	3,361
Nonoperating income (expense)							
Interest income	35	—	4	(10)	29	—	29
Interest expense	(97)	—	(20)	9	(108)	—	(108)
Other	13	—	—	1	14	—	14
	(49)	—	(16)	—	(65)	—	(65)
Income (loss) before income tax	$ 371	$ 34	$ 22	$ (3)	$ 424	$ (18)	$ 406

(a) The adjusted column represents the financial information that is reviewed by management to assess performance of operations and determine capital allocations and does not include certain charges.

(b) Refer to the Fleet Transition and Restructuring Related Expenses note for a summary of special charges for each respective period.

(c) Represents adjustments to reflect the timing of gain or loss recognition resulting from mark-to-market fuel-hedge accounting.

	2012	2011	2010
Depreciation:			
Alaska[a]	**$ 217**	203	$ 189
Horizon	**47**	43	41
Parent company	**—**	1	—
Consolidated	**$ 264**	$ 247	$ 230
Capital expenditures:			
Alaska[a]	**$ 477**	$ 250	$ 166
Horizon	**41**	137	19
Consolidated	**$ 518**	$ 387	$ 185
Total assets at end of period:			
Alaska[a]	**$ 5,177**	$ 4,775	
Horizon	**823**	847	
Parent company	**1,832**	1,584	
Elimination of inter-company accounts	**(2,327)**	(2,039)	
Consolidated	**$ 5,505**	$ 5,167	

(a) There are no depreciation expenses, capital expenditures or assets associated with purchased capacity flying at Alaska Regional.

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

None

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company’s management, with the participation of the Principal Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness of the Company’s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company’s internal controls over financial reporting during the fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

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

The Company's independent registered public accounting firm has issued an attestation report regarding its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2012.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Alaska Air Group, Inc.:

We have audited Alaska Air Group, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Alaska Air Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting (included in Item 9A). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Alaska Air Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Alaska Air Group, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated February 14, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington
February 14, 2013

ITEM 9B. OTHER INFORMATION

On October 10, 2012, Alaska Airlines, Inc. (Alaska) amended and supplemented its aircraft purchase agreement with The Boeing Company with respect to 737-900ER aircraft. The supplemental agreement includes firm orders for thirteen 737-900ER aircraft to be delivered between 2015 and 2022. A copy of the agreement is attached hereto as Exhibit 10.7 and incorporated herein by reference.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

See "Executive Officers of the Registrant" under Item 1, "Our Business," in Part I of this Form 10-K for information on the executive officers of Air Group and its subsidiaries. Except as provided herein, the remainder of the information required by this item is incorporated herein by reference from the definitive Proxy Statement for Air Group's 2013 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year ended December 31, 2012 (hereinafter referred to as our "2013 Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference from our 2013 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND RELATED STOCKHOLDER MATTERS

Securities Authorized for Issuance Under Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,775,145(1)	$20.99(2)	9,410,755(3)
Equity compensation plans not approved by security holders	—	Not applicable	—
Total	1,775,145	$20.99	9,410,755

(1) Of these shares, 652,180 subject to options then outstanding under the 2008 Plan, and 833,421 were subject to outstanding restricted, performance and deferred stock unit awards granted under the 2008 Plan. In addition, 283,944 were subject to options then outstanding under the 2004 Plan, and 5,600 shares were subject to options then outstanding under the 1999 Plan. Outstanding performance awards are reflected in the table assuming that the target level of performance will be achieved. No new award of grants may be made under the 2004 Plan or the 1999 Plan.

(2) This number does not reflect the 833,421 shares that were subject to outstanding stock unit awards granted under the 2008 Plan.

(3) Of the aggregate number of shares that remained available for future issuance, 5,692,750 shares were available under the 2008 Plan and 3,718,005 shares were available under the ESPP. Subject to certain express limits of the 2008 Plan, shares available for award purposes under the 2008 Plan generally may be used for any type of award authorized under that plan including options, stock appreciation rights, and other forms of awards granted or denominated in shares of our common stock including, without limitation, stock bonuses, restricted stock, restricted stock units and performance shares. Full-value shares issued under the 2008 Plan are counted against the share limit as 1.7 shares for every one share issued. This table does not give effect to that rule.

Other information required by this item is set forth under the heading “Beneficial Ownership of Securities” in our 2013 Proxy Statement and is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference from our 2013 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference from our 2013 Proxy Statement.

PART IV

ITEM 15. EXHIBITS

The following documents are filed as part of this report:

1. *Exhibits:* See Exhibit Index.

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SIGNATURES

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

ALASKA AIR GROUP, INC.

By:	/s/ BRADLEY D. TILDEN	Date:	February 14, 2013
	Bradley D. Tilden		
	President and Chief Executive Officer		

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on February 14, 2013 on behalf of the registrant and in the capacities indicated.

/s/ BRADLEY D. TILDEN **Bradley D. Tilden**	President and Chief Executive Officer (Principal Executive Officer)
/s/ BRANDON S. PEDERSEN **Brandon S. Pedersen**	Vice President/Finance and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ WILLIAM S. AYER **William S. Ayer**	Chairman
/s/ PATRICIA M. BEDIENT **Patricia M. Bedient**	Director
/s/ MARION C. BLAKEY **Marion C. Blakey**	Director
/s/ PHYLLIS J. CAMPBELL **Phyllis J. Campbell**	Director
/s/ JESSIE J. KNIGHT, JR. **Jessie J. Knight, Jr.**	Director
/s/ R. MARC LANGLAND **R. Marc Langland**	Director
/s/ DENNIS F. MADSEN **Dennis F. Madsen**	Director
/s/ BYRON I. MALLOTT **Byron I. Mallott**	Director
/s/ J. KENNETH THOMPSON **J. Kenneth Thompson**	Director
/s/ ERIC K. YEAMAN **Eric K. Yeaman**	Director

EXHIBIT INDEX

Certain of the following exhibits have heretofore been filed with the Securities and Exchange Commission and are incorporated by reference from the documents below. Certain others are filed herewith. The exhibits are numbered in accordance with Item 601 of Regulation S-K.

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
3.1	Amended and Restated Certificate of Incorporation of Registrant	10-Q	August 8, 2006	3(i)	
3.2	Bylaws of Registrant, as amended April 30, 2010	8-K	May 3, 2010		
10.2#	Credit Agreement, dated March 31, 2010, among Alaska Airlines, Inc., as borrower, Wells Fargo Capital Finance, LLC as agent, U.S. Bank National Association as documentation agent, and other lenders	10-Q	August 11, 2010	10.1	
10.3#	Credit Agreement, dated March 31, 2010, among Alaska Airlines, Inc., as borrower, Citibank, N.A., as administrative agent, Bank of America, N.A., as syndication agent, and other lenders	10-Q	May 5, 2010	10.2	
10.4#	Aircraft General Terms Agreement, dated June 15, 2005, between the Boeing Company and Alaska Airlines, Inc.	10-Q	August 5, 2005	10.1	
10.5#	Purchase Agreement No. 2497, dated June 15, 2005, between the Boeing Company and Alaska Airlines, Inc.	10-Q	August 5, 2005	10.2	
10.6#	Supplemental Agreement No. 23 to Purchase Agreement No. 2497 between The Boeing Company and Alaska Airlines, Inc.	10-Q/A	August 2, 2011	10.1	
10.7†#	Supplemental Agreement No. 29 to Purchase Agreement No. 2497 between The Boeing Company and Alaska Airlines, Inc.	10-K	February 14, 2013	10.1	
10.8†#	Purchase Agreement No. 3866 between The Boeing Company and Alaska Airlines, Inc.	10-K	February 14, 2013	10.2	
10.9#	Supplement to Master Purchase Agreement, dated October 18, 2005, between Horizon Air Industries, Inc. and Bombardier Inc.	10-Q	November 9, 2005	10.1	
10.10*	Alaska Air Group Performance Based Pay Plan (formerly "Management Incentive Plan"), as amended and restated December 2, 2009	8-K	February 1, 2010	10.1	
10.11*	Alaska Air Group, Inc. 2008 Performance Incentive Plan	8-K	May 22, 2008	10.1	
10.12*	Alaska Air Group, Inc. 2008 Performance Incentive Plan Form of Nonqualified Stock Option Agreement	8-K	May 22, 2008	10.2	
10.13*	Alaska Air Group, Inc. 2008 Performance Incentive Plan Form of Stock Unit Award Agreement	8-K	May 22, 2008	10.3	
10.14*	Alaska Air Group, Inc. 2008 Performance Incentive Plan Form of Director Deferred Stock Unit Award Agreement	8-K	May 22, 2008	10.4	
10.15*	Alaska Air Group, Inc. 2008 Performance Incentive Plan Nonqualified Stock Option Agreement—Incentive Award	8-K	February 2, 2009	10.1	
10.16*	Alaska Air Group, Inc. 2008 Performance Incentive Plan Stock Unit Award Agreement —Incentive Award	8-K	February 2, 2009	10.2	
10.17*	Alaska Air Group, Inc. 2008 Performance Incentive Plan Stock Unit Award Agreement	8-K	February 5, 2010	10.1	
10.18*	Alaska Air Group, Inc. 2008 Performance Incentive Plan Nonqualified Stock Option Agreement	8-K	February 5, 2010	10.2	
10.19*	Nonqualified Deferred Compensation Plan, as amended	10-Q	August 4, 2011	10.1	
10.20*	2008 Performance Incentive Plan, Form of Nonqualified Stock Option Agreement, as amended	10-Q	August 4, 2011	10.3	
10.21*	2008 Performance Incentive Plan, Form of Performance Stock Unit Award Agreement, as amended	10-Q	August 4, 2011	10.4	
10.22*	2008 Performance Incentive Plan, Form of Stock Unit Award Agreement, as amended	10-Q	August 4, 2011	10.5	
10.23*	2008 Performance Incentive Plan, Form of Stock Unit Award Agreement Incentive Award, as amended	10-Q	August 4, 2011	10.6	

10.24*	Alaska Air Group, Inc. 2004 Long-Term Incentive Plan and original form of stock option and restricted stock unit agreements	10-K	February 25, 2005	10.2	
10.25*	Alaska Air Group, Inc. 2004 Long-Term Incentive Plan Nonqualified Stock Option Agreement	10-K	February 20, 2008	10.8.1	
10.26*	Alaska Air Group, Inc. 2004 Long-Term Incentive Plan Stock Unit Award Agreement	10-K	February 20, 2008	10.8.2	
10.27*	Alaska Air Group, Inc. 2004 Long-Term Incentive Plan Performance Stock Unit Award Agreement	8-K	February 14, 2008	10.3	
10.28*	Alaska Air Group, Inc. 1999 Long-Term Incentive Equity Plan	S-8	September 22, 1999	99.1	333-87563
10.29*	Alaska Air Group, Inc. 1997 Non Officer Long-Term Incentive Equity Plan	S-8	November 10, 1997	99.2	333-39889
10.30*	Alaska Air Group, Inc. 1996 Long-Term Incentive Equity Plan	S-8	August 5, 1996	99.1	333-09547
10.31*	Alaska Air Group, Inc. Non Employee Director Stock Plan	S-8	August 15, 1997	99.1	333-33727
10.32*	Alaska Airlines, Inc. and Alaska Air Group, Inc. Supplementary Retirement Plan for Elected Officers, as amended November 7, 1994	10-K	February 10, 1998	10.2	
10.33*	Alaska Air Group, Inc. 1995 Elected Officers Supplementary Retirement Plan, as amended by First Amendment to the Alaska Air Group, Inc. 1995 Elected Officers Supplementary Retirement Plan and Second Amendment to the Alaska Air Group, Inc. 1995 Elected Officers Supplementary Retirement Plan	S-1	September 23, 2003	10.1	333-107177
10.34*	1995 Elected Officers Supplementary Retirement Plan, as amended	10-Q	August 4, 2011	10.2	
10.35*	Form of Alaska Air Group, Inc. Change of Control Agreement for named executive officers, as amended and restated November 28, 2007	10-K	February 20, 2008	10.2	
10.36*	Alaska Air Group, Inc. Nonqualified Deferred Compensation Plan, as amended and restated on December 1, 2005	10-K	February 20, 2008	10.2	
21†	Subsidiaries of Registrant				
23.1†	Consent of Independent Registered Public Accounting Firm (KPMG LLP)				
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 Label Linkbase Document				
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document				

† Filed herewith

* Indicates management contract or compensatory plan or arrangement.

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

Supplemental Agreement No. 29

to

Purchase Agreement No. 2497

between

The Boeing Company

and

Alaska Airlines, Inc.

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

THIS SUPPLEMENTAL AGREEMENT, entered into as of October 10, 2012, by and between THE BOEING COMPANY (**Boeing**) and ALASKA AIRLINES, INC. (**Customer**).

WHEREAS, the parties hereto entered into Purchase Agreement No. 2497 dated June 15, 2005 (**Purchase Agreement**), as amended and supplemented, relating to Boeing Model 737-800 aircraft (**737-890 Aircraft**) and 737-900ER aircraft (**737-990ER Aircraft**) (collectively referred to as **Aircraft**); and

WHEREAS, Boeing offered and Customer agrees to [***] Boeing Model 737-900ER aircraft as set forth below (**Incremental 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.

; and

WHEREAS, Customer agrees to exercise its option to [***] Option Aircraft described in Letter Agreement 2497-1R18 and concurrently substitute as 737-990ER Aircraft (**Exercised Option Aircraft**):

[***]	[***]
[***]	[***]
[***]	[***]
[***]	[***]
[***]	[***]
[***]	[***]
[***]	[***]
[***]	[***]

; and

WHEREAS, Customer and Boeing agree to amend the Purchase Agreement to substitute 737-990ER Aircraft in lieu of 737-890 Aircraft for the [***] delivery positions listed as follows (**Subject Aircraft**):

[***]	[***]
[***]	[***]
[***]	[***]
[***]	[***]

; and

WHEREAS, Buyer and Boeing agree to update Letter Agreement 2497-1R18 and Letter Agreement 2497-2R2 to clarify the language relating to airframe price for Option 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 Purchase Agreement as follows:

1. Purchase Agreement Table of Contents and Tables:

1.1 Remove and replace, in its entirety, the "Table of Contents" with the Table of Contents, attached hereto, to reflect the changes made in this Supplemental Agreement. To aid in the administration of the Purchase Agreement, the new Table of Contents includes a section for Tables, Exhibits and Letter Agreements to the Purchase Agreement that Boeing and Customer agree are inactive or have been deleted from the Purchase Agreement.

1.2 "Table 1 to Purchase Agreement 2497" page 13 is hereby deleted in its entirety as a result of the Subject Aircraft being substituted to 737-990ER Aircraft in lieu of 737-890 Aircraft in this Supplemental Agreement.

1.3 "Table 1 to Purchase Agreement 2497" pages 15 and 16 are hereby deleted in their entirety and replaced with Table 1A, attached hereto, to reflect 737-990ER Aircraft associated with Exhibit A3 as of this Supplemental Agreement.

1.4 "Table 1 to Purchase Agreement 2497" page 17 is hereby deleted in its entirety and replaced with Table 1B, attached hereto, to reflect 737-990ER Aircraft associated with Exhibit A5 as of this Supplemental Agreement. Table 1B reflects the incorporation of the Incremental Aircraft, Exercised of Option Aircraft, and Subject Aircraft.

2. Exhibits

2.1 Exhibit A3, "Aircraft Configuration – 737-990ER Aircraft," cover page is hereby deleted in its entirety and replaced with a revised Exhibit A3 cover page, attached hereto. Exhibit A3 applies to the 737-990ER Aircraft listed on Table 1A.

2.2 Exhibit A5, "Aircraft Configuration – 737-990ER Aircraft," is hereby deleted in its entirety and replaced with a revised Exhibit A5, attached hereto. Such revised Exhibit A5 applies to the 737-990ER Aircraft listed on Table 1B.

3. Supplemental Exhibits

Supplemental Exhibit BFE1, entitled "Buyer Furnished Equipment Variables," is deleted in its entirety and replaced with a revised Supplemental Exhibit BFE1, attached hereto, to reflect the deletion of the BFE on-dock dates for the 737-890 Aircraft and the incorporation of the BFE on-dock dates related to the Incremental Aircraft, Exercised Option Aircraft, and Subject Aircraft.

4. Letter Agreements.

4.1 Letter Agreement 2497-1R18, entitled "Option Aircraft," is hereby deleted in its entirety and replaced with a revised Letter Agreement 2497-1R19 to reflect the deletion of the Exercised Option Aircraft pursuant to this Supplemental Agreement. In addition, such Letter Agreement clarifies the language of paragraph 2.2, "Price Adjustments".

4.2 Letter Agreement 2497-2R2, entitled "Aircraft Model Substitution," is hereby deleted in its entirety and replaced with a revised Letter Agreement 2497-2R3, attached hereto, to clarify the language of paragraph 4, "Price, Escalation Adjustments and Advance Payments".

4.3 Letter Agreement 6-1162-MSA-597R22, entitled "Special Matters," is hereby deleted in its entirety and replaced with a revised Letter Agreement 6-1162-MSA-597R23, attached hereto, to reflect that such letter agreement does not apply to the 737-990ER Aircraft [***].

4.4 Letter Agreement 6-1162-SCR-124R2, entitled "[***]" is hereby deleted in its entirety and replaced with a revised Letter Agreement 6-1162-SCR-124R3, attached hereto, to reflect the removal of the Subject Aircraft. The parties acknowledge that such Letter Agreement is an Order pursuant to the CSGTA and is described herein for informational purposes.

4.5 Letter Agreement ASA-PA-2497-LA-1208492, entitled "Aircraft Performance Guarantees," is hereby deleted in its entirety and replaced with a revised Letter Agreement ASA-PA-2497-LA-1208492R1, attached hereto, to identify the applicable 737-990ER Aircraft.

4.6 Letter Agreement ASA-2497-LA-1209641, entitled "Special Matters," attached hereto, is hereby added to the Purchase Agreement and is applicable to all Aircraft with contract delivery months after December 31, 2012. Notwithstanding the preceding sentence, such Letter Agreement does apply to the 737-990ER Aircraft delivering in [***].

4.7 Letter Agreement ASA-PA-2497-LA-1209478, entitled "737 Production Adjustments," attached hereto, is hereby added to the Purchase Agreement.

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

5. Advance Payments.

As a result of this Supplemental Agreement, Customer will owe Boeing [***] in advance payments and Boeing will owe Customer a credit memorandum in amount of [***]. Such credit memorandum will reduce the amount of advance payments owed to Boeing upon execution of this Supplemental Agreement and the excess amount of [***] will be applied to Purchase Agreement 3866 between Boeing and Customer dated October 10, 2012. An invoice providing details of the aforementioned advance payments will be provided separately to Customer by Boeing.

The Purchase 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/ Lanine Lange	By: /s/ Mark Eliasen
Its: Attorney-In-Fact	Its: VP/Finance & Treasurer

* 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.

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LETTER AGREEMENT		SA NUMBER
2497-1R19	Option Aircraft	**29**
	Attachment 1	**29**
	Attachment 2	**29**
2497-2R3	Aircraft Model Substitution	**29**
2497-3R1	2497-3R1	23
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2497-5R1	Customer Software	23

RESTRICTED LETTER AGREEMENT		
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-597R23	Special Matters	**29**
6-1162-SCR-112R1	Aircraft Performance Guarantees Model 737-990ER	28
6-1162-SCR-111R1	[***] [***]	[***]
6-1162-SCR-124R3	[***]	**29**
	Attachment A	28
	Attachment B	**29**
ASA-PA-2497-LA-1106553	Promotional Support – 737-990ER Aircraft	26
ASA-PA-2497-LA-1208492R1 Model 737-990ER	Aircraft Performance Guarantees	**29**
ASA-PA-2497-LA-1209641	Special Matters	**29**
ASA-PA-2497-LA-1209478	737 Production Adjustments	**29**

* 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	February 11, 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	January 24, 2011
Supplemental Agreement No. 24	July 27, 2011
Supplemental Agreement No. 25	October 7, 2011
Supplemental Agreement No. 26	November 30, 2011
Supplemental Agreement No. 27	December 23, 2011
Supplemental Agreement No. 28	June 11, 2012
Supplemental Agreement No. 29	**October 10, 2012**

INACTIVE / DELETED TABLES, EXHIBITS, AND LETTER AGREEMENTS

TABLE

Table	Title	Last Updated under SA	Current Status
1, pages 1 through 12 and 14	Table 1 to Purchase Agreement No. PA-02497	Various SAs	Inactive
1, page 13	Table 1 to Purchase Agreement No. PA-02497	SA 27	Deleted under SA 29
1, pages 15.1 through 17	Table 1 to Purchase Agreement No. PA-02497	SA 28	Deleted under SA 29

EXHIBITS

Exhibit	Title	Last Updated under SA	Current Status
A	Aircraft Configuration – 737-890 Aircraft	SA-6	Inactive
A-1	Aircraft Configuration – 737-890 Aircraft	SA-20	Deleted under SA-20
A-2	Aircraft Configuration – 737-890 Aircraft	SA-20	Inactive

LETTER AGREEMENTS

Letter Agreement	Title	Last Updated under SA	Current Status
6-1162-IRS-118	**Special Matters - Economic Impact**	**SA-18**	**Deleted under SA-19**
6-1162-SCR-025R2	**"Special Matters" – Economic Impact Aircraft - Rescheduled delivery dates**	**SA-22**	**Inactive**
6-1162-SCR-028	**Notice of Exercise by Boeing of its Right to Reschedule Economic Impact Aircraft**	**SA-19**	**Inactive**
2497-6R6	**Promotion Support (737-890 Aircraft)**	**SA-16**	**Inactive**
6-1162-SCR-027	**Promotion Support -** [***] **(737-890 Aircraft)**	**SA 19**	**Inactive**
6-1162-LLL-004	**Promotion Support** [***] **(737-890 Aircraft)**	**SA 28**	**Inactive**
6-1162-SCR-106R1	**737-990ER Model Open Configuration Matters**	**SA 24**	**Inactive**
6-1162-MSA-691R5	**Process for Fixing Escalation Factor**	**SA-23**	**Inactive**
Attachment A of 6-1162-MSA-691R5	**Process for Fixing Escalation Factor – Attachment A**	**SA-25**	**Inactive**
Attachments 1A, 1B, and 2 of 6-1162-MSA-597	[***] **Escalation Factor and Delivery Pricing Information**	**SA 17**	**Deleted under SA 25**

*	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 1A To
Purchase Agreement No. PA-02497
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 1A To Purchase Agreement No. PA-02497
737-900ER
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 1B To
Purchase Agreement No. PA-02497
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 1B To
Purchase Agreement No. PA-02497
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.

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

Alaska Airlines, Inc.

Exhibit A3 to Purchase Agreement Number PA-2497

Applicable for 737-990ER Aircraft listed on Table 1A

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Exhibit A5 to Purchase Agreement Number PA-2497

Applicable for 737-990ER Aircraft listed on Table 1B

Exhibit A5

AIRCRAFT CONFIGURATION

Dated: October 10, 2012

relating to

BOEING MODEL 737-990ER AIRCRAFT

The Detail Specification is Boeing document number D019A001ASA39E-1, Revision New, to be released on or about October 1, 2012. The Detail Specification provides further description of Customer's configuration set forth in this Exhibit A5. Such Detail Specification will be comprised of Boeing configuration specification D019A001,revision N, dated January 29, 2010, as amended to incorporate the optional features (**Options**) listed below, including the effects on Manufacturer's Empty Weight (**MEW**) and Operating Empty Weight (**OEW**). As soon as practicable, Boeing will furnish to Customer copies of the Detail Specification, which copies will reflect such Options. The Aircraft Basic Price reflects and includes all effects of such Options, except such Aircraft Basic Price does not include the price effects of any Buyer Furnished Equipment or Seller Purchased Equipment.

[***]

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

[***]

*	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.

[***]

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[***]

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[***]

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[***]

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[***]

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[***]

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[***]

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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 737-990ER AIRCRAFT

This Supplemental Exhibit BFE1 contains vendor selection dates, on-dock dates and other variables applicable to the 737-990ER Aircraft.

1. Supplier Selection.

Customer will:

1.1 For 737-990ER 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	[***]

2. On-dock Dates

On or before January 2012, 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 737-990ER 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.

Item	Preliminary On-Dock Dates			
Delivery Date	**Oct 2012**	**Nov 2012**	**Dec 2012**	**Feb 2013**
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

Item	Preliminary On-Dock Dates			
Delivery Date	**Mar 2013**	**Apr 2013**	**May 2013**	**Oct 2013**
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

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Item	Preliminary On-Dock Dates			
Delivery Date	**Nov 2013**	**Dec 2013**	**Jan 2014**	**Feb 2014**
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

Item	Preliminary On-Dock Dates			
Delivery Date	**March 2014**	**April 2014**	**May 2014**	**Aug 2014**
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

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Item		Preliminary On-Dock Dates		
Delivery Date	**Oct 2014**	**June 2015**	**July 2015**	**Aug2015**
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

Item		Preliminary On-Dock Dates		
Delivery Date	**Sep 2015**	**Oct 2015**	**Nov 2015**	**Dec 2015**
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

* 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.

Item	Preliminary On-Dock Dates			
Delivery Date	**Jan 2016**	**Mar 2016**	**Apr 2016**	**May 2016**
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

Item	Preliminary On-Dock Dates		
Delivery Date	**Mar 2017**	**Apr 2017**	**Sep 2017**
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]

*	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

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

2497-1R**19**

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 2497-1R18 dated July 27, 2011**. 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; and

(iii) Changes mutually agreed upon.

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 the 2Q 2010 escalation forecast and the resulting advance payment base price and advance payments listed are based on such escalation.

2.1.2 The remaining Option Aircraft listed in Attachment 1 include escalation factors based on the [***] 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 [***] 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. The Airframe Price of the Option Aircraft will be adjusted to Boeing's current price as of the date of execution of the definitive agreement for the Option Aircraft.

2.2.4 [***]

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.

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 737-990ER Substitute Aircraft in substitution for an Option Aircraft:

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

(b) any substitution into a Boeing Model 737-990ER aircraft with auxiliary fuel tanks will result in a [***] month slide to delivery; and

(c) any substitution into a Boeing Model 737-990ER aircraft may not later be substituted to any other Boeing Model.

4.4 For Option Aircraft on 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 737-990ER Substitute Aircraft in substitution for an Option Aircraft:

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

(b) any substitution into a Boeing Model 737-990ER aircraft may not later be substituted to any other Boeing Model.

*	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.

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.

Sincerely,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

Attachments

Attachment 1 to Option Aircraft Letter Agreement 2497-1R19
737-800 Options
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.

Attachment 1 to Option Aircraft Letter Agreement 2497-1R19
737-800 Options
Aircraft Delivery, Description, Price and Advance Payments

[***]

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Attachment 2 to Option Aircraft Letter Agreement 2497-1R19
737-800 Options
Aircraft Delivery, Description, Price and Advance Payments

[***]

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Attachment 2 to Option Aircraft Letter Agreement 2497-1R19
737-800 Options
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.

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

2497-2R3

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 737-800 aircraft (**737-890 Aircraft**) and 737-900ER 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 2497-2R2 dated July 27, 2011.** All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Customer may substitute the purchase of Boeing Model 737-900ER aircraft (**Substitute Aircraft**) in lieu of any of the 737-890 Aircraft or the [***] Option Aircraft (defined below), 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 lieu of a 737-890 Aircraft or an [***] Option Aircraft:

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

(b) any substitution into a Boeing Model 737-900ER aircraft with auxiliary tanks may result in a [***] month slide to delivery; and

(c) any substitution into a Boeing Model 737-900ER aircraft may not later be substituted to any other Boeing Model 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.

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 737-890 Aircraft or [***] Option Aircraft for which it will be substituted.

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 737-890 Aircraft or [***] Option 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.

4. Price, Escalation Adjustments and Advance Payments.

4.1 Base Price Adjustments. [***]

4.2 Escalation Adjustments. 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.

4.3 [***]

[***]

*	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.

4.4 Advance Payment Base Price. If the Advance Payment Base Price for any Substitute Aircraft is higher than that of the 737-890 Aircraft or the [***] Option 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/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

6-1162-MSA-597**R23**

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

Subject: Special Matters

Reference: Purchase Agreement No. 2497 (the Purchase Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) relating to Model 737-890 aircraft (737-890 Aircraft) and 737-990ER aircraft (737-990ER 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-597R22 dated November 11, 2011. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

This Letter Agreement does not apply to the 737-990ER Aircraft delivering in December 2012 bearing Manufacturer Serial Number (MSN) 41732 or any other Aircraft or Option Aircraft with a contract delivery month after December 31, 2012.

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.

*	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. 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 [***] 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.

3.3 [***]

4. [***] Credit Memorandum.

Concurrent with the delivery of the [***] 737-990ER Aircraft listed below, 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 737-990ER Aircraft, or in payment for Boeing goods and services, but not for advance payment on other 737-990ER Aircraft.

Delivery Date	Serial Number
[***]	[***]
[***]	[***]

* 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.

5. [***] Escalation Factors.

5.1 Table 1 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 Table 1.

5.2 The Aircraft Price, Basic Credit Memorandum, Special Credit Memorandum and [***] Credit Memorandum for [***] Factor Aircraft entitled to [***] Factor escalation 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 is specified in Letter Agreement 6-1162-MSA-691, as amended, titled Process for Fixing Escalation Factors.

6. [***] Credit Memorandum.

Concurrent with signing of the Purchase Agreement, Boeing will provide a credit memorandum equal to [***].

7. July 2005 Delivered Aircraft [***].

Concurrent with delivery of the [***].

8. [DELETED]

9. [DELETED]

*	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.

10. [***].

Customer and Boeing agree that the commitment [***].

11. [***].

Customer has previously entered certain 737-890 Aircraft in its fleet into [***] described in detail in letter agreement 6-1162-SCR-124 dated May 2, 2011, as amended. As described in paragraph 6.2 of the aforementioned letter agreement, [***].

12. [DELETED]

13. Option Aircraft.

Further to Option Aircraft Letter Agreement 2497-1, as amended, of the Purchase Agreement, Boeing provides the following additional terms for 737-890 option aircraft (Option Aircraft):

13.1 [***]

[***]

13.2 [DELETED]

13.3 Applicable Credit Memorandums.

The Basic, Special and [***] Credit Memorandums described in Articles 1, 2 and 3, above, shall be applicable to the [***]. 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 [***] will be [***]. For Option Aircraft exercised as Aircraft with delivery after the [***] Aircraft delivery, the [***] will be [***].

13.4 [DELETED]

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 [***]. 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 [***] for such on-going manuals service.

In recognition that Customer [***] of the AMM and FIM/FRM for its 737 NG aircraft fleet, Boeing, following execution of Revision 15 of this Letter Agreement, [***] in the [***].

15. INTENTIONALLY LEFT BLANK

16. 737-700 Aircraft.

Customer does not have substitution rights from 737-890 Aircraft to 737-790 aircraft.

[***]

[***]	[***]
[***]	[***]
[***] [***]	

17. [***] Credit Memorandum.

[***] Customer's purchase of the Aircraft identified in Supplemental Agreement 29 of the Purchase Agreement [***], upon execution of Supplemental Agreement 29 of the Purchase Agreement. [***].

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.

*	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.

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/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

6-1162-SCR-124R3

October 10, 2012

Alaska Airlines, Inc.
19300 Pacific Highway South
Seattle, Washington, 98188

Subject: Multiple Operating Weight Program – 737-800

References: 1. Customer Services General Terms Agreement No. 90-2 (the **CSGTA**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**); and

2. Letter agreement 6-1162-SCR-119R1 dated May 2, 2011 regarding 737-800 Multiple Operating Weight Program Credit Memorandum (**MOW Credit Memo Letter**); and

3. Purchase Agreement No. 2497 (the **Purchase Agreement**) between Boeing and Customer relating to Models 737-890 (**737-890 Aircraft**) and 737-990ER (**737-990ER Aircraft**)

This letter agreement (Letter Agreement) replaces and supersedes in its entirety letter agreement 6-1162-SCR-124R2 dated June 11, 2012.

This Order incorporates the terms and conditions of the CSGTA. All terms used but not defined in this Order have the same meaning as in the CSGTA. This Order consists of this Letter Agreement and Attachments A and B.

In this Order, the term "**Aircraft**" means the Model 737-800 aircraft that are listed in Attachment B to this Letter Agreement.

1. Description of Agreement.

This Order represents the agreement of the parties to the terms and conditions under which Boeing will provide, for the Aircraft, a "**Service**" as defined in Article 2.22 of the CSGTA. This Service is a [***] Program designed specifically for Customer, as described below (the **Program**).

* 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. Background.

Customer and Boeing previously agreed to enter 737-800 aircraft that were introduced into Customer's fleet during the five (5) year period commencing in February 2005 into an [***] as documented in paragraph 11 of Special Matters Letter Agreement 6-1162-MSA-597, as amended (**Special Matters Letter Agreement**). Boeing and Customer acknowledge that fifty-one (51) 737-800 aircraft entered Customer's fleet between February 2005 and February 2010 (**Affected Aircraft**), inclusive of leased aircraft. As of May 2, 2011, none of the Affected Aircraft were entered into an MOW program. In order to meet the intent of the Special Matters Letter Agreement, (i) Boeing and Customer agree to enter the Aircraft into the Program and (ii) Boeing agrees to provide Customer a credit memorandum in the amount set forth in paragraph 3 of the MOW Credit Memo Letter relating to the Affected Aircraft. For business reasons, the Aircraft are not identical to the Affected Aircraft in its entirety.

As of revision 1 to this Letter Agreement 6-1162-SCR-124 dated May 24, 2011, the Aircraft included the addition of nine (9) Aircraft that were scheduled to deliver in 2012 through 2015 and reflected the removal of fifteen (15) Affected Aircraft that were previously delivered to Customer, resulting in a total of forty-five (45) Aircraft in the Program that were listed in Attachment B.

As of revision 2 to this Letter Agreement 6-1162-SCR-124, Customer and Boeing acknowledge that three (3) Aircraft of the original forty-five (45) Aircraft were substituted to 737-990ER Aircraft in Supplemental Agreement No. 26 of the Purchase Agreement resulting in a reduction of Aircraft in the Program to forty-two (42) Aircraft as listed in Attachment B.

Through this revision 3 to Letter Agreement 6-112-SCR-124, Customer and Boeing acknowledge that [***] Aircraft are substituted to 737-900ER Aircraft in Supplemental Agreement No. 29 of the Purchase Agreement resulting in a reduction of the Aircraft in the Program to [***] Aircraft as listed in Attachment B, a copy of which is attached hereto.

3. [***].

Customer has selected the three (3) notional placard [***] for the Program. The highest [***] selected by the Customer is [***] pounds which will be set forth in the Airplane Flight Manual (**AFM**)* of all [***] Aircraft listed in Attachment B. The two (2) alternative [***] selected for the purposes of the Program are [***] pounds and [***] pounds.

The [***] (defined in Attachment A) for the first year of utilization of the Program is [***] pounds and will be reconciled annually as set forth in Article 7 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.

In addition to the AFM, Boeing will furnish to Customer the necessary changes to the [***] in the AFM.

4. Administrative Fee.

Boeing will charge the administrative fee relating to the Program in the amount of [***]in July 2004 dollars. [***].

5. Delivery of Airplane Flight Manuals.

Shipment of the revised AFM, if applicable, will occur within sixty (60) days of the date of this Order.

6. Aircraft Included in the Program.

6.1 Included Aircraft.

Attachment B specifies all of the Aircraft included in the Program. Boeing and Customer agree that no additional 737-800 aircraft in Customer's fleet will be added to the Program. The configuration of the [***] Aircraft set forth in Exhibit A to the purchase agreement for the Aircraft to be delivered to Customer after the date of this Letter Agreement will reflect the highest of the three selected [***] in the AFM. Accordingly, the Basic Price and the Advance Payment Base Price of each [***] Aircraft will be based upon the highest of the three selected [***] in the AFM.

6.2 Invoice for [***] Aircraft.

For the avoidance of doubt, Customer agrees to [***] pounds for all the Aircraft scheduled for delivery in [***] and Customer acknowledges that the credit amount provided in the [***] is based on such [***]. In the event Customer does not purchase [***] pounds for the [***] Aircraft deliveries, then Customer and Boeing agree to work together in good faith to reach an equitable adjustment for the difference between the [***] Aircraft when such actual [***].

By accepting the [***] Credit Memo, Customer agrees that it has received full credit / price adjustment for the difference between the [***] relating to the Affected Aircraft. Therefore, Customer acknowledges that it will not receive an incremental credit memorandum at delivery of the [***] Aircraft, for the difference between [***] of such 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.

7. [***]

The [***] and actual [***] - defined in Attachment A) will be jointly analyzed by the assigned Boeing Regional Director, Marketing and Customer. The [***] will be determined by the percent distribution of [***] calculated as a function of revenue flight frequencies and weighted by block hours.

One year after the date of this Letter Agreement, and thereafter on an annual basis, Customer, through a knowledgeable representative, will furnish to Boeing an [***] report of Customer which reports the actual [***] Aircraft, to determine the basis of any additional billing. The criteria for billing are as follows:

For each [***] Aircraft where [***], Customer will pay Boeing's then current price per [***] for the difference between [***].

Except as otherwise provided in this Letter Agreement, no refund or credit will be given to Customer for [***] purchased or leased pursuant to this Letter Agreement.

After the initial 12 month period the previous [***] for the prior year may become the new [***] for the next year unless Customer is expected to have significant changes in the operation of the Aircraft in which case, a new [***] will be calculated. [***] is decided by the mutual agreement of the Customer and the Regional Director, Marketing based upon the best data available. If the new [***] is significantly greater ([***] or greater on a per aircraft basis), Customer will purchase or lease the additional increment of [***], as the case may be.

At the time of reconciliation of the [***] report, Customer may elect to have the selected [***] in the AFM changed for all [***] Aircraft. In which case, the Customer would be [***].

8. Protection of Residual Value.

As long as the Aircraft are in the legal possession of Customer and Customer has made all requisite payments or is not otherwise in default under the Program, the Aircraft may be operated by Customer with the AFM provided by Boeing pursuant to this Program. In other words, Customer may sell and lease-back an Aircraft without affecting its inclusion in the Program.

*	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.

In the event Customer intends to sell or lease to a third party, or otherwise dispose of an Aircraft owned by Customer (**Disposed Aircraft**), Customer will give written notice to Boeing of such intent as soon as practicable but in any event at least [***] prior to its disposal. For all such Aircraft the AFM will be changed by Boeing to a [***] which will be the [***] paid for at delivery or, for Aircraft in the Program through execution of this letter, the then current [***]. However, if an Aircraft which was in the Program at one time returns to Customer's fleet after being leased to a third party, such Aircraft may be reinstated in the Program at Customer's election.

If Customer desires to sell or lease a Disposed Aircraft certified to [***], then Customer may purchase, at Boeing's then current price for [***], the difference in [***] above what the Customer has previously paid for [***] desired for a Disposed Aircraft. The AFM will be furnished in the single higher [***].

It is understood that a minimum of [***] will be required for Boeing to make the change to the FAA approved AFM elected by Customer. If the Customer requires the AFM to be prepared in a different format required by the cognizant aviation regulatory authority of the proposed third party purchaser or lessee, prior coordination with Boeing will be required to determine price and offerability.

9. Default.

Failure of Customer to furnish the [***] report as required or failure to pay any additional billing made as a consequence of an annual reconciliation within 30 calendar days of receipt are each Events of Default under the Program. Upon the occurrence of any Event of Default and at any time thereafter as long as the Event of Default is continuing, Boeing may exercise one or more of the following remedies. Boeing may apply any outstanding credit memoranda against billings due but unpaid for more than 30 days and may terminate the Program by notice given to Customer in accordance with Article 12 below.

In the event of termination by Boeing as a consequence of an Event of Default, Boeing will furnish to Customer the same AFM as that provided for a Disposed Aircraft as discussed in paragraph 8 above. Boeing will also notify the cognizant aviation regulatory authorities of the revised AFM and [***].

10. Term of the Program.

This Program will continue, unless terminated by Boeing under Article 9 above or by the mutual agreement of the parties, for as long as Customer remains in legal possession of the Aircraft subject to this Program. The Aircraft in the Program are identified in Attachment B to this Letter Agreement.

11. Amendments to Order.

This Order will be amended by the parties to document (i) the deletion of Aircraft to this Program, (ii) changes to any of the [***] in the AFM and the corresponding Placards, (iii) the purchase or lease of any additional [***] as a consequence of an annual reconciliation, (iv) the resetting of [***] if required as a consequence of annual reconciliation, or (v) termination of the Program.

12. Notices.

The [***] reported annually and the notices related to the sale, lease or other disposition of Aircraft subject to this Program will be addressed as follows:

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

Attention: Director
Aircraft Contracts
M/S 21-43

Attention: Director
Airline Analysis Marketing
M/S 21-46

13. Performance Guarantees.

Boeing will not be required to furnish multiple performance guarantees for the Aircraft.

14. Exclusivity.

This Program is designed exclusively for Customer and may not be assigned without the prior written consent of Boeing.

15. Confidentiality.

The terms and conditions of this Order and the reports required hereunder shall be considered to be confidential and shall not be disclosed by either party (except as reasonably necessary to its respective employees, insurers, auditors or professional advisors) without the prior written consent of the other party.

*	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.

Please indicate your acceptance of this Order by returning one (1) executed copy to the attention of the undersigned.

Very Truly Yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

Customer's Purchase Order Number:

P.A. 2497

Attachments

*	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.

Definitions

[***]

*	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.

[***]

Sampling of Required Data:

In order to keep the reported data to a manageable volume, a flight sampling scheme will be utilized. The reported data will be limited to only those flights departing on the first day (local time) of each calendar month for each 12 month period. Both the Customer and the Boeing Marketing Regional Director must agree that this provides a statistically valid sample of the entire set of covered flights.

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[***]

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

[***]

*	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 6-1162-SCR-124R3

[***]

* 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 6-1162-SCR-124R3

[***]

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

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-2497-LA-1208492**R1**

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

Subject: Aircraft Performance Guarantees

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

For the purposes of this Letter Agreement, Aircraft is defined to be the following:

Delivery Date	Manufacturer Serial Number
[***]	[***]
[***]	[***]

Boeing agrees to provide Customer with the performance guarantees in the Attachment. These guarantees are exclusive and expire upon delivery of the Aircraft (as defined below) to Customer. Customer agrees to limit the remedy for non-compliance of any performance guarantee to the terms in Letter Agreement No. 6-1162-SCR-111R1, as amended.

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

1. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

2. Confidential Treatment.

The information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

MODEL 737-900ER WITH WINGLETS PERFORMANCE GUARANTEES

FOR ALASKA AIRLINES, INC.

* 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.

[***]

*	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.

[***]

2.3.2 Operational Empty Weight Basis

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

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

2.3.3 737-900ER Weight Summary - Alaska Airlines

	Pounds
Standard Model Specification MEW	[***]
Configuration Specification D019A001, Rev. N, Dated January 29, 2010 [***] Tourist Class Passengers CFM56-7 Engines [***] lb ([***] kg) Maximum Taxi Weight [***] U.S. Gallons ([***] liters) Fuel Capacity	
Changes for Alaska Airlines	
Interior Change to [***] Passengers ([***] FC / [***] EC) (Ref: LOPA - 379-0595 Rev. K) Boeing Sky Interior	[***]
[***] lb ([***] kg) Maximum Taxi Weight	[***]
Mid-Cabin Exit Door Plug With Full-Sized Passenger Window	[***]
Extended Operations (ETOPS)	[***]
Heads-Up Display (HUD)	[***]
Standby Power - [***]-Minute Capability	[***]
Heavy Duty Cargo Compartment Linings/Panels	[***]
Centerline Overhead Stowage Compartments (5)	[***]
Winglets	[***]
Customer Options Allowance	[***]
Alaska Airlines Manufacturer's Empty Weight (MEW)	[***]
Standard and Operational Items Allowance (Paragraph 2.3.4)	[***]
Alaska Airlines Operational Empty Weight (OEW)	[***]

	Quantity	Pounds	Pounds
* Seat Weight Included:			[***]
First Class Double	[***]	[***]	
Economy Class Triple w/3 In-Arm Food Trays	[***]	[***]	
Economy Class Triple	[***]	[***]	

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

2.3.4 Standard and Operational Items Allowance

	Qty	Pounds	Pounds	Pounds
Standard Items Allowance				[***]
Unusable Fuel			[***]	
Oil			[***]	
Oxygen Equipment			[***]	
Passenger Portable	[***]	[***]		
Crew Masks	[***]	[***]		
Miscellaneous Equipment			[***]	
Crash Axe	[***]	[***]		
Megaphones	[***]	[***]		
Flashlights	[***]	[***]		
Smoke Hoods	[***]	[***]		
Seat Belt Extensions	[***]	[***]		
Galley Structure & Fixed Inserts			[***]	
Operational Items Allowance				[***]
Crew and Crew Baggage			[***]	
Flight Crew	[***]	[***]		
Cabin Crew	[***]	[***]		
Baggage	[***]	[***]		
Catering Allowance & Removable Inserts			[***]	
First Class	[***]	[***]		
Economy Class	[***]	[***]		
Passenger Service Equipment	[***]			[***]
Potable Water - 60 USG				[***]
Waste Tank Disinfectant				[***]
Emergency Equipment				[***]
Escape Slides - Forward	[***]	[***]		
Escape Slides - Aft	[***]	[***]		
Life Vests - Crew and Passengers	[***]	[***]		
Life Rafts	[***]	[***]		
Auto Radio Beacon (ELT)	[***]	[***]		
Total Standard and Operational Items Allowance				[***]

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

3 MANUFACTURER'S EMPTY WEIGHT

The Manufacturer's Empty Weight (MEW) is guaranteed not to exceed the value in Section 03-60-00 of Detail Specification D019A001ASA39E-1 [***].

[***]

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.

[***]

[***]

*	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.

[***]

8 EXCLUSIVE GUARANTEES

The only performance guarantees applicable to the Aircraft are those set forth in this Attachment.

*	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.

ASA-PA-2497-LA-1209641

Alaska Airlines, Inc.
P.O. Box 68900
Seattle, WA 98168-0900

Subject: Special Matters

Reference: Purchase Agreement No. 2497 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Boeing Models 737-800 aircraft (**737-890 Aircraft**) and 737-900ER aircraft (**737-990ER Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. This Letter Agreement applies to the 737-990ER Aircraft delivering in [***] (collectively **Aircraft**), unless otherwise specified in this Letter Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. Credit Memoranda

1.1 Basic Credit Memorandum. Concurrent with the delivery of each Aircraft, Boeing will provide a Basic Credit Memorandum in an amount determined by multiplying the Airframe Price by a factor of [***].

1.2 Special Credit Memorandum. Concurrent with the delivery of each Aircraft, Boeing will provide a Special Credit Memorandum in an amount determined by multiplying the Airframe Price by a factor of [***].

1.3 [***]

1.3.1 [***] Credit Memorandum #1. Concurrent with the delivery of each Aircraft, Boeing will provide a [***] Credit Memorandum #1 in an amount determined by multiplying the Airframe Price by a factor of [***].

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

1.3.2 [***] Credit Memorandum #2. Concurrent with the delivery of each 737-890 Aircraft, Boeing will issue to Customer a [***] Credit Memorandum #2 in an amount of [***].

1.3.3 [***] Credit Memorandum #2. Concurrent with the delivery of each 737-990ER Aircraft, Boeing will issue to Customer a [***] Credit Memorandum #2 in an amount of [***].

1.3.4 [***] Credit Memorandum #3. Concurrent with the delivery of each 737-890 Aircraft, Boeing will issue to Customer a [***] Credit Memorandum #3 in an amount of [***].

1.3.5 [***] Credit Memorandum #3. Concurrent with the delivery of each 737-990ER Aircraft, Boeing will issue to Customer a [***] Memorandum #3 in an amount of [***].

1.3.6 The [***] credit memoranda in paragraph 1.3 ([***] **Credit Memoranda**), cannot be assigned to a third party. Should assignment of the Purchase Agreement with respect to an Aircraft occur for the purpose of Customer choosing to have a third party finance the Aircraft at delivery, Customer may apply [***] Credit Memoranda to the balance of the Purchase Price due at delivery of a subsequent Aircraft, or in payment for Boeing goods and services, but not for advance payment on the Aircraft. For avoidance of doubt, should there be no remaining subsequent Aircraft, the concerned [***] Credit Memoranda shall be applied in payment for Boeing goods and services, but not for advance payment on the Aircraft.

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1.4 [***] Credit Memorandum.

Concurrent with the delivery of each of the [***] 737-990ER Aircraft listed below, Boeing will issue to Customer a credit memorandum in an amount determined by multiplying the Airframe Price by a factor of [***] of the Airframe Price.

Delivery Date	Serial Number	Delivery Date	Serial Number
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]		

1.5 [***] Credit Memorandum.

1.5.1 737-890 [***] Credit Memorandum. Concurrent with the delivery of each 737-890 Aircraft, Boeing will provide a [***] Credit Memorandum in an amount [***].

1.5.2 737-990ER [***] Credit Memorandum. Concurrent with the delivery of each 737-990ER Aircraft, Boeing will provide a [***] Credit Memorandum in an amount [***].

2. Escalation of Credit Memoranda.

Unless otherwise noted, the amounts of the Credit Memoranda stated in paragraphs 1.1 through 1.5 are in [***] for 737-890 Aircraft and [***] for 737-990ER Aircraft. The Credit Memoranda will be escalated to the scheduled month of the respective Aircraft delivery pursuant to the Airframe Escalation formula set forth in the Purchase Agreement applicable to 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. Option Aircraft.

Pursuant to the Option Aircraft Letter Agreement 2497-1, as amended, of the Purchase Agreement (**Option Aircraft Letter Agreement**), Customer may exercise its rights to purchase certain Option Aircraft. In addition to the terms set forth in the Option Aircraft Letter Agreement, Boeing will provide [***].

4. Substitute Aircraft.

Pursuant to the Aircraft Model Substitution Letter Agreement 2497-2 of the Purchase Agreement, as amended (**Substitute Aircraft Letter Agreement**), Customer may substitute the purchase of Boeing Model 737-900ER aircraft in lieu of 737-890 Aircraft. In addition to the terms set forth in the Substitute Aircraft Letter Agreement, Boeing will provide the [***].

5. Assignment

Unless otherwise noted herein, the Credit Memoranda described in this Letter Agreement are provided as a financial accommodation to Customer and in consideration of Customer's taking title to the Aircraft at time of delivery and becoming the operator of the Aircraft. This Letter Agreement cannot be assigned, in whole or in part, without the prior written consent of Boeing.

6. Confidentiality

Customer understands and agrees that the information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer agrees to limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-2497-LA-1209478

Alaska Airlines, Inc.
P.O. Box 68900
Seattle, WA 98168-0900

Subject: 737 Production Adjustment

Reference: a) Purchase Agreement No. PA-2497 (**NG Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-890 and 737-990 aircraft (**737NG Aircraft**)

b) Purchase Agreement No. PA-3866 (**MAX Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**737MAX Aircraft**)

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

1. 737 Production Adjustment.

From [***], Boeing may reduce 737NG aircraft production to facilitate production of the 737MAX family of aircraft (**737 Production Adjustment**). If Boeing elects to take such action and it affects Boeing's obligations under PA-2497, for those 737NG Aircraft affected by a 737 Production Adjustment, [***] **Aircraft**).

2. Notice and Purchase Agreement Amendment.

2.1 [***] Notice. If Boeing elects to implement the 737 Production Adjustment, no later than [***] prior to the first day of the scheduled delivery month of the affected 737NG Aircraft, Boeing will provide Customer written notice of its intent to [***] **Notice**). [***] which shall be delivered to Boeing within [***] Notice, the [***] Notice will [***] and [***] to the MAX Purchase Agreement to [***] Aircraft in accordance with the terms and conditions set forth herein (**Amendment**). [***]

[***]

* 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.

2.2 Delivery Schedule. Boeing will make reasonable efforts, within its then-current production capacity, to maintain the same scheduled delivery month for the [***] Aircraft as the scheduled delivery month of the [***] Aircraft. If Boeing is unable to maintain the same scheduled delivery month for the [***] Aircraft and Customer and Boeing do not agree upon the delivery schedule for the [***].

2.3 Advance Payments. If the Advanced Payment Base Price (**APBP**) for any [***] is higher than the APBP of the applicable 737NG Aircraft, within thirty (30) business days of the Amendment, Customer will pay Boeing the amount of such difference. If the APBP for any [***] is lower than the APBP of the applicable 737NG Aircraft, Boeing will retain any excess amounts previously paid by Customer until the next advance payment is due, at which time Customer may reduce the amount of such payment by the amount of the excess.

2.4 Other Terms and Conditions. All other terms and conditions of the MAX Purchase Agreement, including but not limited to Aircraft Basic Price, Escalation Adjustment and Detail Specification, shall apply to the [***].

3. Confidential Treatment.

The information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the NG Purchase Agreement and the MAX Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

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

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

PURCHASE AGREEMENT NUMBER 3866

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Relating to Boeing Models 737-8 and 737-9 Aircraft

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

Purchase Agreement No. 3866

between

The Boeing Company

and

Alaska Airlines, Inc.

This Purchase Agreement No. 3866 between The Boeing Company, a Delaware corporation, (**Boeing**) and Alaska Airlines, Inc., a Alaska corporation, (**Customer**) relating to the purchase and sale of Models 737-8 and 737-9 aircraft together with all tables, exhibits, supplemental exhibits, letter agreements and other attachments thereto, if any, (**Purchase Agreement**) incorporates the terms and conditions (except as specifically set forth below) of the Aircraft General Terms Agreement dated as of June 15, 2005 between the parties, identified as AGTA-ASA (**AGTA**).

1. Quantity, Model and Description.

The aircraft to be delivered to Customer will be designated as Models 737-8 aircraft (**737-8 Aircraft)** and 737-9 aircraft (**737-9 Aircraft**) (collectively referenced as **Aircraft**). Boeing will manufacture and sell to Customer Aircraft conforming to the configuration described in Exhibits A1 and A2 in the quantities listed in Table 1 to the Purchase Agreement.

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.

3. Price.

3.1 Aircraft Basic Price. The Aircraft Basic Price is listed in Table 1 and is subject to escalation in accordance with the terms of this Purchase Agreement.

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.

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 [***], 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 twenty-four (24) 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.

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 supplier selection dates, on dock dates and other variables applicable to the Aircraft.

5.4 Customer Support Variables. Information, training, services and other things furnished by Boeing in support of introduction of the Aircraft into Customer's fleet are described in Supplemental Exhibit CS1. The level of support to be provided under Supplemental Exhibit CS1 (**Entitlements**) assumes that at the time of delivery of Customer's first Aircraft under the Purchase Agreement, Customer has not taken possession of a 737-8 or 737-9 aircraft whether such 737-8 or 737-9 aircraft was purchased, leased or otherwise obtained by Customer from Boeing or another party. If prior to the delivery of Customer's first Aircraft, Customer has taken possession of a 737-8 or 737-9 aircraft, Boeing will revise the Entitlements to reflect the level of support normally provided by Boeing to operators already operating such aircraft. Under no circumstances under the Purchase Agreement or any other agreement will Boeing provide the Entitlements more than once to support Customer's operation of 737-8 or 737-9 aircraft.

5.5 Engine Escalation Variables. Supplemental Exhibit EE1 describes the applicable engine escalation formula and contains the engine warranty and the engine patent indemnity for the Aircraft.

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5.6 Service Life Policy Component Variables. Supplemental Exhibit SLP1 lists the SLP Components covered by the Service Life Policy for the Aircraft.

5.7 Public Announcement. Boeing reserves the right to make a public announcement regarding Customer's purchase of the Aircraft upon approval of Boeing's press release by Customer's public relations department or other authorized representative.

5.8 Negotiated Agreement; Entire Agreement. This Purchase Agreement, including the provisions of Article 8.2 of the AGTA relating to insurance, and Article 11 of Part 2 of Exhibit C of the AGTA relating to DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES, has been the subject of discussion and negotiation and is understood by the parties; the Aircraft Price and other agreements of the parties stated in this Purchase Agreement were arrived at in consideration of such provisions. This Purchase Agreement, including the AGTA, contains the entire agreement between the parties and supersedes all previous proposals, understandings, commitments or representations whatsoever, oral or written, and may be changed only in writing signed by authorized representatives of the parties.

AGREED AND ACCEPTED this

October 10, 2012
Date

THE BOEING COMPANY	ALASKA AIRLINES, INC.
/s/ Lanine Lange	/s/ Mark Eliasen
Signature	Signature
Lanine Lange	Mark Eliasen
Printed name	Printed name
Attorney-in-Fact	VP/Finance & Treasurer
Title	Title

Table 1A To
Purchase Agreement No. PA-03866
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 1A To
Purchase Agreement No. PA-03866
Aircraft Delivery, Description, Price and Advance Payments

[***]

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Table 1A To
Purchase Agreement No. PA-03866
Aircraft Delivery, Description, Price and Advance Payments

[***]

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Table 1B To
Purchase Agreement No. PA-03866
Aircraft Delivery, Description, Price and Advance Payments

[***]

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Table 1B To
Purchase Agreement No. PA-03866
Aircraft Delivery, Description, Price and Advance Payments

[***]

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Table 1B To
Purchase Agreement No. PA-03866
Aircraft Delivery, Description, Price and Advance Payments

[***]

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AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Exhibit A-1 to Purchase Agreement Number 3866

BOEING MODEL 737-8 AIRCRAFT

Exhibit A-1

AIRCRAFT CONFIGURATION

Dated TBD

relating to

BOEING MODEL 737-8 AIRCRAFT

The initial configuration of Customer's Model 737-8 Aircraft has been defined by Boeing 737-8 Airplane Description Document No. D019A007 Rev "B" dated as of May 18, 2012 and is more fully discussed in Letter Agreement ASA-PA-3866-LA-09433 to the Purchase Agreement, entitled "Open Matters".

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Exhibit A-2 to Purchase Agreement Number 3866

BOEING MODEL 737-9 AIRCRAFT

Exhibit A-2

AIRCRAFT CONFIGURATION

Dated TBD

relating to

BOEING MODEL 737-9 AIRCRAFT

The initial configuration of Customer's Model 737-9 Aircraft has been defined by Boeing 737-9 Airplane Description Document No. D019A007 Rev "B" dated as of May 18, 2012 and is more fully discussed in Letter Agreement ASA-PA-3866-LA-09433 to the Purchase Agreement, entitled "Open Matters".

AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Exhibit B to Purchase Agreement Number 3866

Exhibit B

AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

relating to

BOEING MODELS 737-8 and 737-9 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 **six (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 **three (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. The above Boeing obligation only applies to commercial passenger-configured aircraft.

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 **three (3) months prior to delivery**. Boeing will then use commercially reasonable efforts to obtain the Certificate from the United States Public Health Service and present it to Customer at the time of Aircraft delivery. The above Boeing obligation only applies to commercial passenger-configured aircraft.

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 **three (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 **twenty (20) days prior to delivery** all information required by U.S. Customs and Border Protection, 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 **twenty (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 following delivery, and (i) Customer is a non-U.S. customer, Boeing will file an export declaration electronically with U.S. Customs and Border Protection (**CBP**), or (ii) Customer is a U.S. customer, it is the responsibility of the U.S. customer, as the exporter of record, to file the export declaration with CBP.

2. Insurance Certificates.

Unless provided earlier, Customer will provide to Boeing not later than **thirty (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 **twenty (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	[***]

4.5. Flight Crew and Passenger Consumables. Boeing will provide reasonable quantities of food, 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.

*	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.

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.

5.4. TSA Waiver Approval. Customer may be required to have an approved Transportation Security Administration (**TSA**) waiver for the ferry flight depending upon the Customer’s en-route stop(s) and destination unless the Customer already has a TSA approved security program in place. Customer is responsible for application for the TSA waiver and obtaining TSA approval. Customer will provide a copy of the approved TSA waiver to Boeing upon arrival at the Boeing delivery center.

5.5. Electronic Advance Passenger Information System. Should the ferry flight of an Aircraft leave the United States, the Department of Homeland Security office requires Customer to comply with the Electronic Advance Passenger Information System (**eAPIS**). Customer needs to establish their own account with US Customs and Border Protection in order to file for departure. A copy of the eAPIS forms is to be provided by Customer to Boeing upon arrival of Customer’s acceptance team at the Boeing delivery center.

ESCALATION ADJUSTMENT
AIRFRAME AND OPTIONAL FEATURES

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Supplemental Exhibit AE1
to Purchase Agreement Number 3866

ESCALATION ADJUSTMENT
AIRFRAME AND OPTIONAL FEATURES

[***]

*	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.

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BUYER FURNISHED EQUIPMENT VARIABLES

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Supplemental Exhibit BFE1
to Purchase Agreement Number 3866

BUYER FURNISHED EQUIPMENT VARIABLES

relating to

BOEING MODELS 737-8 and 737-9 AIRCRAFT

This Supplemental Exhibit BFE1 contains supplier selection dates, on-dock dates and other requirements applicable to the Aircraft.

1. Supplier Selection.

Customer will:

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* *(Single Aisle Programs only)*	[***]

*For a new certification, supplier requires notification ten (10) months prior to Cargo Handling System on-dock date.

**Actual Supplier Selection dates will be provided when monthly delivery positions are available to customer.

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Customer will enter into initial agreements with the selected Galley System, Galley Inserts, Seats, and In-Seat Video System suppliers on or before ten (10) calendar days after the above supplier selection dates to actively participate with Customer and Boeing in coordination actions including the Initial Technical Coordination Meeting (**ITCM**).

2. On-dock Dates and Other Information.

On or before nine months prior to each Aircraft delivery, Boeing will provide to Customer the BFE Requirements electronically through My Boeing Fleet (**MBF** in 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:

[***]

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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

CUSTOMER SUPPORT VARIABLES

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Supplemental Exhibit CS1
to Purchase Agreement Number 3866

CUSTOMER SUPPORT VARIABLES

relating to

BOEING MODELS 737-8 and 737-9 AIRCRAFT

Customer and Boeing will conduct planning conferences approximately twelve (12) months prior to delivery of the first Aircraft, or as mutually agreed, in order to develop and schedule a customized Customer Support Program to be furnished by Boeing in support of the Aircraft.

The customized Customer Services Program will be based upon and equivalent to the entitlements summarized below.

1. Maintenance Training.

1.1 Mechanical/Power Plant Course; [***];

1.2 Electrical Systems Course; [***];

1.3 Avionics Systems Course; [***];

1.4 Aircraft Rigging Course; [***];

1.5 Advanced Composite Repair Course; [***].

1.6 Training materials will be provided to each student. In addition, one set of training materials as used in Boeing's training program, including visual aids, Computer Based Training Courseware, instrument panel wall charts, text/graphics, video programs, etc. will be provided for use in Customer's own training program.

2. Flight Training.

2.1 Boeing will provide one classroom course to acquaint up to [***] with operational, systems and performance differences between Customer's newly-purchased Aircraft and an aircraft of the same model currently operated by Customer.

2.2 Training materials will be provided to each student. In addition, one set of training materials as used in Boeing's training program, including Computer Based Training Courseware, instrument panel wall charts, Flight Attendant Manuals, etc. 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 seemingly to the contrary, Boeing will provide the following Maintenance Engineering support:

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3.1.1 Maintenance Planning Assistance. Upon request, Boeing will provide [***] to Customer's main base to assist with maintenance program development and to provide consulting related to maintenance planning. Consultation with Customer will be based on ground rules and requirements information provided in advance by Customer.

3.1.2 ETOPS Maintenance Planning Assistance. Upon request, Boeing will provide [***] to Customer's main base to assist with the development of their ETOPS maintenance program and to provide consultation related to ETOPS maintenance planning. Consultation with Customer will be based on ground rules and requirements information provided in advance by the Customer.

3.1.3 GSE/Shops/Tooling Consulting. Upon request, Boeing will provide consulting and data for ground support equipment, maintenance tooling and requirements for maintenance shops. Consultation with Customer will be based on ground rules and requirements information provided in advance by Customer.

3.1.4 Maintenance Engineering Evaluation. Upon request, Boeing will provide [***] to Customer's main base to evaluate Customer's maintenance and engineering organization for conformance with industry best practices. The result of which will be documented by Boeing in a maintenance engineering evaluation presentation. Customer will be provided with a copy of the maintenance engineering evaluation presentation. Consultation with Customer will be based on ground rules and requirements information provided in advance by Customer.

3.2 Spares.

(i) Recommended Spares Parts List (**RSPL**). A customized RSPL, data and documents will be provided to identify spare parts required for Customer's support program.

(ii) Illustrated Parts Catalog (**IPC**). A customized IPC in accordance with ATA 100 will be provided.

(iii) Provisioning Training. Provisioning training will be provided for Customer's personnel at Boeing's facilities, where documentation and technical expertise are available. Training is focused on the initial provisioning process and calculations reflected in the Boeing RSPL.

(iv) Spares Provisioning Conference. A provisioning conference will be conducted, normally at Boeing's facilities where technical data and personnel are available.

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4. Technical Data and Documents.

The following will be provided in mutually agreed formats and quantities:

4.1 Flight Operations.

Airplane Flight Manual
Operations Manual
Quick Reference Handbook
Weight and Balance Manual
Dispatch Deviation Procedures Guide
Flight Crew Training Manual
Flight Planning and Performance Manual
Performance Engineer's Manual
Fault Reporting Manual
FMC Supplemental Data Document
Operational Performance Software
ETOPS Guide Vol. III

4.2 Maintenance.

Aircraft Maintenance Manual
Wiring Diagram Manual
Systems Schematics Manual
Fault Isolation Manual
Structural Repair Manual
Overhaul/Component Maintenance Manual
Standard Overhaul Practices Manual
Standard Wiring Practices Manual
Non-Destructive Test Manual
Service Bulletins and Index
Corrosion Prevention Manual
Fuel Measuring Stick Calibration Document
Power Plant Buildup Manual
Combined Index
Significant Service Item Summary
All Operators Letters
Structural Item Interim Advisory and Index
Service Letters and Index
Maintenance Tips
Production Management Data Base (**PMDB**)
Electrical Connectors Options Document

4.3 Maintenance Planning.

Maintenance Planning Data Document
Maintenance Task Cards and Index
Maintenance Inspection Intervals Report

4.4 Spares.

Illustrated Parts Catalog
Standards Books

4.5 Facilities and Equipment Planning.

Facilities and Equipment Planning Document
Special Tool & Ground Handling Equipment Drawings & Index
Supplementary Tooling Documentation
Illustrated Tool and Equipment Manual
Aircraft Recovery Document
Airplane Characteristics for Airport Planning Document
Aircraft Rescue and Firefighting Document
Engine Handling Document
Configuration, Maintenance and Procedures for ETOPS
ETOPS Guide Vols. I & II

4.6 Supplier Technical Data.

Service Bulletins
Ground Support Equipment Data
Provisioning Information
Component Maintenance/Overhaul Manuals and Index
Publications Index
Product Support Supplier Directory

4.7 Fleet Statistical Data and Reporting

Fleet reliability views, charts, and reports

5. Aircraft Information.

5.1 **Aircraft Information** is defined as that data provided by Customer to Boeing which falls into one of the following categories: (i) aircraft operational information (including, but not limited to, flight hours, departures, schedule reliability, engine hours, number of aircraft, aircraft registries, landings, and daily utilization and schedule interruptions for Boeing model aircraft); (ii) summary and detailed shop findings data; (iii) line maintenance data; (iv) airplane message data, (v) scheduled maintenance data; (vi) service bulletin incorporation; and (vii) aircraft data generated or received by equipment installed on Customer's aircraft in analog or digital form including but not limited to information regarding the state, condition, performance, location, setting, or path of the aircraft and associated systems, sub-systems and components.

5.2 License Grant. To the extent Customer has or obtains rights to Aircraft Information and is not bound by a contractual confidentiality provision or other considerations relating to the disclosure of particular Aircraft Information, Customer grants to Boeing a perpetual, world-wide, non-exclusive license to use and disclose Aircraft Information and create derivatives thereof in Boeing data and information and products and services provided Customer identification information as originating from Customer is removed. Customer identification information may be retained as necessary for Boeing to provide products and services Customer has requested from Boeing or for Boeing to inform Customer of additional Boeing products and services. This grant is in addition to any other grants of rights in the agreements governing provision of such information to Boeing regardless of whether that information is identified as Aircraft Information in such agreement including any information submitted under the In Service Data Program (ISDP).

For purposes of this article, Boeing is defined as The Boeing Company and its wholly owned subsidiaries.

5.3 Customer will provide Aircraft Information to Boeing through an automated software feed necessary to support Fleet Statistical Analysis. Boeing will provide assistance to Customer under a separate agreement for mapping services to enable the automated software feed.

ENGINE ESCALATION,
ENGINE WARRANTY AND PATENT INDEMNITY

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Supplemental Exhibit EE1
to Purchase Agreement Number 3866

ENGINE ESCALATION
ENGINE WARRANTY AND PATENT INDEMNITY

relating to

BOEING MODELS 737-8 and 737-9 AIRCRAFT

[***]

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SERVICE LIFE POLICY COMPONENTS

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Supplemental Exhibit SLP1
to Purchase Agreement Number 3866

SERVICE LIFE POLICY COMPONENTS

relating to

BOEING MODELS 737-8 and 737-9 AIRCRAFT

This is the listing of SLP Components for the Aircraft which relate to Part 3, Boeing Service Life Policy of Exhibit C, Product Assurance Document to the AGTA and is a part of Purchase Agreement No. 3866.

1. Wing.

(i) Upper and lower wing skins and stiffeners between the forward and rear wing spars.

(ii) Wing spar webs, chords and stiffeners.

(iii) Inspar wing ribs.

(iv) Inspar splice plates and fittings.

(v) Main landing gear support structure.

(vi) Wing center section lower beams, spanwise beams and floor beams, but not the seat tracks attached to floor beams.

(vii) Wing-to-body structural attachments.

(viii) Engine strut support fittings attached directly to wing primary structure.

(ix) Support structure in the wing for spoilers and spoiler actuators; for aileron hinges and reaction links; and for leading edge devices and trailing edge flaps.

(x) Trailing edge flap tracks and carriages.

(xi) Aileron leading edge device and trailing edge flap internal, fixed attachment and actuator support structure.

2. Body.

(i) External surface skins and doublers, longitudinal stiffeners, longerons and circumferential rings and frames between the forward pressure bulkhead and the vertical stabilizer rear spar bulkhead and structural support and enclosure for the APU but excluding all system components and related installation and connecting devices, insulation, lining, and decorative panels and related installation and connecting devices.

(ii) Window and windshield structure but excluding the windows and windshields.

(iii) Fixed attachment structure of the passenger doors, cargo doors and emergency exits, excluding door mechanisms and movable hinge components. Sills and frames around the body openings for the passenger doors, cargo doors and emergency exits, excluding scuff plates and pressure seals.

(iv) Nose wheel well structure, including the wheel well walls, pressure deck, bulkheads, and gear support structure.

(v) Main gear wheel well structure including pressure deck and landing gear beam support structure.

(vi) Floor beams and support posts in the control cab and passenger cabin area, but excluding seat tracks.

(vii) Forward and aft pressure bulkheads.

(viii) Keel structure between the wing front spar bulkhead and the main gear wheel well aft bulkhead including splices.

(ix) Wing front and rear spar support bulkheads, and vertical and horizontal stabilizer front and rear spar support bulkheads including terminal fittings but excluding all system components and related installation and connecting devices, insulation, lining, and decorative panels and related installation and connecting devices.

(x) Support structure in the body for the stabilizer pivot and stabilizer screw.

3. <u>Vertical Stabilizer</u>.

(i) External skins between front and rear spars.

(ii) Front, rear and auxiliary spar chords, webs and stiffeners and attachment fittings.

(iii) Inspar ribs.

(iv) Rudder hinges and supporting ribs, excluding bearings.

(v) Support structure in the vertical stabilizer for rudder hinges, reaction links and actuators.

(vi) Rudder internal, fixed attachment and actuator support structure.

4. Horizontal Stabilizer.

(i) External skins between front and rear spars.

(ii) Front and rear spar chords, webs and stiffeners.

(iii) Inspar ribs.

(iv) Stabilizer center section including hinge and screw support structure.

(v) Support structure in the horizontal stabilizer for the elevator hinges, reaction links and actuators.

(vi) Elevator internal, fixed attachment and actuator support structure.

5. Engine Strut.

(i) Strut external surface skin and doublers and stiffeners.

(ii) Internal strut chords, frames and bulkheads.

(iii) Strut to wing fittings and diagonal brace.

(iv) Engine mount support fittings attached directly to strut structure and including the engine-mounted support fittings.

6. Main Landing Gear.

(i) Outer cylinder.

(ii) Inner cylinder, including axles.

(iii) Upper and lower side struts, including spindles, universals and reaction links.

(iv) Drag strut.

(v) Orifice support tube.

(vi) Downlock links including spindles and universals.

(vii) Torsion links.

(viii) Bell crank.

(ix) Trunnion link.

(x) Actuator beam, support link and beam arm.

7. Nose Landing Gear.

(i) Outer cylinder.

(ii) Inner cylinder, including axles.

(iii) Orifice support tube.

(iv) Upper and lower drag strut, including lock links.

(v) Steering plates and steering collars.

(vi) Torsion links.

NOTE: The Service Life Policy does not cover any bearings, bolts, bushings, clamps, brackets, actuating mechanisms or latching mechanisms used in or on the SLP Components.

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09433

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Open Matters

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**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.

Given the long period of time between Purchase Agreement signing and delivery of the first Aircraft and the continued development of the 737MAX program, certain elements have not yet been defined. In consideration, Boeing and Customer agree to work together as the 737MAX program develops as follows:

1. Aircraft Delivery Schedule.

1.1 The scheduled delivery position of the Aircraft, as of the date of this Letter Agreement is listed in Table 1 of the Purchase Agreement and provides the delivery schedule in three month delivery windows (**Three Month Delivery Window**) consisting of a nominal delivery month (**Nominal Delivery Month**) plus and minus one month. No later than twenty-four (24) months prior to the Nominal Delivery Month of Customer's first Aircraft in each calendar year, Boeing will provide written notice with a revised Table 1 of the scheduled delivery month for each Aircraft with a Nominal Delivery Month in such calendar year.

1.2 Prior to providing such notice described in Article 1.1, Boeing will consider and make reasonable efforts to accommodate Customer requests regarding Aircraft quantities in certain periods. Such notice provided by Boeing will constitute an amendment to the Table 1 of the Purchase Agreement. The amended Table 1 shall be the scheduled delivery positions for the purposes of applying all provisions of the Purchase Agreements, including without limitation the BFE on-dock dates, and the calculation of Escalation Adjustment. Such amended Table 1 may revise or change the Advance Payment Base Price for the Aircraft.

2. Aircraft Configuration.

2.1 The initial configuration of Customer's Aircraft has been defined by Boeing Models 737-8 and 737-9 basic specification as described in Article 1 and Exhibits A-1 and A-2 of the Purchase Agreement (**Initial Configuration**). Final configuration of the Aircraft

(**Final Configuration**) will be completed using the then-current Boeing configuration documentation in accordance with the following schedule:

2.1.1 No later than twenty-four (24) months prior to the first Aircraft's scheduled delivery, Boeing and Customer will discuss potential optional features.

2.1.2 Within sixty (60) days after that meeting, Boeing will provide Customer with a proposal for those optional features that can be incorporated into the Aircraft during production.

2.1.3 Customer will then have sixty (60) days to accept or reject the optional features.

2.1.4 Within thirty (30) days following Final Configuration, Boeing and Customer will execute a written amendment to the Purchase Agreement which will reflect the following:

2.1.4.1 Changes applicable to the basic Models 737-8 and 737-9 aircraft which are developed by Boeing between the date of signing of the Purchase Agreement and date of Final Configuration;

2.1.4.2 Incorporation into Exhibits A-1 and A-2 of the Purchase Agreement, by written amendment, those optional features which have been agreed to by Customer and Boeing (Customer Configuration Changes);

2.1.4.3 Revisions to the Supplemental Exhibit BFE1 to reflect the selection dates and on-dock dates of BFE;

2.1.4.4 Changes to the Optional Features Prices, Aircraft Basic Price, and Advance Payment Base Price of the Aircraft to adjust for the difference, if any, between the prices estimated in Table 1 of the Purchase Agreement for optional features reflected in the Aircraft Basic Price and the actual prices of the optional features reflected in the Customer Configuration Changes; and

2.1.4.5 Changes to the Advance Payment Base Price of the Aircraft to adjust for the difference between the estimated amount included in Table 1 of the Purchase Agreement for Seller Purchased Equipment (**SPE**) and the price of the SPE reflected in the Customer Configuration Changes.

3. Customer Support Variables.

3.1 The initial customer support package contained in Supplemental Exhibit CS1 to the Purchase Agreement is predicated upon the 737NG customer support package. Boeing intends to further refine the post delivery support package for the 737MAX and will provide this revised package to Customer no later than twenty-four (24) months prior to the first month of the scheduled delivery quarter of the first Aircraft. The provision of such revised Supplemental Exhibit CS1 will constitute an amendment to the Purchase Agreement and will provide the Customer in aggregate an overall Boeing post delivery support package for the introduction of the 737MAX to Customer's fleet that is equivalent to, or better than, the Supplemental Exhibit CS1 included in the Purchase Agreement as of the date of this Letter Agreement.

3.2 Additionally, Boeing will engage in discussions with Customer in conjunction with the providing of the updated Supplemental Exhibit CS1 to offer to Customer additional uniquely tailored post delivery support services beyond the scope of the Supplemental Exhibit CS1 that will further enhance the maintainability and operational efficiency of the Aircraft.

4. Other Letter Agreements.

Boeing and Customer acknowledge that as they work together to develop the 737MAX program and as Boeing refines the definition of the Aircraft and associated production processes, there may be a need to execute additional letter agreements or amend letter agreements addressing one or more of the following:

4.1 Software. Additional provisions relating to software and software loading.

4.2 Seller Purchased Equipment (**SPE**). Provisions relating to the terms under which Boeing may offer or install SPE in the Aircraft.

4.3 Buyer Furnished Equipment (**BFE**). Provisions relating to the terms under which Boeing may install and certify Customer's BFE in the Aircraft.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09434

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Seller Purchased Equipment

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**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.

1. General

Seller Purchased Equipment (**SPE**) is BFE that Boeing purchases for Customer and that is identified as SPE in the Detail Specification for the Aircraft.

2. Customer Responsibilities.

2.1 Supplier Selection. Customer will select SPE suppliers from a list provided by Boeing for the commodities identified on such list and notify Boeing of the SPE suppliers in accordance with the supplier selection date(s) as set forth in Attachment A of this Letter Agreement. If Customer selects a seat, galley or galley insert supplier that is not on the Boeing offerable supplier list, such seat, galley or galley insert will, subject to Boeing approval, become BFE and the provisions of Exhibit A, Buyer Furnished Equipment Provisions Document, of the AGTA will apply.

2.2 Supplier Agreements. Customer will enter into initial agreements with the selected suppliers within ten (10) days of the selection date(s) for the supplier to actively participate with Customer and Boeing in coordination actions including the Initial Technical Coordination Meeting (ITCM). Customer will enter into final agreements with selected suppliers that address the following additional provisions within thirty (30) days of the ITCM or as otherwise identified by Boeing:

(i) for emergency/miscellaneous equipment, providing standard supplier pricing, product support, warranty, spares, training and any additional support defined by Customer as a direct pass through to Customer at time of Aircraft delivery; and

(ii) for seats, galleys, galley inserts, and in-flight entertainment and cabin communications systems (IFE/CCS), providing pricing that was negotiated directly with the suppliers, product support including spares support, warranty, training and any additional support defined by the Customer. Customer shall provide suppliers' pricing to Boeing and shall obtain suppliers' agreement to accept Boeing's purchase orders reflecting the Customer negotiated pricing.

2.3 Configuration Requirements. Customer is responsible for selecting equipment which is FAA certifiable at time of Aircraft delivery, or for obtaining waivers from the applicable regulatory agency for non-FAA certifiable equipment. Customer will meet with Boeing and the selected SPE suppliers in the ITCM and any other scheduled meetings in order to:

(i) for emergency/miscellaneous equipment, provide to Boeing the selected part specification/Customer requirements;

(ii) for IFE/CCS, participate with Boeing in meetings with such suppliers to ensure that suppliers' functional system specifications meet Customer's and Boeing's respective requirements;

(iii) for galleys, provide to Boeing the definitive galley configuration requirements, including identification of refrigeration requirements and fixed and removable insert equipment by quantity, manufacturer and part number not later than eight (8) weeks prior to galley supplier selection dates in Attachment A.

(iv) for seats, provide to Boeing the definitive seat configuration requirements not later than eight (8) weeks prior to seat supplier selection dates in Attachment A.

3. Boeing Responsibilities.

3.1 Supplier Selection (for seats and galleys only)

3.1.1 Bidder's List. For information purposes, Boeing will submit to Customer a bidder's list of existing suppliers of seats and galleys one hundred twenty (120) days prior to the supplier selection date(s) referred to in paragraph 2.1 above.

3.1.2 Request for Quotation (**RFQ**). Approximately ninety (90) days prior to the supplier selection date(s), Boeing will issue its RFQ inviting potential bidders to submit bids for the galleys and seats within thirty (30) days of the selection date.

3.1.3 Bidders Summary. Not later than fifteen (15) days prior to the supplier selection date(s), Boeing will submit to Customer a summary of the bidders from which to choose a supplier for the galleys and seats. The summary is based on an evaluation of the bids submitted using price, weight, warranty and schedule as the criteria.

3.2 Additional Boeing responsibilities:

(i) placing and managing the purchase orders with the suppliers;

(ii) coordinating with the suppliers on technical issues;

(iii) for seats, galleys, galley inserts and IFE/CCS confirming the agreed to pricing with both the Customer and supplier;

(iv) for IFE/CCS providing Aircraft interface requirements to suppliers and assisting suppliers in the development of their IFE/CCS system specifications and approving such specifications;

(v) ensuring that the delivered SPE complies with the part specification;

(vi) obtaining certification of the Aircraft with the SPE installed;

(vii) for miscellaneous/emergency equipment, obtaining standard supplier pricing, and obtaining for Customer copies of product support, warranty, spares, training, and any additional support documentation defined by the Customer which shall be provided to Customer prior to delivery of the Aircraft.

4. IFE/CCS Software.

IFE/CCS may contain software of the following two types:

4.1 Systems Software. The software required to operate and certify the IFE/CCS systems on the Aircraft is the Systems Software and is part of the IFE/CCS.

4.2 Customer's Software. The software accessible to the Aircraft passengers which controls Customer's specified optional features is Customer's Software and is not part of the IFE/CCS.

4.2.1 Customer is solely responsible for specifying Customer's Software functional and performance requirements and ensuring that Customer's Software meets such requirements. Customer and Customer's Software supplier will have total responsibility for the writing, certification, modification, revision, or correction of any of Customer's Software. Customer shall be responsible for and assumes all liability with respect to Customer's Software.

4.2.2 The omission of any Customer's Software or the lack of any functionality of Customer's Software will not be a valid condition for Customer's rejection of the Aircraft at the time of Aircraft delivery.

4.2.3 Boeing has no obligation to approve any documentation to support Customer's Software certification. Boeing will only review and operate Customer's Software if in Boeing's reasonable opinion such review and operation is necessary to certify the IFE/CCS system on the Aircraft.

4.2.4 Boeing shall not be responsible for obtaining FAA certification for Customer's Software.

5. Price.

5.1 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.

5.2 Aircraft Price. The Aircraft Price will be adjusted to reflect the actual costs charged to Boeing by the SPE suppliers and transportation charges, if applicable.

6. Changes.

After Customer's entry into agreements with suppliers pursuant to paragraph 2.2, any changes to SPE may only be made by and between Boeing and the SPE suppliers. Customer requested changes to the SPE after execution of supplier agreements shall be made by Customer in writing directly to Boeing for approval and for coordination by Boeing with the SPE supplier. Any such change to the configuration of the Aircraft shall be subject to price and offerability through Boeing's master change or other process for amendment of the Purchase Agreement.

7. 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.

8. Remedies.

8.1 If Customer does not perform its obligations as provided in this Letter Agreement or if supplier fails (for any reason other than a default by Boeing under the purchase order terms) to deliver conforming SPE per the schedule set forth in the purchase order, then, in addition to any other remedies which Boeing may have by contract or under law, Boeing may:

8.1.1 revise the schedule delivery month of the Aircraft to accommodate the delay in delivery of the conforming SPE and base the calculation of the Escalation Adjustment on such revised delivery month;

8.1.2 deliver the Aircraft without installing the SPE;

8.1.3 substitute a comparable part and invoice Customer for the cost if the Aircraft cannot be delivered without installing the SPE; and

8.1.4 increase the Aircraft Price by the amount of Boeing's additional costs attributable to such noncompliance, including but not limited to, disruption costs associated with out of sequence work by Boeing, any charges due to a supplier's failure to perform in accordance with an SPE program milestones as established by Boeing and agreed to by the supplier and particularly with respect to late delivery of such SPE.

8.2 Additionally, if delivery of SPE seats does not support the delivery of the Aircraft in its scheduled delivery month, Customer agrees that:

8.2.1 Boeing may elect to deliver the Aircraft and Customer will accept delivery of the Aircraft in the scheduled delivery month in a zero occupancy configuration:

8.2.1.1 if Boeing elects to deliver in a zero occupancy configuration, Boeing will provide Customer with a retrofit offer, including price and schedule, for a service bulletin and remote certification in support of the post delivery installation of the seats; and

8.2.2 Boeing may charge Customer for Boeing's additional costs attributable to, but not limited to, disruption costs associated with out of sequence work by Boeing and any charges due to late delivery of such seats.

9. Title and Risk of Loss.

Title and risk of loss of the SPE will remain with Boeing until the Aircraft is delivered to Customer.

10. 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 or in any way connected with any nonconformance or defect in any SPE and whether or not arising in tort or occasioned in whole or in part by the negligence of Boeing. This indemnity will not apply with respect to any nonconformance or defect caused solely by Boeing's installation of the SPE.

11. Definition.

For purposes of the above indemnity, the term **Boeing** includes The Boeing Company, its divisions, subsidiaries and affiliates, the assignees of each, and their directors, officers, employees and agents.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

Attachment

Attachment A

1. Supplier Selection.

Customer will:

1.1. Select and notify Boeing of the suppliers and part numbers of the following SPE items by the following dates:

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

*For a new certification, Customer will need to provide Supplier Selections two (2) months earlier than stated above.

**Actual Supplier Selection dates will be provided when monthly delivery positions are available to customer.

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

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09435

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Spare Parts Initial Provisioning

Reference: a) Purchase Agreement No3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airline, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

b) Customer Services General Terms Agreement No. 90-2 (**CSGTA**) between Boeing and Customer

This letter agreement (**Letter Agreement**) is entered into on the date below and amends and supplements the CSGTA. All capitalized terms used but not defined in this Letter Agreement have the same meaning as in the CSGTA, except for "Aircraft" which will have the meaning as defined in the Purchase Agreement.

In order to define the process by which Boeing and Customer will i) identify those Spare Parts and Standards critical to Customer's successful introduction of the Aircraft into service and its continued operation, ii) place Orders under the provisions of the CSGTA as supplemented by the provisions of this Letter Agreement for those Spare Parts and Standards, and iii) manage the return of certain of those Spare Parts which Customer does not use, the parties agree as follows.

1. Definitions.

1.1. **Provisioning Data** means the documentation provided by Boeing to Customer, including but not limited to the Recommended Spare Parts List (**RSPL**), identifying all Boeing initial provisioning requirements for the Aircraft.

1.2. **Provisioning Items** means the Spare Parts and Standards identified by Boeing as initial provisioning requirements in support of the Aircraft, excluding special tools, ground support equipment (**GSE**), engines and engine parts.

1.3. **Provisioning Products Guide** means the Boeing Manual D6-81834 entitled "**Spares Provisioning Products Guide**".

2. Phased Provisioning.

2.1. Provisioning Products Guide. Prior to the initial provisioning meeting Boeing will furnish to Customer a copy of the Provisioning Products Guide.

2.2. Initial Provisioning Meeting. On or about twelve (12) months prior to delivery of the first Aircraft the parties will conduct an initial provisioning meeting where the procedures, schedules, and requirements for training will be established to accomplish phased provisioning of Spare Parts and Standards for the Aircraft in accordance with the Provisioning Products Guide.

2.3. Provisioning Data. During the initial provisioning meeting Customer will provide to Boeing the operational parameter information described in Chapter 6 of the Provisioning Products Guide. After review and acceptance by Boeing of such Customer information, Boeing will prepare the Provisioning Data. Such Provisioning Data will be furnished to Customer on or about ninety (90) days after Boeing finalizes the engineering drawings for the Aircraft. The Provisioning Data will be as complete as possible and will cover Provisioning Items selected by Boeing for review by Customer for initial provisioning of Spare Parts and Standards for the Aircraft. Boeing will furnish to Customer revisions to the Provisioning Data until approximately ninety (90) days following delivery of the last Aircraft or until the delivery configuration of each of the Aircraft is reflected in the Provisioning Data, whichever is later.

2.4. Buyer Furnished Equipment (**BFE**) Provisioning Data. Unless otherwise advised by Boeing, Customer will provide or insure its BFE suppliers provide to Boeing the BFE data in scope and format acceptable to Boeing, in accordance with the schedule established during the initial provisioning meeting.

3. Purchase from Boeing of Spare Parts and Standards as Initial Provisioning for the Aircraft.

3.1. Schedule. In accordance with schedules established during the initial provisioning meeting, Customer may place Orders for Provisioning Items and any GSE, special tools or engine spare parts which Customer determines it will initially require for maintenance, overhaul and servicing of the Aircraft and/or engines.

3.2. Prices of Initial Provisioning Spare Parts.

3.2.1. Boeing Spare Parts. The Provisioning Data will set forth the prices for those Provisioning Items other than items listed in Article 3.3, below, that are Boeing Spare Parts, and such prices will be firm and remain in effect for ninety (90) days from the date the price is first quoted to Customer in the Provisioning Data.

3.2.2. Supplier Spare Parts. Boeing will provide estimated prices in the Provisioning Data for Provisioning Items other than items listed in Article 3.3, below, that are Supplier Spare Parts. The price to Customer for any Supplier Spare Parts that are

Provisioning Items or for any items ordered for initial provisioning of GSE, special tools manufactured by suppliers, or engine spare parts will be [***] of the supplier's list price for such items.

3.3. QEC Kits, Standards Kits, Raw Material Kits, Bulk Materials Kits and Service Bulletin Kits . In accordance with schedules established during the initial provisioning meeting, Boeing will furnish to Customer a listing of all components which could be included in the quick engine change (**QEC**) kits, Standards kits, raw material kits, bulk materials kits and service bulletin kits which may be purchased by Customer from Boeing. Customer will select, and provide to Boeing its desired content for the kits. Boeing will furnish to Customer as soon as practicable thereafter a statement setting forth a firm price for such kits. Customer will place Orders with Boeing for the kits in accordance with schedules established during the initial provisioning meeting.

4. Delivery.

For Spare Parts and Standards ordered by Customer in accordance with Article 3 of this Letter Agreement, Boeing will, insofar as reasonably possible, deliver to Customer such Spare Parts and Standards on dates reasonably calculated to conform to Customer's anticipated needs in view of the scheduled deliveries of the Aircraft. Customer and Boeing will agree upon the date to begin delivery of the provisioning Spare Parts and Standards ordered in accordance with this Letter Agreement. Where appropriate, Boeing will arrange for shipment of such Spare Parts and Standards which are manufactured by suppliers directly to Customer from the applicable supplier's facility. The routing and method of shipment for initial deliveries and all subsequent deliveries of such Spare Parts and Standards will be as established at the initial provisioning meeting and thereafter by mutual agreement.

5. Substitution for Obsolete Spare Parts.

5.1. Obligation to Substitute Pre-Delivery. In the event that, prior to delivery of the first Aircraft, any Spare Part purchased by Customer from Boeing in accordance with this Letter Agreement as initial provisioning for the Aircraft is rendered obsolete or unusable due to the redesign of the Aircraft or of any accessory, equipment or part thereof (other than a redesign at Customer's request) Boeing will deliver to Customer at no charge new and usable Spare Parts in substitution for such obsolete or unusable Spare Parts and, upon such delivery, Customer will return the obsolete or unusable Spare Parts to Boeing.

5.2. Delivery of Obsolete Spare Parts and Substitutes. Obsolete or unusable Spare Parts returned by Customer pursuant to this Article 5 will be delivered to Boeing at its Seattle Distribution Center or such other destination as Boeing may reasonably designate. Spare Parts substituted for such returned obsolete or unusable Spare Parts will be delivered to Customer in accordance with the CSGTA. Boeing will pay the freight charges for the shipment from Customer to Boeing of any such obsolete or unusable Spare Part and for the shipment from Boeing to Customer of any such substitute Spare Part.

6. Repurchase of Provisioning Items.

6.1. Obligation to Repurchase. During a period commencing one (1) year after delivery of the first Aircraft , and ending five (5) years after such delivery, Boeing will, upon receipt of Customer's written request and subject to the exceptions in Article 6.2, repurchase unused and undamaged Provisioning Items which (i) were recommended by Boeing in the Provisioning Data as initial provisioning for the Aircraft, (ii) were purchased by Customer from Boeing, and (iii) are surplus to Customer's needs.

6.2. Exceptions. Boeing will not be obligated under Article 6.1 to repurchase any of the following: (i) quantities of Provisioning Items in excess of those quantities recommended by Boeing in the Provisioning Data for the Aircraft, (ii) QEC kits, bulk material kits, raw material kits, service bulletin kits, Standards kits and components thereof (except those components listed separately in the Provisioning Data), (iii) Provisioning Items for which an Order was received by Boeing more than five (5) months after delivery of the last Aircraft, (iv) Provisioning Items which have become obsolete or have been replaced by other Provisioning Items as a result of Customer's modification of the Aircraft, and (v) Provisioning Items which become excess as a result of a change in Customer's operating parameters, as provided to Boeing pursuant to the initial provisioning meeting and which were the basis of Boeing's initial provisioning recommendations for the Aircraft.

6.3. Notification and Format. Customer will notify Boeing, in writing when Customer desires to return Provisioning Items under the provisions of this Article 6. Customer's notification will include a detailed summary, in part number sequence, of the Provisioning Items Customer desires to return. Such summary will be in the form of listings, tapes, diskettes or other media as may be mutually agreed between Boeing and Customer and will include part number, nomenclature, purchase order number, purchase order date and quantity to be returned. Within five (5) business days after receipt of Customer's notification, Boeing will advise Customer in writing when Boeing's review of such summary will be completed.

6.4. Review and Acceptance by Boeing. Upon completion of Boeing's review of any detailed summary submitted by Customer pursuant to Article 6.3, Boeing will issue to Customer a Material Return Authorization (**MRA**) for those Provisioning Items Boeing agrees are eligible for repurchase in accordance with this Article 6. Boeing will advise Customer of the reason that any Provisioning Item included in Customer's detailed summary is not eligible for return. Boeing's MRA will state the date by which Provisioning Items listed in the MRA must be redelivered to Boeing, and Customer will arrange for shipment of such Provisioning Items accordingly.

6.5. Price and Payment. The price of each Provisioning Item repurchased by Boeing pursuant to this Article 6 will be an amount equal to one hundred percent (100%) of the original invoice price thereof except that the repurchase price of Provisioning Items purchased pursuant to Article 3.2.2 will not include Boeing's [***] handling charge. Boeing will pay the repurchase price by issuing a credit memorandum in favor of Customer which may be applied against amounts due Boeing for the purchase of Spare Parts or Standards.

6.6. Delivery of Repurchased Provisioning Items. Provisioning Items repurchased by Boeing pursuant to this Article 6 will be delivered to Boeing F.O.B. at its Seattle Distribution Center or such other destination as Boeing may reasonably designate.

7. Title and Risk of Loss.

Title and risk of loss of any Spare Parts or Standards delivered to Customer by Boeing in accordance with this Letter Agreement will pass from Boeing to Customer in accordance with the applicable provisions of the CSGTA. Title to and risk of loss of any Spare Parts or Standards returned to Boeing by Customer in accordance with this Letter Agreement will pass to Boeing upon delivery of such Spare Parts or Standards to Boeing in accordance with the provisions of Article 5.2 or Article 6.6, herein, as appropriate.

*	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. Termination for Excusable Delay.

In the event of termination of the Purchase Agreement pursuant to Article 7 of the AGTA with respect to any Aircraft, such termination will, if Customer so requests by written notice received by Boeing within fifteen (15) days after such termination, also discharge and terminate all obligations and liabilities of the parties as to any Spare Parts or Standards which Customer had ordered pursuant to the provisions of this Letter Agreement as initial provisioning for such Aircraft and which are undelivered on the date Boeing receives such written notice.

9. Order of Precedence.

In the event of any inconsistency between the terms of this Letter Agreement and the terms of any other provisions of the CSGTA, the terms of this Letter Agreement will control.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09436

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Demonstration Flight Waiver

Reference: Purchase Agreement No. PA-3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**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	[***]

* 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.

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 liable 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.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09437

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: AGTA Matters

Reference: a) Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

b) Aircraft General Terms Agreement No. AGTA-ASA (the **AGTA**) between Boeing and Customer dated June 15, 2005

b) Letter Agreement 6-1162-MSA-591(AGTA Terms Revisions Letter Agreement) between Boeing and Customer dated June 15, 2005

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

1. AGTA Basic Articles.

1.1.1. Article 2.1.1, “Airframe Price,” of the basic articles of the AGTA is revised to read as follows: **Airframe Price** is defined as the price of the airframe for a specific model of aircraft described in a purchase agreement. (For Models 737-600, 737-700, 737-800, 737-900, 737-900ER, 737-7, 737-8, 737-9, 747-8, 777-200LR, and 777-300ER the Airframe Price includes the engine price at its basic thrust level.)

1.1.2. Article 2.1.3, “Engine Price” of the basic articles of the AGTA is revised to read as follows: **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 737-600, 737-700, 737-800, 737-900, 737-900ER, 737-7, 737-8, 737-9, 747-8, 777-200LR and 777-300ER).

1.1.3. Article 2.1.5, “Escalation Adjustment” of the basic articles of the AGTA is revised to read as follows: **Escalation Adjustment** is defined as the price adjustment to the Airframe Price (which includes the basic engine price for Models 737-600, 737-700 737-800, 737-900, 737-900ER, 737-7, 737-8, 737-9, 747-8, 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. Appendices to the AGTA.

2.1. Appendix I "SAMPLE Insurance Certificate", under "Combined Single Limit Bodily Injury and Property Damage: U.S.$ any one occurrence each Aircraft (with aggregates as applicable)" the following are added: (a) the 737-900ER in the amount of [***] and (b) the 737-7/8/9 in the amount of [***].

3. Exhibit C to the AGTA, "Product Assurance Document".

3.1. Part 2, Article 3.1, subsection (i), of Exhibit C of the AGTA is revised to read as follows: "for Boeing aircraft models 777F, 777-200, -300, 737-600, 737-700, 737-800, 737-900, 737-900ER, 737-7, 737-8, 737-9, 747-8, 787 or new aircraft models designed and manufactured with similar, new technology the warranty period ends forty-eight (48) months after Delivery."

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

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

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09438

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Promotional Support – 737-8 and 737-9

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

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

Boeing and Customer wish to enter into an agreement pursuant to which each party will contribute equally to promotional programs in support of the entry into service of the Aircraft as more specifically provided below.

1. Definitions.

1.1. **Commitment Limit** shall have the meaning set forth in Article 2, below.

1.2. **Covered Aircraft** shall mean those Aircraft identified on Table 1 to the Purchase Agreement as of the date of signing of this Letter Agreement.

1.3. **Performance Period** shall mean the period beginning one (1) year before and ending one (1) year after the scheduled delivery month of the first Covered Aircraft.

1.4. **Promotional Support** shall mean mutually agreed marketing and promotion programs that promote the entry into service of the Covered Aircraft such as marketing research, tourism development, corporate identity, direct marketing, videotape or still photography, planning, design and production of collateral materials, management of promotion programs, advertising campaigns or such other marketing and promotional activities as the parties may mutually agree.

1.5. **Qualifying Third Party Fees** shall mean fees paid by Customer to third party providers for Promotional Support provided to Customer during the Performance Period.

2. Commitment Limit.

As more particularly set forth in this Letter Agreement, Boeing agrees to provide Promotional Support to Customer during the Performance Period in a value of [***] for the first Covered Aircraft delivered to Customer and [***] per Covered Aircraft for each Covered Aircraft delivered to Customer thereafter.

3. Methods of Performance.

3.1. Subject to the Commitment Limit, Boeing will reimburse [***] of Customer's payments of Qualifying Third Party Fees provided that Customer provides Boeing copies of paid invoices for such Qualifying Third Party Fees no later than twenty-four (24) months after the delivery of the first Covered Aircraft.

3.2. Notwithstanding the above, at Customer's request and subject to a mutually agreed project, Boeing will provide certain Promotional Support during the Performance Period directly to Customer. The full value of such Boeing provided Promotional Support will be accounted for as part of the Commitment Limit and will correspondingly reduce the amount of Qualifying Third Party Fees that are subject to reimbursement pursuant to Article 3.1 above.

3.3. In the event Customer does not (i) utilize the full amount of the Commitment Limit within the Performance Period or (ii) submit its paid invoices for Qualifying Third Party Fees within the required time, as set forth in Article 3.1, Boeing shall have no further obligation to Customer for such unused Commitment Limit or to reimburse Customer for such Qualifying Third Party Fees, respectively.

4. Project Approval.

Following the execution of this Letter Agreement, a Boeing Airline Marketing Services representative will meet with Customer's designated representative to review and approve the extent, selection, scheduling, and funds disbursement process for the Promotional Support to be provided pursuant to this Letter Agreement.

5. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

6. Confidential Treatment.

The information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

ASA-PA-3866-LA-09439

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Special Matters – Models 737-8 and 737-9

Reference: 1) Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 aircraft (**737-8 Aircraft**) and 737-9 aircraft (**737-9 Aircraft**) (collectively the **Aircraft**)

2) Letter Agreement ASA-PA-3866-LA-09441 entitled "Aircraft Model Substitution" (**Substitute Aircraft Letter Agreement**)

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.

1. Credit Memoranda.

1.1. [***] Credit Memorandum. At the time of delivery of each Aircraft, Boeing will issue to Customer a [***] Credit Memorandum in an amount determined by multiplying the Airframe Price by a factor of [***].

1.2. [***] Credit Memorandum. At the time of delivery of each Aircraft, Boeing will issue to Customer a [***] Credit Memorandum in an amount determined by multiplying the Airframe Price by a factor of [***].

[***]

[***]

2. Escalation of Credit Memoranda.

Unless otherwise noted, the amounts of the Credit Memoranda stated in Paragraphs 1.1 through 1.7 are in [***] set forth in the Purchase Agreement applicable to the Aircraft. The Credit Memoranda may, at the election of Customer, [***].

* 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.

BOEING

3. [***] Customer’s purchase of the Aircraft [***], upon execution of Purchase Agreement for the Aircraft. [***].

4. Substitute Aircraft.

4.1. 737-8 Substitute Aircraft. Pursuant to the Substitute Aircraft Letter Agreement, Customer may substitute the purchase of 737-8 aircraft in place of 737-9 Aircraft (**737-8 Substitute Aircraft**). [***].

4.2. 737-9 Substitute Aircraft. Pursuant to the Substitute Aircraft Letter Agreement, Customer may substitute the purchase of 737-9 aircraft in place of 737-8 Aircraft (**737-9 Substitute Aircraft**). [***].

5. [***]

6. Assignment.

Unless otherwise noted herein, the Credit Memoranda described in this Letter Agreement are [***] and in consideration of Customer’s taking title to the Aircraft at time of delivery and becoming the operator of the Aircraft. This Letter Agreement cannot be assigned, in whole or in part, without the prior written consent of Boeing.

7. Confidentiality.

Customer understands and agrees that the information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer agrees to limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

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

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

Attachment A-1 To
Letter Agreement No. ASA-PA-3866-LA-09440
Option 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.

Attachment A-1 To
Letter Agreement No. ASA-PA-3866-LA-09440
Option 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.

Attachment A-1 To
Letter Agreement No. ASA-PA-3866-LA-09440
Option 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.

Attachment A-2 To
Letter Agreement No. ASA-PA-3866-LA-09440
Option 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.

Attachment A-2 To
Letter Agreement No. ASA-PA-3866-LA-09440
Option 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.

ASA-PA-3866-LA-09440

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: [***] Aircraft

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**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.

1. Right to [***].

Subject to the terms and conditions contained in this Letter Agreement, [***] to the Purchase Agreement as of the date of execution of this Letter Agreement, [***].

2. Delivery.

The number of aircraft and delivery months are listed in the Attachments to this Letter Agreement. The schedule delivery position of each [***] listed in the Attachments provide the delivery schedule in three month delivery windows consisting of a nominal delivery month (**Nominal Delivery Month**) plus and minus one month. [***], Boeing will provide written notice with revised Attachments of the scheduled delivery month (**Scheduled Delivery Month**) for each [***] that has a Nominal Delivery Month in such calendar year.

* 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. Configuration.

3.1. Subject to the provisions of Article 3.2, below, the configuration for the [***] will be the Detail Specification for models [***] at the revision level in effect at the time of Definitive Agreement (as defined below). Such Detail Specification will be revised to include (i) changes applicable to the Detail Specification that are developed by Boeing between [***] (as defined below) and the signing of the Definitive Agreement, (ii) changes required to obtain required regulatory certificates, and (iii) other changes as mutually agreed.

3.2. Boeing reserves the right to configure the [***] starting from a different configuration specification, provided that it can achieve the same configuration which would result pursuant to the provisions of Article 3.1.

4. Price.

4.1. The Airframe Price that will be identified in the Definitive Agreement for the [***] will equal the sum of [***] between the date of execution of the Purchase Agreement for the Aircraft and the date of execution of the Definitive Agreement for the [***].

4.2. The Optional Features Price for each of the [***] shall be determined in accordance with the provisions of the Definitive Agreement for the [***] using Boeing's [***] as of the date of execution of the Definitive Agreement.

4.3. The Airframe Price, Optional Features Prices, and Aircraft Basic Price for each of the [***] shall be adjusted in accordance with the terms set forth in Article 2.1.5 (**Escalation Adjustment**) of the AGTA.

4.4. The Advance Payment Base Price shall be developed in accordance with the terms of the Purchase Agreement and determined at the time of Definitive Agreement.

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

5. Payment.

5.1. Customer will pay a [***], on the date of execution of this Letter Agreement. If Customer [***]. If Customer does not [***].

5.2. At Definitive Agreement for the [***], advance payments will be payable as specified in the Purchase Agreement. The remainder of the Aircraft Price for the [***].

6. [***]

6.1. Customer may [***] by giving written notice to Boeing on or before the date [***] months prior to the earlier of the first day of either the Nominal Delivery Month or the Scheduled Delivery Month listed in the Attachments [***].

6.2. If Boeing must [***], Boeing may [***] subject to Customer's agreement. If Boeing and Customer fail to agree to a revised [***], if any, received by Boeing with respect to the [***].

7. Definitive Agreement.

Following Customer's [***] the parties will sign a definitive agreement for the purchase of such [***] (**Definitive Agreement**) within [***] calendar days of such [***]. The Definitive Agreement will include the provisions of the Purchase Agreement as modified to reflect the provisions of this Letter Agreement. In the event the parties have not entered into a Definitive Agreement within [***] following [***], either party [***] by giving written notice to the other within [***]. If Customer and Boeing fail to enter into the Definitive Agreement, Boeing will retain the [***].

8. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

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

9. Confidential Treatment.

The information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

Attachments

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09441

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Aircraft Model Substitution

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**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.

Customer may substitute the purchase of Boeing Model 737-8 aircraft (**737-8 Substitute Aircraft**) in place of 737-9 Aircraft and the purchase of Boeing Model 737-9 aircraft (**737-9 Substitute Aircraft**) in place of 737-8 Aircraft (collectively referred to as "**Substitute Aircraft**"), with the scheduled month of delivery twenty-four (24) months after delivery of the first 737-8 aircraft, subject to the following terms and conditions:

1. Customer's Written Notice.

Customer shall provide written notice of its intention to substitute the purchase of an Aircraft with the purchase of a Substitute Aircraft,

(i) no later than the first day of the month that is [***] prior to the scheduled month of delivery of the Aircraft for which it will be substituted, provided that a Substitute Aircraft has been previously certified and delivered to Customer, or;

*	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.

(ii) no later than the first day of the month that is [***] prior to the scheduled month of delivery of the Aircraft for which it will be substituted, if a Substitute Aircraft has not been previously certified and delivered to Customer; and

(ii) any substitution into a Boeing Model 737-8 or 737-9 may not later be substituted to any other Boeing Model aircraft.

2. <u>Boeing's Production Capability</u>.

2.1 Customer's substitution right is conditioned upon Boeing having production capability, taking into account commitments to other customers, for the Substitute Aircraft in the same scheduled delivery month as the Aircraft for which it will be substituted. Boeing will provide a written response to Customer's notice of intent indicating whether or not Boeing's production capability will support the scheduled delivery month.

2.2 If Boeing is unable to manufacture the Substitute Aircraft in the same scheduled delivery month as 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.

2.3 All of Boeing's quoted delivery positions for Substitute Aircraft shall be considered preliminary until such time as the parties enter into a definitive agreement in accordance with paragraph 4 below.

3. <u>Auxiliary Fuel Tanks (for 737-9 Substitute Aircraft)</u>.

The right to substitute Model 737-9 aircraft under the terms of the Purchase Agreement excludes the installation of auxiliary fuel tanks, because such installation may delay delivery of the Aircraft up to three months.

4. Definitive Agreement.

Customer's substitution right and Boeing obligation in this Letter Agreement are further conditioned upon Customer and Boeing's executing a definitive agreement for the purchase of the Substitute Aircraft within thirty (30) days of Customer's substitution notice to Boeing or of Customer's acceptance of an alternate delivery month in accordance with paragraph 2 above.

5. Price and Advance Payments.

5.1 The Airframe Price and Optional Features Price, will be adjusted to Boeing's then-current prices for such elements as of the date of execution of the definitive purchase agreement for the Substitute Aircraft [***] aircraft calculated between the date of execution of the Purchase Agreement for the Aircraft and the date of execution of the definitive purchase agreement for the Substitute Aircraft. The resulting Airframe Price and Optional Features Prices for the Substitute Aircraft will escalate in accordance with Supplemental Exhibit AE1. The escalation indices and methodology used to estimate the Advance Payment Base Price (**APBP**) will be adjusted to Boeing's then-current provisions for such elements as of the date of execution of the definitive purchase agreement for the 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.

5.2 If the APBP for any Substitute Aircraft is higher than the APBP of the Aircraft, Customer will pay to Boeing the amount of the difference in Advance Payments as of the date of execution of the definitive agreement for the Substitute Aircraft. If the APBP of the Substitute Aircraft is lower than the APBP of the Aircraft, Boeing will retain any excess amounts previously paid by Customer until the next payment is due, at which time Customer may reduce the amount of such payment by the amount of the excess. [***].

6. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

7. Confidential Treatment.

The information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

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

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09442

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Right to [***]

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**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.

1. Right to [***]

Subject to the terms and conditions contained herein, in addition to the Aircraft described in Table 1 to the Purchase Agreement as of the date of execution of this Letter Agreement, Customer will have the right to [***] Boeing Models 737-8 and/or 737-9 aircraft as [***].

2. Delivery.

The [***] are offered subject to available position for delivery during the period [***] through [***] (**Delivery Period**).

3. Configuration.

3.1 Subject to the provisions of Article 3.2, below, the configuration for the [***] will be the Detail Specification for Models 737-8 and/or 737-9 aircraft at the revision level in effect at the time of the Notice of Exercise. Such Detail Specification will be revised to include (i) changes applicable to such Detail Specification that are developed by Boeing between the date of the Notice of Exercise (as defined below) and the signing of the Definitive Agreement (as defined below), (ii) changes required to obtain required regulatory certificates, and (iii) other changes as mutually agreed.

* 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.

3.2 Boeing reserves the right to configure the [***] starting from a different configuration specification, provided that it can achieve the same configuration which would result pursuant to the provisions of Article 3.1

4. Price.

4.1 The Airframe Price, Optional Features Prices, and Aircraft Basic Price for the [***] will be determined in accordance with the provisions of the Purchase Agreement using Boeing's [***] as of the date of execution of the Definitive Agreement except the Airframe Price that will be identified in the definitive purchase agreement for the [***] will equal the sum of [***] between the date of execution of the Purchase Agreement for the Aircraft and the date of execution of the definitive purchase agreement for the [***].

4.2 The Airframe Price, Optional Features Prices, and Aircraft Basic Price for each of the [***] will be adjusted in accordance with the terms set forth in Article 2.1.5 (**Escalation Adjustment**) of the AGTA.

5. Payment.

At Definitive Agreement, advance payments will be payable as set forth in Table 1 of the Purchase Agreement. The remainder of the Aircraft Price for each [***] will be paid at the time of delivery. The Advance Payment Base Price used to determine the advance payment amounts will be developed in accordance with the terms of the Purchase Agreement and determined at the time of Definitive Agreement.

6. Notice of [***] and Payment of Deposit.

6.1 Customer [***] by giving written notice to Boeing on or before the first day of the month [***] prior to the desired delivery month within the Delivery Period, specifying the desired month(s) of delivery within the Delivery Period [***]. Such [***] shall be accompanied by payment, by electronic transfer to the account specified below, of Boeing's then standard proposal deposit for models 737-8 and 737-9 aircraft (**Deposit**) for each [***] subject to the [***]. The Deposit will be applied against the first advance payment due for each such [***].

[***]

At the time of its receipt of each [***] and related Deposit(s), Boeing will advise Customer as to the availability of the delivery month(s) requested.

*	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.

6.2 If Boeing must make production decisions which would affect the delivery of any or all [***] during the Delivery Period, Boeing shall provide written notification to Customer and the Delivery Period shall be adjusted accordingly. If the new Delivery Period begins twenty-four (24) months or less from the date of Boeing's notification, Customer shall have thirty (30) days from the date of Boeing's notification in which to submit its [***] and Deposit for any eligible delivery month(s) that is twenty-four (24) months or less from Boeing's notification. Upon receipt, Boeing will advise Customer as to the availability of the delivery month(s) requested.

7. Definitive Agreement.

7.1 Following Customer's exercise of a [***] in accordance with the terms and conditions stated herein and Boeing's identification of an available delivery position acceptable to Customer, the parties will sign a definitive agreement for the purchase of such [***] (**Definitive Agreement**) within thirty (30) calendar days of such exercise [***]. The Definitive Agreement will include the provisions then contained in the Purchase Agreement as modified to reflect the provisions of this Letter Agreement and any additional mutually agreed terms and conditions.

8. General Expiration of Rights.

8.1 Each [***] shall expire at the time of execution of the Definitive Agreement for the applicable [***], or, if no such Definitive Agreement is executed, on [***].

9. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

10. Confidential Treatment.

The information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09443

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Agreement for [***]

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**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.

The efficiency from [***] of the Boeing Model 737-8 aircraft and 737-9 aircraft (**737MAX Aircraft**) over similarly-sized aircraft is a significant factor in determining the 737MAX Aircraft values. [***].

Notwithstanding the [***], Boeing and Customer agree that the price of each respective Aircraft is based [***] compared to the [***] contained in Section 2 of Attachments A1 and A2 [***]. Boeing will use the method described below [***] to determine the actual [***] of the Aircraft. In the event that the [***], the terms of this Letter Agreement [***].

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.

[***] will be rounded to the nearest one thousandth. [***].

2. Rights and Obligations in the Event of a [***] Greater Than Zero.

2.1 Aircraft Delivery. In the event of a [***] greater than zero for any Aircraft, at the time Boeing tenders that Aircraft for delivery, Boeing will provide the applicable [***] set forth in paragraph 2.2. Customer cannot refuse to accept delivery of such Aircraft [***].

2.2 [***] the same factor as the airframe for the applicable Aircraft.

2.2.1 [***]. [***] pursuant to this paragraph 2.2 will be [***] issued by Boeing and/or the engine manufacturer, provided that [***]. [***] will be made pursuant to this paragraph 2.2 for any Aircraft not delivered to, or operated by, Customer.

2.2.2 If [***], then Boeing and Customer will enter into a good faith discussions. [***].

* 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. Duplication of Benefits.

Boeing and Customer agree it is not the intent of the parties to provide benefits hereunder that duplicate benefits to be provided (a) by Boeing under the Purchase Agreement, or any other agreement between Boeing and Customer, or (b) by engine manufacturer under any agreement between engine manufacturer and Customer, due to the Aircraft [***].

4. [***]

5. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

6. Confidential Treatment.

Customer understands and agrees that the information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer agrees to limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

[***]

*	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.

[***]

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[***]

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[***]

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[***]

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[***]

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[***]

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

[***]

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[***]

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

[***]

* 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.

[***]

*	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.

[***]

*	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.

[***]

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[***]

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[***]

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[***]

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[***]

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[***]

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

[***]

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

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09444

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: [***] – Non-Excusable Delay

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**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.

1. Definition of Terms:

Non-Excusable Delay: Delay in delivery of any Aircraft beyond the last day of the delivery month (**Scheduled Delivery Month**) established in the Purchase Agreement by any cause that is not an Excusable Delay pursuant to Article 7 of the AGTA and for which Customer is otherwise entitled to a remedy from Boeing pursuant to applicable law.

[***]

*	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.

[***]. Within thirty (30) days of receipt of written notice from Boeing that delivery of an Aircraft will be [***].

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

[***]

If neither Party terminates the Purchase Agreement as to such Aircraft within the applicable thirty (30) day period the Purchase Agreement will remain in effect for that Aircraft.

[***]

8. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

9. Confidential Treatment.

The information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09445

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Special Matters – [***]

Reference: a) Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

b) Letter Agreement ASA-PA-3866-LA-09440 entitled [***] of Models 737-8 aircraft [***] and 737-9 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.

Pursuant to the [***] Letter Agreement, Customer may [***].[***] **:**

1. [***]

1.1 [***]. At the time of delivery of [***].

1.2 [***]. At the time of delivery of [***].

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

1.3 737-8 Partnership Credit Memorandum #1 . At the time of delivery of each 737-8 Option Aircraft, Boeing will issue to Customer a 737-8 Partnership Credit Memorandum #1 in an amount determined by multiplying the Airframe Price by a factor of [***].

1.4 [***]. At the time of delivery [***].

1.5 [***]. At the time of delivery of [***].

1.6 [***]. At the time of delivery of [***].

1.7 [***]. At the time of delivery of each Option Aircraft, Boeing will issue to Customer a Partnership Credit Memorandum #3 in an amount determined by multiplying the Airframe Price by a factor of [***], so long as Customer continues to replace and grow its fleet exclusively with Boeing aircraft.

2. [***]

Unless otherwise noted, the [***] stated in Paragraphs 1.1 through 1.7 [***] pursuant to the terms set forth in Article [***] of the AGTA. [***].

3. Assignment.

Unless otherwise noted herein, the [***] described in this Letter Agreement are [***] in consideration of Customer's taking title to the Option Aircraft at time of delivery and becoming the operator of the Option Aircraft. This Letter Agreement cannot be assigned, in whole or in part, without the prior written consent of Boeing.

4. Confidentiality.

Customer understands and agrees that the information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer agrees to limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

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

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09446

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Special Matters – [***]

Reference: a) Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 aircraft and 737-9 aircraft (**Aircraft**)

b) Letter Agreement ASA-PA-3866-LA-09442 entitled [***]

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.

Pursuant to the [***] Letter Agreement, Customer has the [***]. In addition to the terms set forth in the [***] Letter Agreement, Boeing will provide the following [***]:

1. [***]

1.1 [***]. At the time of delivery of [***].

1.2 [***]. At the time of delivery of [***].

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

1.3 [***]. At the time of delivery of [***].

1.4 [***]. At the time of delivery of [***].

1.5 [***]. At the time of delivery of [***].

1.6 [***]. At the time of delivery of [***].

1.7 [***]. At the time of delivery of [***].

2. [***]

Unless otherwise noted, the [***] stated in Paragraphs 1.1 through 1.7 [***] pursuant to the terms set forth in [***] of the AGTA. [***].

*	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. Assignment.

Unless otherwise noted herein, [***] described in this Letter Agreement are [***] in consideration of Customer's taking title to the Aircraft at time of delivery and becoming the operator of the Aircraft. This Letter Agreement cannot be assigned, in whole or in part, without the prior written consent of Boeing.

4. Confidentiality.

Customer understands and agrees that the information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer agrees to limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

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

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09447

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: [***] Matters

Reference: Purchase Agreement No. PA-03866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**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.

Customer has communicated to Boeing that a factor in its [***] **.** Boeing understands Customer's desire to pursue airplane operations of twin-engine aircraft [***] Operational Standards similar to United States of America Federal Aviation Administration (**FAA**) 14 CFR 121 Operating Rules applicable at the time of Aircraft delivery [***].

The design goal of the Boeing Models 737-8 and 737-9 aircraft (**737MAX**) is to [***]**.**

Boeing is committed to working diligently with the FAA and Customer in support of [***] **.**

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

1. [***] Commitment.

Pursuant to this Letter Agreement, Boeing commits to [***] of each of the respective 737-8 and 737-9 model aircraft.

2. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

3. Confidentiality Treatment.

Customer understands and agrees that the information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

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

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

October 10, 2012

6-1162-LLL-0021

Alaska Airlines, Inc.
P.O. Box 68900
Seattle, WA 98168-0900

Subject: Proposal Related to [***]

References: a) Proposal No. ASA-PBO-1208304R2 dated August 17, 2012 and Proposal No. ASA-PBO-1208417R2 dated August 31, 2012 (collectively referred to as "**Aircraft Proposals**")

In consideration of Customer's purchase of the aircraft as offered by the Aircraft Proposals, The Boeing Company (**Boeing**) is pleased to offer to Alaska Airlines, Inc. (**Customer**) [***]**.** Boeing will provide proposals for the [***] to Customer following execution of the definitive agreements for the aircraft as offered by the Aircraft Proposals which will provide the detailed product descriptions and terms and conditions [***]. In addition to the terms and conditions set forth in the [***], Boeing is pleased to offer the terms and conditions described herein.

All capitalized terms which are not otherwise defined herein shall have the definitions specified in Customer Services General Terms Agreement No. 90-2 between Boeing and Customer dated April 30, 1997 (**CSGTA)**.

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.

1.1.1. Boeing will offer [***] to Customer for [***] starting in [***] through [***].

1.1.2. The [***] will be applicable to certain [***] and Customer will accrue [***] term and the [***] will accrue based on achieving the [***] described in Attachment A.

1.1.3. Boeing will provide the [***] for each 737-8 aircraft and 737-9 aircraft (**737MAX Aircraft**) up to a [***] 737MAX Aircraft [***]**.** [***]**.**

1.2. [***]

1.2.1. Boeing will offer Customer [***] for Customer's 737-700, 737-800, 737-900 and 737-900ER aircraft (**737NG Fleet**) and the 737MAX Aircraft.

1.2.2. [***] is conditioned on Customer's aircraft being configured with an [***] **.**

1.2.3. The term for [***] for 737NG Fleet will be determined by mutual agreement of the parties and the term for 737MAX Aircraft will be for [***]starting on the date of Customer's first 737MAX Aircraft delivery.

1.2.4. Boeing offers Customer an [***] the 737NG Fleet. Such [***] will continue until the date of delivery of Customer's first 737MAX Aircraft. Upon delivery of Customer's first 737MAX Aircraft, such [***] of the [***] for the 737NG Fleet.

1.2.5. Boeing offers Customer [***] for the 737MAX Aircraft [***] for the [***]. [***] will be at 737NG Fleet list price.

2. Expiration of Offer.

This offer will expire in accordance with the dates set forth below.

2.1. [***]. The proposal for the [***] will expire if Customer and Boeing do not enter into a definitive agreement for the [***] within [***] from the date of definitive agreement for the purchase of the aircraft offered in the Aircraft Proposals.

2.2. [***]. The proposal for the [***] will expire if Customer and Boeing do not enter into a definitive agreement for [***] from the date of definitive agreement for the purchase of the aircraft in the Aircraft Proposals.

3. Assignment.

The offer set forth in this letter is provided to Customer for the benefit of Customer and is not assignable, in whole or in part, without the prior written consent of Boeing.

4. Confidential Treatment.

The information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. By receiving this letter, Customer agrees to limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer evaluate or respond to this letter and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing. In addition to any equitable relief that may be available to Boeing in the event of a breach of this clause, Boeing may rescind any business concessions that are the subject of the unauthorized disclosure by Customer.

We would be pleased to discuss any questions you might have or provide any additional information you may require concerning this letter.

* 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

/s/ Lanine L. Lange

Lanine L. Lange

Aircraft Contracts
Boeing Commercial Airplanes

Attachment

Attachment A to
Boeing Proposal 6-1162-LLL-0021

[***]

* 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 21

SUBSIDIARIES OF ALASKA AIR GROUP, INC.

Name	State of Incorporation
Alaska Airlines, Inc.	Alaska
Horizon Air Industries, Inc.	Washington
AAG Fueling Services, Inc.	Delaware
AAG Leasing, Inc.	Delaware
AAGL-I	Delaware
Air Group Leasing Equity, Inc.	Delaware
Air Group Leasing, Inc.	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Alaska Air Group, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-92252, 333-117725, 333-151743, 333-168293 and 333-176051) on Form S-8 of Alaska Air Group, Inc. of our reports dated February 14, 2013 with respect to the consolidated balance sheets of Alaska Air Group, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and the effectiveness of internal control over financial reporting as of December 31, 2012, which reports appear in the December 31, 2012 annual report on Form 10-K of Alaska Air Group, Inc.

/s/ KPMG LLP

Seattle, Washington
February 14, 2013

EXHIBIT 31.1

CERTIFICATIONS

I, Bradley D. Tilden, certify that:

1. I have reviewed this annual report on Form 10-K of Alaska Air Group, Inc. for the period ended December 31, 2012;

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.

February 14, 2013

By: /s/ BRADLEY D. TILDEN

Bradley D. Tilden
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 December 31, 2012;

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.

February 14, 2013

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 December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Bradley D. Tilden, President and 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.

February 14, 2013

By: /s/ BRADLEY D. TILDEN

Bradley D. Tilden

President and Chief Executive Officer

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 December 31, 2012 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.

February 14, 2013

By: /s/ BRANDON S. PEDERSEN

Brandon S. Pedersen
Chief Financial Officer