

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 1-8957

ALASKA AIR GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

91-1292054
(I.R.S. Employer
Identification No.)

19300 International Boulevard, Seattle, Washington 98188
(Address of principal executive offices)

Registrant's telephone number, including area code: (206) 392-5040

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The registrant has 36,006,026 common shares, par value \$1.00, outstanding at July 31, 2011.

ALASKA AIR GROUP, INC.
Quarterly Report on Form 10-Q for the three months ended June 30, 2011

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	4
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	4
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	20
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK	35
ITEM 4. CONTROLS AND PROCEDURES	36
PART II. OTHER INFORMATION	37
ITEM 1. LEGAL PROCEEDINGS	37
ITEM 1A. RISK FACTORS	37
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	37
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	37
ITEM 4. OTHER INFORMATION	37
ITEM 5. EXHIBITS	37
SIGNATURES	38
EXHIBIT INDEX	39

[Table of Contents](#)

As used in this Form 10-Q, the terms “Air Group,” “our,” “we” and the “Company” refer to Alaska Air Group, Inc. and its subsidiaries, unless the context indicates otherwise. Alaska Airlines, Inc. and Horizon Air Industries, Inc. are referred to as “Alaska” and “Horizon,” respectively, and together as our “airlines.”

Cautionary Note Regarding Forward-Looking Statements

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

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

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

PART I. FINANCIAL INFORMATION**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

Alaska Air Group, Inc.

<i>(in millions)</i>	June 30, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 67.0	\$ 89.5
Marketable securities	1,086.5	1,118.7
Total cash and marketable securities	1,153.5	1,208.2
Receivables – net	167.8	120.1
Inventories and supplies – net	52.6	45.1
Deferred income taxes	126.4	120.5
Fuel hedge contracts	71.4	61.4
Prepaid expenses and other current assets	104.0	106.7
Total Current Assets	1,675.7	1,662.0
Property and Equipment		
Aircraft and other flight equipment	4,065.8	3,807.6
Other property and equipment	621.7	616.5
Deposits for future flight equipment	165.5	202.5
	4,853.0	4,626.6
Less accumulated depreciation and amortization	1,603.1	1,509.5
Total Property and Equipment – Net	3,249.9	3,117.1
Fuel Hedge Contracts	84.9	69.9
Other Assets	223.3	167.6
Total Assets	\$ 5,233.8	\$ 5,016.6

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

Alaska Air Group, Inc.

<i>(in millions except share amounts)</i>	June 30, 2011	December 31, 2010
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 71.3	\$ 60.2
Accrued aircraft rent	28.1	43.1
Accrued wages, vacation and payroll taxes	136.2	176.6
Other accrued liabilities	544.0	501.2
Air traffic liability	594.5	422.4
Current portion of long-term debt	253.9	221.2
Total Current Liabilities	1,628.0	1,424.7
Long-Term Debt, Net of Current Portion	1,154.9	1,313.0
Other Liabilities and Credits		
Deferred income taxes	347.9	279.9
Deferred revenue	386.7	403.5
Obligation for pension and postretirement medical benefits	361.2	367.1
Other liabilities	148.6	123.0
	1,244.4	1,173.5
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, \$1 par value Authorized: 5,000,000 shares, none issued or outstanding	—	—
Common stock, \$1 par value Authorized: 100,000,000 shares, Issued: 2011 – 37,689,589 shares; 2010 – 37,010,140 shares	37.7	37.0
Capital in excess of par value	838.9	815.5
Treasury stock (common), at cost: 2011 –1,626,547 shares; 2010 – 1,086,172 shares	(79.2)	(46.0)
Accumulated other comprehensive loss	(260.0)	(267.2)
Retained earnings	669.1	566.1
	1,206.5	1,105.4
Total Liabilities and Shareholders' Equity	\$ 5,233.8	\$ 5,016.6

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

Alaska Air Group, Inc.

<i>(in millions except per share amounts)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Operating Revenues				
Passenger				
Mainline	\$ 819.9	\$ 702.3	\$ 1,522.3	\$ 1,289.3
Regional	194.3	183.5	370.8	348.9
Total passenger revenue	1,014.2	885.8	1,893.1	1,638.2
Freight and mail	29.1	28.1	54.0	51.1
Other – net	66.9	62.3	128.3	116.5
Total Operating Revenues	1,110.2	976.2	2,075.4	1,805.8
Operating Expenses				
Wages and benefits	242.8	239.6	492.1	478.9
Variable incentive pay	17.9	21.6	34.3	39.5
Aircraft fuel, including hedging gains and losses	397.5	255.0	592.0	462.3
Aircraft maintenance	49.1	53.8	102.4	110.8
Aircraft rent	29.0	35.4	59.5	72.4
Landing fees and other rentals	59.9	57.9	117.8	113.8
Contracted services	46.6	41.1	90.1	80.7
Selling expenses	45.8	38.2	85.6	71.8
Depreciation and amortization	61.7	58.0	122.0	114.2
Food and beverage service	17.1	14.3	32.2	26.6
Other	58.2	48.2	118.9	96.0
Fleet transition costs	26.8	3.4	36.9	3.4
Total Operating Expenses	1,052.4	866.5	1,883.8	1,670.4
Operating Income	57.8	109.7	191.6	135.4
Nonoperating Income (Expense)				
Interest income	6.3	7.7	13.9	15.1
Interest expense	(20.0)	(26.3)	(43.4)	(51.9)
Interest capitalized	1.6	1.6	3.4	3.3
Other – net	1.3	1.3	2.2	2.3
	(10.8)	(15.7)	(23.9)	(31.2)
Income before income tax	47.0	94.0	167.7	104.2
Income tax expense	18.2	35.4	64.7	40.3
Net Income	\$ 28.8	\$ 58.6	\$ 103.0	\$ 63.9
Basic Earnings Per Share:	\$ 0.80	\$ 1.64	\$ 2.86	\$ 1.79
Diluted Earnings Per Share:	\$ 0.78	\$ 1.60	\$ 2.80	\$ 1.74
Shares used for computation:				
Basic	35,983	35,698	35,988	35,683
Diluted	36,737	36,697	36,775	36,631

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)

Alaska Air Group, Inc.

<i>(in millions)</i>	<i>Common Shares Outstanding</i>	<i>Common Stock</i>	<i>Capital in Excess of Par Value</i>	<i>Treasury Stock, at Cost</i>	<i>Accumulated Other Comprehensive Loss</i>	<i>Retained Earnings</i>	<i>Total</i>
Balances at December 31, 2010	35,924	\$ 37.0	\$ 815.5	\$ (46.0)	\$ (267.2)	\$ 566.1	\$ 1,105.4
Net income for the six months ended June 30, 2011						103.0	103.0
Other comprehensive income (loss):							
Related to marketable securities:							
Change in fair value					1.7		
Reclassification to earnings					(1.5)		
Income tax effect					(0.2)		
					—		—
Related to employee benefit plans:					12.7		
Income tax effect					(4.8)		
					7.9		7.9
Related to interest rate derivative instruments:							
Change in fair value					(1.1)		
Income tax effect					0.4		
					(0.7)		(0.7)
Total comprehensive income							110.2
Purchase of treasury stock	(0.543)	—	—	(33.3)			(33.3)
Stock-based compensation	—	—	7.3	—			7.3
Treasury stock issued under stock plans	0.003	—	—	0.1			0.1
Stock issued for employee stock purchase plan	0.033	0.1	1.2	—			1.3
Stock issued under stock plans	0.646	0.6	14.9	—			15.5
Balances at June 30, 2011	36,063	\$ 37.7	\$ 838.9	\$ (79.2)	\$ (260.0)	\$ 669.1	\$ 1,206.5

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Alaska Air Group, Inc.

<i>(in millions)</i>	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 103.0	\$ 63.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Fleet transition costs	36.9	3.4
Depreciation and amortization	122.0	114.2
Stock-based compensation	7.3	8.7
Increase in air traffic liability	172.1	162.7
Decrease in other assets and liabilities – net	(72.6)	(19.3)
Net cash provided by operating activities	<u>368.7</u>	<u>333.6</u>
Cash flows from investing activities:		
Property and equipment additions:		
Aircraft and aircraft purchase deposits	(214.8)	(45.3)
Other flight equipment	(11.1)	(52.6)
Other property and equipment	(15.2)	(13.9)
Total property and equipment additions	<u>(241.1)</u>	<u>(111.8)</u>
Proceeds from disposition of assets	12.4	3.3
Purchases of marketable securities	(427.7)	(578.1)
Sales and maturities of marketable securities	459.0	446.2
Increase in receivable related to Terminal 6 at LAX airport	(44.6)	—
Restricted deposits and other	0.1	0.5
Net cash used in investing activities	<u>(241.9)</u>	<u>(239.9)</u>
Cash flows from financing activities:		
Long-term debt payments	(125.4)	(130.9)
Purchase of treasury stock	(33.3)	(26.3)
Proceeds and tax benefit from issuance of common stock	14.9	21.0
Other financing activities	(5.5)	(13.6)
Net cash used in financing activities	<u>(149.3)</u>	<u>(149.8)</u>
Net change in cash and cash equivalents	(22.5)	(56.1)
Cash and cash equivalents at beginning of year	89.5	164.2
Cash and cash equivalents at end of period	<u>\$ 67.0</u>	<u>\$ 108.1</u>
Supplemental disclosure of cash paid during the period for:		
Interest (net of amount capitalized)	\$ 39.7	\$ 47.5
Income taxes	0.1	(4.8)

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alaska Air Group, Inc.
June 30, 2011

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Alaska Air Group, Inc. (Air Group or the Company) include the accounts of the parent company, Alaska Air Group, Inc., and its principal subsidiaries, Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon), through which the Company conducts substantially all of its operations. These interim condensed consolidated financial statements are unaudited and should be read in conjunction with the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. In the opinion of management, all adjustments have been made that are necessary to present fairly the Company's financial position as of June 30, 2011, as well as the results of operations for the three and six months ended June 30, 2011 and 2010. The adjustments made were of a normal recurring nature.

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

Reclassifications

Certain reclassifications have been made to conform the prior year's data to the current format. The Company has also reclassified fuel costs of \$3.7 million related to third-party contract flying from contracted services, as reported in the Company's earnings press release issued in Form 8-K on July 21, 2011, to aircraft fuel expense.

New and Prospective Accounting Pronouncements

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

- In September 2009, the FASB issued ASU 2009-13, *Multiple Deliverable Revenue Arrangements - A Consensus of the FASB Emerging Issues Task Force*. This update provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. This accounting standard was effective for the Company for revenue arrangements entered into or materially modified in fiscal years beginning on January 1, 2011. It primarily impacts the accounting for recognition of revenue associated with frequent flyer credits. There was no immediate significant impact of this new standard on the Company's consolidated financial statements and there will be no impact until the Company materially modifies or enters into new contracts associated with its frequent flyer program.
- In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The standard revises guidance for fair value measurement and expands the disclosure requirements. It is effective for fiscal years beginning after December 15, 2011. The Company is currently evaluating the impact that the adoption of this standard will have on the Company's consolidated financial statements.
- In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income - Presentation of Comprehensive Income*. The standard revises guidance for the presentation and prominence of the items reported in other comprehensive income. It is effective for fiscal years beginning after December 15, 2011. The Company is currently evaluating the impact that the adoption of this standard will have on the presentation of the Company's consolidated financial statements.

The FASB has issued a number of proposed ASUs. Those proposed ASUs are as follows:

- Proposed ASU - *Revenue Recognition* - was issued in June 2010 and continues to evolve. We believe that a new revenue recognition standard could significantly impact the Company's accounting for the Company's Mileage Plan frequent flyer credits earned by passengers who fly on us or our partners, or miles sold to third parties.
- Proposed ASU - *Leases* - was issued in August 2010 and continues to evolve. This proposed standard overhauls accounting for leases and would apply a "right-of-use" model in accounting for nearly all leases. For lessees, this would result in recognizing an asset representing the lessee's right to use the leased asset for the lease term and a liability to make lease payments. This proposed standard eliminates the operating lease concept from an accounting perspective, thereby eliminating rent expense from the income statement. This proposed standard, if adopted, would significantly impact the Company's consolidated financial statements. For example, we estimate the capitalized value of airplane leases to be approximately \$850 million using a seven times annual rent factor.

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

NOTE 2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements

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

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

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

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

No significant transfers between Level 1 and Level 2 occurred during the six months ended June 30, 2011.

Cash, Cash Equivalents and Marketable Securities

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

Amounts measured at fair value as of June 30, 2011 are as follows (in millions):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 55.3	\$ 11.7	\$ —	\$ 67.0
Marketable securities	168.5	918.0	—	1,086.5
Total	\$ 223.8	\$ 929.7	\$ —	\$ 1,153.5

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

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

[Table of Contents](#)

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

Marketable securities consisted of the following (in millions):

	June 30, 2011	December 31, 2010
Amortized Cost:		
U.S. government securities	\$ 363.6	\$ 514.8
Asset-backed obligations	165.7	176.8
Other corporate obligations	544.1	414.2
	<u>\$ 1,073.4</u>	<u>\$ 1,105.8</u>
Fair value:		
U.S. government securities	\$ 368.1	\$ 518.5
Asset-backed obligations	165.2	176.7
Other corporate obligations	553.2	423.5
	<u>\$ 1,086.5</u>	<u>\$ 1,118.7</u>

Of the marketable securities on hand at June 30, 2011, 12% mature in 2011, 30% in 2012, and 58% thereafter. Gross gains and losses for the six months ended June 30, 2011 and 2010 were not material to the condensed consolidated financial statements.

Some of the Company's asset-backed securities held at June 30, 2011 had credit losses, as defined in the accounting standards. Credit losses of \$2.2 million were recorded through earnings in 2009 and represent the difference between the present value of future cash flows at the time and the amortized cost basis of the affected securities. No additional credit losses have been recorded since then.

Management does not believe the securities associated with the remaining \$2.0 million net unrealized losses recorded in AOCL are "other-than-temporarily" impaired, as defined in the accounting standards, based on the current facts and circumstances. Management currently does not intend to sell these securities prior to their recovery nor does it believe that it will be more-likely-than-not that the Company would need to sell these securities for liquidity or other reasons.

Gross unrealized gains and losses at June 30, 2011 are presented in the table below (in millions):

	Unrealized Gains in AOCL	Unrealized Losses			Less: Credit Loss		Net Unrealized Gains/(Losses) in AOCL	Fair Value of Securities with Unrealized Losses
		Less than 12 months	Greater than 12 months	Total Unrealized Losses	Previously Recorded in Earnings	Net Unrealized Losses in AOCL		
U.S. Government Securities	\$ 4.6	\$ (0.1)	\$ —	\$ (0.1)	\$ —	\$ (0.1)	\$ 4.5	\$ 18.1
Asset-backed obligations	1.1	(0.6)	(3.2)	(3.8)	(2.2)	(1.6)	(0.5)	56.8
Other corporate obligations	9.4	(0.3)	—	(0.3)	—	(0.3)	9.1	109.2
Total	<u>\$ 15.1</u>	<u>\$ (1.0)</u>	<u>\$ (3.2)</u>	<u>\$ (4.2)</u>	<u>\$ (2.2)</u>	<u>\$ (2.0)</u>	<u>\$ 13.1</u>	<u>\$ 184.1</u>

Fair Value of Financial Instruments

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

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

	Carrying Amount	Fair Value
Long-term debt at June 30, 2011	\$ 1,408.8	\$ 1,397.6
Long-term debt at December 31, 2010	\$ 1,534.2	\$ 1,531.0

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

NOTE 3. DERIVATIVE INSTRUMENTS

Fuel Hedge Contracts

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

The following table summarizes the components of aircraft fuel expense for the three and six months ended June 30, 2011 and 2010 (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Raw or "into-plane" fuel cost	\$ 343.1	\$ 222.9	\$ 632.1	\$ 418.1
(Gains) or losses in value and settlements of fuel hedge contracts	54.4	32.1	(40.1)	44.2
Aircraft fuel expense	\$ 397.5	\$ 255.0	\$ 592.0	\$ 462.3

Cash received, net of premiums expensed, for hedges that settled during the three and six month periods ended June 30, 2011 was \$16.5 million and \$29.0 million, respectively. Cash received, net of premiums expensed, for hedges that settled during the three and six month periods ended June 30, 2010 was \$5.5 million and \$5.9 million, respectively.

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

Outstanding fuel hedge positions as of August 3, 2011 are as follows:

	Approximate % of Expected Fuel Requirements	Gallons Hedged (in millions)	Approximate Crude Oil Price per Barrel	Approximate Premium Price per Barrel
Third Quarter 2011	50%	51.9	\$86	\$11
Fourth Quarter 2011	50%	48.6	\$86	\$11
Remainder of 2011	50%	100.5	\$86	\$11
First Quarter 2012	50%	48.6	\$88	\$12
Second Quarter 2012	50%	51.2	\$93	\$13
Third Quarter 2012	50%	53.0	\$94	\$13
Fourth Quarter 2012	44%	44.5	\$93	\$13
Full Year 2012	49%	197.3	\$92	\$13
First Quarter 2013	33%	32.6	\$93	\$14
Second Quarter 2013	27%	28.6	\$92	\$15
Third Quarter 2013	22%	24.0	\$95	\$15
Fourth Quarter 2013	16%	17.1	\$97	\$15
Full Year 2013	24%	102.3	\$94	\$14
First Quarter 2014	11%	11.5	\$100	\$15
Second Quarter 2014	6%	6.0	\$99	\$15
Full Year 2014	4%	17.5	\$99	\$15

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

The Company also has financial swap agreements in place to fix the refining margin component for approximately 50% of third quarter 2011 estimated jet fuel purchases at an average price of 75 cents per gallon and approximately 11% of fourth quarter 2011 estimated jet fuel purchases at an average price of 84 cents per gallon.

As of June 30, 2011 and December 31, 2010, the net fair values of the Company's fuel hedge positions were as follows (in millions):

	June 30, 2011		December 31, 2010
Crude oil call options or "caps"	\$	153.6	\$ 129.3
Refining margin swap contracts		2.7	2.0
Total	\$	156.3	\$ 131.3

The balance sheet amounts include capitalized premiums paid to enter into the contracts of \$122.5 million and \$108.6 million at June 30, 2011 and December 31, 2010, respectively.

Interest Rate Swap Agreements

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

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

At June 30, 2011, the Company had a liability of \$10.0 million associated with these contracts, \$6.2 million of which is expected to be reclassified into earnings within the next twelve months. The fair value of these contracts is determined based on the difference between the fixed interest rate in the agreements and the observable LIBOR-based interest forward rates at period end, multiplied by the total notional value. As such, the Company places these contracts in Level 2 of the fair value hierarchy.

NOTE 4. LONG-TERM DEBT

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

	June 30, 2011		December 31, 2010	
Fixed-rate notes payable due through 2024	\$	1,148.0	\$	1,233.6
Variable-rate notes payable due through 2024		260.8		300.6
Long-term debt		1,408.8		1,534.2
Less current portion		253.9		221.2
	\$	1,154.9	\$	1,313.0

During the first six months of 2011, the Company had no new debt borrowings and made scheduled debt payments of \$73.6 million. In addition, the Company prepaid the full debt balance on two outstanding aircraft debt agreements totaling \$51.8 million. Subsequent to June 30, 2011, the Company borrowed approximately \$106 million for six of the Q400 aircraft delivered in the first six months of 2011. The Company plans to use the proceeds to pay down an equivalent amount of existing debt and has prepaid \$85.5 million subsequent to the end of the second quarter through the date of this filing. The Company expects to prepay another \$12 million to \$15 million in the fourth quarter. In connection with the debt prepayment, we expect to incur costs of approximately \$6 million.

Bank Lines of Credit

The Company has two \$100 million credit facilities. Both facilities have variable interest rates based on LIBOR plus a specified margin. Borrowings on one of the \$100 million facilities, which expires in March 2013, are secured by aircraft. Borrowings on the other \$100 million facility, which expires in March 2014, are secured by certain accounts receivable, spare engines, spare parts and ground service equipment. The Company has no immediate plans to borrow using either of these facilities. These facilities have a requirement to maintain a minimum unrestricted cash and marketable securities balance of \$500 million. The Company is in compliance with this covenant at June 30, 2011.

NOTE 5. COMMON STOCK REPURCHASE

In June 2011, the Board of Directors authorized the Company to repurchase up to \$50 million of its common stock. Through June 30, 2011 the Company had repurchased 31,500 shares of its common stock for \$2.1 million under this program. This \$50 million authorization was in addition to an earlier \$50.0 million authorization that was completed in April 2011. The Company repurchased 511,800 shares in the first six months of 2011 under that program for \$31.2 million. Since 2007, the Company has repurchased approximately 7.6 million shares of its common stock under such programs.

NOTE 6. EMPLOYEE BENEFIT PLANS

Pension Plans - Qualified Defined Benefit

Net pension expense for the three and six months ended June 30, 2011 and 2010 included the following components (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Service cost	\$ 9.0	\$ 8.1	\$ 18.0	\$ 16.2
Interest cost	18.3	16.9	36.6	33.8
Expected return on assets	(22.1)	(17.7)	(44.2)	(35.4)
Amortization of prior service cost	(0.2)	(0.2)	(0.4)	(0.4)
Actuarial loss	6.1	5.5	12.2	11.0
Net pension expense	\$ 11.1	\$ 12.6	\$ 22.2	\$ 25.2

The Company contributed \$11.1 million and \$22.2 million to its qualified defined-benefit plans during the three and six months ended June 30, 2011, respectively. There is no minimum required contribution in 2011, although the Company expects to contribute an additional \$11.1 million to these plans during the remainder of 2011. The Company contributed \$15.2 million and \$30.4 million to its qualified defined-benefit pension plans during the three and six months ended June 30, 2010, respectively.

On June 20, 2011, the Board of Directors authorized the Company to amend its defined-benefit pension plans for salaried employees such that participants' benefits will freeze effective January 1, 2014. Active participants in the defined-benefit plan will receive a higher Company contribution to the defined-contribution plan beginning on the same date. The Company will remeasure the projected benefit obligation and will record any curtailment gain or loss from the amendments when executed. Management does not expect the gain or loss to be material to the financial statements.

Pension Plans - Nonqualified Defined Benefit

Net pension expense for the unfunded, noncontributory defined-benefit plans was \$0.9 million and \$0.8 million for the three months ended June 30, 2011 and 2010 was \$1.8 million and \$1.6 million for the six months ended June 30, 2011 and 2010. Similar to the amendment to the qualified plan, the Board of Directors amended the nonqualified defined-benefit plan such that participants' benefits will be frozen effective January 1, 2014.

Post-retirement Medical Benefits

Net periodic benefit cost for the post-retirement medical plans for the three months ended June 30, 2011 and 2010 was \$3.7 million and \$3.1 million, respectively. The net periodic benefit cost for the six months ended June 30, 2011 and 2010 was \$7.4 million and \$6.2 million, respectively.

NOTE 7. OTHER ASSETS

Other assets consisted of the following (in millions):

	June 30, 2011	December 31, 2010
Restricted deposits (primarily restricted investments)	\$ 83.6	\$ 83.6
Long-term receivable related to Terminal 6 at LAX airport	75.9	31.3
Deferred costs and other ^(a)	63.8	52.7
	\$ 223.3	\$ 167.6

^(a) Deferred costs and other includes deferred financing costs, long-term prepaid rent, lease deposits and other items.

In 2009, the Company announced plans to move from Terminal 3 to Terminal 6 at Los Angeles International Airport (LAX). As part of this move, the Company agreed to manage and fund up to \$175 million of the project during the design and construction phase. The total project is estimated to cost approximately \$250 million and is expected to be completed in 2012. On April 19, 2011, the Company signed a funding agreement with the City of Los Angeles and Los Angeles World Airports, which would reimburse the Company for the majority of the construction costs either during the course of, or upon the completion of, construction. The Company anticipates that its proprietary non-reimbursable share of the total cost of the project will be approximately \$25 million. As of June 30, 2011, the Company recorded \$75.9 million associated with this project in other assets, which represents total reimbursable project costs to date. In addition, the Company recorded \$5.2 million for the proprietary share of this project in property and equipment as of June 30, 2011.

At June 30, 2011, the Company's restricted deposits were primarily restricted investments used to guarantee various letters of credit and workers compensation self-insurance programs. The restricted investments consist of highly liquid securities with original maturities of three months or less. They are carried at cost, which approximates fair value.

NOTE 8. MILEAGE PLAN

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

	June 30, 2011	December 31, 2010
Current Liabilities:		
Other accrued liabilities	\$ 286.1	\$ 278.0
Other Liabilities and Credits:		
Deferred revenue	367.0	382.1
Other liabilities	14.1	13.8
Total	<u>\$ 667.2</u>	<u>\$ 673.9</u>

Alaska's Mileage Plan revenue is included under the following condensed consolidated statement of operations captions for the three and six months ended June 30, 2011 and 2010 (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Passenger revenues	\$ 54.2	\$ 51.0	\$ 104.5	\$ 92.1
Other-net revenues	51.6	48.6	97.2	90.6
Total Mileage Plan revenues	<u>\$ 105.8</u>	<u>\$ 99.6</u>	<u>\$ 201.7</u>	<u>\$ 182.7</u>

NOTE 9. STOCK-BASED COMPENSATION PLANS

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

Stock Options

During the six months ended June 30, 2011, the Company granted 70,080 options with a weighted-average grant-date fair value of \$32.99 per share. During the same period in the prior year, the Company granted 129,970 options with a weighted-average grant-date fair value of \$18.05 per share.

The Company recorded stock-based compensation expense related to stock options of \$0.5 million and \$1.0 million for the three months ended June 30, 2011 and 2010 respectively. The Company recorded expense of \$2.0 million and \$2.8 million for the six months ended June 30, 2011 and 2010, respectively. As of June 30, 2011, \$2.8 million of compensation cost associated with unvested stock option awards attributable to future service had not yet been recognized. This amount will be recognized as expense over a weighted-average period of 2.0 years.

As of June 30, 2011, options to purchase 750,718 shares of common stock were outstanding with a weighted-average exercise price of \$33.40. Of that total, 273,752 were exercisable at a weighted-average exercise price of \$33.80.

Restricted Stock Awards

During the six months ended June 30, 2011, the Company awarded 74,096 restricted stock units (RSUs) to certain employees, with a weighted-average grant date fair value of \$61.31. This amount reflects the value of the total RSU awards at the grant date based on the closing price of the Company's common stock.

The Company recorded stock-based compensation expense related to RSUs of \$1.1 million and \$1.3 million for the three month period ended June 30, 2011 and 2010, respectively, and \$3.8 million and \$3.8 million for the six months ended June 30, 2011 and 2010, respectively.

As of June 30, 2011 \$5.8 million of compensation cost associated with unvested restricted stock awards attributable to future service had not yet been recognized. This amount will be recognized as expense over a weighted-average period of 1.9 years.

Performance Stock Awards

From time to time, the Company issues performance stock unit awards (PSUs) to certain executives. PSUs vest based on performance or market performance measures.

Currently outstanding PSUs were issued in 2010 and 2011. There are several tranches of PSUs that vest based on differing performance conditions including a market condition tied to the Company's total shareholder return relative to an airline peer group, and based on certain performance goals established by the Compensation Committee of the Board of Directors. The total grant-date fair value of PSUs issued during the six months ended June 30, 2011 was \$2.3 million.

The Company recorded \$0.6 million and \$1.1 million of compensation expense related to PSUs in the three months ended June 30, 2011 and 2010, respectively, and \$1.0 million and \$1.7 million for the six months ended June 30, 2011 and 2010, respectively.

Deferred Stock Awards

In the second quarter of 2011, the Company awarded 4,208 Deferred Stock Unit awards (DSUs) to members of its Board of Directors as a portion 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 on the date of grant was expensed in the quarter granted. The total amount of compensation expense recorded in the second quarter of 2011 was \$0.3 million.

The Company awarded 6,328 DSUs and recorded compensation expense of \$0.3 million in the second quarter of 2010.

Employee Stock Purchase Plan

Compensation expense recognized under the Employee Stock Purchase Plan was \$0.2 million for the three months ended June 30, 2011 and was \$0.2 million and \$0.1 million for the six months ended June 30, 2011 and 2010, respectively. There was no compensation expense recorded in the second quarter of 2010.

Summary of Stock-Based Compensation

The table below summarizes the components of total stock-based compensation for the three and six months ended June 30 (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Stock options	\$ 0.5	\$ 1.0	\$ 2.0	\$ 2.8
Restricted stock units	1.1	1.3	3.8	3.8
Performance share units	0.6	1.1	1	1.7
Deferred stock awards	0.3	0.3	0.3	0.3
Employee stock purchase plan	0.2	—	0.2	0.1
Total stock-based compensation	\$ 2.7	\$ 3.7	\$ 7.3	\$ 8.7

NOTE 10. FLEET TRANSITION

Horizon Fleet Transition to All-Q400 Fleet

Horizon's long-term goal has been to transition to an all-Q400 fleet. During the first six months of 2011, the Company removed the final 13 CRJ-700 aircraft from its fleet through sublease to a third-party carrier. The total charge associated with removing these aircraft from operations was \$30.9 million for the six months ended June 30, 2011. During the first six months of 2010, the Company recorded a charge of \$3.4 million related to the removal of a CRJ-700 aircraft through a sublease. The charges represent the discounted expected cash flows from the sublease arrangement and the expected maintenance costs that management expects to pay for Horizon's share of the first maintenance event for each aircraft.

Horizon has 16 Q200 aircraft that are subleased to a third-party carrier, for which an accrual related to the estimated sublease loss has been recorded in previous periods. The Company evaluated the associated liability in the second quarter of 2011 and determined that the ultimate loss associated with these aircraft will likely be higher than the original estimate. As such, the Company recorded an additional \$6 million in the first six months of 2011 associated with these aircraft.

NOTE 11. OPERATING SEGMENT INFORMATION

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Operating revenues:				
Alaska—mainline passenger ^(a)	\$ 819.9	\$ 702.3	\$ 1,522.3	\$ 1,289.3
Alaska—regional passenger ^(a)	194.3	82.6	370.8	158.7
Total Alaska passenger revenues	\$ 1,014.2	\$ 784.9	\$ 1,893.1	\$ 1,448.0
Alaska—other revenues	94.1	87.6	178.0	162.1
Total Alaska operating revenues	\$ 1,108.3	\$ 872.5	\$ 2,071.1	\$ 1,610.1
Horizon—brand flying ^(b)	—	100.9	—	190.2
Horizon—CPA	93.5	67.4	188.1	133.8
Horizon—other revenues	1.9	2.8	4.3	5.5
Total Horizon operating revenues	\$ 95.4	\$ 171.1	\$ 192.4	\$ 329.5
Elimination of inter-company revenues	(93.5)	(67.4)	(188.1)	(133.8)
Consolidated operating revenues	\$ 1,110.2	\$ 976.2	\$ 2,075.4	\$ 1,805.8
Operating expenses:				
Alaska—mainline, excluding fuel	\$ 498.4	\$ 476.4	\$ 996.1	\$ 941.7
Alaska—mainline fuel	356.1	214.5	512.5	386.2
Alaska—regional	179.5	74.3	350.5	146.8
Total Alaska operating expenses	\$ 1,034.0	\$ 765.2	\$ 1,859.1	\$ 1,474.7
Horizon ^(c)	110.6	167.5	210.9	327.5
Other ^(d)	1.3	1.2	1.9	2.0
Elimination of inter-company expenses	(93.5)	(67.4)	(188.1)	(133.8)
Consolidated operating expenses	\$ 1,052.4	\$ 866.5	\$ 1,883.8	\$ 1,670.4
Nonoperating expenses:				
Alaska	\$ (6.9)	\$ (10.8)	\$ (15.8)	\$ (21.7)
Horizon ^(c)	(4.2)	(4.8)	(8.1)	(9.4)
Other ^(d)	0.3	(0.1)	—	(0.1)
Consolidated nonoperating expenses	\$ (10.8)	\$ (15.7)	\$ (23.9)	\$ (31.2)
Income (loss) before income tax:				
Alaska—mainline	\$ 51.8	\$ 87.6	\$ 173.9	\$ 100.9
Alaska—regional	15.6	8.9	22.3	12.8
Total Alaska	\$ 67.4	\$ 96.5	\$ 196.2	\$ 113.7
Horizon ^(c)	(19.4)	(1.2)	(26.6)	(7.4)
Other ^(d)	(1.0)	(1.3)	(1.9)	(2.1)
Consolidated income before income tax	\$ 47.0	\$ 94.0	\$ 167.7	\$ 104.2

	June 30, 2011	December 31, 2010
Total assets at end of period:		
Alaska	\$ 4,888.3	\$ 4,610.2
Horizon	816.2	747.2
Other ^(d)	1,509.5	1,375.6
Elimination of inter-company accounts	<u>(1,980.2)</u>	<u>(1,716.4)</u>
Consolidated	\$ 5,233.8	\$ 5,016.6

(a) Alaska mainline passenger revenue represents revenue from passengers aboard Alaska jets. Alaska regional passenger revenue represents revenue earned by Alaska on capacity provided by Horizon, SkyWest Airlines and another small third-party carrier in the state of Alaska under capacity purchase arrangements.

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

(c) Includes special charges of \$26.8 million and \$36.9 million for the three and six months ended June 30, 2011 related to fleet transition charges at Horizon.

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

NOTE 12. CONTINGENCIES

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

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

OVERVIEW

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

- *Second Quarter in Review* - highlights from the second quarter of 2011 outlining some of the major events that happened during the period and how they affected our financial performance.
- *Results of Operations* - an in-depth analysis of the results of operations for the three and six months ended June 30, 2011. We believe this analysis will help the reader better understand our condensed consolidated statements of operations. This section also includes forward-looking statements regarding our view of the remainder of 2011.
- *Critical Accounting Estimates* - a discussion of our accounting estimates that involve significant judgment and uncertainties.
- *Liquidity and Capital Resources* - an analysis of cash flows, sources and uses of cash, contractual obligations, and commitments, and an overview of financial position.

Our filings with the Securities and Exchange Commission, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are accessible free of charge at www.alaskaair.com. The information contained on our website is not a part of this quarterly report on Form 10-Q.

SECOND QUARTER IN REVIEW

Our consolidated pretax income was \$47.0 million during the second quarter of 2011 compared to \$94.0 million in the second quarter of 2010. The decline in our pretax earnings was primarily due to the \$142.5 million increase in aircraft fuel along with increases in other operating costs, partially offset by a \$134.0 million increase in operating revenues.

- Economic fuel averaged \$3.28 per gallon in the second quarter of 2011, compared to \$2.30 per gallon in 2010. This resulted in an \$109.2 million increase in our economic fuel expense compared to the second quarter of 2010. Also, both periods reported mark-to-market losses associated with our fuel hedge positions, although the loss in the second quarter of 2011 was \$33.3 million larger than the loss reported in the same period of 2010.
- Consolidated unit revenues increased 6.0% compared to the second quarter of 2010, from increases in both the ticket yield and load factors. More detail regarding these increases can be found in the "Comparison of the Three Months Ended June 30, 2011 to the Three Months Ended June 30, 2010" section below.

Excluding the mark-to-market adjustment and fleet transition charges, we reported record second quarter net income of \$89.6 million for the three months ended June 30, 2011 compared to \$84.0 million for the same period in 2010. Please refer to our reconciliation of these non-GAAP measures to the most directly comparable GAAP measure our pretax income in the "Comparison of the Three Months Ended June 30, 2011 to the Three Months Ended June 30, 2010" section below.

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

Customer Satisfaction Award

For the fourth year in a row, Alaska Airlines ranked "Highest in Customer Satisfaction among Traditional Network Carriers" in 2011 by J.D. Power & Associates.

Horizon Fleet Transition

Horizon's long-term goal has been to transition to an all-Q400 fleet. During the second quarter of 2011, we removed the final nine CRJ-700 aircraft from Horizon's operations through sublease to a third party carrier, resulting in a charge of \$20.8 million. Five of the nine aircraft removed during the second quarter are now being flown by SkyWest Airlines on behalf of Alaska Airlines pursuant to a capacity purchase agreement.

Horizon recorded a charge of \$6 million in the second quarter of 2011 related to its 16 non-operational Q200 aircraft currently subleased to a third-party carrier. We evaluated the associated liability in the second quarter of 2011 and determined the ultimate loss for these aircraft will be higher than the original estimate.

Operational Performance

Alaska's operational results continue to be among the best in the industry. Alaska Airlines held the No. 1 spot on the U.S. Department of Transportation on-time performance among the 10 largest U.S. airlines for the last twelve months ending in May. According to FlightStats.com, Alaska once again came out on top among the top 10 carriers. Furthermore, Alaska and Horizon ranked in second and third place among all U.S.-based carriers in June that FlightStats tracks. Horizon has also seen significant improvements in on-time arrival performance in recent months.

New Markets

Alaska began daily regional non-stop seasonal service between Portland and Billings, and between Portland and Missoula in June 2011 and recently announced daily service between San Diego and Honolulu beginning November 17, 2011.

Stock Repurchase

In April 2011, the Company completed the \$50 million share repurchase program authorized by the Board of Directors in June 2010. Under this program, 866,800 total shares were repurchased, 77,800 during the second quarter of 2011. In June 2011, the Board of Directors authorized the Company to repurchase another \$50 million of its common stock. Through June 30, 2011 the Company had repurchased 31,500 shares of its common stock for \$2.1 million under this program. Since 2007, the Company has repurchased nearly 7.6 million shares of its common stock under such programs.

Outlook

Our primary focus every year is to run safe, compliant and reliable operations at our airlines. In addition to our primary objective, our key initiative in 2011 has been and continues to be a focus on optimizing revenue through our network planning and, to a lesser extent, the way we merchandise fares and ancillary products and services on our website and through mobile applications.

As we look to the remainder of 2011, there are some concerns that the economy is softening and the ability of the airlines to raise ticket prices will be enough to cover higher fuel costs. We will be monitoring passenger demand and advance bookings closely and will be diligent in our efforts to continue to match capacity with demand. As of the date of this report, however, our advance bookings for the third quarter are strong. Advance booked load factors are in line with prior year for the third quarter compared to 2010 on a 5% expected increase in capacity.

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED JUNE 30, 2011 TO THREE MONTHS ENDED JUNE 30, 2010

Our consolidated net income for the second quarter of 2011 was \$28.8 million, or \$0.78 per diluted share, compared to net income of \$58.6 million, or \$1.60 per diluted share, in the second quarter of 2010. Significant items impacting the comparability between the periods are as follows:

- Both periods include adjustments to reflect the timing of net unrealized mark-to-market gains or losses related to our fuel hedge positions. In the second quarter of 2011 we recognized net mark-to-market losses of \$70.9 million (\$44.1 million after tax, or \$1.21 per share) compared to losses of \$37.6 million (\$23.3 million after tax, or \$0.63 per share) in the second quarter of 2010.

[Table of Contents](#)

- The second quarter of 2011 includes Horizon fleet transition costs of \$26.8 million (\$16.7 million after tax, or \$0.45 per share) compared to \$3.4 million (\$2.1 million, or \$0.06 per share) in the second quarter of 2010.

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

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

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

Excluding the mark-to-market adjustments and other noted items shown in the following table, our adjusted consolidated net income for the second quarter of 2011 was \$89.6 million, or \$2.44 per diluted share, compared to an adjusted consolidated net income of \$84.0 million, or \$2.29 per share, in the second quarter of 2010.

(in millions except per share amounts)	Three Months Ended June 30,			
	2011		2010	
	Dollars	Diluted EPS	Dollars	Diluted EPS
Net income and diluted EPS, excluding noted items	\$ 89.6	\$ 2.44	\$ 84.0	\$ 2.29
Fleet transition costs, net of tax	(16.7)	(0.45)	(2.1)	(0.06)
Adjustments to reflect the timing of gain or loss recognition resulting from mark-to-market fuel-hedge accounting, net of tax	(44.1)	(1.21)	(23.3)	(0.63)
Net income and diluted EPS as reported	\$ 28.8	\$ 0.78	\$ 58.6	\$ 1.60

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Consolidated:^(a)						
Revenue passengers (000)	6,246	5,875	6.3 %	11,998	11,100	8.1 %
Revenue passenger miles (RPM) (000,000)	6,293	5,706	10.3 %	12,146	10,754	12.9 %
Available seat miles (ASM) (000,000)	7,469	6,965	7.2 %	14,581	13,315	9.5 %
Revenue passenger load factor	84.3 %	81.9 %	2.4 pts	83.3 %	80.8 %	2.5 pts
Operating revenue per ASM (RASM)	14.86 ¢	14.02 ¢	6.0 %	14.23 ¢	13.56 ¢	4.9 %
Passenger revenue per ASM (PRASM)	13.58 ¢	12.72 ¢	6.8 %	12.98 ¢	12.3 ¢	5.5 %
Operating expense per ASM (CASM), excluding fuel and CRJ-700 fleet transition costs ^(b)	8.41 ¢	8.73 ¢	(3.7) %	8.61 ¢	9.05 ¢	(4.9) %
Economic fuel cost per gallon ^(b)	\$ 3.28	\$ 2.30	42.6 %	\$ 3.08	\$ 2.28	35.1 %
Fuel gallons (000,000)	99.7	94.3	5.7 %	196.0	180.8	8.4 %
Average number of full-time equivalent employees	11,807	11,717	0.8 %	11,846	11,707	1.2 %
Operating fleet at period-end	166	173	(7) a/c	166	173	(7) a/c
Mainline Jet Operating Statistics:						
Revenue passengers (000)	4,533	4,170	8.7 %	8,640	7,811	10.6 %
RPM (000,000)	5,697	5,072	12.3 %	10,976	9,544	15.0 %
ASM (000,000)	6,702	6,112	9.7 %	13,055	11,653	12.0 %
Revenue passenger load factor	85.0 %	83.0 %	2.0 pts	84.1 %	81.9 %	2.2 pts
Yield per passenger mile	14.39 ¢	13.85 ¢	3.9 %	13.87 ¢	13.51 ¢	2.7 %
PRASM	12.23 ¢	11.49 ¢	6.4 %	11.66 ¢	11.06 ¢	5.4 %
CASM, excluding fuel ^(b)	7.44 ¢	7.79 ¢	(4.5) %	7.63 ¢	8.08 ¢	(5.6) %
Economic fuel cost per gallon ^(b)	\$ 3.27	\$ 2.30	42.2 %	\$ 3.07	\$ 2.28	34.6 %
Fuel gallons (000,000)	87.1	79.6	9.4 %	170.2	151.9	12.0 %
Average number of full-time equivalent employees	8,899	8,621	3.2 %	8,892	8,579	3.6 %
Aircraft utilization (blk hrs/day)	10.5	10	5.0 %	10.5	9.7	8.2 %
Average aircraft stage length (miles)	1,104	1,076	2.6 %	1,111	1,072	3.6 %
Mainline operating fleet at period-end	117	116	1 a/c	117	116	1 a/c
Regional Operating Statistics:^(c)						
RPM (000,000)	596	634	(6.0) %	1,170	1,210	(3.3) %
ASM (000,000)	767	853	(10.1) %	1,526	1,662	(8.2) %
Revenue passenger load factor	77.7 %	74.3 %	3.4 pts	76.7 %	72.8 %	3.9 pts
PRASM	25.33 ¢	21.51 ¢	17.8 %	24.30 ¢	20.99 ¢	15.8 %

^(a) Except for revenue passengers and full-time equivalent employees, data includes information related to regional capacity purchase flying arrangements with Horizon Air, SkyWest and another third-party carrier in the state of Alaska.

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

^(c) Data includes information related to regional capacity purchase flying arrangements.

OPERATING REVENUES

Total operating revenues increased \$134.0 million, or 13.7%, during the second quarter of 2011 compared to the same period in 2010. The changes are summarized in the following table:

(in millions)	Three Months Ended June 30,		
	2011	2010	%Change
Passenger			
Mainline	\$ 819.9	\$ 702.3	16.7
Regional	194.3	183.5	5.9
Total passenger revenue	\$ 1,014.2	\$ 885.8	14.5
Freight and mail	29.1	28.1	3.6
Other - net	66.9	62.3	7.4
Total operating revenues	\$ 1,110.2	\$ 976.2	13.7

Passenger Revenue – Mainline

Mainline passenger revenue for the second quarter 2011 improved by 16.7% on a 9.7% increase in capacity and a 6.4% increase in passenger revenue per available seat mile (PRASM) compared to 2010. The increase in capacity is driven by annualization of new routes added in 2010 and new routes that began in the first half of the current year, most of which has been service to and from Hawaii. The increase in PRASM was driven by a 3.9% rise in ticket yield and a 2.0-point increase in load factor compared to the prior year.

Our mainline load factor in July 2011 was 88.5% compared to 87.4% in July 2010. Our mainline advance bookings currently suggest that load factors will be up about one point in August, two points in September and 1.5 points in October compared to the prior-year periods.

Passenger Revenue – Regional

Regional passenger revenue increased by \$10.8 million or 5.9% compared to the second quarter 2010 on a 17.8% increase in PRASM compared to 2010, partially offset by a 10.1% decline in capacity due to fewer flights. The increase in PRASM was driven by a 12.6% increase in ticket yield and a 3.4-point increase in load factor compared to the prior year.

Freight and Mail

Freight and mail revenue increased \$1.0 million, or 3.6%, primarily as a result of higher freight volumes on a strong seafood harvest in the state of Alaska, higher freight yields, and higher security and freight fuel surcharges. The increase in freight revenue was partially offset by lower mail revenue on lower volumes.

Other – Net

Other—net revenue increased \$4.6 million, or 7.4%, from 2010. The increase is primarily due to Mileage Plan revenues rising by 3.0 million driven by a larger number of miles sold to our affinity card partner and a contractual rate increase for those sold miles.

OPERATING EXPENSES

For the second quarter of 2011, total operating expenses increased \$185.9 million, or 21.5%, compared to 2010 mostly as a result of significantly higher fuel costs and higher fleet transition charges. 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:

(in millions)	Three Months Ended June 30,		
	2011	2010	%Change
Fuel expense	\$ 397.5	\$ 255.0	55.9
Non-fuel expenses	654.9	611.5	7.1
Total Operating Expenses	\$ 1,052.4	\$ 866.5	21.5

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

Wages and Benefits

Wages and benefits increased during the second quarter of 2011 by \$3.2 million, or 1.3%, compared to 2010. The primary components of wages and benefits are shown in the following table:

(in millions)	Three Months Ended June 30,		
	2011	2010	%Change
Wages	\$ 172.7	\$ 166.4	3.8
Pension and defined-contribution retirement benefits	22.6	23.2	(2.6)
Medical benefits	26.4	28.6	(7.7)
Other benefits and payroll taxes	21.1	21.4	(1.4)
Total wages and benefits	\$ 242.8	\$ 239.6	1.3

Wages increased slightly on a relatively flat FTE base and increases in average wage rates. Productivity as measured by the number of passengers per FTE increased 5.5% compared to 2010.

The 2.6% decline in pension and other retirement-related benefits is primarily due to a reduction in our defined-benefit pension cost driven by the improved funded status at the end of 2010 as compared to the previous year partially offset by a slight increase in defined-contribution expense.

Medical benefits decreased 7.7% from the prior year primarily due to a decline in employee healthcare claims, partially offset by an increase in post-retirement medical expense.

We expect wages and benefits to be higher in 2011 as compared to 2010 due to rate increases and additional flying.

Variable Incentive Pay

Variable incentive pay expense decreased from \$21.6 million in the second quarter of 2010 to \$17.9 million in the second quarter of 2011. The decrease is partially due to the fact that in 2010 our financial and operational results exceeded targets established by our Board more so than in 2011. For the full year 2011, we currently expect incentive pay to be approximately \$69 million compared to the \$92 million ultimately recorded in 2010.

Aircraft Fuel

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

Aircraft fuel expense increased \$142.5 million, or 55.9%, compared to the second quarter of 2010. The elements of the change are illustrated in the following table:

(in millions, except per-gallon amounts)	Three Months Ended June 30,		
	2011	2010	%Change
Fuel gallons consumed	99.7	94.3	5.7
Raw price per gallon	\$ 3.44	\$ 2.36	45.8
Total raw fuel expense	\$ 343.1	\$ 222.9	53.9
Net impact on fuel expense from (gains) and losses arising from fuel-hedging activities	54.4	32.1	NM
Aircraft fuel expense	\$ 397.5	\$ 255.0	55.9

NM - Not Meaningful

Fuel gallons consumed increased 5.7%, primarily as a result of an 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 45.8% as a result of higher West Coast jet fuel prices. West Coast jet fuel prices are impacted by both the higher price of crude oil, as well as increased refinery margins associated with the conversion of crude oil to jet fuel.

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

Our *economic fuel expense* is calculated as follows:

(in millions, except per-gallon amounts)	Three Months Ended June 30,		
	2011	2010	%Change
Raw fuel expense	\$ 343.1	\$ 222.9	53.9
Minus: net of cash received from settled hedges and premium expense recognized	(16.5)	(5.5)	NM
Economic fuel expense	\$ 326.6	\$ 217.4	50.2
Fuel gallons consumed	99.7	94.3	5.7
Economic fuel cost per gallon	\$ 3.28	\$ 2.30	42.2

NM - Not Meaningful

As noted above, the total net benefit recognized for hedges that settled during the period was \$16.5 million in 2011, compared to a net benefit of \$5.5 million in 2010. These amounts represent the cash received net of the premium expense recognized for those hedges.

We currently expect our economic fuel price per gallon to be significantly higher for the remainder of 2011 than in 2010 because of higher jet fuel prices. We expect economic fuel cost per gallon to be \$3.38 in the third quarter of 2011, although this estimate changes frequently based on fluctuations in crude oil and refining margins.

Aircraft Maintenance

Aircraft maintenance expense declined by \$4.7 million, or 8.7%, compared to the prior-year quarter primarily because of reduced costs associated with the return of leased aircraft, partially offset by higher airframe checks and component costs. We expect full year 2011 aircraft maintenance expense to decline from the prior year primarily due to these same reasons and lower expected engine maintenance costs at Horizon.

Aircraft Rent

Aircraft rent declined \$6.4 million, or 18.1%, compared to the prior-year quarter as a result of the removal of 11 leased CRJ-700 regional aircraft from operations in first half of 2011. We expect aircraft rent will be lower for the full year 2011 for these same reasons.

Contracted Services

Contracted services increased \$5.5 million, or 13.4%, compared to the prior-year quarter 2010 as a result of an increase in the number of flights to airports where vendors are used and an increase in contract labor. The increase is also the result of payments made to SkyWest Airlines for capacity flown on behalf of Alaska under a capacity purchase arrangement that began in May 2011. We expect contracted services will be higher for the full year 2011 due to increased volume and the impact of SkyWest flying.

Selling Expenses

Selling expenses increased by \$7.6 million, or 19.9%, compared to the second quarter of 2010 as a result of a planned increase in advertising and higher credit card commissions resulting from the increase in passenger revenues. We expect selling expenses will be higher for the full year 2011 due to higher revenue-related costs.

Depreciation and Amortization

Depreciation and amortization increased \$3.7 million, or 6.4%, compared to the second quarter of 2010. This is primarily due to additional B737-800 aircraft and Q400 aircraft deliveries in the first six months of 2011 and a full period of depreciation for aircraft delivered in 2010. We expect depreciation and amortization will be higher for all of 2011 compared to 2010 due to the full-year impact of aircraft that were delivered in 2010 and for 2011 aircraft deliveries.

Food and Beverage Service

Food and beverage costs increased \$2.8 million, or 19.6%, from the prior-year quarter due to an increased number of passengers, increase in sales of buy on board products, the higher cost of some of our fresh food items served on board, and increased costs associated with food delivery. We expect food and beverage costs will be higher for the full year compared to 2010 due to increased passenger and departure volumes.

Other Operating Expenses

Other operating expenses increased \$10.0 million, or 20.7%, compared to the prior-year quarter. The increase is primarily driven by supplies, higher personnel non-wage costs such as hotels, meals and per diems, higher passenger remuneration costs and property taxes. We expect other operating expenses will be higher for the full year of 2011 compared to 2010.

Fleet Transition Costs

We recorded \$20.8 million during the second quarter of 2011 related to the removal of nine CRJ-700 aircraft from our operations. We also recorded a charge of \$6.0 million reflecting a change in our estimated loss related to the Q200 aircraft previously operated by Horizon that are now subleased to a third-party operator.

Operating Costs per Available Seat Mile (CASM)

Our operating costs per ASM are summarized below:

	Three Months Ended June 30,		
	2011	2010	% Change
Consolidated:			
Total operating expenses per ASM (CASM)	14.09 ¢	12.44 ¢	13.3
Less the following components:			
Aircraft fuel, including hedging gains and losses	5.32 ¢	3.66 ¢	45.4
Fleet transition costs	0.36	0.05	NM
CASM, excluding fuel and fleet transition costs	8.41 ¢	8.73 ¢	(3.7)

	Three Months Ended June 30,		
	2011	2010	% Change
Mainline:			
Total mainline operating expenses per ASM (CASM)	12.75 ¢	11.30 ¢	12.8
Less the following components:			
Aircraft fuel, including hedging gains and losses	5.31 ¢	3.51 ¢	51.3
CASM, excluding fuel	7.44 ¢	7.79 ¢	(4.5)

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 by management.

- Cost per ASM (CASM) excluding fuel and certain special items is one of the most important measures used by management and by the Air Group Board of Directors in assessing quarterly and annual cost performance.
- CASM excluding fuel (and other items as specified in our plan documents) is an important metric for the employee incentive plan that covers all employees.
- CASM excluding fuel and certain special items is a measure commonly used by industry analysts, and we believe it is the basis by which they compare our airlines to others in the industry. The measure is also the subject of frequent questions from investors.
- Disclosure of the individual impact of certain noted items provides investors the ability to measure and monitor performance both with and without these special items. We believe that disclosing the impact of certain items, such as fleet transition costs, is important because it provides information on significant items that are not necessarily indicative of future performance. Industry analysts and investors consistently measure our performance without these items for better comparability between periods and among other airlines.
- Although we disclose our passenger unit revenues, we do not (nor are we able to) evaluate unit revenues excluding the impact that changes in fuel costs have had on ticket prices. Fuel expense represents a large percentage of our total operating expenses. Fluctuations in fuel prices often drive changes in unit revenues in the mid-to-long term. Although we believe it is useful to evaluate non-fuel unit costs for the reasons noted above, we would caution readers of these financial statements not to place undue reliance on unit costs excluding fuel as a measure or predictor of future profitability because of the significant impact of fuel costs on our business.

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

	Forecast Q3 2011	Change Y-O-Y	Forecast Full Year 2011	Change Y-O-Y
Consolidated:				
Capacity (ASMs in millions)	7,730	5%	29,600 - 29,800	6.5% - 7.5%
Cost per ASM excluding fuel and special items (cents)	8.2 - 8.3	(1)% - (2)%	8.45	(4)%

	Forecast Q3 2011	Change Y-O-Y	Forecast Full Year 2011	Change Y-O-Y
Mainline:				
Capacity (ASMs in millions)	6,930	6%	26,400 - 26,600	8% -9%
Cost per ASM excluding fuel and special items (cents)	7.3 - 7.4	(2)% - (3)%	7.6	(3)%

CONSOLIDATED NONOPERATING INCOME (EXPENSE)

Net nonoperating expense was \$10.8 million in the second quarter of 2011 compared to \$15.7 million in the second quarter of 2010. The \$6.3 million decrease in interest expense was primarily the result of lower interest rates and lower average debt balance. We expect that our consolidated nonoperating expense will be approximately \$18 million in the third quarter of 2011, which includes costs of approximately \$6 million associated with the prepayment of certain aircraft debt.

CONSOLIDATED INCOME TAX EXPENSE

See discussion below under "Comparison of Six Months Ended June 30, 2011 to Six Months Ended June 30, 2010."

COMPARISON OF SIX MONTHS ENDED JUNE 30, 2011 TO SIX MONTHS ENDED JUNE 30, 2010

Our consolidated net income for the six months ended 2011 was \$103.0 million, or \$2.80 per diluted share, compared to net income of \$63.9 million, or \$1.74 per diluted share, for the first six months of 2010. Significant items impacting the comparability between the periods are as follows:

- Both periods include adjustments to reflect the timing of net unrealized mark-to-market gains or losses related to our fuel hedge positions. For the first six months of 2011 we recognized net mark-to-market gains of \$11.1 million (\$6.9 million after tax, or \$0.19 per share) compared to losses of \$50.1 million (\$31.1 million after tax, or \$0.85 per share) in the first six months of 2010.
- The first half of 2011 includes Horizon fleet transition costs of \$36.9 million (\$22.9 million after tax, or \$0.63 per share), compared to \$3.4 million (\$2.1 million, or \$0.06 per share) in the same period of 2010.

Excluding the mark-to-market adjustments and the fleet transition costs, our adjusted consolidated net income for the first six months of 2011 was \$119.0 million, or \$3.24 per diluted share, compared to an adjusted consolidated net income of \$97.1 million, or \$2.65 per share, in the first six months of 2010.

(in millions except per share amounts)	Six Months Ended June 30,			
	2011		2010	
	Dollars	Diluted EPS	Dollars	Diluted EPS
Net income and diluted EPS, excluding noted items	\$ 119.0	\$ 3.24	\$ 97.1	\$ 2.65
Fleet transition costs, net of tax	(22.9)	(0.63)	(2.1)	(0.06)
Adjustments to reflect the timing of gain or loss recognition resulting from mark-to-market fuel-hedge accounting, net of tax	6.9	0.19	(31.1)	(0.85)
Net income and diluted EPS as reported	\$ 103.0	\$ 2.80	\$ 63.9	\$ 1.74

OPERATING REVENUES

Total operating revenues increased \$269.6 million, or 14.9%, during the first six months of 2011 compared to the same period in 2010. The changes are summarized in the following table:

(in millions)	Six Months Ended June 30,		
	2011	2010	%Change
Passenger			
Mainline	\$ 1,522.3	\$ 1,289.3	18.1
Regional	370.8	348.9	6.3
Total passenger revenue	\$ 1,893.1	\$ 1,638.2	15.6
Freight and mail	54.0	51.1	5.7
Other - net	128.3	116.5	10.1
Total operating revenues	\$ 2,075.4	\$ 1,805.8	14.9

Passenger Revenue – Mainline

Mainline passenger revenue for the first six months of 2011 improved by 18.1% on a 12.0% increase in capacity and a 5.4% increase in passenger revenue per available seat mile (PRASM) compared to 2010. The increase in capacity is driven by the annualization of new routes added in 2010, much of which was Hawaii. The increase in PRASM was driven by a 2.7% rise in ticket yield and a 2.2-point increase in load factor compared to the prior year.

Passenger Revenue – Regional

Regional passenger revenue increased by \$21.9 million or 6.3% compared to the first six months of 2010 on a 15.8% increase in PRASM compared to 2010, partially offset by a 8.2% decline in capacity. The increase in PRASM was driven by a 9.9% increase in ticket yield and a 3.9 point increase in load factor compared to the prior year.

Freight and Mail

Freight and mail revenue increased \$2.9 million, or 5.7%, primarily as a result of higher freight volumes and higher security and freight fuel surcharges, partially offset by lower mail volumes.

Other – Net

Other—net revenue increased \$11.8 million, or 10.1%, from 2010. The increase is primarily due to Mileage Plan revenues rising by \$6.6 million driven by a larger number of miles sold to our affinity card partner and a contractual rate increase for those sold miles.

OPERATING EXPENSES

For the first six months of 2011, total operating expenses increased \$213.4 million, or 12.8%, 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:

(in millions)	Six Months Ended June 30,		
	2011	2010	%Change
Fuel expense	\$ 592.0	\$ 462.3	28.1
Non-fuel expenses	1,291.8	1,208.1	6.9
Total Operating Expenses	\$ 1,883.8	\$ 1,670.4	12.8

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

Wages and Benefits

Wages and benefits increased during the first six months of 2011 by \$13.2 million, or 2.8%, compared to 2010. The primary components of wages and benefits are shown in the following table:

(in millions)	Six Months Ended June 30,		
	2011	2010	Change %
Wages	\$ 349.3	\$ 330.7	5.6
Pension and defined-contribution retirement benefits	45.2	46.8	(3.4)
Medical benefits	52.3	55.9	(6.4)
Other benefits and payroll taxes	45.3	45.5	(0.4)
Total wages and benefits	\$ 492.1	\$ 478.9	2.8

Wages increased on a 1.2% increase in FTEs primarily due to increased pilot and flight attendant wages as a result of increased flying, higher wage rates, and a signing bonus to Alaska's clerical, office and passenger service employees in connection with a new contract ratified in January 2011. Productivity as measured by the number of passengers per FTE increased 6.8% compared to 2010.

The 3.4% decline in pension and other retirement-related benefits is primarily due to a reduction in our defined-benefit pension cost driven by the improved funded status at the end of 2010 as compared to the previous year partially offset by a slight increase in defined-contribution expense.

Medical benefits decreased 6.4% from the prior year primarily due to a decline in employee healthcare claims, partially offset by an increase in post-retirement medical expense.

Variable Incentive Pay

Variable incentive pay expense decreased from \$39.5 million in first six months of 2010 to \$34.3 million in first six months of 2011. The decrease is partially due to the fact that in 2010 our financial and operational results exceeded targets established by our Board more so than in 2011.

Aircraft Fuel

Aircraft fuel expense increased \$129.7 million, or 28.1%, compared to the first six months of 2010. The elements of the change are illustrated in the following table:

(in millions, except per-gallon amounts)	Six Months Ended June 30,		
	2011	2010	%Change
Fuel gallons consumed	196.0	180.8	8.4
Raw price per gallon	\$ 3.23	\$ 2.31	39.8
Total raw fuel expense	\$ 632.1	\$ 418.1	51.2
Net impact on fuel expense from (gains) and losses arising from fuel-hedging activities	(40.1)	44.2	NM
Aircraft fuel expense	\$ 592.0	\$ 462.3	28.1

NM - Not Meaningful

Fuel gallons consumed increased 8.4%, primarily as a result of an 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 39.8% as a result of higher West Coast jet fuel prices. West Coast jet fuel prices are impacted by both the higher price of crude oil, as well as increased refinery margins associated with the conversion of crude oil to jet fuel.

Our *economic fuel expense* is calculated as follows:

(in millions, except per-gallon amounts)	Six Months Ended June 30,		
	2011	2010	%Change
Raw fuel expense	\$ 632.1	\$ 418.1	51.2
Minus: net of cash received from settled hedges and premium expense recognized	(29.0)	(5.9)	NM
Economic fuel expense	\$ 603.1	\$ 412.2	46.3
Fuel gallons consumed	196.0	180.8	8.4
Economic fuel cost per gallon	\$ 3.08	\$ 2.28	35.1

NM - Not Meaningful

As noted above, the total net benefit recognized for hedges that settled during the period was \$29.0 million in 2011, compared to a net benefit of \$5.9 million in 2010. These amounts represent the cash received net of the premium expense recognized for those hedges.

Aircraft Maintenance

Aircraft maintenance declined by \$8.4 million, or 7.6%, compared to the prior-year period primarily because of lower costs associated with aircraft returns and lower engine maintenance costs, partially offset by higher component and materials costs.

Aircraft Rent

Aircraft rent declined \$12.9 million, or 17.8%, compared to the prior-year period as a result of the return of three leased mainline aircraft in early 2010 and the removal of 11 leased CRJ-700 regional aircraft from operations in first half of 2011. The CRJ aircraft have been subleased to a third-party and the future expected discounted cash flows have been recorded as Fleet Transition Charges in the current period.

Contracted Services

Contracted services increased \$9.4 million, or 11.6%, compared to the prior-year period in 2010 as a result of an increase in the number of flights to airports where vendors are used and an increase in contract labor. The increase is also the result of payments made to SkyWest Airlines for capacity flown on behalf of Alaska under a capacity purchase arrangement that began in May 2011.

Selling Expenses

Selling expenses increased by \$13.8 million, or 19.2%, compared to the prior-year period in 2010 as a result of higher advertising costs, and higher credit card commissions and ticket distribution costs resulting from the increase in passenger traffic and average fares.

Depreciation and Amortization

Depreciation and amortization increased \$7.8 million, or 6.8%, compared to the prior-year period in 2010. This is primarily due to additional B737-800 aircraft and Q400 aircraft deliveries in the first six months of 2011 and a full period of depreciation for aircraft delivered in 2010.

Food and Beverage Service

Food and beverage costs increased \$5.6 million, or 21.1%, from the prior-year period due to an increased number of passengers, increase in sales of buy on board products, the 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 \$22.9 million, or 23.9%, compared to the prior-year period. The increase is primarily driven by supplies, higher personnel non-wage costs such as hotels, meals and per diems, higher passenger remuneration costs and property taxes.

Fleet Transition Costs

We recorded \$30.9 million during the first six months of 2011 related to the removal of 13 CRJ-700 aircraft from our operations. We also recorded a charge of \$6.0 million reflecting a change in our estimated loss related to the Q200 aircraft previously operated by Horizon that are now subleased to a third-party operator.

Operating Costs per Available Seat Mile (CASM)

Our operating costs per ASM are summarized below:

	Six Months Ended June 30,		
	2011	2010	% Change
Consolidated:			
Total operating expenses per ASM (CASM)	12.92 ¢	12.55 ¢	2.9
Less the following components:			
Aircraft fuel, including hedging gains and losses	4.05 ¢	3.47 ¢	16.7
Fleet transition costs	0.26 ¢	0.03 ¢	NM
CASM, excluding fuel and fleet transition costs	8.61 ¢	9.05 ¢	(4.9)

	Six Months Ended June 30,		
	2011	2010	% Change
Mainline:			
Total mainline operating expenses per ASM (CASM)	11.56 ¢	11.40 ¢	1.4
Less the following components:			
Aircraft fuel, including hedging gains and losses	3.93 ¢	3.32 ¢	18.4
CASM, excluding fuel	7.63 ¢	8.08 ¢	(5.6)

NM - Not Meaningful

CONSOLIDATED NONOPERATING INCOME (EXPENSE)

Net nonoperating expense was \$23.9 million in the first six months of 2011 compared to \$31.2 million in the same period of 2010. The \$8.5 million decrease in interest expense was primarily the result of lower interest rates and lower average debt balance, partially offset by swap breakage paid on debt instruments prepaid in the first half of 2011.

CONSOLIDATED INCOME TAX EXPENSE (BENEFIT)

Our effective income tax rate on pretax income for the first six months of 2011 was 38.6%, compared to 38.7% for the first six months of 2010. In arriving at this rate, we considered a variety of factors, including our forecasted full-year pretax results, the U.S. federal rate of 35%, expected nondeductible expenses and estimated state income taxes. We currently expect cash payments for federal income taxes to be substantially less than the amount provided on the income statement due to accelerated depreciation for tax purposes. We evaluate our tax rate each quarter and make adjustments when necessary. Our final effective tax rate for the full year is highly dependent on the level of pretax income or loss and the magnitude of any nondeductible expenses in relation to that pretax amount.

CRITICAL ACCOUNTING ESTIMATES

For information on our critical accounting estimates, see Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2010.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are our existing cash and marketable securities balance of \$ 1.2 billion (which represents 28% of trailing twelve months revenue) and our expected cash flow from operations. We also have other sources of liquidity, if necessary, such as the ability to finance unencumbered aircraft, our combined \$200 million bank line-of-credit facilities, and a “forward sale” of mileage credits to our affinity card bank partner.

During the first six months of 2011, we paid off the outstanding debt balances associated with two B737-800 aircraft totaling approximately \$51.8 million. In addition to debt prepayments, we repurchased \$33.3 million of our common stock in the first six months of 2011. We will continue to focus on preserving a strong liquidity position and evaluate our cash needs as conditions change.

We believe that our current cash and marketable securities balance of \$ 1.2 billion combined with future cash flows from operations and other sources of liquidity will be sufficient to fund our operations for the foreseeable future.

In our cash and marketable securities portfolio, we invest only in U.S. government securities, certain asset-backed obligations and corporate debt securities. We do not invest in equities or auction-rate securities. As of June 30, 2011, we had a \$13.1 million net unrealized gain on our cash and marketable securities balance.

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

(in millions, except per-share and debt-to-capital amounts)	June 30, 2011	December 31, 2010	Change
Cash and marketable securities	\$ 1,153.5	\$ 1,208.2	(4.5)%
Cash and marketable securities as a percentage of trailing twelve-months revenue	28%	32%	(4) pts
Long-term debt, net of current portion	\$ 1,154.9	\$ 1,313.0	(12.0)%
Shareholders' equity	\$ 1,206.5	\$ 1,105.4	9.1 %
Long-term debt-to-capital assuming aircraft operating leases are capitalized at seven times annualized rent	63%:37%	67%:33%	(4) pts

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

ANALYSIS OF OUR CASH FLOWS

Cash Provided by Operating Activities

Cash provided by operating activities was \$368.7 million during the first six months of 2011, compared to \$333.6 million during the same period of 2010. The increase in operating cash flow was primarily due to the improvement in earnings and the increase of cash inflows from advance ticket sales compared to the prior year. These increases were partially offset by the payment of 2010 incentive pay, which was larger than the payment of 2009 incentive pay made in the prior year. We typically generate positive cash flows from operations and expect to do so in 2011.

Cash Used in Investing Activities

During the first six months of 2011, cash used in investing activities was \$241.9 million, compared to \$239.9 million in 2010. Our capital expenditures were \$129.3 million higher in the first six months of 2011 as we purchased three B737-800 aircraft and eight Q400 aircraft compared to four B737-800 aircraft in the prior year. In addition, our receivable for the non-proprietary share of expenditures associated with Terminal 6 at Los Angeles International Airport (LAX) was \$44.6 million higher than 2010. Our plans to move to Terminal 6 at LAX are discussed later under "Los Angeles International Airport Improvements".

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

	2011	2012
Aircraft-related	\$ 305	\$ 315
Non-aircraft ^(a)	60	55
Total Air Group	\$ 365	\$ 370

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

Cash Used in Financing Activities

Cash used in financing activities during the first six months of 2011 was consistent with the prior year. We made debt prepayments of \$51.8 million and \$54.0 million during the first six months in 2011 and 2010. Additionally, we repurchased \$33.3 million of our common stock during the first six months of 2011, compared to \$26.3 million repurchased during the same period in 2010.

Bank Line-of-Credit Facility

We have two \$100 million credit facilities. Both facilities have variable interest rates based on LIBOR plus a specified margin. Borrowings on one of the \$100 million facilities, which expires in March 2013, are secured by aircraft. Borrowings on the other \$100 million facility, which expires in March 2014, are secured by certain accounts receivable, spare engines, spare parts and ground service equipment. There are no outstanding balances on these facilities at June 30, 2011. We have no immediate plans to borrow using either of these facilities. See Note 4 in the condensed consolidated financial statements for further discussion.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Aircraft Purchase Commitments

In January 2011, we executed an aircraft purchase agreement with Boeing for 15 B737 aircraft, two B737-800 aircraft and 13 B737-900ER aircraft, with deliveries starting late in 2012 and going through 2014. The agreement also includes options to purchase additional aircraft with delivery positions in 2016 and 2017.

Overall, we have firm orders to purchase 25 aircraft requiring future aggregate payments of \$894.0 million, as set forth below. Alaska has options to acquire 42 additional B737s and Horizon has options to acquire 10 additional Q400s.

The following table summarizes aircraft purchase commitments and payments by year as of June 30, 2011:

Aircraft	Delivery Period - Firm Orders						Total
	Jul. 1 - Dec. 31, 2011	2012	2013	2014	2015	Beyond 2015	
Boeing 737-800	—	6	3	1	2	—	12
Boeing 737-900ER	—	—	6	7	—	—	13
Total	—	6	9	8	2	—	25
Payments (millions) ^(a)	\$ 84.2	\$ 316.5	\$ 292.2	\$ 160.5	\$ 35.0	\$ 5.6	\$ 894.0

^(a) Includes pre-delivery payments to Boeing and Bombardier as well as final aircraft payments.

We paid cash for three B737-800 aircraft and eight Q400 aircraft deliveries in the first six months of 2011. Subsequent to the end of the quarter, we financed six of the Q400 deliveries through Export Development Canada, resulting in net proceeds of approximately \$106.0 million. We intend to use the proceeds to prepay an equivalent amount of existing debt for B737-900

aircraft, resulting in no incremental net debt as of the end of the third quarter of 2011. We expect to pay for firm orders beyond 2011 and the option aircraft, if exercised, through internally generated cash, long-term debt, or operating lease arrangements.

Contractual Obligations

The following table provides a summary of our principal payments under current and long-term debt obligations, operating lease commitments, aircraft purchase commitments and other obligations as of June 30, 2011.

(in millions)	Jul. 1 - Dec.						
	31, 2011	2012	2013	2014	2015	Beyond 2015	Total
Current and long-term debt obligations	\$ 189.1	\$ 201.8	\$ 159.8	\$ 125.1	\$ 110.4	\$ 622.6	\$ 1,408.8
Operating lease commitments ^(a)	77.3	214.0	172.7	155.2	120.9	330.5	1,070.6
Aircraft purchase commitments	84.2	316.5	292.2	160.5	35.0	5.6	894.0
Interest obligations ^(b)	36.0	64.2	53.1	45.5	39.8	107.4	346.0
Other obligations ^(c)	35.7	69.3	59.6	72.0	18.0	44.8	299.4
Total	\$ 422.3	\$ 865.8	\$ 737.4	\$ 558.3	\$ 324.1	\$ 1,110.9	\$ 4,018.8

^(a) Operating lease commitments generally include aircraft operating leases, airport property and hangar leases, office space, and other equipment leases. The aircraft operating leases include lease obligations for 16 leased Q200 aircraft and 14 CRJ-700 aircraft, all of which are no longer in our operating fleets. We have accrued for these lease commitments based on their discounted future cash flows as we remain obligated under the existing lease contracts on these aircraft.

^(b) For variable-rate debt, future obligations are shown above using interest rates in effect as of June 30, 2011.

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

Pension Obligations

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

Los Angeles International Airport Improvements

In 2009, we announced plans to move from Terminal 3 to Terminal 6 at Los Angeles International Airport (LAX). As part of this move, we have agreed to manage and fund up to \$175 million of the project during the design and construction phase. The project is estimated to cost approximately \$250 million and is expected to be completed in 2012. On April 19, 2011, the Company signed a funding agreement with the City of Los Angeles and Los Angeles World Airports, which would reimburse the Company for the majority of the construction costs either during the course of, or upon the completion of, construction. We anticipate that our proprietary non-reimbursable share will be approximately \$25 million of the total cost of the project. As of June 30, 2011, we had recorded \$75.9 million associated with this project in other assets, which represents total reimbursable project costs to date.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from the information provided in Item 7A “Quantitative and Qualitative Disclosure About Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2010 except as follows:

Market Risk – Aircraft Fuel

We hedge our exposure to the volatility of jet fuel prices using crude oil call options and, recently, jet fuel refining margin swap contracts. Call options are designed to effectively cap our cost of the crude oil component of fuel prices, allowing us to limit our exposure to increasing fuel prices. With these call option contracts, we still benefit from the decline in crude oil prices as there is no downward exposure other than the premiums that we pay to enter into the contracts. We believe there is risk in not hedging against the possibility of fuel price increases. We estimate that a 10% increase or decrease in crude oil prices as of June 30, 2011 would increase or decrease the fair value of our crude oil hedge portfolio by approximately \$64.9 million and \$55.4 million, respectively.

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

Financial Market Risk

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

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of June 30, 2011, an evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer (collectively, our “certifying officers”), of the effectiveness of the design and operation of our disclosure controls and procedures. These disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in our periodic reports filed with or submitted to the Securities and Exchange Commission (the SEC) is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms, and includes, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our certifying officers, as appropriate to allow timely decisions regarding required disclosure. Our certifying officers concluded, based on their evaluation, that disclosure controls and procedures were effective as of June 30, 2011.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

We made no changes in our internal control over financial reporting during the quarter ended June 30, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

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

Issuer Purchases of Equity Securities	Total Number of Shares Purchased	Average Price Paid per Share	Maximum approximate remaining dollar value of shares that can be purchased under the plan (2)
April 1, 2011 – April 30, 2011 ^(a)	77,800	62.52	
May 1, 2011 – May 31, 2011	—	—	
June 1, 2011 – June 30, 2011 ^(b)	31,500	66.65	
Total	109,300	\$ 63.71	\$ 47,900,525

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

^(b) Purchased pursuant to a \$50 million repurchase plan authorized by the Board of Directors in June 2011. This authorization expires in June 2012.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. OTHER INFORMATION

None.

ITEM 5. EXHIBITS

See Exhibit Index.

SIGNATURES

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

ALASKA AIR GROUP, INC.

Registrant

Date: August 3, 2011

By: /s/ Brandon S. Pedersen

Brandon S. Pedersen
Vice President/Finance and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

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

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

Exhibit No.	Description
10.1	Nonqualified Deferred Compensation Plan, as amended
10.2	1995 Elected Officers Supplementary Retirement Plan, as amended
10.3	2008 Performance Incentive Plan, Nonqualified Stock Option Agreement, as amended
10.4	2008 Performance Incentive Plan, Performance Stock Unit Award Agreement, as amended
10.5	2008 Performance Incentive Plan, Stock Unit Award Agreement, as amended
10.6	2008 Performance Incentive Plan, Stock Unit Award Agreement Incentive Award, as amended
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

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

Alaska Air Group, Inc.
Nonqualified Deferred Compensation Plan

Effective January 1, 1998

Restated As Of June 20, 2011

Table Of Contents

Page

Preamble1

Section 1: Definitions 1

1.1409A Account	2
1.2Account	2
1.3Administrative Committee	2
1.4Affiliated Companies	2
1.5Beneficiary	2
1.6Board	3
1.7Change of Control	3
1.8Change of Control Benefit	4
1.9Code	4
1.10Code Section 409A	4
1.11Company	4
1.12Compensation Committee	4
1.13Contribution	4
1.14Deferral Election Form	5
1.15Deferral Period	5
1.16Effective Date	5
1.17Elected Officer	5
1.18Eligible Employee	5
1.19Employer	6
1.20Enrollment Period	6
1.21ERISA	6
1.22Grandfathered Account	6
1.23Interest Bearing Fund	6
1.24Interest Rate	6
1.25Investment Fund	6
1.26Involuntary Termination.	7
1.28MIP	7
1.29Participant	7
1.30PBP	7
1.31Plan	7
1.32Plan Administrator	7
1.33Plan Year	7
1.34Plan Year Account	8
1.35Qualified Plan	8
1.36Re-Deferral Election	8
1.37Review Panel	8
1.38Separation from Service	8
1.39Unforeseeable Emergency	9
1.40Valuation Date	9
1.41Additional Definitions in Plan	9
(a)Deferred Retention Incentive: As defined in Section 9.1(a)	9
(b)Deferred Retention Incentive Account: As defined in Section 9.1(b)	9
(c)Deferred Retention Incentive Agreement: As defined in Section 9.1(c)	9
(d)Highly Compensated Employee: As defined in Section 9.1(d)	9

- (e) Irrevocability Date: As defined in Section 9.1(e) 9*
- (f) 1995 OSRP: As defined in Section 10.1 9*
- (g) Defined Contribution OSRP Plan: As defined in Section 10.1 9*
- (h) Eligibility Effective Date: As defined in Section 10.1(a) 9*
- (i) Eligible Elected Officer: As defined in Section 10.1(b) 10*
- (j) Irrevocability Date: As defined in Section 10.1(c) 10*
- (k) OSRP Account: As defined in Section 10.1(d) 10*
- (l) OSRP Eligible Compensation: As defined in Section 10.1(e) 10*
- (m) OSRP Employer Contribution: As defined in Section 10.1(f) 10*

Section 2: Eligibility And Participation 10

- 2.1 Enrollment 10
- 2.2 Termination of Participation 10
- 2.3 Inactive Participation 10
- 2.4 Annual Deferral Election 10
 - (a) Annual Deferral Election Procedure 10*
 - (b) Deadline for Deferral Election Form 11*

Section 3: Plan Contributions 11

- 3.1 Participant Deferrals 11
 - (a) Election of Deferral Percentage 11*
 - (b) Deferral Election Form; Enrollment Period 11*
- 3.2 Cancellation of Election 12
- 3.3 Deferral Period Election 12
- 3.4 Employer Contributions 12

Section 4: Accounts 12

- 4.1 Account(s) 12
 - (a) In General 12*
 - (b) Grandfathered Accounts and 409A Accounts 13*
- 4.2 Investment Earnings on Accounts 13
 - (a) Posting of Earnings to Accounts 13*
 - (b) Interest Rate 13*
 - (c) Investment Funds on and after January 1, 2007 14*

Section 5: Payment Of Benefits 15

- 5.1 Timing of Payments from the Plan 15
 - (a) For Plan Year Accounts within a Grandfathered Account 15*
 - (b) For Plan Year Accounts within a 409A Account 15*
 - 5.2 Benefit Amount 16
 - 5.3 Payment Form 17
 - (a) For Grandfathered Account 17*
 - (b) For 409A Account 17*
 - 5.4 Payment-Form Election 17
 - (a) For Each Plan Year Account in a Grandfathered Account 17*
 - (b) For Each Plan Year Account in a 409A Account 17*
 - (c) Re-Deferral Election for a Plan Year Account of a 409A Account 18*
 - (d) Special Transition-Year Election of Form of Payment 18*
 - 5.5 Hardship Distributions 18
 - (a) For Grandfathered Accounts 18*
-

(b)For 409A Accounts 19

Section 6: Change Of Control Benefits 19

- 6.1Change of Control Benefit 20
- 6.2Form of Payment 20
- 6.3Termination of Grandfathered Account Features of Plan 20

Section 7: Death Benefits 20

- 7.1Death After Benefit Payments Begin 20
- 7.2Death Before Benefit Payments Begin 20

Section 8: Vesting 20

- 8.1Vesting 20

Section 9: Deferred Retention Incentive Accounts 21

- 9.1Purpose 21
- 9.2Definitions 21
 - (a)Deferred Retention Incentive 21*
 - (b)Deferred Retention Incentive Account 21*
 - (c)Deferred Retention Incentive Agreement 21*
 - (d)Highly Compensated Employee 21*
 - (e)Irrevocability Date 22*
- 9.3Deferred Retention Incentive Account 22
 - (a)Election of Form of Benefit Payment 22*
 - (b)Special Rules for Form and Timing of Payments 22*
 - (c)Vesting 22*
 - (d)Other Terms Applicable to a Deferred Retention Incentive Account 23*

Section 10: Defined Contribution OSRP Accounts 23

- 10.1Purpose 23
- 10.2Definitions 23
 - (a)Eligibility Effective Date 23*
 - (b)Eligible Elected Officer 24*
 - (c)Irrevocability Date 25*
 - (d)OSRP Account 25*
 - (e)OSRP Eligible Compensation 25*
 - (f)OSRP Employer Contribution 26*
- 10.3Terms Applicable to OSRP Accounts 27
 - (a)Election of Form of Benefit Payment 27*
 - (b)Special Rules for Form and Timing of Payments 28*
 - (c)Vesting 28*
 - (d)Other Terms Applicable to an OSRP Account 28*

Section 11: Administrative Powers And Duties 29

- 11.1Administrative Oversight; Appointment of Plan Administrator 29
 - 11.2Powers and Duties 29
 - 11.3Committee Procedures 30
 - (a)Compensation Committee After July 1, 2006 30*
 - (b)Administrative Committee Prior to July 1, 2006 30*
 - 11.4Appointment of Agents 30
 - 11.5Administrative Expenses 30
-

11.6	Determinations	31
11.7	Claim and Review Procedure	31
	(a) <i>Application for Benefits</i>	31
	(b) <i>Denial of Application</i>	31
	(c) <i>Review Panel</i>	32
	(d) <i>Request for Review</i>	32
	(e) <i>Decision on Review</i>	32
	(f) <i>Rules and Procedures</i>	33
	(g) <i>Exhaustion of Administrative Remedies</i>	33
11.8	Exemption From Liability/Indemnification	33

Section 12: Amendment And Termination 34

12.1	Amendment or Termination	34
	(a) <i>Right to Amend or Terminate</i>	34
	(b) <i>Plan Termination</i>	34
	(c) <i>Procedures</i>	35

Section 13: Miscellaneous Provisions 35

13.1	Appendices	35
13.2	ERISA Status	35
13.3	Unfunded Nature of the Obligation	35
13.4	Facility of Payment	36
13.5	Governing Law	36
13.6	Limitation on Assignment; Domestic Relations Orders	36
	(a) <i>Limitation on Assignment, Attachment, Garnishment</i>	36
	(b) <i>Domestic Relations Orders</i>	36
13.7	No Additional Rights.	37
13.8	Notice	37
13.9	Severability	37
13.10	Tax Consequences and Withholding	37

Appendix I: Participating Employers 39

Appendix II: Deferred Retention Incentive Accounts 40

Appendix III: OSRP Accounts 41

Preamble

The purpose of this Alaska Air Group, Inc. Nonqualified Deferred Compensation Plan is to attract and retain capable individuals to serve as executive employees of Alaska Air Group, Inc. (the "Company") and of certain affiliated companies by providing a select group of executive or management employees the opportunity to defer receipt of compensation, to which the executives otherwise would be entitled currently.

The Plan is intended to qualify for exemption from Parts 2, 3 and 4 of Subtitle B of Title I of the Employee Retirement Income Security Acts of 1974, as amended ("ERISA"), as a plan which is unfunded and which is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees under Section 201(2), 301(a)(3) and 401(a)(1) of ERISA.

The Plan set forth in the following pages is adopted by the Company, effective January 1, 1998, as amended.

Effective January 1, 2003, the Plan was amended to incorporate the Performance Based Pay Plan (PBP), modifications in the claims and appeals procedures, and certain other minor modifications.

Effective January 1, 2005, the Plan was amended and restated to establish terms for 409A Accounts that are intended to comply with Code Section 409A, to preserve without modification the terms and conditions that apply to certain Grandfathered Accounts established prior to the 409A effective date, and to incorporate certain design modifications – for 409A Accounts – as approved by the Board.

Effective January 1, 2009, the Plan was amended to bring it into documentary compliance with final regulations under Code Section 409A. During the period January 1, 2005 through December 31, 2008, the Plan has been administered in accordance with its terms, to the extent consistent with Section 409A and applicable guidance, and otherwise in reasonable, good faith compliance with Section 409A.

The latest amendments, effective June 20, 2011, added OSRP Employer Contributions for certain future Participants.

Section 1: Definitions

Whenever capitalized in this Plan, the following capitalized terms shall have the meanings set forth below except where otherwise provided. As used in the Plan, the masculine, feminine, and neuter genders shall each be deemed to include the other or others.

1.1 409A Account

“409A Account” means the portion (if any) of a Participant’s Account that is governed by Code Section 409A by virtue of an amount having been deferred (or having become vested) on or after January 1, 2005. A Participant’s 409A Account shall consist of:

- (a) any Plan Year Account for a deferred PBP bonus award earned by the Participant during 2005 or any later year (and credited to the Participant’s Account in 2006 or any later year);
 - (b) any Deferred Retention Incentive Account held by the Participant; and
-

- (c) any OSRP Account held by the Participant.

1.2 Account

"Account" means one or more book reserve records maintained by the Company for the purpose of determining a Participant's benefits under the Plan. Also see the definitions for "409A Account" and "Grandfathered Account."

1.3 Administrative Committee

Prior to July 1, 2006, "Administrative Committee" means a committee appointed by the Chairman of the Board to serve as Plan Administrator pursuant to Section 11.

1.4 Affiliated Companies

"Affiliated Companies" or "Affiliate" means:

- (a) the Company;
- (b) any other corporation which is a member of a controlled group of corporations which includes the Company (as defined in Code Section 414(b));
- (c) any other trade or business under common control with the Company (as defined in Code Section 414(c)); or
- (d) any other member of an affiliated service group which includes the Company (as defined in Code Section 414(m)).

1.5 Beneficiary

"Beneficiary" means the person or persons entitled to receive a Participant's benefits payable under the Plan in the event of the Participant's death. The Beneficiary is the person or persons named in the Participant's latest written designation filed with the Plan Administrator, provided that the consent of the Participant's spouse (if any) is required for the election of a non-spouse Beneficiary and for any subsequent changes of the Participant's Beneficiary designation. Spousal consent must be in writing, name the designated Beneficiary and be notarized.

If no designation has been filed with the Plan Administrator, or if the person or persons designated do not survive the Participant, the Beneficiary shall be the following persons in the following order of priority: (1) the surviving spouse (regardless of length of marriage), and (2) the estate of the Participant.

If the Beneficiary dies after the death of the Participant, but before full distribution has been made to that Beneficiary, the balance, if any, shall be distributed to the estate of that deceased Beneficiary.

1.6 Board

"Board" means the Board of Directors of the Company, or a committee composed of fewer than all of the members of the Board of Directors of the Company that is authorized to act on behalf of the Board.

1.7 Change of Control

"Change of Control" means the occurrence of any of the following:

- (a) the Board approves (or, if approval of the Board is not required as a matter of law, the shareholders of the Company approve):
 - (i) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of common stock of the Company would be converted into cash, securities or other property, other than a merger of the Company in which the holders of common stock of the Company immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger;
 - (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Participant's Employer; or
 - (iii) the adoption of any plan or proposal for the liquidation or dissolution of the Participant's Employer;
- (b) at any time during a period of twenty-four (24) months, fewer than a majority of the members of the Board are Incumbent Directors. "Incumbent Directors" means:
 - (i) individuals who constituted the Board at the beginning of such period; and
 - (ii) individuals who were nominated or elected by all of, or a committee composed entirely of, the individuals described in (i); and
 - (iii) individuals who were nominated or elected by individuals described in (ii).
- (c) any person (as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) shall, as a result of a tender or exchange offer, open market purchases, privately-negotiated purchases or otherwise, become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of the then-outstanding securities of the Company ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of members of the Board ("Voting Securities" to be calculated as provided in paragraph (d) of Rule 13d-3 in the case of rights to acquire common stock of the Company) representing 20% or more of the combined voting power of the then-outstanding Voting Securities.

Unless the Board shall determine otherwise, a Change of Control shall not be deemed to have occurred by reason of any corporate reorganization, merger, consolidation, transfer of assets, liquidating distribution or other transaction entered into solely by and between the Company and an Employer, or any Affiliates thereof, provided such transaction has been approved by at least two-thirds (2/3) of the Incumbent Directors (as defined above) then in office and voting.

1.8 Change of Control Benefit

"Change of Control Benefit" shall apply to a Participant's Grandfathered Account (and not a Participant's 409A Account) and shall have the meaning stated in Section 6.1.

1.9 Code

"Code" means the Internal Revenue Code of 1986, as amended, and regulations promulgated under the Code.

1.10 Code Section 409A

"Code Section 409A" means the provisions of section 409A of the Code, as interpreted by any and all proposed or final regulations, or other published guidance of the Department of the Treasury or Internal Revenue Service.

1.11 Company

"Company" means Alaska Air Group, Inc., a corporation organized and existing under the laws of the State of Delaware, and its successors in interest.

1.12 Compensation Committee

"Compensation Committee" means the Compensation Committee of the Board.

1.13 Contribution

"Contribution" means a Participant's deferral of compensation that would otherwise have been payable currently to the Participant but which is instead allocated to the Participant's Account pursuant to Section 3.

1.14 Deferral Election Form

"Deferral Election Form" means an agreement between a Participant and the Company whereby the Participant elects pursuant to Section 3 to reduce his or her PBP (or pre-2003 MIP) bonus for a future Plan Year and the Company promises to pay the deferred compensation from the Plan in the future. The form and content of the Deferral Election Form shall be prescribed by the Plan Administrator. To comply with Code Section 409A, effective January 1, 2005, any Deferral Election Form that is delivered by an Eligible Employee on or after that date shall include: (a) the portion (if any) of the corresponding PBP bonus that the Eligible Employee elects to defer to a Plan Year Account, (b) the Deferral Period for that Plan Year Account, and (c) the form of payment elected by the Eligible Employee for that Plan Year Account in the case of a distribution resulting from the expiration of the Deferral Period. Notwithstanding the prior sentence, subject to any other applicable terms of this Plan, the Deferral Election Form may state a default time and/or form of payment, and any such default shall apply in the absence of an express election on the Deferral Election Form to the contrary.

1.15 Deferral Period

"Deferral Period" means the number of years selected by a Participant pursuant to Section 3 during which payment of his or her Contribution for a Plan Year shall be deferred, in the absence of an intervening event that results in an earlier distribution in accordance with other terms of this Plan.

1.16 Effective Date

"Effective Date" means January 1, 1998.

1.17 Elected Officer

"Elected Officer" means an officer of an Employer that is elected by the Board, pursuant to the bylaws of the Employer.

1.18 Eligible Employee

"Eligible Employee" means an Employee who is eligible to defer any or all of his or her PBP (or pre-2003 MIP) bonus under the terms of Sections 2 through 8 of this Plan. An Eligible Employee shall be any individual who is:

- (a) employed by an Employer as a common law employee for federal employment tax purposes;
- (b) eligible for the PBP (or pre-2003 MIP); and
- (c) named by the Compensation Committee (or, prior to July 1, 2006, the Board), or whose position is at a level or title approved by the Compensation Committee (or, prior to July 1, 2006, the Board), to participate in the Plan.

1.19 Employer

"Employer" means each and any employing company that participates in this Plan. Employers shall include the Company and any Affiliate that adopts this Plan in writing with the consent of the Board, and agrees to be bound by the terms and conditions of the Plan and any amendments or modifications thereto, and which is listed in Appendix I. In the event an Employer ceases participation in the Plan, the date participation ceases shall be indicated in the Appendix.

1.20 Enrollment Period

"Enrollment Period" means an election period that is established by the Plan Administrator for submission of a Deferral Election Form pursuant to Section 3.1. The deadline for an Enrollment Period, and the date as of which a Deferral Election Form shall become irrevocable, shall be as stated in Section 2.4(b).

1.21 ERISA

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and regulations promulgated thereto.

1.22 Grandfathered Account

"Grandfathered Account" means the portion (if any) of a Participant's Account that is exempt from Code Section 409A by virtue of a PBP (or MIP) bonus (or any portion thereof) having been earned and vested on or before December 31, 2004, and earnings (and losses) thereafter accruing. A Grandfathered Account shall consist of any one or more Plan Year Accounts for deferred, vested amounts derived from PBP (or MIP) bonus awards earned during 2004 or any prior year (credited to the Plan in 2005 or any prior year). Because a PBP bonus program participant in 2004 (under the terms of the PBP program, as then administered) accrued a vested right to a PBP bonus on December 31st of that year if he was an active Employee of the Employer on that date, the PBP bonus awarded in 2005 (and contributed to this Plan on or about the date when awarded), is considered vested on December 31, 2004, and that Contribution (if any) would therefore be considered part of a Participant's Grandfathered Account, in combination with any Plan Year Accounts for any prior years.

1.23 Interest Bearing Fund

“Interest Bearing Fund” means an Investment Fund offered under the Plan, on and after January 1, 2007, as further described in Section 4.2(b)(ii).

1.24 Interest Rate

“Interest Rate” shall have the meaning stated in Section 4.2(b).

1.25 Investment Fund

“Investment Fund” means the Interest Bearing Fund, and each of the other book-entry investment accounts offered to Participants by the Plan on and after January 1, 2007, to enable a Participant to direct the investment of his or her Contributions and Account. Each Investment Fund shall reflect the investment performance of a corresponding investment fund under the AlaskaSaver 401(k) Plan, as further described in Section 4.2(c).

1.26 Involuntary Termination

"Involuntary Termination" and its derivatives as the context requires (such as "involuntarily Terminated") means no longer employed by an Employer or Affiliated Company as a common law employee for federal employment tax purposes due to discharge, lay off, or similar Employer action.

1.27 MIP

Before January 1, 2003, "MIP" means the Alaska Air Group, Inc. Management Incentive Program, under which incentive compensation earned in 2002 and certain prior years was awarded annually.

1.28 Participant

"Participant" means each Eligible Employee (as provided in Sections 1.18 and 2), each eligible Highly Compensated Employee under Section 9 and each Eligible Elected Officer under Section 10, who participates in this Plan.

1.29 PBP

"PBP" means the Alaska Air Group, Inc. Performance Based Pay Plan, which became effective January 1, 2003.

1.30 Plan

"Plan" means the Alaska Air Group, Inc. Nonqualified Deferred Compensation Plan, as set forth herein and amended from time to time.

1.31 Plan Administrator

Effective July 1, 2006, “Plan Administrator” means a person appointed by the Compensation Committee, with responsibility for day-to-day administration of the Plan, and day-to-day administrative oversight of any third-party recordkeeper or other administrator(s) appointed by the Compensation Committee or Plan Administrator on or after that date. Prior to July 1, 2006, “Plan Administrator” means the Administrative Committee.

1.32 Plan Year

"Plan Year" means the calendar year beginning on the Effective Date and each subsequent calendar year.

1.33 Plan Year Account

As applied to deferred PBP (or pre-2003 MIP) bonuses, a "Plan Year Account" for a Participant means the sub-account of the Participant's Account that tracks the Contribution credited to the Participant's Account in a given Plan Year in accordance with the PBP (or pre-2003 MIP) deferral election made by the Participant in advance of that Plan Year (including investment earnings and losses on such Contribution).

As applied to a Deferred Retention Incentive, a Plan Year Account means the entire amount of a Participant's Deferred Retention Incentive Account (including investment earnings and losses thereon).

As applied to a Participant in the Defined Contribution OSRP Plan, a Plan Year Account means the entire amount of a Participant's OSRP Account, including all allocations credited to such OSRP Account (and investment earnings and losses thereon), in any and all Plan Years.

1.34 Qualified Plan

"Qualified Plan" means any defined contribution retirement plan that is qualified or is intended to be qualified under Code Section 401(k) and that is maintained by an Affiliated Company.

1.35 Re-Deferral Election

"Re-Deferral Election," as applied to any Plan Year Account (or any Deferred Retention Incentive Account or OSRP Account) within a Participant's 409A Account, means an election delivered by the Participant, in accordance with Section 5.4(c), to change the form of payment otherwise payable from such Account.

1.36 Review Panel

"Review Panel" shall have the meaning stated in Section 11.8(c).

1.37 Separation from Service

The term "Separation from Service" shall apply to any 409A Account (but not any Grandfathered Account) and shall be interpreted consistently with Code Section 409A. In general, an employee who is a Participant has a "Separation from Service" when the employee ceases to be employed by the Employer as a result of the employee's death, retirement, or other termination of employment (other than a transfer to an Affiliate).

Whether a Separation from Service has occurred shall be based on all of the relevant facts and circumstances. Provided, however, that an employee's employment relationship shall be treated as continuing intact while he or she is on military leave, sick leave, or other bona fide leave of absence, such as temporary employment by the government, if the period of such leave does not exceed six months or, if longer, so long as the employee's right to reemployment with the Employer is provided either by statute or by contract. If the period of leave exceeds six months and the employee's right to reemployment is not provided by statute or by contract, the employment relationship is deemed to terminate on the first date immediately following such six-month period. Anything to the contrary notwithstanding, a 29-month period shall be substituted for the six-month period in the event an employee's leave of absence is due to a medically determinable physical or mental impairment that can be expected to result in death or last for a

continuous period of at least six months and that causes the employee to be unable to perform the duties of his or her position or any substantially similar position.

1.38 Unforeseeable Emergency

The term "Unforeseeable Emergency" shall apply to a Participant's 409A Account other than a Deferred Retention Incentive Account or an OSRP Account, shall be interpreted consistently with Code Section 409A, and shall generally mean a Participant's severe financial hardship resulting from either:

- (a) an illness or accident of the Participant, or his or her spouse or "dependent" (as defined in Code Section 152(a)), and the related extraordinary and unforeseeable medical expenses;
- (b) loss of a Participant's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance);
- (c) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, such as the imminent foreclosure of or eviction from the Participant's primary residence, or extraordinary funeral expenses of a spouse or dependent (as defined above).

Generally, the purchase of a home and the payment of college tuition are not Unforeseeable Emergencies. Whether an event constitutes an Unforeseeable Emergency shall be determined by the Plan Administrator based on the relevant facts and circumstances of each case.

1.39 Valuation Date

Effective January 1, 2007, "Valuation Date" means each business day that is a valuation date under the terms of the AlaskaSaver 401(k) Plan. Prior to January 1, 2007, "Valuation Date" means the first day of each month or any other date the Plan Administrator designates from time to time.

1.40 Additional Definitions in Plan

The following terms are defined in the following subsections of Sections 9 and 10 of the Plan:

- (a) Deferred Retention Incentive: As defined in Section 9.2(a)
 - (b) Deferred Retention Incentive Account: As defined in Section 9.2(b)
 - (c) Deferred Retention Incentive Agreement: As defined in Section 9.2(c)
 - (d) Highly Compensated Employee: As defined in Section 9.2(d)
 - (e) Irrevocability Date: As defined in Section 9.2(e)
 - (f) 1995 OSRP: As defined in Section 10.1
 - (g) Defined Contribution OSRP Plan: As defined in Section 10.1
 - (h) Eligibility Effective Date: As defined in Section 10.2(a)
 - (i) Eligible Elected Officer: As defined in Section 10.2(b)
 - (j) Irrevocability Date: As defined in Section 10.2(c)
 - (k) OSRP Account: As defined in Section 10.2(d)
 - (l) OSRP Eligible Compensation: As defined in Section 10.2(e)
 - (m) OSRP Employer Contribution: As defined in Section 10.2(f)
-

Section 2: Eligibility And Participation

2.1 Enrollment

Each Eligible Employee shall become a Participant on the later of:

- (a) the Effective Date, or
- (b) the first day of the Plan Year to which the Eligible Employee's first Deferral Election Form relates.

2.2 Termination of Participation

A Participant's participation in the Plan will terminate when the Participant's Account balance under this Plan has been paid in full.

2.3 Inactive Participation

A Participant shall cease to be an active Participant upon written notification by the Board.

In that event, the Participant shall be considered an inactive Participant. An inactive Participant shall continue participation with respect to amounts credited to his or her Account, but no additional Contributions shall be credited to his or her Account pursuant to Section 3 after the date the Participant becomes inactive. The Accounts of inactive Participants shall continue to be adjusted for earnings and payments pursuant to Section 4. Effective January 1, 2007 and thereafter, an inactive Participant shall have the same rights as an active Participant to reallocate the investment of his or her Account among the Investment Funds of the Plan.

2.4 Annual Deferral Election

(a) Annual Deferral Election Procedure

The Plan shall offer an annual enrollment and deferral election process, consisting of an Enrollment Period of at least 10 business days during which each Eligible Employee shall be offered the opportunity to complete and deliver a Deferral Election Form. An individual who becomes an Eligible Employee shall be eligible to receive and deliver a Deferral Election Form during the annual Enrollment Period that next follows the date as of which he or she becomes an Eligible Employee.

(b) Deadline for Deferral Election Form

(i) For a Grandfathered Account

For Enrollment Periods in 2004 and prior years, the Enrollment Period shall occur in December of the calendar year in which the PBP (or pre-2003 MIP) award is being earned. The deadline date as of which any deferral election shall become irrevocable shall be determined and stated by the Plan Administrator in the notices accompanying a Deferral Election Form but shall not be later than December 31st of such year.

(ii) For a 409A Account

To comply with Code Section 409A, commencing with the Enrollment Period in

2005 pertaining to potential deferral of the PBP bonus to be awarded in the next following calendar year, and in each year thereafter, the deadline for the irrevocability of the Deferral Election Form shall not be later than:

- (A) June 30, in any year in which the PBP bonus being earned in such year is “performance-based” (as defined under Code Section 409A); or
- (B) December 31 of the calendar year prior to the year in which the PBP bonus will be earned, if the PBP bonus to be earned in the following year will not be “performance-based” (as defined under Code Section 409A).

Section 3: Plan Contributions

3.1 Participant Deferrals

(a) Election of Deferral Percentage

Except as provided in Section 3.2, a Participant may elect to defer receipt of some or all of a PBP (or a pre-2003 MIP) payment for a future Plan Year by completing a Deferral Election Form that specifies a percentage of the future PBP (or MIP) payment (in 1% increments) which the Participant elects to defer, and authorizes the Employer to make a corresponding payroll reduction from the Participant's PBP (or MIP) award.

(b) Deferral Election Form; Enrollment Period

Each Eligible Employee shall be afforded an opportunity to make an annual deferral election during an Enrollment Period for a Plan Year as described in Section 2.4. Except as provided in Section 3.2, after the last day of the Enrollment Period for a Plan Year, a Participant cannot change or revoke the amount of PBP (or MIP) deferral elected on the Deferral Election Form, and the Participant may not thereafter modify the form or timing of distribution elected on the Deferral Election Form unless he or she complies with the requirements of the applicable provisions of Section 5.4. If a Participant fails to complete and submit a Deferral Election Form before the end of an Enrollment Period, the Participant is deemed to have elected not to defer any PBP (or pre-2003 MIP) bonus for the Plan Year to which the Enrollment Period applies.

3.2 Cancellation of Election

If a Participant receives a hardship distribution under a Qualified Plan any Deferral Election Form that applies to a PBP (or pre-2003 MIP) bonus payable during the six-month period following the date of the hardship distribution is deemed canceled. The Participant may resume deferrals for a future Plan Year by submitting another Deferral Election Form during any subsequent Enrollment Period that applies to a PBP (or pre-2003 MIP) bonus payable after the six-month period expires.

3.3 Deferral Period Election

On each Deferral Election Form, a Participant must elect a Deferral Period. The Deferral Period is measured from the first day of the Plan Year to which the Deferral Election Form relates. For example, a

Deferral Election Form delivered on June 30, 2005 for the PBP bonus payable in Plan Year 2006 would have a Deferral Period measured from January 1, 2006. The Deferral Period elected must be stated in whole Plan Years, and in no event will a Deferral Period be shorter than two (2) Plan Years. A Deferral Election Form shall become irrevocable on the last day of the Enrollment Period in which it is delivered.

3.4 Employer Contributions

No Employer Contributions are authorized under the Plan.

Section 4: Accounts

4.1 Account(s)

(a) In General

Each Plan Year, the Plan Administrator (or the designated third-party recordkeeper, if any) shall establish on the Company's books and records a Plan Year Account for that Plan Year in the name of each Participant for whom the PBP (or pre-2003 MIP) bonus for that Plan Year is deferred, in whole or in part. The Plan Administrator (or third-party recordkeeper) shall credit the Participant's Account as of the date the PBP (or pre-2003 MIP) was paid with the Participant's Contribution for that Plan Year. The Plan Administrator (or third-party recordkeeper) will credit earnings to each Account pursuant to Section 4.2.

(b) Grandfathered Accounts and 409A Accounts

Grandfathered Accounts shall be administered in accordance with the terms of this Plan that were in effect on or before October 3, 2004.

409A Accounts shall be administered in accordance with the terms of this Plan that expressly apply to 409A Accounts.

Where a provision of this Plan does not distinguish between Grandfathered Accounts and 409A Accounts, and such provision has not been materially modified since October 3, 2004, then such provision shall apply to both types of Accounts.

4.2 Investment Earnings on Accounts

(a) Posting of Earnings to Accounts

The Plan Administrator shall credit each Account with earnings as of each Valuation Date; provided, however, that this responsibility shall be delegated to the Plan's third-party recordkeeper whenever serving in that capacity.

(b) Interest Rate

(i) Crediting of Interest on and before December 31, 2006

On and before December 31, 2006, Earnings on each Account shall be determined exclusively with reference to an Interest Rate. There shall be a monthly Valuation Date, and the earnings credit for each monthly Valuation Date shall be determined by applying the Interest Rate to the Account balance determined as of the Valuation

Date for which earnings are being credited, reduced by any installment payment under Section 5.3(b) for that month. The Interest Rate for a Plan Year (for 2006, or for any prior Plan Year) is the mean between the high and the low during the first eleven months of the preceding Plan Year of yields of Ba2-rated industrial bonds as determined in the discretion of the Plan Administrator, rounded to the nearest one quarter of one percent (0.25%). The Plan Administrator will notify Participants annually of the established Interest Rate for the Plan Year.

(ii) Crediting of Interest on and after January 1, 2007

On and after January 1, 2007, the Plan shall offer a fixed principal, interest bearing fund (“Interest Bearing Fund”) as an alternative to the funds described in Section 4.2(c); provided, however, that the Interest Bearing Fund shall be closed to new investment transfers into that fund after the January 1, 2007 initial transfer of account balances held as of the close of business on December 31, 2006. Thereafter, a Participant may at any time transfer any or all of the balance of the Interest Bearing Fund to any other Investment Fund, or may hold existing balances in the Interest Bearing Fund.

There shall be a daily Valuation Date, at which time each Participant’s balance in the Interest Bearing Fund shall be credited with a day’s interest for each 24-hour period that has elapsed since the next prior daily Valuation Date, at a daily rate equal to the annual interest crediting rate for such year divided by 365. The annual interest rate shall be determined not later than December of the prior year, and shall be equal to the yield on a Moody’s index of Ba2-rated industrial bonds as of November of such prior year, rounded to the nearest one quarter of one percent (0.25%).

(c) Investment Funds on and after January 1, 2007

- (i) On and after January 1, 2007, the Plan shall offer – in addition to the Interest Bearing Fund described in Section 4.2(b)(ii) – a number of Investment Funds corresponding to, and mirroring the investment characteristics of, the respective investment funds offered under the AlaskaSaver 401(k) Plan. Except for the Interest Bearing Fund, if and when an investment fund is discontinued, or added to, the AlaskaSaver 401(k) Plan, the corresponding Investment Fund will be discontinued or added to this Plan.
 - (ii) Each such Investment Fund under this Plan shall be in the form of an unfunded book-entry account which shall, in each case, be credited on each daily Valuation Date, with earnings (or losses) that mirror the day-to-day investment performance of the corresponding investment fund under the AlaskaSaver 401(k) Plan (or the applicable interest rate in the case of the Interest Bearing Fund).
 - (iii) The investment fund that is designated from time to time as the default under the AlaskaSaver 401(k) Plan shall likewise serve as the default investment fund under this Plan in the event that a Participant or beneficiary neglects to make a timely election to direct the investment of his or her Account under this Plan.
-

- (iv) Each Participant who has an Account under the Plan shall have the right to direct the allocation of future Contributions to the Plan, and, separately, to redirect the allocation of his or her entire existing Account balance, from time to time in the manner and with the frequency determined by the Plan Administrator, as administered and interpreted by the recordkeeper for the Plan. A Participant shall not have the right to separately re-allocate the investment of the existing balance of a Plan Year Account (except in the case of a Participant whose entire Account balance consists of a single Plan Year Account).
- (v) The Plan Administrator shall have the discretion to determine rules relating to frequency, deadlines and other constraints on a Participant's right to direct the investment of Contributions and the re-allocation of Account balances. In the absence of adoption of a rule to the contrary by the Plan Administrator, the rules for investment direction and reallocation shall be identical to the rules that apply to the corresponding investment funds under the AlaskaSaver 401(k) Plan.

Section 5: Payment Of Benefits

The provisions of Sections 5.1 through 5.4 describe the timing and form of benefits under circumstances other than hardship or Unforeseeable Emergency (Section 5.5), Change of Control (Section 6), or death (Section 7).

5.1 Timing of Payments from the Plan

(a) For Plan Year Accounts within a Grandfathered Account

The timing of payments shall be in accordance with the terms of this Plan which were in effect as of October 3, 2004, as follows:

- (i) *At the End of the Deferral Period:* Except as provided in Section 5.1(a)(ii), payments to a Participant from any one or more Plan Year Accounts within a Grandfathered Account shall begin as soon as administratively feasible after the first day of the April immediately following the last day of the respective Deferral Period for each such Plan Year Account.
- (ii) *Upon Involuntary Termination:* In the event of a Participant's Involuntary Termination, payment of each Plan Year Account within a Grandfathered Account shall begin as soon as administratively practicable after the Participant's date of Involuntary Termination, regardless of the Deferral Period elected.

(b) For Plan Year Accounts within a 409A Account

- (i) *General Rule:* Except as provided in Section 5.1(b)(ii) through (iv), payments to a Participant from any one or more Plan Year Accounts in his or her 409A Account shall commence:
 - (A) in accordance with Section 5.1(a)(i), in the case of payments due to the expiration of the Deferral Period,
 - or
-

- (B) on the first business day of the seventh month after the Participant's termination of employment, in the case of payments due to Involuntary Termination. Provided, however, in no event shall payments for an Involuntary Termination begin prior to the first business day of the seventh month after the Participant's Separation from Service.
- (ii) *Separations At Early Age or With Short Service*: If a Participant has a Separation from Service prior to the date he or she has both attained age 55 and accrued at least five full Years of Service, the entire balance of his or her Plan Year Accounts within the 409A Account shall be payable in a single lump sum on the first business day of the seventh month after such Separation from Service.
- (iii) *Five-Year Delay in Payment Due to Re-Deferral Election*: In the case of a Participant's Re-Deferral Election that results in a change in the form of payment of any Plan Year Account in a Participant's 409A Account, the payment commencement date shall be delayed five years from the date the affected Plan Year Account would otherwise have commenced payment; provided, however, that the five-year delay described in this paragraph shall not apply to any distribution triggered by death or an Unforeseeable Emergency. Investment earnings shall continue to be credited to the Participant's Account during the period of delay and through the date the Account is fully distributed.
- (iv) *409A Account May Not Commence Payment in 2006*: Notwithstanding any other provision of this Plan to the contrary, a payment from a Plan Year Account of a 409A Account that would otherwise become payable between January 1 and December 31, 2006 shall commence instead on the later of (A) January 1, 2007, or (B) the date that is six months later than the deadline date established by the Plan Administrator for the special transition-year election in Section 5.4(d).

5.2 Benefit Amount

- (a) The amount payable from the Plan shall be based on the balance of the one or more Plan Year Accounts for which payments are then due, measured as of the most recent Valuation Date preceding the payment date.
- (b) If the form of payment is a lump sum, the amount payable shall be the entire balance of the applicable Plan-Year Account(s).
- (c) If the form of payment is five or 10 annual installments, the amount due shall be the balance of the applicable Plan-Year Account(s) divided by the number of annual installments remaining to be paid (including the installment then payable).

5.3 Payment Form

- (a) For Grandfathered Account

Except as provided in Section 5.4(a) (which provides for election of a lump sum as an optional form of payment), all benefits shall be paid in annual installments over ten (10) years. The amount of each installment shall be as stated in Section 5.2(c). All installment payments will be made as of April 1 of each year.

(b) For 409A Account

Except in the case of Separation from Service at an early age or with short service (where the entire Account shall be distributed as a lump sum), a Participant may elect on his or her Deferral Election Form for a Plan Year Account (or in a timely Re-Deferral Election) to receive payment from the Plan Year Account in any of the three following forms (commencing at the time, and in the amounts, stated in Section 5.1 and 5.2):

- (i) Lump sum
- (ii) Annual installments over five years; or
- (iii) Annual installments over ten years.

5.4 Payment-Form Election

(a) For Each Plan Year Account in a Grandfathered Account

Subject to approval of the Plan Administrator, a Participant may elect a single sum payment of his or her benefits provided that the election is made at least one (1) year before the April 1 as of which payments are to begin in accordance with the initial Deferral Election Form. Once benefit payments commence, the payment form cannot be changed by the Participant or Beneficiary. All payment-form elections shall be made in the form and manner prescribed by the Plan Administrator and shall be subject to approval of the Plan Administrator.

(b) For Each Plan Year Account in a 409A Account

- (i) *Election on Deferral Election Form:* For a 409A Account, at the time of completing his or her Deferral Election Form for a future PBP bonus, the Participant who is electing to defer any or all of such PBP bonus shall elect a form of payment, in accordance with Section 5.3(b), for that Plan Year Account. In the absence of a stated election of the form of payment (or in case of an election of a form of payment that is not permitted by the Plan), the Plan Year Account shall be payable in a lump-sum by default.
- (ii) *Irrevocable Election:* Except as provided in subsection (c) below, or in the absence of an intervening event that results in a lump-sum distribution becoming payable pursuant to the terms of this Plan, the Participant's election for the Plan Year Account of the 409A Account (or, in the absence of a timely election, the default form of payment) shall become irrevocable on the deadline stated in Section 2.4(b).

(c) Re-Deferral Election for a Plan Year Account of a 409A Account

As applied to a Plan Year Account of a 409A Account, the provisions of this subsection (c) shall be available to a Participant, with regard to either a deferred PBP bonus Account, a Deferred Retention Incentive Account or an OSRP Account. A Participant may elect to change the form of payment for a Plan Year Account (or for a Deferred Retention Incentive or OSRP Account), but only if (i) the new form of payment selected is an optional form under the then-existing terms of Section 5.3(b); and (ii) the new election form is received by the Plan Administrator in final signed form at least 12 full months prior to the date the

Plan Year Account (or Deferred Retention Incentive or OSRP Account) would otherwise have been due to commence payment.

(d) Special Transition-Year Election of Form of Payment

Not later than December 31, 2006, the Plan Administrator shall administer one or more special transition-year election processes that comply with the rule of Code Section 409A that allows a Participant to elect a form of payment for any Plan Year Account under a 409A Account as late as December 31, 2006. In each case, the Plan Administrator shall establish a deadline for the return of any such transition-year election. Any such election shall be treated as though it were a timely initial election of the form of payment of the respective Plan Year Account, rather than as a Re-Deferral Election.

5.5 Hardship Distributions

(a) For Grandfathered Accounts

The terms of this Section 5.5(a) shall apply to each Grandfathered Account.

A Participant may apply to the Plan Administrator for a hardship distribution from his or her Grandfathered Account before the date benefits would otherwise commence. Such a hardship distribution is subject to Plan Administrator approval, and is available only for an unanticipated emergency caused by an event beyond the Participant's control that results in a severe financial hardship. Examples of expenses that will not be considered severe financial hardships include the purchase of a residence and educational expenses. The amount of a hardship distribution may not exceed the amount needed to meet the emergency and may not exceed the value of the Participant's vested Accounts. A hardship distribution will be paid from the Employer's general assets, and the Participant's Account will be reduced as of the distribution date by the amount of the distribution.

(b) For 409A Accounts

The terms of this Section 5.5(b) shall apply to a Participant's 409A Account; provided, however, that a Participant's Deferred Retention Incentive Account or OSRP Account shall not be eligible for hardship withdrawal under this Plan.

In the event of a Participant's Unforeseeable Emergency, a Participant may request, and the Plan Administrator may approve, a withdrawal from the vested balance of the Participant's 409A Account (without regard to any Deferred Retention Incentive Account or OSRP Account). In such a case, the burden of proof shall be on the Participant to produce information sufficient to demonstrate to the Plan administrator the existence of the Unforeseeable Emergency, the inadequacy or lack of availability of other resources, and the amount required to satisfy the need.

- (i) Amount of Payment: Distributions because of an Unforeseeable Emergency shall be limited to the amount that the Plan administrator determines to be reasonably necessary to satisfy the emergency need (which may include amounts necessary to pay any Federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution).
-

- (ii) To the Extent Other Sources Are Insufficient: A distribution on account of an Unforeseeable Emergency may not be made to the extent that the emergency is or may be relieved through reimbursement from insurance or otherwise, or by liquidation of the Participant's assets, to the extent the liquidation of such assets would not cause severe financial hardship.
- (iii) Order of Withdrawal: The amount shall be withdrawn from a Participant's vested Account, starting with the Plan Year Account(s) scheduled to become payable at the earliest date, and then the one or more other Plan Year Account(s) in the chronological order that they are scheduled to become payable; provided, however, that no portion of such amount may be withdrawn from any Deferred Retention Incentive Account or OSRP Account.

Section 6: Change Of Control Benefits

The provisions of this Section 6 shall apply solely to a Participant's Grandfathered Account (if any), and not to a Participant's 409A Account; provided, however, that a 409A Account that is less than fully vested shall be 100% vested upon the occurrence of a Change of Control prior to a Participant's Separation from Service, as stated in Sections 9.3(c)(ii) and 10.3(c)(ii). Moreover, the special restriction on Plan amendments following a Change of Control, as stated in Section 12.1(a)(iii), shall apply to any Plan amendment, whether it affects Grandfathered Accounts, 409A Accounts, or both.

6.1 Change of Control Benefit

Notwithstanding any other provision of the Plan, in the event of a Change of Control, each Participant (or his or her Beneficiary), except a Participant Terminated For Cause before the date of the Change of Control, shall receive a Change of Control Benefit in accordance with this Section 6, in lieu of any other benefits payable under this Plan. A Participant's Change of Control Benefit shall be a lump-sum payment of the aggregate balance of the Participant's Grandfathered Account (if any), determined as of the Valuation Date immediately preceding the date of payment.

6.2 Form of Payment

All Change of Control Benefits shall be paid in the form of a single sum payment within sixty (60) days after a Change of Control.

6.3 Termination of Grandfathered Account Features of Plan

After payment of all Change of Control Benefits, the provision of this Plan that pertain to Grandfathered Accounts shall terminate automatically, and no Participant or Beneficiary will have any further rights with regard to Grandfathered Accounts under the Plan.

Section 7: Death Benefits

7.1 Death After Benefit Payments Begin

If a Participant dies after benefit payments have begun in a form other than a single sum, but before receiving all payments to which the Participant is entitled under the Plan, the aggregate balance of the

Participant's entire Account shall be paid to the Participant's Beneficiary in a single sum as soon as administratively feasible, but no later than 90 days, after the date of death.

7.2 Death Before Benefit Payments Begin

If a Participant dies before benefit payments begin, the aggregate balance of the Participant's entire Account shall be paid to the Participant's Beneficiary in a single sum as soon as administratively feasible, but no later than 90 days, after the date of death.

Section 8: Vesting

8.1 Vesting

Except as provided in Section 9 (“Deferred Retention Incentive Accounts”) and Section 10 (“Defined Contribution OSRP Accounts”), each Participant shall at all times have a vested, nonforfeitable right to all portions of the Participant's Account under this Plan.

Section 9: Deferred Retention Incentive Accounts

9.1 Purpose

The Chief Executive Officer of the Company (the “CEO”), with the approval of the Compensation Committee or in accordance with a policy approved by the Compensation Committee, may, in his or her sole discretion, from time to time, and for any one or more Highly Compensated Employees, grant a Deferred Retention Incentive and cause the Plan Administrator to establish a Deferred Retention Incentive Account under the Plan, all in accordance with this Section 9.

9.2 Definitions

(a) Deferred Retention Incentive

“Deferred Retention Incentive” means a grant negotiated and made by the CEO, with the approval of the Compensation Committee or in accordance with a policy approved by the Compensation Committee, to a Highly Compensated Employee (or to an individual who has accepted an offer of employment as a Highly Compensated Employee, subject to the individual actually commencing employment), which is expressed as a dollar amount to be credited to a Deferred Retention Incentive Account, subject to forfeiture or vesting. A Deferred Retention Incentive may serve as either a form of deferred hiring bonus, or as a form of deferred bonus for an active Employee that is intended to provide an incentive to continue to provide services to the Employer. Any Deferred Retention Incentive grants will be listed by name and date in Appendix II of this Plan.

(b) Deferred Retention Incentive Account

“Deferred Retention Incentive Account” means a 409A Account under this Plan for a Participant who is the recipient of a Deferred Retention Incentive grant, and which represents the principal amount of such grant and the earnings (or losses) of the Investment Funds in which such Account is invested by the Participant.

(c) Deferred Retention Incentive Agreement

“Deferred Retention Incentive Agreement” means a form-of-payment election form and a letter, in writing, from the CEO to the recipient of a Deferred Retention Incentive, countersigned by the recipient, stating the dollar amount of the grant, the effective date of the establishment of the Deferred Retention Incentive Account, and any other terms applicable to such grant which are not inconsistent with the terms of this Plan, and appending a copy of this Plan.

(d) Highly Compensated Employee

A “Highly Compensated Employee” means an Employee who is a member of a select group of management or highly compensated employees (within the meaning of §§ 201(2), 301(a)(3) and 401(a)(1) of ERISA), and who has been selected by the CEO, with the approval of the Compensation Committee or in accordance with a policy approved by the Compensation Committee, to receive a Deferred Retention Incentive under this Plan.

(e) Irrevocability Date

For purposes of this Section 9, “Irrevocability Date” shall mean the close of business on the 30th day following the date the Deferred Retention Incentive Agreement is delivered to the grantee of the Deferred Retention Incentive.

9.3 Deferred Retention Incentive Account

(a) Election of Form of Benefit Payment

Consistent with Section 5.3(b), the optional forms of payment for a Deferred Retention Incentive Account shall be:

- (i) Lump sum (which shall be the default form);
- (ii) Annual installments over five years; or
- (iii) Annual installments over ten years.

During the 30-day period starting with the date of delivery of a Deferred Retention Incentive Agreement and election form to a grant recipient, the recipient may elect one of the three optional forms of benefit. The form of benefit elected shall become irrevocable (except to the extent of any Re-Deferral Election under Section 5.4(c)) on the Irrevocability Date. In the absence of a complete and signed election being delivered by the Irrevocability Date, or in the event of death prior to the first anniversary of the Irrevocability Date, the default form of payment shall be a lump sum.

(b) Special Rules for Form and Timing of Payments

In the event of a Participant’s Separation from Service prior to attaining age 55 and five Years of Service, the elected form of benefit shall be disregarded, and the balance of the Deferred Retention Incentive Account shall be distributed as a lump sum, as further described in Section 5.1(b)(ii). Moreover, this Section 9.3 is subject to the terms of Section 7 (in the event of the Participant’s death).

(c) Vesting

The balance (including investment earnings or losses) of a Deferred Retention Incentive Account shall initially be 0% vested, and the balance shall vest according to the vesting terms stated in the Deferred Retention Incentive Agreement. Provided, however, that, notwithstanding any terms in any such Agreement to the contrary, under no circumstances may any portion of a Deferred Retention Incentive Account vest earlier than the first anniversary of the Irrevocability Date.

In the absence of terms to the contrary in the Deferred Retention Incentive Agreement, the balance of the Account shall vest during active employment as follows:

- (i) 100% vesting upon the death of the Participant prior to Separation from Service;
- (ii) 100% vesting upon a Change of Control prior to Separation from Service; provided, however, that no portion of the Account shall vest unless the Highly Compensated Employee remains in the Employer's service until the first anniversary of the Irrevocability Date;
- (iii) 20% vesting upon the completion of each full "Year of Service" (as that term is defined in the AlaskaSaver 401(k) Plan), with 100% vesting occurring upon the completion of the fifth such Year of Service; provided, however, that no portion of the Account shall vest earlier than the first anniversary of the Irrevocability Date.

(d) Other Terms Applicable to a Deferred Retention Incentive Account

In general, a Deferred Retention Incentive Account shall be subject to the terms of Sections 4, 5, 6, 7, 11, 12 and 13 of this Plan that apply to a Plan Year Account of a 409A Account. As the context requires, a reference in this Plan to a 409A Account (or a Plan Year Account of a 409A Account) shall be interpreted to include any Deferred Retention Incentive Account.

Section 10: Defined Contribution OSRP Accounts

10.1 Purpose

For certain Eligible Elected Officers who are not eligible to participate in or are not accruing benefits under the 1995 Elected Officers Supplemental Retirement Plan ("1995 OSRP"), this Section 10 (sometimes referred to as the "Defined Contribution OSRP Plan") serves as a complementary program for certain purposes similar to those served by the 1995 OSRP, for such individuals.

10.2 Definitions

(a) Eligibility Effective Date

The Eligibility Effective Date is the effective date of a Participant's participation in the Defined Contribution OSRP Plan. Before June 1, 2008, "Eligibility Effective Date" means the date determined by action of the Compensation Committee, or in accordance with a policy approved by that Committee. On and after June 1, 2008, "Eligibility Effective Date" means the 15th day after the date an Employee is promoted or hired into a position at a

level or with a title that, in accordance with a policy of the Company, entitles the Employee to participate in the Defined Contribution OSRP Plan. Employees who are actively participating in the 1995 OSRP immediately before January 1, 2014 shall automatically have an Eligibility Effective Date of January 1, 2014.

(b) Eligible Elected Officer

“Eligible Elected Officer” means an Employee of an Employer, as follows:

- (i) who occupies a position (or has accepted a position) as a member of a select group of management or highly compensated employees (within the meaning of §§ 201(2), 301(a)(3) and 401(a)(1) of ERISA);
- (ii) who either:
 - (A) (1) commences (or re-commences) employment as an Employee of an Employer after March 31, 2003, or is re-assigned or promoted to a different classification of employment after that date, and
 - (2) is not eligible upon the occurrence of the event in clause “(1)” above to actively participate in (i.e. accrue new or additional benefits under) a tax-qualified defined benefit pension plan maintained by his or her Employer for management employees;

or

(B) elected the enhanced Employer match program under the tax-qualified defined contribution plan maintained by the Employer instead of the Employer’s tax-qualified defined benefit pension plan, and was promoted on or after January 1, 2006 to an elected officer position; or

(C) was an active participant in the 1995 OSRP immediately before January 1, 2014, or

(D) was an active participant in the Alaska Air Group, Inc. Retirement Plan for Salaried Employees, as amended (the “Qualified Defined Benefit Plan”) and was promoted on or after June 20, 2011 to an elected officer position;

and

- (iii) who, before June 1, 2008, either

- (A) is approved by the Compensation Committee as eligible to participate in the Defined Contribution OSRP Plan, or

- (B) is hired or promoted into a position at a level or with a title, in accordance with a policy approved by the Compensation Committee, that is eligible to participate in the Defined Contribution OSRP Plan; and

who, on and after June 1, 2008, is hired or promoted into a position at a level or

with a title that, in accordance with a policy of the Company, is eligible to participate in the Defined Contribution OSRP Plan.

(c) Irrevocability Date

For purposes of this Section 10, “Irrevocability Date” shall mean the deadline for a Participant to elect a form of payment for the OSRP Account by returning a completed and signed form-of-benefit election form. The Irrevocability Date shall be the close of business on the 30th day following the Eligibility Effective Date.

(d) OSRP Account

“OSRP Account” means an Account established under the terms of this Section 10 for an Eligible Elected Officer. Any OSRP Accounts will be listed by the name of the Eligible Elected Officer and the Eligibility Effective Date in Appendix III of this Plan.

(e) OSRP Eligible Compensation

“OSRP Eligible Compensation” for a Participant for a Plan Year means the sum of:

- (i) the gross amount of base recurring salary paid to the Participant during the Plan Year (or, if less, the portion of the Plan Year during which the Participant was an Eligible Elected Officer); plus
- (ii) the gross amount of any short-term annual cash bonus awarded to the Participant, if paid or payable as of a date when the Participant was an Eligible Elected Officer.

The amounts in “(i)” and “(ii)” shall each be the gross dollar amount determined prior to any tax withholding, other deductions or withheld after-tax or pre-tax amounts, or any pre-tax deferrals to any Account in this Plan or any other qualified or nonqualified deferred compensation plan or arrangement.

(f) OSRP Employer Contribution

“OSRP Employer Contribution” for a Plan Year means an annual Employer contribution to the OSRP Account of each Participant who is an active Eligible Elected Officer during part or all of such Plan Year. The amount of the annual OSRP Employer Contribution for a Plan Year shall be equal to A *plus* B where:

A is (i) the Applicable Percentage of the Participant’s OSRP Eligible Compensation; *minus*

(ii) the amount of Employer matching contributions that would have been credited during the Plan Year to the Participant’s individual account under the Qualified Plan in which he or she is eligible to participate, determined as if the Participant had contributed the maximum legally permissible amount of matchable elective deferrals to the Qualified Plan during the Plan Year (or, if less, the portion of the Plan Year in which he or she was eligible to defer to the Qualified Plan) plus the amount of any Employer non-elective contributions credited during the Plan Year to the Participant’s individual account under the Qualified Plan. In the case of Participants who first begin participating in the Defined Contribution OSRP Plan on or after June 20, 2011 and immediately before such date were active participants in the Qualified Defined Benefit Plan, the amount of Employer

matching and non-elective contributions shall be deemed to be twelve (12) percent of creditable compensation under the Qualified Plan through the 2013 Plan Year.

And

B is the amount of Employer matching contributions (adjusted for earnings and losses) that were made on the Participant's behalf to the Qualified Plan and forfeited because of the actual deferral percentage test under Code Section 401(k)(3) and the contribution percentage test under Code Section 401(m).

For Participants who first begin participating in the Defined Contribution OSRP Plan before June 20, 2011, the Applicable Percentage is ten (10) percent.

For Participants who first begin participating in the Defined Contribution OSRP Plan on or after June 20, 2011 and immediately before such date were not active participants in the Qualified Defined Benefit Plan, the Applicable Percentage is six (6) percent.

For Participants who first begin participating in the Defined Contribution OSRP Plan on or after June 20, 2011 and immediately before such date were active participants in the Qualified Defined Benefit Plan, the Applicable Percentage is twelve (12) percent.

For Participants who first begin participating in the Defined Contribution OSRP Plan on January 1, 2014 and immediately before such date were active participants in the 1995 OSRP, the Applicable Percentage is twelve (12) percent.

Notwithstanding the above, the Compensation Committee may, from time to time in its sole discretion, specify a different Applicable Percentage for any Participant if it deems the circumstances compelling. For current Participants, such Applicable Percentage shall take effect as of the beginning of the Plan Year next following the Compensation Committee's action. For new Participants, the Compensation Committee shall specify the Applicable Percentage no later than the Participant's Irrevocability Date and such Applicable Percentage shall apply to OSRP Eligible Compensation earned after the Compensation Committee's action.

The amount of the OSRP Employer Contribution shall be determined and credited to a Participant's OSRP Account as soon as practicable following the end of a Plan Year; provided, however, for a Participant who has a Separation from Service (or dies) during a Plan Year, the amount shall be determined and credited to the OSRP Account as soon as practicable following the event triggering a distribution.

10.3 Terms Applicable to OSRP Accounts

(a) Election of Form of Benefit Payment

Consistent with Section 5.3(b), the optional forms of payment for an OSRP Account shall be:

- (i) Lump sum (which shall be the default form);
 - (ii) Annual installments over five years; or
-

(iii) Annual installments over ten years.

During the 30-day period starting with a Participant's Eligibility Effective Date, the Participant may elect one of the three optional forms of benefit, and the form of benefit elected shall become irrevocable (except to the extent of any Re-Deferral Election under Section 5.4(c)) on the Irrevocability Date. In the absence of a complete and signed election being delivered by the Irrevocability Date, or in the event of death prior to the first anniversary of the Irrevocability Date, the default form of payment shall be a lump sum.

Notwithstanding the previous paragraph, a Participant who first becomes an Eligible Elected Officer prior to December 31, 2006 shall make his or her initial election of the form of payment for the OSRP Account in a special 2006 transition-year election process, as described in Section 5.4(d).

(b) Special Rules for Form and Timing of Payments

In the event of a Participant's Separation from Service prior to attaining age 55 and five Years of Service, the elected form of benefit shall be disregarded, and the balance of the Deferred Retention Incentive Account shall be distributed as a lump sum, as further described in Section 5.1(b)(ii). Moreover, this Section 10.3 is subject to the terms of Section 7 (in the event of the Participant's death).

(c) Vesting

The balance (including investment earnings or losses) of an OSRP Account shall initially be 0% vested, and shall vest as follows:

- (i) 100% vesting upon the death of the Participant prior to Separation from Service;
- (ii) 100% vesting upon a "Change of Control prior to Separation from Service; provided, however, that no portion of the Account shall vest unless the Eligible Elected Officer remains in the Employer's service until the first anniversary of the Irrevocability Date.
- (iii) 20% vesting upon the completion of each full "Year of Service" (as that term is defined in the AlaskaSaver 401(k) Plan), with 100% vesting occurring upon the completion of the fifth such Year of Service; provided, however, that no portion of the Account shall vest earlier than the first anniversary of the Irrevocability Date.

(d) Other Terms Applicable to an OSRP Account

In general, an OSRP Account shall be subject to the terms of Sections 4, 5, 6, 7, 11, 12 and 13 of this Plan that apply to a Plan Year Account of a 409A Account. As the context requires, a reference in this Plan to a 409A Account shall be interpreted to include any OSRP Account.

Section 11: Administrative Powers And Duties

11.1 Administrative Oversight: Appointment of Plan Administrator

The Compensation Committee shall have the authority and responsibility to oversee the administration of the Plan, and, on and after July 1, 2006, to appoint and replace the Plan Administrator, who shall be a person who may, but need not, be an Employee or Elected Officer of an Employer.

Prior to July 1, 2006, the Plan shall be administered by the Administrative Committee which shall be appointed by the Chairman of the Board, with the Chairman of the Board serving as Chairman of the Administrative Committee. The Administrative Committee shall be composed of at least three (3) members, all of whom are Elected Officers. No bond or other security shall be required of any Administrative Committee member in such capacity. The Chairman of the Board shall be the Chairman of the Administrative Committee.

An individual serving as Plan Administrator on or after July 1, 2006 (or a member of the Administrative Committee prior to that date) may participate in the Plan if he or she is otherwise eligible to do so.

On and after July 1, 2006, the Plan Administrator shall be responsible for day-to-day administration of the Plan and shall furthermore be responsible for day-to-day oversight of the performance of duties by any third-party recordkeeper or third-party administrator(s) that provides services to the Plan.

11.2 Powers and Duties

The Plan Administrator (and, in the event of an appeal, the Review Committee) shall have the power and the duty to take all action and to make all decisions necessary or proper to carry out the Plan, including the discretionary authority to interpret the provisions of the Plan and the facts and circumstances of claims for benefits. The Plan Administrator (and, in the event of an appeal, the Review Committee) shall have the absolute discretion to decide all issues of fact or law. Any decision by the Plan Administrator or Review Committee that is not shown to be an abuse of discretion must be upheld by a court of law. Without limiting the foregoing, the Plan Administrator (on and after July 1, 2006, with the oversight of the Compensation Committee) shall have the following administrative powers and duties:

- (a) to require any Participant or Beneficiary to furnish information as they may request for the purpose of the proper administration of the Plan as a condition to receiving any benefit under the Plan;
 - (b) to make and enforce rules and regulations and prescribe the use of forms as they shall deem necessary for the efficient administration of the Plan;
 - (c) to interpret the Plan and to resolve ambiguities, inconsistencies and omissions in a nondiscriminatory manner;
 - (d) to determine tax withholding;
 - (e) to compute the amount of benefits which shall be payable to any person in accordance with the provisions of the Plan; and
 - (f) to delegate any of the Plan Administrator's administrative powers or duties hereunder to any of their agents or employees, including without limitation an entity appointed to serve as a third-party recordkeeper or administrator.
-

11.3 Committee Procedures

(a) Compensation Committee After July 1, 2006

A majority of the Compensation Committee members in office may fulfill any act which the Plan authorizes or requires of the Compensation Committee. A majority of Compensation Committee members may delegate in writing to the Chair of the Compensation Committee the authority to take any action, and/or to give certified notice in writing of any action, taken by the Compensation Committee or its Chair.

(b) Administrative Committee Prior to July 1, 2006

Prior to July 1, 2006, while the Administrative Committee is serving as the Committee, no Administrative Committee member who participates in the Plan shall vote on any matter that pertains to the member or to the member's rights and/or benefits under the Plan unless such matter pertains to all Participants or all Participant's rights and/or benefits under the Plan. Each member of the Administrative Committee shall be excused from voting on any action pertaining solely to the member or members of the Administrative Committee or their rights and/or benefits under the Plan, and the action shall be taken by a majority of the remaining members of the Administrative Committee, or if the remaining members do not constitute a quorum, by the Compensation Committee. The action of such majority of the Administrative Committee expressed from time to time by a vote at a meeting, or in writing without a meeting, shall constitute the action of the Administrative Committee and shall have the same effect for all purposes as if assented to by all Administrative Committee members.

11.4 Appointment of Agents

The Compensation Committee and the Plan Administrator may each appoint such actuaries, accountants, counsel, specialists, recordkeepers and other persons or organizations as they shall respectively deem necessary for administration of the Plan and they each shall be entitled to prudently rely upon any tables, valuations, certificates, opinions, or reports which shall be furnished to them by such persons or organizations.

11.5 Administrative Expenses

All expenses incurred by the Plan Administrator or Compensation Committee in connection with the administration of the Plan, including but not limited to the compensation of any actuary, accountant, counsel, specialist, recordkeeper or other persons or organizations who shall be employed in connection with the administration of the Plan, shall be paid by the Company.

11.6 Determinations

All determinations hereunder made by the Board, Compensation Committee or Plan Administrator shall be made in the sole and absolute discretion of the Board, Compensation Committee or Plan Administrator, as the case may be.

In the event that any disputed matter shall arise hereunder, including, without in any manner limiting the generality of the foregoing, any matter relating to the eligibility of any person to participate under the Plan, the participation of any person under the Plan, the amounts payable to any person under the Plan,

and the applicability and the interpretation of the provisions of the Plan, the decision of the Board, Compensation Committee or Plan Administrator upon such matter shall be binding and conclusive upon all persons, including, without in any manner limiting the generality of the foregoing, the Company, the Board, all persons at any time in the employ of an Employer, the Participants and their Beneficiaries, and upon the respective successors, assigns, executors, administrators, heirs, next of kin, and distributees of all the foregoing.

11.7 Claim and Review Procedure

(a) Application for Benefits

Any person or the person's authorized representative (the "Claimant") may apply for, claim, or request information about, Plan benefits by submitting a signed, written application to the Plan Administrator.

(b) Denial of Application

If the Plan Administrator denies an application in whole or in part, the Plan Administrator shall notify the Claimant in writing or electronically of the denial and the Claimant's right to request a review of the denial. The notice of denial shall set forth, in a manner calculated to be understood by the Claimant:

- (i) specific reasons for the denial,
- (ii) specific references to the applicable Plan provisions on which the denial was based,
- (iii) a description of any information or material necessary to perfect the application and an explanation of why such material is necessary,
- (iv) an explanation of the Plan's review procedure and the time limits for review, and
- (v) a statement of the Claimant's right to bring a civil action under ERISA following an adverse determination on review.

The denial notice will be given to the Claimant within ninety (90) days after the Plan Administrator receives the application unless special circumstances require an extension of time for processing the application. In no event will an extension exceed a period of ninety (90) days after the end of the initial 90-day period. If an extension is required, written notice of the extension shall be furnished to the Claimant before the end of the initial 90-day period. The extension notice will indicate the special circumstances requiring an extension of time and the date by which the Plan Administrator expects to render a decision. If a written denial notice is not given to the Claimant within the period prescribed by this Section 11.8(b), the application is deemed to have been denied for purposes of Section 11.8(d).

(c) Review Panel

From time to time, the Chair of the Compensation Committee shall appoint a Review Panel. The "Review Panel" will consist of three (3) or more individuals who may be (but need not be) members of the Compensation Committee or Employees of an Employer and shall be the named fiduciary with authority to act on any appeal of a denied application.

The Review Panel has discretionary authority to decide all issues of fact or law. Any decision by the Review Panel that is not established to be an abuse of discretion must be upheld.

(d) Request for Review

A Claimant whose application is denied, in whole or in part, may appeal the denial by submitting to the Review Panel a written request for a review of the denial. The request for review must be submitted to the Review Panel within sixty (60) days after the Claimant receives written notice of the denial. Upon request and free of charge, the Claimant shall be permitted reasonable access to, and copies of, relevant information and documents. The Review Panel shall give the Claimant an opportunity to submit written information, documents, records and comments in support of the appeal. In making its decision, the Review Panel will take the Claimant's submissions into account, regardless of whether this information was available in considering the initial request.

(e) Decision on Review

The Review Panel will deliver to the Claimant an electronic or written decision within a reasonable time, but no later than sixty (60) days after receipt of the Claimant's request for review. In special circumstances, the period may be extended up to an additional sixty (60) days. If an extension is required, written notice of the extension will be furnished to the Claimant before the end of the initial 60-day period. The extension notice will indicate the special circumstances requiring an extension of time and the date by which the Review Panel expects to render a decision. If a written decision is not given to the Claimant within the period prescribed by this Section 11.8(e), the decision is deemed to be adverse. If the decision is adverse, in whole or in part, the decision shall set forth in a manner calculated to be understood by the Claimant:

- (i) specific reasons for the adverse decision with specific references to the applicable Plan provisions on which the decision was based,
- (ii) a statement that, upon request and free of charge, the claimant is entitled reasonable access to, and copies of, relevant information and documents,
- (iii) a description of any voluntary appeals procedures and a statement of the Claimant's right to obtain information about these procedures, and
- (iv) a statement of the Claimant's right to bring a civil action under ERISA.

(f) Rules and Procedures

The Plan Administrator and the Review Panel shall establish additional administrative procedures in accordance with this Section 11.8 and ERISA as they deem necessary or appropriate, including safeguards to insure and verify that decisions under this Section 11.8 are made in accordance with the Plan document and are applied consistently to similarly-situated Participants and Beneficiaries. Additional administrative procedures may include, but are not limited to, protocols, guidelines, periodic review and audits.

(g) Exhaustion of Administrative Remedies

No legal or equitable action for benefits under the Plan shall be brought unless and until the

Claimant has satisfied the procedures in this Section 11.8.

11.8 Exemption From Liability/Indemnification

The members of the Board, Compensation Committee and Plan Administrator, collectively and individually, shall be free from all liability, joint or several, for their acts, omissions, and conduct, and for the acts, omissions, and conduct of their duly-appointed agents, in the administration of the Plan, except for those acts or omissions and conduct resulting from willful misconduct or lack of good faith.

The Company shall indemnify each member of the Board, Compensation Committee and Plan Administrator, and any other employee, officer, or director of an Employer against any claims, loss, damage, expense, or liability, by insurance or otherwise (other than amounts paid in settlement not approved by the Company), reasonably incurred by the individual in connection with any action or failure to act by reason of membership on the Board or Compensation Committee or in the role of Plan Administrator, or performance of an authorized duty or responsibility for or on behalf of the Company pursuant to the Plan, unless the same is judicially determined to be the result of the individual's gross negligence or willful misconduct. Such indemnification by the Company shall be made only to the extent such expense or liability is not payable to or on behalf of such person under any liability insurance coverage. The foregoing right to indemnification shall be in addition to any other rights to which any such person may be entitled as a matter of law.

Section 12: Amendment And Termination

12.1 Amendment or Termination

(a) Right to Amend or Terminate

Except as otherwise provided in this Section, the Company reserves the right at any time and from time to time to amend any or all provisions of the Plan or terminate the Plan, in whole or in part, for any reason and without consent of any person, and without liability to any person for such amendment or termination. Notwithstanding the preceding sentence, no amendment of the Plan shall:

- (i) adversely affect the benefits or rights of a Participant or Beneficiary under the Plan (other than election or availability of a form of benefit payment under Section 5, 9 or 10) earned and vested as of the effective date of the amendment without the written consent of each affected Participant and Beneficiary unless such change is required by law or regulations or is necessary to avoid unfavorable tax consequences; or
 - (ii) adversely affect the features of the Plan in effect as of the effective date of the amendment without the written consent of each affected Participant and Beneficiary unless such change is required by law or regulations or is necessary to avoid unfavorable tax consequences; or
 - (iii) be adopted or become effective after a Change of Control without the written consent of all Participants and Beneficiaries.
-

(b) Plan Termination

Nothing in this Plan shall be construed to require continuation of this Plan with respect to existing or future Participants or Beneficiaries.

Notwithstanding Section 12.1(a)(i), the Company may amend the Plan to cease all future Contributions and/or OSRP Employer Contributions and shall pay benefits according to the then existing or amended distribution provisions. Notwithstanding Section 12.1(a)(i), the Company may terminate the Plan and in that event, shall distribute the balance of any and all Plan Year Accounts which are Grandfathered Accounts (but not any 409A Accounts) as soon as administratively feasible in the form of single sum payments determined as though the benefits were Change of Control Benefits under Section 6.

It is the Company's intention that, except as expressly stated to the contrary at the time of adopting an amendment, no amendment of this Plan is intended to cause a "material modification" (within the meaning of Code Section 409A) of any portion of any Participant's Grandfathered Account. In the event that the Company determines, with the advice of counsel, that any previously adopted amendment that was not intended to be a material modification may be deemed to be a material modification, the Company shall have the right to revoke any such amendment retroactively to the full extent permitted by Code Section 409A.

Notwithstanding any provision of this Plan to the contrary, the Company may, on any date on or before December 31, 2006, amend or modify the Plan retroactively to a date as early as January 1, 2005, to the extent that the Company, with advice of counsel, determines it advisable to do so in light of the provisions and interpretations of Code Section 409A.

(c) Procedures

Any amendment or termination of the Plan shall be adopted by the Board, made in writing, and executed on behalf of the Company by the Chair of the Compensation Committee (or, prior to July 1, 2006, by an authorized officer of the Company).

- (d) Notwithstanding the foregoing provisions, the Compensation Committee of the Board may, in its discretion, provide for special credits of benefits under this Plan on a case by case basis for Plan Participants and, in each case at the time of crediting of such benefits, establish the vesting and other provisions applicable to such benefits.

Section 13: Miscellaneous Provisions

13.1 Appendices

Any Appendix to this Plan, as amended from time to time, is incorporated into the Plan and made a part of the terms and conditions of this Plan.

13.2 ERISA Status

This Plan shall constitute a plan which is unfunded and which is maintained primarily for the purpose of providing deferred compensation benefits for a select group of management or highly compensated employees within the meaning of Sections 201(2), 301(a)(3), and 401(a)(1) of ERISA.

13.3 Unfunded Nature of the Obligation

The obligation to pay benefits under the Plan shall at all times be an unfunded, unsecured obligation of the Employer. The Employer is not obligated to purchase any annuity contracts to provide benefits under the Plan, to establish a trust for the purpose of receiving contributions and paying benefits under the Plan, or to otherwise set aside funds for the purpose of providing Plan benefits.

13.4 Facility of Payment

In the event any benefit under this Plan shall be payable to a person who is under legal disability or is in any way incapacitated so as to be unable to manage his or her financial affairs, the Plan Administrator may direct payment of such benefit to a duly appointed guardian, committee or other legal representative of such person, or in the absence of a guardian or legal representative, to a custodian for such person under a Uniform Gifts to Minors Act or to any relative of such person by blood or marriage, for such person's benefit. Any payment made in good faith pursuant to this provision shall fully discharge the Company and the Plan of any liability to the extent of such payment.

13.5 Governing Law

The Plan shall be construed in accordance with applicable provisions of the Code, ERISA and the laws of the State of Washington, to the extent not preempted by ERISA.

13.6 Limitation on Assignment; Domestic Relations Orders

(a) Limitation on Assignment, Attachment, Garnishment

Except as provided in “(b)”, benefits under this Plan may not be assigned, sold, transferred, or encumbered, and any attempt to do so shall be void, and a Participant's or Beneficiary's interest in benefits under the Plan shall not be subject to debts or liabilities of any kind and shall not be subject to attachment, garnishment or other legal process.

(b) Domestic Relations Orders

The Plan Administrator (subject to review by the Review Panel, in accordance with Sections 11.7(c) through (g), in case of an appeal by the Participant or an alternate payee) shall follow – if, when, and to the extent a Participant is receiving a distribution (or series of distributions) of benefits under the Plan – any judgment, decree or order of a state court (including court approval of a property settlement agreement) which:

- (i) relates to the provision of child support, alimony payments or marital property rights made pursuant to a state domestic relations law (including a community property law),
 - (ii) provides an alternate payee with a right to receive all or a stated portion of one or more subsequent distributions which would otherwise then be payable entirely to the Participant or a Beneficiary under the otherwise applicable provisions of this Plan, and
 - (iii) satisfies the requirements of Code Sections 414(p)(2) and (3).
-

13.7 No Additional Rights.

No person shall have any rights under the Plan, except as, and only to the extent, expressly provided for in the Plan. Neither the establishment or amendment of the Plan or the creation of any fund or account, or the payment of benefits, nor any action of an Employer or the Board, Compensation Committee or Plan Administrator shall be held or construed to confer upon any person any right to be continued as an employee, or, upon dismissal, any right or interest in any account or fund other than as herein provided. The Company and the other Employers expressly reserve the right to discharge any employee at any time with or without cause.

13.8 Notice

All notices, statements, reports and other communications from the Company, Board, Compensation Committee or Plan Administrator to any employee or other person required or permitted under the Plan shall be deemed to have been duly given when delivered to, or when mailed by first-class mail, postage prepaid and addressed to, such employee, or other person at his or her address last appearing on the Employer's records.

13.9 Severability

If any provision of this Plan is held unenforceable or invalid for any reason, such determination shall not affect the remaining provisions of this Plan which shall be construed as if the unenforceable or invalid provisions had never been included.

13.10 Tax Consequences and Withholding

The Company does not represent or guarantee that any particular federal or state income, payroll, Social Security, or other tax consequences will result from participation in the Plan. A Participant should consult with professional tax advisors to determine the tax consequences of his or her participation in the Plan.

All payments of federal or state income, Social Security, payroll, or other tax required with respect to contributions or benefits under the Plan shall be satisfied by withholding the required amount from the Participant's salary, other current compensation or Plan benefit payment, or if the Participant's salary, other current compensation or benefit payment is insufficient to satisfy any required tax payments, the Participant shall satisfy the payments in a manner approved by the Plan Administrator.

The prior paragraph shall likewise apply to any tax withholding obligation of a Participant that results from the vesting (rather than the distribution) of any or all of any Deferred Retention Incentive Account or any OSRP Account.

Determinations by the Plan Administrator with respect to tax withholding shall be binding on the Participant and Beneficiaries.

IN WITNESS WHEREOF, the Company has caused this June 20, 2011 restatement of the Plan to be signed by the Chair of the Compensation Committee this 3rd day of August, 2011.

ALASKA AIR GROUP, INC.

By: _____
J. Kenneth Thompson
Chair, Compensation Committee

Appendix I: Participating Employers

In addition to the Company (Alaska Air Group, Inc.), "Employer" as defined in Section 1.19 shall also include the following employers during the following period of time.

<u>Employer</u>	<u>Beginning Date</u>	<u>Ending Date</u>
1. Alaska Airlines, Inc.	January 1, 1998	–
2. Horizon Air Industries, Inc.	January 1, 1998	–

ACKNOWLEDGED AND ACCEPTED
ALASKA AIR GROUP, INC.

By: _____
J. Kenneth Thompson
Chair, Compensation Committee

Date: _____

Appendix II: Deferred Retention Incentive Accounts

A Deferred Retention Incentive under Section 9 has been granted to the each of the following individuals, and a Deferred Retention Incentive Account has been established effective as of the respective date indicated below.

<u>Highly Compensated Employee</u>	<u>Effective Date</u>
------------------------------------	-----------------------

[None as of December 5, 2008]	
-------------------------------	--

ACKNOWLEDGED AND ACCEPTED
ALASKA AIR GROUP, INC.

By: _____
J. Kenneth Thompson
Chair, Compensation Committee

Date: _____

Appendix III: OSRP Accounts

For purposes of the Defined Contribution OSRP Plan described in Section 10, each of the following individuals has been approved as an "Eligible Elected Officer", and an OSRP Account has been established as of the respective "Eligibility Effective Date," as stated below:

<u>Eligible Elected Officer</u>	<u>Eligibility Effective Date</u>	<u>Date Participation Ceased</u>
Benjamin F. Forrest	March 9, 2006	May 1, 2007
Chris R. Glaeser	July 5, 2006	August 29, 2008
Brandon S. Pedersen	December 1, 2006	
Gary L. Beck	January 7, 2008	
Kris M. Kutchera	March 13, 2008	
Benito Minicucci	June 12, 2008	
Thomas W. Nunn	November 24, 2008	
Andrew R. Harrison	December 4, 2008	

ACKNOWLEDGED AND ACCEPTED
ALASKA AIR GROUP, INC.

By: _____
J. Kenneth Thompson
Chair, Compensation Committee

Date: _____

Alaska Air Group, Inc.
1995 Elected Officers
Supplementary Retirement Plan

Effective August 8, 1995

Restated as of June 20, 2011

Table Of Contents

Page

Preamble1

Section 1: Definitions1

1.1409A Benefit	2
1.2Actuarial Equivalence	2
1.3Administrative Committee	4
1.4Affiliated Companies	4
1.5Authorized Leave of Absence	5
1.6Beneficiary	5
1.7Board	5
1.8Change of Control	5
1.9Code	6
1.10Committee	6
1.11Company	6
1.12Company Service	7
1.13Compensation	7
1.14Compensation Committee	7
1.15Competing Activity	7
1.16Disabled	7
1.17Early Retirement Date	8
1.18Effective Date	8
1.19Elected Officer	8
1.20Elected Officer Service	8
1.21Employee	9
1.22Employer	9
1.23ERISA	9
1.24Final Average Monthly Compensation	9
1.25Grandfathered Benefit	9
1.26Hour of Service	10
1.27Late Retirement Date	10
1.28Normal Retirement Age	10
1.29Normal Retirement Date	10
1.30Participant	10
1.31Plan	10
1.32Plan Administrator	10
1.33Plan Year	11
1.34Pre-Delay Date	11
1.35Qualified Defined Benefit Plan	11
1.36Re-Deferral Election	11
1.37Retirement Date	11
1.38Retirement Offset	11
1.39Separation from Service	12
1.40Social Security Benefit	12
1.41Social Security Offset	13
1.42Supplementary Plan	13

- 1.43 Terminate 14
- 1.44 Termination For Cause 14
- 1.45 Wages 14
- 1.46 Additional Definitions in Plan 14

Section 2: Eligibility And Participation 15

- 2.1 Eligibility and Participation 15
- 2.2 Termination of Participation 16
- 2.3 Inactive Participation 16

Section 3: Retirement Benefits 16

- 3.1 Target Aggregate Benefit 16
- 3.2 Grandfathered Benefit 17
- 3.3 409A Benefit 18
- 3.4 Cost of Living Adjustment 18
- 3.5 Post-Retirement Lump-Sum Benefit 19

Section 4: Payment Forms and Timing 19

- 4.1 Forms of Payment 19
- 4.2 Automatic Form of Payment 22
- 4.3 Payment Form Election 23
- 4.4 Timing of Payment 25

Section 5: Change Of Control Benefits 26

- 5.1 Change of Control Benefit 26
- 5.2 Form of Payment 27
- 5.3 Amount of Change of Control Benefit 27

Section 6: Death Benefits 27

- 6.1 Death Benefits Prior to Benefit Commencement 27
- 6.2 Death Benefits After Benefit Commencement 28
- 6.3 Death During a Period of Delayed 409A Benefits 28

Section 7: Vesting 29

- 7.1 Vesting 29
- 7.2 Forfeiture 31

Section 8: Powers And Duties Of The Committee 32

- 8.1 Appointment of Committee and Plan Administrator 32
- 8.2 Powers and Duties 32
- 8.3 Committee Procedures 33
- 8.4 Appointment of Agents 33
- 8.5 Committee Expenses 33
- 8.6 Administrative Expenses 33
- 8.7 Determinations 34
- 8.8 Claim and Review Procedure 34
- 8.9 Exemption From Liability/Indemnification 36

Section 9: Amendment And Termination 37

- 9.1 Amendment or Termination 37
-

Section 10: MISCELLANEOUS PROVISIONS 38

- 10.1 Appendices 38
- 10.2 ERISA Status 38
- 10.3 Unfunded Nature of the Obligation 38
- 10.4 Facility of Payment 38
- 10.5 Governing Law 38
- 10.6 Limitation on Assignment; Domestic Relations Orders 38
- 10.7 No Additional Rights 39
- 10.8 Notice 39
- 10.9 Severability 39
- 10.10 Tax Consequences and Withholding 39

Appendix I: Elected Officers Who Have Commenced Participation in the Plan 41

Appendix II: Participating Employers 42

Appendix III: Grandfathered Benefits 43

Preamble

The purpose of this Alaska Air Group, Inc. 1995 Elected Officers Supplementary Retirement Plan is to provide certain elected officers of Alaska Air Group, Inc. (the "Company") and of certain affiliated companies with supplemental retirement benefits, the receipt of which is deferred until after the covered employee retires or terminates employment.

This Plan shall constitute a plan which is unfunded and which is maintained primarily for the purpose of providing deferred compensation benefits for certain elected officers who constitute a select group of management or highly compensated employees within the meaning of Sections 201(2), 301(a)(3), and 401(a)(1) of ERISA.

The Plan set forth in the following pages was adopted by the Company, effective August 8, 1995. Effective January 1, 2005, the Plan was amended and restated to establish terms for 409A Benefits that are intended to comply with Code Section 409A, to preserve without modification the terms and conditions that apply to certain Grandfathered Benefits that were accrued and vested immediately prior to the Code Section 409A effective date, and to incorporate certain design modifications – for 409A Benefits – as approved by the Board.

This document is a further restatement of the Plan to (a) modify the definition of Elected Officer in Section 1.19, effective June 1, 2008, (b) modify the participation commencement date for 409A Benefits in Section 2.1(b), effective June 1, 2008, (c) provide in Section 4.3(b)(ii) for 2008 transition-year elections that satisfy the requirements of Code Section 409A, (d) modify the definition of Actuarial Equivalent in Section 1.2 to reflect changes made to Code Section 417(e)(3) by the Pension Protection Act of 2006 effective January 1, 2008, (e) clarify the calculation of Grandfathered and 409A Benefits effective January 1, 2009, and (f) to bring the Plan into documentary compliance with Code Section 409A and the regulations thereunder effective January 1, 2009. Benefits for Participants who Terminated or Separated from Service prior to 2009 are determined under the terms of the Plan in effect at the date of Termination or Separation from Service, except for the changes noted in this paragraph that are effective in 2008. During the period January 1, 2005 through December 31, 2008, the Plan has been administered in good faith compliance with Code Section 409A and applicable guidance thereunder.

Pursuant to Section 9.1, the Board determined to close the Plan to new Participants, effective June 20, 2011, and to cease benefit accruals under the Plan for all Participants, effective January 1, 2014. This latest restatement of the Plan incorporates these changes.

Section 1: Definitions

Whenever capitalized in this Plan, the following capitalized terms shall have the meanings set forth below except where otherwise provided. As used in the Plan, the masculine and feminine genders shall each be deemed to include the other.

1.1 409A Benefit

“409A Benefit” means the portion (if any) of a Participant’s benefit under this Plan that is governed by Code Section 409A by virtue of being accrued, or becoming vested, on or after January 1, 2005. The 409A Benefit payable in the Whole Life Annuity form shall be determined in accordance with Section 3.3.

1.2 Actuarial Equivalence

"Actuarial Equivalence" and its derivatives as the context requires (such as "Actuarially Equivalent") mean that the present value of two (2) single sum payments, two (2) series of payments, a single sum and a series of payments, or payments commencing at different times, are of equal value when computed as follows:

- (a) Actuarial Equivalence shall be computed using the following assumptions:
 - (i) the applicable interest rate under Code Section 417(e)(3)(C) for the November preceding the beginning of the Plan Year containing the Retirement Date (in the case of a Grandfathered Benefit) or the Pre-Delay Date (in the case of a 409A Benefit); and
 - (ii) the applicable mortality table under Code Section 417(e)(3)(B) for the Plan Year containing the Retirement Date (in the case of a Grandfathered Benefit) or the Pre-Delay Date (in the case of a 409A Benefit).
 - (b) For purposes of Section 5.3(a) After Commencement of Benefits, the Actuarial Equivalent of the remaining benefits otherwise payable is determined as follows:
 - (i) for a Participant whose benefit, as of the date of the Change of Control, is reduced by the Participant's Social Security Benefit, the Actuarial Equivalent of the remaining benefits otherwise payable is determined assuming that the Participant's Social Security Benefit does not increase after the Change of Control date;
 - (ii) for a Participant whose benefit, as of the date of the Change of Control, is not reduced by a Social Security Benefit, the Actuarial Equivalent of the remaining benefits otherwise payable is determined assuming that the Participant begins receiving monthly Social Security Benefits on the later of the Change of Control date or the earliest date on which the Participant is eligible for a benefit from Social Security. The amount of the monthly Social Security Benefit assumed to be received by the Participant is determined in accordance with the Social Security Act in effect as of the date of the Change of Control and is based on the following assumptions;
 - A. assuming the Participant's Wages exceed the taxable wage base provided under Section 230 of the Social Security Act for each Plan Year beginning with the Plan Year in which the Participant attained age twenty one (21) and ending with the last Plan Year ending before the Change of Control; and
 - B. assuming the Participant has no Wages during or after the Plan Year in which the Change of Control occurs; and
 - C. assuming the Social Security Benefits do not increase after the assumed Social Security Benefit beginning date.
 - (c) For purposes of Section 5.3(b) Before Commencement of Benefits and After Termination and 5.3(c) Before Termination, the Actuarial Equivalent of the Normal Retirement Benefit is determined assuming that the Participant begins receiving monthly Social Security Benefits on the later of the Change of Control date or the earliest date on which the
-

Participant is eligible for a benefit from Social Security. The amount of the monthly Social Security Benefit assumed to be received by the Participant is determined in accordance with the Social Security Act in effect as of the date of the Change of Control, based on the following assumptions:

- (i) assuming the Participant's Wages exceed the taxable wage base provided under Section 230 of the Social Security Act for each Plan Year beginning with the Plan Year in which the Participant attained age twenty one (21) and ending with the last Plan Year ending before the Change of Control; and
 - (ii) assuming the Participant has no Wages during or after the Plan Year in which the Change of Control occurs.
- (d) For purposes of Sections 4.1(a)(iv) (Ten Year Certain Installments for the Grandfathered Benefit) and 3.5(Post-Retirement Lump-Sum Benefit), the lump sum that is Actuarially Equivalent to the monthly benefits otherwise payable (or remaining payable, in the case of the Post-Retirement Lump-Sum Benefit) is determined as stated in “(i)” or “(ii)” below:
- (i) for a Participant whose benefit is reduced by the Participant's Social Security Benefit, the Actuarial Equivalent of the remaining benefits otherwise payable is determined assuming that the Participant's Social Security Benefit does not increase after the first day of the most recent month for which a payment was made; or
 - (ii) for a Participant whose benefit is not reduced by a Social Security Benefit, the Actuarial Equivalent of the remaining benefits otherwise payable is determined assuming that the Participant begins receiving monthly Social Security Benefits on the later of the first day of the most recent month for which a payment was made, or the earliest date on which the Participant is eligible for a benefit from Social Security. The amount of the monthly Social Security Benefit assumed to be received by the Participant is determined in accordance with the Social Security Act in effect as of the first day of the most recent month for which a payment was made and is based on the following assumptions:
 - A. assuming the Participant's Wages exceed the taxable wage base provided under Section 230 of the Social Security Act for each Plan Year beginning with the Plan Year in which the Participant attained age twenty one (21) and ending with the last Plan Year ending before the first day of the most recent month for which a payment was made;
 - B. assuming the Participant has no Wages during or after the Plan Year in which occurs the first day of the most recent month for which a payment was made; and
 - C. assuming the Social Security Benefits do not increase after the assumed Social Security Benefit beginning date.
 - (iii) For a Participant who elects the Ten Year Certain Installment form of payment, the lump sum determined in accordance with “(i)” or “(ii)” above shall be converted to an Actuarially Equivalent series of one hundred twenty (120) payments using the interest rate described in Section 1.2(a)(i), without adjustment for mortality.
-

1.3 Administrative Committee

Prior to July 1, 2006, "Administrative Committee" means a committee appointed by the Chairman of the Board to administer the Plan. The Administrative Committee shall be composed of at least three (3) members, all of whom are Elected Officers. No bond or other security shall be required of any Administrative Committee member in such capacity. The Chairman of the Board shall be the Chairman of the Administrative Committee. Administrative Committee members may participate in the Plan if they are otherwise eligible to do so. On and after July 1, 2006, the Administrative Committee shall be disbanded.

1.4 Affiliated Companies

"Affiliated Companies" or "Affiliate" means:

- (a) the Company;
- (b) any other corporation which is a member of a controlled group of corporations which includes the Company (as defined in Code Section 414(b));
- (c) any other trade or business under common control with the Company (as defined in Code Section 414(c)); or
- (d) any other member of an affiliated service group which includes the Company (as defined in Code Section 414(m)).

1.5 Authorized Leave of Absence

"Authorized Leave of Absence" means any period of approved leave of absence from the Employer taken by a Participant, and granted by the Employer in its absolute discretion, including absences for which a Participant is granted re-employment rights under any Federal or state law.

1.6 Beneficiary

"Beneficiary" means the person or persons entitled to receive a Participant's benefits payable under the Plan in the event of the Participant's death. The Beneficiary is the person or persons named in the Participant's latest written designation filed with the Committee, provided that the consent of the Participant's spouse (if any) is required for the election of a non-spouse Beneficiary and for any subsequent changes of the Participant's Beneficiary designation. Spousal consent must be in writing, name the designated Beneficiary and be notarized.

If no designation has been filed with the Committee, or if the person or persons designated do not survive the Participant, the Beneficiary shall be the following persons in the following order of priority: (1) the surviving spouse (regardless of length of marriage), and (2) the estate of the Participant.

If the Beneficiary dies after the death of the Participant, but before full distribution has been made to that Beneficiary, the balance, if any, shall be distributed to the estate of that deceased Beneficiary.

1.7 Board

"Board" means the Board of Directors of the Company, or a committee composed of fewer than all of the members of the Board of Directors of the Company that is authorized to act on behalf of the Board.

1.8 Change of Control

"Change of Control" means the occurrence of any of the following:

- (a) the Board approves (or, if approval of the Board is not required as a matter of law, the shareholders of the Company approve):
 - (i) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of common stock of the Company would be converted into cash, securities or other property, other than a merger of the Company in which the holders of common stock of the Company immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger;
 - (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Participant's Employer; or
 - (iii) the adoption of any plan or proposal for the liquidation or dissolution of the Participant's Employer;
- (b) at any time during a period of twenty-four (24) months, fewer than a majority of the members of the Board are Incumbent Directors. "Incumbent Directors" means:
 - (i) individuals who constituted the Board at the beginning of such period;
 - (ii) individuals who were nominated or elected by all of, or a committee composed entirely of, the individuals described in (i); and
 - (iii) individuals who were nominated or elected by individuals described in (ii).
- (c) any person (as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) shall, as a result of a tender or exchange offer, open market purchases, privately-negotiated purchases or otherwise, become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of the then-outstanding securities of the Company ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of members of the Board ("Voting Securities" to be calculated as provided in paragraph (d) of Rule 13d-3 in the case of rights to acquire common stock of the Company) representing 20% or more of the combined voting power of the then-outstanding Voting Securities.

Unless the Board shall determine otherwise, a Change of Control shall not be deemed to have occurred by reason of any corporate reorganization, merger, consolidation, transfer of assets, liquidating distribution or other transaction entered into solely by and between the Company and an Employer, or any Affiliates thereof, provided such transaction has been approved by at least two-thirds (2/3) of the Incumbent Directors (as defined above) then in office and voting.

1.9 Code

"Code" means the Internal Revenue Code of 1986, as amended and regulations promulgated under the Code.

1.10 Committee

“Committee” means: (a) on and after July 1, 2006, the Compensation Committee, and (b) prior to July 1, 2006, the Administrative Committee.

1.11 Company

"Company" means Alaska Air Group, Inc., a corporation organized and existing under the laws of the State of Delaware, and its successors in interest.

1.12 Company Service

"Company Service" means the period of time measured in completed whole years, commencing with the date on which an Employee first completes an Hour of Service for an Affiliated Company during the current period of employment and ending on the earlier of the date of Termination or the date the Employee ceases to be an Elected Officer. Non-continuous periods are aggregated to determine the Employee's total Company Service. Notwithstanding the foregoing, the Board may increase an individual's Company Service, in its absolute discretion, provided that any affected Participant shall be notified of any such adjustment.

1.13 Compensation

"Compensation" means the basic monthly salary paid to an Employee, excluding amounts payable under the Management Incentive Program, any other bonus, transportation allowances, repayment of expenses, insurance payments, or similar payments or allowances, but including any earnings deferred by an Employee for the month under the terms of any salary deferral plan including the AlaskaSaver Plan maintained by the Company, and including any pre-tax employee contributions to a cafeteria plan pursuant to Code Section 125.

1.14 Compensation Committee

“Compensation Committee” means the Compensation Committee of the Board.

1.15 Competing Activity

"Competing Activity" means the following activities if begun without the prior written consent of the Participant's Employer:

- (a) solicitation of business at any time within four (4) years after Termination that is substantially similar to the business conducted by an Employer; or
- (b) employment at any time within four (4) years after Termination by another airline serving any of the same geographic area served by any Affiliate.

The Committee shall determine in its sole discretion whether a Participant has or is engaged in a Competing Activity and shall provide the Participant with written notice of the determination and of its demand to cease the Competing Activity within thirty (30) days after the notice. The Committee's determination of Competing Activity shall become final and operative if the Committee determines that the Competing Activity is being conducted after the expiration of the thirty (30) day notice period.

1.16 Disabled

"Disabled" means a condition resulting from demonstrable injury or disease which will permanently,

continuously and wholly prevent the Employee from engaging in any occupation or performing any work for remuneration or profit; provided that this term shall not include any injury or disease which:

- (a) resulted from or consists of habitual drunkenness or addiction to narcotics;
- (b) was contracted, suffered or incurred while the Employee was engaged in, or resulted from having engaged in, a criminal enterprise;
- (c) was intentionally self inflicted;
- (d) arose while the Employee was on Authorized Leave of Absence without pay or was absent without authorization; or
- (e) arose as a result of service in the armed forces of any country.

Under this Plan, a Participant who has become Disabled shall be entitled to be 100% vested in his or her benefit, but being Disabled shall not be an event that triggers a distribution of benefits in the absence of a Termination (or, for a 409A Benefit, a Separation from Service).

1.17 Early Retirement Date

For a Grandfathered Benefit, "Early Retirement Date" means the first day of the first month following the later of:

- (a) Termination; and
- (b) the Participant's fifty-fifth (55th) birthday, provided that Termination occurs prior to the participant's sixtieth (60th) birthday.

If the Participant has reached age sixty (60) on the date of Termination (or, for a 409A Benefit, the date of Separation from Service), Early Retirement Date shall not apply.

1.18 Effective Date

"Effective Date" means August 8, 1995.

1.19 Elected Officer

Before June 1, 2008, "Elected Officer" means an officer of an Employer that is elected by the Board (or the board of directors of the Employer, if other than the Company), pursuant to the bylaws of the Employer, and who is determined by the Compensation Committee to be eligible to participate in this Plan. On and after June 1, 2008, "Elected Officer" means an officer of an Employer that is elected by the Board (or the board of directors of the Employer, if other than the Company), pursuant to the bylaws of the Employer, to a position at a level or with a title that, in accordance with a policy of the Company, is eligible to participate in this Plan.

1.20 Elected Officer Service

"Elected Officer Service" means the period(s) of time measured in completed whole years, during which an Employee is an Elected Officer of the Company or Alaska Airlines, Inc. and the period(s) during which an Employee is the Chief Executive Officer of Horizon Air Industries, Inc. Non-continuous periods of Elected Officer Service are aggregated to determine an Employee's total years of Elected Officer Service.

Notwithstanding the foregoing, the Board may increase an individual's Elected Officer Service, in its absolute discretion provided that any affected Participant shall be notified of any such adjustment. Any such adjustment which occurs on or after October 3, 2004 shall solely affect the applicable Participant's 409A Benefit but shall have no effect on his or her Grandfathered Benefit.

1.21 Employee

"Employee" means any person who is:

- (a) employed by an Employer as a common law employee;
- (b) is customarily employed by the Employer for twenty (20) or more hours per week and for at least five (5) months per calendar year; and
- (c) is compensated on a salary basis.

1.22 Employer

"Employer" means the Company and any Affiliate that adopts this Plan in writing with the consent of the Board, and agrees to be bound by the terms and conditions of the Plan and any amendments or modifications thereto, and which is listed in Appendix II. In the event an Employer ceases participation in the Plan, the date participation ceases shall be indicated in the Appendix.

1.23 ERISA

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

1.24 Final Average Monthly Compensation

"Final Average Monthly Compensation" means a Participant's average Compensation for a period of sixty (60) consecutive months ending on the earlier of (a) the Participant's Termination (or Separation from Service in the case of a 409A benefit) or (b) the date of a Change of Control. If an active Participant has fewer than sixty (60) consecutive months in the period, Final Average Monthly Compensation means average Compensation for the lesser of:

- (a) the most recent sixty (60) months (whether or not consecutive); or
- (b) the total Company Service.

1.25 Grandfathered Benefit

"Grandfathered Benefit" means the portion (if any) of a Participant's benefit under this Plan that is not governed by Code Section 409A because it was earned and vested on December 31, 2004. The Grandfathered Benefit shall be no less than the benefit the Participant actually becomes entitled to, in the form and at the time actually paid, determined under the terms of the Plan (including applicable limits under the Internal Revenue Code) as in effect on October 3, 2004, without regard to any further services rendered by the Participant after December 31, 2004 or any other events affecting the amount of or the entitlement to benefits other than the Participant's Separation from Service. Appendix III lists the active Participants at December 31, 2008, with Grandfathered Benefits and the data elements needed to determine the Participant's actual benefit entitlement in accordance with Section 3.2.

1.26 Hour of Service

"Hour of Service" means each hour for which an Employee is paid or entitled to payment for the performance of duties for the Employer or any Affiliated Company.

1.27 Late Retirement Date

For a Grandfathered Benefit, "Late Retirement Date" means the first day of the month next following the date of the Participant's Termination, provided that Termination occurs after the Participant's sixtieth (60th) birthday.

1.28 Normal Retirement Age

"Normal Retirement Age" means the first day of the month next following the Participant's sixtieth (60th) birthday.

1.29 Normal Retirement Date

For a Grandfathered Benefit, "Normal Retirement Date" means the first day of the month next following the Participant's sixtieth (60th) birthday provided the Participant Terminates on the Participant's sixtieth (60th) birthday.

1.30 Participant

"Participant" means each Elected Officer who participates in this Plan pursuant to the provisions of Section 2.

1.31 Plan

"Plan" means the Alaska Air Group, Inc. 1995 Elected Officers Supplementary Retirement Plan, as set forth herein.

1.32 Plan Administrator

"Plan Administrator" means, effective July 1, 2006, the person appointed by the Committee with responsibility for the day-to-day administration of the Plan. Prior to that date, "Plan Administrator" means the Company.

1.33 Plan Year

"Plan Year" means the period beginning on the Effective Date and ending on December 31, 1995, and thereafter each calendar year.

1.34 Pre-Delay Date

"Pre-Delay Date" means the first of the month following the later of the Participant's Separation from Service or the Participant's fifty-fifth (55th) birthday.

1.35 Qualified Defined Benefit Plan

"Qualified Defined Benefit Plan" means the Alaska Air Group, Inc. Retirement Plan for Salaried Employees, as amended and restated effective January 1, 2000 and as subsequently amended.

1.36 Re-Deferral Election

“Re-Deferral Election,” as applied to a Participant’s 409A Benefit, means an election delivered by the Participant, in accordance with Section 4.3(b)(iii), to change the form of payment otherwise payable from the Plan.

1.37 Retirement Date

For a Grandfathered Benefit, "Retirement Date" means a Participant's Early, Normal or Late Retirement Date, whichever applies.

1.38 Retirement Offset

"Retirement Offset" means the sum of (a) and (b) below:

(a) Qualified Defined Benefit Plan Offset

The vested monthly benefit the Participant would be entitled to receive under the Qualified Defined Benefit Plan determined as though benefits under the Qualified Defined Benefit Plan commence at the same time as benefits under this Plan and are payable in the form of a Whole Life Annuity, but determined without regard to the Code Section 415 Limit; provided, however, that this offset amount shall be reduced by the portion of the benefit under the Qualified Defined Benefit Plan that is based on the years of the Participant's credited service prior to becoming an Elected Officer, but taking into account the individual's vested status, age and final average earnings at the time of retirement.

(b) Supplementary Plan Offset

The Actuarial Equivalent of the vested monthly benefit the Participant is actually entitled to receive under a Supplementary Plan, commencing at the same time as benefits under this Plan and payable in the form of a Whole Life Annuity, reduced by the Actuarial Equivalent of the vested monthly benefit the Participant would be entitled to receive under the Supplementary Plan if the Participant's service after the date the Participant became an Elected Officer were disregarded in determining the benefit.

1.39 Separation from Service

The term “Separation from Service” (and its derivatives, as the context requires, such as “Separates from Service”) shall apply to any 409A Benefit (but not any Grandfathered Benefit) and shall be interpreted consistently with Code Section 409A. In general, an Employee who is a Participant has a “Separation from Service” when the Employee ceases to be employed by the Employer as a result of the Employee’s death, retirement, or other termination of employment (other than a transfer to a company affiliated with the Employer).

Whether a Separation from Service has occurred shall be based on all of the relevant facts and circumstances. Provided, however, that an Employee’s employment relationship shall be treated as continuing intact while he or she is on military leave, sick leave, or other bona fide leave of absence, such as temporary employment by the government, if the period of such leave does not exceed six months or, if longer, so long as the Employee’s right to reemployment with the Employer is provided either by statute or by contract. If the period of leave exceeds six months and the Employee’s right to reemployment is not provided either by statute or by contract, the employment relationship is deemed to terminate on the first

date immediately following such six-month period. Anything to the contrary notwithstanding, a 29-month period shall be substituted for the six-month period in the event an Employee's leave of absence is due to a medically determinable physical or mental impairment that can be expected to result in death or last for a continuous period of at least six months and that causes the Employee to be unable to perform the duties of his or her position or any substantially similar position.

1.40 Social Security Benefit

With respect to a Grandfathered Benefit, including a death benefit paid to the Participant's surviving spouse under Section 6.1 or 6.2, "Social Security Benefit" means the Primary Insurance Amount, as defined under the Social Security Act, that is actually received by the Participant or Beneficiary. Except as provided under Section 1.2(b) and (c), in determining Change of Control benefits under Section 5.3, the Committee shall deem the Participant or Beneficiary to actually receive the greatest amount of Social Security Benefit at the earliest date at which the Participant would be eligible unless the Participant provides evidence to the contrary that is satisfactory to the Committee.

For a death benefit paid to a non-spouse Beneficiary under Section 6.2 with respect to a Grandfathered Benefit, the Social Security Benefit is determined as follows:

- (a) If the Participant's Grandfathered Benefit was reduced by the Participant's Social Security Benefit at the date of the Participant's death, the Social Security Benefit is deemed to be the Primary Insurance Amount that was received by the Participant in the last month before the Participant's death.
- (b) If the Participant's Grandfathered Benefit was not reduced by the Participant's Social Security Benefit at the date of the Participant's death, the Social Security Benefit is deemed to be the Primary Insurance Amount the Participant would have received if the Participant had lived, beginning at the later of the date of death or the Participant's sixty-second (62nd) birthday under the Social Security Act in effect at such date and based on the following assumptions:
 - (i) assuming the Participant's Wages exceed the taxable wage base provided under Section 230 of the Social Security Act for each calendar year beginning with the year in which the Participant attained age twenty one (21) and ending with the last year ending before the Participant's death; and
 - (ii) assuming the Social Security Benefits do not increase after the assumed Social Security Benefit beginning date.

1.41 Social Security Offset

With respect to a 409A Benefit, "Social Security Offset" means the Whole Life Annuity beginning on the Pre-Delay Date that is Actuarially Equivalent to a Whole Life Annuity equal to the Primary Insurance Amount, as defined under the Social Security Act, that the Participant is expected to receive beginning on the later of the Pre-Delay Date or the earliest date on which the Participant is eligible for an old-age benefit from Social Security. The Primary Insurance Amount expected to be received by the Participant is determined in accordance with the Social Security Act in effect as of the Pre-Delay Date and is based on the following assumptions:

- (a) the Participant's Wages exceed the taxable wage base provided under Section 230 of the Social Security Act for each calendar year beginning with the calendar year in which the
-

Participant attained age twenty one (21) and ending with the last calendar year ending before the Pre-Delay Date;

- (b) the Participant has no Wages during or after the calendar year containing the Pre-Delay Date; and
- (c) the taxable wage base and cost of living do not increase after the Pre-Delay Date.

1.42 Supplementary Plan

"Supplementary Plan" means any unfunded deferred compensation plan or supplemental executive retirement plan or arrangement (other than this Plan) maintained by an Employer:

- (a) that is exempted (or is intended to be exempted) from Parts 2, 3 and 4 of Subtitle B of ERISA under ERISA Sections 201(2), 301(3) and 401(a)(1);
- (b) that provides a defined benefit at separation from service (rather than defined contributions to the Participant's account) payable at the same time and in the same form as the benefit provided by this Plan; and
- (c) that is intended by its stated terms to supplement or replace benefits provided under the Qualified Defined Benefit Plan.

1.43 Terminate

"Terminate" and its derivatives as the context requires (such as "Termination") means no longer employed by an Employer or Affiliated Company as a common law employee. An Authorized Leave of Absence is not a Termination.

1.44 Termination For Cause

"Termination For Cause" means Termination for reason of admission by the Employee or substantiation by the Employer of:

- (a) embezzlement, dishonesty or other fraud, conviction of a felony or conspiracy against an Employer; or
- (b) if Termination occurred prior to a Change of Control, any willful or intentional injury to either an Employer, its property, or its employees in connection with the business affairs of an Employer.

1.45 Wages

"Wages" means a Participant's wages as defined under Code Section 3121, which are subject to Federal Insurance Contribution Act tax under Code Section 3101.

1.46 Additional Definitions in Plan

The following terms are defined in the following Sections of the Plan:

- (a) 409A Benefit Commencement Date: As defined in Section 4.4(b)(i)
 - (b) Benefit Percentage: As defined in Section 3.1(b)
-

- (c) Five Year Certain Installments: As defined in Section 4.1(b)(vi)
- (d) Joint and Survivor Annuity: As defined in Section 4.1(a)(ii)
- (e) Lump Sum: As defined in Section 4.1(b)(v)
- (f) Post-Retirement Lump Sum Benefit: As defined in Section 3.5
- (g) Re-Deferral Commencement Date: As defined in Section 4.4(b)(iii)
- (h) Review Panel: As defined in Section 8.8(c)
- (i) Target Aggregate Benefit: As defined in Section 3.1(a)
- (j) Ten Year Certain and Life Annuity: As defined in Section 4.1(a)(iii)
- (k) Ten Year Certain Installments: As defined in Section 4.1(a)(iv)
- (l) Transition Year 409A Benefit Commencement Date: As defined in Section 4.4(b)(ii)
- (m) Whole Life Annuity: As defined in Section 4.1(a)(i)

Section 2: Eligibility And Participation

2.1 Eligibility and Participation

(a) For a Grandfathered Benefit

An Elected Officer shall become a Participant upon the participation commencement date specified by the Committee. Each Participant, the Participant's participation commencement date, and the Participant's Company Service and Elected Officer Service, if any, on the Participant's participation commencement date shall be listed on Appendix I.

(b) For a 409A Benefit

- (i) *Participation Commencement Date*: Before June 1, 2008, an Elected Officer shall commence active participation in the Plan on the participation commencement date specified for the individual by the Committee, or determined in accordance with a policy approved by the Committee for individuals hired with, or promoted to, the status of Elected Officer. On and after June 1, 2008, an Elected Officer shall commence active participation in the Plan on the 15th day after the date he or she attains the status of Elected Officer.

Notwithstanding any other provision of this Plan to the contrary, an Employee who, on or after March 31, 2003, is hired with or promoted to the status of Elected Officer shall not be eligible to participate in this Plan if he or she is eligible to participate in the "Defined Contribution OSRP Plan," as that term is defined in Section 10 of the Company's Nonqualified Deferred Compensation Plan.

- (ii) *30-Day Enrollment Period*: Effective on and after January 1, 2009, during a 30-day period immediately following an Elected Officer's participation commencement date, the Elected Officer shall have an obligation to complete one or more enrollment forms as required by the Plan Administrator, including, as further provided in Section 4.3(b), an advance election of the form of benefit payment that the individual wishes to receive if and when he or she eventually becomes eligible to receive a distribution of a vested 409A Benefit from the Plan.
 - (iii) *Record of Participation Commencement Date*: The Plan Administrator shall maintain a record of, and state in Appendix I, the Participant's participation
-

commencement date, and the Participant's Company Service and Elected Officer Service, if any, on the said participation commencement date.

(c) Plan closure. Notwithstanding any other provision of this Plan to the contrary, the Plan shall not accept new Participants on and after June 20, 2011.

2.2 Termination of Participation

A Participant's participation in the Plan will terminate when the Participant's benefits under this Plan have been paid in full.

2.3 Inactive Participation

A Participant's active participation will cease when he or she Terminates or becomes Disabled. A Participant's active participation also will cease if the Board determines that the Participant ceases to be an Elected Officer or the Committee determines that the Participant failed to make tax payments under Section 10.10. The date a Participant's active participation ceases shall be listed on Appendix I, which shall be updated from time to time. An inactive Participant's benefits shall be determined as though the Participant Terminates on the date active participation ceases.

Section 3: Retirement Benefits

3.1 Target Aggregate Benefit

(a) Target Aggregate Benefit Definition

A Participant's "Target Aggregate Benefit" is determined in the form of a Whole Life Annuity commencing at Normal Retirement Age and is equal to:

- (i) the Participant's Final Average Monthly Compensation multiplied by the Participant's Benefit Percentage; or
- (ii) if greater than (i) above, the Participant's Qualified Defined Benefit Plan benefit determined without application of any Code Section the effect of which is to limit, reduce or restrict the Participant's Qualified Defined Benefit Plan benefit, including without limitation Code Sections 415 and 401(a)(17).

Notwithstanding the preceding sentence, a Participant's benefit under this Plan is determined in accordance with Sections 3.2, 3.3 and 3.4, whichever apply to the Participant.

(b) Benefit Percentage Definition

A Participant's "Benefit Percentage" is determined in accordance with the following table:

Elected Officer Service						
	At Least 5 Years	At Least 6 Years	At Least 7 Years	At Least 8 Years	At Least 9 Years	10 or More Years
Company Service						
0 to 10 Years	50%	50%	50%	55%	55%	55%
11 to 15 Years	50%	55%	55%	60%	60%	60%
16 to 20 Years	55%	60%	60%	65%	65%	65%
21 to 25 Years	60%	65%	65%	70%	70%	70%
26 or More Years	65%	70%	70%	70%	70%	75%

Notwithstanding the above and without regard to the Participant's Company Service, a Participant who has less than five (5) years of Elected Officer Service on the date of Separation from Service following a Change of Control shall have a 409A Benefit based on the following "Benefit Percentage":

Elected Officer Service	Benefit Percentage
At least 1 year	10%
At least 2 years	20%
At least 3 years	30%
At least 4 years	40%

3.2 Grandfathered Benefit

The Participant's monthly Grandfathered Benefit payable as a Whole Life Annuity on his or her Retirement Date is determined as follows:

- (a) The December 31, 2004, Target Aggregate Benefit shown in Appendix III, if any, is adjusted as follows:
- (i) first, if the Retirement Date is the Participant's Early Retirement Date, reduced by one one-hundred-eightieth (1/180th) for each month that the Participant's Early Retirement Date precedes the Participant's Normal Retirement Age;
 - (ii) second, reduced by the December 31, 2004, Qualified Defined Benefit Plan Offset payable starting at age 62 shown in Appendix III, after such offset has been reduced by one one-hundred-eightieth (1/180th) for each of the first sixty (60) months and by one three-hundred-sixtieth (1/360th) for each additional month that the Participant's Retirement Date precedes the first day of the month next following the Participant's sixty-second (62nd) birthday; and
-

(iii) third, multiplied by the December 31, 2004, Vesting Percentage shown in Appendix III.

(b) The Grandfathered Benefit payable in a month is further reduced by the amount of the Social Security Benefit (if any), as defined in Section 1.40, payable in such month, except as provided in Section 1.2(b), (c), or (d).

3.3 409A Benefit

A Participant's monthly 409A Benefit payable as a Whole Life Annuity on his or her Pre-Delay Date is the Participant's Target Aggregate Benefit, if any, determined taking into account Elected Officer Service and Company Service and Final Average Monthly Compensation earned as of the date of Separation from Service (including service and compensation earned after age sixty (60) if the Participant's Separation from Service occurs after his or her Normal Retirement Age) adjusted as follows:

- (a) first, reduced by one one-hundred-eightieth (1/180th) for each of the first sixty (60) months, if any, that the Participant's Pre-Delay Date precedes the Participant's Normal Retirement Age;
- (b) second, reduced by the Retirement Offset, as defined in Section 1.38;
- (c) third, multiplied by the vesting percentage determined under Section 7;
- (d) fourth, if the Participant is not entitled to a Grandfathered Benefit, reduced by the amount of the Social Security Offset as defined in Section 1.41; and
- (e) fifth, reduced by the Grandfathered Benefit determined under Section 3.2(a) without regard to any reduction for the Participant's Social Security Benefit under 3.2(b) and assuming the Participant's Retirement Date is the Pre-Delay Date, regardless of whether the Grandfathered Benefit actually commences on the Pre-Delay Date.

3.4 Cost of Living Adjustment

The Board may adjust the amount of benefits then being paid to any or all Participants and Beneficiaries to reflect increases in the cost of living. The adjustment shall be made in the amount and at the times determined solely in the discretion of the Board. Any benefit increase that results from any such adjustment that takes effect on or after October 3, 2004 shall be treated as a 409A Benefit (and none of such adjustment shall increase the Grandfathered Benefit); the Board shall specify a 409A-compliant time and form of payment for such benefit increase at the time the adjustment is granted.

3.5 Post-Retirement Lump-Sum Benefit

A Participant who has already begun receiving his or her Grandfathered Benefit at Normal, Early or Late Retirement in one of the payment forms under Section 4.1 may elect to convert his or her remaining Grandfathered Benefit to a post-retirement lump sum.

(a) Definition

A post-retirement, lump-sum benefit is one (1) payment that is Actuarially Equivalent to the remaining monthly Grandfathered Benefit payments that otherwise would be payable, reduced by ten percent (10%). A post-retirement lump sum will be paid as soon as administratively feasible

after the Participant's lump-sum election is approved. Once a lump sum is paid, the Participant, the Participant's spouse and the Participant's Beneficiary have no right to any benefit other than the Participant's 409A Benefit. Form and Manner of Election

A post-retirement lump sum can be elected only by a Participant (not by a spouse or Beneficiary). A Participant's lump-sum election must be made in the form and manner prescribed by the Plan Administrator, and the election is subject to approval of the Plan Administrator. Once a Participant elects and receives a lump sum, the election cannot be changed.

(b) Right to Amend or Eliminate

Notwithstanding Section 9.1(a), the Company may amend or delete this Section 3.5 at any time, if the Compensation Committee determines in its sole discretion that such amendment is required by law or regulations or is necessary or advisable to avoid unfavorable tax consequences. Any amendment of this Section 3.5 shall be made in accordance with the procedures set forth in Section 9.1(c).

3.6 Benefit accruals cease. Notwithstanding any other provision of this Plan to the contrary, the accrual of benefits under the Plan shall cease as of January 1, 2014. Thus, Compensation earned and services performed on and after that date shall not be taken into account in calculating the amount of a Participant's Plan benefit. However, services performed after December 31, 2013 shall continue to be recognized for vesting purposes under Section 7.

Section 4: Payment Forms and Timing

4.1 Forms of Payment

(a) For a Grandfathered Benefit

For a Participant's Grandfathered Benefit, the following forms of benefit payment are options under the Plan, subject to the conditions of Sections 4.2 and 4.3. Grandfathered Benefits paid in the Whole Life Annuity, Joint and Survivor Annuity or Ten Year Certain and Life Annuity forms are reduced for Social Security Benefits (if any), as they are paid, as provided in Section 3.2. Grandfathered Benefits paid in the form of Ten Year Certain Installments are not reduced by Social Security Benefits, but instead are determined as the Actuarial Equivalent of the Whole Life Annuity reduced by expected future Social Security Benefits as provided in Section 1.2(d).

(i) Whole Life Annuity

"Whole Life Annuity" means monthly payments beginning on the Retirement Date and ending the first day of the month preceding the Participant's date of death.

(ii) Joint and Survivor Annuity

"Joint and Survivor Annuity" means reduced monthly payments to a Participant from the Retirement Date to the first day of the month preceding the Participant's date of death, and if the Participant predeceases the Participant's Beneficiary, monthly payments to the Participant's Beneficiary equal to fifty percent (50%), sixty-six and two-thirds percent (66-2/3%), seventy-five percent (75%), or one hundred percent (100%) of the reduced

amount payable to the Participant, beginning on the Participant's date of death and ending the first day of the month preceding the Beneficiary's date of death. The Participant shall elect which percentage applies at the same time that the Participant elects a Joint and Survivor Annuity. A Joint and Survivor Annuity shall be Actuarially Equivalent to the Participant's Grandfathered benefit payable in the form of a Whole Life Annuity.

If the Participant's Beneficiary dies after the Participant's benefit payments begin, the Participant's payments will be the same reduced amount as otherwise payable under the Joint and Survivor Annuity. If the Participant's Beneficiary dies before the date as of which the Participant's benefit payments are to begin, any election of a form of benefit under this Section would be canceled automatically. If the Participant dies before the date as of which the Participant's benefit payments are to begin, the Beneficiary shall not be entitled to receive any payments under this Section. However, a spouse may be entitled to a death benefit under Section 6.

(iii) Ten Year Certain and Life Annuity

"Ten Year Certain and Life Annuity" means reduced monthly payments from the Retirement Date to the first of the month preceding the Participant's death, but in no event will less than one hundred and twenty (120) equal monthly payments be made. If the Participant dies before receiving one hundred and twenty (120) monthly payments, the remaining payments shall continue to be made to the Participant's Beneficiary. A Ten Year Certain and Life Annuity shall be Actuarially Equivalent to the Participant's Grandfathered benefit payable in the form of a Whole Life Annuity.

(iv) Ten Year Certain Installments

"Ten Year Certain Installments" means one hundred and twenty (120) equal monthly payments that are Actuarially Equivalent to the Participant's Grandfathered benefit payable as an immediate Whole Life Annuity. If the Participant dies before receiving one hundred and twenty (120) monthly payments, the remaining payments shall continue to be made to the Participant's Beneficiary.

(b) For a 409A Benefit

For a Participant's 409A Benefit, the following forms of benefit payment are options under the Plan, subject to the conditions of Sections 4.2 and 4.3. Except for the Lump Sum, all optional payment forms pay level monthly payments. The 409A Benefits of Participants who are not entitled to Grandfathered Benefits are Actuarially Equivalent to the Whole Life Annuity reduced as provided in Section 3.3(d) by the Social Security Offset defined in Section 1.41.

(i) Whole Life Annuity

"Whole Life Annuity" means monthly payments beginning on the Retirement Date and ending the first day of the month preceding the Participant's date of death.

(ii) Joint and Survivor Annuity

"Joint and Survivor Annuity" means reduced monthly payments to a Participant from the Retirement Date to the first day of the month preceding the Participant's date of death, and if the Participant predeceases the Participant's Beneficiary, monthly payments to the

Participant's Beneficiary equal to fifty percent (50%), sixty-six and two-thirds percent (66-2/3%), seventy-five percent (75%), or one hundred percent (100%) of the reduced amount payable to the Participant, beginning on the Participant's date of death and ending the first day of the month preceding the Beneficiary's date of death. The Participant shall elect which percentage applies at the same time that the Participant elects a Joint and Survivor Annuity. A Joint and Survivor Annuity shall be Actuarially Equivalent to the Participant's 409A Benefit payable in the form of a Whole Life Annuity.

If the Participant's Beneficiary dies after the Participant's benefit payments begin, the Participant's payments will be the same reduced amount as otherwise payable under the Joint and Survivor Annuity. If the Participant's Beneficiary dies before the date as of which the Participant's benefit payments are to begin, any election of a form of benefit under this Section would be canceled automatically. If the Participant dies before the date as of which the Participant's benefit payments are to begin, the Beneficiary shall not be entitled to receive any payments under this Section. However, a spouse may be entitled to a death benefit under Section 6.

(iii) Ten Year Certain and Life Annuity

"Ten Year Certain and Life Annuity" means reduced monthly payments from the Retirement Date to the first of the month preceding the Participant's death, but in no event will less than one hundred and twenty (120) equal monthly payments be made. If the Participant dies before receiving one hundred and twenty (120) monthly payments, the remaining payments shall continue to be made to the Participant's Beneficiary. A Ten Year Certain and Life Annuity shall be Actuarially Equivalent to the Participant's 409A Benefit payable in the form of a Whole Life Annuity.

(iv) Ten Year Certain Installments

"Ten Year Certain Installments" means one hundred and twenty (120) equal monthly payments that are Actuarially Equivalent to the Participant's 409A Benefit payable in the form of a Whole Life Annuity. If the Participant dies before receiving one hundred and twenty (120) monthly payments, the remaining payments shall continue to be made to the Participant's Beneficiary.

(v) Lump Sum

"Lump Sum" means a payment in a single sum that is equal to the Actuarially Equivalent present value of the Participant's 409A Benefit payable in the form of a Whole Life Annuity. Once a lump sum is paid, the Participant, the Participant's spouse and the Participant's Beneficiary shall have no right to any additional 409A Benefit.

(vi) Five Year Certain Installments

"Five Year Certain Installments" means sixty (60) equal monthly payments that are Actuarially Equivalent to the Participant's 409A Benefit payable in the form of a Whole Life Annuity. If the Participant dies before receiving sixty (60) monthly payments, the remaining payments shall continue to be made to the Participant's Beneficiary.

4.2 Automatic Form of Payment

For a Participant's Grandfathered Benefit and 409A Benefit, unless the Participant elects otherwise in

accordance with Section 4.3, the Participant's benefit shall be paid as provided below:

(a) Married Participant

A Participant who is married on the Participant's Retirement Date shall receive his or her benefits in the form of a one hundred percent (100%) Joint and Survivor Annuity with the Participant's spouse as the Beneficiary.

(b) Unmarried Participant

A Participant who is not married on the Participant's Retirement Date shall receive his or her benefits in the form of a Ten Year Certain and Life Annuity.

4.3 Payment Form Election

In the case of a Participant who is eligible to receive a portion of his or her benefit as a Grandfathered Benefit and a separate portion as a 409A Benefit, the Participant may elect to receive the respective portions of the benefit in the same form of payment or different forms of payment.

(a) For a Grandfathered Benefit

For a Participant's Grandfathered Benefit, the provisions of this Section 4.3(a) shall apply.

(i) Advance Election

Subject to approval of the Plan Administrator, a Participant may elect one of the forms of payment of benefits under Section 4.1(a) in lieu of the automatic payment form under Section 4.2 as long as the Participant's election is made at least one (1) year before the Participant's Termination. Subject to approval of the Plan Administrator, a Participant may change a prior payment-form election, provided that the change is made at least one (1) year before the Participant's Termination. Except as provided in Section 3.5, once benefit payments commence, the payment form cannot be changed by the Participant or Beneficiary.

(ii) Unanticipated Changes In Life Circumstances

Notwithstanding the preceding Section 4.3(a)(i), subject to approval of the Plan Administrator, a Participant may elect a payment form or change a prior payment-form election less than one (1) year before Termination, provided that the Participant demonstrates that the Participant has experienced or will experience an unanticipated change in life circumstances that is involuntary and with respect to which the Participant's requested payment form is consistent. Examples of an unanticipated change in life circumstances that satisfy this Section 4.3(a)(ii) include (but are not limited to) involuntary Termination and death of a spouse.

(iii) Form and Manner of Election

All payment-form elections shall be made in the form and manner prescribed by the Plan Administrator and shall be subject to approval of the Plan Administrator.

(b) For a 409A Benefit

For a Participant's 409A Benefit, the provisions of this Section 4.3(b) shall apply.

(i) Initial Election of Form of Benefit

For an Elected Officer who commences participation in the Plan on or after January 1, 2009, the Participant shall have a right to make an advance election of the form of payment of the 409A Benefit during the 30-day enrollment period described in Section 2.1(b). At such time, the Participant shall elect among any one of the following four choices: (1) life annuity (in which case, the Participant shall subsequently be eligible to elect, during the 90-day period ending on his or her Retirement Date, the specific form of annuity from any of the Actuarially Equivalent life annuities then offered under the Plan); (2) Ten-Year Certain Installments; (3) Five-Year Certain Installments; or (4) Lump-Sum. In the absence of a timely election by the Participant prior to the expiration of such 30-day enrollment period, the Participant will be deemed to have elected a life annuity.

(ii) Transition-Year Election of Form of Benefit

For each active Participant as of January 1, 2005, and any Elected Officer who commences participation during 2005, 2006, or 2007, the Plan Administrator shall administer, not later than December 31, 2007, one or more special transition-year election processes that allow a Participant to elect a form of payment for the 409A Benefit as late as December 31, 2007 and that comply with the provisions of Code Section 409A. For each active Participant as of January 1, 2008 and any Elected Officer who commences participation during 2008, the Plan Administrator shall administer, not later than December 31, 2008, one or more special transition-year election processes that allow a Participant to elect a form of payment for the 409A Benefit as late as December 31, 2008 and that comply with the provisions of Code Section 409A (including restrictions on deferring to future years payments scheduled to be made in 2008 and accelerating into 2008 payments scheduled to be made in future years).

Any such election shall be treated as though it were a timely initial election of the form of payment, and shall not be treated as a Re-Deferral Election. Each such transition-year election shall offer a Participant the four choices stated in paragraph "(i)" above (or corresponding choices representing the options then in effect under the Plan).

(iii) Re-Deferral Election

Effective on and after January 1, 2009, as applied to the entire 409A Benefit eventually payable to a Participant, the Participant may elect to change the form of payment that was previously elected (pursuant to paragraph (i) or (ii) above), but only if: (1) the new form of payment selected is an optional form under the then-existing terms of the Plan applicable to 409A Benefits; (2) the new election form is received by the Plan Administrator in final signed form at least 12 full months prior to the Pre-Delay Date and (3) the Participant acknowledges that the commencement date for the 409A Benefit shall be delayed to the fifth anniversary of the date the benefit would otherwise have commenced. Each such Re-Deferral Election shall offer a Participant the four choices stated in paragraph "(i)" above (or corresponding choices representing the options then in effect under the Plan).

(iv) Election Among Actuarially Equivalent Life Annuity Forms

A Participant who has previously elected under paragraph “(i)”, “(ii)” or “(iii)” above to receive the 409A Benefit as a life annuity shall have the right to elect the precise form of annuity (from the Actuarially Equivalent forms of life annuity then offered under the Plan) during the 90-day period ending on the Participant’s Retirement Date.

4.4 Timing of Payment

(a) For a Grandfathered Benefit

The payment of a Grandfathered Benefit shall commence upon the Participant’s Retirement Date.

(b) For a 409A Benefit

(i) General Rule

Subject to paragraphs “(ii)” and “(iii)” below, the payment of a 409A Benefit, to the extent vested, shall commence upon the later of the first day of the seventh month after the Participant’s Separation from Service or the date he or she attains age 55 (hereinafter, the “409A Benefit Commencement Date”).

If the 409A Benefit Commencement Date is after the Pre-Delay Date, the 409A Benefit shall be calculated as though it commenced on the Pre-Delay Date. The principal amount of any payment(s) due on or after the Pre-Delay Date and before the 409A Benefit Commencement Date shall be paid in a single catch-up payment on the 409A Benefit Commencement Date and credited with interest at the first segment rate under Section 1.2(a)(i) for the Plan Year containing the Pre-Delay Date. Such interest shall be credited from the date the payment would have been paid if the 409A Benefit had actually commenced on the Pre-Delay Date to the 409A Benefit Commencement Date.

(ii) Benefit Otherwise Commencing in 2006 or 2007

Notwithstanding any other provision of this Plan to the contrary, if the 409A Benefit Commencement Date determined under paragraph (i) is on or after January 1, 2006 and on or before December 31, 2007, the 409A benefit shall commence instead on the January 1 next following the 409A Benefit Commencement Date (hereinafter, the “Transition Year 409A Benefit Commencement Date”).

The 409A Benefit payable pursuant to this paragraph shall be calculated as though it commenced on the Pre-Delay Date. The principal amount of any payment(s) due on or after the Pre-Delay Date and before the Transition Year 409A Benefit Commencement Date shall be paid in a single catch-up payment on the Transition Year 409A Benefit Commencement Date and credited with interest at the rate under Section 1.2(a)(i) for the Plan Year containing the Pre-Delay Date. Such interest shall be credited from the date the payment would have been paid if the 409A Benefit had actually commenced on the Pre-Delay Date to the Transition Year 409A Benefit Commencement Date.

(iii) In the Event of a Re-Deferral Election

Notwithstanding any other provision of this Plan to the contrary, in the case of a Participant

who makes one or more Re-Deferral Elections with respect to his or her 409A Benefit, the otherwise applicable benefit commencement date (in the absence of an intervening death of the Participant) will be delayed five years (60 months) for each successive Re-Deferral Election that becomes effective for the Participant's 409A Benefit (hereinafter, the "Re-Deferral Commencement Date").

The 409A Benefit payable commencing at the Re-Deferral Commencement Date shall be Actuarially Equivalent to the 409A Benefit commencing on the Pre-Delay Date determined in paragraph "(i)" using the actuarial assumptions under Section 1.2(a)(i) for the Plan Year containing the Pre-Delay Date, but ignoring pre-retirement mortality

Section 5: Change Of Control Benefits

The provisions of this Section 5 shall apply solely to a Participant's Grandfathered Benefit, and not to a Participant's 409A Benefit; provided, however, that a 409A Benefit that is less than fully vested shall be 100% vested upon the occurrence of a Change of Control prior to a Participant's Separation from Service. Furthermore, the Benefit Percentage applicable to a 409A Benefit for a Participant with less than five years of Elected Officer Service upon Separation from Service following a Change of Control shall be determined according to the second table in Section 3.1(b). Moreover, the special restriction on Plan amendments following a Change of Control, as stated in Section 9.1(a)(iii), shall apply to any Plan amendment, whether it affects Grandfathered Benefits, 409A Benefits, or both.

5.1 Change of Control Benefit

Notwithstanding any other provision of the Plan, in the event of a Change of Control, each Participant (or his or her Beneficiary), except a Participant Terminated For Cause before the date of the Change of Control, shall receive his or her Grandfathered Benefit as a Change of Control benefit in accordance with this Section, in lieu of all other Grandfathered Benefits payable under this Plan.

5.2 Form of Payment

All Grandfathered Benefits shall be paid in the form of a single lump sum payment determined under Section 5.3, within sixty (60) days after a Change of Control. After payment of all such Grandfathered Benefits, no Participant or Beneficiary will have any further rights to any Grandfathered Benefit under the Plan.

5.3 Amount of Change of Control Benefit

(a) After Commencement of Benefits

If Grandfathered Benefit payments had commenced prior to the date of the Change of Control, any Participant, spouse, or Beneficiary receiving such benefits as of the date of the Change of Control shall receive a single lump sum payment that is the Actuarial Equivalent of the remaining Grandfathered Benefit otherwise payable.

(b) Before Commencement of Benefits And After Termination

If the date of the Change of Control is after a Participant's Termination, but before payment of the Grandfathered Benefit has begun, the Participant shall receive a single lump sum payment that is Actuarially Equivalent to the Participant's Grandfathered Benefit (if any) that is payable at Normal

Retirement Age.

(c) Before Termination

If the date of the Change of Control is before a Participant's Termination, the Participant shall receive a single lump sum payment that is Actuarially Equivalent to the Participant's Grandfathered Benefit (if any) that is payable as of the Normal Retirement Age, determined as though the Participant Terminated on the date of the Change of Control.

Section 6: Death Benefits

6.1 Death Benefits Prior to Benefit Commencement (or Otherwise Incurring a Separation from Service)

In the event a married Participant dies before otherwise incurring a Separation from Service by reason of retirement or other termination of employment, he or she shall become one hundred percent (100%) vested in his or her 409A Benefit pursuant to Section 7.1(c).

This Section describes the death benefit payable to the spouse of a vested married Participant who dies (i) after reaching age fifty-five (55) but before Grandfathered Benefits commence (in the case of 409A Benefits, before otherwise incurring a Separation from Service by reason of retirement or other termination of employment) or (ii) before reaching age fifty-five (55). As applied to a Participant's 409A Benefit, the following provisions shall be construed as though the term "Separation from Service" were substituted for "Termination."

(a) Death After Attaining Age Fifty-Five

If the Participant dies after reaching age fifty-five (55) but before the Grandfathered Benefit commences or, in the case of a 409A Benefit, before otherwise incurring a Separation from Service by reason of retirement or other termination of employment, the spouse's benefit shall be paid monthly from the first of the month coinciding with or following the Participant's death through the first of the month preceding the spouse's death. The benefit shall equal the amount payable to the surviving spouse under a one hundred percent (100%) Joint and Survivor Annuity form of payment as if the Participant had commenced receiving retirement benefit payments as of the date spouse death benefits commence, based upon the Participant's vested Target Aggregate Benefit, if any, at the date of death.

(b) Death Before Attaining Age Fifty-Five

If the Participant dies on or before reaching age fifty-five (55), the spouse's death benefit shall be paid monthly starting the first of the month after the Participant's fifty-fifth (55th) birthday (determined as if the Participant had survived but was not employed after the date of death) through the first of the month preceding the spouse's death. The benefit shall equal the amount payable to the surviving spouse under a one hundred percent (100%) Joint and Survivor Annuity form of payment as if the Participant had Terminated on the date of death, survived to the date spouse benefits commence and commenced receiving the Grandfathered Benefit and the 409A Benefit on such date. If the surviving spouse dies before benefit payments begin, no benefits shall be payable to the spouse's estate or beneficiaries.

6.2 Death After Benefit Commencement

In the event a Participant dies after benefit payments have commenced, his or her Beneficiary may be entitled to receive a benefit depending on the form of payment elected by the Participant. The benefit payable to a Beneficiary is described in Sections 4.1(a)(ii) and 4.1(b)(ii) Joint and Survivor Annuity, 4.1(a)(iii) and 4.1(b)(iii) Ten Year Certain and Life Annuity, 4.1(a)(iv) and 4.1(b)(iv) Ten Year Certain Installments, or 4.1(b)(vi) Five Year Certain Installments, whichever applies according to the form elected by the Participant for the Grandfathered Benefit and the 409A Benefit. If such a deceased Participant had elected to receive a 409A Benefit in the form of a Lump Sum or Whole Life Annuity, then no Beneficiary shall have any right to receive any 409A Benefit under this Plan upon the Participant's death. And if such a deceased Participant had elected to receive a Grandfathered Benefit in the form of a Whole Life Annuity, then no Beneficiary shall have any right to receive any 409A Benefit under this Plan upon the Participant's death.

6.3 Death During a Period of Delayed 409A Benefits

If a Participant's death occurs after age fifty-five (55) and after incurring a Separation from Service by reason of retirement or other termination of employment but before payment of his or her 409A Benefit payments has commenced, his or her Beneficiary may be entitled to receive a benefit depending on the form of payment elected by the Participant.

(a) Death Between Separation from Service and 409A Benefit Commencement Date

If a Participant has not made a Re-Deferral Election with respect to his or her 409A Benefit pursuant to Section 4.3(b)(iii) and dies after incurring a Separation from Service by reason of retirement or other termination of employment but before the 409A Benefit Commencement Date under Section 4.4(b)(i), the Participant's Beneficiary shall be entitled to receive a death benefit commencing on the Participant's 409A Benefit Commencement Date consisting of both (i) a catch-up payment representing the principal amount of any 409A Benefits delayed and unpaid through the date of the Participant's death plus other death benefits (if any) payable to such Beneficiary after the Participant's Death but before the 409A Benefit Commencement Date determined under the provisions of Section 6.2 as though the start of the 409A Benefits had not been delayed, with interest as described in Section 4.4(b)(i), and (ii) other death benefits (if any) payable to such Beneficiary on and after the 409A Benefit Commencement Date under the provisions of Section 6.2.

(b) Death Between Separation from Service and Re-Deferral Commencement Date

If a Participant has made a re-deferral election with respect to his or her 409A Benefit pursuant to Section 4.3(b)(iii) and dies after incurring a Separation from Service by reason of retirement or other termination of employment but before the Re-Deferral Commencement Date under Section 4.4(b)(iii), the Participant's Beneficiary may be entitled to receive a death benefit commencing on the Participant's Re-Deferral Commencement Date, depending on the form of payment elected by the Participant in such re-deferral election. If the Participant elected to receive the 409A Benefit in the form of a Lump Sum as described in Section 4.1(b)(v), the Beneficiary shall be entitled to receive the lump sum that would have been paid on the Re-Deferral Commencement Date if the Participant had survived to such date. If the Participant elected to receive the 409A Benefit in the form of a Joint and Survivor Annuity as described in Section 4.1(b)(ii), Ten Year Certain and Life Annuity as described in Section 4.1(b)(iii), Ten Year Certain Installments as described in Section 4.1(b)(iv), or Five Year Certain Installments as described in Section 4.1(b)(vi), the death benefit

payable to the Beneficiary is determined as if the Participant had survived to the Re-Deferral Commencement Date and started receiving the 409A Benefit on such date. If the Participant elected to receive the 409A Benefit in the form of a Whole Life Annuity as described in Section 4.1(b)(i), then no Beneficiary shall have any right to receive any 409A Benefit under this Plan upon the Participant's death.

Section 7: Vesting

7.1 Vesting

Except as provided in Section 7.2, each Participant shall have at all times a vested, nonforfeitable right to his or her Grandfathered Benefit determined pursuant to Section 3.2, and to his or her 409A Benefit as adjusted pursuant to Section 3.3, using the appropriate vesting percentage determined in accordance with whichever of the following subsections "(a)" through "(e)" produces the greatest vesting percentage:

(a) Schedule A

A Participant who:

- (i) has reached age fifty (50) and has completed Company Service of at least fifteen (15) years; or
- (ii) Terminates on or after age sixty (60)

shall have the following vesting percentage in his or her benefit, if any:

Elected Officer Service	Vesting Percentage
5	50%
6	60%
7	70%
8	80%
9	90%
10	100%

(b) Schedule B

A Participant who has reached age fifty (50) and has completed Elected Officer Service of at least ten (10) years shall be one hundred percent (100%) vested in his or her benefit, if any.

(c) Death or Disability

A Participant who incurs a Termination (or, in the case of a 409A Benefit, a Separation from Service) on account of death, or becomes Disabled shall be one hundred percent (100%) vested in his or her 409A Benefit as adjusted pursuant to Section 3.3, if any, on the date of death or Disability. If the Participant has completed fewer than five years of Elected Officer Service on the date of death or Disability, the Participant's Benefit Percentage is 0% and the Participant's Target Aggregate Benefit is determined solely under Section 3.1(a)(ii).

(d) Change of Control

Notwithstanding any other provision of the Plan to the contrary, including without limitation Sections 1.12, 1.44, 7.2(a) and 7.2(b), all Participants who are Employees when a Change of Control occurs shall be one hundred percent (100%) vested in their 409A Benefit as adjusted pursuant to Section 3.3, if any, (without regard to the Participant's age) in the event of a Change of Control.

(e) Termination of Plan

In the event that the Plan is terminated in whole or in part, each affected Participant shall be one hundred percent (100%) vested in his or her 409A Benefit as adjusted pursuant to Section 3.3, if any.

7.2 Forfeiture

(a) Termination

In the event a Participant Terminates:

- (i) before reaching age fifty (50) and before a Change of Control; or
- (ii) before becoming one hundred percent (100%) vested;

the Participant's non-vested portion of the 409A Benefit shall be forfeited.

(b) Termination For Cause and Competing Activity

Notwithstanding any Plan provision to the contrary other than Section 7.1(d), a Participant's vested and non-vested Target Aggregate Benefit and any death benefit will be forfeited in their entirety and will not be reinstated for any reason upon:

- (i) the Participant's Termination for Cause; or
- (ii) a determination that the Participant is engaged in a Competing Activity.

This forfeiture clause has no effect on benefits payable under the Qualified Defined Benefit Plan.

(c) 13-Month Forfeiture Period for Participation Commencing After 2008

Notwithstanding any other provision of the Plan to the contrary, as applied to an Elected Officer who first becomes eligible to participate in the Plan after December 31, 2008, the Participant's 409A Benefit shall be entirely unvested, and fully subject to forfeiture, until the first anniversary of the date (at the end of the Participant's 30-day initial enrollment and election period) that constitutes a deadline for the Participant's advance election of the form of payment for the 409A Benefit.

Section 8: Powers And Duties Of The Committee

8.1 Appointment of Committee and Plan Administrator

The Committee shall have the overall authority and responsibility to administer, and ensure the accurate and effective administration of, the Plan.

Effective July 1, 2006, the Committee shall appoint (and shall have the authority at any time to replace) the Plan Administrator, who may, but need not, be an Employee or Elected Officer of an Employer. The Plan Administrator shall be responsible for day-to-day administration of the Plan, and shall furthermore be responsible for day-to-day oversight of the performance of duties of any third-party administrator(s). If the Plan Administrator is an Elected Officer, he or she shall have no authority to administer (or make determinations regarding) his or her own eligibility or benefits under the Plan, and such responsibilities shall be reserved to the Committee (or their designee).

8.2 Powers and Duties

The Committee shall have the power and the duty to take all action and to make all decisions necessary or proper to carry out the Plan, including the discretionary authority to interpret the provisions of the Plan and the facts and circumstances of claims for benefits. The Committee shall have the absolute discretion to decide all issues of fact or law. Any decision by the Committee that is not shown to be an abuse of discretion must be upheld by a court of law. Without limiting the foregoing, the Committee shall have the following administrative powers and duties:

- (a) to require any Participant or Beneficiary to furnish information as they may request for the purpose of the proper administration of the Plan as a condition to receiving any benefit under the Plan;
- (b) to make and enforce rules and regulations and prescribe the use of forms as they shall deem necessary for the efficient administration of the Plan;
- (c) to interpret the Plan and to resolve ambiguities, inconsistencies and omissions in a nondiscriminatory manner;
- (d) to determine tax withholding;
- (e) to compute the amount of benefits which shall be payable to any person in accordance with the provisions of the Plan; and
- (f) to delegate any of their administrative powers or duties hereunder to any of their agents or employees, including without limitation a person or entity appointed to serve as a Plan Administrator and/or a third-party administrator.

8.3 Committee Procedures

(a) In General

A majority of the Committee members in office may fulfill any act which the Plan authorizes or requires of the Committee. The majority of Committee members may delegate in writing to the Chair of the Committee the authority to take any action, and/or to give certified notice in writing of any action, taken by the Committee or its Chair.

(b) Administrative Committee Prior to July 1, 2006

Prior to July 1, 2006, while the Administrative Committee is serving as the Committee, no Administrative Committee member who participates in the Plan shall vote on any matter that pertains to the member or to the member's rights and/or benefits under the Plan unless such matter pertains to all Participants or all Participant's rights and/or benefits under the Plan. Each member of the Administrative Committee shall be recused from voting on any action pertaining solely to the member or members of the Administrative Committee or their rights and/or benefits under the Plan, and the action shall be taken by a majority of the remaining members of the Administrative Committee, or if the remaining members do not constitute a quorum, by the Compensation Committee of the Board. The action of such majority of the Administrative Committee expressed from time to time by a vote at a meeting, or in writing without a meeting, shall constitute the action of the Administrative Committee and shall have the same effect for all purposes as if assented to by all Administrative Committee members.

8.4 Appointment of Agents

The Committee may appoint such actuaries, accountants, counsel, specialists, third-party administrators and other persons or organizations as they shall deem necessary for administration of the Plan and they shall be entitled to prudently rely upon any tables, valuations, certificates, opinions, or reports which shall be furnished to them by such persons or organizations.

8.5 Committee Expenses

The Committee shall serve without compensation for services as such, but any reasonable expenses incurred by them in the performance of their duties as Committee members shall be paid by the Company.

8.6 Administrative Expenses

All expenses incurred by the Committee in connection with the administration of the Plan, including but not limited to the compensation of any actuary, accountant, counsel, specialist, third-party administrator or other persons or organizations who shall be employed by the Committee in connection with the administration thereof, shall be paid by the Company.

8.7 Determinations

All determinations hereunder made by the Board, Compensation Committee, Administrative Committee or Plan Administrator shall be made in the sole and absolute discretion of the Board, Compensation Committee or Administrative Committee or Plan Administrator, as the case may be.

In the event that any disputed matter shall arise hereunder, including, without in any manner limiting the generality of the foregoing, any matter relating to the eligibility of any person to participate under the Plan, the participation of any person under the Plan, the amounts payable to any person under the Plan, and the applicability and the interpretation of the provisions of the Plan, the decision of the Board, Compensation Committee, Administrative Committee or Plan Administrator upon such matter shall be binding and conclusive upon all persons, including, without in any manner limiting the generality of the foregoing, the Company, the Board, all persons at any time in the employ of the Company, the Participants and their Beneficiaries, and upon the respective successors, assigns, executors, administrators, heirs, next of kin, and distributees of all the foregoing.

8.8 Claim and Review Procedure

(a) Application for Benefits

Any person or the person's authorized representative (the "Claimant") may apply for, claim, or request information about, Plan benefits by submitting a signed, written application to the Plan Administrator.

(b) Denial of Application

If the Plan Administrator denies an application in whole or in part, the Plan Administrator shall notify the Claimant in writing or electronically of the denial and the Claimant's right to request a review of the denial. The notice of denial shall set forth, in a manner calculated to be understood by the Claimant:

- (i) specific reasons for the denial,
- (ii) specific references to the applicable Plan provisions on which the denial was based,
- (iii) a description of any information or material necessary to perfect the application and an explanation of why such material is necessary,
- (iv) an explanation of the Plan's review procedure and the time limits for review, and
- (v) a statement of the Claimant's right to bring a civil action under ERISA following an adverse determination on review.

The denial notice will be given to the Claimant within ninety (90) days after the Plan Administrator receives the application unless special circumstances require an extension of time for processing the application. In no event will an extension exceed a period of ninety (90) days after the end of the initial 90-day period. If an extension is required, written notice of the extension shall be furnished to the Claimant before the end of the initial 90-day period. The extension notice will indicate the special circumstances requiring an extension of time and the date by which the Plan Administrator expects to render a decision. If a written denial notice is not given to the Claimant within the period prescribed by this Section 8.8(b), the application is deemed to have been denied for purposes of section 8.8(d).

(c) Review Panel

From time to time, the Chair of the Compensation Committee shall appoint a Review Panel. The "Review Panel" will consist of three (3) or more individuals who may be (but need not be) members of the Compensation Committee or Employees of an Employer and shall be the named fiduciary with authority to act on any appeal of a denied application. The Review Panel has discretionary authority to decide all issues of fact or law. Any decision by the Review Panel that is not established to be an abuse of discretion must be upheld.

(d) Request for Review

A Claimant, whose application is denied, in whole or in part, may appeal the denial by submitting to the Review Panel a written request for a review of the denial. The request for review must be

submitted to the Review Panel within sixty (60) days after the Claimant receives written notice of the denial. Upon request and free of charge, the Claimant shall be permitted reasonable access to, and copies of, relevant information and documents. The Review Panel shall give the Claimant an opportunity to submit written information, documents, records and comments in support of the appeal. In making its decision, the Review Panel will take the Claimant's submissions into account, regardless of whether this information was available in considering the initial request.

(e) Decision on Review

The Review Panel will deliver to the Claimant an electronic or written decision within a reasonable time, but no later than sixty (60) days after receipt of the Claimant's request for review. In special circumstances, the period may be extended up to an additional sixty (60) days. If an extension is required, written notice of the extension will be furnished to the Claimant before the end of the initial 60-day period. The extension notice will indicate the special circumstances requiring an extension of time and the date by which the Review Panel expects to render a decision. If a written decision is not given to the Claimant within the period prescribed by this Section 8.8(e), the decision is deemed to be adverse. If the decision is adverse, in whole or in part, the decision shall be set forth in a manner calculated to be understood by the Claimant. The decision shall include the following:

- (i) specific reasons for the adverse decision with specific references to the applicable Plan provisions on which the decision was based,
- (ii) a statement that, upon request and free of charge, the Claimant is entitled reasonable access to, and copies of, relevant information and documents,
- (iii) a description of any voluntary appeals procedures and a statement of the Claimant's right to obtain information about these procedures, and
- (iv) a statement of the Claimant's right to bring a civil action under ERISA.

(f) Rules and Procedures

The Plan Administrator and the Review Panel may establish additional administrative procedures in accordance with this Section 8.8 and ERISA as they deem necessary or appropriate, including safeguards to insure and verify that decisions under this Section 8.8 are made in accordance with the Plan document and are applied consistently to similarly-situated Participants and Beneficiaries. Additional administrative procedures may include, but are not limited to, protocols, guidelines, periodic review and audits.

(g) Exhaustion of Administrative Remedies

No legal or equitable action for benefits under the Plan shall be brought unless and until the Claimant has satisfied the procedures in this Section 8.8.

8.9 Exemption From Liability/Indemnification

The members of the Board, Compensation Committee, Administrative Committee and the Plan Administrator, collectively and individually, shall be free from all liability, joint or several, for their acts, omissions, and conduct, and for the acts, omissions, and conduct of their duly-appointed agents, in the administration of the Plan, except for those acts or omissions and conduct resulting from willful

misconduct or lack of good faith.

The Company shall indemnify each member of the Board, Compensation Committee, Administrative Committee and the Plan Administrator, and any other employee, officer, or director of the Company against any claims, loss, damage, expense, or liability, by insurance or otherwise (other than amounts paid in settlement not approved by the Company), reasonably incurred by the individual in connection with any action or failure to act by reason of membership on the Board, Compensation Committee, Administrative Committee, or in the role of Plan Administrator, or performance of an authorized duty or responsibility for or on behalf of the Company pursuant to the Plan, unless the same is judicially determined to be the result of the individual's gross negligence or willful misconduct. Such indemnification by the Company shall be made only to the extent such expense or liability is not payable to or on behalf of such person under any liability insurance coverage. The foregoing right to indemnification shall be in addition to any other rights to which any such person may be entitled as a matter of law.

Section 9: Amendment And Termination

9.1 Amendment or Termination

(a) Right to Amend or Terminate

Except as otherwise provided in this Section, the Company reserves the right at any time and from time to time to amend any or all provisions of the Plan or terminate the Plan, in whole or in part, for any reason and without consent of any person, and without liability to any person for such amendment or termination. Notwithstanding the preceding sentence, no amendment of the Plan shall:

- (i) adversely affect the benefits or rights of a Participant or Beneficiary under the Plan (other than election or availability of a form of benefit payment under Section 4) earned and vested as of the effective date of the amendment without the written consent of each affected Participant and Beneficiary unless such change is required by law or regulations or is necessary to avoid unfavorable tax consequences; or
- (ii) adversely affect the features of the Plan in effect as of the effective date of the amendment without the written consent of each affected Participant and Beneficiary unless such change is required by law or regulations or is necessary to avoid unfavorable tax consequences; or
- (iii) be adopted or become effective after a Change of Control without the written consent of all Participants and Beneficiaries.

(b) Plan Termination

Nothing in this Plan shall be construed to require continuation of benefit accruals under this Plan or continuation of this Plan with respect to existing or future Participants or Beneficiaries. Notwithstanding Section 9.1(a)(i), the Company may amend the Plan to cease all future benefit accruals, or terminate the Plan, and shall distribute all Grandfathered Benefits as soon as administratively feasible in the form of single lump sum payments calculated in the same manner as lump sum benefits are calculated in the event of a Change of Control pursuant to Section 5.3. In the event of Plan termination, with regard to any 409A Benefits, the termination shall have the

effect of a Plan closure and a cessation of any additional benefit accruals, and a Participant's 409A Benefit shall be distributable on such date and in such manner as otherwise provided in the Plan as though the Plan termination had not occurred.

(c) Procedures

Any amendment or termination of the Plan shall be adopted by the Board, made in writing, and executed on behalf of the Company by the Chair of the Compensation Committee.

Section 10: MISCELLANEOUS PROVISIONS

10.1 Appendices

Any Appendix to this Plan, as amended from time to time, is incorporated into the Plan and made a part of the terms and conditions of this Plan.

10.2 ERISA Status

This Plan shall constitute a plan which is unfunded and which is maintained primarily for the purpose of providing deferred compensation benefits for a select group of management or highly compensated employees within the meaning of Sections 201(2), 301(a)(3), and 401(a)(1) of ERISA.

10.3 Unfunded Nature of the Obligation

No Participant, spouse or Beneficiary shall have any rights with respect to any benefits except as a general, unsecured creditor of the Employer.

10.4 Facility of Payment

In the event any benefit under this Plan shall be payable to a person who is under legal disability or is in any way incapacitated so as to be unable to manage his or her financial affairs, the Plan Administrator may direct payment of such benefit to a duly appointed guardian, committee or other legal representative of such person, or in the absence of a guardian or legal representative, to a custodian for such person under a Uniform Gifts to Minors Act or to any relative of such person by blood or marriage, for such person's benefit. Any payment made in good faith pursuant to this provision shall fully discharge the Company and the Plan of any liability to the extent of such payment.

10.5 Governing Law

The Plan shall be construed in accordance with ERISA and the laws of the State of Washington, to the extent not preempted by ERISA.

10.6 Limitation on Assignment; Domestic Relations Orders

(a) Limitation on Assignment, Attachment, Garnishment

Except as provided in paragraph "(b)", benefits under this Plan may not be assigned, sold, transferred, or encumbered, and any attempt to do so shall be void, and a Participant's or Beneficiary's interest in benefits under the Plan shall not be subject to debts or liabilities of any kind and shall not be subject to attachment, garnishment or other legal process.

(b) Domestic Relations Orders

The Plan Administrator (subject to review by the Review Panel, in accordance with Sections 8.8(c) through (g), in case of an appeal by the Participant or an alternate payee) shall follow – if, when, and to the extent a Participant is receiving a distribution (or series of distributions) of benefits under the Plan – any judgment, decree or order of a state court (including court approval of a property settlement agreement) which:

- (i) relates to the provision of child support, alimony payments or marital property rights made pursuant to a state domestic relations law (including a community property law),
- (ii) provides an alternate payee with a right to receive all or a stated portion of one or more subsequent distributions which would otherwise then be payable entirely to the Participant or a Beneficiary under the otherwise applicable provisions of this Plan, and
- (iii) satisfies the requirements of Code Sections 414(p)(2) and (3).

10.7 No Additional Rights

No person shall have any rights under the Plan, except as, and only to the extent, expressly provided for in the Plan. Neither the establishment or amendment of the Plan or the creation of any fund or account, or the payment of benefits, nor any action of an Employer, Board, Committee or Plan Administrator shall be held or construed to confer upon any person any right to be continued as an employee, or, upon dismissal, any right or interest in any account or fund other than as herein provided. The Company and the other Employers expressly reserve the right to discharge any employee at any time with or without cause.

10.8 Notice

All notices, statements, reports and other communications from the Company, Committee or Plan Administrator to any employee or other person required or permitted under the Plan shall be deemed to have been duly given when delivered to, or when mailed by first class mail, postage prepaid and addressed to, such employee, or other person at his or her address last appearing on the Employer's records.

10.9 Severability

If any provision of this Plan is held unenforceable or invalid for any reason, such determination shall not affect the remaining provisions of this Plan which shall be construed as if the unenforceable or invalid provisions had never been included.

10.10 Tax Consequences and Withholding

The Company does not represent or guarantee that any particular federal or state income, payroll, Social Security, or other tax consequences will result from participation in the Plan. A Participant should consult with professional tax advisors to determine the tax consequences of his or her participation in the Plan.

All payments of federal or state income, Social Security, payroll, or other tax required with respect to benefits under the Plan shall be satisfied by withholding the required amount from the Participant's salary, other current compensation or Plan benefit payment, or if the cumulative amount of a Participant's salary,

other current compensation, and benefit payment is insufficient to satisfy any required tax payments, the Participant shall satisfy the payments in a manner approved by the Plan Administrator.

Determinations by the Plan Administrator with respect to tax withholding shall be binding on the Participant and Beneficiaries.

IN WITNESS WHEREOF, the Company has caused this Plan to be signed by the Chair of its Compensation Committee this _____ day of _____, 2011.

ALASKA AIR GROUP, INC.

By: _____
J. Kenneth Thompson
Chair, Compensation Committee

Appendix I: Elected Officers Who Have Commenced Participation in the Plan

The following Elected Officers have commenced participation in this Plan on the respective dates (and with the respective number of years of Company Service and Elected Officer Service as of such dates), as stated below:

<u>Participant Name</u>	<u>Commenced Participation</u>	<u>Company Service</u>	<u>Elected Officer Service</u>	<u>Participation</u>	<u>Ceased Active</u>
William S. Ayer	August 8, 1995	13.02	0		
Michel A. Swanigan	October 23, 1995	15.54	N/A		January 31, 2000
Keith Loveless	May 21, 1996	10.06	0		
Dennis J. Hamel	July 29, 1997	13.88	0		January 1, 2010
William L. MacKay	July 29, 1997	20.93	0		
Robert M. Reeder	July 29, 1997	7.38	0		March 13, 2009
Gregg A. Saretsky	March 15, 1998	0	0		January 5, 2009
Robin L. Krueger	January 26, 1999	15.06	N/A		July 1, 1999
Bradley D. Tilden	January 26, 1999	7.93	0		
William F. Weaver	October 26, 1999	2.90	N/A		October 1, 2001
David A. Prewitt	June 1, 2000	0	N/A		February 12, 2006
Michael S. Cohen	August 21, 2000	0	N/A		October 1, 2003
Jeffrey D. Pinneo	January 30, 2002	20.21	0		January 31, 2011
Thomas G. Romary	June 16, 2003	0	N/A		November 22, 2005
Donald S. Garvett	August 21, 2002	0	0		February 28, 2009
Kevin P. Finan	July 26, 2000	18.86	0		December 31, 2007
Glenn S. Johnson	July 16, 2003	20.54	0		
Stephen B. Jarvis	November 8, 2005	5.94	0		October 1, 2010
Kelley J. Dobbs	June 14, 2007	20.07	0		
Jeffrey M. Butler	June 14, 2007	22.76	0		
Joseph A. Sprague	April 23, 2008	7.92	0		
Ann E. Ardizzone	April 23, 2008	26.87	0		
John F. Schaefer, Jr.	June 12, 2008	10.43	0		

ACKNOWLEDGED AND ACCEPTED
ALASKA AIR GROUP, INC.

By: _____
J. Kenneth Thompson
Chair, Compensation Committee

Date: _____

Appendix II: Participating Employers

In addition to the Company (Alaska Air Group, Inc.), "Employer" as defined in Section 1.22 shall also include the following employers during the following period of time.

<u>Employer</u>	<u>Beginning Date</u>	<u>Ending Date</u>
1. Alaska Airlines, Inc.	Plan Adoption Date	—
2. Horizon Air Industries, Inc.	Plan Adoption Date	—

ACKNOWLEDGED AND ACCEPTED
ALASKA AIR GROUP, INC.

By: _____
J. Kenneth Thompson
Chair, Compensation Committee

Date: _____

Appendix III: Grandfathered Benefits

The following Participants have Grandfathered Benefits as defined in Section 1.25, the payment of which had not commenced on December 31, 2008. The table below shows the data elements needed to calculate the benefit the Participant becomes entitled to, in the form and at the time actually paid, determined under the terms of the Plan (including applicable limits under the Internal Revenue Code) as in effect on October 3, 2004, without regard to any further services rendered by the Participant after December 31, 2004 or any other events affecting the amount of or the entitlement to benefits other than the Participant's Separation from Service. All dollar amounts are monthly Whole Life Annuities:

Name	Dec. 31, 2004, Target Aggregate Benefit	Dec. 31, 2004, Qualified Defined Benefit Plan Offset (payable starting at age 62)	Dec. 31, 2004, Vesting Percentage
Bill Ayer	\$21,147.12	\$2,932.02	90%
Dennis Hamel	\$9,622.38	\$2,185.91	70%
Bill MacKay	\$9,316.18	\$1,965.18	70%

ACKNOWLEDGED AND ACCEPTED
ALASKA AIR GROUP, INC.

By: _____
J. Kenneth Thompson
Chair, Compensation Committee

Date: _____

ALASKA AIR GROUP, INC.
2008 PERFORMANCE INCENTIVE PLAN
NONQUALIFIED STOCK OPTION AGREEMENT

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

Number of Shares of Common Stock ¹ :	Award Date:
Exercise Price per Share ¹ : \$	Expiration Date ^{1,2} :

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

The Option is granted under the Alaska Air Group, Inc. 2008 Performance Incentive Plan (the “**Plan**”) and subject to the Terms and Conditions of Nonqualified Stock Option (the “**Terms**”) attached to this Option Agreement (incorporated herein by this reference) and to the Plan. The Option has been granted to the Grantee in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Grantee. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Option set forth herein. The Grantee acknowledges receipt of a copy of the Terms, the Plan and the Prospectus for the Plan.

GRANTEE _____	ALASKA AIR GROUP, INC. a Delaware Corporation By: _____ William S. Ayer Chairman, President and CEO
----------------------	---

¹ Subject to adjustment under Section 7.1 of the Plan

² Subject to early termination under Section 4 of the Terms and Section 7.2 of the Plan

TERMS AND CONDITIONS OF NONQUALIFIED STOCK OPTION

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

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

- Cumulative Exercisability. To the extent that the Option is vested and exercisable, the Grantee has the right to exercise the Option (to the extent not previously exercised), and such right shall continue, until the expiration or earlier termination of the Option.
- No Fractional Shares. Fractional share interests shall be disregarded, but may be cumulated.
- Minimum Exercise. No fewer than 100 shares of Common Stock (subject to adjustment under Section 7.1 of the Plan) may be purchased at any one time, unless the number purchased is the total number at the time exercisable under the Option.
- Nonqualified Stock Option. The Option is a nonqualified stock option and is not, and shall not be, an incentive stock option within the meaning of Section 422 of the Code.

Notwithstanding any other provision herein or in the Plan, the Option, to the extent not then vested, shall become fully vested if (i) the Grantee's employment with the Corporation and its Subsidiaries is terminated by the Corporation or a Subsidiary without Cause or by the Grantee for Good Reason, and (ii) such termination occurs at any time within the period commencing six (6) months before a Change of Control and ending twenty-four (24) months after such Change of Control. (For these purposes, the terms "Cause," "Change of Control" and "Good Reason" shall have the meanings ascribed to them in Exhibit A attached hereto.) In the event that, upon the occurrence of a Change of Control, the Grantee is entitled to accelerated vesting of the Option pursuant to this paragraph in connection with a termination of the Grantee's employment prior to such Change of Control, the Option, to the extent it had not vested and was cancelled or otherwise terminated upon or prior to the date of such Change of Control solely as a result of such termination of employment, shall be reinstated and shall automatically become fully vested, and the Grantee shall be given a reasonable opportunity to exercise such accelerated portion of the Option before it terminates.

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

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

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

3. Method of Exercise of Option.

The Option shall be exercisable by the delivery to the Secretary of the Corporation (or such other person as the Administrator may require pursuant to such administrative exercise procedures as the Administrator may

implement from time to time) of:

- a written notice stating the number of shares of Common Stock to be purchased pursuant to the Option or by the completion of such other administrative exercise procedures as the Administrator may require from time to time,
- payment in full for the Exercise Price of the shares to be purchased in cash, check or by electronic funds transfer to the Corporation, or (subject to compliance with all applicable laws, rules, regulations and listing requirements and further subject to such rules as the Administrator may adopt as to any non-cash payment) in shares of Common Stock already owned by the Grantee, valued at their Fair Market Value on the exercise date;
- if required by the Administrator, any written statements or agreements that the Administrator may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements; and
- satisfaction of the tax withholding provisions of Section 8.5 of the Plan.

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

4. Early Termination of Option.

4.1 Possible Termination of Option upon Certain Corporate Events. The Option is subject to termination in connection with certain corporate events as provided in Section 7.2 of the Plan.

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

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

period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-year period.

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

In all events the Option is subject to earlier termination on the Expiration Date of the Option or as contemplated by Section 4.1. If the Grantee is rendering services other than as an employee or a director, the Administrator shall be the sole judge of whether the Grantee continues to render services for purposes of this Option Agreement.

5. Non-Transferability.

The Option and any other rights of the Grantee under this Option Agreement or the Plan are nontransferable and exercisable only by the Grantee, except as set forth in Section 5.7 of the Plan.

6. Notices.

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

7. Plan.

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

8. Entire Agreement.

This Option Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Option Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Grantee hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

9. Governing Law.

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

10. Effect of this Agreement.

Subject to the Corporation's right to terminate the Option pursuant to Section 7.2 of the Plan, this Option Agreement shall be assumed by, be binding upon and inure to the benefit of any successor or successors to the Corporation.

11. Counterparts.

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

12. Section Headings.

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

EXHIBIT A
DEFINITIONS

For purposes of the Option, the following terms shall have the meanings set forth in this Exhibit A.

“**Cause**” means the occurrence of any of the following:

- (i) the Grantee is convicted of, or has pled guilty or *nolo contendere* to, a felony (other than traffic related offenses or as a result of vicarious liability); or
- (ii) the Grantee has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his duties to the Corporation or any of its Subsidiaries; or
- (iii) the Grantee willfully and repeatedly fails to perform or uphold his duties to the Corporation or any of its Subsidiaries; or
- (iv) the Grantee willfully fails to comply with reasonable directives of the Board which are communicated to him or her in writing;

provided, however, that no act or omission by the Grantee shall be deemed to be “willful” if the Grantee reasonably believed in good faith that such acts or omissions were in the best interests of the Corporation.

“**Change of Control**” means the occurrence of any of the following:

- (i) the consummation of:
 - (A) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of common stock of the Corporation would be converted into cash, securities or other property, other than a merger of the Corporation in which the holders of common stock of the Corporation immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; or
 - (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Corporation.
- (ii) at any time during a period of twenty-four (24) months, fewer than a majority of the members of the Board are Incumbent Directors.
“**Incumbent Directors**” means (A) individuals who constitute the Board at the beginning of such period; and (B) individuals who were nominated or elected by all of, or a committee composed entirely of, the individuals described in (A); and (C) individuals who were nominated or elected by individuals described in (B).
- (iii) any Person (meaning any individual, entity or group within the meaning of Section 13(d)(3) or 14(d) of the Exchange Act) shall, as a result of a tender or exchange offer, open market purchases, privately-negotiated purchases or otherwise, become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of the then-outstanding securities of the Corporation ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of members of the Board (“**Voting Securities**” to be calculated as provided in paragraph (d) of Rule 13d-3 in the case of rights to acquire common stock of the Corporation) representing 20% or more of the combined voting power of the then-outstanding Voting Securities.
- (iv) approval by the stockholders of the Corporation of any plan or proposal for the liquidation or

dissolution of the Corporation.

Unless the Board shall determine otherwise, a Change of Control shall not be deemed to have occurred by reason of any corporate reorganization, merger, consolidation, transfer of assets, liquidating distribution or other transaction entered into solely by and between the Corporation and any affiliate thereof, provided such transaction has been approved by at least two-thirds (2/3) of the Incumbent Directors (as defined above) then in office and voting.

Notwithstanding the foregoing, in no event shall a transaction or other event that occurred prior to the date of grant of the Option constitute a Change of Control, and no Change of Control after the first Change of Control to occur after the grant date shall be considered for purposes of the Option.

“Good Reason” means, without the Grantee's express written consent, the occurrence of any one or more of the following:

- (i) a material reduction in the Grantee's annual base salary;
- (ii) a material diminution or reduction of the Grantee's authority, duties, or responsibilities;
- (iii) a material change in the geographic location at which the Grantee must perform services; or
- (iv) any material breach by the Corporation of any other provision of this Agreement;

provided, however, that any such condition shall not constitute “Good Reason” unless both (x) the Grantee provides written notice to the Corporation of the condition claimed to constitute Good Reason within ninety (90) days of the initial existence of such condition, and (y) the Corporation fails to remedy such condition within thirty (30) days of receiving such written notice thereof; and provided, further, that in all events the termination of the Grantee's employment with the Corporation shall not be treated as a termination for “Good Reason” unless such termination occurs not more than two (2) years following the initial existence of the condition claimed to constitute “Good Reason.”

**ALASKA AIR GROUP, INC.
2008 PERFORMANCE INCENTIVE PLAN
PERFORMANCE STOCK UNIT AWARD AGREEMENT**

THIS PERFORMANCE STOCK UNIT AWARD AGREEMENT (this “**Agreement**”) dated [DATE] by and between **ALASKA AIR GROUP, INC.**, a Delaware corporation (the “**Corporation**”), and [name] (the “**Participant**”) evidences the award of stock units (the “**Award**”) granted by the Corporation to the Participant as to the number of stock units (the “**Stock Units**”) first set forth below.

Number of Stock Units ¹ :	Award Date:
Performance Period:	

Vesting¹ The Award shall vest and become nonforfeitable as provided in Section 2 of the attached Terms and Conditions of Performance Stock Unit Award (the “**Terms**”).

The Award is granted under the Alaska Air Group, Inc. 2008 Performance Incentive Plan (the “**Plan**”) and subject to the Terms attached to this Agreement (incorporated herein by this reference) and to the Plan. The Award has been granted to the Participant in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Participant. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Award set forth herein. The Participant acknowledges receipt of a copy of the Terms, the Plan and the Prospectus for the Plan.

PARTICIPANT	ALASKA AIR GROUP, INC. a Delaware Corporation By: _____ William S. Ayer Chairman, President and CEO
-------------	---

¹ Subject to adjustment under Section 7.1 of the Plan.

TERMS AND CONDITIONS OF PERFORMANCE STOCK UNIT AWARD

1. Stock Units. As used herein, the term “stock unit” shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of the Corporation's Common Stock (subject to adjustment as provided in Section 7.1 of the Plan) solely for purposes of the Plan and this Agreement. The Stock Units shall be used solely as a device for the determination of the payment to eventually be made to the Participant if such Stock Units vest pursuant to this Agreement. The Stock Units shall not be treated as property or as a trust fund of any kind.

2. Vesting.

(a) **Performance-Based Vesting.** Subject to Sections 2(b) and 7 below, the Award shall vest and become nonforfeitable based on the achievement of the performance goals established by the Administrator and set forth on Exhibit A attached hereto for the Performance Period identified on the cover page of this Agreement. The number of Stock Units that vest and become payable under this Agreement shall be determined based on the level of results or achievement of targets for each of the Performance Goals as set forth in Exhibit A. Except as otherwise expressly provided in Exhibit A, in Section 2(b) and in Section 7(b), any Stock Units subject to the Award that do not vest on or before the last day of the Performance Period pursuant to such provisions shall terminate as of the last day of the Performance Period.

(b) **Possible Acceleration.** Notwithstanding any other provision herein or in the Plan, the Award, to the extent then outstanding and not vested, shall become fully vested if (i) the Participant's employment with the Corporation and its Subsidiaries is terminated during the Performance Period by the Corporation or a Subsidiary without Cause or by the Participant for Good Reason, and (ii) such termination occurs at any time within the period commencing six (6) months before a Change of Control and ending twenty-four (24) months after such Change of Control (and in either case during the Performance Period). (For these purposes, the terms “Cause,” “Change of Control” and “Good Reason” shall have the meanings ascribed to them in Exhibit B attached hereto.) In the event that, upon the occurrence of a Change of Control, the Participant is entitled to accelerated vesting of the Award pursuant to this Section 2(b) in connection with a termination of the Participant's employment prior to such Change of Control, the Award, to the extent it had not vested and was cancelled or otherwise terminated upon or prior to the date of such Change of Control solely as a result of such termination of employment, shall be reinstated (as though no such termination had occurred) and shall automatically become fully vested as of the date of the Change of Control (even if after the Performance Period but only if the termination of employment occurred during the Performance Period). For avoidance of doubt, if the Award is accelerated under this Section 2(b), the number of Stock Units that shall be vested after giving effect to the foregoing provisions of this Section 2(b) shall equal the number of Stock Units set forth on the cover page of this Agreement (subject to adjustment under Section 7.1 of the Plan), and the performance-based vesting provisions of Section 2(a) shall be disregarded.

3. Continuance of Employment/Service Required; No Employment/Service Commitment. Except as expressly provided in Section 2(b) and 7(b), the vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 7(a) below or under the Plan.

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

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

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

6. Timing and Manner of Payment of Stock Units. On or as soon as administratively practical following the date on which any Stock Units subject to this Award vest pursuant to Section 2 or Section 7(b) (and in all events within two and one-half months after such vesting event), the Corporation shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its discretion) equal to the number of Stock Units subject to this Award that vest on such date. The Corporation's obligation to deliver shares of Common Stock or otherwise make payment with respect to vested Stock Units is subject to the condition precedent that the Participant or other person entitled under the Plan to receive any shares with respect to the vested Stock Units deliver to the Corporation any representations or other documents or assurances that the Administrator may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements. The Participant shall have no further rights with respect to any Stock Units that are paid or that terminate pursuant to Section 7.

7. Effect of Termination of Employment or Service.

(a) Except as expressly provided in Section 2(b) and in Section 7(b), the Participant's Stock Units shall terminate to the extent such units have not become vested prior to the first date the Participant is no longer employed by or providing services to the Corporation or one of its Subsidiaries, regardless of the reason for the termination of the Participant's employment or services with the Corporation or a Subsidiary. If any unvested Stock Units are terminated hereunder (whether pursuant to Section 2, this Section 7 or otherwise), such Stock Units shall automatically terminate and be cancelled as of the applicable termination date without payment of any consideration by the Corporation and without any other action by the Participant, or the Participant's beneficiary or personal representative, as the case may be, and the Participant shall have no right with respect thereto or in respect thereof. If the Participant is rendering services other than as an employee or a director, the Administrator shall be the sole judge of whether the Participant continues to render services for purposes of this Agreement.

(b) Notwithstanding Section 7(a), if the Participant's employment or service with the Corporation or one of its Subsidiaries terminates during the Performance Period as a result of the Participant's death, Total Disability or Retirement (as such terms are defined below), (i) the Participant's Stock Units shall be subject to pro-rata vesting such that the number of Stock Units subject to the Award (if any) that shall become vested as of the conclusion of the Performance Period shall equal (A) the number of Stock Units subject to the Award that would have vested as of the conclusion of the Performance Period in accordance with Section 2(a) above (assuming no termination of employment or service had occurred), multiplied by (B) a fraction, the numerator of which shall be the number of whole months during the Performance Period the Participant was employed by or rendered services to the Corporation or one of its Subsidiaries, and the denominator of which shall be the number of whole months in the Performance Period; and (ii) any Stock Units subject to the Award that do not vest in accordance with the foregoing clause (i) shall terminate as of the last day of the Performance Period. If a Participant's employment or service is terminated in the circumstances described in Section 2(b) and in the circumstances described in this Section 7(b), the provisions of Section 2(b) shall control.

(c) For purposes of this Agreement, "**Total Disability**" means a "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code or as otherwise determined by the Administrator). For purposes of this Agreement, "**Retirement**" means that, as of the date of the termination of the Participant's employment or service with the Corporation, the Participant has either (i) attained age 55 with at least five (5) full

years of service with the Corporation and its Subsidiaries, or (ii) has attained age 60, or (iii) is a participant in and is entitled to commence a benefit under a defined benefit plan sponsored by the Corporation or any of its Subsidiaries and has at least 10 years of service with the Corporation and its Subsidiaries.

8. Adjustments Upon Specified Events. Upon the occurrence of certain events relating to the Corporation's stock contemplated by Section 7.1 of the Plan (including, without limitation, an extraordinary cash dividend on such stock), the Administrator shall make adjustments in accordance with such section in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend paid on the Common Stock. Furthermore, the Administrator shall adjust the performance measures and performance goals referenced in Section 2 hereof to the extent (if any) it determines that the adjustment is necessary or advisable to preserve the intended incentives and benefits to reflect (1) any material change in corporate capitalization, any material corporate transaction (such as a reorganization, combination, separation, merger, acquisition, or any combination of the foregoing), or any complete or partial liquidation, (2) any change in accounting policies or practices, (3) the effects of any special charges to the Corporation's earnings, or (4) any other similar special circumstances.

9. Tax Withholding. Subject to Section 8.1 of the Plan, upon any distribution of shares of Common Stock in respect of the Stock Units, the Corporation shall automatically reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then fair market value (determined in accordance with the applicable provisions of the Plan), to satisfy any withholding obligations of the Corporation with respect to such distribution of shares at the minimum applicable withholding rates. In the event that the Corporation cannot legally satisfy such withholding obligations by such reduction of shares, or in the event of a cash payment or any other withholding event in respect of the Stock Units, the Corporation shall be entitled to require a cash payment by or on behalf of the Participant and/or to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to such distribution or payment.

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

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

12. Entire Agreement. This Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

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

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

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

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

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

EXHIBIT A

PERFORMANCE GOALS

Subject to Sections 2(b) and 7 of this Agreement, the percentage of the Stock Units subject to the Award that vest will be determined in accordance with the chart below based on the Company's Total Shareholder Return (TSR) Percentile Rank (as defined below) for the Performance Period.

TSR Percentile Rank	Percentage of Stock Units that Vest

Numerical Example

Assume that the Participant was granted an Award of [] Stock Units and the Corporation's TSR Percentile Rank for the Performance Period was []. In that case, the number of Stock Units subject to the Award that would vest would be []. The remaining [] Stock Units subject to the Award that did not vest would terminate as of the end of the Performance Period.

Definitions

For purposes of the Award, the following definitions will apply:

“**TSR**” means total shareholder return and shall be determined with respect to the Corporation and any other company in the Airline Peer Group by dividing: (a) the sum of (i) the difference obtained by subtracting the Beginning Price from the Ending Price plus (ii) all dividends and other distributions paid on such company's common stock during the Performance Period by (b) the Beginning Price, with any non-cash distributions to be ascribed such dollar value as may be determined by or at the direction of the Administrator.

- “**Beginning Price**” means, with respect to the Corporation and any other company in the Airline Peer Group, the average of the closing market prices of such company's common stock on the principal exchange on which such stock is traded for the thirty (30) consecutive trading days ending with the first day of the Performance Period or, in the case of a company that is not traded on a stock exchange on the first day of the Performance Period, the average of the closing market prices of such company's common stock on the principal exchange on which such stock is thereafter first admitted to trading for the thirty (30) consecutive trading days commencing with the first day in the Performance Period on which such company's common stock is so traded.
- “**Ending Price**” means, with respect to the Corporation and any other company in the Airline Peer Group, the average of the closing market prices of such company's common stock on the principal exchange on which such stock is traded for the thirty (30) consecutive trading days ending with the last day of the Performance Period.

- “**TSR Percentile Rank**” means the ranking of the Corporation's TSR among the TSRs for the companies (including the Corporation) comprising the Airline Peer Group identified below.
- “**Airline Peer Group**” means the Corporation and each of the following companies:
 - AMR*
 - Delta Air Lines*
 - JetBlue Airways*
 - Hawaiian Holdings Inc.
 - Mesa Air Group Inc.
 - Republic Airways Holdings
 - SkyWest*
 - Southwest Airlines*
 - UAL*
 - US Airways Group*

*Components of Amex Airline Index.

As contemplated by Section 8 of this Agreement, the Administrator shall make appropriate adjustments to the TSR Percentile Rank as it deems necessary or advisable to preserve the intended incentives and benefits of this Agreement to reflect any changes to the companies in the Airline Peer Group during the Performance Period, it being intended that no new companies will be added to the Airline Peer Group for purposes of the Award (unless the company is a public company and is the successor to one or more of the companies identified above or to all or a substantial portion of the business of any such companies) and that a company that does not survive as a public company for the Performance Period (directly or through a successor to it or to all or a substantial portion of its business) shall be excluded.

EXHIBIT B
DEFINITIONS

For purposes of the Award, the following terms shall have the meanings set forth in this Exhibit B.

“**Cause**” means the occurrence of any of the following:

- (i) the Participant is convicted of, or has pled guilty or *nolo contendere* to, a felony (other than traffic related offenses or as a result of vicarious liability); or
- (ii) the Participant has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his duties to the Corporation; or
- (iii) the Participant willfully and repeatedly fails to perform or uphold his duties to the Corporation; or
- (iv) the Participant willfully fails to comply with reasonable directives of the Board which are communicated to him or her in writing;

provided, however, that no act or omission by the Participant shall be deemed to be “willful” if the Participant reasonably believed in good faith that such acts or omissions were in the best interests of the Corporation.

“**Change of Control**” means the occurrence of any of the following:

- (i) the consummation of:
 - (A) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of common stock of the Corporation would be converted into cash, securities or other property, other than a merger of the Corporation in which the holders of common stock of the Corporation immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; or
 - (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Corporation.
- (ii) at any time during a period of twenty-four (24) months, fewer than a majority of the members of the Board are Incumbent Directors.
“**Incumbent Directors**” means (A) individuals who constitute the Board at the beginning of such period; and (B) individuals who were nominated or elected by all of, or a committee composed entirely of, the individuals described in (A); and (C) individuals who were nominated or elected by individuals described in (B).
- (iii) any Person (meaning any individual, entity or group within the meaning of Section 13(d)(3) or 14(d) of the Exchange Act) shall, as a result of a tender or exchange offer, open market purchases, privately-negotiated purchases or otherwise, become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of the then-outstanding securities of the Corporation ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of members of the Board (“**Voting Securities**” to be calculated as provided in paragraph (d) of Rule 13d-3 in the case of rights to acquire common stock of the Corporation) representing 20% or more of the combined voting power of the then-outstanding Voting Securities.

(iv) approval by the stockholders of the Corporation of any plan or proposal for the liquidation or dissolution of the Corporation.

Unless the Board shall determine otherwise, a Change of Control shall not be deemed to have occurred by reason of any corporate reorganization, merger, consolidation, transfer of assets, liquidating distribution or other transaction entered into solely by and between the Corporation and any affiliate thereof, provided such transaction has been approved by at least two-thirds (2/3) of the Incumbent Directors (as defined above) then in office and voting.

Notwithstanding the foregoing, in no event shall a transaction or other event that occurred prior to the date of grant of the Award constitute a Change of Control, and no Change of Control after the first Change of Control to occur after the grant date shall be considered for purposes of the Award.

“Good Reason” means, without the Participant's express written consent, the occurrence of any one or more of the following:

- (i) a material reduction in the Participant's annual base salary;
- (ii) a material diminution or reduction of the Participant's authority, duties, or responsibilities;
- (iii) a material change in the geographic location at which the Participant must perform services; or
- (iv) any material breach by the Corporation of any other provision of this Agreement;

provided, however, that any such condition shall not constitute “Good Reason” unless both (x) the Participant provides written notice to the Corporation of the condition claimed to constitute Good Reason within ninety (90) days of the initial existence of such condition, and (y) the Corporation fails to remedy such condition within thirty (30) days of receiving such written notice thereof; and provided, further, that in all events the termination of the Participant's employment with the Corporation shall not be treated as a termination for “Good Reason” unless such termination occurs not more than two (2) years following the initial existence of the condition claimed to constitute “Good Reason.”

**ALASKA AIR GROUP, INC.
2008 PERFORMANCE INCENTIVE PLAN
STOCK UNIT AWARD AGREEMENT**

THIS STOCK UNIT AWARD AGREEMENT (this “**Agreement**”) dated [DATE], by and between **ALASKA AIR GROUP, INC.**, a Delaware corporation (the “**Corporation**”), and [NAME] (the “**Participant**”) evidences the award of restricted stock units (the “**Award**”) granted by the Corporation to the Participant as to the number of stock units (the “**Stock Units**”) first set forth below.

Number of Stock Units ¹ :	Award Date:
--------------------------------------	-------------

Vesting¹ The Award shall vest and become nonforfeitable with respect to 100% of the total number of Stock Units subject to the Award on the third anniversary of the Award Date.

The Award is granted under the Alaska Air Group, Inc. 2008 Performance Incentive Plan (the “**Plan**”) and subject to the Terms and Conditions of Stock Unit Award (the “**Terms**”) attached to this Agreement (incorporated herein by this reference) and to the Plan. The Award has been granted to the Participant in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Participant. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Award set forth herein. The Participant acknowledges receipt of a copy of the Terms, the Plan and the Prospectus for the Plan.

PARTICIPANT _____	ALASKA AIR GROUP, INC. a Delaware Corporation By: _____ William S. Ayer Chairman, President and CEO
--------------------------	---

¹ Subject to adjustment under Section 7.1 of the Plan.

TERMS AND CONDITIONS OF STOCK UNIT AWARD

1. Stock Units. As used herein, the term “stock unit” shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of the Corporation's Common Stock (subject to adjustment as provided in Section 7.1 of the Plan) solely for purposes of the Plan and this Agreement. The Stock Units shall be used solely as a device for the determination of the payment to eventually be made to the Participant if such Stock Units vest pursuant to this Agreement. The Stock Units shall not be treated as property or as a trust fund of any kind.

2. Vesting; Possible Acceleration. Subject to Section 7 below, the Award shall vest and become nonforfeitable as set forth on the cover page of this Agreement. Notwithstanding any other provision herein or in the Plan, the Award, to the extent not then vested, shall become fully vested and shall be paid in accordance with Section 6 promptly following the Participant's Separation from Service (as defined below) if (i) the Participant's employment with the Corporation and its Subsidiaries is terminated by the Corporation or a Subsidiary without Cause or by the Participant for Good Reason, and (ii) such termination occurs at any time within the period commencing six (6) months before a Change of Control and ending twenty-four (24) months after such Change of Control. (For these purposes, the terms “Cause,” “Change of Control” and “Good Reason” shall have the meanings ascribed to them in Exhibit A attached hereto.) In the event that, upon the occurrence of a Change of Control, the Participant is entitled to accelerated vesting of the Award pursuant to this Section 2 in connection with a termination of the Participant's employment prior to such Change of Control, the Award, to the extent it had not vested and was cancelled or otherwise terminated upon or prior to the date of such Change of Control solely as a result of such termination of employment, shall be reinstated and shall automatically become fully vested and shall be paid in accordance with Section 6 upon the Change of Control. For purposes of this Agreement, “**Separation from Service**” shall mean a “separation from service” within the meaning of Treasury Regulation Section 1.409A-1(h)(1), without regard to the optional alternative definitions available thereunder (i.e. generally a termination of the Participant's employment with the Corporation or a Subsidiary).

3. Continuance of Employment/Service Required; No Employment/Service Commitment . The vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 7 below or under the Plan.

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

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

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

6. Timing and Manner of Payment of Stock Units. On or as soon as administratively practical following each vesting of the applicable portion of the total Award pursuant to the terms hereof (and in all events within two and one-half (2 ½) months after such vesting event), the Corporation shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its discretion) equal to the number of Stock Units subject to this Award that vest on the applicable vesting date; provided, however, that in the event that the vesting and payment of the Stock Units is triggered by the Participant's Separation from Service and the Participant is a "specified employee" (within the meaning of Treasury Regulation Section 1.409A-1(i)) on the date of such Separation from Service, the Participant shall not be entitled to any payment of the Stock Units until the earlier of (i) the date which is six (6) months after the Participant's Separation from Service with the Corporation for any reason other than death, or (ii) the date of the Participant's death, if and to the extent such delay in payment is required to comply with Section 409A of the Code. The Corporation's obligation to deliver shares of Common Stock or otherwise make payment with respect to vested Stock Units is subject to the condition precedent that the Participant or other person entitled under the Plan to receive any shares with respect to the vested Stock Units deliver to the Corporation any representations or other documents or assurances that the Administrator may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements. The Participant shall have no further rights with respect to any Stock Units that are paid or that terminate pursuant to Section 7.

7. Effect of Termination of Employment or Service. The Participant's Stock Units shall terminate to the extent such units have not become vested prior to the first date the Participant is no longer employed by or providing services to the Corporation or one of its Subsidiaries, regardless of the reason for the termination of the Participant's employment or service with the Corporation or a Subsidiary; provided, however, that if the Participant's employment or service terminates as a result of the Participant's death, Disability or Retirement (as such terms are defined below), the Participant's Stock Units, to the extent such units are not then vested, shall become fully vested as of the date of termination of the Participant's employment or service and shall be paid in accordance with Section 6 promptly following the Participant's Separation from Service. If any unvested Stock Units are terminated hereunder, such Stock Units shall automatically terminate and be cancelled as of the applicable termination date without payment of any consideration by the Corporation and without any other action by the Participant, or the Participant's beneficiary or personal representative, as the case may be. If the Participant is rendering services other than as an employee or a director, the Administrator shall be the sole judge of whether the Participant continues to render services for purposes of this Agreement.

For purposes of this Agreement, "**Disability**" means a "disability" as such term is defined for purposes of Section 409A of the Code. For purposes of this Agreement, "**Retirement**" means that, as of the date of the Participant's Separation from Service with the Corporation and its Subsidiaries, the Participant has either (i) attained age 55 with at least five (5) full years of service with the Corporation and its Subsidiaries, or (ii) has attained age 60, or (iii) is a participant in and is entitled to commence a benefit under a defined benefit plan sponsored by the Corporation or any of its Subsidiaries and has at least 10 years of service with the Corporation and its Subsidiaries.

8. Adjustments Upon Specified Events. Upon the occurrence of certain events relating to the Corporation's stock contemplated by Section 7.1 of the Plan (including, without limitation, an extraordinary cash dividend on such stock), the Administrator shall make adjustments in accordance with such section in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend paid on the Common Stock. Notwithstanding any provision in the Plan, any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Corporation shall assume the Award, and any payment of the Stock Units shall be made at the times provided in this Agreement.

9. Tax Withholding. Subject to Section 8.1 of the Plan, upon any distribution of shares of Common Stock in respect of the Stock Units, the Corporation shall automatically reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then Fair Market Value (determined in accordance with the applicable provisions of the Plan), to satisfy any withholding obligations of the Corporation or its Subsidiaries with respect to such distribution of shares at the minimum applicable withholding rates. In the event that the Corporation cannot legally satisfy such withholding obligations by such reduction of

shares, or in the event of a cash payment or any other withholding event in respect of the Stock Units, the Corporation (or a Subsidiary) shall be entitled to require a cash payment by or on behalf of the Participant and/or to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to such distribution or payment.

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

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

12. Entire Agreement. This Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

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

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

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

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

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

EXHIBIT A
DEFINITIONS

For purposes of the Award, the following terms shall have the meanings set forth in this Exhibit A.

“**Cause**” means the occurrence of any of the following:

- (i) the Participant is convicted of, or has pled guilty or *nolo contendere* to, a felony (other than traffic related offenses or as a result of vicarious liability); or
- (ii) the Participant has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his duties to the Corporation or any of its Subsidiaries; or
- (iii) the Participant willfully and repeatedly fails to perform or uphold his duties to the Corporation or any of its Subsidiaries; or
- (iv) the Participant willfully fails to comply with reasonable directives of the Board which are communicated to him or her in writing;

provided, however, that no act or omission by the Participant shall be deemed to be “willful” if the Participant reasonably believed in good faith that such acts or omissions were in the best interests of the Corporation.

“**Change of Control**” means the occurrence of any of the following:

- (i) the consummation of:
 - (A) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of common stock of the Corporation would be converted into cash, securities or other property, other than a merger of the Corporation in which the holders of common stock of the Corporation immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; or
 - (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Corporation;
- (ii) at any time during a period of twenty-four (24) months, fewer than a majority of the members of the Board are Incumbent Directors.
“**Incumbent Directors**” means (A) individuals who constitute the Board at the beginning of such period; and (B) individuals who were nominated or elected by all of, or a committee composed entirely of, the individuals described in (A); and (C) individuals who were nominated or elected by individuals described in (B) ;
- (iii) any Person (meaning any individual, entity or group within the meaning of Section 13(d)(3) or 14(d) of the Exchange Act) shall, as a result of a tender or exchange offer, open market purchases, privately-negotiated purchases or otherwise, become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of the then-outstanding securities of the Corporation ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of members of the Board (“**Voting Securities**” to be calculated as provided in paragraph (d) of Rule 13d-3 in the case of rights to acquire common stock of the Corporation) representing 20% or more of the combined voting power of the then-outstanding Voting Securities; or

(iv) approval by the stockholders of the Corporation of any plan or proposal for the liquidation or dissolution of the Corporation ;

provided, however, that a transaction shall not constitute a Change of Control unless it is a “change in the ownership or effective control” of the Corporation, or a change “in the ownership of a substantial portion of the assets” of the Corporation within the meaning of Section 409A of the Code.

Unless the Board shall determine otherwise, a Change of Control shall not be deemed to have occurred by reason of any corporate reorganization, merger, consolidation, transfer of assets, liquidating distribution or other transaction entered into solely by and between the Corporation and any affiliate thereof, provided such transaction has been approved by at least two-thirds (2/3) of the Incumbent Directors (as defined above) then in office and voting.

Notwithstanding the foregoing, in no event shall a transaction or other event that occurred prior to the date of grant of the Award constitute a Change of Control, and no Change of Control after the first Change of Control to occur after the grant date shall be considered for purposes of the Award.

“**Good Reason**” means, without the Participant's express written consent, the occurrence of any one or more of the following:

- (i) a material reduction in the Participant's annual base salary;
- (ii) a material diminution or reduction of the Participant's authority, duties, or responsibilities;
- (iii) a material change in the geographic location at which the Participant must perform services; or
- (iv) any material breach by the Corporation of any other provision of this Agreement;

provided, however, that any such condition shall not constitute “Good Reason” unless both (x) the Participant provides written notice to the Corporation of the condition claimed to constitute Good Reason within ninety (90) days of the initial existence of such condition, and (y) the Corporation fails to remedy such condition within thirty (30) days of receiving such written notice thereof; and provided, further, that in all events the termination of the Participant's employment with the Corporation shall not be treated as a termination for “Good Reason” unless such termination occurs not more than two (2) years following the initial existence of the condition claimed to constitute “Good Reason.”

**ALASKA AIR GROUP, INC.
2008 PERFORMANCE INCENTIVE PLAN
STOCK UNIT AWARD AGREEMENT**

INCENTIVE AWARD

THIS STOCK UNIT AWARD AGREEMENT (this “**Agreement**”) dated [DATE], by and between **ALASKA AIR GROUP, INC.**, a Delaware corporation (the “**Corporation**”), and [NAME] (the “**Participant**”) evidences the award of restricted stock units (the “**Award**”) granted by the Corporation to the Participant as to the number of stock units (the “**Stock Units**”) first set forth below.

Number of Stock Units ¹ :	Award Date:
--------------------------------------	-------------

Vesting¹ The Award shall vest and become nonforfeitable with respect to 100% of the total number of Stock Units subject to the Award on the third anniversary of the Award Date.

The Award is granted under the Alaska Air Group, Inc. 2008 Performance Incentive Plan (the “**Plan**”) and subject to the Terms and Conditions of Stock Unit Award (the “**Terms**”) attached to this Agreement (incorporated herein by this reference) and to the Plan. The Award has been granted to the Participant in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Participant. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Award set forth herein. The Participant acknowledges receipt of a copy of the Terms, the Plan and the Prospectus for the Plan.

PARTICIPANT _____	ALASKA AIR GROUP, INC. a Delaware Corporation By: _____ William S. Ayer Chairman, President and CEO
--------------------------	---

¹ Subject to adjustment under Section 7.1 of the Plan.

TERMS AND CONDITIONS OF STOCK UNIT AWARD

1. Stock Units. As used herein, the term “stock unit” shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of the Corporation's Common Stock (subject to adjustment as provided in Section 7.1 of the Plan) solely for purposes of the Plan and this Agreement. The Stock Units shall be used solely as a device for the determination of the payment to eventually be made to the Participant if such Stock Units vest pursuant to this Agreement. The Stock Units shall not be treated as property or as a trust fund of any kind.

2. Vesting; Possible Acceleration. Subject to Section 7 below, the Award shall vest and become nonforfeitable as set forth on the cover page of this Agreement. Notwithstanding any other provision herein or in the Plan, the Award, to the extent not then vested, shall become fully vested and shall be paid in accordance with Section 6 promptly following the Participant's Separation from Service (as defined below) if (i) the Participant's employment with the Corporation and its Subsidiaries is terminated by the Corporation or a Subsidiary without Cause or by the Participant for Good Reason, and (ii) such termination occurs at any time within the period commencing six (6) months before a Change of Control and ending twenty-four (24) months after such Change of Control. (For these purposes, the terms “Cause,” “Change of Control” and “Good Reason” shall have the meanings ascribed to them in Exhibit A attached hereto.) In the event that, upon the occurrence of a Change of Control, the Participant is entitled to accelerated vesting of the Award pursuant to this Section 2 in connection with a termination of the Participant's employment prior to such Change of Control, the Award, to the extent it had not vested and was cancelled or otherwise terminated upon or prior to the date of such Change of Control solely as a result of such termination of employment, shall be reinstated and shall automatically become fully vested and shall be paid in accordance with Section 6 upon the Change of Control. For purposes of this Agreement, “**Separation from Service**” shall mean a “separation from service” within the meaning of Treasury Regulation Section 1.409A-1(h)(1), without regard to the optional alternative definitions available thereunder (i.e. generally a termination of the Participant's employment with the Corporation or a Subsidiary).

3. Continuance of Employment/Service Required; No Employment/Service Commitment . The vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 7 below or under the Plan.

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

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

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

6. Timing and Manner of Payment of Stock Units. On or as soon as administratively practical following each vesting of the applicable portion of the total Award pursuant to the terms hereof (and in all events within two and one-half (2 ½) months after such vesting event), the Corporation shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its discretion) equal to the number of Stock Units subject to this Award that vest on the applicable vesting date; provided, however, that in the event that the vesting and payment of the Stock Units is triggered by the Participant's Separation from Service and the Participant is a "specified employee" (within the meaning of Treasury Regulation Section 1.409A-1(i)) on the date of such Separation from Service, the Participant shall not be entitled to any payment of the Stock Units until the earlier of (i) the date which is six (6) months after the Participant's Separation from Service with the Corporation for any reason other than death, or (ii) the date of the Participant's death, if and to the extent such delay in payment is required to comply with Section 409A of the Code. The Corporation's obligation to deliver shares of Common Stock or otherwise make payment with respect to vested Stock Units is subject to the condition precedent that the Participant or other person entitled under the Plan to receive any shares with respect to the vested Stock Units deliver to the Corporation any representations or other documents or assurances that the Administrator may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements. The Participant shall have no further rights with respect to any Stock Units that are paid or that terminate pursuant to Section 7.

7. Effect of Termination of Employment or Service. The Participant's Stock Units shall terminate to the extent such units have not become vested prior to the first date the Participant is no longer employed by or providing services to the Corporation or one of its Subsidiaries, regardless of the reason for the termination of the Participant's employment or service with the Corporation or a Subsidiary; provided, however, that if the Participant's employment or service terminates as a result of the Participant's death or Disability (as such term is defined below), the Participant's Stock Units, to the extent such units are not then vested, shall become fully vested as of the date of termination of the Participant's employment or service and shall be paid in accordance with Section 6 promptly following the Participant's Separation from Service. If any unvested Stock Units are terminated hereunder, such Stock Units shall automatically terminate and be cancelled as of the applicable termination date without payment of any consideration by the Corporation and without any other action by the Participant, or the Participant's beneficiary or personal representative, as the case may be. If the Participant is rendering services other than as an employee or a director, the Administrator shall be the sole judge of whether the Participant continues to render services for purposes of this Agreement. For purposes of this Agreement, "**Disability**" means a "disability" as such term is defined for purposes of Section 409A of the Code.

8. Adjustments Upon Specified Events. Upon the occurrence of certain events relating to the Corporation's stock contemplated by Section 7.1 of the Plan (including, without limitation, an extraordinary cash dividend on such stock), the Administrator shall make adjustments in accordance with such section in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend paid on the Common Stock. Notwithstanding any provision in the Plan, any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Corporation shall assume the Award, and any payment of the Stock Units shall be made at the times provided in this Agreement.

9. Tax Withholding. Subject to Section 8.1 of the Plan, upon any distribution of shares of Common Stock in respect of the Stock Units, the Corporation shall automatically reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then Fair Market Value (determined in accordance with the applicable provisions of the Plan), to satisfy any withholding obligations of the Corporation or its Subsidiaries with respect to such distribution of shares at the minimum applicable withholding rates. In the event that the Corporation cannot legally satisfy such withholding obligations by such reduction of shares, or in the event of a cash payment or any other withholding event in respect of the Stock Units, the Corporation (or a Subsidiary) shall be entitled to require a cash payment by or on behalf of the Participant and/or to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to such distribution or payment.

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

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

12. Entire Agreement. This Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

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

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

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

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

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

EXHIBIT A
DEFINITIONS

For purposes of the Award, the following terms shall have the meanings set forth in this Exhibit A.

“**Cause**” means the occurrence of any of the following:

- (i) the Participant is convicted of, or has pled guilty or *nolo contendere* to, a felony (other than traffic related offenses or as a result of vicarious liability); or
 - (ii) the Participant has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his duties to the Corporation or any of its Subsidiaries; or
 - (iii) the Participant willfully and repeatedly fails to perform or uphold his duties to the Corporation or any of its Subsidiaries; or
 - (iv) the Participant willfully fails to comply with reasonable directives of the Board which are communicated to him or her in writing;
- provided, however, that no act or omission by the Participant shall be deemed to be “willful” if the Participant reasonably believed in good faith that such acts or omissions were in the best interests of the Corporation.

“**Change of Control**” means the occurrence of any of the following:

- (i) the consummation of:
 - (A) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of common stock of the Corporation would be converted into cash, securities or other property, other than a merger of the Corporation in which the holders of common stock of the Corporation immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; or
 - (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Corporation;
- (ii) at any time during a period of twenty-four (24) months, fewer than a majority of the members of the Board are Incumbent Directors.
“**Incumbent Directors**” means (A) individuals who constitute the Board at the beginning of such period; and (B) individuals who were nominated or elected by all of, or a committee composed entirely of, the individuals described in (A); and (C) individuals who were nominated or elected by individuals described in (B);
- (iii) any Person (meaning any individual, entity or group within the meaning of Section 13(d)(3) or 14(d) of the Exchange Act) shall, as a result of a tender or exchange offer, open market purchases, privately-negotiated purchases or otherwise, become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of the then-outstanding securities of the Corporation ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of members of the Board (“**Voting Securities**” to be calculated as provided in paragraph (d) of Rule 13d-3 in the case of rights to acquire common stock of the Corporation) representing 20% or more of the combined voting power of the then-outstanding Voting Securities; or
- (iv) approval by the stockholders of the Corporation of any plan or proposal for the liquidation or

dissolution of the Corporation;

provided, however, that a transaction shall not constitute a Change of Control unless it is a “change in the ownership or effective control” of the Corporation, or a change “in the ownership of a substantial portion of the assets” of the Corporation within the meaning of Section 409A of the Code.

Unless the Board shall determine otherwise, a Change of Control shall not be deemed to have occurred by reason of any corporate reorganization, merger, consolidation, transfer of assets, liquidating distribution or other transaction entered into solely by and between the Corporation and any affiliate thereof, provided such transaction has been approved by at least two-thirds (2/3) of the Incumbent Directors (as defined above) then in office and voting.

Notwithstanding the foregoing, in no event shall a transaction or other event that occurred prior to the date of grant of the Award constitute a Change of Control, and no Change of Control after the first Change of Control to occur after the grant date shall be considered for purposes of the Award.

“**Good Reason**” means, without the Participant's express written consent, the occurrence of any one or more of the following:

- (i) a material reduction in the Participant's annual base salary;
- (ii) a material diminution or reduction of the Participant's authority, duties, or responsibilities;
- (iii) a material change in the geographic location at which the Participant must perform services; or
- (iv) any material breach by the Corporation of any other provision of this Agreement;

provided, however, that any such condition shall not constitute “Good Reason” unless both (x) the Participant provides written notice to the Corporation of the condition claimed to constitute Good Reason within ninety (90) days of the initial existence of such condition, and (y) the Corporation fails to remedy such condition within thirty (30) days of receiving such written notice thereof; and provided, further, that in all events the termination of the Participant's employment with the Corporation shall not be treated as a termination for “Good Reason” unless such termination occurs not more than two (2) years following the initial existence of the condition claimed to constitute “Good Reason.”

CERTIFICATIONS

I, William S. Ayer, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended June 30, 2011;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- e) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 3, 2011

By

/s/ WILLIAM S. AYER

William S. Ayer

Chairman, President and Chief Executive Officer

CERTIFICATIONS

I, Brandon S. Pedersen, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended June 30, 2011;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 3, 2011

By

/S/ BRANDON S. PEDERSEN

Brandon S. Pedersen

Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Alaska Air Group, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William S. Ayer, Chairman, President & Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By

/s/ WILLIAM S. AYER

William S. Ayer

Chairman, President & Chief Executive Officer

August 3, 2011

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Alaska Air Group, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brandon S. Pedersen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By

/s/ BRANDON S. PEDERSEN

Brandon S. Pedersen
Chief Financial Officer

August 3, 2011

