UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2013

OR

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

For the transition period from to

Commission File Number 1-8957

ALASKA AIR GROUP, INC.

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

19300 International Boulevard, Seattle, Washington 98188

Telephone: (206) 392-5040

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 70,313,337 common shares, par value $1.00, outstanding at April 30, 2013.

ALASKA AIR GROUP, INC.
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2013

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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 ability to meet our cost reduction goals;
- operational disruptions;
- an aircraft accident or incident;
- labor disputes and our ability to attract and retain qualified personnel;
- 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, 2012. Please consider our forward-looking statements in light of those risks as you read this report.

PART I

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

(in millions)	March 31, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 95**	$ 122
Marketable securities	**1,170**	1,130
Total cash and marketable securities	**1,265**	1,252
Receivables - net	**188**	130
Inventories and supplies - net	**61**	58
Deferred income taxes	**172**	148
Fuel hedge contracts	**21**	26
Prepaid expenses and other current assets	**132**	123
Total Current Assets	**1,839**	1,737
Property and Equipment		
Aircraft and other flight equipment	**4,361**	4,248
Other property and equipment	**862**	855
Deposits for future flight equipment	**341**	369
	5,564	5,472
Less accumulated depreciation and amortization	**1,925**	1,863
Total Property and Equipment - Net	**3,639**	3,609
Fuel Hedge Contracts	**23**	39
Other Assets	**143**	120
Total Assets	**$ 5,644**	$ 5,505

See accompanying notes to consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

(in millions, except share amounts)	March 31, 2013	December 31, 2012
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 101**	$ 65
Accrued wages, vacation and payroll taxes	**132**	184
Other accrued liabilities	**568**	557
Air traffic liability	**691**	534
Current portion of long-term debt	**106**	161
Total Current Liabilities	**1,598**	1,501
Long-Term Debt, Net of Current Portion	**840**	871
Other Liabilities and Credits		
Deferred income taxes	**492**	446
Deferred revenue	**441**	443
Obligation for pension and postretirement medical benefits	**479**	489
Other liabilities	**332**	334
	1,744	1,712
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $1 par value Authorized: 5,000,000 shares, none issued or outstanding	**—**	—
Common stock, $1 par value, Authorized: 100,000,000 shares, Issued: 2013 - 70,492,832 shares; 2012 - 70,376,543 shares	**70**	70
Capital in excess of par value	**657**	660
Accumulated other comprehensive loss	**(429)**	(436)
Retained earnings	**1,164**	1,127
	1,462	1,421
Total Liabilities and Shareholders' Equity	**$ 5,644**	$ 5,505

See accompanying notes to consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(unaudited)*

	Three Months Ended March 31,	
(in millions, except per share amounts)	**2013**	**2012**
Operating Revenues		
Passenger		
Mainline	**$ 796**	$ 723
Regional	**182**	173
Total passenger revenue	**978**	896
Freight and mail	**26**	24
Other - net	**129**	119
Total Operating Revenues	**1,133**	1,039
Operating Expenses		
Wages and benefits	**264**	257
Variable incentive pay	**21**	16
Aircraft fuel, including hedging gains and losses	**381**	319
Aircraft maintenance	**66**	50
Aircraft rent	**30**	28
Landing fees and other rentals	**60**	62
Contracted services	**53**	48
Selling expenses	**38**	41
Depreciation and amortization	**69**	64
Food and beverage service	**20**	18
Other	**67**	64
Total Operating Expenses	**1,069**	967
Operating Income	**64**	72
Nonoperating Income (Expense)		
Interest income	**4**	5
Interest expense	**(16)**	(17)
Interest capitalized	**5**	5
Other - net	**2**	1
	(5)	(6)
Income before income tax	**59**	66
Income tax expense	**22**	25
Net Income	**$ 37**	$ 41
Basic Earnings Per Share:	**$ 0.52**	$ 0.57
Diluted Earnings Per Share:	**$ 0.51**	$ 0.56
Shares used for computation:		
Basic	**70.431**	71.192
Diluted	**71.414**	72.659

See accompanying notes to consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS *(unaudited)*

	Three Months Ended March 31,	
(in millions)	**2013**	**2012**
Net Income	**$ 37**	$ 41
Other comprehensive income (loss):		
Related to marketable securities:		
Unrealized holding gains (losses) arising during the period	**(1)**	4
Reclassification of (gain) loss into net income (within Nonoperating Income (Expense), Other - net)	**(1)**	(1)
Income tax effect	**1**	(1)
Total	**(1)**	2
Related to employee benefit plans:		
Reclassification of losses into net income (within Wages & benefits)	**10**	10
Income tax effect	**(4)**	(4)
Total	**6**	6
Related to interest rate derivative instruments:		
Unrealized holding gains (losses) arising during the period	**3**	1
Reclassification of (gain) loss into net income (within Aircraft rent)	**1**	2
Income tax effect	**(2)**	(4)
Total	**2**	(1)
Other comprehensive income	**7**	7
Comprehensive income	**$ 44**	$ 48

See accompanying notes to consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

	Three Months Ended March 31,	
(in millions)	**2013**	**2012**
Cash flows from operating activities:		
Net income	**$ 37**	$ 41
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**69**	64
Stock-based compensation and other	**14**	5
Changes in certain assets and liabilities:		
Changes in fair values of open fuel hedge contracts	**24**	(25)
Changes in deferred income taxes	**18**	26
Increase in air traffic liability	**157**	165
Decrease in deferred revenue	**(2)**	(4)
Increase in other long-term liabilities	**1**	18
Other - net	**(106)**	(107)
Net cash provided by operating activities	**212**	183
Cash flows from investing activities:		
Property and equipment additions:		
Aircraft and aircraft purchase deposits	**(90)**	(81)
Other flight equipment	**(6)**	(2)
Other property and equipment	**(7)**	(15)
Total property and equipment additions	**(103)**	(98)
Assets constructed for others (Terminal 6 at LAX)	—	(24)
Purchases of marketable securities	**(280)**	(240)
Sales and maturities of marketable securities	**239**	188
Proceeds from disposition of assets and changes in restricted deposits	**(7)**	1
Net cash used in investing activities	**(151)**	(173)
Cash flows from financing activities:		
Long-term debt payments	**(88)**	(59)
Common stock repurchases	**(19)**	(9)
Proceeds and tax benefit from issuance of common stock	**11**	4
Other financing activities	**8**	—
Net cash used in financing activities	**(88)**	(64)
Net decrease in cash and cash equivalents	**(27)**	(54)
Cash and cash equivalents at beginning of year	**122**	102
Cash and cash equivalents at end of the period	**$ 95**	$ 48
Supplemental disclosure:		
Cash paid during the period for:		
Interest (net of amount capitalized)	**$ 15**	$ 16
Income taxes	**6**	(3)
Non-cash transactions:		
Assets constructed related to Terminal 6 at LAX	—	51

See accompanying notes to consolidated financial statements.

NOTE 1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The interim condensed consolidated financial statements include the accounts of Alaska Air Group, Inc. (Air Group or the Company) and its subsidiaries, Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon), through which the Company conducts substantially all of its operations. All intercompany balances and transactions have been eliminated. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Consistent with these requirements, this Form 10-Q does not include all the information required by GAAP for complete financial statements. As a result, this Form 10-Q should be read in conjunction with the Consolidated Financial Statements and accompanying Notes in the Form 10-K for the year ended December 31, 2012. In the opinion of management, all adjustments have been made that are necessary to present fairly the Company's financial position as of March 31, 2013, as well as the results of operations for the three months ended March 31, 2013 and 2012. The adjustments made were of a normal recurring nature.

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. Due to seasonal variations in the demand for air travel, the volatility of aircraft fuel prices, changes in global economic conditions and other factors, operating results for the three months ended March 31, 2013 are not necessarily indicative of operating results for the entire year.

Reclassifications

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

	Three Months Ended March 31, 2012	
	As Reclassified	**Reported**
Operating Revenues		
Passenger		
Mainline	**$ 723**	$ 764
Regional	**173**	186
Total passenger revenue	**896**	950
Freight and mail	**24**	24
Other - net	**119**	65
Total Operating Revenues	**$ 1,039**	$ 1,039

NOTE 2. CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES

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

March 31, 2013	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$ 27	$ —	$ —	$ 27
Cash equivalents	68	—	—	68
Cash and cash equivalents	95	—	—	95
U.S. government and agency securities	290	1	—	291
Foreign government bonds	33	—	—	33
Asset-back securities	73	1	—	74
Mortgage-back securities	131	1	(1)	131
Corporate notes and bonds	612	7	—	619
Municipal securities	22	—	—	22
Marketable securities	1,161	10	(1)	1,170
Total	$ 1,256	$ 10	$ (1)	$ 1,265

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

Unrealized losses from fixed-income securities are primarily attributable to changes in interest rates. Management does not believe any remaining unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence as of March 31, 2013.

Activity for marketable securities (in millions):

	Three Months Ended March 31,	
	2013	**2012**
Proceeds from sales and maturities	**$ 239**	$ 188
Gross realized gains	**2**	2
Gross realized losses	**(1)**	(1)

Marketable securities maturities (in millions):

March 31, 2013	Cost Basis	Fair Value
Due in one year or less	$ 250	$ 250
Due after one year through five years	904	913
Due after five years through 10 years	7	7
Total	$ 1,161	$ 1,170

NOTE 3. DERIVATIVE INSTRUMENTS

Fuel Hedge Contracts

The Company's operations are inherently dependent upon the price and availability of aircraft fuel. To manage economic risks associated with fluctuations in aircraft fuel prices, the Company periodically enters into call options for crude oil and swap agreements for jet fuel refining margins.

As of March 31, 2013, the Company had fuel hedge contracts outstanding covering 461 million gallons of crude oil that will be settled from April 2013 to March 2016. Refer to the contractual obligations and commitments section of Item 2 for further information.

Interest Rate Swap Agreements

The Company has interest rate swap agreements with a third party designed to hedge the volatility of the underlying variable interest rate in the Company's aircraft lease agreements for six Boeing 737-800 aircraft. The agreements stipulate that the Company pay a fixed interest rate over the term of the contract and receive a floating interest rate. All significant terms of the swap agreement match the terms of the lease agreements, including interest-rate index, rate reset dates, termination dates and underlying notional values. The agreements expire from February 2020 through March 2021 to coincide with the lease termination dates.

Fair Values of Derivative Instruments

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

	March 31, 2013	December 31, 2012
Derivative Instruments Not Designated as Hedges		
Fuel hedge contracts		
Fuel hedge contracts, current assets	**$ 21**	$ 26
Fuel hedge contracts, noncurrent assets	**23**	39
Fuel hedge contracts, current liabilities	**(4)**	(1)
Derivative Instruments Designated as Hedges		
Interest rate swaps		
Other accrued liabilities	**(6)**	(6)
Other liabilities	**(23)**	(27)
Losses in accumulated other comprehensive loss (AOCL)	**(29)**	(33)

The net cash received (paid) for new positions and settlements was nil and $(6) million during the three months ended March 31, 2013 and 2012, respectively.

Pretax effect of derivative instruments on earnings (in millions):

	Three Months Ended March 31,	
	2013	2012
Derivative Instruments Not Designated as Hedges		
Fuel hedge contracts		
Gains (losses) recognized in aircraft fuel expense	**$ (24)**	$ 19
Derivative Instruments Designated as Hedges		
Interest rate swaps		
Losses recognized in aircraft rent	**(1)**	(2)
Gains (losses) recognized in other comprehensive income (OCI)	**3**	2

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

Credit Risk and Collateral

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

The Company posted collateral of $16 million and $15 million as of March 31, 2013 and December 31, 2012, respectively. The collateral was provided to one counterparty associated with the net liability position of the interest rate swap agreements offset by the net asset position of the fuel hedge contracts under a master netting arrangement.

NOTE 4. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments on a Recurring Basis

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

March 31, 2013	**Level 1**	**Level 2**	**Total**
Assets			
Marketable securities			
U.S. government and agency securities	$ 291	$ —	$ 291
Foreign government bonds	—	33	33
Asset-back securities	—	74	74
Mortgage-back securities	—	131	131
Corporate notes and bonds	—	619	619
Municipal securities	—	22	22
Derivative instruments			
Call options	—	44	44
Liabilities			
Derivative instruments			
Swap agreements	—	(4)	(4)
Interest rate swap agreements	—	(29)	(29)

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

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

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

The Company has no financial assets that are measured at fair value on a nonrecurring basis at March 31, 2013.

Fair Value of Other Financial Instruments

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

Cash and Cash Equivalents: Carried at amortized cost, which approximates fair value.

Debt: The carrying amount of the Company's variable-rate debt approximates fair values. For fixed-rate debt, the Company uses the income approach to determine the estimated fair value, by using discounted cash flow using borrowing rates for comparable debt over the weighted life of the outstanding debt. The estimated fair value of the fixed-rate debt is Level 3 as certain inputs used are unobservable.

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

	March 31, 2013	December 31, 2012
Carrying amount	**$ 764**	$ 844
Fair value	**826**	915

NOTE 5. MILEAGE PLAN

Alaska's Mileage Plan liabilities and deferrals on the consolidated balance sheets (in millions):

	March 31, 2013	December 31, 2012
Current Liabilities:		
Other accrued liabilities	$ **310**	$ 285
Other Liabilities and Credits:		
Deferred revenue	**427**	428
Other liabilities	**16**	17
Total	$ **753**	$ 730

Alaska's Mileage Plan revenue included in the consolidated statements of operations (in millions):

	Three Months Ended March 31,	
	2013	2012
Passenger revenues	$ **46**	$ 43
Other-net revenues	**54**	47
Total	$ **100**	$ 90

NOTE 6. LONG-TERM DEBT

Long-term debt obligations on the consolidated balance sheet (in millions):

	March 31, 2013	December 31, 2012
Fixed-rate notes payable due through 2024	$ **764**	$ 844
Variable-rate notes payable due through 2023	**182**	188
Long-term debt	**946**	1,032
Less current portion	**106**	161
Total	$ **840**	$ 871
Weighted-average fixed-interest rate	**5.8%**	5.8%
Weighted-average variable-interest rate	**1.8%**	2.0%

During the three months ended March 31, 2013, the Company made debt payments of $88 million.

At March 31, 2013, long-term debt principal payments for the next five years and thereafter are as follows (in millions):

	Total
Remainder of 2013	$ 74
2014	117
2015	113
2016	111
2017	116
Thereafter	415
Total	$ 946

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. One of the $100 million facilities, which expires in August 2015, is secured by aircraft. The other $100 million facility, which expires in March 2016, is secured by certain accounts receivable, spare engines, spare parts and ground service equipment. The Company has no immediate plans to borrow using either of these facilities. These facilities have a requirement to maintain a minimum unrestricted cash and marketable securities balance of $500 million. The Company is in compliance with this covenant at March 31, 2013.

NOTE 7. EMPLOYEE BENEFIT PLANS

Net periodic benefit costs recognized included the following components (in millions):

	Three Months Ended March 31,					
	Qualified		Nonqualified		Postretirement Medical	
	2013	2012	2013	2012	2013	2012
Service cost	**$ 11**	$ 9	**$ —**	$ —	**$ 1**	$ 1
Interest cost	**18**	18	**1**	1	**1**	2
Expected return on assets	**(27)**	(23)	**—**	—	**—**	—
Amortization of prior service cost	**—**	—	**—**	—	**—**	—
Curtailment loss	**—**	—	**—**	—	**—**	—
Recognized actuarial loss	**10**	10	**—**	—	**—**	—
Total	**$ 12**	$ 14	**$ 1**	$ 1	**$ 2**	$ 3

NOTE 8. COMMITMENTS

Future minimum fixed payments for commitments (in millions):

March 31, 2013	Aircraft Leases	Facility Leases	Aircraft Commitments	Capacity Purchase Agreements	Engine Maintenance
Remainder of 2013	$ 57	$ 45	$ 293	$ 28	$ 24
2014	126	42	403	38	25
2015	105	31	259	31	9
2016	82	23	221	18	—
2017	51	19	329	19	—
Thereafter	79	130	1,461	8	—
Total	$ 500	$ 290	$ 2,966	$ 142	$ 58

Lease Commitments

At March 31, 2013, the Company had lease contracts for 63 aircraft, which have remaining noncancelable lease terms ranging from 2013 to 2021. Of these aircraft, 14 are non-operating (i.e. not in the Company's fleet) and subleased to third-party carriers. The majority of airport and terminal facilities are also leased. Rent expense was $70 million and $70 million for the three months ended March 31, 2013 and 2012, respectively.

Aircraft Commitments

In 2012, the Company entered into a new agreement and modified an existing agreement with Boeing to acquire 50 B737 aircraft. As of March 31, 2013, the Company is committed to purchasing 68 B737 aircraft, including 31 B737-900ER aircraft and 37 B737 MAX aircraft, with deliveries in 2013 through 2022. In addition, the Company has options to purchase an additional 69 B737 aircraft and 10 Q400 aircraft.

Capacity Purchase Agreements (CPAs)

At March 31, 2013, Alaska had CPAs with three carriers, including the Company's wholly-owned subsidiary, Horizon. Horizon sells 100% of its capacity to Alaska under a CPA, which is eliminated upon consolidation. In addition, Alaska has CPAs with SkyWest Airlines, Inc. (SkyWest) to fly certain routes and Peninsula Airways, Inc. (PenAir) to fly in the state of Alaska. Under these agreements, Alaska pays the third-party carriers an amount which is based on a determination of their cost of operating those flights and other factors. The costs paid by Alaska to Horizon are based on similar data and are intended to approximate market rates for those services. Future payments (excluding Horizon) are based on minimum levels of flying by the third-party carriers, which could differ materially due to variable payments based on actual levels of flying and certain costs associated with operating flights such as fuel.

Engine Maintenance

The Company had power-by-the-hour maintenance agreements for all B737-400, B737-700, and B737-900 engines at March 31, 2013. These agreements transfer risk to third-party service providers and fix the amount the Company pays per flight hour in exchange for maintenance and repairs under a predefined maintenance program. Future payments are based on minimum flight hours. Accordingly, payments could differ materially based on actual flight hours.

NOTE 9. SHAREHOLDERS' EQUITY

Common Stock Repurchase

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

Share repurchase activity (in millions, except share amounts):

	Three Months Ended March 31,					
	2013			2012		
	Shares	Amount		Shares	Amount	
2012 Repurchase Program - $250 million	**373,185**	**$**	**19**	—	$	—
2012 Repurchase Program - $50 million	—		—	203,000		7
2011 Repurchase Program - $50 million	—		—	46,340		2
Total	**373,185**	**$**	**19**	249,340	$	9

Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive income (loss) (in millions):

	March 31, 2013		December 31, 2012	
Marketable securities	**$**	**6**	$	7
Employee benefit plans		**(417)**		(423)
Interest rate derivatives		**(18)**		(20)
Total	**$**	**(429)**	$	(436)

Earnings Per Share

Diluted EPS is calculated by dividing net income by the average common shares outstanding plus additional common shares that would have been outstanding assuming the exercise of in-the-money stock options and restricted stock units, using the treasury-stock method. For the three months ended March 31, 2013 and 2012, antidilutive shares excluded from the calculation of EPS were not material.

NOTE 10. OPERATING SEGMENT INFORMATION

Air Group has two operating airlines - Alaska Airlines and Horizon Air. Each is a regulated airline with separate management teams. Horizon sells 100% of its capacity to Alaska under a CPA, which is eliminated upon consolidation. In addition, Alaska has CPAs with SkyWest to fly certain routes and PenAir to fly in the state of Alaska. The Company attributes revenue between Mainline and Regional based on the coupon fare in effect on the date of issuance relative to the origin and destination of each flight segment. To manage the two operating airlines and the revenues and expenses associated with the CPAs, management views the business in three operating segments.

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

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

Horizon - Horizon operates turboprop Q400 aircraft. All of Horizon's capacity is sold to Alaska under a CPA. Expenses include those typically borne by regional airlines such as crew costs, ownership costs, and maintenance costs. The results of Horizon's operations are eliminated upon consolidation.

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

	Three Months Ended March 31, 2013						
	Alaska						
	Mainline	Regional	Horizon	Consolidating	Air Group Adjusted[(a)]	Special Items	Consolidated
Operating revenues							
Passenger							
Mainline	$ 796	$ —	$ —	$ —	$ 796	$ —	$ 796
Regional	—	182	—	—	182	—	182
Total passenger revenues	796	182	—	—	978	—	978
CPA revenues	—	—	94	(94)	—	—	—
Freight and mail	25	1	—	—	26	—	26
Other-net	113	14	2	—	129	—	129
Total operating revenues	934	197	96	(94)	1,133	—	1,133
Operating expenses							
Operating expenses, excluding fuel	547	147	89	(95)	688	—	688
Economic fuel[(b)]	323	46	—	—	369	12	381
Total operating expenses	870	193	89	(95)	1,057	12	1,069
Nonoperating income (expense)							
Interest income	4	—	—	—	4	—	4
Interest expense	(11)	—	(3)	(2)	(16)	—	(16)
Other	6	—	—	1	7	—	7
	(1)	—	(3)	(1)	(5)	—	(5)
Income (loss) before income tax	$ 63	$ 4	$ 4	$ —	$ 71	$ (12)	$ 59

	Three Months Ended March 31, 2012						
	Alaska						
	Mainline	Regional	Horizon	Consolidating	Air Group Adjusted[(a)]	Special Items	Consolidated
Operating revenues							
Passenger							
Mainline	$ 723	$ —	$ —	$ —	$ 723	$ —	$ 723
Regional	—	173	—	—	173	—	173
Total passenger revenues	723	173	—	—	896	—	896
CPA revenues	—	—	87	(87)	—	—	—
Freight and mail	23	1	—	—	24	—	24
Other-net	103	14	2	—	119	—	119
Total operating revenues	849	188	89	(87)	1,039	—	1,039
Operating expenses							
Operating expenses, excluding fuel	520	137	78	(87)	648	—	648
Economic fuel[(b)]	294	45	—	—	339	(20)	319
Total operating expenses	814	182	78	(87)	987	(20)	967
Nonoperating income (expense)							
Interest income	5	—	—	—	5	—	5
Interest expense	(13)	—	(4)	—	(17)	—	(17)
Other	6	—	—	—	6	—	6
	(2)	—	(4)	—	(6)	—	(6)
Income (loss) before income tax	$ 33	$ 6	$ 7	$ —	$ 46	$ 20	$ 66

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

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

Total assets were as follows (in millions):

	March 31, 2013	December 31, 2012
Alaska[(a)]	**$ 5,346**	$ 5,177
Horizon	**825**	823
Parent company	**1,891**	1,832
Elimination of inter-company accounts	**(2,418)**	(2,327)
Consolidated	**$ 5,644**	$ 5,505

(a) There are no assets associated with purchased capacity flying at Alaska.

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 the Company, our segment operations and our present business environment. MD&A is provided as a supplement to – and should be read in conjunction with – our consolidated financial statements and the accompanying notes. All statements in the following discussion that are not statements of historical information or descriptions of current accounting policy are forward-looking statements. Please consider our forward-looking statements in light of the risks referred to in this report's introductory cautionary note and the risks mentioned in Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2012. This overview summarizes the MD&A, which includes the following sections:

- *First Quarter Review*—highlights from the first quarter of 2013 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 our revenues by segment and our expenses from a consolidated perspective for the three months ended March 31, 2013. To the extent material to the understanding of segment profitability we more fully describe the segment expenses per financial statement line-item. Financial and statistical data is also included here. This section includes forward-looking statements regarding our view of the remainder of 2013.

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

FIRST QUARTER REVIEW

Our consolidated pretax income was $59 million during the first quarter of 2013, compared to $66 million in the first quarter of 2012. The decrease of $7 million was primarily due to the increased aircraft fuel expense of $62 million and the increased non-fuel operating expenses of $40 million, partially offset by increased revenues of $94 million. The increase in fuel costs was due to a 6.6% increase in consumption, a current period net realized cost of hedging of $12 million, and unrealized mark-to-market fuel hedge loss of $12 million, compared to an unrealized benefit of $20 million in the prior period. The improvement in revenues was primarily due to increased passenger revenues of $82 million on a 9.0% increase in traffic and relatively flat ticket yields.

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

Operations Performance

In the first quarter of 2013, Alaska was awarded the 2012 On-Time Performance Service Award among major North American Airlines by FlightStats.com. Additionally, both Alaska and Horizon continued their strong on-time performance, reporting 87.6% and 89.2% of their flights arrived on time, respectively.

Update on Labor Negotiations

We are currently in negotiations with Horizon's flight attendants, represented by the Association of Flight Attendants (AFA), whose contracts became amendable in December 2011. We are also in negotiations with Alaska's pilots, represented by the Airline Pilots Association (ALPA), whose contract became amendable in April 2013. Additionally, we are in negotiations with the International Association of Machinists and Aerospace Workers (IAM) who represent Horizon's maintenance store employees, and Alaska's clerical, operations, and passenger services employees, whose contract becomes amendable December 31, 2013.

On May 2, 2013, Alaska Airlines flight attendants, represented by the Association of Flight Attendants-(AFA), filed for mediation with the National Mediation Board (NMB). The contract became amendable a year ago. Negotiations started in November 2011, and have been on-going for the past 18 months.

New Markets

We began service between San Diego and Boston and between Seattle and Salt Lake City. In June 2013, we will begin seasonal service between Portland and Fairbanks and new service between San Diego and Lihue. In the third quarter, we will begin new daily service between Portland and Atlanta and between Portland and Dallas.

Stock Repurchase

During the first quarter of 2013, we repurchased 373,185 shares of our common stock for $19 million under our $250 million repurchase program authorized by our Board of Directors in September 2012. Since 2007, we have repurchased 19 million shares of common stock under such programs for $340 million for an average price of $18 per share. During the month of April we repurchased 183,376 shares of our common stock for $11 million, resulting in 70,313,337 shares outstanding at April 30, 2013.

Cabin Investment Program

On April 23, 2013, we announced our cabin investment program that will improve our customers' onboard experience and make us more competitive. We will modify all of our 737-800s and -900s to include the same Recaro seats installed on our 737-900ERs; have power at every seat, including our -900ERs; and provide enhanced inflight entertainment. The slimmer Recaro seat and other cabin reconfigurations enable Alaska to add six seats to our 737-800s and nine seats to our -900s without sacrificing personal space. When complete, we will increase our seats by approximately 2.4%. We will be the only domestic airline to offer 110-volt and USB power at every seat and the outlets will be easily accessible rather than located beneath the seat. Modifications will start later in 2013 and continue through most of 2014.

Outlook

Unit revenues for the month of April will be impacted by excess capacity in our California to Hawaii markets, new Transcon and Midcon routes are still in the development phase and are not yet producing system-average revenues, pricing actions by competitors are negatively affecting close-in fares, as well as the potential demand impact from government sequestration and the shift in the timing of Easter. These factors are pressuring April unit revenues and will result in negative comps for the month, likely at levels exceeding 2.1%. Additionally, for the full-year we are seeing increased competitive pressure in many of our markets and, as a result, some pricing that is having a negative impact on yields. For example, on an ASM-basis, competitive capacity for the second quarter is up over 50% in the state of Alaska long-haul markets as competitors have added service to Anchorage and to a lesser extent Fairbanks from both Seattle and their own hubs. In aggregate, more than 30% of our ASMs are experiencing negative yields due to competitive pressure.

Our advance bookings suggest our load factors will be down a point in May and down a point in June compared to the same periods in 2012 on an expected 7.5% increase in capacity in the second quarter of 2013.

Our current expectations for capacity and CASM excluding fuel and special items are summarized below:

	Forecast Q2 2013	Change Y-O-Y	Forecast Full Year 2013	Change Y-O-Y
Consolidated:				
ASMs (000,000) "capacity"	8,525 - 8,575	7.5%	33,600 - 34,100	7.5 %
CASM excluding fuel (cents)	8.35 - 8.40	~ flat	8.35	(1.5)%
Mainline:				
ASMs (000,000) "capacity"	7,725 - 7,775	8.5%	30,150 - 30,650	8.0 %
CASM excluding fuel (cents)	7.43 - 7.48	~ flat	7.50	(1.0)%

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED MARCH 31, 2013 COMPARED TO THREE MONTHS ENDED MARCH 31, 2012

Our consolidated net income for the first quarter of 2013 was $37 million, or $0.51 per diluted share, compared to net income of $41 million, or $0.56 per diluted share, in the first quarter of 2012. Both periods include adjustments to reflect the timing of unrealized mark-to-market adjustments related to our fuel hedge positions. For the first quarter of 2013, we recognized mark-to-market unrealized losses of $12 million ($7 million after tax, or $0.11 per share) compared to unrealized gains of $20 million ($13 million after tax, or $0.17 per share) in the first quarter of 2012.

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

We believe disclosure of earnings excluding the impact of mark-to-market gains or losses or other individual revenues or expenses is useful information to investors because:

- We believe it is the basis by which we are evaluated by industry analysts;
- 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 continuing operations. 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.
- 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.
- Our results excluding fuel expense and certain special items serve as the basis for our various employee incentive plans, thus the information allows investors to better understand the changes in variable incentive pay expense in our consolidated statements of operations; 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 these amounts are non-recurring, infrequent, or unusual in nature.

Excluding the impact of mark-to-market fuel hedge adjustments, our adjusted consolidated net income for the first quarter of 2013 was $44 million, or $0.62 per diluted share, compared to an adjusted consolidated net income of $28 million, or $0.39 per share, in the first quarter of 2012.

	Three Months Ended March 31,			
	2013		2012	
(in millions, except per share amounts)	Dollars	Diluted EPS	Dollars	Diluted EPS
Net income and diluted EPS as reported	**$ 37**	**$ 0.51**	$ 41	$ 0.56
Mark-to-market fuel hedge adjustments, net of tax	**7**	**0.11**	(13)	(0.17)
Non-GAAP adjusted income and per share amounts	**$ 44**	**$ 0.62**	$ 28	$ 0.39

Our operating costs per ASM are summarized below:

	Three Months Ended March 31,		
(in cents)	**2013**	**2012**	**% Change**
Consolidated:			
CASM	**13.39¢**	13.17¢	1.7
Less the following components:			
Aircraft fuel, including hedging gains and losses	**4.77**	4.35	9.7
CASM excluding fuel	**8.62¢**	8.82¢	(2.3)
Mainline:			
CASM	**12.24¢**	12.08¢	1.3
Less the following components:			
Aircraft fuel, including hedging gains and losses	**4.65**	4.18	11.2
CASM excluding fuel	**7.59¢**	7.90¢	(3.9)

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

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

	Three Months Ended March 31,		
	2013	**2012**	**Change**
Consolidated Operating Statistics: [a]			
Revenue passengers (000)	**6,346**	5,995	5.8%
Revenue passenger miles (RPM) (000,000) "traffic"	**6,796**	6,232	9.0%
Available seat miles (ASM) (000,000) "capacity"	**7,983**	7,344	8.7%
Load factor	**85.1%**	84.9%	0.2 pts
Yield	**14.38¢**	14.38¢	—%
Passenger revenue per ASM (PRASM)	**12.24¢**	12.20¢	0.3%
Revenue per ASM (RASM)	**14.19¢**	14.15¢	0.3%
Operating expense per ASM (CASM) excluding fuel [b]	**8.62¢**	8.82¢	(2.3%)
Economic fuel cost per gallon[b]	**$ 3.48**	$ 3.41	2.1%
Fuel gallons (000,000)	**106**	99	6.6%
Average number of full-time equivalent employees (FTEs)	**12,013**	11,832	1.5%
Mainline Operating Statistics:			
Revenue passengers (000)	**4,534**	4,275	6.1%
RPMs (000,000) "traffic"	**6,172**	5,637	9.5%
ASMs (000,000) "capacity"	**7,203**	6,575	9.6%
Load factor	**85.7%**	85.7%	—
Yield	**12.90¢**	12.83¢	0.5%
PRASM	**11.05¢**	11.00¢	0.4%
RASM	**12.97¢**	12.92¢	0.4%
CASM excluding fuel[b]	**7.59¢**	7.90¢	(3.9%)
Economic fuel cost per gallon[b]	**$ 3.47**	$ 3.40	2.1%
Fuel gallons (000,000)	**93**	87	6.9%
Average number of FTEs	**9,351**	9,010	3.8%
Aircraft utilization	**10.6**	10.2	3.9%
Average aircraft stage length	**1,203**	1,152	4.4%
Mainline operating fleet at period-end	**127**	119	8 a/c
Regional Operating Statistics: [c]			
Revenue passengers (000)	**1,812**	1,720	5.3%
RPMs (000,000) "traffic"	**624**	595	4.9%
ASMs (000,000) "capacity"	**780**	769	1.5%
Load factor	**80.0%**	77.4%	2.6 pts
Yield	**29.09¢**	29.07¢	0.1%
PRASM	**23.27¢**	22.49¢	3.5%
Operating fleet (Horizon only)	**48**	48	—

(a) Except for FTEs, data includes information related to third-party regional capacity purchase flying arrangements.
(b) See reconciliation of this measure to the most directly related GAAP measure in the "Results of Operations" section.
(c) Data presented includes information related to regional CPAs.

OPERATING REVENUES

Total operating revenues increased $94 million, or 9%, during the first quarter of 2013 compared to the same period in 2012. The changes are summarized in the following table:

	Three Months Ended March 31,		
(in millions)	**2013**	**2012**	**% Change**
Passenger			
Mainline	**$ 796**	$ 723	10
Regional	**182**	173	5
Total passenger revenue	**978**	896	9
Freight and mail	**26**	24	6
Other - net	**129**	119	9
Total operating revenues	**$ 1,133**	$ 1,039	9

Passenger Revenue – Mainline

Mainline passenger revenue for the first quarter of 2013 increased by 10% on a 9.6% increase in capacity and a 0.4% increase in PRASM compared to 2012. The increase in capacity was primarily driven by new Hawaii, Transcon, and Midcon routes added in 2012, offset by seasonal capacity reductions in the state of Alaska. The increase in PRASM was driven by a 0.5% increase in ticket yield with a flat load factor compared to the prior-year quarter. Yield increased in most of our regions, but was largely offset by yield declines in our Hawaii region due to too much capacity and competitive pricing actions.

Passenger Revenue – Regional

Regional passenger revenue increased by $9 million, or 5%, compared to the first quarter of 2012, due to a 3.5% increase in PRASM and 1.5% increase in capacity. The increase in PRASM is due to an increase in load factor of 2.6-points and a slight increase in yield of 0.1%. The increase in load factor was due to shifting supply to markets with higher demand.

Freight and Mail

Freight and mail revenue increased $2 million, or 6%, primarily due to an increase in freight volumes of 8.5%.

Other – Net

Other—net revenue increased $10 million, or 9%, from the first quarter of 2012. This is primarily due to a 15% increase in Mileage Plan revenues due to a 5% increase in miles sold to the Company's affinity credit card partner and an increase in rate per mile.

OPERATING EXPENSES

Total operating expenses increased $102 million, or 11%, compared to the first quarter of 2012. We believe it is useful to summarize operating expenses as follows, which is consistent with the way expenses are reported internally and evaluated by management:

	Three Months Ended March 31,		
(in millions)	**2013**	**2012**	**% Change**
Fuel expense	**$ 381**	$ 319	19
Non-fuel expenses	**688**	648	6
Total Operating Expenses	**$ 1,069**	$ 967	11

Wages and Benefits

Wages and benefits increased during the first quarter of 2013 by $7 million, or 3%, compared to 2012. The primary components of wages and benefits are shown in the following table:

	Three Months Ended March 31,		
(in millions)	**2013**	**2012**	**% Change**
Wages	**$ 192**	$ 186	3
Pension - Defined benefit plans	**13**	15	(13)
Pension - Defined contribution plans	**11**	11	—
Medical benefits	**31**	28	11
Payroll taxes	**17**	17	—
Total wages and benefits	**$ 264**	$ 257	3

Wages increased 3% with the 1.5% increase in FTEs. The increase in FTEs is to support additional aircraft in our fleet and more passengers flying on us.

Defined benefit plan expense decreased 13%, compared to the same period in the prior year. The decline is due to having a lower accumulated loss to amortize as a result of higher plan assets and improved funded status compared to the prior year.

Medical benefits increased 11% from the prior-year quarter primarily due to an increase in employee health-care claim amounts.

Variable Incentive Pay

Variable incentive pay expense increased from $16 million in the first quarter of 2012 to $21 million in the first quarter of 2013. This is due to meeting all of our operational and customer satisfaction goals in the first three months of 2013 compared to 83% in the prior year period. In addition, with our first quarter results, we are exceeding our incentive plan financial goals by more than we were at this time last year.

Aircraft Fuel

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

Aircraft fuel expense increased $62 million, or 19% compared to 2012. The elements of the change are illustrated in the following table:

	Three Months Ended March 31,			
	2013		**2012**	
(in millions, except for per gallon amounts)	**Dollars**	**Cost/Gal**	**Dollars**	**Cost/Gal**
Raw or "into-plane" fuel cost	**$ 357**	**$ 3.37**	$ 337	$ 3.39
(Gains) losses on settled hedges	**12**	**0.11**	2	0.02
Consolidated economic fuel expense	**369**	**3.48**	339	3.41
Mark-to-market fuel hedge adjustments	**12**	**0.11**	(20)	(0.20)
GAAP fuel expense	**$ 381**	**$ 3.59**	$ 319	$ 3.21
Fuel gallons	**106**		99	

The raw fuel price per gallon decreased 0.6% as a result of lower West Coast jet fuel prices. West Coast jet fuel prices are impacted by both the price of crude oil, as well as refining margins associated with the conversion of crude oil to jet fuel. The decrease in raw fuel price per gallon during the first quarter of 2013 was due to higher refining margins of 20%, offset by lower crude oil of 2%, as compared to the prior year.

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

We recognized losses of $12 million for hedges that settled during the first quarter of 2013, compared to losses of $2 million in 2012. These amounts represent the cash received net of the premium expense recognized for those hedges.

We currently expect our economic fuel price per gallon to be approximately 4.0% lower in the second quarter of 2013 than the second quarter of 2012 due to higher average crude prices in the prior year compared to our current forecast. As both oil prices and refining margins are volatile, we are unable to forecast the full-year cost with any certainty.

Aircraft Maintenance

Aircraft maintenance expense increased by $16 million, or 33%, compared to the first quarter of 2012. During the first quarter of 2013 our Q400 fleet experienced eight more engine events compared to the same period last year. Of the eight repairs, five were due to an increase in scheduled activity and three were driven by unscheduled repairs.

Additionally, we modified one of our power-by-the-hour (PBH) contracts and removed 12 engines from the contract. As a result, we wrote off $6 million of prepaid maintenance related to those engines.

We expect aircraft maintenance to be approximately 10% higher in 2013 due to an increase in scheduled maintenance events for our B737 aircraft, lease return costs and the $6 million impact of removing engines from the PBH contract, offset by fewer engine events for our Q400 aircraft.

Landing Fees and Other Rentals

Landing fees and other rentals decreased $2 million, or 2%, compared to the first quarter of 2012 primarily due to lower rents at LAX of $3 million, offset by by slightly higher facilities rents at other airports.

We expect landing fees and other rentals to be slightly higher in 2013 on a dollar basis, but to decline on an ASM basis for similar reasons as the decline in the quarter.

Selling Expenses

Selling expenses decreased by $3 million, or 7%, compared to the first quarter of 2012. This is a result of lower fees related to credit and debit card purchases, and lower ticket distribution rates, partially offset by higher ticket distribution volumes associated with increased passengers.

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

Food and Beverage Service

Food and beverage costs increased $2 million, or 12%, from the prior-year quarter primarily due to a 5.8% increase in the number of passengers and an increase in buy-on-board sales.

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

Other Operating Expenses

Other operating expenses increased $3 million, or 5%, compared to the first quarter of 2012. This is primarily driven by losses on the sale of assets.

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

Additionally, we are presenting our line-item expenses below both in absolute dollars and on an ASM basis to highlight areas in which costs have increased or decreased either more or less than capacity.

	Three Months Ended March 31,				
	2013	2012	2013	2012	% Change
(in millions, except CASM)	Amount	Amount	CASM	CASM	CASM
Wages and benefits	**263.5**	256.6	**3.30**	3.49	**(5.5)%**
Variable incentive pay	**20.8**	16.0	**0.26**	0.22	**19.6 %**
Aircraft maintenance	**66.4**	50.1	**0.83**	0.68	**21.9 %**
Aircraft rent	**29.5**	28.0	**0.37**	0.38	**(3.1)%**
Landing fees and other rentals	**61.0**	62.5	**0.76**	0.85	**(10.2)%**
Contracted services	**52.5**	47.7	**0.66**	0.65	**1.3 %**
Selling expenses	**38.4**	41.1	**0.48**	0.56	**(14.0)%**
Depreciation and amortization	**68.5**	63.7	**0.86**	0.87	**(1.1)%**
Food and beverage service	**19.9**	17.8	**0.25**	0.24	**2.8 %**
Other	**67.6**	64.6	**0.85**	0.88	**(3.7)%**
Non-fuel Expenses	**688.1**	648.1	**8.62**	8.82	**(2.3)%**

Additional Segment Information

Alaska Air Group operates Alaska Airlines and Horizon Air. Each is a regulated airline with separate management teams. Horizon sells 100% of its capacity to Alaska under a CPA, which is eliminated upon consolidation. In addition, Alaska has CPAs with SkyWest to fly certain routes and PenAir to fly in the state of Alaska. The Company attributes revenue between Mainline and Regional based on the coupon fare in effect on the date of issuance relative to the origin and destination of each flight segment. To manage the two operating airlines and the revenues and expenses associated with the CPAs, management views the business in three operating segments:

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

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

Horizon - Horizon operates turboprop Q400 aircraft. All of Horizon's capacity is sold to Alaska under a CPA. Expenses include those typically borne by regional airlines such as crew costs, ownership costs, and maintenance costs. The results of Horizon's operations are eliminated upon consolidation.

Alaska Mainline

Pretax profit for Alaska Mainline was $ 63 million in the first quarter of 2013 compared to $33 million in the first quarter of 2012. The $73 million increase in mainline revenue is described above. Mainline operating expense excluding fuel increased by $ 27 million to $547 million in 2013 driven mainly by volume related increases and and higher maintenance costs due to higher lease return costs and the $6 million write off of prepaid engine maintenance. Economic fuel cost as defined above increased because of a 6.6% increase in consumption and a 2% increase in economic price per gallon.

Alaska Regional

Pretax profit for Alaska Regional was $4 million in the first quarter of 2013 compared to $6 million in the first quarter of 2012. The $9 million increase in Alaska regional revenue is described above. Alaska Regional operating expenses increased because of the increase in capacity purchased from Alaska's CPA providers and higher contractual payments by Alaska to Horizon to cover higher maintenance costs.

Horizon

Pretax profit for Horizon was $4 million in the first quarter of 2013 compared to $7 million in the first quarter of 2012. CPA Revenues (100% of which are from Alaska and eliminated in consolidation) increased because of more capacity sold to Alaska and contractual payments received from Alaska to cover the increase in maintenance costs. The $11 million increase in Horizon's non-fuel operating expenses was driven largely by higher planned and unplanned maintenance costs.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are:

- Our existing cash and marketable securities balance of $1.3 billion, which represents 27% of trailing 12 months revenue, and our expected cash from operations;
- Our 53 unencumbered aircraft as of March 31, 2013, in our operating fleet that could be financed, if necessary;
- Our combined $200 million bank line-of-credit facilities, with no outstanding borrowings.

During the first three months of 2013, we purchased 3 B737-900ER aircraft with cash on hand and made debt payments totaling $88 million. In addition, we continued to return capital to our shareholders by repurchasing $19 million of our common stock. Finally, we made voluntary contributions to our defined-benefit pension plans of $13 million in 2013, although there were no funding requirements. We will continue to focus on preserving a strong liquidity position and evaluate our cash needs as conditions change.

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

In our cash and marketable securities portfolio, we invest only in securities that meet our overall investment policy of maintaining and securing investment principal. Our investment portfolio is managed by reputable financial institutions that adhere to our investment policy that sets forth investment objectives, approved and prohibited investments, and duration and credit quality guidelines. Our policy and the portfolio managers are continually reviewed to ensure that the investments align with our strategy. As of March 31, 2013, we had a $9 million unrealized gain on our $1.3 billion cash and marketable securities balance.

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

(in millions, except per share and debt-to-capital amounts)	March 31, 2013	December 31, 2012	Change
Cash and marketable securities	**$ 1,265**	$ 1,252	1.0 %
Cash and marketable securities as a percentage of trailing twelve months revenue	**27%**	27%	0 pts
Long-term debt, net of current portion	**$ 840**	$ 871	(3.6)%
Shareholders' equity	**$ 1,462**	$ 1,421	2.9 %
Long-term debt-to-capital assuming aircraft operating leases are capitalized at seven times annualized rent	**53%:47%**	54%:46%	(1.0) 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

For the first three months of 2013, net cash provided by operating activities was $212 million, compared to $183 million during the same period in 2012. The $29 million increase was primarily due to increased revenues of $94 million, offset by increased economic fuel of $30 million and higher non-fuel operating costs of $40 million to support increased capacity. In addition, we paid $74 million in PBP compared to $58 million last year, and made voluntary contributions to our qualified pension plan of $13 million versus $12 million in prior year.

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

Cash Used in Investing Activities

Cash used in investing activities was $151 million during the first three months of 2013, compared to $173 million during the same period of 2012. Our capital expenditures were $103 million, or $5 million higher than the same period in 2012. This is due to the delivery of three B737-900ER aircraft, compared to two B737-800 aircraft in the prior year. This is also due to deposits related to future deliveries including the six B737-900ER aircraft to be delivered over the remainder of 2013 and the ten B737-900ER aircraft that will be delivered next year.

Additionally in first quarter of 2012, we spent $24 million to complete the construction of Terminal 6 at LAX for the City of Los Angeles and LAWA.

The table below reflects the full year expectation for total capital expenditures and the additional expenditures if options were exercised. These options will be exercised only if we believe return on invested capital targets can be met.

(in millions)	2013	2014	2015	2016
Aircraft and aircraft purchase deposits - firm	$ 330	$ 285	$ 235	$ 195
Other flight equipment	55	130	25	25
Other property and equipment	65	80	75	75
Total property and equipment additions	$ 450	$ 495	$ 335	$ 295
Aircraft and aircraft deposits related to Alaska options, if exercised [a]	$ 35	$ 185	$ 480	$ 345
Aircraft and aircraft deposits related to Horizon options, if exercised [a]	$ 75	$ 105	$ 50	$ —

[a] We have options to acquire 69 B737 aircraft with deliveries in 2015 through 2024, and options to acquire 10 Q400 aircraft with deliveries in 2013 to 2015.

Cash Used by Financing Activities

Net cash used by financing activities was $88 million during the first three months of 2013 and $64 million during the same period in 2012. During the current quarter, we made debt payments of $88 million and stock repurchases of $19 million.

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

Bank Line-of-Credit Facilities

We have two $100 million credit facilities. Both facilities have variable interest rates based on LIBOR plus a specified margin. One of the $100 million facilities, which expires in August 2015, is secured by aircraft. The other $100 million facility, which expires in March 2016, is secured by certain accounts receivable, spare engines, spare parts and ground service equipment.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Aircraft Purchase Commitments

Overall we have firm orders to purchase 68 aircraft. We also have options to acquire 69 additional B737s and options to acquire 10 Q400s.

The following table summarizes expected fleet activity by year:

Aircraft	Actual Fleet Count		Expected Fleet Activity			
	Dec 31, 2012	Mar 31, 2013	Remaining 2013	Dec 31, 2013	2014 Changes	Dec 31, 2014
737 Freighters & Combis	6	6	—	6	—	6
737 Passenger Aircraft	118	121	3	124	2	126
Total Mainline Fleet	**124**	**127**	**3**	**130**	**2**	**132**
Q400	48	48	—	48	—	48
Total	**172**	**175**	**3**	**178**	**2**	**180**

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

Future Fuel Hedge Positions

We use both call options for crude oil futures and swap agreements for jet fuel refining margins to hedge against price volatility of future jet fuel consumption. We have refining margin swaps in place for approximately 50% of our second quarter 2013 estimated jet fuel purchases at an average price of 78 cents per gallon and 3% of our third quarter 2013 estimated purchases at an average price of 65 cents per gallon. Our crude oil positions are as follows:

	Approximate % of Expected Fuel Requirements	Weighted-Average Crude Oil Price per Barrel	Average Premium Cost per Barrel
Second Quarter 2013	50%	$99	$12
Third Quarter 2013	50%	$101	$11
Fourth Quarter 2013	50%	$102	$10
Full Year 2013	**50%**	**$100**	**$11**
First Quarter 2014	50%	$103	$9
Second Quarter 2014	45%	$103	$9
Third Quarter 2014	38%	$102	$8
Fourth Quarter 2014	33%	$104	$7
Full Year 2014	**41%**	**$103**	**$8**
First Quarter 2015	28%	$104	$7
Second Quarter 2015	22%	$103	$6
Third Quarter 2015	17%	$106	$5
Fourth Quarter 2015	11%	$106	$5
Full Year 2015	**19%**	**$104**	**$6**
First Quarter 2016	6%	$105	$4
Full Year 2016	**1%**	**$105**	**$4**

Contractual Obligations

The following table provides a summary of our principal payments under current and long-term debt obligations, operating lease commitments, aircraft purchase commitments and other obligations as of March 31, 2013:

(in millions)	Remainder of 2013	2014	2015	2016	2017	Beyond 2017	Total
Current and long-term debt obligations	$ 74	$ 117	$ 113	$ 111	$ 116	$ 415	$ 946
Operating lease commitments[a]	102	168	136	105	70	209	790
Aircraft purchase commitments	293	403	259	221	329	1,461	2,966
Interest obligations[b]	32	42	37	32	26	43	212
Other obligations[c]	52	63	40	18	19	8	200
Total	$ 553	$ 793	$ 585	$ 487	$ 560	$ 2,136	$ 5,114

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

(b) For variable-rate debt, future obligations are shown above using interest rates in effect as of March 31, 2013.

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

Pension Obligations

The table above excludes contributions to our various pension plans. Although there is no minimum required contribution in 2013, the Company expects to contribute between $35 million and $50 million.

Credit Card Agreements

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

Deferred Income Taxes

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

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

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

CRITICAL ACCOUNTING ESTIMATES

There have been no material changes to our critical accounting estimates for the three months ended March 31, 2013. For information on our critical accounting estimates, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE 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, 2012.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2013, an evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer (collectively, our "certifying officers"), of the effectiveness of the design and operation of our disclosure controls and procedures. These disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in our periodic reports filed with or submitted to the Securities and Exchange Commission (the SEC) is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and includes, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our certifying officers, as appropriate to allow timely decisions regarding required disclosure. Our certifying officers concluded, based on their evaluation, that disclosure controls and procedures were effective as of March 31, 2013.

Changes in Internal Control over Financial Reporting

We made no changes in our internal control over financial reporting during the quarter ended March 31, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 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, 2012. However, you should carefully consider the factors discussed in such section of our Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

This table provides certain information with respect to our purchases of shares of our common stock during the first quarter of 2013.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares (or units) Purchased as Part of Publicly Announced Plans or Programs	Maximum remaining dollar value of shares that can be purchased under the plan
January 1, 2013 - January 31, 2013	84,000	$ 46.27	84,000	
February 1, 2013 - February 28, 2013	163,314	49.13	163,314	
March 1, 2013 - March 31, 2013	125,871	59.63	125,871	
Total	373,185	$ 52.03	373,185	$ 222

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The following documents are filed as part of this report:

1. *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.

/s/ BRANDON S. PEDERSEN

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

May 7, 2013

EXHIBIT INDEX

Exhibit Number	Exhibit Description
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
10.1	Form of Alaska Air Group, Inc. Change of Control Agreement for named executive officers, as amended and restated February 11, 2013
10.2	Credit Agreement, among Alaska Airlines, Inc., as borrower, Citibank, N.A., as administrative agent, Bank of America, N.A., as syndication agent, and other lenders, as amended and restated August 30, 2012
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Form of Change of Control Agreement
As Amended February 11, 2013

THIS CHANGE OF CONTROL AGREEMENT (this "Agreement") by and between Alaska Air Group, Inc., a Delaware corporation ("Air Group"), and **NAME** (the "Executive") is hereby entered into effective as of the **DATE** day of **MONTH**, **YEAR** (the "Effective Date").

The Board of Directors (the "Board") of Air Group has determined that it is in the best interests of Air Group and its stockholders to ensure that Air Group and its subsidiaries will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined in Section 3). The Board believes that it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive's full attention and dedication to Air Group currently and in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control that ensure that the compensation and benefits expectations of the Executive will be satisfied, are competitive with those of other corporations, and align the Executive's interests with those of Air Group's stockholders. Therefore, in order to accomplish these objectives, the Board has caused Air Group to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Term

This Agreement shall be effective as of the Effective Date. This Agreement will continue in effect through the third anniversary of the Effective Date. However, upon the first anniversary of the Effective Date and upon each subsequent anniversary of the Effective Date, the term of this Agreement shall be extended automatically for one (1) additional year (such that upon the first anniversary of the Effective Date the term of this Agreement shall be extended through the fourth anniversary of the Effective Date and so on), unless Air Group delivers written notice prior to such anniversary of the Effective Date to the Executive that this Agreement will not be extended or further extended, as the case may be, and if such notice is given this Agreement will terminate at the end of the term then in progress.

Notwithstanding the foregoing, in the event a Change of Control occurs during the original or any extended term of this Agreement, this Agreement will remain in effect for the longer of: (i) twenty-four (24) months beyond the month in which such Change of Control occurred; or (ii) until all obligations of Air Group hereunder have been fulfilled and all benefits required hereunder have been paid to the Executive. For purposes of clarity, subject to Section 4.1, benefits shall be payable to the Executive under this Agreement only with respect to a single Change of Control of Air Group. Accordingly, no Change of Control after the first Change of Control shall be considered for purposes of this Agreement.

2. Certain Definitions

(a) "Accrued Obligations" is defined in Section 7(a)(i).

(b) "affiliated company" means any company controlled by, controlling or under common control with Air Group.

(c) "Annual Base Salary" is defined in Section 5(b)(i).

(d) "Annual Bonus" is defined in Section 5(b)(ii).

(e) "Business Combination" means (i) a reorganization, exchange of securities, merger or consolidation involving Air Group or (ii) the sale or other disposition of all or substantially all the assets of Air Group.

(f) "Cause" means basis for termination for reason of admission by the Executive or substantiation by the Employer of:

(i) embezzlement, dishonesty or other fraud, conviction of a felony or conspiracy against the Employer; or

(ii) if prior to a Change of Control, any willful or intentional injury to either the Employer, its property, or its employees in connection with the business affairs of the Employer.

(g) "Change of Control Date" means the first date (if any) during the term of this Agreement (determined in accordance with Section 1) on which a Change of Control occurs. Anything in this Agreement to the contrary notwithstanding, if a Change of Control occurs and if the Executive's employment with the Employer is terminated within six (6) months prior to the Change of Control Date, and if it is reasonably demonstrated by the Executive that such termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect the Change of Control or (ii) otherwise arose in connection with or anticipation of the Change of Control, then for all purposes of this Agreement the "Change of Control Date" shall mean the date immediately prior to the date of such termination of employment.

(h) "Code" means the Internal Revenue Code of 1986, as amended.

(i) "Employer" means, collectively, Air Group and any of its subsidiaries that employs the Executive.

(j) "Employment Period" is defined in Section 4.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(l) "Good Reason Separation" means the Executive's voluntary Separation from Service within two years after the occurrence without the Executive's consent of one or more of the following events:

(i) the material reduction in the Executive's annual base salary;

(ii) the material diminution or reduction of the Executive's authority, duties, or responsibilities;

(iii) a material change in the geographic location at which the Executive must perform services; or

(iv) any material breach by the Employer of any other provision of this Agreement;

provided, however, that an Executive shall not be entitled to a Good Reason Separation unless the Executive shall have furnished written notice to the Employer of the condition claimed to constitute the basis for the Good Reason Separation within 90 days of the initial existence of such condition, and the Employer shall have not remedied such condition within a period of 30 days after its receipt of such notice from the Executive.

(m) "Incentive Plan" means Air Group's Management Incentive Plan.

(n) "Incumbent Director" means a member of the Board who has been either (i) nominated by a majority of the directors of Air Group then in office or (ii) appointed by directors so nominated, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a -11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board.

(o) "Notice of Termination" is defined in Section 6(a).

(p) "Person" means any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d) of the Exchange Act).

(q) "Recent Average Bonus" is defined in Section 5(b)(ii).

(r) "Retirement Plan" means the Employer's funded pension plan or any successor plan thereto.

(s) "Separation from Service" (and its derivatives, such as "Separates from Service") means a termination of services provided by the Executive to the Employer, whether such termination of services is voluntary or involuntary, as determined by the Board in accordance with Section 409A of the Code and Treasury Regulation Section 1.409A-1(h).

(t) "Welfare Benefit Continuation" is defined in Section 7(b).

3. Change of Control

For the purpose of this Agreement, a "Change of Control" means the occurrence of any of the following:

(a) the consummation of:

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

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

(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 constitute 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 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 Air Group 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 Air Group) representing 20% or more of the combined voting power of the then-outstanding Voting Securities.

(d) approval by the stockholders of Air Group of any plan or proposal for the liquidation or dissolution of Air Group.

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 Air Group 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.

4. Employment Period

Air Group hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of Air Group, in accordance with the terms and provisions of this Agreement, for the period commencing on the Change of Control Date and ending on the third anniversary of such date (the "Employment Period"), in an executive capacity, responsible for, among other things, duties associated with such capacity, and, subject to the general supervision of the Board as required by the Delaware General Corporation Law, such other duties and responsibilities as are not inconsistent with the express terms of this Agreement. Such employment may be with Air Group or any of its principal operating subsidiaries, as appropriate to the management structure developed by Air Group. Air Group agrees that it will not take any action, or make any demands on the Executive, that may be deemed to arbitrarily, unreasonably or unnecessarily interfere with the performance of the services to be rendered by the Executive hereunder.

Prior to the Change of Control Date, the Executive's employment with the Employer is at will.

5. Terms of Employment

(a) Position and Duties.

(i) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be in accordance with Section 4 and (B) the Executive's services shall be performed within the metropolitan area in which the Executive was situated immediately prior to the Change of Control Date, except for required travel in the Employer business to the extent consistent with the Executive's duties in Section 4.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Employer and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions, or (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Employer in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Change of Control Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Change of Control Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Employer.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary"), which shall be paid in equal installments in accordance with the regular payroll schedule applicable to similarly-situated executives, at least equal to 12 times the highest monthly base salary paid or payable to the Executive by the Employer in respect of the 12 -month period immediately preceding the month in which the Change of Control Date occurs. For purposes of this Agreement, Annual Base Salary shall not include any payments by the Employer on the Executive's behalf pursuant to any incentive, savings or retirement plans, any welfare benefit plans or any fringe benefit plans, in each case, of the Employer or any affiliated company, of the type identified in paragraphs (iii) through (vi) of this Section 5(b), or any reimbursement of expenses by the Employer or any affiliated company in accordance with paragraph (v) of this Section 5(b), but shall include vacation pay in accordance with paragraph (viii) of this Section 5(b). During the Employment Period, the Annual Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as shall be substantially consistent with increases in base salary generally awarded in the ordinary course of business to other peer executives of the Employer and any affiliated companies. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase, and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased.

(ii) Annual Bonus. In addition to Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash at least equal to the greater of (A) the Executive's target annual bonus (annualized if such target bonus is based on a period of less than 12 full months) in effect on the Change of Control Date and (B) the average annualized (for any fiscal year consisting of less than 12 full months or with respect to which the Executive has been employed by the Employer for less than 12 full months) bonus paid or payable, including by reason of any deferral, to the Executive by the Employer in respect of the three fiscal years immediately preceding the fiscal year in which the Change of Control Date occurs (the "Recent Average Bonus"). Each such Annual Bonus shall be paid between January 1 and March 15 of the year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect, pursuant to the terms of the AAGI Nonqualified Deferred Compensation Plan (or any successor to that plan), to defer the receipt of such Annual Bonus.

(iii) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Employer, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, that are less favorable, in the aggregate, than the most favorable of those provided by the Employer for the Executive under such plans, practices, policies and programs as in effect at any time during the 90 -day period immediately preceding the Change of Control Date or, if more favorable to the Executive, those provided generally at any time after the Change of Control Date to other peer executives of the Employer.

(iv) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Employer (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Employer, but in no event shall such plans, practices, policies and programs provide the Executive with benefits that are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 90 -day period immediately preceding the Change of Control Date or, if more favorable to the Executive, those provided generally at any time after the Change of Control Date to other peer executives of the Employer.

(v) Expenses. During the Employment Period, the Executive shall be entitled to reimbursement promptly, but in no event later than the end of the calendar year following the year in which the expense is incurred, for all reasonable employment expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Employer in effect for the Executive at any time during the 90 -day period immediately preceding the Change of Control Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Employer.

(vi) Fringe Benefits. During the Employment Period, the Executive shall be entitled to fringe benefits in accordance with the most favorable plans, practices, programs and policies of the Employer in effect for the Executive at any time during the 90 -day period immediately preceding the Change of Control Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Employer. To the extent that a plan, practice, program, or policy provides for the reimbursement of the Executive's expenses, such reimbursements shall be made promptly, but in no event later than the end of the calendar year following the year in which the expense is incurred.

(vii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Employer as in effect for the Executive at any time during the 90 -day period immediately preceding the Change of Control Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Employer.

6. Termination of Employment

(a) Termination. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. The Executive's employment may be terminated at any time during the Employment Period for any reason by either the Executive or by the Employer, communicated by a notice of termination to the other party hereto given in accordance with Section 13(b) (a "Notice of Termination").

(b) Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Employer or by the Executive, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, and (ii) if the Executive's employment is terminated by reason of death, the date of death of the Executive.

7. Obligations of the Employer Upon Certain Terminations; Release

If the Executive's employment is terminated during the Employment Period by the Executive in a Good Reason Separation or by the Employer without Cause, and such termination constitutes a Separation from Service:

(a) the Employer shall pay to the Executive in a lump sum in cash the aggregate of the following amounts:

(i) A lump sum amount equal to all payments to which the Executive would have been entitled during the Employment Period, but for the Separation from Service, including, without limitation, the aggregate amounts of the Executive's Annual Base Salary (calculated in accordance with Section 5(b)(i) hereof) and the aggregate amounts of the Executive's Annual Bonus (calculated in accordance with Section 5(b)(ii) hereof), payable in each case during the Employment Period, less any amounts comprising any portion of Annual Base Salary or Annual Bonus actually received by the Executive during the period commencing on the Change of Control Date and ending on the date of such Separation from Service.

(ii) A separate lump sum supplemental retirement benefit equal to the difference between (1) the actuarial equivalent (utilizing for this purpose the actuarial assumptions utilized with respect to the Employer defined benefit retirement plan during the 90-day period immediately preceding the Change of Control Date) of the benefits payable under the Employer defined benefit retirement plans, the 1995 Elected Officers' Supplementary Retirement Plan (or if applicable to the Executive the Defined Contribution OSRP Plan feature of the AAGI Nonqualified Deferred Compensation Plan) and any similar plans (other than the deferred bonus or deferred retention incentive features of the AAGI Nonqualified Deferred Compensation Plan) providing benefits for the Executive that the Executive would receive if the Executive's employment continued at the compensation level provided for in Section 5(b) and for the remainder of the Employment Period (assuming for this purpose that all accrued benefits are fully vested and that benefit accrual formulas are no less advantageous to the Executive than those in effect during the 90-day period immediately preceding the Change of Control Date), and (2) the actuarial equivalent (utilizing for this purpose the same assumptions as outlined above) of the Executive's actual benefit paid (or payable), if any, under the foregoing plans; and

(b) for the remainder of the Employment Period, or such longer period as any plan, program, practice or policy may provide, the Employer shall continue benefits to the Executive and/or the Executive's family at least equal to those that would have been provided to them in accordance with the plans, programs, practices and policies described in Section 5(b)(iv) if the Executive had not incurred a Separation from Service in accordance with the most favorable plans, practices, programs or policies of the Employer as in effect and applicable generally to other executives and their families during the 90-day period immediately preceding the Change of Control Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Employer and their families; provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer -provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility (such continuation of such benefits for the applicable period herein set forth shall be hereinafter referred to as "Welfare Benefit Continuation"). For purposes of determining eligibility of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until the end of the Employment Period and to have retired on the last day of such period; provided, however, that the Executive shall be entitled to the more favorable of the retiree benefits in effect on the date of the Executive's Separation from Service or the retiree benefits in effect on the date that would have been the last date of the Employment Period if the Executive had remained employed. Notwithstanding anything in this Section 7(b) to the contrary, in no event shall any health care benefit (whether for medical, dental, or vision care) that is subject to Code Section 409A be continued for a period longer than 18 months after the date of the Executive's Separation from Service;

(c) to the extent not theretofore paid or provided, the Employer shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits required to be paid or provided or which the Executive and/or the Executive's family is eligible to receive pursuant to Section 5(b)(v) and (vi) of this Agreement under any plan, program, policy or practice or contract or agreement of the Employer as in effect and applicable generally to other peer executives and their families during the 90 -day period immediately preceding the Change of Control Date or, if more favorable to the Executive, as in effect generally thereafter with respect to other peer executives of the Employer and their families (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits"). Notwithstanding anything in this Section 7(c) to the contrary, in no event shall any Other Benefit be paid to the extent that such payment would trigger any additional tax, penalty or interest imposed by Code Section 409A.

(d) Release. Notwithstanding anything else contained in this Agreement to the contrary, as a condition precedent to any Employer obligation to the Executive pursuant to this Section 7, the Executive shall, within 21 days following his or her Separation from Service with the Employer (and within the period of time provided for in the release), provide the Employer with a valid, executed general release agreement in substantially the form attached hereto as Exhibit A, and such release agreement shall have not been revoked by the Executive pursuant to any revocation rights afforded by applicable law. The Employer shall have no obligation to make any payment to the Executive pursuant to this Section 7 unless and until the release agreement contemplated by this Section 7(d) becomes irrevocable by the Executive in accordance with all applicable laws, rules and regulations. Notwithstanding the foregoing, the Employer shall provide the benefits described in Sections 7(b) and 7(c) above following the Executive's Separation from Service (or Change of Control if Section 7(e) applies) but, if the Executive does not timely provide the release agreement contemplated by this Section 7(d) or revokes such release agreement, the Employer shall have no further obligation to provide the benefits set forth in Section 7(b) or, except to the extent required under the applicable plan, program or policy, the benefits set forth in Section 7(c).

(e) Timing of Payment. The lump sum amount specified in Section 7(a) above shall be paid in the second calendar month following the month in which the Separation from Service occurs; provided, however, that if such payment is to be made pursuant to a termination of employment that occurs prior to a Change of Control as contemplated by Section 2(g), and provided that the Executive provides a release agreement as contemplated by Section 7(d) within 21 days following the Change of Control (and does not revoke such release within any revocation period provided by applicable law), such payment shall be made in the month following the month in which the Change of Control occurs and any benefits to which the Executive may be entitled pursuant to this Section 7 shall commence with the month in which the Change of Control occurs.

8. Nonexclusivity of Rights

Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Employer and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Employer. Amounts that are vested benefits or that the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Employer or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

9. Full Settlement; Resolution of Disputes

(a) The Employer obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Employer may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, and, except as provided in Section 7(b), such amounts shall not be reduced whether or not the Executive obtains other employment. The Employer agrees to pay promptly upon invoice, to the full extent permitted by law, all legal fees and expenses that the Executive may incur as a result of any contest (regardless of the outcome thereof) by the Employer, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement).

(b) If there shall be any dispute between the Employer and the Executive (i) in the event of any termination of the Executive's employment by the Employer, whether such termination was in connection with or in anticipation of a Change of Control so as to trigger the Change of Control Date under the definition of that term in Section 2, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was in connection with or in anticipation of a Change of Control, the Employer shall pay all amounts, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Employer would be required to pay or provide pursuant to Section 7 as though such termination were in connection with or in anticipation of a Change of Control; provided, however, that the Employer shall not be required to pay any disputed amounts pursuant to this Section 9(b) except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled.

10. Certain Adjustments

(a) Notwithstanding anything else contained in this Agreement, in the event that the Executive becomes entitled to the payments or other benefits described in Section 7 hereof and the Executive becomes or would be subject to the tax imposed by Section 4999 of the Code or any successor provision (the "Excise Tax") as a result of such payments and benefits and any other payments or benefits from the Employer required to be taken into account under Code Section 280G(b)(2) (collectively, "Parachute Payments"), the Parachute Payments shall be reduced (but not below zero) so that the maximum amount of Parachute Payments (after reduction) is one dollar ($1.00) less than the amount that would cause the Parachute Payments to be subject to the Excise Tax; provided that such a reduction shall only be made if and to the extent that a reduction in the Parachute Payments would result in the Executive retaining a larger amount, on an after-tax basis (taking into account federal, state and local income taxes and the Excise Tax), than if the Executive received all of the Parachute Payments (such reduced amount is referred to hereinafter as the "Limited Benefit Amount"). Unless the Executive shall have given prior written notice specifying a different order to Air Group to effectuate the Limited Benefit Amount, any such notice to be consistent with the requirements of Section 409A of the Code to avoid the imputation of any tax, penalty or interest thereunder, Air Group shall reduce or eliminate the Parachute Payments by first reducing or eliminating any cash severance benefits, then by reducing or eliminating any accelerated vesting of stock options, then by reducing or eliminating any accelerated vesting of other equity-based awards, then by reducing or eliminating any other remaining Parachute Payments. The preceding provisions of this Section 10(a) shall take precedence over the provisions of any other plan, arrangement or agreement governing the Executive's rights and entitlements to any benefits or compensation.

(b) A determination as to whether the Parachute Payments shall be reduced to the Limited Benefit Amount pursuant to this Agreement and the amount of such Limited Benefit Amount shall be made by a certified public accounting or compensation consulting firm of national reputation (the "Accounting Firm") which shall provide detailed supporting calculations to both the Employer and the Executive within 15 business days of the receipt of notice from the Executive that the Executive has received a payment under Section 7, or such earlier time as is requested by the Employer. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Employer. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Employer and Executive.

11. Confidential Information

The Executive shall hold in a fiduciary capacity for the benefit of the Employer all secret or confidential information, knowledge or data relating to the Employer or any of its affiliated companies, and their respective businesses, that shall have been obtained by the Executive during the Executive's employment by the Employer or any of its affiliated companies and that shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Employer, the Executive shall not, without the prior written consent of the Employer or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Employer and those designated by it. In no event shall an asserted violation of the provisions of this Section 11 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

12. Successors

(a) This Agreement is personal to the Executive and without the prior written consent of the Employer shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding on the Employer and its successors and assigns.

(c) The Employer will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all the business and/or assets of the Employer to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Employer would be required to perform it if no such succession had taken place. As used in this Agreement, Employer shall mean the Employer as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law, or otherwise.

13. Miscellaneous

(a) This Agreement shall be governed by and construed in accordance with the laws of the state of Washington, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

____
____
____
____

If to Air Group:
Alaska Air Group, Inc.
P.O. Box 68947
Seattle, WA 98168
Attention: Corporate Secretary

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Employer may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Employer's failure to insist on strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Employer may have hereunder, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Employer acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Employer, the employment of the Executive by the Employer is "at will" and, prior to the Change of Control Date, may be terminated by either the Executive or the Employer at any time. Moreover, if prior to the Change of Control Date, the Executive's employment with the Employer terminates, then the Executive shall have no further rights under this Agreement.

(g) This Agreement may be executed in counterparts, each of which counterparts shall be deemed an original, but all of which together shall constitute one and the same instrument.

(h) Section 409A.

(i) It is intended that any amounts payable under this Agreement and the Employer's and the Executive's exercise of authority or discretion hereunder shall either be exempt from or comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) ("Section 409A") so as not to subject the Executive to payment of any interest or additional tax imposed under Section 409A. To the extent that any amount payable under this Agreement would trigger the additional tax, penalty or interest imposed by Section 409A, this Agreement shall be modified to avoid such additional tax, penalty or interest yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Executive.

(ii) Notwithstanding any provision of this Agreement to the contrary, if the Executive is a "specified employee" (within the meaning of Treasury Regulation Section 1.409A-1(i)), the Executive shall not be entitled to any payments upon a termination of the Executive's employment until the earlier of (i) the date which is six (6) months after the Executive's Separation from Service with the Employer for any reason other than death, or (ii) the date of the Executive's death. Furthermore, with regard to any benefit to be provided upon a termination of employment, to the extent required by Section 409A, the Executive shall pay the premium for such benefit during the aforesaid period and be reimbursed by the Employer therefor promptly after the end of such period. Any amounts otherwise payable to the Executive following a termination of his employment that are not so paid by reason of this Section 13(h)(ii) shall be paid as soon as practicable after the date that is six (6) months after the Executive's Separation from Service (or, if earlier, the date of the Executive's death). The provisions of this Section 13(h)(ii) shall only apply if, and to the extent, required to comply with Section 409A.

(iii) To the extent that any benefits or reimbursements pursuant to this Agreement are taxable to the Executive, any such benefit or reimbursement payment due to the Executive pursuant to any such provision shall be paid to the Executive on or before the last day of the Executive's taxable year following the taxable year in which the related expense was incurred. The benefits and reimbursements pursuant to such provisions are not subject to liquidation or exchange for another benefit and the amount of such benefits and reimbursements that the Executive receives in one taxable year shall not affect the amount of such benefits or reimbursements that the Executive receives in any other taxable year.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to authorization from the Board, Air Group has caused this Agreement to be executed in its name and on its behalf, all as of the day and year first above written.

ALASKA AIR GROUP, INC.

By __
Its Chairman and Chief Executive Officer

EXECUTIVE

____
NAME
TITLE

EXHIBIT A

GENERAL RELEASE AGREEMENT

1. Release. **[__________________]** (the "Executive"), on behalf of himself or herself, his or her descendants, dependents, heirs, executors, administrators, assigns, and successors, and each of them, hereby covenants not to sue and fully releases and discharges Alaska Air Group, Inc. ("Air Group") and each of its parents, subsidiaries and affiliates, past and present, as well as its and their trustees, directors, officers, members, managers, partners, agents, attorneys, insurers, employees, stockholders, representatives, assigns, and successors, past and present, and each of them (hereinafter together and collectively referred to as the " Releasees") with respect to and from any and all claims, wages, demands, rights, liens, agreements or contracts (written or oral), covenants, actions, suits, causes of action, obligations, debts, costs, expenses, attorneys' fees, damages, judgments, orders and liabilities of whatever kind or nature in law, equity or otherwise, whether now known or unknown, suspected or unsuspected, and whether or not concealed or hidden (each, a " Claim"), which the Executive now owns or holds or has at any time heretofore owned or held or may in the future own or hold as against any of said Releasees (including, without limitation, any Claim arising out of or in any way connected with the Executive's service as an officer, director, employee, member or manager of any Releasee, the Executive's separation from his or her position as an officer, director, employee, manager and/or member, as applicable, of any Releasee, or any other transactions, occurrences, acts or omissions or any loss, damage or injury whatever), resulting from any act or omission by or on the part of said Releasees, or any of them, committed or omitted prior to the date of this General Release Agreement (this " Agreement"), including, without limiting the generality of the foregoing, any Claim under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act, or any other federal, state or local law, regulation or ordinance; provided, however, that the foregoing release does not apply to any obligation of the Employer to Executive pursuant to any of the following: (1) Section 7 of the Change of Control Agreement between the Executive and Air Group dated as of **[_______________]** (the "Change of Control Agreement"); (2) any equity-based awards previously granted by Air Group to the Executive, to the extent that such awards continue after the termination of the Executive's employment with Air Group and its subsidiaries in accordance with the applicable terms of such awards (and subject to any limited period in which to exercise such awards following such termination of employment); (3) any right to indemnification that Executive may have pursuant to the Bylaws or Certificate of Incorporation of Air Group or under any written indemnification agreement with Air Group (or any of its subsidiaries or affiliates) or under applicable state law with respect to any loss, damages or expenses (including but not limited to attorneys' fees to the extent otherwise provided) that the Executive may in the future incur with respect to his or her service as an employee, officer or director of Air Group or any of its subsidiaries or affiliates; (4) with respect to any rights that the Executive may have to insurance coverage for such losses, damages or expenses under any directors and officers liability insurance policy of Air Group (or any of its subsidiaries or affiliates); (5) any rights to continued medical or dental coverage that the Executive may have under the Consolidated Omnibus Budget Reconciliation Act; or (6) any

rights to payment of the Executive's accrued and vested benefits (if any) that Executive may have under a retirement plan sponsored or maintained by Air Group or any of its subsidiaries or affiliates that is intended to qualify under Section 401(a) of the Internal Revenue Code of 1986, as amended. In addition, this Release does not cover any Claim that cannot be so released as a matter of applicable law. The Executive acknowledges and agrees that he or she has received any and all leave and other benefits that he or she has been and is entitled to pursuant to the Family and Medical Leave Act of 1993.

2. Acknowledgement of Payment of Wages. The Executive acknowledges that he or she has received all amounts owed for his or her regular and usual salary (including, but not limited to, any bonus or other wages), and usual benefits through the date of this Agreement.

3. Unknown Claims. It is the intention of the Executive in executing this Agreement that the same shall be effective as a bar to each and every Claim hereinabove specified. The Executive acknowledges that he or she may hereafter discover Claims or facts in addition to or different from those which the Executive now knows or believes to exist with respect to the subject matter of this Agreement and which, if known or suspected at the time of executing this Agreement, may have materially affected this settlement. Nevertheless, the Executive hereby waives any right, Claim or cause of action that might arise as a result of such different or additional Claims or facts.

4. ADEA Waiver. The Executive expressly acknowledges and agrees that by entering into this Agreement, he or she is waiving any and all rights or claims that he may have arising under the Age Discrimination in Employment Act of 1967, as amended (" ADEA"), which have arisen on or before the date of execution of this Agreement. The Executive further expressly acknowledges and agrees that:

(a) In return for this Agreement, the Executive will receive consideration beyond that which he or she was already entitled to receive before entering into this Agreement;

(b) The Executive is hereby advised in writing by this Agreement to consult with an attorney before signing this Agreement;

(c) The Executive has voluntarily chosen to enter into this Agreement and has not been forced or pressured in any way to sign it;

(d) The Executive was given a copy of this Agreement on **[______________]** and informed that he or she had twenty-one (21) days within which to consider the Agreement and that if he or she wished to execute this Agreement prior to expiration of such 21-day period, he or she should execute the Acknowledgement and Waiver attached hereto as Exhibit A-1;

(e) Nothing in this Agreement prevents or precludes the Executive from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties or costs from doing so, unless specifically authorized by federal law; and

(f) The Executive was informed that he or she has seven (7) days following the date of execution of this Agreement in which to revoke this Agreement, and this Agreement will become null and void if the Executive elects revocation during that time. Any revocation must be in writing and must be received by Air Group during the seven-day revocation period. In the event that the Executive exercises his or her right of revocation, neither Air Group nor the Executive will have any obligations under this Agreement.

5. No Transferred Claims. The Executive warrants and represents that the Executive has not heretofore assigned or transferred to any person not a party to this Agreement any released matter or any part or portion thereof and he or she shall defend, indemnify and hold Air Group and each of its subsidiaries and affiliates harmless from and against any claim (including the payment of attorneys' fees and costs actually incurred whether or not litigation is commenced) based on or in connection with or arising out of any such assignment or transfer made, purported or claimed.

6. Miscellaneous. The following provisions shall apply for purposes of this Agreement:

(a) This Agreement shall be governed by and construed in accordance with the laws of the state of Washington, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(c) The Executive's or Air Group's failure to insist on strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or Air Group may have hereunder, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(d) This Agreement may be executed in counterparts, each of which counterparts shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Remainder of page intentionally left blank]

The undersigned have read and understand the consequences of this Agreement and voluntarily sign it. The undersigned declare under penalty of perjury under the laws of the State of Washington that the foregoing is true and correct.

EXECUTED this ________ day of ________ 20____, at ______________________ County, __________.

EXECUTIVE

[Name]

EXECUTED this ________ day of ________ 20____, at ______________________ County, __________.

ALASKA AIR GROUP, INC.

By: __________
[Name]
[Title]

EXHIBIT A-1

ACKNOWLEDGMENT AND WAIVER

I, _____________, hereby acknowledge that I was given 21 days to consider the foregoing General Release Agreement and voluntarily chose to sign the General Release Agreement prior to the expiration of the 21-day period.

I declare under penalty of perjury under the laws of the State of Washington that the foregoing is true and correct.

EXECUTED this ___ day of ____________ 20__, at ___________ County, _________.

____

[Name]

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (this "Agreement") is entered into as of August 30, 2012 by and among ALASKA AIRLINES, INC., an Alaska corporation (the "Borrower"), CITIBANK, N.A., as Administrative Agent and as a Lender, and the other Lenders signatory hereto.

W I T N E S S E T H:

WHEREAS, Borrower, the Administrative Agent and the other Lenders from time to time party thereto are parties to that certain Credit Agreement dated as of March 31, 2010 (as amended, restated, supplemented or modified from time to time, the " Credit Agreement"; unless otherwise defined herein, capitalized terms used herein that are not otherwise defined herein shall have the respective meanings assigned to such terms in the Credit Agreement); and

WHEREAS, Borrower has requested that the Administrative Agent and Lenders amend certain provisions of the Credit Agreement, and, subject to the satisfaction of the conditions set forth herein, the Administrative Agent and the Lenders signatory hereto are willing to do so, on the terms set forth herein.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained herein, the parties agree as follows:

1. Amendments to Credit Agreement. Upon satisfaction of the conditions set forth in Section 2 hereof, the Credit Agreement is hereby amended as follows:

a. Section 1.01 of the Credit Agreement is hereby amended by amending and restating the following defined terms to read in their entirety as follows:

"Applicable Rate" means the following percentages per annum:

(A) from and including the Closing and prior to the First Amendment Date (i) with respect to the Commitment Fee, 0.75%; (ii) with respect to the Eurodollar Rate, 4.00%; and (iii) with respect to the Base Rate, 3.00% and

(B) from and including the First Amendment Date and at all times thereafter, (i) with respect to the Commitment Fee, 0.425%; (ii) with respect to the Eurodollar Rate, 3.50%; and (iii) with respect to the Base Rate, 2.50%.

"Maturity Date" means August 30, 2015.

b. Section 1.01 of the Credit Agreement is hereby further amended by inserting the following new defined term in its alphabetical order, which shall read in its entirety as follows:

"First Amendment Date" means August 30, 2012.

c. Section 3.04 of the Credit Agreement is hereby amended by inserting the following new subsection (e) therein, which shall read in its entirety as follows:

"(e) Dodd-Frank/Basel III. Notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (ii) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the

Basel Committee on Banking Supervision (or any successor or similar authority) or the United States of America or foreign regulatory authorities, in each case in respect of this clause (ii) pursuant to Basel III, shall, in each case, be deemed to be a Change in Law (to the extent such Change in Law is applicable under Section 3.04 or the definition of the term "Excluded Taxes"), regardless of the date enacted, adopted or issued."

d. Section 6.01(a) of the Credit Agreement is hereby amended by replacing the phrase " a consolidated balance sheet of Borrower and its Subsidiaries" appearing therein with the phrase "a consolidated balance sheet of Parent and its Subsidiaries".

e. Section 6.01(b) of the Credit Agreement is hereby amended by (a) replacing the phrase " a consolidated balance sheet of Borrower and its

Subsidiaries" appearing therein with the phrase "a consolidated balance sheet of Parent and its Subsidiaries"; (b) replacing the phrase "cash flows of Borrower and its Subsidiaries" appearing therein with the phrase "cash flows of Parent and its Subsidiaries"; and (c) replacing the phrase "certified by a Responsible Officer of Borrower" appearing therein with the phrase "certified by a Responsible Officer of Parent".

f. The Credit Agreement is hereby further amended by inserting the following new Section 10.19 therein, which shall read in its entirety as follows:

> "**10.19 Lender in Individual Capacity**. Any Lender and its respective Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, and generally engage in any kind of banking, trust, financial advisory, underwriting, or other business with Borrower or its Affiliates or Subsidiaries and any other Person party to any Loan Documents as though such Lender were not a Lender hereunder and, in each case, without notice to or consent of the other Lenders or the Administrative Agent hereto. Other Lenders and the Administrative Agent acknowledge that, pursuant to such activities, such Lender and its respective Affiliates may receive information regarding Borrower or its Affiliates or Subsidiaries or any other Person party to any Loan Documents that is material and subject to confidentiality obligations in favor of such party, and the other Lenders and the Administrative Agent acknowledge that, in such circumstances, such Lender shall not be under any obligation to provide such information to them."

g. Schedule 10.02 to the Credit Agreement is amended and restated to read in its entirety as Schedule 10.02 attached hereto.

2. Conditions. The effectiveness of this Agreement is subject to the satisfaction of the following conditions precedent:

a. the execution and delivery of this Agreement by Borrower, the Administrative Agent and each Lender;

b. the Administrative Agent shall have received, for the account of each Lender, an amendment fee in an amount equal to 0.50% of each such Lender's Commitment, which amendment fee shall be fully earned when paid and shall be nonrefundable for any reason whatsoever;

c. the Administrative Agent shall have received the Qualified Appraisal pursuant thereto for the Collateral Review Date of July 31, 2012;

d. the truth and accuracy of the representations and warranties contained in Section 3 hereof; and

e. the Administrative Agent shall have received all other documents listed on, and Borrower shall have taken all actions set forth on and satisfy all other conditions precedent listed in the closing checklist attached hereto as Annex A, all in form and substance, or in a manner, reasonably acceptable to the Administrative Agent.

3. Representations and Warranties. Borrower hereby represents and warrants to the Administrative Agent and each Lender as follows:

a. the execution, delivery and performance by Borrower of this Agreement have been duly authorized by all necessary corporate or other organizational action, and do not and will not:

(i) contravene the terms of Borrower's Organization Documents;

(ii) conflict with or result in any breach or contravention of, or the creation of any Lien under, or require any payment to be made under (A) any Contractual Obligation (other than the Loan Documents) to which Borrower is a party or affecting Borrower or the properties of Borrower or any of its Subsidiaries or (B) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which Borrower or its property is subject; or

(iii)violate any Law.

b. Borrower has all requisite power and authority to execute, deliver and perform its obligations under this Agreement and the Credit Agreement, as amended hereby;

c. this Agreement constitutes the legal, valid and binding obligation of Borrower, enforceable against Borrower in accordance with its terms;

d. after giving effect to this Agreement and the transactions contemplated hereby, each of the representations and warranties contained in the Credit Agreement and the other Loan Documents is true and correct in all material respects on and as of the date hereof as if made on the date hereof (except for representations and warranties that speak as of a specific date, which shall be true and correct as of such specific date); and

e. no Default or Event of Default exists or would result from the transactions contemplated by this Agreement.

1. No Modification. Except as expressly set forth herein, nothing contained herein shall be deemed to constitute a waiver of compliance with any term or condition contained in the Credit Agreement or any of the other Loan Documents or constitute a course of conduct or dealing among the parties. Except as expressly stated herein, the Administrative Agent and Lenders reserve all rights, privileges and remedies under the Loan Documents. Except as amended or consented to hereby, the Credit Agreement and other Loan Documents remain unmodified and in full force and effect. All references in the Loan Documents to the Credit Agreement shall be deemed to be references to the Credit Agreement as modified hereby. This Agreement shall constitute a Loan Document.

2. Counterparts. This Agreement may be executed in any number of counterparts and by different parties in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Signature pages may be detached from multiple separate counterparts and attached to a single counterpart. Delivery of an executed signature page of this Agreement by facsimile or other electronic transmission shall be as effective as delivery of a manually executed counterpart hereof.

3. Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided that Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of the Administrative Agent.

4. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF WASHINGTON.

5. Severability. The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

6. Captions. The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this Agreement.

7. Reaffirmation. Borrower as debtor, grantor, pledgor, guarantor, assignor, or in other any other similar capacity in which Borrower grants liens or security interests in its property (i) ratifies and reaffirms all of its payment and performance obligations, contingent or otherwise, under each of the Loan Documents to which it is a party (after giving effect hereto) and (ii) to the extent Borrower granted liens on or security interests in any of its property pursuant to any such Loan Document as security for Borrower's Obligations under or with respect to the Loan Documents, ratifies and reaffirms such guarantee and grant of security interests and liens and confirms and agrees that such security interests and liens hereafter secure all of the Obligations as amended hereby. Borrower hereby acknowledges that each of the Loan Documents remains in full force and effect and is hereby ratified and reaffirmed.

ORAL AGREEMENTS AND ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR FORBEAR FROM COLLECTION OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

[Remainder of Page Intentionally Left Blank; Signature Pages Follow]

IN WITNESS WHEREOF, each of the undersigned has executed this Agreement as of the date set forth above.

ALASKA AIRLINES, INC.

By: Mark Eliasen
Name: ~~**Mark Eliasen**~~
Title: ~~**Vice President, Finance**~~
Treasurer

Signature Page to
First Amendment to Credit Agreement

CITIBANK, N.A., as Administrative Agent

By: Joseph B Shanahan
Name: Joseph Shanahan
Title: Director + VP

CITIBANK, N.A., as a Lender

By: Joseph B Shanahan
Name: Joseph Shanahan
Title: Director + VP

Signature Page to
First Amendment to Credit Agreement

BANK OF AMERICA, N.A., as a Lender

By: ______________________

Name: M. TYLER BJEKLAND

Title: SVP

UNION BANK, N.A., as a Lender

By: ______________________
Name: Raymond S. Osburn
Title: Vice President

Signature Page to
First Amendment to Credit Agreement

STERLING SAVINGS BANK, as a Lender

By: ______________________
Name: Colin Duffy
Title: Vice Presient

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BNP PARIBAS, as a Lender

By: Stephanie Klein
Name: Vice President
Title: Aviation Finance Group-Americas

By:
Name: Robert Papas
Title: Director
Transportation Group-Aviation Finance

Signature Page to
First Amendment to Credit Agreement

SCHEDULE 10.02

ADMINISTRATIVE AGENT'S OFFICE, CERTAIN ADDRESSES FOR NOTICES

ALASKA AIRLINES, INC.

19300 International Boulevard Seattle, WA 98188 Attention: Vice President/Finance and Treasurer Telephone: (206) 392-5189 Telecopier: (206) 392-5007 Electronic Mail: mark.eliasen@alaskaair.com Website Address: www.alaskaair.com

ADMINISTRATIVE AGENT: (for payments and Requests for Borrowings):

For Borrower Inquiries:

Citibank, N.A. 1615 Brett Road Building III New Castle, DE 19720 Attention: Annemarie Pavco Telephone: 302-323-2475 Telecopier: 212-994-0961 Electronic Mail: Annemarie.E.Pavco@citi.com

Account No.: 3685-2248 Account Name: Medium Term Finance Ref: Alaska Airlines, Inc. ABA# 021-000-089

For Lender Inquiries:

Citibank, N.A. 1615 Brett Road Building III New Castle, DE 19720 Attention: Investor Relations Team

Telephone: 302-894-6010 Telecopier: 212-994-0961 Electronic Mail: global.loans.support@citi.com

For Disclosure and Compliance Documents:

Electronic Mail: oploanswebadmin@citi.com

Other Notices to Administrative Agent:

Citibank, N.A. 388 Greenwich Street, 34th Floor New York, NY 10013 Attn: Thomas Hollahan Telephone No.: (212) 816-5143 Facsimile No.: (646) 291-1712 Electronic Mail: thomas.hollahan@citi.com and Attn: Joseph Shanahan Telephone No.: (212) 816-5426 Facsimile No.: (646) 291-5975 Electronic Mail: joseph.b.shanahan@citi.com

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ANNEX A CLOSING CHECKLIST for FIRST AMENDMENT TO CREDIT AGREEMENT by and among ALASKA AIRLINES, INC.,

as Borrower,

CITIBANK, N.A., as Administrative Agent, and THE LENDERS PARTY THERETO

August 30, 2012

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Set forth below is a Closing Checklist, which lists documents and information to be delivered in connection with the First Amendment to Credit Agreement (the "Amendment") listed herein as Document No. 1 and the transactions contemplated thereunder. Each capitalized term used but not defined herein shall have the meaning ascribed to such term in that certain Credit Agreement (as amended by the Amendment, the "Credit Agreement"), dated as of March 31, 2010 , by and among Borrower, Administrative Agent and the Lenders. All documents are to be dated as of August 30, 2012 unless otherwise indicated.

Parties / Counsel	Reference
Alaska Airlines, Inc., an Alaska corporation	"Borrower"
Bank of America, N.A.	"Bank of America"
BNP Paribas	"BNP"
Citibank, N.A.	"Administrative Agent or "Citi"
Sterling Savings Bank	"Sterling"
Union Bank, N.A.	"Union Bank"
Daugherty Fowler Peregrin Haught & Jenson (FAA Counsel to Borrower)	"DFPHJ"
Latham & Watkins LLP (Counsel to Agent and Lenders)	"Latham"
Davis Wright Tremaine (Counsel to Borrower)	"DWT"

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Document
A. CREDIT DOCUMENTS
1. First Amendment to Credit Agreement
a. Schedule 10.02 – Administrative Agent's Office, Certain Addresses for Notices
b. Annex A – Closing Checklist
2. Notes –Sterling, Union Bank and BNP Paribas
B. COLLATERAL AND OTHER DOCUMENTS
3. FAA and International Registry search results
4. UCC searches
5. Certificate of Insurance, together with applicable endorsements, designating Administrative Agent as loss payee and additional insured
6. First Amendment to Aircraft Chattel Mortgage and Security Agreement
C. CORPORATE MATTERS, CERTIFICATES AND APPRAISALS

7. Secretary's Certificate for Borrower, certifying and attaching :
a. Articles of Incorporation
b. Bylaws
c. Good Standing Certificate
d. Resolutions
e. Incumbency
8. Qualified Appraisal for the Collateral Review Date of July 31, 2012
D. OTHER ITEMS
9. Opinions of Counsel
a. Internal Counsel of Borrower
b. DWT
c. DFPHJ
10. Assignment and Assumption Agreement from BNP Paribas to Union Bank
11. Assignment and Assumption Agreement from Bank of America to Sterling
12. Assignment and Assumption Agreement from Citi to Union Bank
13. Assignment and Assumption Agreement from Bank of America to Union Bank

EXHIBIT 31.1

CERTIFICATIONS

I, Bradley D. Tilden, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended March 31, 2013;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

e) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 7, 2013

By /s/ BRADLEY D. TILDEN

Bradley D. Tilden
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Brandon S. Pedersen, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended March 31, 2013;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 7, 2013

By /s/ BRANDON S. PEDERSEN

Brandon S. Pedersen
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Alaska Air Group, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Bradley D. Tilden, 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.

May 7, 2013

By /s/ BRADLEY D. TILDEN

Bradley D. Tilden
President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Alaska Air Group, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2013 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.

May 7, 2013

By /s/ BRANDON S. PEDERSEN

Brandon S. Pedersen
Chief Financial Officer