

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2003.

OR

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

For the transition period from to

Commission file number 1-8957

ALASKA AIR GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

19300 Pacific Highway South, Seattle, Washington 98188
(Address of principal executive offices)

Registrant's telephone number, including area code: (206) 431-7040

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The registrant has 26,605,733 common shares, par value \$1.00, outstanding at March 31, 2003.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CONSOLIDATED BALANCE SHEETS (unaudited)

Alaska Air Group, Inc.

ASSETS

(In Millions)	December 31, 2002	March 31, 2003
Current Assets		
Cash and cash equivalents	\$ 269.0	\$ 205.8
Marketable securities	366.8	409.8
Receivables - net	125.4	134.8
Inventories and supplies	71.9	67.8
Deferred income taxes	61.2	74.0
Prepaid expenses and other current assets	82.0	98.1
Total Current Assets	976.3	990.3
Property and Equipment		
Flight equipment	2,066.4	2,155.3
Other property and equipment	430.9	432.9
Deposits for future flight equipment	93.5	89.6
	2,590.8	2,677.8
Less accumulated depreciation and amortization	811.4	838.5
Total Property and Equipment - Net	1,779.4	1,839.3
Intangible Assets	50.9	50.9
Other Assets	74.1	111.6
Total Assets	\$ 2,880.7	\$ 2,992.1

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS (unaudited)

Alaska Air Group, Inc.

LIABILITIES AND SHAREHOLDERS' EQUITY

(In Millions)	December 31, 2002	March 31, 2003
Current Liabilities		
Accounts payable	\$ 132.1	\$ 139.5
Accrued aircraft rent	76.0	56.2
Accrued wages, vacation and payroll taxes	87.4	90.0
Other accrued liabilities	222.2	248.3
Air traffic liability	211.6	257.9
Current portion of long-term debt and capital lease obligations	48.6	39.9
Total Current Liabilities	777.9	831.8
Long-Term Debt and Capital Lease Obligations	856.7	979.0
Other Liabilities and Credits		
Deferred income taxes	157.2	138.2
Deferred revenue	232.0	233.1
Other liabilities	201.2	210.0
	590.4	581.3
Shareholders' Equity		
Common stock, \$1 par value		
Authorized: 100,000,000 shares		
Issued: 2002 - 29,309,726 shares		
2003 - 29,342,020 shares	29.3	29.3
Capital in excess of par value	483.3	483.9
Treasury stock, at cost: 2002 and 2003 - 2,736,287 shares	(62.5)	(62.5)
Accumulated other comprehensive income (loss)	(80.2)	(80.2)
Retained earnings	285.8	229.5
	655.7	600.0
Total Liabilities and Shareholders' Equity	\$ 2,880.7	\$2,992.1

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

Alaska Air Group, Inc.

Three Months Ended March 31 (In Millions Except Per Share Amounts)		2002	2003
Operating Revenues			
Passenger		\$ 455.9	\$ 475.5
Freight and mail		17.1	18.6
Other - net		27.1	24.6
Total Operating Revenues		500.1	518.7
Operating Expenses			
Wages and benefits		202.9	227.1
Contracted services		24.7	25.7
Aircraft fuel		64.7	90.2
Aircraft maintenance		43.2	46.5
Aircraft rent		46.5	46.9
Food and beverage service		14.3	13.4
Commissions		12.4	3.3
Other selling expenses		30.2	27.2
Depreciation and amortization		32.3	32.4
Loss (gain) on sale of assets		(0.6)	0.1
Landing fees and other rentals		29.8	37.1
Other		49.3	47.4
Total Operating Expenses		549.7	597.3
Operating Loss		(49.6)	(78.6)
Nonoperating Income (Expense)			
Interest income		4.4	0.6
Interest expense		(11.9)	(11.1)
Interest capitalized		0.2	0.8
Other - net		4.5	0.4
		(2.8)	(9.3)
Loss before income tax and accounting change		(52.4)	(87.9)
Income tax benefit		(18.7)	(31.6)
Loss before accounting change		(33.7)	(56.3)
Cumulative effect of accounting change		(51.4)	—
Net Loss		\$ (85.1)	\$ (56.3)
Basic and Diluted Loss Per Share:			
Loss before accounting change		\$ (1.27)	\$ (2.12)
Cumulative effect of accounting change		\$ (1.94)	—
Net Loss Per Share		\$ (3.21)	\$ (2.12)
Shares used for computation:			
Basic and diluted		26.532	26.582

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited)

Alaska Air Group, Inc.

(In Millions)	Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balances at December 31, 2002	26.573	\$ 29.3	\$ 483.3	\$ (62.5)	\$ (80.2)	\$285.8	\$655.7
Net loss for the three months ended March 31, 2003						(56.3)	(56.3)
Other comprehensive income (loss):							
Related to marketable securities:							
Change in fair value					2.9		
Reclassification to earnings					(0.1)		
Income tax effect					(1.1)		
					1.7		1.7
Related to fuel hedges:							
Change in fair value					6.2		
Reclassification to earnings					(9.1)		
Income tax effect					1.2		
					(1.7)		(1.7)
Total comprehensive loss							(56.3)
Stock issued under stock plans	0.033		0.6				0.6
Balances at March 31, 2003	26.606	\$ 29.3	\$ 483.9	\$ (62.5)	\$ (80.2)	\$229.5	\$600.0

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Alaska Air Group, Inc.

Three Months Ended March 31 (In Millions)	2002	2003
Cash flows from operating activities:		
Net loss	\$ (85.1)	\$ (56.3)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Cumulative effect of accounting change	51.4	—
Depreciation and amortization	32.3	32.4
Amortization of airframe and engine overhauls	15.5	15.2
Loss (gain) on marketable securities	1.0	(1.7)
Changes in derivative fair values	(3.5)	1.2
Loss on sale of assets	(0.6)	0.1
Decrease in deferred income taxes	(10.0)	(31.7)
Increase in accounts receivable	(21.0)	(9.5)
Increase in other current assets	(34.0)	(11.0)
Increase in air traffic liability	50.3	46.3
Increase (decrease) in other current liabilities	(36.1)	13.2
Increase (decrease) in deferred revenue and other-net	12.0	(3.0)
Net cash used in operating activities	(27.8)	(4.8)
Cash flows from investing activities:		
Proceeds from disposition of assets	1.9	0.8
Purchases of marketable securities	(117.7)	(171.8)
Sales and maturities of marketable securities	22.2	131.6
Property and equipment additions:		
Aircraft purchase deposits	—	(9.3)
Capitalized overhauls	(11.9)	(22.5)
Aircraft	—	(59.3)
Other flight equipment	(8.3)	(10.9)
Other property	(7.2)	(5.5)
Aircraft deposits returned	21.9	1.2
Restricted deposits and other	(2.2)	(22.4)
Net cash used in investing activities	(101.3)	(168.1)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	150.0
Offering costs in connection with issuance of long-term debt	—	(4.5)
Long-term debt and capital lease payments	(7.6)	(36.4)
Proceeds from issuance of common stock	0.3	0.6
Net cash provided by (used in) financing activities	(7.3)	109.7
Net change in cash and cash equivalents	(136.4)	(63.2)
Cash and cash equivalents at beginning of period	490.8	269.0
Cash and cash equivalents at end of period	\$ 354.4	\$ 205.8
Supplemental disclosure of cash paid during the period for:		
Interest (net of amount capitalized)	\$ 9.9	\$ 7.8
Income taxes	—	—
Noncash investing and financing activities	None	None

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Alaska Air Group, Inc.

Note 1. Basis of Presentation and Significant Accounting Policies

The accompanying unaudited consolidated financial statements of Alaska Air Group, Inc. (the Company or Air Group) include the accounts of our principal subsidiaries, Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon). These interim consolidated financial statements are unaudited and should be read in conjunction with the consolidated financial statements in the Company's annual report on Form 10-K for the year ended December 31, 2002. In the opinion of management, all adjustments have been made which are necessary to present fairly the financial position of the Company as of March 31, 2003, as well as the results of its operations for the three months ended March 31, 2002 and 2003. The adjustments made were of a normal recurring nature.

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities, as well as the reported amounts of revenues and expenses. Significant estimates include assumptions used to record liabilities, expenses and revenue associated with the Company's Mileage Plan, estimated useful lives of property and equipment and the amounts of certain accrued liabilities. Actual results may differ from these estimates.

Change in Accounting Principle

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." In connection with the adoption of this statement, the Company determined that all of its goodwill was impaired. As a result, effective January 1, 2002, the Company recorded a one-time, non-cash charge of \$51.4 million (\$12.5 million Alaska and \$38.9 million Horizon) to write-off all of its goodwill. This charge is reflected as a cumulative effect of accounting change in the Consolidated Statement of Operations for the three months ended March 31, 2002.

New Accounting Standards

In August 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations", which requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The statement also requires that the associated asset retirement costs be capitalized as part of the carrying amount of the long-lived asset. This statement is effective for financial statements issued for fiscal years beginning after January 1, 2003. The adoption of this statement did not have a material impact on the Company's financial position, results of operations or cash flows.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees. Additionally, this Interpretation clarifies the requirements for recognizing a liability at the inception of the guarantee equal to the fair value of the obligation undertaken in issuing the guarantee and

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incorporates the guidance in FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others." Disclosures under Interpretation No. 45 are effective for financial statements issued after December 15, 2002. While the Company has various guarantees included in contracts in the normal course of business, primarily in the form of indemnities, the adoption of the liability recognition provision of Interpretation No. 45 had no significant impact on the financial condition and results of operations of the Company.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" which requires the consolidation of variable interest entities, as defined. This Interpretation is applicable to variable interest entities created after January 31, 2003. Variable interest entities created prior to February 1, 2003, must be consolidated effective July 1, 2003. Disclosures are required currently if the Company expects to consolidate any variable interest entities. The Company does not currently believe that any entities will be consolidated as a result of Interpretation No. 46.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). SFAS No. 149 amends and clarifies certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. SFAS No. 149 is effective for certain contracts entered into or modified by the Company after June 30, 2003. The Company is currently evaluating SFAS No. 149 to determine its impact on the financial condition and results of operations of the Company.

Note 2. Prepaid Expenses and Other Assets

At December 31, 2002 and March 31, 2003, prepaid expenses and other assets included prepaid aircraft rent of \$30.4 million and \$51.2 million, respectively.

Note 3. Stock Option Plans

The Company has three stock option plans that provide for the grant of options to purchase Air Group common stock at stipulated prices on the date of the grant by certain officers and key employees of Air Group and its subsidiaries. The Company applies the intrinsic value method in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations in accounting for stock options. Accordingly, no compensation cost has been recognized for these plans as the exercise price of options equals the fair market value on the date of grant.

Had compensation cost for the Company's stock options been determined in accordance with Statement of Financial Accounting Standards No. 123, loss before accounting change and applicable loss per share (EPS) would have been increased to the pro forma amounts indicated below (in millions except per share amounts):

	March 31, 2002	March 31, 2003
Loss before accounting change:		
As reported	\$ (33.7)	\$ (56.3)
Pro forma	(35.1)	(57.9)
Net loss:		
As reported	\$ (85.1)	\$ (56.3)
Pro Forma	(86.5)	(57.9)

	March 31, 2002	March 31, 2003
Basic and diluted loss per share before accounting change:		
As reported	\$ (1.27)	\$ (2.12)
Pro forma	(1.32)	(2.18)
Basic and diluted loss per share:		
As reported	\$ (3.21)	\$ (2.12)
Pro forma	(3.26)	(2.18)

In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" (SFAS No. 148). SFAS No. 148 amends the transition and disclosure provisions of SFAS No. 123. During the fourth quarter of 2002, the Company adopted the disclosure provisions of SFAS No. 148 and is currently evaluating SFAS No. 148 to determine if it will adopt SFAS No. 123 to account for employee stock options using the fair value method and, if so, when to transition to that method. If the Company had adopted the prospective transition method as prescribed by SFAS No. 148 in the first quarter of 2003, compensation expense of \$0.1 million would have been recorded on an after-tax basis, and would have had an insignificant impact on the Company's loss per share.

Note 4. Frequent Flyer Program

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

	December 31, 2002	March 31, 2003
Current Liabilities:		
Other accrued liabilities	\$ 87.0	\$ 98.5
Other Liabilities and Credits:		
Deferred revenue	183.9	186.8
Other liabilities	32.1	26.0
Total	\$ 303.0	\$ 311.3

Note 5. Loss Per Share

Loss per share (EPS) calculations were as follows (in millions except per share amounts). The calculation is the same for basic and diluted EPS. Stock options are excluded from the calculation of diluted EPS because they are antidilutive and they represented 3.0 million and 3.7 million shares, respectively, for the three months ended March 31, 2002 and 2003.

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2003
Basic and Diluted		
Loss before accounting change	\$ (33.7)	\$ (56.3)
Weighted average shares outstanding	26.532	26.582
Loss per share before accounting change	\$ (1.27)	\$ (2.12)

Note 6. Operating Segment Information

Operating segment information for Alaska and Horizon for the three months ended March 31 was as follows (in millions):

	2002	2003
Operating revenues:		
Alaska	\$ 412.2	\$ 427.0
Horizon	93.2	98.9
Elimination of intercompany revenues	(5.3)	(7.2)
Consolidated	\$ 500.1	\$ 518.7
Loss before income tax and accounting change:		
Alaska	\$ (41.7)	\$ (70.6)
Horizon	(10.2)	(15.3)
Other	(0.5)	(2.0)
Consolidated	\$ (52.4)	\$ (87.9)
Total assets at end of period:		
Alaska	\$2,730.0	\$2,853.5
Horizon	229.4	262.1
Other	808.7	828.6
Elimination of intercompany accounts	(889.0)	(952.1)
Consolidated	\$2,879.1	\$2,992.1

Note 7. Long-Term Debt and Capital Lease Obligations

At December 31, 2002, and March 31, 2003, long-term debt and capital lease obligations were as follows (in millions):

	December 31, 2002	March 31, 2003
Fixed rate notes payable due through 2015	\$ 439.9	\$ 410.0
Variable rate notes payable due through 2018	453.6	448.8
Senior convertible notes due through 2023	—	150.0
Long-term debt	893.5	1,008.8
Capital lease obligations	11.8	10.1
Less current portion	(48.6)	(39.9)
	\$ 856.7	\$ 979.0

On March 21, 2003, the Company completed the private placement of \$150.0 million of floating rate senior convertible notes due 2023 (the Notes). The private placement was conducted pursuant to Rule 144A of the Securities Act of 1933, as amended. The Notes bear cash interest at a variable rate of interest of 3-month LIBOR plus 2.5% (3.79% at March 31, 2003) for the first five years from date of issuance. Thereafter, the Notes will cease bearing cash interest and will increase daily by the variable yield, which will equal the variable interest rate, up to a maximum of 5.25%, to produce the variable principal amount.

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The Notes are convertible into shares of the Company's common stock at the option of the holder (or cash, at the Company's option) only upon the occurrence of certain events which include the Company's common stock trading at a value for a 20 day period greater than the conversion price in a 30 day period ending on the fiscal quarter, the Company obtaining a low credit rating as defined, upon redemption of the Notes, or upon certain corporate transactions. The conversion price is equal to the original or variable principal, divided by 38.4615. At date of issuance, the conversion price was equal to \$26.00 per share. Upon conversion, the Company may deliver, in lieu of common stock, cash or a combination of cash and common stock. The Company may redeem all or a portion of the Notes in cash or common stock or a combination of cash and common stock at any time on or after the third anniversary of the issuance of the Notes. In addition, holders may require the Company to purchase all or a portion of their Notes on the 5th, 10th and 15th anniversaries of the issuance of the Notes and upon the occurrence of a change of control or tax event at principal plus accrued interest.

The Notes are senior unsecured obligations and rank equally with the Company's existing and future senior unsecured indebtedness.

Net proceeds from the offering totaled \$145.5 million. Approximately \$22.3 million of these net proceeds are restricted to collateralize interest payments for the first three years and are reported as restricted cash (\$4.3 million recorded in prepaid expenses and other assets and \$18.0 million in other assets) in the Consolidated Balance Sheet as of March 31, 2003.

Note 8. Contingencies

Oakland Maintenance Investigation

In December 1998, the U.S. Attorney for the Northern District of California initiated a grand jury investigation concerning certain 1998 maintenance activities at Alaska's Oakland maintenance base. In January 2000, the investigation was expanded to include the aircraft involved in the loss of Flight 261. The Federal Aviation Administration (FAA) separately proposed a civil penalty in connection with the 1998 maintenance activities, which Alaska and the FAA have settled for an agreed amount. In December 2001, the U.S. Attorney notified Alaska that the evidence it had gathered relative to the 1998 maintenance activities did not warrant the filing of criminal charges, and closed that part of the investigation. The U.S. Attorney also placed the portion of its investigation related to Flight 261 on inactive status, with the possibility of reactivating and reviewing the matter when the National Transportation Safety Board (NTSB) issued its final report on the accident. Accordingly, following the final NTSB hearing on the Flight 261 investigation in December 2002, the U.S. Attorney's Office reactivated the matter in order to review it in light of the final NTSB report.

Flight 261 Litigation

Alaska is a defendant in a number of lawsuits relating to the loss of Flight 261 on January 31, 2000. Representatives of all 88 passengers and crew on board have filed cases against Alaska, the Boeing Company, and others. The suits were originally filed in various state and federal courts in Alaska, California, Washington and Illinois. Since then, they have all been consolidated in the U.S. District Court for the Northern District of California. The suits seek unspecified compensatory and punitive damages. In May 2001, the judge presiding over the majority of the cases ruled that punitive damages are not available against Alaska. Alaska has settled the majority of these cases and continues in its efforts to settle the remaining ones. Trial on the

remaining cases is set for July 2003. Consistent with industry standards, the Company maintains insurance against aircraft accidents.

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

The Company is also a party to other ordinary routine litigation incidental to its business and with respect to which no material liability is expected.

Note 9. Subsequent Event

On April 16, 2003, the Emergency Wartime Supplemental Appropriations Act (the Act) was signed into legislation. The Act includes a \$2.3 billion one-time cash payment which will be allocated to air carriers based on each carrier's share of security fees remitted and carrier fees paid to the Transportation Security Administration (TSA) since its inception in February 2002. The Company believes its share of the grant will range between \$60.0 million and \$70.0 million, and is expected to be received during the second quarter of 2003.

Alaska Airlines Financial and Statistical Data

Financial Data (in millions):	Three Months Ended March 31		
	2002	2003	% Change
Operating Revenues:			
Passenger	\$374.0	\$387.0	3.5%
Freight and mail	15.9	17.4	9.4%
Other - net	22.3	22.6	1.3%
Total Operating Revenues	412.2	427.0	3.6%
Operating Expenses:			
Wages and benefits	165.7	188.0	13.5%
Contracted services	21.8	20.7	-5.0%
Aircraft fuel	55.2	76.9	39.3%
Aircraft maintenance	35.6	37.9	6.5%
Aircraft rent	31.8	30.5	-4.1%
Food and beverage service	13.9	12.9	-7.2%
Commissions	14.2	8.2	-42.3%
Other selling expenses	24.9	21.9	-12.0%
Depreciation and amortization	28.2	28.5	1.1%
Loss on sale of assets	—	0.3	NM
Landing fees and other rentals	23.6	28.7	21.6%
Other	36.3	34.1	-6.1%
Total Operating Expenses	451.2	488.6	8.3%
Operating Loss	(39.0)	(61.6)	57.9%
Interest income	5.0	1.2	
Interest expense	(11.9)	(11.3)	
Interest capitalized	0.1	0.7	
Other - net	4.1	0.4	
	(2.7)	(9.0)	
Loss Before Income Tax and Accounting Change	\$ (41.7)	\$ (70.6)	69.3%
Operating Statistics:			
Revenue passengers (000)	3,193	3,258	2.0%
RPMs (000,000)	2,977	3,143	5.6%
ASMs (000,000)	4,467	4,708	5.4%
Passenger load factor	66.7%	66.7%	0.0pts
Breakeven load factor	76.0%	80.5%	4.5pts
Yield per passenger mile	12.56¢	12.31¢	-2.0%
Operating revenue per ASM	9.23¢	9.07¢	-1.7%
Operating expenses per ASM	10.10¢	10.38¢	2.7%
Operating expenses per ASM excluding fuel	8.87¢	8.75¢	-1.3%
Fuel cost per gallon	73.6¢	99.1¢	34.7%
Fuel gallons (000,000)	75.0	77.6	3.5%
Average number of employees	9,815	9,988	1.8%
Aircraft utilization (blk hrs/day)	10.1	10.3	2.4%
Operating fleet at period-end	102	106	3.9%

NM = Not Meaningful

Horizon Air Financial and Statistical Data

	Three Months Ended March 31		
Financial Data (in millions):	2002	2003	% Change
Operating Revenues:			
Passenger	\$ 86.3	\$ 94.0	8.9%
Freight and mail	1.2	1.2	0.0%
Other - net	5.7	3.7	-35.1%
Total Operating Revenues	93.2	98.9	6.1%
Operating Expenses:			
Wages and benefits	37.3	39.1	4.8%
Contracted services	3.9	6.6	69.2%
Aircraft fuel	9.5	13.3	40.0%
Aircraft maintenance	7.6	8.6	13.2%
Aircraft rent	14.8	16.4	10.8%
Food and beverage service	0.4	0.5	25.0%
Commissions	2.3	0.6	-73.9%
Other selling expenses	5.3	5.3	0.0%
Depreciation and amortization	3.9	3.6	-7.7%
Gain on sale of assets	(0.6)	(0.2)	NM
Landing fees and other rentals	6.4	8.7	35.9%
Other	12.7	11.5	-9.4%
Total Operating Expenses	103.5	114.0	10.1%
Operating Loss	(10.3)	(15.1)	46.6%
Interest expense	(0.5)	(0.3)	
Interest capitalized	0.2	0.1	
Other - net	0.4	—	
	0.1	(0.2)	
Loss Before Income Tax and Accounting Change	\$ (10.2)	\$ (15.3)	50.0%
Operating Statistics:			
Revenue passengers (000)	1,095	1,088	-0.6%
RPMs (000,000)	329	357	8.6%
ASMs (000,000)	531	616	15.9%
Passenger load factor	62.0%	58.1%	-3.9pts
Breakeven load factor	69.5%	68.3%	-1.2pts
Yield per passenger mile	26.22¢	26.30¢	0.3%
Operating revenue per ASM	17.55¢	16.07¢	-8.5%
Operating expenses per ASM	19.49¢	18.53¢	-4.9%
Operating expenses per ASM excluding fuel	17.70¢	16.37¢	-7.5%
Fuel cost per gallon	77.2¢	102.0¢	32.1%
Fuel gallons (000,000)	12.3	13.0	5.7%
Average number of employees	3,452	3,415	-1.1%
Aircraft utilization (blk hrs/day)	7.1	7.8	9.9%
Operating fleet at period-end	62	59	-4.8%

NM = Not Meaningful

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Information

This report may contain forward-looking statements that are based on the best information currently available to management. These forward-looking statements are intended to be subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are indicated by phrases such as "will," "should," "the Company believes," "we expect" or any other language indicating a prediction of future events. There can be no assurance that actual developments will be those anticipated by the Company. Actual results could differ materially from those projected as a result of a number of factors, some of which the Company cannot predict or control. For a discussion of these factors, please see Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Results of Operations

First Quarter 2003 Compared with First Quarter 2002

During the first quarter of 2003, the Company's financial performance continued to be adversely affected by weak economic conditions and a continued negative impact from the 2001 terrorist attacks. In addition, the U.S. war in Iraq further adversely affected the financial performance of Alaska Air Group and the airline industry. The consolidated net loss for the first quarter of 2003 was \$56.3 million, or \$2.12 per share, compared with a net loss of \$85.1 million, or \$3.21 per share, in 2002. The 2002 net loss includes the write-off of all of the Company's goodwill (\$51.4 million) in accordance with SFAS No. 142 (see Note 1 to the consolidated financial statements). Excluding this goodwill write-off, net loss for 2002 was \$33.7 million, or \$1.27 per share. The consolidated operating loss for the first quarter of 2003 was \$78.6 million compared with an operating loss of \$49.6 million for 2002. Financial and statistical data for Alaska and Horizon is shown on pages 13 and 14, respectively. A discussion of this data follows.

Alaska Airlines Revenues

Operating revenue increased \$14.8 million, or 3.6%, during 2003 as compared to 2002. Available seat miles (ASMs or Capacity) increased 12.2% in January, 2.8% in February and 1.7% in March as compared to the same periods in 2002. For the quarter, capacity increased 5.4% and revenue passenger miles (RPM's or Traffic) increased 5.6% as compared to the same period in 2002. The capacity increases are primarily due to the addition of service to new cities (Boston, Denver, Newark and Miami) and an increase in service in the Mexican and Canadian markets, partially offset by lower capacity in virtually all other markets. Traffic increases primarily reflect service to new cities and traffic increases between the U.S. mainland and Mexico, Canada and Anchorage/Fairbanks, partially offset by decreases in traffic in Northern California, Southern California and Arizona. Passenger load factor remained consistent in 2003 compared to 2002 at 66.7%.

Yield per passenger mile was down 2.0% due to a combination of fewer business fares and a drop off in demand caused by the U.S. war in Iraq and a continued slow U.S. economy. Higher traffic combined with lower yields resulted in a \$13.0 million, or 3.5% increase in passenger revenues.

Freight and mail revenues increased \$1.5 million, or 9.4%, due to higher freight and mail volumes attributable to a reduction of security restrictions. Other-net revenues increased \$0.3 million, or 1.3%, due largely to increased revenue from the sale of miles in Alaska's frequent flyer program.

Alaska Airlines Expenses

For the quarter, total operating expenses increased \$37.4 million, or 8.3%, as compared to the same period in 2002. This increase is due largely to a 5.4% increase in ASMs combined with higher fuel and wage and benefit costs. Operating expense per ASM excluding fuel decreased 1.3% as compared to the same period in 2002. Explanations of significant period-over-period changes in the components of operating expenses are as follows:

- Wages and benefits increased \$22.3 million, or 13.5%, due to an 11.5% increase in average wages and benefits per employee combined with a 1.8% increase in the average number of employees. The increase in average wages and benefits per employee is due principally to higher pension costs related to our defined benefit plans, higher health insurance and workers compensation costs and scale and step increases for employees represented under collective bargaining agreements.
- Aircraft fuel increased \$21.7 million, or 39.3%, due to a 34.7% increase in the fuel cost per gallon and a 3.5% increase in fuel gallons consumed. Air Group's fuel hedging program resulted in Alaska recognizing \$8.5 million in hedging gains during the first quarter of 2003, of which \$7.8 million is reflected in aircraft fuel and \$0.7 million is reflected in other-net. For the remainder of 2003, Air Group has fuel hedges in place for 35% of its expected fuel consumption, principally crude oil swaps at prices below \$22 per barrel.
- Aircraft maintenance increased \$2.3 million, or 6.5%, due to increases in the number of airframe checks and outside repairs on major aircraft components.
- Commissions decreased \$6.0 million, or 42.3%, due primarily to the elimination of travel agent base commissions starting in June 2002, and the continuing shift to direct sales channels. In 2003, 46.2% of Air Group ticket sales were made through traditional travel agents, compared to 53.1% in 2002. In 2003, 24.9% of the ticket sales were made through Alaska's Internet web site compared to 18.8% in 2002.
- Other selling expenses decreased \$3.0 million, or 12.0%, due to lower customer reservation system costs and mileage plan selling costs partially offset by increases in credit card commissions and advertising expenses.
- Landing fees and other rentals increased \$5.1 million, or 21.6%. The 2002 results include a \$2.2 million credit from adjusting a December 2001 accrual due to a year-end airport assessment coming in lower than expected. Absent this amount, landing fees and other rentals increased 11.2%. The higher rates reflect modest volume growth and an increase in airports' cost of operations including facility expansion initiatives and increased costs for security.

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- Other expense decreased \$2.2 million, or 6.1%, primarily reflecting lower expenditures for insurance, supplies, data and communications and foreign exchange gains, partially offset by an increase in expenditures for property taxes, professional services and per diems. Insurance expense decreases are a reflection of several factors including additional coverage from government aviation insurance programs and competitive pressures in the aviation insurance market. However, aviation insurance remains substantially higher than before September 11, 2001.

Horizon Air Revenues

Operating revenues increased \$5.7 million, or 6.1%, as compared to 2002. For first quarter 2003, capacity increased 15.9% and traffic was up 8.6%, compared to the first quarter of 2002 resulting in a 3.9 percentage point decrease in load factor. Passenger yield increased slightly, and combined with the increase in traffic, resulted in an increase in passenger revenue of \$7.7 million, or 8.9%.

Other-net revenues decreased \$2.0 million, or 35.1%, primarily due to manufacturer support received in 2002 as compensation for delays in the delivery of CRJ 700 aircraft, which did not recur in 2003.

Horizon Air Expenses

Operating expenses increased \$10.5 million, or 10.1%, as compared to the same period in 2002. This increase is due largely to a 15.9% increase in ASMs combined with higher fuel costs. Operating expenses per ASM excluding fuel decreased 7.5% as compared to the same period in 2002. Explanations of significant period-over-period changes in the components of operating expenses are as follows:

- Wages and benefits increased \$1.8 million, or 4.8%, due to a 5.9% increase in average wages and benefits per employee, offset by a 1.1% reduction in the number of employees. The increase in average wages and benefits per employee reflects increases in average wages and an increase in group insurance for covered employees.
- Aircraft fuel increased \$3.8 million, or 40.0%, due to a 32.1% increase in the cost per gallon of fuel and a 5.7% increase in gallons consumed. Air Group's fuel hedging program resulted in the recognition of \$1.4 million in hedging gains for Horizon during the first quarter of 2003, of which \$1.3 million is reflected in aircraft fuel and \$0.1 million is reflected in other-net. For the remainder of 2003, Air Group has fuel hedges in place for 35% of its expected fuel consumption, principally crude oil swaps at prices below \$22 per barrel.
- Aircraft maintenance expense increased \$1.0 million, or 13.2%, primarily due to planned heavy checks on Q400 and CRJ-700 aircrafts and a series of engine repairs on both aircraft types.
- Aircraft rent increased \$1.6 million, or 10.8%, due to the addition of five CRJ-700's as compared to 2002.

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- Commissions decreased \$1.7 million, or 73.9%, due primarily to the elimination of travel agent base commissions starting in June 2002, and the continuing shift to direct sales channels.
- Landing fees and other rentals increased \$2.3 million, or 35.9%. The 2002 results include a \$0.9 million credit from adjusting a December 2001 accrual due to a year-end airport assessment coming in lower than expected. Absent this amount, landing fees and other rentals increased 19.1%. The higher rates reflect modest volume growth and an increase in airports' cost of operations including facility expansion initiatives and increased costs for security.

Consolidated Nonoperating Income (Expense)

Net nonoperating items were \$2.8 million expense in 2002 compared to \$9.3 million expense in 2003. Interest income decreased \$3.8 million due principally to lower interest rates and an adjustment of premium and discount amortization on the Company's marketable securities portfolio. Interest expense (net of capitalized interest) decreased \$1.4 million, or 12.0%, due to decreases in 2003 variable interest rates in 2003. Other-net includes \$2.2 million and \$0.7 million in gains resulting from hedge ineffectiveness on fuel hedging contracts in 2002 and 2003, respectively. In 2002, the Company received a \$1.4 million insurance recovery and a \$0.9 million gain on conversion of Equant N.V. shares (a telecommunications network company owned by many airlines).

Consolidated Income Tax Benefit

Accounting standards require us to provide for income taxes each quarter based on our estimate of the effective tax rate for the full year. The volatility of air fares and fuel prices and the seasonality of our business make it difficult to accurately forecast full-year pretax results. In addition, a relatively small change in pretax results can cause a significant change in the effective tax rate due to the magnitude of nondeductible expenses, such as employee per diem costs. In estimating the 35.9% tax rate for the first quarter of 2003, we considered a variety of factors, including the U.S. federal rate of 35%, estimates of nondeductible expenses and state income taxes, and our forecast of pretax income. We evaluate this rate each quarter and make adjustments when necessary.

Critical Accounting Policies

For more information on the Company's critical accounting policies, see Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Liquidity and Capital Resources

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

	December 31, 2002	March 31, 2003	Change
	(In millions, except debt-to-capital amounts)		
Cash and marketable securities	\$ 635.8	\$ 615.6	\$ (20.2)
Working capital	198.4	158.5	(39.9)
Long-term debt and capital lease obligations*	856.7	979.0	122.3
Shareholders' equity	655.7	600.0	(55.7)
Book value per common share	\$ 24.68	\$ 22.55	\$ (2.13)
Debt-to-capital*	57%:43%	62%:38%	NA
Debt-to-capital assuming aircraft operating leases are capitalized at seven times annualized rent*	77%:23%	79%:21%	NA

* Excludes current portion of long-term debt and capital lease obligations

The Company has various options available to meet its capital and operating commitments in 2003, including cash and marketable securities on hand at March 31, 2003 of \$615.6 million. In addition, to supplement cash requirements, the Company periodically considers various borrowing or leasing options. In the first quarter of 2003, the Company completed a private placement of \$150.0 million of floating rate senior convertible notes due 2023 to provide additional liquidity to be used in the Company's operations (see discussion below in "Cash Provided by Financing Activities" and in Note 7, "Long-Term Debt and Capital Lease Obligations" in the Notes to the Consolidated Financial Statements).

During the first quarter of 2003, shareholders' equity decreased \$55.7 million due principally to the net loss of \$56.3 million.

Cash Used in Operating and Investing Activities

During the first quarter of 2003, net cash used in operating activities was \$4.8 million, primarily reflecting the first quarter net loss of \$56.3 million. Cash used in investing activities totaled \$168.1 million, reflecting capital expenditures of \$106.3 million, restricted cash deposits and other of \$22.4 million and purchases of marketable securities of \$171.8 million, partially offset by sales and maturities of marketable securities of \$131.6 million and cash provided by disposition of assets of \$0.8 million.

Cash Provided by Financing Activities

In 2003, cash provided by financing activities was \$109.7 million reflecting new debt issuances of \$150.0 million, partially offset by offering costs of \$4.5 million and long-term debt and capital lease payments of \$36.4 million. On March 21, 2003, the Company completed the private placement of \$150 million of floating rate senior convertible notes due 2023. The private placement was conducted pursuant to Rule 144A of the Securities Act of 1933, as amended. Net proceeds from the offering were \$145.5 million, of which \$22.3 million are restricted to collateralize three years worth of interest payments and are reported as restricted cash (\$4.3 million recorded in prepaid expenses and other assets and \$18.0 million in other assets) in the Consolidated Balance Sheet as of March 31, 2003. See

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Note 7, “Long-Term Debt and Capital Lease Obligations” in the Notes to Consolidated Financial Statements for additional discussion of this offering transaction.

Commitments - At March 31, 2003, the Company had firm orders for 28 aircraft requiring aggregate payments of approximately \$532.5 million, as set forth below. In addition, Alaska has options to acquire 26 additional B737s, and Horizon has options to acquire 15 Dash 8-400s and 25 CRJ 700s. Alaska expects to finance the new planes with leases, long-term debt or internally generated cash. Horizon expects to finance its new aircraft with operating leases.

Aircraft	Delivery Period - Firm Orders				
	2003	2004	2005	Beyond 2005	Total
Boeing 737-700	6	—	—	—	6
Boeing 737-900	5	3	—	—	8
Bombardier CRJ 700	2	6	6	—	14
Total	13	9	6	—	28
Payments (Millions)	\$171.7	\$251.9	\$108.4	\$ 0.5	\$532.5

The Company has a purchase commitment that may trigger a liability under certain events of default. The executory contract for the purchase commitment is not an obligation of the Company until the aircraft is delivered. As a result, the purchase commitment is not included in current and long-term debt or deposits for future flight equipment in the Consolidated Balance Sheet.

The following table is a summary of the Company’s material contractual obligations as of March 31, 2003 for the remainder of 2003 and by fiscal year:

(in millions)	Contractual Payments Due by Period					
	2003	2004	2005	2006	2007	Beyond 2007
Long-term debt	\$ 25.3	\$185.7	\$ 38.8	\$ 41.6	\$ 44.5	\$ 666.8
Capital lease obligations	1.7	8.0	—	—	—	—
Operating lease commitments	127.4	221.4	205.0	192.3	170.0	1,213.9
Aircraft purchase commitments	171.7	251.9	108.4	0.5	—	—
Total	\$326.1	\$667.0	\$352.2	\$234.4	\$214.5	\$1,880.7

New Accounting Standards – In August 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, “Accounting for Asset Retirement Obligations”, which requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The statement also requires that the associated asset retirement costs be capitalized as part of the carrying amount of the long-lived asset. This statement is effective for the Company beginning January 1, 2003. The adoption of this statement did not have a material impact on the Company’s financial position, results of operations or cash flows.

In November 2002, the FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others”. This

Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees. Additionally, this Interpretation clarifies the requirements for recognizing a liability at the inception of the guarantee equal to the fair value of the obligation undertaken in issuing the guarantee and incorporates the guidance in FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others". Disclosures under Interpretation No. 45 are effective for financial statements issued after December 15, 2002. While the Company has various guarantees included in contracts in the normal course of business, primarily in the form of indemnities, the adoption of the liability recognition provision of Interpretation No. 45 had no significant impact on the financial condition and results of operations of the Company.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" which requires the consolidation of variable interest entities, as defined. This Interpretation is applicable to variable interest entities created after January 31, 2003. Variable interest entities created prior to February 1, 2003, must be consolidated effective July 1, 2003. Disclosures are required currently if the Company expects to consolidate any variable interest entities. The Company does not currently believe that any entities will be consolidated as a result of Interpretation No. 46.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" (SFAS No. 148). SFAS No. 148 amends the transition and disclosure provisions of SFAS No. 123. During the fourth quarter of 2002, the Company adopted the disclosure provisions of SFAS 148 and is currently evaluating SFAS No. 148 to determine if it will adopt SFAS No. 123 to account for employee stock options using the fair value method and, if so, when to transition to that method.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). SFAS No. 149 amends and clarifies certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. SFAS No. 149 is effective for certain contracts entered into or modified by the Company after June 30, 2003. The Company is currently evaluating SFAS No. 149 to determine its impact on the Company.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

On March 21, 2003, the Company completed the private placement of \$150.0 million of floating rate senior convertible notes due 2023. The private placement was conducted pursuant to Rule 144A of the Securities Act of 1933, as amended. Net proceeds from the offering were \$145.5 million, of which \$22.3 million are restricted to collateralize three years worth of interest payments and are reported as restricted cash (\$4.3 million recorded in prepaid expenses and other assets and \$18.0 million in other assets) in the Consolidated Balance Sheet as of March 31, 2003. See Note 7, "Long-Term Debt and Capital Lease Obligations" in the Notes to Consolidated Financial Statements for additional discussion of this offering transaction.

The Company utilizes financial derivative instruments as hedges to decrease its exposure to jet fuel price increases. The Company accounts for its fuel hedge derivative instruments as cash flow hedges as defined by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as

amended). At March 31, 2003, the Company had swap agreements for crude oil contracts in place to hedge approximately 35% of its 2003 expected jet fuel requirements. Under SFAS No. 133, all changes in fair value that are considered to be effective are recorded in accumulated other comprehensive income (loss) until the underlying jet fuel is consumed. The fair value of the Company's hedge instruments at March 31, 2003 was a net asset of approximately \$15 million, which is recorded in prepaid expenses and other assets in the Consolidated Balance Sheet as of March 31, 2003.

During the three months ended March 31, 2002 and March 31, 2003, the Company recognized \$0.6 million in realized hedging losses and \$9.1 million in realized hedging gains, respectively. These amounts are reflected in aircraft fuel in the Consolidated Statements of Operations. During the three months ended March 31, 2002 and March 31, 2003, the Company recorded \$2.2 million and \$0.7 million, respectively, in gains related to the ineffectiveness of the Company's hedges. These amounts are recorded as non-operating income (expense) in other-net in the Consolidated Statements of Operations.

At March 31, 2003, the fair value of the Company's financial hedging instruments was a net asset of approximately \$15.0 million, which is reflected in prepaid expenses and other current assets in the Consolidated Balance Sheet.

In the first quarter of 2003, the Company recorded unrealized hedging losses of \$1.7 million net of tax. This amount is reflected in accumulated other comprehensive income (loss) in the Consolidated Balance Sheet.

ITEM 4. Controls and Procedures

In the 90-day period before the filing of this report, the chief executive officer and chief financial officer of the Company (collectively, the certifying officers) have evaluated the effectiveness of the Company's disclosure controls and procedures and have reviewed significant changes in internal control. These disclosure controls and procedures are designed to ensure that the information required to be disclosed by the Company in its periodic reports filed with 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 that the information is communicated to the certifying officers on a timely basis.

The certifying officers concluded, based on their evaluation, that the Company's disclosure controls and procedures are effective for the Company, taking into consideration the size and nature of the Company's business and operations.

No significant changes in the Company's internal controls or in other factors were detected that could significantly affect the Company's internal controls subsequent to the date when the internal controls were evaluated.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

Oakland Maintenance Investigation

In December 1998, the U.S. Attorney for the Northern District of California initiated a grand jury investigation concerning certain 1998 maintenance activities at Alaska's Oakland maintenance base. In January 2000, the investigation was expanded to include the aircraft involved in the loss of Flight 261. The Federal Aviation Administration (FAA) separately proposed a civil penalty in connection with the 1998 maintenance activities, which Alaska and the FAA have settled for an agreed amount. In December 2001, the U.S. Attorney notified Alaska that the evidence it had gathered relative to the 1998 maintenance activities did not warrant the filing of criminal charges, and closed that part of the investigation. The U.S. Attorney also placed the portion of its investigation related to Flight 261 on inactive status, with the possibility of reactivating and reviewing the matter when the National Transportation Safety Board (NTSB) issued its final report on the accident. Accordingly, following the final NTSB hearing on the Flight 261 investigation in December 2002, the U.S. Attorney's Office reactivated the matter in order to review it in light of the final NTSB report.

Flight 261 Litigation

Alaska is a defendant in a number of lawsuits relating to the loss of Flight 261 on January 31, 2000. Representatives of all 88 passengers and crew on board have filed cases against Alaska, the Boeing Company, and others. The suits were originally filed in various state and federal courts in Alaska, California, Washington and Illinois. Since then, they have all been consolidated in the U.S. District Court for the Northern District of California. The suits seek unspecified compensatory and punitive damages. In May 2001, the judge presiding over the majority of the cases ruled that punitive damages are not available against Alaska. Alaska has settled the majority of these cases and continues in its efforts to settle the remaining ones. Trial on the remaining cases is set for July 2003. Consistent with industry standards, the Company maintains insurance against aircraft accidents.

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

The Company is also a party to other ordinary routine litigation incidental to its business and with respect to which no material liability is expected.

ITEM 6. Exhibits and Reports on Form 8-K

(a) On January 6, 2003, February 18, 2003 and March 14, 2003, reports on Form 8-K were filed discussing estimated financial results under regulation FD disclosure. On February 18, 2003, the Company announced that William S. Ayer would succeed John F. Kelly on May 20, 2003 as Chairman and Chief Executive Officer of Alaska Air Group.

(b) On January 30, 2003, a report on Form 8-K was filed to furnish Alaska Air Group, Inc.'s press release reporting financial results for the quarter and calendar year ended December 31, 2002, including supplemental data in connection with the restated 2002 and 2001 quarterly information.

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- (c) On March 12, 2003, a report on Form 8-K was filed disclosing Alaska Air Group, Inc.'s Board of Directors vote to increase the size of the board of directors from 12 to 13 and to appoint Jessie J. Knight Jr. to fill the additional seat on the corporation's board of directors.
- (d) On March 18, 2003, a report on Form 8-K was filed to incorporate a press release filed on March 17, 2003 discussing Alaska Air Group, Inc.'s intentions to make a private offering of floating rate senior convertible notes due 2023.
- (e) On March 19, 2003, a report on Form 8-K was filed to incorporate a press release filed on March 18, 2003 announcing the pricing of the Company's intention to make a private offering of floating rate senior convertible notes due 2023.
- (f) On March 25, 2003, a report on Form 8-K was filed to incorporate a press release filed on March 21, 2003 announcing the closing of a private offering of floating rate senior convertible notes due 2023.
- (g) Exhibit 4.1- Indenture dated as of March 21, 2003 between Alaska Air Group, Inc. and U.S. Bank National Association, as Trustee, relating to senior convertible notes due 2023.
- (h) Exhibit 4.2- Form of Senior Convertible Note due 2023 (Exhibit A-2 to Indenture filed as Exhibit 4.1 above)
- (i) Exhibit 4.3- Registration Rights Agreement dated as of March 21, 2003 between Alaska Air Group, Inc., Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and each of the Initial Purchasers of Senior Convertible Notes due 2023
- (j) Exhibit 4.4- Pledge Agreement dated as of March 21, 2003 between Alaska Air Group, Inc. in favor of U.S. Bank National Association relating to Senior Convertible Notes due 2023
- (k) Exhibit 4.5- Control Agreement dated as of March 21, 2003 Alaska Air Group, Inc. and U.S. Bank National Association relating to Senior Convertible Notes due 2023
- (l) Exhibit 99.1- Section 906 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
- (m) Exhibit 99.2- Section 906 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
- (n) Exhibit 99.3- Section 302 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
- (o) Exhibit 99.4- Section 302 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

Signatures

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALASKA AIR GROUP, INC.

Registrant

Date: May 14, 2003

/s/ Terri K. Maupin

Terri K. Maupin
Staff Vice President/Finance and Controller

/s/ Bradley D. Tilden

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

ALASKA AIR GROUP, INC.

AND

U.S. BANK NATIONAL ASSOCIATION

as TRUSTEE

Senior Convertible Notes
due 2023

INDENTURE

Dated as of March 21, 2003

CROSS REFERENCE TABLE*

IA Section.....	Indenture Section
310 (a) (1)	7.10
(a) (2)	7.10
(a) (3)	N.A.
(a) (4)	N.A.
(b)	7.08; 7.10
(c)	N.A.
311 (a)	7.11
(b)	7.11
(c)	N.A.
312 (a)	2.05
(b)	14.03
(c)	14.03
313 (a)	7.06
(b) (1)	N.A.
(b) (2)	7.06
(c)	14.02
(d)	7.06
314 (a)	4.02; 4.03; 14.02
(b)	N.A.
(c) (1)	14.04
(c) (2)	14.04
(c) (3)	N.A.
(d)	N.A.
(e)	14.05
(f)	N.A.
315 (a)	7.01
(b)	7.05; 14.02
(c)	7.01
(d)	7.01
(e)	6.11
316 (a) (last sentence)	2.08
(a) (1) (A)	6.05
(a) (1) (B)	6.04
(a) (2)	N.A.
(b)	6.07
317 (a) (1)	6.08
(a) (2)	6.09
(b)	2.04
318 (a)	14.01

N.A. means Not Applicable.

* Note: This Cross Reference Table shall not, for any purpose, be deemed to be part of the Indenture.

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EXECUTION COPY

INDENTURE dated as of March 21, 2003 between ALASKA AIR GROUP, INC., a Delaware corporation ("Company"), and U.S. Bank National Association, as trustee (the "Trustee").

RECITALS OF THE COMPANY

The Company has duly authorized the creation of an issue of Senior Convertible Notes due 2023 (the "Securities") having the terms, tenor, amount and other provisions hereinafter set forth, and, to provide therefor, the Company has duly authorized the execution and delivery of this Indenture.

All things necessary to make the Securities, when the Securities are duly executed by the Company and authenticated and delivered hereunder and duly issued by the Company, the valid obligations of the Company, and to make this Indenture a valid and binding agreement of the Company, in accordance with their and its terms, have been done. In addition, all things necessary to duly authorize the issuance of the Common Stock of the Company issuable upon the conversion of the Securities, and to duly reserve for issuance the number of shares of Common Stock issuable upon such conversion, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities, as follows:

ARTICLE 1

DEFINITIONS AND INCORPORATION BY REFERENCE

SECTION 1.01 Definitions.

"144A Global Security" means a permanent Global Security in the form of the Security attached hereto as Exhibit A-1, and that is deposited with and registered in the name of the Depositary, representing Securities sold in reliance on Rule 144A under the Securities Act.

"Affiliate" of any specified person means any other person directly or indirectly controlling or controlled by or under direct or indirect common

control with such specified person. For the purposes of this definition, "control" when used with respect to any specified person means the power to direct or cause the direction of the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Applicable Procedures" means, with respect to any transfer or transaction involving a Global Security or beneficial interest therein, the rules and procedures of the Depositary for such Security, in each case to the extent applicable to such transaction and as in effect from time to time.

"Average Sale Price" means the average of the Sale Prices of the Common Stock for the shorter of

(i) 30 consecutive trading days ending on the last full trading day prior to the Time of Determination with respect to the rights, warrants or options or distribution in respect of which the Average Sale Price is being calculated, or

(ii) the period (x) commencing on the date next succeeding the first public announcement of (a) the issuance of rights, warrants or options or (b) the distribution, in each case, in respect of which the Average Sale Price is being calculated and (y) proceeding through the last full trading day prior to the Time of Determination with respect to the rights, warrants or options or distribution in respect of which the Average Sale Price is being calculated (excluding days within such period, if any, which are not trading days), or

(iii) the period, if any, (x) commencing on the date next succeeding the Ex-Dividend Time with respect to the next preceding (a) issuance of rights, warrants or options or (b) distribution, in each case, for which an adjustment is required by the provisions of Section 11.06(c), 11.07 or 11.08 and (y) proceeding through the last full trading day prior to the Time of Determination with respect to the rights, warrants or options or distribution in respect of which the Average Sale Price is being calculated (excluding days within such period, if any, which are not trading days).

In the event that the Ex-Dividend Time (or in the case of a subdivision, combination or reclassification, the effective date with respect thereto) with respect to a dividend, subdivision, combination or reclassification to which Section 11.06(a), (b), (d) or (e) applies occurs during the period applicable for calculating "Average Sale Price" pursuant to the definition in the preceding sentence, "Average Sale Price" shall be calculated for such period in a manner determined by the Board of Directors to reflect the impact of such dividend, subdivision, combination or reclassification on the Sale Price of the Common Stock during such period.

"Board of Directors" means either the board of directors of the Company or any duly authorized committee of such board.

"Business Day" means each day of the year other than a Saturday or a Sunday or other day on which banking institutions in The City of New York are required or authorized to close.

"Capital Stock" for any corporation means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) stock or other equity issued by that corporation.

"Certificated Securities" means any of the Securities that are in the form of the Securities attached hereto as Exhibit A-2.

"Common Stock" shall mean the shares of Common Stock, \$1.00 par value, of the Company as it exists on the date of this Indenture or any other shares of Capital Stock of the Company into which the Common Stock shall be reclassified or changed.

"Company" means the party named as the "Company" in the first

paragraph of this Indenture until a successor replaces it pursuant to the applicable provisions of this Indenture and, thereafter, shall mean such successor. The foregoing sentence shall likewise apply to any subsequent such successor or successors.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by any two Officers.

"Corporate Trust Office" means the principal office of the Trustee at which at any time its corporate trust business shall be administered, which office at the date hereof is located at 101 Barclay Street, 8W, New York, New York 10286, Attention: Corporate Trust Division, or such other address as the Trustee may designate from time to time by notice to the Company, or the principal corporate trust office of any successor Trustee (or such other address as a successor Trustee may designate from time to time by notice to the Company).

"Debt" means with respect to the Company or any Subsidiary at any date, without duplication, obligations (other than nonrecourse obligations) for borrowed money or evidenced by bonds, debentures, notes or similar instruments.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Global Securities" means any of the Securities that are in the form of the Securities attached hereto as Exhibit A-1, and to the extent that such Securities are required to bear the Legend required by Section 2.06, such Securities will be in the form of a 144A Global Security.

"Government Securities" means the direct obligations of, obligations fully guaranteed by, or participations in pools consisting solely of obligations of or obligations guaranteed by the United States of America for the payment of which guarantee or obligations the full faith and credit of the United States of America is pledged and which are not callable or redeemable at the option of the issuer thereof.

"guarantee" means, as applied to any obligation, (i) a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner, of any part or all of such obligation and (ii) an agreement, direct or indirect, contingent or otherwise, the practical effect of which is to assure in any way the payment or performance (or payment of damages in the event of non-performance) of all or any part of such obligation, including, without limiting the foregoing, the payment of amounts drawn down by letters of credit.

"Holder" or "Securityholder" means a person in whose name a Security is registered on the Registrar's books.

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"Indenture" means this Indenture, as amended or supplemented from time to time in accordance with the terms hereof, including the provisions of the TIA that are deemed to be a part hereof.

"Interest Payment Date" means March 21, June 21, September 21 and December 21 of each year, commencing June 21, 2003 until (subject to Article X hereof) March 21, 2008.

"Institutional Accredited Investor Security" means a Security in the form of the Security attached hereto as Exhibit A-2, representing Securities sold to Institutional Accredited Investors.

"Issue Date" of any Security means the date on which the Security was originally issued or deemed issued as set forth on the face of the Security.

"Issue Price" of any Security means, in connection with the original issuance of such Security, the initial issue price at which the Security is sold as set forth on the face of the Security.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset given to secure any indebtedness, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title

retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction with respect to any such lien, pledge, charge or security interest).

"Officer" means the Chairman of the Board, the Vice Chairman, the Chief Executive Officer, the President, any Executive Vice President, any Senior Vice President, any Vice President, the Treasurer or the Secretary or any Assistant Treasurer or Assistant Secretary of the Company.

"Officers' Certificate" means a written certificate containing the information specified in Sections 14.04 and 14.05, signed in the name of the Company by any two Officers, and delivered to the Trustee. An Officers' Certificate given pursuant to Section 4.03 shall be signed by the principal executive financial or accounting Officer of the Company but need not contain the information specified in Sections 14.04 and 14.05.

"Opinion of Counsel" means a written opinion containing the information specified in Sections 14.04 and 14.05, from legal counsel who is reasonably acceptable to the Trustee. The counsel may be an employee of, or counsel to, the Company or the Trustee.

"Original Principal Amount" of each Security means the original principal amount as set forth on the face of the Security.

"person" or "Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

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"Pledge Account" means an account established by the Trustee pursuant to the terms of the Pledge Agreement for the deposit of the Pledged Securities purchased by the Company with a portion of the proceeds from the sale of the Securities.

"Pledge Agreement" means the Pledge Agreement, dated as of the date hereof, made by the Company in favor of the Trustee, governing the disbursement of funds from the Pledge Account, as such agreement may be amended, restated, supplemented or otherwise modified from time to time, and the term Pledge Agreement includes the Control Agreement referred to therein and contemplated thereby, as such agreement may be amended, restated, supplemented or otherwise modified from time to time.

"Pledged Securities" means the Government Securities to be purchased by the Company and held in the Pledge Account in accordance with the Pledge Agreement.

"Principal", "Principal Amount" or "principal amount" of a Security on any date means the Variable Principal Amount of such Security on such date.

"Rate/Yield Determination Date" means the second London Banking Day preceding the related Reset Date.

"Redemption Date" or "redemption date" means the date specified for redemption of the Securities in accordance with the terms of the Securities and this Indenture.

"Redemption Price" or "redemption price" shall have the meaning set forth in paragraph 6 of the Securities.

"Regular Record Date" means each March 7, June 7, September 7 and December 7 (whether or not a Business Day).

"Reset Date" means each March 21, June 21, September 21 and December 21 of each year, commencing on June 21, 2003; provided, however, that if any Reset Date would otherwise be a day that is not a Business Day, that Reset Date will be postponed to the next succeeding Business Day, except if that Business Day falls in the next succeeding calendar month, that Reset Date will be the immediately preceding Business Day.

"Responsible Officer" means, when used with respect to the Trustee, any officer within the corporate trust department of the Trustee, including any vice president, assistant vice president, assistant secretary, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who, in each case, shall have direct responsibility for the administration of this Indenture.

"Restricted Security" means a Security required to bear the restrictive legend set forth in the form of Security set forth in Exhibits A-1 and A-2 of this Indenture.

"Rule 144" means Rule 144 under the Securities Act (or any successor rule having substantially similar provisions), as it may be amended from time to time.

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"Rule 144A" means Rule 144A under the Securities Act (or any successor rule having substantially similar provisions), as it may be amended from time to time.

"Sale Price" of Capital Stock on any date means (a) the closing per share sale price (or, if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on such date as reported on the NYSE or such other United States securities exchange on which the Capital Stock is traded or, if the Capital Stock is not listed on a United States national or regional securities exchange, as reported by the National Association of Securities Dealers Automated Quotation System or by the National Quotation Bureau Incorporated or (b) in the absence of such quotation, such price as the Company shall determine on the basis of such quotations as the Company considers appropriate.

"SEC" means the United States Securities and Exchange Commission.

"Securities" means any of the Company's Senior Convertible Notes due 2023, as amended or supplemented from time to time, issued under this Indenture.

"Securityholder" or "Holder" means a person in whose name a Security is registered on the Registrar's books.

"Significant Subsidiary" means "significant subsidiary", as such term is defined in Rule 1-02 of Regulation S-X under the Securities Act of 1933, as amended.

"Special Record Date" means, with respect to, the payment of any Defaulted Interest, the date fixed by the Trustee pursuant to Section 12.02.

"Stated Maturity", when used with respect to any Security, means the date specified in such Security as the final fixed date on which the Variable Principal Amount of such Security is due and payable.

"Subsidiary" means (i) a corporation, a majority of whose Capital Stock with voting power, under ordinary circumstances, to elect directors is, at the date of determination, directly or indirectly owned by the Company, by one or more Subsidiaries of the Company or by the Company and one or more Subsidiaries of the Company, (ii) a partnership in which the Company or a Subsidiary of the Company holds a majority interest in the equity capital or profits of such partnership, or (iii) any other person (other than a corporation or a partnership) in which the Company, a Subsidiary of the Company or the Company and one or more Subsidiaries of the Company, directly or indirectly, at the date of determination, has (x) at least a majority ownership interest or (y) the power to elect or direct the election of a majority of the directors or other governing body of such person.

"Tax Event" means that the Company shall have received an opinion from independent tax counsel experienced in such matters to the effect that as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any taxing authority thereof or (b) any amendment to, or change in, an

interpretation or application of such laws or regulations by any legislative body, court, governmental agency or regulatory authority, in each case which

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amendment or change is enacted, promulgated, issued or announced or which interpretation is issued or announced or which action is taken, on or after March 18, 2003, there is more than an insubstantial risk that accruals of variable principal amount payable on the Securities either (i) would not be deductible on a current accrual basis or (ii) would not be deductible under any other method, in either case in whole or in part, by the Company (by reason of deferral, disallowance, or otherwise) for United States federal income tax purposes.

"Tax Original Issue Discount" means the amount of ordinary interest income on a Security that must be accrued as original issue discount for United States federal income tax purposes.

"TIA" means the Trust Indenture Act of 1939 as in effect on the date of this Indenture, provided, however, that in the event the TIA is amended after such date, TIA means, to the extent required by any such amendment, the TIA as so amended.

"Time of Determination" means the time and date of the earlier of (i) the determination of stockholders entitled to receive rights, warrants or options or a distribution, in each case, to which Section 11.07 or 11.08 applies and (ii) the time ("Ex-Dividend Time") immediately prior to the commencement of "ex-dividend" trading for such rights, warrants or options or distribution on the New York Stock Exchange or such other national or regional exchange or market on which the Common Stock is then listed or quoted.

"trading day" means a day during which trading in securities generally occurs on the New York Stock Exchange or, if the Common Stock is not listed on the New York Stock Exchange, on the principal other national or regional securities exchange on which the Common Stock is then listed or, if the Common Stock is not listed on a national or regional securities exchange, on the National Association of Securities Dealers Automated Quotation System or, if the Common Stock is not quoted on the National Association of Securities Dealers Automated Quotation System, on the principal other market on which the Common Stock is then traded.

"Trustee" means the party named as the "Trustee" in the first paragraph of this Indenture until a successor replaces it pursuant to the applicable provisions of this Indenture and, thereafter, shall mean such successor. The foregoing sentence shall likewise apply to any subsequent such successor or successors.

"3-month LIBOR" means, as of any Reset Date:

(a) the blended rate for 3-month deposits in United States dollars commencing on such Reset Date that appears on the Moneyline Telerate Page 3750 as of 11:00 A.M., London time, on the related Rate/Yield Determination Date, or

(b) if fewer than two source rates are used to calculate the blended rate, or no rate appears, on the particular Rate/Yield Determination Date on the Moneyline Telerate Page 3750, the rate calculated by the Calculation Agent as the arithmetic mean of at least two offered quotations obtained by the Calculation Agent after requesting the principal London offices of each of four major reference banks (which shall not include Affiliates of the Calculation Agent) in the London interbank market to provide the Calculation Agent with its offered quotation for deposits in United States dollars for the period of three months, commencing on the related Reset

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Date, to prime banks in the London interbank market at approximately 11.00 A.M., London time, on that Rate/Yield Determination Date and in a principal amount that is representative for a single transaction in United States dollars in that market at that time, or

(c) if fewer than two offered quotations referred to in clause (b)

are provided as requested, the rate calculated by the Calculation Agent as the arithmetic mean of the rates quoted at approximately 11:00 A.M., New York time, on the particular Rate/Yield Determination Date by three major banks (which shall not include Affiliates of the Calculation Agent) in The City of New York selected by the Calculation Agent for loans in United States dollars to leading European banks for a period of three months and in a principal amount that is representative for a single transaction in United States dollars in that market at that time, or

(d) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (c), the current LIBOR in effect from the previous Rate/Yield Determination Date.

For purposes of clauses (b) and (c) above, all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward.

"Variable Interest Rate" shall be, until June 21, 2003, 3.78625% per annum. Commencing June 21, 2003, the Variable Interest Rate shall be reset quarterly each Reset Date until March 21, 2008 to a rate of 3-month LIBOR plus 2.50% per annum. The Variable Interest Rate will be calculated using the actual number of days elapsed between the Reset Dates divided by 360.

"Variable Principal Amount" of a Security means the Original Principal Amount increased daily by the applicable Variable Yield. Until March 21, 2008, the Variable Principal Amount per \$1,000 Original Principal Amount of a Security will be equal to the Original Principal Amount of \$1,000. Commencing March 21, 2008, the Variable Principal Amount will accrue daily at the applicable Variable Yield applied to the Variable Principal Amount of the Security as of the most recent Reset Date. The Variable Principal Amount will compound quarterly, not daily.

"Variable Yield" shall, commencing March 21, 2008, be reset quarterly each Reset Date to a rate of 3-month LIBOR plus 2.50% per annum. Regardless of the level of 3-month LIBOR, the Yield shall not exceed 5.25% per annum. The Yield shall be calculated using the actual number of days elapsed between the Reset Dates divided by 360.

SECTION 1.02 Other Definitions.

Term ----	Defined in Section -----
"Act"	1.05 (a)
"Agent Members"	2.12 (f)
"Average Sale Price"	11.01
"Bankruptcy Law"	6.01

"beneficial owner"	3.09 (a)
"Calculation Agent"	2.03
"cash"	3.08 (b)
"Change in Control"	3.09 (a)
"Change in Control Purchase Date"	3.09 (a)
"Change in Control Purchase Notice"	3.09 (c)
"Change in Control Purchase Price"	3.09 (a)
"Company Notice"	3.08 (e)
"Company Notice Date"	3.08 (c)
"Continuing Director"	3.09 (a)
"Conversion Agent"	2.03

"Conversion Date"	11.02
"Conversion Rate"	11.01
"Custodian"	6.01
"Defaulted Interest"	12.02
"Depository"	2.01(a)
"DTC"	2.01(a)
"Event of Default"	6.01
"Exchange Act"	3.08(d)
"Ex-Dividend Date"	11.08(b)
"Ex-Dividend Time"	11.01
"Extraordinary Cash Dividend"	11.08(a)
"Institutional Accredited Investors"	2.01(b)
"Legal Holiday"	14.09
"Legend"	2.06(f)
"Market Price"	3.08(d)
"Measurement Period"	11.08(a)
"noncontingent bond method"	4.07
"Notice of Default"	6.01
"Option Exercise Date"	10.01
"Paying Agent"	2.03
"Payment Default"	6.01(4)
"Post-Distribution Price"	11.08(b)
"Protected Purchaser"	2.07
"Purchase Date"	3.08(a)
"Purchase Notice"	3.08(a)
"Purchase Price"	3.08(a)
"QIBs"	2.01(a)
"Registrar"	2.03
"Relevant Cash Dividends"	11.08(a)
"Restated Principal Amount"	10.01
"Rights"	11.19
"Rights Agreement"	11.19
"Rule 144A Information"	4.06
"Securities Act"	3.08(d)
"Special Record Date"	12.02

"Tax Event Date"	10.01
"Time of Determination"	11.01
"Treasury Regulations"	4.07

SECTION 1.03 Incorporation by Reference of Trust Indenture Act.
Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

"Commission" means the SEC.

"indenture securities" means the Securities.

"indenture security holder" means a Securityholder.

"indenture to be qualified" means this Indenture.

"indenture trustee" or "institutional trustee" means the Trustee.

"obligor" on the indenture securities means the Company.

All other TIA terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule have the meanings assigned to them by such definitions.

SECTION 1.04 Rules of Construction. Unless the context otherwise requires:

(1) a defined term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with United States generally accepted accounting principles as in effect from time to time;

(3) "or" is not exclusive;

(4) "including" means including, without limitation; and

(5) words in the singular include the plural, and words in the plural include the singular.

SECTION 1.05 Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments (which may take the form of an electronic writing or messaging or otherwise be in accordance with customary procedures of the Depositary or the Trustee) of substantially similar tenor signed by such Holders in person or by their agent duly appointed in writing (which may be in electronic form); and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are

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delivered to the Trustee and, when it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent (either of which may be in electronic form) shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution (or electronic delivery) or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing or delivering such instrument or writing acknowledged to such officer the execution (or electronic delivery) thereof. When such execution is by a signer acting in a capacity other than such signer's individual capacity, such certificate or affidavit shall also constitute sufficient proof of such signer's authority. The fact and date of the execution of any such instrument or writing (electronic or otherwise), or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The ownership of Securities shall be proved by the register maintained by the Registrar.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

(e) If the Company shall solicit from the Holders any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, at its option, by or pursuant to a resolution of the Board of Directors, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the outstanding Securities shall be computed as of such record date; provided that no such authorization,

agreement or consent by the Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture within six months after the record date.

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ARTICLE 2

THE SECURITIES

SECTION 2.01 Form and Dating. The Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibits A-1 and A-2, which are a part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule or usage (provided that any such notation, legend or endorsement required by usage is in a form acceptable to the Company). The Company shall provide any such notations, legends or endorsements to the Trustee in writing. Each Security shall be dated the date of its authentication.

(a) 144A Global Securities. Securities offered and sold within the United States to "qualified institutional buyers" as defined in Rule 144A ("QIBs") in reliance on Rule 144A shall be issued, initially in the form of a 144A Global Security, which shall be deposited with the Trustee at its Corporate Trust Office, as custodian for the Depositary and registered in the name of The Depository Trust Company ("DTC") or the nominee thereof (such depositary, or any successor thereto, and any such nominee being hereinafter referred to as the "Depositary") duly executed by the Company and authenticated by the Trustee as hereinafter provided. The aggregate Original Principal Amount of the 144A Global Securities may from time to time be increased or decreased by adjustments made on the records of the Trustee and the Depositary as hereinafter provided.

(b) Institutional Accredited Investor Securities. Securities offered and sold within the United States to institutional "accredited investors" as defined in Rule 501(a)(1), (2) (3) and (7) under the Securities Act ("Institutional Accredited Investors") shall be issued, initially, in the form of an Institutional Accredited Investor Security, duly executed by the Company and authenticated by the Trustee as hereinafter provided.

(c) Global Securities in General. Except as provided in this Section 2.01, 2.06 or 2.12, owners of beneficial interests in Global Securities will not be entitled to receive physical delivery of Certificated Securities. Each Global Security shall represent such of the outstanding Securities as shall be specified therein and each shall provide that it shall represent the aggregate Original Principal Amount of outstanding Securities from time to time endorsed thereon and that the aggregate Original Principal Amount of outstanding Securities represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges, redemptions and conversions.

Any adjustment of the aggregate Original Principal Amount of a Global Security to reflect the amount of any increase or decrease in the Original Principal Amount of outstanding Securities represented thereby shall be made by the Trustee in accordance with instructions given by the Holder thereof as required by Section 2.12 hereof and shall be made on the records of the Trustee and the Depositary.

(d) Book-Entry Provisions. This Section 2.01(d) shall apply only to Global Securities deposited with or on behalf of the Depositary.

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The Company shall execute and the Trustee shall, in accordance with this Section 2.01(d), authenticate and deliver initially one or more Global Securities that (a) shall be registered in the name of the Depositary, (b) shall be delivered by the Trustee to the Depositary or pursuant to the Depositary's instructions or held by the Trustee as custodian for such Depositary and (c) shall bear legends substantially to the following effect:

"UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN

AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS, IN WHOLE BUT NOT IN PART, TO NOMINEES OF THE DEPOSITORY TRUST COMPANY OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN ARTICLE TWO OF THE INDENTURE REFERRED TO ON THE REVERSE HEREOF."

(e) Certificated Securities. Securities not issued as interests in the Global Securities will be issued in certificated form substantially in the form of Exhibit A-2 attached hereto.

(f) U.S. Tax Legend. All Securities shall bear the following legend:

"FOR PURPOSES OF SECTIONS 1272, 1273 AND 1275 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED, THIS SECURITY IS ISSUED WITH AN INDETERMINATE AMOUNT OF ORIGINAL ISSUE DISCOUNT FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. THE ISSUE DATE IS MARCH 21, 2003, AND THE YIELD TO MATURITY BASED ON A FIXED RATE EQUIVALENT FOR PURPOSES OF ACCRUING ORIGINAL ISSUE DISCOUNT IS 3.78625% PER ANNUM."

SECTION 2.02 Execution and Authentication. The Securities shall be executed on behalf of the Company by any Officer. The signature of the Officer on the Securities may be manual or facsimile.

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Securities bearing the manual or facsimile signatures of an individual who was at the time of the execution of the Securities the proper Officer of the Company shall bind the Company, notwithstanding that such individual has ceased to hold such office prior to the authentication and delivery of such Securities or did not hold such office at the date of authentication of such Securities.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein duly executed by the Trustee by manual signature of an authorized signatory of the Trustee and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder.

The Trustee shall authenticate and deliver Securities for original issue in an aggregate Original Principal Amount of up to \$175,000,000 upon one or more Company Orders without any further action by the Company. The aggregate Original Principal Amount of Securities outstanding at any time may not exceed the amount set forth in the foregoing sentence, except as provided in Section 2.07.

The Securities shall be issued only in registered form without coupons and only in denominations of \$1,000 of Original Principal Amount and any integral multiple thereof.

SECTION 2.03 Registrar, Paying Agent and Conversion Agent. The Company shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange ("Registrar"), an office or agency where Securities may be presented for purchase or payment ("Paying Agent"), an office or agency where all calculations in respect of the Securities shall be made ("Calculation Agent"), and an office or agency where Securities may be presented for conversion ("Conversion Agent"). The Registrar shall keep a register of the Securities and of their transfer and exchange. The Company may have one or more co-registrars, one or more additional paying agents and one or more additional conversion agents. The term Paying Agent includes any additional paying agent, including any named pursuant to Section 4.05. The term Conversion Agent includes any additional conversion agent, including any named pursuant to Section 4.05.

The Company shall enter into an appropriate agency agreement with any Registrar or co-registrar, Paying Agent or Conversion Agent (other than the Trustee). The agreement shall implement the provisions of this Indenture that relate to such agent. The Company shall notify the Trustee of the name and address of any such agent. If the Company fails to maintain a Registrar, Paying Agent or Conversion Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 7.07. The Company or any Subsidiary or an Affiliate of either of them may act as Paying Agent, Registrar, Conversion Agent or co-registrar.

The Company initially appoints the Trustee as Calculation Agent, Registrar, Conversion Agent and Paying Agent in connection with the Securities.

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SECTION 2.04 Paying Agent to Hold Money and Securities in Trust. Except as otherwise provided herein, not later than 10:00 a.m., New York City time, on each due date of payments in respect of any Security, the Company shall deposit with the Paying Agent a sum of money (in immediately available funds if deposited on the due date) or Common Stock sufficient to make such payments when so becoming due. The Company shall require each Paying Agent (other than the Trustee) to agree in writing that the Paying Agent shall hold in trust for the benefit of Securityholders or the Trustee all money and Common Stock held by the Paying Agent for the making of payments in respect of the Securities and shall notify the Trustee of any default by the Company in making any such payment. At any time during the continuance of any such default, the Paying Agent shall, upon the written request of the Trustee, forthwith pay to the Trustee all money and Common Stock so held in trust. If the Company, a Subsidiary or an Affiliate of either of them acts as Paying Agent, it shall segregate the money and Common Stock held by it as Paying Agent and hold it as a separate trust fund. The Company at any time may require a Paying Agent to pay all money and Common Stock held by it to the Trustee and to account for any funds and Common Stock disbursed by it. Upon doing so, the Paying Agent shall have no further liability for the money or Common Stock.

SECTION 2.05 Securityholder Lists. The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders. If the Trustee is not the Registrar, the Company shall cause to be furnished to the Trustee at least quarterly on March 1, June 1, September 1 and December 1 a listing of Securityholders dated within 15 days of the date on which the list is furnished and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Securityholders.

SECTION 2.06 Transfer and Exchange. Subject to Section 2.12 hereof,

(a) Upon surrender for registration of transfer of any Security, together with a written instrument of transfer satisfactory to the Registrar duly executed by the Securityholder or such Securityholder's attorney duly authorized in writing, at the office or agency of the Company designated as Registrar or co-registrar pursuant to Section 2.03, the Company shall execute, and the Trustee upon receipt of a Company Order shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of any authorized denomination or denominations, of a like aggregate Original Principal Amount. The Company shall not charge a service charge for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to pay all taxes, assessments or other governmental charges that may be imposed in connection with the registration of transfer or exchange of the Securities from the Securityholder requesting such registration of transfer or exchange.

At the option of the Holder, Certificated Securities may be exchanged for other Securities of any authorized denomination or denominations, of a like aggregate Original Principal Amount, upon surrender of the Securities to be exchanged, together with a written instrument of transfer satisfactory to the Registrar duly executed by the Securityholder or such Securityholder's attorney duly authorized in writing, at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee upon receipt of a Company Order shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

The Company shall not be required to make, and the Registrar need not register, transfers or exchanges of Securities selected for redemption (except, in the case of Securities to be redeemed in part, the portion thereof not to be redeemed) or any Securities in respect of which a Purchase Notice or Change in Control Purchase Notice has been given and not withdrawn by the Holder thereof in accordance with the terms of this Indenture (except, in the case of Securities to be purchased in part, the portion thereof not to be purchased) or any Securities for a period of 15 days before the mailing of a notice of redemption of Securities to be redeemed.

(b) Notwithstanding any provision to the contrary herein, so long as a Global Security remains outstanding and is held by or on behalf of the Depositary, transfers of a Global Security, in whole or in part, shall be made only in accordance with Section 2.12 and this Section 2.06(b). Transfers of a Global Security shall be limited to transfers of such Global Security in whole, or in part, to nominees of the Depositary or to a successor of the Depositary or such successor's nominee.

(c) Successive registrations and registrations of transfers and exchanges as aforesaid may be made from time to time as desired, and each such registration shall be noted on the register for the Securities.

(d) Any Registrar appointed pursuant to Section 2.03 hereof shall provide to the Trustee such information as the Trustee may reasonably require in connection with the delivery by such Registrar of Securities upon registration of transfer or exchange of Securities.

(e) No Registrar shall be required to make registrations of transfer or exchange of Securities during any periods designated in the text of the Securities or in this Indenture as periods during which such registration of transfers and exchanges need not be made.

(f) If Securities are issued upon the registration of transfer, exchange or replacement of Securities subject to restrictions on transfer and bearing the legends set forth on the form of Security attached hereto as Exhibits A-1 and A-2 setting forth such restrictions (collectively, the "Legend"), or if a request is made to remove the Legend on a Security, the Securities so issued shall bear the Legend, or the Legend shall not be removed, as the case may be, unless there is delivered to the Company and the Registrar such satisfactory evidence, which shall include an Opinion of Counsel, as may be reasonably required by the Company and the Registrar, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure that transfers thereof comply with the provisions of Rule 144A or Rule 144 or that such Securities are not "restricted" within the meaning of Rule 144. Upon (i) provision of such satisfactory evidence, or (ii) notification by the Company to the Trustee and Registrar of the sale of such Security pursuant to a registration statement that is effective at the time of such sale, the Trustee, upon receipt of a Company Order, shall authenticate and deliver a Security that does not bear the Legend. If the Legend is removed from the face of a Security and the Security is subsequently held by an Affiliate of the Company, the Company shall use its reasonable best efforts to reinstate the Legend.

The Trustee and the Registrar shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Security

(including any transfers between or among Depositary participants or beneficial owners of interests in any Global Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

SECTION 2.07 Replacement Securities. If (a) any mutilated Security is surrendered to the Trustee, or (b) the Company and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Security, and there is delivered to the Company and the Trustee such security or

indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a protected purchaser within the meaning of Article 8 of the Uniform Commercial Code (a "Protected Purchaser"), the Company shall execute and upon receipt of a Company Order, the Trustee shall authenticate and deliver, in exchange for any such mutilated Security or in lieu of any such destroyed, lost or stolen Security, a new Security of like tenor and Original Principal Amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, or is about to be purchased by the Company pursuant to Article 3 hereof, the Company in its discretion may, instead of issuing a new Security, pay or purchase such Security, as the case may be.

Upon the issuance of any new Securities under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) in connection therewith.

Every new Security issued pursuant to this Section in lieu of any mutilated, destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 2.08 Outstanding Securities; Determinations of Holders' Action. Securities outstanding at any time are all the Securities authenticated by the Trustee, except for those cancelled by it, those paid pursuant to Section 2.10 and delivered to it for cancellation and those described in this Section 2.08 as not outstanding. A Security does not cease to be outstanding because the Company or an Affiliate thereof holds the Security; provided, however, that in determining whether the Holders of the requisite Original Principal Amount of Securities have given or concurred in any request, demand, authorization, direction, notice, consent or waiver hereunder, Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or such other obligor shall be disregarded and deemed not to be outstanding, except that, in determining whether the Trustee shall be protected in relying upon

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any such request, demand, authorization, direction, notice, consent or waiver, only Securities which a Responsible Officer of the Trustee actually knows to be so owned shall be so disregarded. Subject to the foregoing, only Securities outstanding at the time of such determination shall be considered in any such determination (including, without limitation, determinations pursuant to Articles 6 and 9).

If a Security is replaced pursuant to Section 2.07, the replaced Security ceases to be outstanding unless the Trustee and the Company receive proof satisfactory to each of them that the replaced Security is held by a Protected Purchaser unaware that such Security has been replaced, in which case the replacement security shall be deemed not to be outstanding.

If the Paying Agent holds, in accordance with this Indenture, on a Redemption Date, or on the Business Day following the Purchase Date or a Change in Control Purchase Date, or on Stated Maturity, money or securities, if permitted hereunder, sufficient to pay Securities payable on that date, then immediately after such Redemption Date, Purchase Date, Change in Control Purchase Date or Stated Maturity, as the case may be, such Securities shall cease to be outstanding and the Variable Principal Amount of such Securities, shall cease to increase, and cash interest (if any) on such Securities shall cease to accrue; provided, that if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture.

If a Security is converted in accordance with Article 11, then from and after the time of conversion on the Conversion Date, such Security shall cease to be outstanding and the Variable Principal Amount of such Security shall

cease to increase, and cash interest (if any) shall cease to accrue on such Security.

SECTION 2.09 Temporary Securities. Pending the preparation of definitive Securities, the Company may execute, and upon Company Order, the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as conclusively evidenced by their execution of such Securities.

If temporary Securities are issued, the Company will cause definitive Securities to be prepared without unreasonable delay. After the preparation of definitive Securities, the temporary Securities shall be exchangeable for definitive Securities upon surrender of the temporary Securities at the office or agency of the Company designated for such purpose pursuant to Section 2.03, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities the Company shall execute and upon Company Order the Trustee shall authenticate and deliver in exchange therefor a like Original Principal Amount of definitive Securities of authorized denominations. Until so exchanged the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

SECTION 2.10 Cancellation. All Securities surrendered for payment, purchase by the Company pursuant to Article 3, conversion, redemption or registration of transfer or exchange shall, if surrendered to any person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for

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cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Securities so delivered shall be promptly cancelled by the Trustee. The Company may not issue new Securities to replace Securities it has paid or delivered to the Trustee for cancellation or that any Holder has converted pursuant to Article 11. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Securities held by the Trustee shall be disposed of by the Trustee.

SECTION 2.11 Persons Deemed Owners. Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of the Security or the payment of any Redemption Price, Purchase Price or Change in Control Purchase Price in respect thereof or cash interest thereon, for the purpose of conversion and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

SECTION 2.12 Global Securities.

(a) Notwithstanding any other provisions of this Indenture or the Securities, (A) transfers of a Global Security, in whole or in part, shall be made only in accordance with Section 2.06 and Section 2.12(b)(i) below, (B) transfer of a beneficial interest in a Global Security for a Certificated Security shall comply with Section 2.06 and Section 2.12(b)(i) below, and (C) transfers of a Certificated Security shall comply with Section 2.06 and Section 2.12(b)(ii) and transfer of a Certificated Security for a Beneficial Interest in a Global Security shall comply with Section 2.06 and Section 2.12(b)(iii) below.

(b) Transfer of Global Security. A Global Security may not be transferred, in whole or in part, to any Person other than the Depositary or a nominee or any successor thereof, and no such transfer to any such other Person may be registered; provided that this Section 2.12(b)(i) shall not prohibit any transfer of a Security that is issued in exchange for a Global Security but is not itself a Global Security. No transfer of a Security to any Person shall be effective under this Indenture or the Securities unless and until such Security has been registered in the name of such Person. Nothing in this Section 2.12(b)(i) shall prohibit or render ineffective any transfer of a beneficial interest in a Global Security effected in accordance with the other provisions

of this Section 2.12(b).

(i) Restrictions on Transfer of a Beneficial Interest in a Global Security for a Certificated Security. A beneficial interest in a Global Security may not be exchanged for a Certificated Security except upon satisfaction of the requirements set forth below. Upon receipt by the Trustee of a request for transfer of a beneficial interest in a Global Security in accordance with Applicable Procedures for a Certificated Security in the form satisfactory to the Trustee, together with:

- (A) so long as the Securities are Restricted Securities, certification, in the form set forth in Exhibit B-1, and, if requested by the Company or the Registrar, certification in the form set forth in Exhibit B-2, that such beneficial

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interest in the Global Security is being transferred to an Institutional Accredited Investor that satisfies the definitions set forth in subparagraphs (a)(1), (2), (3) or (7) of Rule 501 under the Securities Act;

- (B) written instructions to the Trustee to make, or direct the Registrar to make, an adjustment on its books and records with respect to such Global Security to reflect a decrease in the aggregate Original Principal Amount of the Securities represented by the Global Security, such instructions to contain information regarding the Depositary account to be credited with such decrease; and
- (C) if the Company or Registrar so requests, an Opinion of Counsel or other evidence reasonably satisfactory to them as to the compliance with the restrictions set forth in the Legend,

then the Trustee shall cause, or direct the Registrar to cause, in accordance with the standing instructions and procedures existing between the Depositary and the Registrar, the aggregate Original Principal Amount of Securities represented by the Global Security to be decreased by the aggregate Original Principal Amount of the Certificated Security to be issued, shall authenticate and deliver such Certificated Security and shall debit or cause to be debited to the account of the Person specified in such instructions a beneficial interest in the Global Security equal to the Original Principal Amount of the Certificated Security so issued.

(ii) Transfer and Exchange of Certificated Securities. When Certificated Securities are presented to the Registrar with a request:

- (x) to register the transfer of such Certificated Securities; or
- (y) to exchange such Certificated Securities for an equal Original Principal Amount of Certificated Securities of other authorized denominations,

the Registrar shall register the transfer or make the exchange as requested if its reasonable requirements for such transaction are met; provided, however, that the Certificated Securities surrendered for registration of transfer or exchange:

(A) shall be duly endorsed or accompanied by a written instrument of transfer in form reasonably satisfactory to the Company and the Registrar, duly executed by the Holder thereof or his attorney duly authorized in writing; and

(B) so long as such Securities are Restricted Securities, such Securities are being transferred or exchanged pursuant to an effective registration statement under the Securities Act or, if being transferred pursuant to clause (1), (2) or (3) below, are accompanied by the additional information and documents specified in each clause, as applicable:

(1) if such Certificated Securities are being delivered to the Registrar by a Holder for registration in the name of such Holder, without transfer, a certification from such Holder to that effect; or

(2) if such Certificated Securities are being transferred to the Company, a certification to that effect; or

(3) if such Certificated Securities are being transferred pursuant to an exemption from registration (i) a certification to that effect (in the form set forth in Exhibit B-1 and B-2, if applicable) and (ii) if the Company or Registrar so requests, an opinion of counsel or other evidence reasonably satisfactory to them as to the compliance with the restrictions set forth in the Legend.

(iii) Restrictions on Transfer of a Certificated Security for a Beneficial Interest in a Global Security. A Certificated Security may not be exchanged for a beneficial interest in a Global Security except upon satisfaction of the requirements set forth below.

Upon receipt by the Trustee of a Certificated Security, duly endorsed or accompanied by appropriate instruments of transfer, in form satisfactory to the Trustee, together with:

(A) so long as the Securities are Restricted Securities, certification, in the form set forth in Exhibit B-1, that such Certificated Security is being transferred to a QIB in accordance with Rule 144A; and

(B) written instructions directing the Trustee to make, or to direct the Registrar to make, an adjustment on its books and records with respect to such Global Security to reflect an increase in the aggregate Original Principal Amount of the Securities represented by the Global Security, such instructions to contain information regarding the Depositary account to be credited with such increase,

then the Trustee shall cancel such Certificated Security and cause, or direct the Registrar to cause, in accordance with the standing instructions and procedures existing between the Depositary and the Registrar, the aggregate Original Principal Amount of Securities represented by the Global Security to be increased by the aggregate Original Principal Amount of the Certificated Security to be exchanged, and shall credit or cause to be credited to the account of the Person specified in such instructions a beneficial interest in the Global Security equal to the Original Principal Amount of the Certificated Security so cancelled. If no Global Securities are then outstanding, the Company shall issue and the Trustee, upon receipt of a Company Order, shall authenticate a new Global Security in the appropriate Original Principal Amount.

(c) Subject to the succeeding paragraph, every Security shall be subject to the restrictions on transfer provided in the Legend including the requirement of the delivery of an

Opinion of Counsel, if so provided. Whenever any Restricted Security is presented or surrendered for registration of transfer or for exchange for a Security registered in a name other than that of the Holder, such Security must be accompanied by a certificate in substantially the form set forth in Exhibit B-1, dated the date of such surrender and signed by the Holder of such Security, as to compliance with such restrictions on transfer. The Registrar shall not be required to accept for such registration of transfer or exchange any Security not so accompanied by a properly completed certificate.

(d) The restrictions imposed by the Legend upon the transferability

of any Security shall cease and terminate when such Security has been sold pursuant to an effective registration statement under the Securities Act or transferred in compliance with Rule 144 or, if earlier, upon the expiration of the holding period applicable to sales thereof under paragraph (k) of Rule 144. Any Security as to which such restrictions on transfer shall have expired in accordance with their terms or shall have terminated may, upon a surrender of such Security for exchange to the Registrar in accordance with the provisions of this Section 2.12 (accompanied, in the event that such restrictions on transfer have terminated by reason of a transfer in compliance with Rule 144, by an opinion of counsel having substantial experience in practice under the Securities Act and otherwise reasonably acceptable to the Company, addressed to the Company, the Trustee and the Registrar and in form acceptable to the Company, to the effect that the transfer of such Security has been made in compliance with Rule 144), be exchanged for a new Security, of like tenor and aggregate Original Principal Amount, which shall not bear the restrictive Legend. The Company shall inform the Trustee of the effective date of any registration statement registering the Securities under the Securities Act. The Trustee and the Registrar shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the aforementioned opinion of counsel or registration statement.

(e) As used in the preceding two paragraphs of this Section 2.12, the term "transfer" encompasses any sale, pledge, transfer, hypothecation or other disposition of any Security.

(f) The provisions of clauses (1), (2), (3), (4) and (5) below shall apply only to Global Securities:

(1) Notwithstanding any other provisions of this Indenture or the Securities, except as provided in Section 2.12(b)(i), a Global Security shall not be exchanged in whole or in part for a Security registered in the name of any Person other than the Depositary or one or more nominees thereof, provided that a Global Security may be exchanged for Securities registered in the names of any person designated by the Depositary in the event that (i) the Depositary has notified the Company that it is unwilling or unable to continue as Depositary for such Global Security or such Depositary has ceased to be a "clearing agency" registered under the Exchange Act, and a successor Depositary is not appointed by the Company within 90 days; (ii) the Company elects to discontinue use of the system of book-entry transfer through DTC (or any successor depositary); or (iii) an Event of Default has occurred and is continuing with respect to the Securities. Any Global Security exchanged pursuant to clause (i) of

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this sub-section shall be so exchanged in whole and not in part, and any Global Security exchanged pursuant to clause (ii) of this sub-section may be exchanged in whole or from time to time in part as directed by the Depositary. Any Security issued in exchange for a Global Security or any portion thereof shall be a Global Security; provided that any such Security so issued that is registered in the name of a person other than the Depositary or a nominee thereof shall not be a Global Security.

(2) Securities issued in exchange for a Global Security or any portion thereof shall be issued in definitive, fully registered form, without interest coupons, shall have an aggregate Original Principal Amount equal to that of such Global Security or portion thereof to be so exchanged, shall be registered in such names and be in such authorized denominations as the Depositary shall designate and shall bear the applicable legends provided for herein. Any Global Security to be exchanged in whole shall be surrendered by the Depositary to the Trustee, as Registrar. With regard to any Global Security to be exchanged in part, either such Global Security shall be so surrendered for exchange or, if the Trustee is acting as custodian for the Depositary or its nominee with respect to such Global Security, the Original Principal Amount thereof shall be reduced, by an amount equal

to the portion thereof to be so exchanged, by means of an appropriate adjustment made on the records of the Trustee. Upon any such surrender or adjustment, the Trustee shall authenticate and deliver the Security issuable on such exchange to or upon the order of the Depositary or an authorized representative thereof.

(3) Subject to the provisions of clause (5) below, the registered Holder may grant proxies and otherwise authorize any Person, including Agent Members (as defined below) and persons that may hold interests through Agent Members, to take any action which a holder is entitled to take under this Indenture or the Securities.

(4) In the event of the occurrence of any of the events specified in clause (1) above, the Company will promptly make available to the Trustee a reasonable supply of Certificated Securities in definitive, fully registered form, without interest coupons.

(5) Neither any members of, or participants in, the Depositary (collectively, the "Agent Members") nor any other Persons on whose behalf Agent Members may act shall have any rights under this Indenture with respect to any Global Security registered in the name of the Depositary or any nominee thereof, or under any such Global Security, and the Depositary or such nominee, as the case may be, may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner and holder of such Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee

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from giving effect to any written certification, proxy or other authorization furnished by the Depositary or such nominee, as the case may be, or impair, as between the Depositary, its Agent Members and any other person on whose behalf an Agent Member may act, the operation of customary practices of such Persons governing the exercise of the rights of a holder of any Security.

SECTION 2.13 CUSIP Numbers. The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee of any change in the CUSIP numbers.

ARTICLE 3

REDEMPTION AND PURCHASES

SECTION 3.01 Right to Redeem; Notices to Trustee. The Company, at its option, may redeem the Securities in accordance with the provisions of paragraphs 6 and 8 of the Securities. Prior to March 21, 2006, the Company cannot redeem the Securities. Beginning on March 21, 2006, the Company may redeem the Securities for cash in whole at any time, or in part from time to time. If the Company elects to redeem Securities pursuant to paragraph 6 of the Securities, it shall notify the Trustee in writing of the Redemption Date, the Original Principal Amount of Securities to be redeemed, the Redemption Price and the amount of accrued and unpaid cash interest, if any, payable on the Redemption Date.

The Company shall give the notice to the Trustee provided for in this Section 3.01 by a Company Order, at least 45 days before the Redemption Date (unless a shorter notice shall be satisfactory to the Trustee). If fewer than all the Securities are to be redeemed, the record date relating to such redemption shall be selected by the Company and given to the Trustee, which

record date shall not be less than ten days after the date of notice to the Trustee.

SECTION 3.02 Selection of Securities to Be Redeemed. If less than all the Securities are to be redeemed, the Trustee shall select the Securities to be redeemed pro rata or by lot or by any other method the Trustee considers fair and appropriate (so long as such method is not prohibited by the rules of any stock exchange on which the Securities are then listed). The Trustee shall make the selection at least 30 days but not more than 60 days before the Redemption Date from outstanding Securities not previously called for redemption.

Securities and any portions thereof that the Trustee selects shall be in Original Principal Amounts of \$1,000 or an integral multiple of \$1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption. The Trustee shall notify the Company promptly of the Securities or portions of Securities to be redeemed.

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If any Security selected for partial redemption is converted in part before termination of the conversion right with respect to the portion of the Security so selected, the converted portion of such Security shall be deemed (so far as may be) to be the portion selected for redemption. Securities which have been converted during a selection of Securities to be redeemed may be treated by the Trustee as outstanding for the purpose of such selection.

SECTION 3.03 Notice of Redemption. At least 30 days but not more than 60 days before a Redemption Date, the Company shall mail a notice of redemption by first-class mail, postage prepaid, to each Holder of Securities to be redeemed.

The notice shall identify the Securities to be redeemed and shall state:

- (1) the Redemption Date;
- (2) the Redemption Price and accrued and unpaid cash interest, if any, payable on the Redemption Date;
- (3) the Conversion Rate;
- (4) the name and address of the Paying Agent and Conversion Agent;
- (5) that Securities called for redemption may be converted at any time before the close of business on the second Business Day immediately preceding the Redemption Date, even if not otherwise convertible at such time;
- (6) that Holders who want to convert Securities must satisfy the requirements set forth in paragraph 9 of the Securities;
- (7) that Securities called for redemption must be surrendered to the Paying Agent to collect the Redemption Price and accrued and unpaid cash interest, if any;
- (8) if fewer than all the outstanding Securities are to be redeemed, the certificate number and Original Principal Amounts of the particular Securities to be redeemed;
- (9) that, unless the Company defaults in making payment of such Redemption Price and any cash interest which is due and payable, the Variable Principal Amount will cease to increase and cash interest (if any) will cease to accrue on and after the Redemption Date;
- (10) the CUSIP number of the Securities; and
- (11) any other information the Company wants to present.

At the Company's request, the Trustee shall give the notice of redemption to Holders in the Company's name and at the Company's expense, provided that the Company

makes such request at least five Business Days (unless a shorter period shall be satisfactory to the Trustee) prior to the date such notice of redemption must be mailed.

SECTION 3.04 Effect of Notice of Redemption. Once notice of redemption is given, Securities called for redemption become due and payable on the Redemption Date and at the Redemption Price (together with accrued and unpaid cash interest, if any, to but not including the date of redemption) stated in the notice except for Securities which are converted in accordance with the terms of this Indenture. Upon surrender to the Paying Agent, such Securities shall be paid at the Redemption Price (together with accrued and unpaid cash interest, if any, to but not including the date of redemption) stated in the notice.

SECTION 3.05 Deposit of Redemption Price. Prior to 10:00 a.m. (New York City time), on any Redemption Date, the Company shall deposit with the Paying Agent (or if the Company or a Subsidiary or an Affiliate of either of them is the Paying Agent, shall segregate and hold in trust) money sufficient to pay the Redemption Price of, and any accrued and unpaid interest to but not including the date of redemption with respect to, all Securities to be redeemed on that date other than Securities or portions of Securities called for redemption which on or prior thereto have been delivered by the Company to the Trustee for cancellation or have been converted. The Paying Agent shall as promptly as practicable return to the Company any money not required for that purpose because of conversion of Securities pursuant to Article 11. If such money is then held by the Company in trust and is not required for such purpose it shall be discharged from such trust.

SECTION 3.06 Securities Redeemed in Part. Upon surrender of a Security that is redeemed in part, the Company shall execute and the Trustee shall authenticate and deliver to the Holder a new Security in an authorized denomination equal in Original Principal Amount to the unredeemed portion of the Security surrendered.

SECTION 3.07 Conversion Arrangement on Call for Redemption. In connection with any redemption of Securities, the Company may arrange for the purchase and conversion of any Securities called for redemption by an agreement with one or more investment banks or other purchasers to purchase such Securities by paying to the Trustee in trust for the Securityholders, on or prior to 10:00 a.m. New York City time on the Redemption Date, an amount that, together with any amounts deposited with the Trustee by the Company for the redemption of such Securities, is not less than the Redemption Price of, and any accrued and unpaid interest with respect to, such Securities. Notwithstanding anything to the contrary contained in this Article 3, the obligation of the Company to pay the Redemption Prices of such Securities shall be deemed to be satisfied and discharged to the extent such amount is so paid by such purchasers. If such an agreement is entered into, any Securities not duly surrendered for conversion by the Holders thereof may, at the option of the Company, be deemed, to the fullest extent permitted by law, acquired by such purchasers from such Holders and (notwithstanding anything to the contrary contained in Article 11) surrendered by such purchasers for conversion, all as of immediately prior to the close of business on the Business Day prior to the Redemption Date, subject to payment of the above amount as aforesaid. The Trustee shall hold and pay to the Holders whose Securities are selected for redemption any such amount paid to it for purchase and conversion in the same manner as it would moneys deposited with it by the Company for the redemption of Securities. Without the Trustee's prior written consent, no arrangement between

the Company and such purchasers for the purchase and conversion of any Securities shall increase or otherwise affect any of the powers, duties, responsibilities or obligations of the Trustee as set forth in this Indenture, and the Company agrees to indemnify the Trustee from, and hold it harmless against, any loss, liability or expense arising out of or in connection with any such arrangement for the purchase and conversion of any Securities between the Company and such purchasers, including the costs and expenses incurred by the Trustee in the defense of any claim or liability arising out of or in connection with the exercise or performance of any of its powers, duties, responsibilities

or obligations under this Indenture.

SECTION 3.08 Purchase of Securities at Option of the Holder

(a) General. Securities shall be purchased by the Company pursuant to paragraph 7 of the Securities as of March 21, 2008, 2013 and 2018 (each, a "Purchase Date"), at a purchase price equal to the Variable Principal Amount of the Securities on the applicable Purchase Date plus accrued and unpaid cash interest, if any, (the "Purchase Price"), at the option of the Holder thereof, upon:

(1) delivery to the Paying Agent, by the Holder of a written notice of purchase (a "Purchase Notice") at any time from the opening of business on the date that is 20 Business Days prior to a Purchase Date until the close of business on such Purchase Date stating:

(A) the certificate numbers of the Securities which the Holder will deliver to be purchased,

(B) the portion of the Original Principal Amount of the Securities which the Holder will deliver to be purchased, which portion must be an Original Principal Amount of \$1,000 or an integral multiple thereof,

(C) that such Security shall be purchased as of the Purchase Date pursuant to the terms and conditions specified in paragraph 7 of the Securities and in this Indenture, and

(D) in the event the Company elects, pursuant to Section 3.08(b), to pay the Purchase Price to be paid as of such Purchase Date, in whole or in part, in shares of Common Stock but such portion of the Purchase Price shall ultimately be payable to such Holder entirely in cash because any of the conditions to payment of the Purchase Price in Common Stock is not satisfied prior to the close of business on such Purchase Date, as set forth in Section 3.08(d), whether such Holder elects (i) to withdraw such Purchase Notice as to some or all of the Securities to which such Purchase Notice relates (stating the Original Principal Amount and certificate numbers of the Securities as to which such withdrawal shall relate), or (ii) to receive cash in respect of the entire Purchase Price for all Securities (or portions thereof) to which such Purchase Notice relates; and

(2) delivery of such Security to the Paying Agent prior to, on or after the Purchase Date (together with all necessary endorsements) at the offices of the

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Paying Agent, such delivery being a condition to receipt by the Holder of the Purchase Price therefor; provided, however, that such Purchase Price shall be so paid pursuant to this Section 3.08 only if the Security so delivered to the Paying Agent shall conform in all respects to the description thereof in the related Purchase Notice, as determined by the Company.

If a Holder, in such Holder's Purchase Notice and in any written notice of withdrawal delivered by such Holder pursuant to the terms of Section 3.10, fails to indicate such Holder's choice with respect to the election set forth in clause (D) of Section 3.08(a)(1), such Holder shall be deemed to have elected to receive cash in respect of the Purchase Price for all Securities subject to such Purchase Notice in the circumstances set forth in such clause (D).

The Company shall purchase from the Holder thereof, pursuant to this Section 3.08, a portion of a Security if the Original Principal Amount of such portion is \$1,000 or an integral multiple of \$1,000. Provisions of this Indenture that apply to the purchase of all of a Security also apply to the purchase of such portion of such Security.

Any purchase by the Company contemplated pursuant to the provisions of this Section 3.08 shall be consummated by the delivery of the consideration

to be received by the Holder (together with accrued and unpaid cash interest, if any) promptly following the later of the Purchase Date and the time of delivery of the Security.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Purchase Notice contemplated by this Section 3.08(a) shall have the right to withdraw such Purchase Notice at any time prior to the close of business on the business day prior to the Purchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 3.10.

The Paying Agent shall promptly notify the Company of the receipt by it of any Purchase Notice or written notice of withdrawal thereof.

(b) Company's Right to Elect Manner of Payment of Purchase Price. The Securities to be purchased pursuant to Section 3.08(a) may be paid for, at the election of the Company, in U.S. legal tender ("cash") or Common Stock, or in any combination of cash and Common Stock, subject to the conditions set forth in Sections 3.08(c) and (d). The Company shall designate, in the Company Notice delivered pursuant to Section 3.08(e), whether the Company will purchase the Securities for cash or Common Stock, or, if a combination thereof, the percentages or amounts of the Purchase Price of Securities in respect of which it will pay in cash or Common Stock; provided that the Company will pay cash for fractional interests in Common Stock. For purposes of determining the existence of potential fractional interests, all Securities subject to purchase by the Company held by a Holder shall be considered together (no matter how many separate certificates are to be presented). Each Holder whose Securities are purchased pursuant to this Section 3.08 shall receive the same percentage of cash or Common Stock in payment of the Purchase Price for such Securities, except (i) as provided in Section 3.08(d) with regard to the payment of cash in lieu of fractional shares of Common Stock and (ii) in the event that the Company is unable to purchase the Securities of a Holder or Holders for Common Stock because any necessary qualifications or registrations of the Common Stock

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under applicable state securities laws cannot be obtained, the Company may purchase the Securities of such Holder or Holders for cash. The Company may not change its election with respect to the consideration (or components or percentages of components thereof) to be paid once the Company has given its Company Notice to Securityholders except pursuant to this Section 3.08(b) or pursuant to Section 3.08(d) in the event of a failure to satisfy, prior to the close of business on the Purchase Date, any condition to the payment of the Purchase Price, in whole or in part, in Common Stock.

At least three Business Days before the Company Notice Date, the Company shall deliver an Officers' Certificate to the Trustee specifying:

- (i) the manner of payment selected by the Company,
- (ii) the information required by Section 3.08(e),
- (iii) if the Company elects to pay the Purchase Price, or a specified percentage thereof, in Common Stock, that the conditions to such manner of payment set forth in Section 3.08(d) have been or will be complied with, and
- (iv) whether the Company desires the Trustee to give the Company Notice required by Section 3.08(e).

(c) Purchase with Cash. On each Purchase Date, at the option of the Company, the Purchase Price of Securities in respect of which a Purchase Notice pursuant to Section 3.08(a) has been given, or a specified percentage thereof, may be paid by the Company with cash equal to the aggregate Purchase Price of such Securities. If the Company elects to purchase Securities with cash, the Company Notice, as provided in Section 3.08(e), shall be sent to Holders (and to beneficial owners as required by applicable law) not less than 20 Business Days prior to such Purchase Date (the "Company Notice Date").

(d) Payment by Issuance of Common Stock. On each Purchase Date, at the option of the Company, the Purchase Price of Securities in respect of which a Purchase Notice pursuant to Section 3.08(a) has been given, or a specified percentage thereof, may be paid by the Company by the issuance of a number of

shares of Common Stock equal to the quotient obtained by dividing (i) the amount of cash to which the Securityholders would have been entitled had the Company elected to pay all or such specified percentage, as the case may be, of the Purchase Price of such Securities in cash by (ii) the Market Price of a share of Common Stock, subject to the next succeeding paragraph.

The Company will not issue a fractional share of Common Stock in payment of the Purchase Price. Instead the Company will pay cash for the current market value of the fractional share. The current market value of a fraction of a share shall be determined by multiplying the Market Price by such fraction and rounding the product to the nearest whole cent. It is understood that if a Holder elects to have more than one Security purchased, the number of shares of Common Stock shall be based on the aggregate amount of Securities to be purchased.

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If the Company elects to purchase the Securities by the issuance of shares of Common Stock, the Company Notice, as provided in Section 3.08(e), shall be sent to the Holders (and to beneficial owners as required by applicable law) not later than the Company Notice Date.

The Company's right to exercise its election to purchase the Securities pursuant to this Section 3.08 through the issuance of shares of Common Stock shall be conditioned upon:

(i) the Company's not having given its Company Notice of an election to pay entirely in cash and its giving of timely Company Notice of election to purchase all or a specified percentage of the Securities with Common Stock as provided herein;

(ii) the shares of Common Stock having been admitted for listing or admitted for listing subject to notice of issuance on the principal United States securities exchange on which the Common Stock is then listed or, if the Common Stock is not then listed on a national or regional securities exchange, as quoted on the National Association of Securities Dealers Automated Quotation System;

(iii) the registration of the shares of Common Stock to be issued in respect of the payment of the Purchase Price under the Securities Act of 1933, as amended (the "Securities Act"), or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in each case, if required;

(iv) any necessary qualification or registration under applicable state securities laws or the availability of an exemption from such qualification and registration; and

(v) the receipt by the Trustee of an Officers' Certificate and an Opinion of Counsel each stating that (A) the terms of the issuance of the Common Stock are in conformity with this Indenture and (B) the shares of Common Stock to be issued by the Company in payment of the Purchase Price in respect of Securities have been duly authorized and, when issued and delivered pursuant to the terms of this Indenture in payment of the Purchase Price in respect of the Securities, will be validly issued, fully paid and non-assessable and, to the best of such counsel's knowledge, free from preemptive rights under applicable state law or known material contracts, and, in the case of such Officers' Certificate, stating that conditions (i), (ii), (iii) and (iv) above and the condition set forth in the second succeeding sentence have been satisfied and, in the case of such Opinion of Counsel, stating that conditions (ii) and (iii) above have been satisfied.

Such Officers' Certificate shall also set forth the number of shares of Common Stock to be issued for each \$1,000 Original Principal Amount of Securities and the Sale Price of a share of Common Stock on each trading day during the period for which the Market Price is calculated. The Company may pay the Purchase Price (or any portion thereof) in Common Stock only if the information necessary to calculate the Market Price is published in a daily newspaper of national circulation. If the foregoing conditions are not satisfied with respect to a Holder or Holders prior to the close of business on the Purchase Date and the Company has elected to

purchase the Securities pursuant to this Section 3.08 through the issuance of shares of Common Stock, the Company shall pay the entire Purchase Price of the Securities of such Holder or Holders in cash.

The "Market Price" of the Common Stock means the average of the Sale Prices of the Common Stock for the five trading day period ending on the third Business Day (if the third Business Day prior to the applicable Purchase Date is a trading day or, if not, then on the last trading day) prior to the applicable Purchase Date, appropriately adjusted to take into account the occurrence, during the period commencing on the first of such trading days during such five trading day period and ending on such Purchase Date, of any event described in Section 11.06, 11.07 or 11.08; subject, however, to the conditions set forth in Sections 11.09 and 11.10.

(e) Notice of Election. The Company's notice of election to purchase with cash or Common Stock or any combination thereof shall be sent to the Holders (and to beneficial owners as required by applicable law) in the manner provided in Section 14.02 at the time specified in Section 3.08(c) or (d), as applicable (the "Company Notice"). Such Company Notice shall state the manner of payment elected and shall contain the following information:

In the event the Company has elected to pay the Purchase Price (or a specified percentage thereof) with Common Stock, the Company Notice shall:

(1) state that each Holder will receive Common Stock with a Market Price determined as of a specified date prior to the Purchase Date equal to such specified percentage of the Purchase Price of the Securities held by such Holder (except any cash amount to be paid in lieu of fractional shares);

(2) set forth the method of calculating the Market Price of the Common Stock; and

(3) state that because the Market Price of Common Stock will be determined prior to the Purchase Date, Holders will bear the market risk with respect to the value of the Common Stock to be received from the date such Market Price is determined to the Purchase Date.

In any case, each Company Notice shall include a form of Purchase Notice to be completed by a Securityholder and shall state:

(i) the Purchase Price, the Conversion Rate and accrued and unpaid cash interest, if any, that will be accrued and payable with respect to the Securities as of the Purchase Date;

(ii) whether the Company will pay the Purchase Price in cash or in Common Stock or any combination thereof, specifying the percentage of each;

(iii) the name and address of the Paying Agent and the Conversion Agent;

(iv) that Securities as to which a Purchase Notice has been given may be converted pursuant to Article 11 hereof only if the applicable Purchase Notice has been withdrawn in accordance with the terms of this Indenture;

(v) that Securities must be surrendered to the Paying Agent to collect payment of the Purchase Price and interest, if any;

(vi) that the Purchase Price for any Security as to which a Purchase Notice has been given and not withdrawn, together with any cash interest payable with respect thereto, will be paid promptly following the later of the Purchase Date and the time of surrender of such Security as described in (v);

(vii) the procedures the Holder must follow to exercise rights under Section 3.08 and a brief description of those rights;

(viii) briefly, the conversion rights of the Securities and that Holders who want to convert Securities must satisfy the requirements set forth in paragraph 9 of the Securities;

(ix) the procedures for withdrawing a Purchase Notice (including, without limitation, for a conditional withdrawal pursuant to the terms of Section 3.08(a)(1)(D) or Section 3.10);

(x) that, unless the Company defaults in making payment of such Purchase Price and cash interest, if any, the Variable Principal Amount will cease to increase and cash interest, if any, on Securities surrendered for purchase will cease to accrue on and after the Purchase Date; and

(xi) the CUSIP number of the Securities.

At the Company's request, the Trustee shall give such Company Notice in the Company's name and at the Company's expense; provided, however, that, in all cases, the text of such Company Notice shall be prepared by the Company.

Upon determination of the actual number of shares of Common Stock to be issued for each \$1,000 Original Principal Amount of Securities, the Company will issue a press release and publish such determination on the Company's web site on the World Wide Web.

(f) Covenants of the Company. All shares of Common Stock delivered upon purchase of the Securities shall be newly issued shares or treasury shares, shall be duly authorized, validly issued, fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim created by the Company.

The Company shall use its reasonable efforts to list or cause to have quoted any shares of Common Stock to be issued to purchase Securities on the principal United States securities exchange or over-the-counter or other domestic market on which any other shares of the Common Stock are then listed or quoted. The Company will promptly inform the Trustee in writing of any such listing.

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(g) Procedure upon Purchase. The Company shall deposit cash (in respect of a cash purchase under Section 3.08(c) or for fractional interests as applicable) or shares of Common Stock, or a combination thereof, as applicable, at the time and in the manner as provided in Section 3.11, sufficient to pay the aggregate Purchase Price of, and any accrued and unpaid interest with respect to all Securities to be purchased pursuant to this Section 3.08. As soon as practicable after the Purchase Date, the Company shall deliver to each Holder entitled to receive Common Stock through the Paying Agent, a certificate for the number of full shares of Common Stock issuable in payment of the Purchase Price and cash in lieu of any fractional interests. The person in whose name the certificate for Common Stock is registered shall be treated as a holder of record of shares of Common Stock on the Business Day following the Purchase Date. Subject to Section 3.08(d), no payment or adjustment will be made for dividends on the Common Stock the record date for which occurred on or prior to the Purchase Date.

(h) Taxes. If a Holder of a Security is paid in Common Stock, the Company shall pay any documentary, stamp or similar issue or transfer tax due on such issue of shares of Common Stock. However, the Holder shall pay any such tax which is due because the Holder requests the shares of Common Stock to be issued in a name other than the Holder's name. The Paying Agent may refuse to deliver the certificates representing the Common Stock being issued in a name other than the Holder's name until the Paying Agent receives a sum sufficient to pay any tax which will be due because the shares of Common Stock are to be issued in a name other than the Holder's name. Nothing herein shall preclude any income tax withholding required by law or regulations.

SECTION 3.09 Purchase of Securities at Option of the Holder upon Change in Control.

(a) If there shall have occurred a Change in Control, Securities shall be purchased by the Company, at the option of the Holder thereof, at a purchase price specified in paragraph 7 of the Securities (the "Change in Control Purchase Price"), as of the date that is no later than 30 Business Days after the occurrence of the Change in Control but in no event prior to the date on which such Change in Control occurs (the "Change in Control Purchase Date"), subject to satisfaction by or on behalf of the Holder of the requirements set forth in Section 3.09(c).

A "Change in Control" means the occurrence of any of the following: (a) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of the Company and its subsidiaries, taken as a whole, to any "person" or "group" (as such terms are used in Section 13(d) of the Exchange Act), (b) the adoption of a plan relating to the liquidation or dissolution of the Company, (c) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any "person" or "group" (as such terms are used in Section 13(d) of the Exchange Act) becomes the "beneficial owner" (as such term is defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act), directly or indirectly through one or more intermediaries, of more than 50% of the voting power of the outstanding voting stock of the Company, or (d) the first day on which more than a majority of the members of the Board of Directors of the Company are not Continuing Directors.

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A "Continuing Director" means, as of any date of determination, any member of the Board of Directors of the Company who (a) was a member of the Board of Directors of the Company on March 21, 2003 or (b) was nominated for election to the Board of Directors of the Company with the approval of, or whose election to the Board of Directors of the Company was ratified by, at least a majority of the Continuing Directors who were members of the Board of Directors of the Company at the time of such nomination or election.

(b) Within 15 Business Days after the occurrence of a Change in Control, the Company shall mail a written notice of Change in Control by first-class mail to the Trustee and to each Holder (and to beneficial owners as required by applicable law). The notice shall include a form of Change in Control Purchase Notice to be completed by the Securityholder and shall state:

- (1) briefly, the events causing a Change in Control and the date of such Change in Control;
- (2) the date by which the Change in Control Purchase Notice pursuant to this Section 3.09 must be given;
- (3) the Change in Control Purchase Date;
- (4) the Change in Control Purchase Price and, to the extent known at the time of such notice, the amount of interest, if any, that will be accrued and payable with respect to the Securities as of the Change in Control Purchase Date;
- (5) the name and address of the Paying Agent and the Conversion Agent;
- (6) the Conversion Rate and any adjustments thereto resulting from the Change in Control;
- (7) that Securities as to which a Change in Control Purchase Notice has been given may be converted pursuant to Article 11 hereof only if the Change in Control Purchase Notice has been withdrawn in accordance with the terms of this Indenture;
- (8) that Securities must be surrendered to the Paying Agent to collect payment of the Change in Control Purchase Price and accrued and unpaid cash interest, if any;
- (9) that the Change in Control Purchase Price for any Security as to which a Change in Control Purchase Notice has been duly given and not withdrawn, together with any accrued interest payable with respect thereto, will be paid promptly following the later of the

Change in Control Purchase Date and the time of surrender of such Security as described in (8);

(10) briefly, the procedures the Holder must follow to exercise rights under this Section 3.09;

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(11) briefly, the conversion rights of the Securities;

(12) the procedures for withdrawing a Change in Control Purchase Notice;

(13) that, unless the Company defaults in making payment of such Change in Control Purchase Price and cash interest, if any on Securities surrendered for purchase, the Variable Principal Amount will cease to increase and cash interest, if any, will cease to accrue on and after the Change in Control Purchase Date; and

(14) the CUSIP number of the Securities.

(c) A Holder may exercise its rights specified in Section 3.09(a) upon delivery of a written notice of purchase (a "Change in Control Purchase Notice") to the Paying Agent at any time prior to the close of business on the Change in Control Purchase Date, stating:

(1) the certificate number of the Security which the Holder will deliver to be purchased;

(2) the portion of the Original Principal Amount of the Security which the Holder will deliver to be purchased, which portion must be \$1,000 or an integral multiple thereof; and

(3) that such Security shall be purchased pursuant to the terms and conditions specified in paragraph 7 of the Securities.

The delivery of such Security to the Paying Agent prior to, on or after the Change in Control Purchase Date (together with all necessary endorsements) at the offices of the Paying Agent shall be a condition to the receipt by the Holder of the Change in Control Purchase Price therefor; provided, however, that such Change in Control Purchase Price shall be so paid pursuant to this Section 3.09 only if the Security so delivered to the Paying Agent shall conform in all respects to the description thereof set forth in the related Change in Control Purchase Notice.

The Company shall purchase from the Holder thereof, pursuant to this Section 3.09, a portion of a Security if the Original Principal Amount of such portion is \$1,000 or an integral multiple of \$1,000. Provisions of this Indenture that apply to the purchase of all of a Security also apply to the purchase of such portion of such Security.

Any purchase by the Company contemplated pursuant to the provisions of this Section 3.09 shall be consummated by the delivery of the consideration to be received by the Holder (together with accrued and unpaid interest, if any) promptly following the later of the Change in Control Purchase Date and the time of delivery of the Security to the Paying Agent in accordance with this Section 3.09.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Change in Control Purchase Notice contemplated by this Section 3.09(c) shall have the right to withdraw such Change in Control Purchase Notice at any time prior to the close

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of business on the Change in Control Purchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 3.10.

The Paying Agent shall promptly notify the Company of the receipt by it of any Change in Control Purchase Notice or written withdrawal thereof.

The Company shall not be required to comply with this Section 3.09 if a third party mails a written notice of Change in Control in the manner, at the times and otherwise in compliance with this Section 3.09 and repurchases all Securities for which a Change in Control Purchase Notice shall be delivered and not withdrawn.

SECTION 3.10 Effect of Purchase Notice or Change in Control Purchase Notice. Upon receipt by the Paying Agent of the Purchase Notice or Change in Control Purchase Notice specified in Section 3.08(a) or Section 3.09(c), as applicable, the Holder of the Security in respect of which such Purchase Notice or Change in Control Purchase Notice, as the case may be, was given shall (unless such Purchase Notice or Change in Control Purchase Notice is withdrawn as specified in the following two paragraphs) thereafter be entitled to receive solely the Purchase Price or Change in Control Purchase Price, as the case may be, and any accrued and unpaid interest, with respect to such Security. Such Purchase Price or Change in Control Purchase Price and any accrued and unpaid cash interest, if any, shall be paid to such Holder, subject to receipt of funds and/or securities by the Paying Agent, promptly following the later of (x) the Purchase Date or the Change in Control Purchase Date, as the case may be, with respect to such Security (provided the conditions in Section 3.08(a) or Section 3.09(c), as applicable, have been satisfied) and (y) the time of delivery of such Security to the Paying Agent by the Holder thereof in the manner required by Section 3.08(a) or Section 3.09(c), as applicable. Securities in respect of which a Purchase Notice or Change in Control Purchase Notice, as the case may be, has been given by the Holder thereof may not be converted pursuant to Article 11 hereof on or after the date of the delivery of such Purchase Notice or Change in Control Purchase Notice, as the case may be, unless such Purchase Notice or Change in Control Purchase Notice, as the case may be, has first been validly withdrawn as specified in the following two paragraphs.

A Purchase Notice or Change in Control Purchase Notice, as the case may be, may be withdrawn by means of a written notice of withdrawal delivered to the office of the Paying Agent in accordance with the Purchase Notice or Change in Control Purchase Notice, as the case may be, at any time prior to the close of business on the Purchase Date or the Change in Control Purchase Date, as the case may be, specifying:

- (1) the certificate number of the Security in respect of which such notice of withdrawal is being submitted,
- (2) the Original Principal Amount of the Security with respect to which such notice of withdrawal is being submitted, and
- (3) the Original Principal Amount, if any, of such Security which remains subject to the original Purchase Notice or Change in Control Purchase Notice, as

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the case may be, and which has been or will be delivered for purchase by the Company.

A written notice of withdrawal of a Purchase Notice may be in the form set forth in the preceding paragraph or may be in the form of (i) a conditional withdrawal contained in a Purchase Notice pursuant to the terms of Section 3.08(a)(1)(D) or (ii) a conditional withdrawal containing the information set forth in Section 3.08(a)(1)(D) and the preceding paragraph and contained in a written notice of withdrawal delivered to the Paying Agent as set forth in the preceding paragraph.

There shall be no purchase of any Securities pursuant to Section 3.08 (other than through the issuance of Common Stock in payment of the Purchase Price, including cash in lieu of fractional shares) or 3.09 if there has occurred (prior to, on or after, as the case may be, the giving, by the Holders of such Securities, of the required Purchase Notice or Change in Control Purchase Notice, as the case may be) and is continuing an Event of Default (other than a default in the payment of the Purchase Price or Change in Control Purchase Price, as the case may be, and any accrued and unpaid cash interest with respect to such Securities). The Paying Agent will promptly return to the respective Holders thereof any Securities (x) with respect to which a Purchase Notice or Change in Control Purchase Notice, as the case may be, has been withdrawn in compliance with this Indenture, or (y) held by it during the continuance of an Event of Default (other than a default in the payment of the

Purchase Price or Change in Control Purchase Price, as the case may be, and any accrued and unpaid cash interest with respect to such Securities) in which case, upon such return, the Purchase Notice or Change in Control Purchase Notice with respect thereto shall be deemed to have been withdrawn.

SECTION 3.11 Deposit of Purchase Price or Change in Control Purchase Price. Prior to 10:00 a.m., New York City time, on the Business Day following the Purchase Date or the Change in Control Purchase Date, as the case may be, the Company shall deposit with the Trustee or with the Paying Agent (or, if the Company or a Subsidiary or an Affiliate of either of them is acting as the Paying Agent, shall segregate and hold in trust as provided in Section 2.04) an amount of money (in immediately available funds if deposited on such Business Day) or Common Stock, if permitted hereunder, sufficient to pay the aggregate Purchase Price or Change in Control Purchase Price, as the case may be, of, and any accrued and unpaid cash interest with respect to, all the Securities or portions thereof which are to be purchased as of the Purchase Date or Change in Control Purchase Date, as the case may be. After the Purchase Date or the Change in Control Purchase Date, the Variable Principal Amount shall cease to increase, and cash interest, if any, shall cease to accrue on such Security, whether or not such Security is delivered to the Paying Agent.

SECTION 3.12 Securities Purchased in Part. Any Security which is to be purchased only in part shall be surrendered at the office of the Paying Agent (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing) and the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities, of any authorized denomination as requested by such Holder in aggregate

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Original Principal Amount equal to, and in exchange for, the portion of the Original Principal Amount of the Security so surrendered which is not purchased.

SECTION 3.13 Repayment to the Company. The Trustee and the Paying Agent shall promptly return to the Company any cash or shares of Common Stock that remain unclaimed as provided in paragraph 15 of the Securities, together with interest or dividends, if any, thereon (subject to the provisions of Section 7.01(f)), held by them for the payment of the Purchase Price or Change in Control Purchase Price, as the case may be, or cash interest, if any; provided, however, that to the extent that the aggregate amount of cash or shares of Common Stock deposited by the Company pursuant to Section 3.11 exceeds the aggregate Purchase Price or Change in Control Purchase Price, as the case may be, of, and the accrued and unpaid cash interest with respect to, the Securities or portions thereof which the Company is obligated to purchase as of the Purchase Date or Change in Control Purchase Date, as the case may be, whether as a result of withdrawal or otherwise, then promptly after the Business Day following the Purchase Date or Change in Control Purchase Date, as the case may be, the Trustee shall return any such excess to the Company together with interest or dividends, if any, thereon (subject to the provisions of Section 7.01(f)).

ARTICLE 4

COVENANTS

SECTION 4.01 Payment of Securities. The Company shall promptly make all payments in respect of the Securities on the dates and in the manner provided in the Securities or pursuant to this Indenture. Any amounts to be given to the Trustee or Paying Agent shall be deposited with the Trustee or Paying Agent by 10:00 a.m., New York City time, by the Company. Original Principal Amount, Restated Principal Amount, Variable Principal Amount, Redemption Price, Purchase Price, Change in Control Purchase Price, and cash interest, if any, shall be considered paid on the applicable date due if on such date (or, in the case of a Purchase Price or Change in Control Purchase Price, on the Business Day following the applicable Purchase Date or Change in Control Purchase Date, as the case may be) the Trustee or the Paying Agent holds, in accordance with this Indenture, money or securities, if permitted hereunder, sufficient to pay all such amounts then due.

The Company shall, to the extent permitted by law, pay cash interest

on overdue amounts at the rate per annum set forth in paragraph 1 of the Securities, compounded quarterly, which interest shall accrue from the date such overdue amount was originally due to the date payment of such amount, including interest thereon, has been made or duly provided for. All such interest shall be payable on demand. The accrual of such interest on overdue amounts shall be in lieu of, and not in addition to, the continued accrual of cash interest.

SECTION 4.02 SEC and Other Reports. If requested by the Trustee, the Company shall deliver to the Trustee, within 15 days after it files such annual and quarterly reports, information, documents and other reports with the SEC, copies of its annual and quarterly reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) which the Company is required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act. The

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Company also shall comply with the provisions of TIA Section 314(a). Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of the same shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

SECTION 4.03 Compliance Certificate. The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company (beginning with the fiscal year ending on December 31, 2003) an Officers' Certificate, stating whether or not to the best knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

SECTION 4.04 Further Instruments and Acts. Upon request of the Trustee, the Company will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Indenture.

SECTION 4.05 Maintenance of Office or Agency. The Company will maintain in the Borough of Manhattan, The City of New York, an office or agency of the Trustee, Registrar, Paying Agent and Conversion Agent where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer, exchange, purchase, redemption or conversion and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The office of U.S. Bank National Association, located at 100 Wall Street, 19th Floor, New York, New York (Attention: Corporate Trust Services), shall initially be such office or agency for all of the aforesaid purposes. The Company shall give prompt written notice to the Trustee of the location, and of any change in the location, of any such office or agency (other than a change in the location of the office of the Trustee). If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the address of the Trustee set forth in Section 14.02.

The Company may also from time to time designate one or more other offices or agencies where the Securities may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the Borough of Manhattan, The City of New York, for such purposes.

SECTION 4.06 Delivery of Certain Information. At any time when the Company is not subject to Section 13 or 15(d) of the Exchange Act, upon the request of a Holder or any beneficial holder of Securities or shares of Common Stock which are restricted securities issued upon conversion thereof, the Company will promptly furnish or cause to be furnished Rule 144A Information (as defined below) to such Holder or any beneficial holder of Securities or holder of shares of Common Stock issued upon conversion of Securities, or to a prospective purchaser of any such security designated by any such holder, as the case may be, to the extent

required to permit compliance by such Holder or holder with Rule 144A under the Securities Act in connection with the resale of any such security. "Rule 144A Information" shall be such information as is specified pursuant to Rule 144A(d) (4) under the Securities Act.

SECTION 4.07 Limitation on Guarantees of Indebtedness by Subsidiaries. The Company will not permit any Subsidiary, directly or indirectly, to guarantee the payment of any Debt of the Company unless such Subsidiary simultaneously executes and delivers a supplemental indenture providing for a guarantee of the Company's obligations under the Indenture and the Securities by such Subsidiary, which guarantee shall be senior to or equal with such Subsidiary's guarantee of such other Debt.

SECTION 4.08 Covenant to Comply With Securities Laws Upon Purchase of Securities. In connection with any offer to purchase or purchase of Securities under Section 3.08 or 3.09 hereof (provided that such offer or purchase constitutes an "issuer tender offer" for purposes of Rule 13e-4 (which term, as used herein, includes any successor provision thereto) under the Exchange Act at the time of such offer or purchase), the Company shall to the extent applicable (i) comply with Rule 13e-4 and Rule 14e-1 under the Exchange Act, (ii) file the related Schedule TO (or any successor schedule, form or report) under the Exchange Act, and (iii) otherwise comply with all Federal and state securities laws so as to permit the rights and obligations under Sections 3.08 and 3.09 to be exercised in the time and in the manner specified in Sections 3.08 and 3.09.

SECTION 4.09 Calculation of Certain Amounts. The Company shall file with the Trustee, within 30 days following the end of each calendar year, a written notice specifying (a) the amount of Tax Original Issue Discount (including the daily rates and accrual periods) accrued on outstanding Securities as of the end of such year and (b) such other specific information relating to such Tax Original Issue Discount as may then be relevant under the Internal Revenue Code of 1986, as amended from time to time.

ARTICLE 5

SUCCESSOR CORPORATION

SECTION 5.01 When Company May Merge or Transfer Assets. The Company shall not consolidate with or merge with or into any other person or convey, transfer or lease all or substantially all of its properties and assets to any person, nor will the Company permit any Subsidiary to enter into any such transaction or series of transactions if such transaction or series of transactions, in the aggregate, would result in a sale, assignment, transfer, lease or other disposition of all or substantially all of the properties and assets of the Company and its Subsidiaries on a consolidated basis to any other person or persons, unless:

(a) either (1) the Company or such subsidiary shall be the surviving corporation or (2) the person (if other than the Company) formed by such consolidation or into which the Company or such Subsidiary is merged or the person which acquires by conveyance, transfer or lease the properties and assets of the Company or such Subsidiary substantially as an entirety (i) shall be organized and validly existing under the laws of the United States or any state thereof or the District of Columbia and (ii) shall expressly assume, by an indenture

supplemental hereto, executed and delivered to the Trustee, in form reasonably satisfactory to the Trustee, all of the obligations of the Company or such Subsidiary under the Securities and this Indenture;

(b) immediately after giving effect to such transaction, no Default shall have occurred and be continuing; and

(c) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation,

merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with this Article 5 and that all conditions precedent herein provided for relating to such transaction have been satisfied.

For purposes of the foregoing, the transfer (by lease, assignment, sale or otherwise) of the properties and assets of one or more Subsidiaries (other than to the Company or another Subsidiary), which, if such assets were owned by the Company, would constitute all or substantially all of the properties and assets of the Company, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

The successor person formed by such consolidation or into which the Company or the applicable Subsidiary is merged or the successor person to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company or the applicable Subsidiary under this Indenture with the same effect as if such successor had been named as the Company or the applicable Subsidiary herein; and thereafter, except in the case of a lease and any obligations the Company or the applicable Subsidiary may have under a supplemental indenture pursuant to Section 11.14, the Company or the applicable Subsidiary shall be discharged from all obligations and covenants under this Indenture and the Securities. Subject to Section 9.06, the Company, the applicable Subsidiary, the Trustee and the successor person shall enter into a supplemental indenture to evidence the succession and substitution of such successor person and such discharge and release of the Company and the applicable Subsidiary.

ARTICLE 6

DEFAULTS AND REMEDIES

SECTION 6.01 Events of Default. An "Event of Default" occurs if:

(1) the Company defaults in payment of any interest when due under the Securities and such default continues for 30 days, provided that a failure to make or provide for the payment in full of any of the first twelve scheduled cash interest payments on the Securities within three (3) Business Days of the applicable Interest Payment Date shall constitute an Event of Default with no additional grace or cure period if the proceeds from the Government Securities to be released from the Pledge Account prior to any such Interest Payment Date equal or exceed the cash interest payable on such Interest Payment Date;

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(2) the Company defaults in the payment of the Original Principal Amount, the Variable Principal Amount (or, if the Securities have been converted to quarterly coupon notes following a Tax Event pursuant to Section 10.01 of the Indenture, the Restated Principal Amount), Redemption Price, Purchase Price or Change in Control Purchase Price on any Security when the same becomes due and payable;

(3) the Company fails to comply with any of its agreements in the Securities or this Indenture (other than those referred to in clauses (1) and (2) above) and such failure continues for 60 days after receipt by the Company of a Notice of Default;

(4) default under any Debt of the Company or any Subsidiary, whether such Debt now exists or is created later, which default results in such Debt becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, and the principal amount of all Debt so accelerated, together with all Debt due and payable but not paid prior to the end of any grace period, is \$35,000,000 or more, and such acceleration has not been rescinded or annulled within a period of 10 days after receipt by the Company of a Notice of Default from the Trustee; provided, however, that if any such default shall be cured, waived, rescinded or annulled, then the Event of Default by reason thereof shall be deemed not to have occurred;

(5) any guarantee that may be provided pursuant to Section 4.07 with

respect to the Securities ceases to be in full force and effect or is declared null and void or any guarantor denies that it has any further liability under any guarantee, or gives notice to such effect (other than by reason of the termination of this Indenture or the release of any such guarantee in accordance with the applicable supplemental indenture) and such condition shall have continued for a period of 30 days after written notice of such failure requiring the guarantor and the Company to remedy the same shall have been given (x) to the Company by the Trustee or (y) to the Company and the Trustee by the holders of 25% in aggregate original principal amount of the Securities then outstanding

(6) the Company or any of its Significant Subsidiaries pursuant to or under or within the meaning of any Bankruptcy Law:

- (A) commences a voluntary case or proceeding;
- (B) consents to the entry of an order for relief against it in an involuntary case or proceeding or the commencement of any case against it;
- (C) consents to the appointment of a Custodian of it or for any substantial part of its property;
- (D) makes a general assignment for the benefit of its creditors;

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(E) files a petition in bankruptcy or answer or consent seeking reorganization or relief; or

(F) consents to the filing of such petition or the appointment of or taking possession by a Custodian; or

(7) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against the Company or any of its Significant Subsidiaries in an involuntary case or proceeding, or adjudicates the Company or any of its subsidiaries insolvent or bankrupt;

(B) appoints a Custodian of the Company or any of its Significant Subsidiaries or for any substantial part of their respective property; or

(C) orders the winding up or liquidation of the Company or any of its Significant Subsidiaries;

and the order or decree remains unstayed and in effect for 60 days.

"Bankruptcy Law" means Title 11, United States Code, or any similar Federal or state law for the relief of debtors.

"Custodian" means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

A Default under clause (3) or clause (4) above is not an Event of Default until the Trustee notifies the Company, or the Holders of at least 25% in aggregate Original Principal Amount of the Securities at the time outstanding notify the Company and the Trustee, of the Default and the Company does not cure such Default (and such Default is not waived) within the time specified in clause (3) or clause (4) above after actual receipt of such notice. Any such notice must specify the Default, demand that it be remedied and state that such notice is a "Notice of Default".

The Company shall deliver to the Trustee, within 30 days after it becomes aware of the occurrence thereof, written notice of any event which with the giving of notice or the lapse of time, or both, would become an Event of Default under clause (3) or clause (4) above, its status and what action the Company is taking or proposes to take with respect thereto.

SECTION 6.02 Acceleration. If an Event of Default (other than an Event of Default specified in Section 6.01(6) or (7) in respect of the Company) occurs and is continuing, the Trustee by written Notice to the Company, or the Holders of at least 25% in aggregate Original Principal Amount of the Securities at the time outstanding by notice to the Company and the Trustee, may declare the Variable Principal Amount through the date of such declaration, and any accrued and unpaid cash interest (or if the Securities have been converted to quarterly coupon notes following a Tax Event, the Restated Principal Amount, plus accrued interest) through the date of declaration on all the Securities to be immediately due and payable. Upon

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such a declaration, such Variable Principal Amount, and such accrued and unpaid interest, if any, shall be due and payable immediately. If an Event of Default specified in Section 6.01(6) or (7) occurs in respect of the Company and is continuing, the Variable Principal Amount, and any accrued and unpaid interest (or, if the Securities have been converted to quarterly coupon notes following a Tax Event, the Restated Principal Amount, plus accrued interest) on all the Securities shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Securityholders. The Holders of a majority in aggregate Original Principal Amount of the Securities at the time outstanding, by notice to the Trustee (and without notice to any other Securityholder) may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of the Variable Principal Amount and any accrued and unpaid interest (or, if the Securities have been converted to quarterly coupon notes following a Tax Event, the Restated Principal Amount, plus accrued interest) that have become due solely as a result of acceleration and if all amounts due to the Trustee under Section 7.07 have been paid. No such rescission shall affect any subsequent Default or impair any right consequent thereto.

SECTION 6.03 Other Remedies. If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of the Variable Principal Amount on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if the Trustee does not possess any of the Securities or does not produce any of the Securities in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of, or acquiescence in, the Event of Default. Except as set forth in Section 2.07 hereof, no remedy is exclusive of any other remedy. All available remedies are cumulative.

SECTION 6.04 Waiver of Past Defaults. Subject to Section 6.02, the Holders of a majority in aggregate Original Principal Amount of the Securities at the time outstanding, by notice to the Trustee (and without notice to any other Securityholder), may waive an existing Default and its consequences except (1) an Event of Default described in Section 6.01(1) or (2), (2) a Default in respect of a provision that under Section 9.02 cannot be amended without the consent of each Securityholder affected or (3) a Default which constitutes a failure to convert any Security in accordance with the terms of Article 11. When a Default is waived, it is deemed cured, but no such waiver shall extend to any subsequent or other Default or impair any consequent right. This Section 6.04 shall be in lieu of Section 316(a)(1)(B) of the TIA and such Section 316(a)(1)(B) is hereby expressly excluded from this Indenture, as permitted by the TIA.

SECTION 6.05 Control by Majority. The Holders of a majority in aggregate Original Principal Amount of the Securities at the time outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or that the Trustee determines in good faith is unduly prejudicial to the rights of other Securityholders or would involve the Trustee in personal liability unless the Trustee is offered indemnity satisfactory to it. This Section 6.05 shall be in

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lieu of Section 316(a)1(A) of the TIA and such Section 316(a)1(A) is hereby expressly excluded from this Indenture, as permitted by the TIA.

SECTION 6.06 Limitation on Suits. A Securityholder may not pursue any remedy with respect to this Indenture or the Securities unless:

- (1) the Holder gives to the Trustee written notice stating that an Event of Default is continuing;
- (2) the Holders of at least 25% in aggregate Original Principal Amount of the Securities at the time outstanding make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer to the Trustee security or indemnity satisfactory to the Trustee against any loss, liability or expense;
- (4) the Trustee does not comply with the request within 60 days after receipt of such notice, request and offer of security or indemnity; and
- (5) the Holders of a majority in aggregate Original Principal Amount of the Securities at the time outstanding do not give the Trustee a direction inconsistent with the request during such 60-day period.

A Securityholder may not use this Indenture to prejudice the rights of any other Securityholder or to obtain a preference or priority over any other Securityholder.

SECTION 6.07 Rights of Holders to Receive Payment. Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of the Original Principal Amount, the Variable Principal Amount (or if the Securities have been converted to quarterly coupon notes following a Tax Event pursuant to Article 10, the Restated Principal Amount, plus accrued cash interest), Redemption Price, Purchase Price, Change in Control Purchase Price, or cash interest in respect of the Securities held by such Holder, on or after the respective due dates expressed in the Securities or any Redemption Date, and to convert the Securities in accordance with Article 11, or to bring suit for the enforcement of any such payment on or after such respective dates or the right to convert, shall not be impaired or affected adversely without the consent of such Holder.

SECTION 6.08 Collection Suit by Trustee. If an Event of Default described in Section 6.01(1) or (2) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount owing with respect to the Securities and the amounts provided for in Section 7.07.

SECTION 6.09 Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the Original Principal Amount, the Variable Principal Amount, Restated Principal Amount, Redemption Price, Purchase Price, Change in Control Purchase Price or cash

interest in respect of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of any such amount) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(a) to file and prove a claim for the whole amount of the Original Principal Amount, the Variable Principal Amount, Restated Principal Amount, Redemption Price, Purchase Price, Change in Control Purchase Price or cash interest in respect of the Securities (or, if the Securities have been converted to quarterly coupon notes following a Tax Event, the Restated Principal Amount, plus accrued interest), as the case may be, and to file such other papers or documents as may be necessary or advisable in order to have the claims of the

Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel or any other amounts due the Trustee under Section 7.07) and of the Holders allowed in such judicial proceeding, and

(b) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.07.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 6.10 Priorities. If the Trustee collects any money pursuant to this Article 6, it shall pay out the money in the following order:

FIRST: to the Trustee for amounts due under Section 7.07;

SECOND: to Securityholders for amounts due and unpaid on the Securities for the Original Principal Amount, the Variable Principal Amount, Restated Principal Amount, Redemption Price, Purchase Price, Change in Control Purchase Price or cash interest (or, if the Securities have been converted to quarterly coupon notes following a Tax Event, the Restated Principal Amount, plus accrued cash interest), as the case may be, ratably, without preference or priority of any kind, according to such amounts due and payable on the Securities; and

THIRD: the balance, if any, to the Company.

The Trustee may fix a record date and payment date for any payment to Securityholders pursuant to this Section 6.10. At least 15 days before such record date, the

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Trustee shall mail to each Securityholder and the Company a notice that states the record date, the payment date and the amount to be paid.

SECTION 6.11 Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant (other than the Trustee) in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 6.11 does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.07 or a suit by Holders of more than 10% in aggregate Original Principal Amount of the Securities at the time outstanding. This Section 6.11 shall be in lieu of Section 315(e) of the TIA and such Section 315(e) is hereby expressly excluded from this Indenture, as permitted by the TIA.

SECTION 6.12 Waiver of Stay, Extension or Usury Laws. The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury or other law wherever enacted, now or at any time hereafter in force, which would prohibit or forgive the Company from paying all or any portion of the Original Principal Amount, the Variable Principal Amount, Restated Principal Amount, Redemption Price, Purchase Price, Change in Control Purchase Price or cash interest (or, if the Securities have been converted to quarterly coupon notes following a Tax Event, the Restated Principal Amount, plus accrued interest), as contemplated herein, or which may affect the covenants or the performance of this Indenture;

and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE 7

TRUSTEE

SECTION 7.01 Duties of Trustee.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default:

(1) the Trustee need perform only those duties that are specifically set forth in this Indenture and no others; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed

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therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture, but in case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture, but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein.

This Section 7.01(b) shall be in lieu of Section 315(a) of the TIA and such Section 315(a) is hereby expressly excluded from this Indenture, as permitted by the TIA.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(1) this paragraph (c) does not limit the effect of paragraph (b) of this Section 7.01;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(3) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05.

Subparagraphs (c) (1), (2) and (3) shall be in lieu of Sections 315(d) (1), 315(d) (2) and 315(d) (3) of the TIA and such Sections 315(d) (1), 315(d) (2) and 315(d) (3) are hereby expressly excluded from this Indenture, as permitted by the TIA.

(d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), (c) and (e) of this Section 7.01.

(e) The Trustee may refuse to perform any duty or exercise any right or power or extend or risk its own funds or otherwise incur any financial liability unless it receives indemnity satisfactory to it against any loss, liability or expense.

(f) Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee (acting in any capacity hereunder) shall be under no liability for interest on

any money received by it hereunder unless otherwise agreed in writing with the Company.

SECTION 7.02 Rights of Trustee. Subject to its duties and responsibilities under the provisions of Section 7.01, and, except as expressly excluded from this Indenture pursuant to said Section 7.01, subject also to its duties and responsibilities under the TIA:

(a) the Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness

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or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, conclusively rely upon an Officers' Certificate;

(c) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder;

(d) the Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith which it believes to be authorized or within its rights or powers conferred under this Indenture;

(e) the Trustee may consult with counsel selected by it and any advice or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or suffered or omitted by it hereunder in good faith and in accordance with such advice or Opinion of Counsel;

(f) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Holders, pursuant to the provisions of this Indenture, unless such Holders shall have offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby;

(g) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a resolution of the Board of Directors;

(h) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the sole cost of the Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation;

(i) the Trustee shall not be deemed to have notice of any Default or Event of Default unless a Responsible Officer of the Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by a Responsible Officer of the Trustee at the Corporate Trust Office of the Trustee, and such notice references the Securities and this Indenture;

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(j) the rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and to each agent, custodian and other Person employed to act hereunder; and

(k) the Trustee may request that the Company deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

SECTION 7.03 Individual Rights of Trustee. The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee. Any Paying Agent, Registrar, Conversion Agent or co-registrar may do the same with like rights. However, the Trustee must comply with Sections 7.10 and 7.11.

SECTION 7.04 Trustee's Disclaimer. The Trustee makes no representation as to the validity or adequacy of this Indenture, the Securities or the Pledged Securities, it shall not be accountable for the Company's use or application of the proceeds from the Securities, it shall not be responsible for any statement in the registration statement for the Securities under the Securities Act or in the Indenture or the Securities (other than its certificate of authentication), or the determination as to which beneficial owners are entitled to receive any notices hereunder.

SECTION 7.05 Notice of Defaults. If a Default occurs and if it is known to a Responsible Officer of the Trustee, the Trustee shall give to each Securityholder notice of the Default within 90 days after such Responsible Officer obtains knowledge of such Default unless such Default shall have been cured or waived before the giving of such notice. Except in the case of a Default described in Section 6.01(1) or (2), the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of Securityholders. The second sentence of this Section 7.05 shall be in lieu of the proviso to Section 315(b) of the TIA and such proviso is hereby expressly excluded from this Indenture, as permitted by the TIA. The Trustee shall not be deemed to have knowledge of a Default unless a Responsible Officer of the Trustee has received written notice of such Default.

SECTION 7.06 Reports by Trustee to Holders. Within 60 days after each April 15 beginning with the April 15 following the date of this Indenture, the Trustee shall mail to each Securityholder a brief report dated as of such April 15 that complies with TIA Section 313(a), if required by such Section 313(a). The Trustee also shall comply with TIA Section 313(b).

A copy of each report at the time of its mailing to Securityholders shall be filed with the SEC and each securities exchange, if any, on which the Securities are listed. The Company agrees to promptly notify the Trustee whenever the Securities become listed on any securities exchange and of any delisting thereof.

SECTION 7.07 Compensation and Indemnity. The Company agrees:

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(a) to pay to the Trustee from time to time such reasonable compensation as the Company and the Trustee shall from time to time agree in writing for all services rendered by it hereunder (which compensation shall not be limited (to the extent permitted by law) by any provision of law in regard to the compensation of a trustee of an express trust);

(b) to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses, advances and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(c) to indemnify the Trustee or any predecessor Trustee and their agents for, and to hold them harmless against, any loss, damage, claim, liability, cost or expense (including reasonable attorney's fees and expenses and taxes (other than taxes based upon, measured by or determined by the income of the Trustee)) incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this trust, including the reasonable costs and expenses of defending itself against any claim (whether asserted by the Company or any Holder or any other Person) or liability in connection with the exercise or performance of any of its powers or duties hereunder.

To secure the Company's payment obligations in this Section 7.07, the Holders shall have been deemed to have granted to the Trustee a lien prior to the Securities on all money or property held or collected by the Trustee, except that held in trust to pay the Variable Principal Amount, Redemption Price, Purchase Price, Change in Control Purchase Price, or cash interest, if any, as the case may be, on particular Securities.

The Company's payment obligations pursuant to this Section 7.07 shall survive the discharge of this Indenture and the resignation or removal of the Trustee. When the Trustee incurs expenses after the occurrence of a Default specified in Section 6.01(6) or (7), the expenses including the reasonable charges and expenses of its counsel, are intended to constitute expenses of administration under any Bankruptcy Law.

SECTION 7.08 Replacement of Trustee. The Trustee may resign by so notifying the Company; provided, however, no such resignation shall be effective until a successor Trustee has accepted its appointment pursuant to this Section 7.08. The Holders of a majority in aggregate Original Principal Amount of the Securities at the time outstanding may remove the Trustee by so notifying the Trustee and the Company. The Company shall remove the Trustee if:

- (1) the Trustee fails to comply with Section 7.10;
- (2) the Trustee is adjudged bankrupt or insolvent;
- (3) a receiver or public officer takes charge of the Trustee or its property; or

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- (4) the Trustee otherwise becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of the Trustee for any reason, the Company shall promptly appoint, by resolution of its Board of Directors, a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company satisfactory in form and substance to the retiring Trustee and the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Securityholders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.07.

If a successor Trustee does not take office within 30 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of a majority in aggregate Original Principal Amount of the Securities at the time outstanding may petition any court of competent jurisdiction at the expense of the Company for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.10, any Securityholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

SECTION 7.09 Successor Trustee by Merger. If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee.

SECTION 7.10 Eligibility; Disqualification. The Trustee shall at all times satisfy the requirements of TIA Sections 310(a)(1) and 310(b). The Trustee (or its parent holding company) shall have a combined capital and surplus of at least \$50,000,000 as set forth in its most recent published annual report of condition. Nothing herein contained shall prevent the Trustee from filing with the Commission the application referred to in the penultimate paragraph of TIA Section 310(b).

SECTION 7.11 Preferential Collection of Claims Against Company. The Trustee shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated therein.

ARTICLE 8

DISCHARGE OF INDENTURE

SECTION 8.01 Discharge of Liability on Securities. When (i) the Company delivers to the Trustee all outstanding Securities (other than Securities replaced pursuant to Section 2.07) for cancellation or (ii) all outstanding Securities have become due and payable and

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the Company irrevocably deposits with the Trustee, the Paying Agent (if the Paying Agent is not the Company or any of its Affiliates) or the Conversion Agent cash or, if expressly permitted by the terms of the Securities or the Indenture, Common Stock sufficient to pay all amounts due and owing on all outstanding Securities (other than Securities replaced pursuant to Section 2.07), and if in either case the Company pays all other sums payable hereunder by the Company, then this Indenture shall, subject to Section 7.07, cease to be of further effect. The Trustee shall join in the execution of a document prepared by the Company acknowledging satisfaction and discharge of this Indenture on demand of the Company accompanied by an Officers' Certificate and Opinion of Counsel and at the cost and expense of the Company.

SECTION 8.02 Repayment to the Company. The Trustee and the Paying Agent shall return to the Company upon written request any money or securities held by them for the payment of any amount with respect to the Securities that remains unclaimed for two years, subject to applicable unclaimed property law. After return to the Company, Holders entitled to the money or securities must look to the Company for payment as general creditors unless an applicable abandoned property law designates another person and the Trustee and the Paying Agent shall have no further liability to the Securityholders with respect to such money or securities for that period commencing after the return thereof.

ARTICLE 9

AMENDMENTS

SECTION 9.01 Without Consent of Holders. The Company and the Trustee may amend this Indenture or the Securities without the consent of any Securityholder:

- (1) to cure any ambiguity, omission, defect or inconsistency;
- (2) to comply with Article 5 or Section 11.14;
- (3) in exchange for Securityholders agreeing to waive their right to require the Company to purchase all or a portion of their Securities on a specified Purchase Date, to add additional Purchase Dates on which Securityholders may require the Company to purchase all or a portion of their Securities at the applicable Purchase Price and, in addition, to pay such Securityholders additional cash payments in connection therewith;
- (4) to secure the Company's obligations under the Securities and this Indenture;
- (5) to add to the Company's covenants for the benefit of the Securityholders or to surrender any right or power conferred upon the Company;

(6) to make any change to comply with the TIA, or any amendment thereto, or to comply with any requirement of the SEC in connection with the qualification of the Indenture under the TIA, or as necessary in connection with the registration of the Securities under the Securities Act; or

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(7) to make any change that does not adversely affect the rights of any Holders (it being understood that any amendment described in clause (1) above made solely to conform this Indenture to the final offering memorandum provided to investors in connection with the initial offering of the Securities will be deemed not to adversely affect the rights or interests of Holders).

SECTION 9.02 With Consent of Holders. With the written consent of the Holders of at least a majority in aggregate Original Principal Amount of the Securities at the time outstanding, the Company and the Trustee may amend this Indenture or the Securities. However, without the consent of each Securityholder affected, an amendment to this Indenture or the Securities may not:

(1) reduce the percentage in Original Principal Amount of Securities whose Holders must consent to an amendment;

(2) make any change in the manner or rate of accrual of Variable Principal Amount or cash interest, reduce the rate of cash interest referred to in paragraph 1 of the Securities, or extend the time for payment of Variable Principal Amount or cash interest on any Security;

(3) reduce the Original Principal Amount, Variable Principal Amount or Restated Principal Amount or cash interest, with respect to any Security, or extend the Stated Maturity of any Security;

(4) reduce the Redemption Price, Purchase Price or Change in Control Purchase Price of any Security;

(5) make any Security payable in money or securities other than that stated in the Security;

(6) make any change in Article 10 of the Indenture, or this Section 9.02, except to increase any percentage set forth therein;

(7) make any change that adversely affects the right to convert any Security;

(8) make any change that adversely affects the right to require the Company to purchase the Securities in accordance with the terms thereof and this Indenture; or

(9) impair the right to institute suit for the enforcement of any payment with respect to, or conversion of, the Securities.

It shall not be necessary for the consent of the Holders under this Section 9.02 to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.

After an amendment under this Section 9.02 becomes effective, the Company shall mail to each Holder a notice briefly describing the amendment.

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SECTION 9.03 Compliance with Trust Indenture Act. Every supplemental indenture executed pursuant to this Article shall comply with the TIA.

SECTION 9.04 Revocation and Effect of Consents, Waivers and Actions. Until an amendment, consent, waiver or other action by Holders becomes effective, a consent thereto by a Holder of a Security hereunder is a continuing consent by the Holder and every subsequent Holder of that Security or portion of the Security that evidences the same obligation as the consenting Holder's

Security, even if notation of the amendment, consent, waiver or other action is not made on the Security. However, any such Holder or subsequent Holder may revoke the consent as to such Holder's Security or portion of the Security if the Trustee receives the notice of revocation before the date as of which the amendment, consent, waiver or action is made effective. After an amendment, consent, waiver or action becomes effective, it shall bind every Securityholder.

SECTION 9.05 Notation on or Exchange of Securities. Securities authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities so modified as to conform, in the opinion of the Board of Directors, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for outstanding Securities.

SECTION 9.06 Trustee to Sign Supplemental Indentures. The Trustee shall sign any supplemental indenture authorized pursuant to this Article 9 if the amendment contained therein does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign such supplemental indenture. In signing such supplemental indenture the Trustee shall receive, and (subject to the provisions of Section 7.01) shall be fully protected in relying upon, in addition to the documents required by Section 14.04, an Officers' Certificate and an Opinion of Counsel stating that such amendment is authorized or permitted by this Indenture.

SECTION 9.07 Effect of Supplemental Indentures. Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

ARTICLE 10

SPECIAL TAX EVENT CONVERSION

SECTION 10.01 Optional Conversion to Quarterly Coupon Note upon Tax Event. From and after the date (the "Tax Event Date") of the occurrence of a Tax Event after March 21, 2008, the Company shall have the option to elect, in lieu of having Variable Principal Amount increase, to have interest accrue and be paid in cash at the Variable Yield per annum, on a Restated Principal Amount, per \$1,000 Original Principal Amount (the "Restated Principal Amount") equal to the accrued Variable Principal Amount through the Tax Event Date or the

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date the Company exercises the option provided for in this Section 10.01, whichever is later (the "Option Exercise Date"). Such interest shall be payable quarterly on March 21, June 21, September 21 and December 21 of each year to Holders of record at the close of business on March 7, June 7, September 7 and December 7 immediately preceding such interest payment date. Interest will accrue from the most recent date on which interest has been paid or, if no interest has been paid, from the Option Exercise Date. Within 15 days of the occurrence of a Tax Event, the Company shall deliver a written notice of such Tax Event by facsimile and first-class mail to the Trustee and within 15 days of its exercise of such option the Company shall deliver a written notice of the Option Exercise Date by facsimile and first-class mail to the Trustee and by first class mail to the Holders of the Securities. From and after the Option Exercise Date, (i) the Company shall be obligated to pay at Stated Maturity, in lieu of the Variable Principal Amount of a Security, the Restated Principal Amount thereof plus accrued and unpaid interest on such Security and (ii) "Variable Principal Amount" or similar words, as used herein, shall mean Restated Principal Amount plus accrued and unpaid interest with respect to any Security. Securities authenticated and delivered after the Option Exercise Date may, and shall if required by the Trustee, bear a notation in a form approved by the Trustee as to the conversion of the Securities to quarterly coupon notes. No other changes to this Indenture shall result as a result of the events described in this Section 10.01.

ARTICLE 11

CONVERSION

SECTION 11.01 Conversion Privilege. A Holder of a Security may convert such Security into shares of Common Stock at any time during the periods and subject to the conditions stated in paragraph 9 of the Securities, subject to the provisions of this Article 11. The number of shares of Common Stock issuable upon conversion of a Security per \$1,000 of Original Principal Amount thereof (the "Conversion Rate") shall be determined in accordance with the provisions of paragraph 9 of the Securities. The initial number of shares of Common Stock issuable upon conversion of a Security per \$1,000 of Original Principal Amount thereof shall equal 38.4615, subject to adjustment.

A Holder may convert a portion of the Original Principal Amount of a Security if the portion is \$1,000 or an integral multiple of \$1,000. Provisions of this Indenture that apply to conversion of all of a Security also apply to conversion of a portion of a Security.

SECTION 11.02 Conversion Procedure. To convert a Security, a Holder must satisfy the requirements in paragraph 9 of the Securities. The date on which the Holder satisfies all those requirements is the conversion date (the "Conversion Date"). Following the Conversion Date, the Company shall deliver to the Holder through the Conversion Agent, in accordance with Section 11.20 a certificate for the number of full shares of Common Stock issuable upon the conversion and cash in lieu of any fractional share determined pursuant to Section 11.03. The Company shall determine such full number of shares and the amounts of the required cash with respect to any fractional share, and shall set forth such information in an Officers' Certificate delivered to the Conversion Agent. The Conversion Agent shall have no duties under this paragraph unless and until it has received such certificate.

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The Person in whose name the certificate is registered shall be treated as a stockholder of record on and after the Conversion Date; provided, however, that no surrender of a Security on any date when the stock transfer books of the Company shall be closed shall be effective to constitute the Person or Persons entitled to receive the shares of Common Stock upon such conversion as the record holder or holders of such shares of Common Stock on such date, but such surrender shall be effective to constitute the Person or Persons entitled to receive such shares of Common Stock as the record holder or holders thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open; such conversion shall be at the Conversion Rate in effect on the date that such Security shall have been surrendered for conversion, as if the stock transfer books of the Company had not been closed. Upon conversion of a Security, such Person shall no longer be a Holder of such Security.

Holders may surrender a Security for conversion by means of book-entry delivery in accordance with paragraph 9 of the Security and the regulations of the applicable book-entry facility.

No payment or adjustment will be made for dividends on, or other distributions with respect to, any Common Stock except as provided in this Article 11. On conversion of a Security, the increases in variable principal amount and accrued cash interest attributable to the period from the Issue Date of the Security through the Conversion Date, with respect to the converted Security shall not be cancelled, extinguished or forfeited, but rather shall be deemed to be paid in full to the Holder thereof through delivery of the Common Stock (together with the cash payment, if any, in lieu of fractional shares) in exchange for the Security being converted pursuant to the provisions hereof; and the fair market value of such shares of Common Stock (together with any such cash payment in lieu of fractional shares) shall be treated as issued, to the extent thereof, first in exchange for the increases in variable principal amount and accrued cash interest through the Conversion Date, and the balance, if any, of such fair market value of such Common Stock (and any such cash payment) shall be treated as issued in exchange for the Issue Price of the Security being converted pursuant to the provisions hereof. Notwithstanding the foregoing, accrued cash interest will be payable upon conversion of Securities made concurrently with or after acceleration of Securities following an Event of Default.

If the Holder converts more than one Security at the same time, the number of shares of Common Stock issuable upon conversion shall be based on the

aggregate Original Principal Amount of the Securities converted.

A Security surrendered for conversion based on (a) the Common Stock price may be surrendered for conversion until the close of business on March 21, 2023, (b) the Security being called for redemption may be surrendered for conversion at any time prior to the close of business on the second Business Day immediately preceding the Redemption Date, even if it is not otherwise convertible at such time, and (c) upon the occurrence of certain corporate transactions more fully described in paragraph 9 of the Security may be surrendered for conversion at any time from and after the date which is 15 days prior to the anticipated effective date of such transaction until 15 days after the actual date of such transaction, and if such day is not a Business Day, the next occurring Business Day following such day.

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Upon surrender of a Security that is converted in part, the Company shall execute, and the Trustee shall authenticate and deliver to the Holder, a new Security in an authorized denomination equal in Original Principal Amount to the unconverted portion of the Security surrendered.

SECTION 11.03 Fractional Shares. The Company will not issue a fractional share of Common Stock upon conversion of a Security. Instead, the Company will deliver cash for the current market value of the fractional share. The current market value of a fractional share shall be determined, to the nearest 1/1,000th of a share, by multiplying the per share Sale Price of the Common Stock, on the last Trading Day prior to the Conversion Date, by the fractional amount and rounding the product to the nearest whole cent.

SECTION 11.04 Taxes on Conversion. If a Holder converts a Security, the Company shall pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of Common Stock upon the conversion. However, the Holder shall pay any such tax which is due because the Holder requests the shares to be issued in a name other than the Holder's name and any income tax which is imposed on the Holder as a result of the conversion. The Conversion Agent may refuse to deliver the certificates representing the Common Stock being issued in a name other than the Holder's name until the Conversion Agent receives a sum sufficient to pay any tax which will be due because the shares are to be issued in a name other than the Holder's name. Nothing herein shall preclude the Company from any tax withholding or directing the withholding of any tax required by law or regulations.

SECTION 11.05 Company to Provide Stock. The Company shall, prior to issuance of any Securities under this Article 11, and from time to time as may be necessary, reserve out of its authorized but unissued Common Stock a sufficient number of shares of Common Stock to permit the conversion of the Securities.

All shares of Common Stock delivered upon conversion of the Securities shall be newly issued shares or treasury shares, shall be duly and validly issued and fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim created by the Company.

The Company will endeavor promptly to comply with all federal and state securities laws regulating the offer and delivery of shares of Common Stock upon conversion of Securities, if any, and will list or cause to have quoted such shares of Common Stock on each national securities exchange or in the over-the-counter market or such other market on which the Common Stock is then listed or quoted.

SECTION 11.06 Adjustment for Change in Capital Stock. Except as set forth in Section 11.14, if, after the Issue Date of the Securities, the Company:

(a) pays a dividend or makes a distribution on its Common Stock in shares of its Common Stock or other Capital Stock;

(b) subdivides its outstanding shares of Common Stock into a greater number of shares;

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(c) pays a dividend or makes a distribution of its Common Stock in shares of its Capital Stock (other than Common Stock or rights, warrants or options for its Capital Stock);

(d) combines its outstanding shares of Common Stock into a smaller number of shares; or

(e) issues by reclassification of its Common Stock any shares of its Capital Stock (other than rights, warrants or options for its Capital Stock);

then the conversion privilege and the Conversion Rate in effect immediately prior to such action shall be adjusted so that the Holder of a Security thereafter converted may receive the number of shares or other units of Capital Stock of the Company which such Holder would have owned immediately following such action if such Holder had converted the Security immediately prior to such action.

The adjustment shall become effective immediately after the record date in the case of a dividend or distribution and immediately after the effective date in the case of a subdivision, combination or reclassification.

SECTION 11.07 Adjustment for Rights Issue. Except as set forth in Sections 11.14 and 11.19, if after the Issue Date, the Company distributes any rights, warrants or options to all holders of its Common Stock entitling them, for a period expiring within 60 days after the record date for such distribution, to purchase shares of Common Stock at a price per share less than the Sale Price of the Common Stock as of the Time of Determination, the Conversion Rate shall be adjusted in accordance with the formula:

$$R' = \frac{R (O + N)}{(O + [(N \times P)/M])}$$

where:

R' = the adjusted Conversion Rate.

R = the current Conversion Rate.

O = the number of shares of Common Stock outstanding on the record date for the distribution to which this Section 11.07 is being applied.

N = the number of additional shares of Common Stock offered pursuant to the distribution.

P = the offering price per share of the additional shares.

M = the Average Sale Price, minus, in the case of (i) a distribution to which Section 11.06(b) applies or (ii) a distribution to which Section 11.08 applies, for which, in each case, (x) the record date shall occur on or before the record date for the distribution to which this Section 11.07 applies and (y) the Ex-Dividend Time shall occur on or after the date of the Time of

Determination for the distribution to which this Section 11.07 applies, the fair market value (on the record date for the distribution to which this Section 11.07 applies) of:

- (i) the Capital Stock of the Company distributed in respect of each share of Common Stock in such Section 11.06(b) distribution; and
- (ii) the assets of the Company or debt securities or any rights, warrants or options to purchase securities of the Company distributed in respect of each share of Common Stock in such Section 11.08 distribution.

The Board of Directors shall determine fair market values for the purposes of this Section 11.07.

The adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive the rights,

warrants or options to which this Section 11.07 applies. If all of the shares of Common Stock subject to such rights, warrants or options have not been issued when such rights, warrants or options expire, then the Conversion Rate shall promptly be readjusted to the Conversion Rate which would then be in effect had the adjustment upon the issuance of such rights, warrants or options been made on the basis of the actual number of shares of Common Stock issued upon the exercise of such rights, warrants or options.

No adjustment shall be made under this Section 11.07 if the application of the formula stated above in this Section 11.07 would result in a value of R' that is equal to or less than the value of R.

SECTION 11.08 Adjustment for Other Distributions. (a) Subject to Section 11.08(b), if, after the Issue Date of the Securities, the Company distributes to all holders of its Common Stock any of its assets excluding distributions of Capital Stock or equity interests referred to in Section 11.08(b), or evidence of indebtedness or any rights, warrants or options to purchase securities of the Company (including securities or cash, but excluding (x) distributions of Capital Stock referred to in Section 11.06 and distributions of rights, warrants or options referred to in Section 11.07 and (y) cash dividends or other cash distributions that are paid out of consolidated current net earnings or earnings retained in the business as shown on the books of the Company unless such cash dividends or other cash distributions are Extraordinary Cash Dividends), the Conversion Rate shall be adjusted, subject to the provisions of Section 11.08(c), in accordance with the formula:

$$R' = \frac{R \times M}{M - F}$$

where:

R' = the adjusted Conversion Rate.

R = the current Conversion Rate.

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M = the Average Sale Price, minus, in the case of a distribution to which Section 11.06(c) applies, for which (i) the record date shall occur on or before the record date for the distribution to which this Section 11.08 applies and (ii) the Ex-Dividend Time shall occur on or after the date of the Time of Determination for the distribution to which this Section 11.08 applies, the fair market value (on the record date for the distribution to which this Section 11.08 applies) of any Capital Stock of the Company distributed in respect of each share of Common Stock in such Section 11.06(c) distribution.

F = the fair market value (on the record date for the distribution to which this Section 11.08 applies) of the assets, securities, rights, warrants or options to be distributed in respect of each share of Common Stock in the distribution to which this Section 11.08 is being applied (including, in the case of cash dividends or other cash distributions giving rise to an adjustment, all such cash distributed concurrently).

The Board of Directors shall determine fair market values for the purposes of this Section 11.08.

The adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive the distribution to which this Section 11.08 applies.

For purposes of this Section 11.08, the term "Extraordinary Cash Dividend" shall mean any cash dividend or distribution with respect to the Common Stock the amount of which, together with the aggregate amount of cash dividends on the Common Stock to be aggregated with such cash dividend in accordance with the provisions of this paragraph, equals or exceeds the threshold percentage set forth in item (i) below. For purposes of item (i) below, the "Ex-Dividend Measurement Period" with respect to a cash dividend on the Common Stock shall mean the 365 consecutive day period ending on the date prior to the Ex-Dividend Time with respect to such cash dividend, and the "Relevant Cash Dividends" with respect to a cash dividend on the Common Stock shall mean the cash dividends on the Common Stock with Ex-Dividend Times occurring in the Ex-Dividend Measurement Period.

(i) If, upon the date prior to the Ex-Dividend Time with respect to a cash dividend on the Common Stock, the aggregate amount of such cash dividend together with the amounts of all Relevant Cash Dividends equals or exceeds on a per share basis 5% of the Sale Price of the Common Stock on the last Trading Day preceding the date of declaration by the Board of Directors of the cash dividend or distribution with respect to which this provision is being applied, then such cash dividend together with all Relevant Cash Dividends, shall be deemed to be an Extraordinary Cash Dividend and for purposes of applying the formula set forth above in this Section 11.08, the value of "F" shall be equal to (y) the aggregate amount of such cash dividend together with the amount of all Relevant Cash Dividends, minus (z) the aggregate amount of all Relevant Cash Dividends for which a prior adjustment in the Conversion Rate was previously made under this Section 11.08.

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In making the determinations required by item (i) above, the amount of cash dividends paid on a per share basis and the amount of any Relevant Cash Dividends specified in item (i) above, shall be appropriately adjusted to reflect the occurrence during such period of any event described in Section 11.06.

(b) If, after the Issue Date of the Securities, the Company pays a dividend or makes a distribution to all holders of its Common Stock consisting of Capital Stock of any class or series, or similar equity interests, of or relating to a Subsidiary or other business unit of the Company, the Conversion Rate shall be adjusted in accordance with the formula:

$$R' = R \times (1 + F/M)$$

where:

R' = the adjusted Conversion Rate.

R = the current Conversion Rate.

M = the average of the Sale Prices of the Common Stock for the ten (10) trading days commencing on and including the fifth trading day after the date on which "ex-dividend trading" commences for such dividend or distribution on The New York Stock Exchange or such other national or regional exchange or market which such securities are then listed or quoted (the "Ex-Dividend Date").

F = the fair market value of the securities distributed in respect of each share of Common Stock for which this Section 11.08(b) applies shall mean the number of securities distributed in respect of each share of Common Stock multiplied by the average of the Sale Prices of those securities distributed for the ten (10) trading days commencing on and including the fifth trading day after the Ex-Dividend Date.

(c) In the event that, with respect to any distribution to which Section 11.08(a) would otherwise apply, the difference between "M-F" as defined in the formula set forth in Section 11.08(a) is less than \$1.00 or "F" is equal to or greater than "M", then the adjustment provided by Section 11.08(a) shall not be made and in lieu thereof the provisions of Section 11.14 shall apply to such distribution.

SECTION 11.09 When Adjustment May Be Deferred. No adjustment in the Conversion Rate need be made unless the adjustment would require an increase or decrease of at least 1% in the Conversion Rate. Any adjustments that are not made shall be carried forward and taken into account in any subsequent adjustment and all adjustments that are made and carried forward shall be taken in the aggregate in order to determine if the 1% threshold is met.

All calculations under this Article 11 shall be made to the nearest cent or to the nearest 1/1,000th of a share, as the case may be.

SECTION 11.10 When No Adjustment Required. No adjustment need be made for a transaction referred to in Section 11.06, 11.07, 11.08 or 11.14 if Securityholders are to participate in the transaction on a basis and with notice that the Board of Directors determines to

be fair and appropriate in light of the basis and notice on which holders of Common Stock participate in the transaction. Such participation by Securityholders may include participation upon conversion provided that an adjustment shall be made at such time as the Securityholders are no longer entitled to participate.

No adjustment need be made for rights to purchase Common Stock pursuant to a Company plan for reinvestment of dividends or interest.

No adjustment need be made for a change in the par value or no par value of the Common Stock.

To the extent the Securities become convertible pursuant to this Article 11 into cash, no adjustment need be made thereafter as to the cash. Interest will not accrue on the cash.

No adjustment will be made pursuant to this Article 11 that would result, through the application of two or more provisions hereof, in the duplication of any adjustment.

SECTION 11.11 Notice of Adjustment. Whenever the Conversion Rate is adjusted, the Company shall promptly mail to Securityholders a notice of the adjustment. The Company shall file with the Trustee and the Conversion Agent such notice and a certificate from the Company's independent public accountants briefly stating the facts requiring the adjustment and the manner of computing it. Upon receipt by it of such notice, and at the written request of the Company, the Conversion Agent will promptly mail such notice to Securityholders at the Company's expense. The certificate shall be conclusive evidence that the adjustment is correct. Neither the Trustee nor any Conversion Agent shall be under any duty or responsibility with respect to any such certificate except to exhibit the same to any Holder desiring inspection thereof.

SECTION 11.12 Voluntary Increase. The Company from time to time may increase the Conversion Rate by any amount for any period of time. Whenever the Conversion Rate is increased, the Company shall mail to Securityholders and file with the Trustee and the Conversion Agent a notice of the increase. The Company shall mail the notice at least 15 days before the date the increased Conversion Rate takes effect. The notice shall state the increased Conversion Rate and the period it will be in effect.

A voluntary increase of the Conversion Rate does not change or adjust the Conversion Rate otherwise in effect for purposes of Section 11.06, 11.07 or 11.08 or 11.14.

SECTION 11.13 Notice of Certain Transactions. If:

(a) the Company takes any action that would require an adjustment in the Conversion Rate pursuant to Section 11.06, 11.07 or 11.08 (unless no adjustment is to occur pursuant to Section 11.10); or

(b) the Company takes any action that would require a supplemental indenture pursuant to Section 11.14; or

(c) there is a liquidation or dissolution of the Company;

then the Company shall mail to Securityholders and file with the Trustee and the Conversion Agent a notice stating the proposed record date for a dividend or distribution or the proposed effective date of a subdivision, combination, reclassification, consolidation, merger, binding share exchange, transfer, liquidation or dissolution. The Company shall file and mail the notice at least 15 days before such date. Failure to file or mail the notice or any defect in it shall not affect the validity of the transaction.

SECTION 11.14 Reorganization of Company; Special Distributions. If the Company is a party to a transaction subject to Article 5 (other than a sale of all or substantially all of the assets of the Company in a transaction in

which the holders of Common Stock immediately prior to such transaction do not receive securities, cash, property or other assets of the Company or any other Person) or a merger or binding share exchange which reclassifies or changes its outstanding Common Stock, the Person obligated to deliver securities, cash or other assets upon conversion of Securities shall enter into a supplemental indenture. If the issuer of securities deliverable upon conversion of Securities is an Affiliate of the successor Company, that issuer shall join in the supplemental indenture.

The supplemental indenture shall provide that the Holder of a Security may convert it into the kind and amount of securities, cash or other assets which such Holder would have received immediately after the consolidation, merger, binding share exchange or transfer if such Holder had converted the Security immediately before the effective date of the transaction, assuming (to the extent applicable) that such Holder (i) was not a constituent Person or an Affiliate of a constituent Person to such transaction; (ii) made no election with respect thereto; and (iii) was treated alike with the plurality of non-electing Holders. The supplemental indenture shall provide for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided for in this Article 11. The successor Company shall mail to Securityholders a notice briefly describing the supplemental indenture.

If this Section applies, neither Section 11.06 nor 11.07 applies.

If the Company makes a distribution to all holders of its Common Stock of any of its assets, or debt securities or any rights, warrants or options to purchase securities of the Company that would otherwise result in an adjustment in the Conversion Rate pursuant to the provisions of Section 11.08, then, from and after the record date for determining the holders of Common Stock entitled to receive the distribution, a Holder of a Security that converts such Security in accordance with the provisions of this Indenture shall upon such conversion be entitled to receive, in addition to the shares of Common Stock into which the Security is convertible, the kind and amount of securities, cash or other assets comprising the distribution that such Holder would have received if such Holder had converted the Security immediately prior to the record date for determining the holders of Common Stock entitled to receive the distribution.

SECTION 11.15 Company Determination Final. Any determination that the Company or the Board of Directors must make pursuant to Section 11.03, 11.06, 11.07, 11.08, 11.09, 11.10, 11.14 or 11.17 is conclusive.

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SECTION 11.16 Trustee's Adjustment Disclaimer. The Trustee has no duty to determine when an adjustment under this Article 11 should be made, how it should be made or what it should be. The Trustee has no duty to determine whether a supplemental indenture under Section 11.14 need be entered into or whether any provisions of any supplemental indenture are correct. The Trustee shall not be accountable for and makes no representation as to the validity or value of any securities or assets issued upon conversion of Securities. The Trustee shall not be responsible for the Company's failure to comply with this Article 11. Each Conversion Agent (other than the Company or an Affiliate of the Company) shall have the same protection under this Section 11.16 as the Trustee.

SECTION 11.17 Simultaneous Adjustments. In the event that this Article 11 requires adjustments to the Conversion Rate under more than one of Sections 11.06, 11.07 or 11.08, and the record dates for the distributions giving rise to such adjustments shall occur on the same date, then such adjustments shall be made by applying, first, the provisions of Section 11.06, second, the provisions of Section 11.08 and, third, the provisions of Section 11.07.

SECTION 11.18 Successive Adjustments. After an adjustment to the Conversion Rate under this Article 11, any subsequent event requiring an adjustment under this Article 11 shall cause an adjustment to the Conversion Rate as so adjusted.

SECTION 11.19 Rights Issued in Respect of Common Stock Issued Upon Conversion. Each share of Common Stock issued upon conversion of Securities pursuant to this Article 11 shall be entitled to receive the appropriate number of common stock or preferred stock purchase rights, as the case may be (the "Rights"), if any, that all shares of Common Stock are entitled to receive and

the certificates representing the Common Stock issued upon such conversion shall bear such legends, if any, in each case as may be provided by the terms of any shareholder rights agreement adopted by the Company, as the same may be amended from time to time (in each case, a "Rights Agreement"). Provided that such Rights Agreement requires that each share of Common Stock issued by the Company (including those that might be issued upon conversion of Securities) at any time prior to the distribution of separate certificates representing the Rights be entitled to receive such Rights, then, notwithstanding anything else to the contrary in this Article 11, there shall not be any adjustment to the conversion privilege or Conversion Rate or any other term or provision of the Securities as a result of the issuance of Rights, the distribution of separate certificates representing the Rights, the exercise or redemption of such Rights in accordance with any such Rights Agreement, or the termination or invalidation of such Rights.

SECTION 11.20 Company's Right to Elect to Pay Cash or Common Stock. In lieu of delivery of Common Stock upon notice of conversion of any Securities, the Company may elect to pay holders surrendering Securities an amount in cash per \$1,000 Original Principal Amount per Security equal to the Average Sale Price of Common Stock for the five consecutive trading days immediately following either (a) the date of notice of election to deliver cash as described below if the Company has not given notice of redemption, or (b) the conversion date, in the case of conversion following the notice of redemption specifying that the Company intends to deliver cash upon conversion, in either case multiplied by the Conversion Rate in effect on that date. The Company will inform the holders through the Trustee no later than two business days following the conversion date of its election to deliver shares of Common Stock or

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to pay cash in lieu of delivery of Common Stock, unless the Company has already informed holders of its election in connection with its optional redemption of the Securities pursuant to Section 3.1 herein. If the Company elects to deliver all of such payment in Common Stock, the Common Stock will be delivered through the Conversion Agent no later than the fifth business day following the Conversion Date. If the Company elects to pay all or a portion of such payment in cash, the payment, including any delivery of Common Stock, will be made to holders surrendering Securities no later than the tenth business day following the applicable conversion date. If an Event of Default (other than a default in a cash payment upon conversion of the Securities) has occurred and is continuing, the Company may not pay cash upon conversion of any Security or portion of a Security (other than cash for fractional shares).

ARTICLE 12

PAYMENT OF INTEREST

SECTION 12.01 Interest Payments. Interest on any Security that is payable, and is punctually paid or duly provided for, on any applicable payment date shall be paid to the person in whose name that Security is registered at the close of business on the Regular Record Date or accrual date, as the case may be, for such interest at the office or agency of the Company maintained for such purpose. Each installment of quarterly interest on any Security shall be paid in same-day funds by transfer to an account maintained by the payee located inside the United States, if the Trustee shall have received proper wire transfer instructions from such payee not later than the related Regular Record Date or accrual date, as the case may be, or, if no such instructions have been received, by check drawn on a bank in New York City mailed to the payee at its address set forth on the Registrar's books. In the case of a permanent Global Security, quarterly interest payable on any applicable payment date will be paid to the Depositary, with respect to that portion of such permanent Global Security held for its account by Cede & Co. for the purpose of permitting such party to credit the interest received by it in respect of such permanent Global Security to the accounts of the beneficial owners thereof.

SECTION 12.02 Defaulted Interest. Except as otherwise specified with respect to the Securities, any interest on any Security that is payable, but is not punctually paid or duly provided for, within 30 days following any applicable payment date (herein called "Defaulted Interest", which term shall include any accrued and unpaid interest that has accrued on such defaulted amount in accordance with paragraph 1 of the Securities), shall forthwith cease to be payable to the registered Holder thereof on the relevant Regular Record Date or accrual date, as the case may be, by virtue of having been such Holder,

and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the persons in whose names the Securities are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security and the date of the proposed payment (which shall not be less than 20 days after such notice is received by the Trustee), and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to

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be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a special record date (the "Special Record Date") for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Securities at his address as it appears on the list of Securityholders maintained pursuant to Section 2.05 not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the persons in whose names the Securities are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest on the Securities in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

SECTION 12.03 Interest Rights Preserved. Subject to the foregoing provisions of this Article 12 and Section 2.06, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to quarterly interest accrued and unpaid, and to accrue, which were carried by such other Security.

ARTICLE 13

SECURITY

SECTION 13.01 Security.

(a) On the date of this Indenture, the Company shall (i) enter into the Pledge Agreement and comply with the terms and provisions thereof and (ii) purchase the Pledged Securities to be pledged to the Trustee for the benefit of the Holders in such amount as the Company expects shall be sufficient, upon receipt of scheduled interest and/or of principal payments of such Pledged Securities, to provide for payment in full of the first twelve scheduled interest payments (up to and including the interest payment due on March 21, 2006) due on the Securities. The Pledged Securities shall be pledged by the Company to the Trustee for the benefit of the Holders and shall be held by the Trustee in the Pledge Account pending disposition pursuant to the Pledge Agreement.

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(b) Each Holder, by its acceptance of a Security, consents and agrees to the terms of the Pledge Agreement (including, without limitation, the provisions providing for foreclosure and release of the Pledged Securities) as the same may be in effect or may be amended from time to time in accordance with its terms, and authorizes and directs the Trustee to enter into the Pledge Agreement and to perform its respective obligations and exercise its respective rights thereunder in accordance therewith. The Company will do or cause to be done all such acts and things as may be necessary or reasonably requested by the Trustee, or as may be required by the provisions of the Pledge Agreement, to assure and confirm to the Trustee the security interest in the Pledged Securities contemplated hereby, by the Pledge Agreement or any part thereof, as from time to time constituted, so as to render the same available for the security and benefit of this Indenture and of the Securities secured hereby, according to the intent and purposes herein and therein expressed. The Company, in consultation with the Trustee, shall take, or shall cause to be taken, any and all actions reasonably required to cause the Pledge Agreement to create and maintain, as security for the obligations of the Company under this Indenture and the Securities, valid and enforceable first priority liens in and on all the Pledged Securities, in favor of the Trustee, superior to and prior to the rights of third Persons and subject to no other Liens.

(c) The release of any Pledged Securities pursuant to the Pledge Agreement will not be deemed to impair the security under this Indenture in contravention of the provisions hereof if and to the extent the Pledged Securities are released pursuant to this Indenture and the Pledge Agreement. To the extent applicable, the Company shall cause TIA Section 314(d) relating to the release of property or securities from the Lien and security interest of the Pledge Agreement and relating to the substitution therefor of any property or securities to be subjected to the Lien and security interest of the Pledge Agreement to be complied with. Any certificate or opinion required by TIA Section 314(d) may be made by an Officer of the Company, except in cases where TIA Section 314(d) requires that such certificate or opinion be made by an independent Person, which Person shall be an independent engineer, appraiser or other expert selected by the Company.

(d) The Company shall cause TIA Section 314(b), relating to opinions of counsel regarding the Lien under the Pledge Agreement, to be complied with. The Trustee may accept, to the extent permitted by Sections 4.03 and 7.06 as conclusive evidence of compliance with the foregoing provisions, the appropriate statements contained in such instruments.

(e) The Trustee may, in its sole discretion and without the consent of the Holders, on behalf of the Holders, take all reasonable actions in accordance with the Pledge Agreement necessary or appropriate in order to (i) enforce any of the terms of the Pledge Agreement and (ii) collect and receive any and all amounts payable in respect of the obligations of the Company thereunder. The Trustee shall have power to institute and to maintain such suits and proceedings as the Trustee may reasonably deem expedient to preserve or protect its interests and the interests of the Holders in the Pledged Securities (including power to institute and maintain suits or proceedings to restrain the enforcement of or compliance with any legislative or other governmental enactment, rule or order that may be unconstitutional or otherwise invalid if the enforcement of, or compliance with, such enactment, rule or order would impair the security interest hereunder or be prejudicial to the interests of the Holders or of the Trustee).

ARTICLE 14

MISCELLANEOUS

SECTION 14.01 Trust Indenture Act Controls. If any provision of this Indenture limits, qualifies, or conflicts with another provision which is required to be included in this Indenture by the TIA, the required provision shall control.

SECTION 14.02 Notices. Any request, demand, authorization, notice, waiver, consent or communication shall be in writing and delivered in person or delivery by courier guaranteeing overnight delivery or mailed by first-class mail, postage prepaid, addressed as follows or transmitted by facsimile transmission (confirmed by guaranteed overnight courier) to the following

facsimile numbers:

if to the Company:

Alaska Air Group, Inc.
19300 Pacific Highway South
Seattle, Washington 98188
Attention: Chief Financial Officer
Fax: (206) 431-5007

with a copy of any notice given pursuant to Article 6 to:

O'Melveny & Myers LLP
400 S. Hope Street
Los Angeles, California 90071
Attention: David Johnson, Esq.
Fax: (213) 430-6407

if to the Trustee:

U.S. Bank National Association
1 Federal Street, 3rd Floor
Boston, Massachusetts 02110
Attention: Corporate Trust Services
Fax: (617) 603-6667

The Company or the Trustee by notice given to the other in the manner provided above may designate additional or different addresses for subsequent notices or communications.

Any notice or communication given to a Securityholder shall be mailed to the Securityholder, by first-class mail, postage prepaid, at the Securityholder's address as it appears on the registration books of the Registrar and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or

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communication is mailed in the manner provided above, it is duly given, whether or not received by the addressee.

If the Company mails a notice or communication to the Securityholders, it shall mail a copy to the Trustee and each Registrar, Paying Agent, Conversion Agent or co-registrar.

SECTION 14.03 Communication by Holders with Other Holders.
Securityholders may communicate pursuant to TIA Section 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Company, the Trustee, the Registrar, the Paying Agent, the Conversion Agent and anyone else shall have the protection of TIA Section 312(c).

SECTION 14.04 Certificate and Opinion as to Conditions Precedent.
Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee if reasonably requested:

(1) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

SECTION 14.05 Statements Required in Certificate or Opinion. Each Officers' Certificate or Opinion of Counsel with respect to compliance with a covenant or condition provided for in this Indenture shall include to the extent required by the Trustee:

- (1) a statement that each person making such Officers' Certificate or Opinion of Counsel has read such covenant or condition;
- (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such Officers' Certificate or Opinion of Counsel are based;
- (3) a statement that, in the opinion of each such person, he has made such examination or investigation as is necessary to enable such person to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (4) a statement that, in the opinion of such person, such covenant or condition has been complied with.

SECTION 14.06 Separability Clause. In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 14.07 Rules by Trustee, Paying Agent, Conversion Agent and Registrar. The Trustee may make reasonable rules for action by or a meeting of Securityholders.

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The Registrar, Conversion Agent and the Paying Agent may make reasonable rules for their functions.

SECTION 14.08 Calculations. The calculation of the Variable Interest Rate, Variable Principal Amount, Variable Yield, 3-month LIBOR, Purchase Price, Change in Control Purchase Price, Conversion Rate, Market Price, Sale Price of the Common Stock and each other calculation to be made hereunder shall be the obligation of the Calculation Agent. All calculations made by the Calculation Agent as contemplated pursuant to this Section 14.08 shall be final and binding on the Company and the Holders absent manifest error. The Company, Trustee, Paying Agent and Conversion Agent shall not be obligated to recalculate, recompute or confirm any such calculations. However, any calculations may be recalculated to correct errors at any time.

SECTION 14.09 Legal Holidays. A "Legal Holiday" is any day other than a Business Day. If any specified date (including a date for giving notice) is a Legal Holiday, the action shall be taken on the next succeeding day that is not a Legal Holiday, and, if the action to be taken on such date is a payment in respect of the Securities, no interest shall accrue for the intervening period.

SECTION 14.10 GOVERNING LAW. THE LAWS OF THE STATE OF NEW YORK SHALL GOVERN THIS INDENTURE AND THE SECURITIES.

SECTION 14.11 No Recourse Against Others. A director, officer, employee, agent, representative, stockholder or equity holder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or this Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Securities.

SECTION 14.12 Successors. All agreements of the Company in this Indenture and the Securities shall bind its successor. All agreements of the Trustee in this Indenture shall bind its successor.

SECTION 14.13 Multiple Originals. The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One originally signed copy is enough to prove this Indenture.

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EXECUTION COPY

IN WITNESS WHEREOF, the undersigned, being duly authorized, have executed this Indenture on behalf of the respective parties hereto as of the date first above written.

ALASKA AIR GROUP, INC.

By: _____
Name:
Title:

U.S. BANK NATIONAL ASSOCIATION

By: _____
Name:
Title:

EXHIBIT A-1

[FORM OF FACE OF GLOBAL SECURITY]

FOR PURPOSES OF SECTIONS 1272, 1273 AND 1275 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED, THIS SECURITY IS ISSUED WITH AN INDETERMINATE AMOUNT OF ORIGINAL ISSUE DISCOUNT FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. THE ISSUE DATE IS MARCH 21, 2003, AND THE YIELD TO MATURITY BASED ON A FIXED RATE EQUIVALENT FOR PURPOSES OF ACCRUING ORIGINAL ISSUE DISCOUNT IS 3.78625% PER ANNUM.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF THE DEPOSITORY TRUST COMPANY, OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN ARTICLE TWO OF THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

THIS SECURITY AND THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THIS SECURITY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY, THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN OR THEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES TO OFFER, SELL, OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE"), WHICH IS TWO YEARS AFTER THE LATER OF THE LAST DAY SECURITIES OF THIS ISSUE WERE ISSUED AND THE LAST DATE ON WHICH ALASKA AIR GROUP, INC. (THE "COMPANY" OR THE "ISSUER") OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) ONLY (A) TO THE

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COMPANY OR ANY SUBSIDIARY THEREOF, (B) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHICH NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (C) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" WITHIN THE MEANING OF SUBPARAGRAPH (A) (1), (2), (3) OR (7) OF RULE 501 UNDER THE SECURITIES ACT THAT IS ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL "ACCREDITED INVESTOR," FOR INVESTMENT PURPOSES AND NOT

WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, (D) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (C) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF ANY HOLDER THAT IS NOT AN AFFILIATE OF THE COMPANY AFTER THE RESALE RESTRICTION TERMINATION DATE.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS SECURITY ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE.

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ALASKA AIR GROUP, INC.
Senior Convertible Note due 2023

No. A-1 CUSIP: 011659 AF 6
Issue Date: March 21, 2003 Original Principal Amount: \$ _____
Issue Price: \$1,000.00
(for each \$1,000
Original Principal Amount)

ALASKA AIR GROUP, INC., a Delaware corporation, promises to pay to Cede & Co. or registered assigns, on March 21, 2023, the Variable Principal Amount of this Security on such date. This Security is issued with an Original Principal Amount of _____ DOLLARS (\$ _____).

This Security shall not bear interest except as specified on the other side of this Security. The Variable Principal Amount of this Security will accrue as specified on the other side of this Security. This Security is convertible as specified on the other side of this Security.

Additional provisions of this Security are set forth on the other side of this Security.

Dated: March 21, 2003 ALASKA AIR GROUP, INC.

By: _____
Name: Bradley Tilden
Title: Executive Vice President/Finance
& Chief Financial Officer

TRUSTEE'S CERTIFICATE OF
AUTHENTICATION

U.S. BANK NATIONAL ASSOCIATION,
as Trustee, certifies that this
is one of the Securities referred
to in the within-mentioned Indenture.

By: _____
Authorized Officer

Dated: March 21, 2003

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[FORM OF REVERSE SIDE OF NOTE]
Senior Convertible Note due 2023

1. Interest.

The Company promises to pay interest in cash on the Original Principal Amount of this Note at the Variable Interest Rate set forth in the Indenture from the Issue Date, or from the most recent date to which interest has been

paid or provided for, until March 21, 2008. During such period, the Company will pay cash interest quarterly in arrears on each Interest Payment Date to Holders of record at the close of business on each Regular Record Date immediately preceding such Interest Payment Date. Each payment of cash interest on the Securities will include interest accrued through the day immediately preceding the most recent Interest Payment Date.

Beginning March 21, 2008, this Security shall not bear interest, except as specified in this paragraph or in paragraph 11 hereof. From such date, the Original Principal Amount shall commence increasing daily by the Variable Yield to produce the Variable Principal Amount. The Variable Principal Amount will compound quarterly, not daily. At Stated Maturity, the Holder of this Security will receive the Variable Principal Amount of this Security on such date, unless the Security has been earlier redeemed or converted, which for each \$1,000 Original Principal Amount will be equal to such Original Principal Amount of \$1,000 per Security increased daily by the applicable Variable Yield as provided in the Indenture. If the Variable Principal Amount hereof or any portion of such Variable Principal Amount is not paid when due (whether upon acceleration pursuant to Section 6.02 of the Indenture, upon the date set for payment of the Redemption Price pursuant to paragraph 6 hereof, upon the date set for payment of the Purchase Price or Change in Control Purchase Price pursuant to paragraph 7 hereof or upon the Stated Maturity of this Security) or if installments of cash interest due hereon are not paid when due in accordance with this paragraph, then in each such case the overdue amount shall, to the extent permitted by law, bear interest at the Variable Interest Rate or Variable Yield, as the case may be, in effect following the date such overdue amount was due, compounded quarterly, which interest shall accrue from the date such overdue amount was originally due to the date payment of such amount, including interest thereon, has been made or duly provided for. All such interest shall be payable on demand. The accrual of such interest on overdue amounts shall be in lieu of, and not in addition to, any subsequent increase in the Variable Principal Amount.

The Holder of this Security is entitled to the benefits of a Pledge Agreement, dated March 21, 2003, between the Company and U.S. Bank National Association, pursuant to which the Company has placed in the Pledged Account cash or Pledged Financial Assets estimated to be sufficient to provide for the payment of the first twelve interest payments (up to and including the interest payment due on March 21, 2006) on this Security. The terms capitalized but undefined in this paragraph have the meanings given to them in the Pledge Agreement.

Interest on any Security that is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the person in whose name that Security is registered at the close of business on the Regular Record Date for such interest at the office or agency of the Company maintained for such purpose. Each installment of interest on any Security shall be

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paid in same-day funds by transfer to an account maintained by the payee located inside the United States.

2. Method of Payment.

Subject to the terms and conditions of the Indenture, the Company will make payments in respect of Variable Principal Amount, Redemption Prices, Purchase Prices, Change in Control Purchase Prices and at Stated Maturity to Holders who surrender Securities to a Paying Agent to collect such payments in respect of the Securities. In addition, the Company will pay cash interest from the Issue Date until March 21, 2008, as more fully described in paragraph 1 hereof. The Company will pay any cash amounts in money of the United States that at the time of payment is legal tender for payment of public and private debts. However, the Company may make such cash payments by check payable in such money.

3. Paying Agent, Conversion Agent and Registrar.

Initially, U.S. Bank National Association (the "Trustee"), will act as Paying Agent, Conversion Agent and Registrar. The Company may appoint and change any Paying Agent, Conversion Agent and Registrar or co-registrar without notice, other than notice to the Trustee except that the Company will maintain at least one Paying Agent in the State of New York, City of New York, Borough of Manhattan, which shall initially be an office or agency of the Trustee. The

Company or any of its Subsidiaries or any of their Affiliates may act as Paying Agent, Conversion Agent, Registrar or co-registrar.

4. Indenture.

The Company issued the Securities pursuant to an Indenture dated as of March 21, 2003 (the "Indenture"), between the Company and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Securities themselves and the Trust Indenture Act of 1939, as in effect from time to time (the "TIA"). Capitalized terms used herein and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Securityholders are referred to the Indenture and the TIA for a statement of those terms.

The Securities are unsecured (subject to Article XIII of the Indenture) and unsubordinated obligations of the Company limited to \$150,000,000 aggregate Original Principal Amount (subject to Section 2.07 of the Indenture). The Indenture does not limit other indebtedness of the Company, secured or unsecured.

5. [Intentionally Deleted]

6. Redemption at the Option of the Company.

No sinking fund is provided for the Securities. The Securities are redeemable as a whole, or from time to time in part, at any time at the option of the Company in accordance with the Indenture at the Redemption Prices set forth below, provided that the Securities are not redeemable prior to March 21, 2006.

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If redeemed at our option, the notes will be redeemed at the following prices, plus accrued and unpaid cash interest, if any, up to the Redemption Date:

- If redeemed between March 21, 2006 and March 20, 2007, at a Redemption Price equal to 102.16% of the Original Principal Amount of such Securities as of the applicable Redemption Date;
- If redeemed between March 21, 2007 and March 20, 2008, at a Redemption Price equal to 101.08% of such Securities as of the applicable Redemption Date; and
- If redeemed on March 21, 2008 or thereafter, at a price equal to 100% of the Variable Principal Amount of such Securities as of the applicable Redemption Date.

If this Security has been converted to a quarterly coupon note following the occurrence of a Tax Event, the Redemption Price will be equal to the Restated Principal Amount plus accrued and unpaid interest from the date of such conversion to but not including the Redemption Date; but in no event will this Security be redeemable before March 21, 2006.

7. Purchase by the Company at the Option of the Holder.

Subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase, at the option of the Holder, the Securities held by such Holder on March 21, 2008, March 21, 2013 and March 21, 2018 at a purchase price equal to the Variable Principal Amount of such Securities on the applicable Purchase Date plus accrued and unpaid cash interest, if any, upon delivery of a Purchase Notice containing the information set forth in the Indenture, at any time from the opening of business on the date that is 20 Business Days prior to such Purchase Date until the close of business on the day immediately preceding such Purchase Date and upon delivery of the Securities to the Paying Agent by the Holder as set forth in the Indenture.

The Purchase Price may be paid, at the option of the Company, in cash or by the issuance and delivery of shares of Common Stock of the Company, or in any combination thereof in accordance with the Indenture.

If prior to a Purchase Date this Security has been converted to a quarterly coupon note following the occurrence of a Tax Event, the Purchase

Price will be equal to the Restated Principal Amount plus accrued and unpaid cash interest from the date of conversion to the Purchase Date as provided in the Indenture.

At the option of the Holder and subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase all or a portion of the Securities in integral multiples of \$1,000 Original Principal Amount held by such Holder no later than 30 Business Days after the occurrence of a Change in Control of the Company for a Change in Control Purchase Price equal to the Variable Principal Amount of such Securities plus accrued and unpaid cash interest, if any, to but not including the Change in Control Purchase Date, which Change in Control Purchase Price shall be paid in cash. If prior to a Change in Control Purchase Date this Security has been converted to a quarterly coupon note following the occurrence of a Tax Event, the Change in Control Purchase Price shall be equal to the Restated Principal Amount plus accrued cash interest from the date of conversion to the Change in Control Purchase Date.

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A third party may make the offer and purchase of the Securities in lieu of the Company in accordance with the Indenture.

Holders have the right to withdraw any Purchase Notice or Change in Control Purchase Notice, as the case may be, by delivering to the Paying Agent a written notice of withdrawal in accordance with the provisions of the Indenture.

If cash (and/or securities if permitted under the Indenture) sufficient to pay the Purchase Price or Change in Control Purchase Price, as the case may be, of all Securities or portions thereof to be purchased as of the Purchase Date or the Change in Control Purchase Date, as the case may be, is deposited with the Paying Agent on the Business Day following the Purchase Date or the Change in Control Purchase Date, as the case may be, the Variable Principal Amount shall cease to increase, and cash interest, if any, shall cease to accrue on such Securities (or portions thereof) on such Purchase Date or Change in Control Purchase Date, as the case may be, and the Holder thereof shall have no other rights as such (other than the right to receive the Purchase Price or Change in Control Purchase Price, as the case may be, if any, upon surrender of such Security).

8. Notice of Redemption.

Notice of redemption will be mailed at least 30 days but not more than 60 days before the Redemption Date to each Holder of Securities to be redeemed at the Holder's registered address. If money sufficient to pay the Redemption Price of, and accrued and unpaid cash interest, if any, with respect to, all Securities (or portions thereof) to be redeemed on the Redemption Date is deposited with the Paying Agent prior to or on the Redemption Date, on such Redemption Date, the Variable Principal Amount shall cease to increase, and accrued cash interest, if any, shall cease to accrue on such Securities or portions thereof. Securities in denominations larger than \$1,000 of Original Principal Amount may be redeemed in part but only in integral multiples of \$1,000 of Original Principal Amount.

9. Conversion.

Subject to the provisions of this paragraph 9 and notwithstanding the fact that any other condition to conversion described below has not been satisfied, Holders may convert the Securities into Common Stock on a Conversion Date in any fiscal quarter commencing after June 30, 2003, if, as of the last day of the preceding fiscal quarter, the Sale Price of the Common Stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such preceding fiscal quarter is greater than the conversion trigger price per share. The "conversion trigger price" for any fiscal quarter shall be 110% of the accreted conversion price per share (as defined below) of Common Stock on the last trading day of such preceding calendar quarter. If the foregoing condition is satisfied, then the Securities will be convertible at any time of the option of the Holder, through their maturity.

The "accreted conversion price per share" of Common Stock as of any day equals the quotient of:

- the Variable Principal Amount on that day, divided by

- the number of shares of Common Stock issuable upon conversion of \$1,000 Original Principal Amount of Securities on that day.

Conversion Based on Credit Ratings. Subject to the provisions of this paragraph 9 and notwithstanding the fact that any other condition described herein to conversion has not been satisfied, Holders may convert the Securities into Common Stock during any period in which the credit rating assigned to the Securities by a Rating Agency is reduced to or below the Applicable Rating. "Rating Agency" means (1) Moody's Investors Service, Inc. and its successors ("Moody's") or (2) Standard & Poor's Credit Market Services, a division of The McGraw-Hill Companies Inc. and its successors ("Standard & Poor's"). "Applicable Rating" means (1) Caal, in the case of Moody's (or its equivalent under any successor ratings categories of Moody's), (2) CCC+, in the case of Standard & Poor's (or its equivalent under any successor ratings categories of Standard & Poor's) or (3) the equivalent in respect of ratings categories of any Rating Agencies which are successors to Moody's or Standard & Poor's.

Conversion upon Redemption. Subject to the provisions of this paragraph 9 and notwithstanding the fact that any other condition described herein to conversion has not been satisfied, a Holder may convert into Common Stock a Security or portion of a Security which has been called for redemption pursuant to paragraph 6 hereof, provided such Securities are surrendered for conversion prior to the close of business on the second Business Day immediately preceding the Redemption Date.

Conversion Upon Certain Distributions. Subject to the provisions of this paragraph 9 and notwithstanding the fact that any other condition to conversion has not been satisfied, in the event that the Company declares a dividend or distribution described in Section 11.07 of the Indenture, or a dividend or a distribution described in Section 11.08 of the Indenture where, the fair market value, per share, of such dividend or distribution per share of Common Stock, as determined in the Indenture, exceeds 15% of the Sale Price of the Common Stock on the Business Day immediately preceding the date of declaration for such dividend or distribution, the Securities may be surrendered for conversion beginning on the date the Company gives notice to the Holders of such right, which shall not be less than 20 days prior to the Ex-Dividend Time for such dividend or distribution, and Securities may be surrendered for conversion at any time thereafter until the close of business on the Business Day prior to the Ex-Dividend Time or until the Company announces that such dividend or distribution will not take place. No adjustment to the Conversion Rate or the ability of the Holders to convert this Security will be made if the Company provides, as permitted in the Indenture, for Holders to participate in the transaction without conversion or in other cases specified in the Indenture.

Conversion Upon Occurrence of Certain Corporate Transactions. Subject to the provisions of this paragraph 9 and notwithstanding the fact that any other condition described herein to conversion has not been satisfied, in the event the Company is a party to a consolidation, merger or binding share exchange pursuant to which the Common Stock would be converted into cash, securities or other property as set forth in Section 11.14 of the Indenture, the Securities may be surrendered for conversion at any time from and after the date which is 15 days prior to the date announced by the Company as the anticipated effective time until 15 days after the actual effective date of such transaction, and at the effective time of such transaction the right to convert a Security into Common Stock will be deemed to have changed into a right to

convert it into the kind and amount of cash, securities or other property which the holder would have received if the holder had converted its Security into Common Stock immediately prior to the transaction.

A Security in respect of which a Holder has delivered a Purchase Notice or Change in Control Purchase Notice exercising the option of such Holder to require the Company to purchase such Security may be converted only if such notice of exercise is withdrawn in accordance with the terms of the Indenture.

The initial Conversion Rate is 38.4615 shares of Common Stock per \$1,000 Original Principal Amount of each Security, subject to adjustment for certain

events described in the Indenture. The Company will deliver cash or a check in lieu of any fractional share of Common Stock. The ability to surrender Securities for conversion will expire at the close of business on March 21, 2023.

In the event the Company exercises its option pursuant to Section 10.01 of the Indenture to have, in lieu of having the Variable Principal Amount increase, interest accrue on the Security following a Tax Event, the Holder will be entitled on conversion to receive the same number of shares of Common Stock such Holder would have received if the Company had not exercised such option.

Increases in the Variable Principal Amount and cash interest will not be paid on Securities that are converted; provided, however that, prior to March 21, 2008, Securities surrendered for conversion during the period from the close of business on any Regular Record Date next preceding any Interest Payment Date to the opening of business on such Interest Payment Date shall be entitled to receive such interest payable on such Securities on the corresponding Interest Payment Date and (except Securities with respect to which the Company has mailed a notice of redemption beginning on March 21, 2006 and thereafter) Securities surrendered for conversion during such periods must be accompanied by payment of an amount equal to the interest with respect thereto that the registered Holder is to receive.

To exercise its conversion right, a Holder must (1) complete and manually sign the conversion notice (or complete and manually sign a facsimile of such notice) and deliver such notice to the Conversion Agent, (2) surrender the Security to the Conversion Agent, (3) furnish appropriate endorsements and transfer documents if required by the Conversion Agent, the Company or the Trustee and (4) pay any transfer or similar taxes, if required.

A Holder may convert a portion of a Security if the Original Principal Amount of such portion is \$1,000 or an integral multiple of \$1,000. No payment or adjustment will be made for dividends on the Common Stock except as provided in the Indenture. On conversion of a Security, increases in the Variable Principal Amount or cash interest (or interest if the Company has exercised its option provided for in paragraph 11 hereof) attributable to the period from the Issue Date (or, if the Company has exercised the option referred to in paragraph 11 hereof, the later of (x) the date of such exercise and (y) the date on which interest was last paid) through the Conversion Date shall not be cancelled, extinguished or forfeited, but rather shall be deemed to be paid in full to the Holder thereof through the delivery of the Common Stock (together with the cash payment, if any, in lieu of fractional shares) in exchange for the Security being converted

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pursuant to the terms hereof; and the fair market value of such shares of Common Stock (together with any such cash payment in lieu of fractional shares) shall be treated as issued, to the extent thereof, first in exchange for increases in the Variable Principal Amount or cash interest (or interest, if the Company has exercised its option provided for in paragraph 11 hereof) accrued through the Conversion Date, and the balance, if any, of such fair market value of such Common Stock (and any such cash payment) shall be treated as issued in exchange for the Issue Price of the Security being converted pursuant to the provisions hereof.

The Conversion Rate will be adjusted for dividends or distributions on Common Stock payable in Common Stock or other Capital Stock; subdivisions, combinations or certain reclassifications of Common Stock; distributions to all holders of Common Stock of certain rights to purchase Common Stock for a period expiring within 60 days of the record date for such distribution at less than the Sale Price of the Common Stock at the Time of Determination; and distributions to such holders of assets or debt securities of the Company or certain rights to purchase securities of the Company (excluding certain cash dividends or distributions) and certain rights pursuant to shareholder rights plans. However, no adjustment need be made if Securityholders may participate in the transaction or in certain other cases. The Company from time to time may voluntarily increase the Conversion Rate.

If the Company is a party to a consolidation, merger or binding share exchange or a transfer of all or substantially all of its assets, or upon certain distributions described in the Indenture, the right to convert a Security into Common Stock may be changed into a right to convert it into

securities, cash or other assets of the Company or another person.

The Conversion Rate will not be adjusted for increases in the Variable Principal Amount or accrued cash interest.

10. Conversion Arrangement on Call for Redemption.

Any Securities called for redemption, unless surrendered for conversion before the close of business on the Redemption Date, may be deemed to be purchased from the Holders of such Securities at an amount not less than the Redemption Price, by one or more investment bankers or other purchasers who may agree with the Company to purchase such Securities from the Holders, to convert them into Common Stock of the Company and to make payment for such Securities to the Trustee in trust for such Holders.

11. Tax Event.

From and after the date (the "Tax Event Date") of the occurrence of a Tax Event after March 21, 2008, the Company shall have the option to elect, in lieu of having Variable Principal Amount increase, to have interest accrue and be paid in cash at the Variable Yield per annum, on a Restated Principal Amount, per \$1,000 Original Principal Amount (the "Restated Principal Amount") equal to the accrued Variable Principal Amount through the Tax Event Date or the date the Company exercises the option provided for in this paragraph 11, whichever is later (the "Option Exercise Date"). Such interest shall be payable quarterly on March 21, June 21, September 21 and December 21 of each year to Holders of record at the close of business on March 7, June 7, September 7 and December 7 immediately preceding such interest payment

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date. Interest will accrue from the most recent date on which interest has been paid or, if no interest has been paid, from the Option Exercise Date.

12. Defaulted Interest.

Except as otherwise specified with respect to the Securities, any Defaulted Interest on any Security shall forthwith cease to be payable to the registered Holder thereof on the relevant Regular Record Date or accrual date, as the case may be, by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company as provided for in Section 12.02 of the Indenture.

13. Denominations; Transfer; Exchange.

The Securities are in fully registered form, without coupons, in denominations of \$1,000 of Original Principal Amount and integral multiples of \$1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not transfer or exchange any Securities selected for redemption (except, in the case of a Security to be redeemed in part, the portion of the Security not to be redeemed) or any Securities in respect of which a Purchase Notice or Change in Control Purchase Notice has been given and not withdrawn (except, in the case of a Security to be purchased in part, the portion of the Security not to be purchased) or any Securities for a period of 15 days before the mailing of a notice of redemption of Securities to be redeemed.

14. Persons Deemed Owners.

The registered Holder of this Security may be treated as the owner of this Security for all purposes.

15. Unclaimed Money or Securities.

The Trustee and the Paying Agent shall return to the Company upon written request any money or securities held by them for the payment of any amount with respect to the Securities that remains unclaimed for two years, subject to applicable unclaimed property laws. After return to the Company, Holders entitled to the money or securities must look to the Company for payment as general creditors unless an applicable abandoned property law designates another person.

16. Amendment; Waiver.

Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Securities may be amended with the written consent of the Holders of at least a majority in aggregate Original Principal Amount of the Securities at the time outstanding and (ii) certain Defaults may be waived with the written consent of the Holders of a majority in aggregate Original Principal Amount of the Securities at the time outstanding. Subject to certain exceptions set forth in the Indenture, without the consent of any Securityholder, the Company and the Trustee may amend the Indenture or the Securities to cure any ambiguity, omission, defect or inconsistency, or to

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comply with Article 5 or Section 11.14 of the Indenture, to secure the Company's obligations under this Security or to add to the Company's covenants for the benefit of the Securityholders or to surrender any right or power conferred, in exchange for Holders agreeing to waive their right to require the Company to purchase all or a portion of their Securities on a specified Purchase Date, to add additional Purchase Dates on which Holders may require the Company to purchase all or a portion of their Securities at the applicable Purchase Price and, in addition, to pay such Holders additional cash payments in connection therewith, to comply with any requirement of the SEC in connection with the qualification of the Indenture under the TIA, or as necessary in connection with the registration of the Securities under the Securities Act or to make any change that does not adversely affect the rights of any Holders.

17. Defaults and Remedies.

Under the Indenture, Events of Default include (i) the Company defaults in payment of interest when due under the Securities and such default continues for 30 days, provided that a failure to make or provide for the payment in full of any of the first twelve scheduled cash interest payments on the Securities within three business days of the applicable Interest Payment Date will constitute an Event of Default with no additional grace or cure period if the proceeds from the Government Securities to be released from the Pledge Account prior to any such Interest Payment Date equal or exceed the cash interest, payable on such Interest Payment Date; (ii) default in payment of the Original Principal Amount, the Variable Principal Amount (or, if the Securities have been converted to quarterly coupon notes following a Tax Event, the Restated Principal Amount), Redemption Price, Purchase Price or Change in Control Purchase Price, as the case may be, in respect of the Securities when the same becomes due and payable; (iii) failure by the Company to comply with other agreements in the Indenture or the Securities, subject to notice and lapse of time; (iv) default in the payment of indebtedness when due resulting in acceleration of other indebtedness of the Company or indebtedness of the Company's Subsidiaries for borrowed money where the aggregate principal amount with respect to which the default and acceleration has occurred exceeds \$35,000,000, and such acceleration has not been rescinded or annulled within a period of 10 days after receipt by the Company of a Notice of Default, subject to notice and lapse of time; (v) if any guarantee that may be provided pursuant to Section 4.07 of the Indenture with respect to the Securities ceases to be in full force and effect or is declared null and void or any guarantor denies that it has any further liability under any such guarantee, or gives notice to such effect (other than by reason of the termination of this Indenture or the release of any such guarantee in accordance with the applicable supplemental indenture) and such condition shall have continued for a period of 30 days after written notice of such failure requiring the guarantor and the Company to remedy the same shall have been given (x) to the Company by the Trustee or (y) to the Company and the Trustee by the holders of 25% in aggregate original principal amount of the Securities then outstanding; and (vi) certain events of bankruptcy or insolvency affecting the Company or certain of its subsidiaries. If an Event of Default occurs and is continuing, the Trustee, or the Holders of at least 25% in aggregate Original Principal Amount of the Securities at the time outstanding, may declare all the Securities to be due and payable immediately. Certain events of bankruptcy or insolvency are Events of Default which will result in the Securities becoming due and payable immediately upon the occurrence of such Events of Default.

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Securityholders may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Securities unless it receives indemnity or security reasonably satisfactory to it. Subject to certain limitations, Holders of a majority in aggregate Original Principal Amount of the Securities at the time outstanding may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Securityholders notice of any continuing Default (except a Default in payment of amounts specified in clause (i) or (ii) above) if it determines that withholding notice is in their interests.

18. Trustee Dealings with the Company.

Subject to certain limitations imposed by the TIA, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Company or its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee.

19. No Recourse Against Others.

A director, officer, employee, agent, representative, stockholder or equity holder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

20. Authentication.

This Security shall not be valid until an authorized signatory of the Trustee manually signs the Trustee's Certificate of Authentication on the other side of this Security.

21. Abbreviations.

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entirety), JT TEN (=joint tenants with right of survivorship and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).

22. GOVERNING LAW.

THE LAW OF THE STATE OF NEW YORK SHALL GOVERN THE INDENTURE, THE GUARANTEES AND THIS SECURITY.

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The Company will furnish to any Securityholder upon written request and without charge a copy of the Indenture which has in it the text of this Security in larger type. Requests may be made to:

Alaska Air Group, Inc.
19300 Pacific Highway South
Seattle, Washington 98188
Attention: Chief Financial Officer

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ASSIGNMENT FORM

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Insert assignee's soc. sec. or tax ID no.)

(Print or type assignee's name, address and zip code)

and irrevocably appoint

_____ agent to transfer this Security on the books of the
Company. The agent may substitute another to act for him.

CONVERSION NOTICE

To convert this Security into Common Stock of the Company, check the box:

| |

To convert only part of this Security, state the Original Principal Amount to be
converted (which must be \$1,000 or an integral multiple of \$1,000):

\$ _____

If you want the stock certificate made out in another person's name, fill in the
form below:

(Insert other person's soc. sec. or tax ID no.)

(Print or type other person's name, address and zip code)

Date: _____ Your Signature: _____

(Sign exactly as your name appears on the other side of this Security)

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EXHIBIT A-2

[Form of Certificated Security]

FOR PURPOSES OF SECTIONS 1272, 1273 AND 1275 OF THE UNITED STATES INTERNAL
REVENUE CODE OF 1986, AS AMENDED, THIS SECURITY IS ISSUED WITH AN INDETERMINATE
AMOUNT OF ORIGINAL ISSUE DISCOUNT FOR UNITED STATES FEDERAL INCOME TAX PURPOSES.
THE ISSUE DATE IS MARCH 21, 2003, AND THE YIELD TO MATURITY BASED ON A FIXED
RATE EQUIVALENT FOR PURPOSES OF ACCRUING ORIGINAL ISSUE DISCOUNT IS 3.78625% PER
ANNUM.

[INCLUDE IF SECURITY IS A CERTIFICATED SECURITY TO BE HELD BY AN
INSTITUTIONAL ACCREDITED INVESTOR--IN CONNECTION WITH ANY TRANSFER, THE HOLDER
WILL DELIVER TO THE REGISTRAR AND TRANSFER AGENT SUCH CERTIFICATES AND OTHER
INFORMATION AS SUCH TRANSFER AGENT MAY REASONABLY REQUIRE TO CONFIRM THAT THE
TRANSFER COMPLIES WITH THE FOLLOWING RESTRICTIONS.]

THIS SECURITY AND THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THIS SECURITY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY, THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN OR THEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES TO OFFER, SELL, OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE"), WHICH IS TWO YEARS AFTER THE LATER OF THE LAST DAY SECURITIES OF THIS ISSUE WERE ISSUED AND THE LAST DATE ON WHICH ALASKA AIR GROUP, INC. (THE "COMPANY" OR THE "ISSUER") OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) ONLY (A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (B) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHICH NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (C) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" WITHIN THE MEANING OF SUBPARAGRAPH (A) (1), (2), (3) OR (7) OF RULE 501 UNDER THE SECURITIES ACT THAT IS ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL "ACCREDITED INVESTOR," FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN

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CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, (D) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (C) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF ANY HOLDER THAT IS NOT AN AFFILIATE OF THE COMPANY AFTER THE RESALE RESTRICTION TERMINATION DATE.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS SECURITY ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE.

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ALASKA AIR GROUP, INC.
Senior Convertible Note due 2023

No. A-2 CUSIP: 011659 AF 6
Issue Date: March 21, 2003 Original Principal Amount: \$_____
Issue Price: \$1,000
(for each \$1,000
Original Principal Amount)

ALASKA AIR GROUP, INC., a Delaware corporation, promises to pay to Cede & Co. or registered assigns, on March 21, 2003 the Variable Principal Amount of this Security on such date. This Security is issued with an Original Principal Amount of _____ DOLLARS (\$_____).

This Security shall not bear interest except as specified on the other side of this Security. The Variable Principal Amount of this Security will accrue as specified on the other side of this Security. This Security is convertible as specified on the other side of this Security.

Additional provisions of this Security are set forth on the other side of this Security.

Dated: March 21, 2003

ALASKA AIR GROUP, INC.

By: _____
Name: Bradley Tilden
Title: Executive Vice President/Finance
& Chief Financial Officer

TRUSTEE'S CERTIFICATE OF
AUTHENTICATION

U.S. BANK NATIONAL ASSOCIATION,
as Trustee, certifies that this
is one of the Securities referred
to in the within-mentioned Indenture.

By: _____
Authorized Officer

Dated: March 21, 2003

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EXHIBIT B-1

TRANSFER CERTIFICATE

In connection with any transfer of any of the Securities within the period prior to the expiration of the holding period applicable to the sales thereof under Rule 144(k) (or any successor provision) under the Securities Act of 1933, as amended (the "Securities Act"), the undersigned registered owner of this Security hereby certifies with respect to \$_____ Original Principal Amount of the above-captioned securities presented or surrendered on the date hereof (the "Surrendered Securities") for registration of transfer, or for exchange or conversion where the securities issuable upon such exchange or conversion are to be registered in a name other than that of the undersigned registered owner (each such transaction being a "transfer"), that such transfer complies with the restrictive legend set forth on the face of the Surrendered Securities for the reason checked below:

- ☐ | The transfer of the Surrendered Securities is made to the Company or any subsidiaries; or
- ☐ | The transfer of the Surrendered Securities complies with Rule 144A under the Securities Act; or
- ☐ | The transfer of the Surrendered Securities is to an institutional accredited investor, as described in Rule 501(a)(1), (2), (3) or (7) under the Securities Act; or
- ☐ | The transfer of the Surrendered Securities is pursuant to an effective registration statement under the Securities Act, or
- ☐ | The transfer of the Surrendered Securities is pursuant to an offshore transaction in accordance with Rule 904 under the Securities Act; or
- ☐ | The transfer of the Surrendered Securities is pursuant to another available exemption from the registration requirement of the Securities Act.

and unless the box below is checked, the undersigned confirms that, to the undersigned's knowledge, such Securities are not being transferred to an "affiliate" of the Company as defined in Rule 144 under the Securities Act (an "Affiliate").

- ☐ | The transferee is an Affiliate of the Company.

DATE: _____

Signature(s)

(If the registered owner is a corporation, partnership or fiduciary, the title of the Person signing on behalf of such registered owner must be stated.)

EXHIBIT B-2

FORM OF LETTER TO BE DELIVERED BY ACCREDITED INVESTORS

Alaska Air Group, Inc.
19300 Pacific Highway South
Seattle, Washington 98188

Attention: Chief Financial Officer

U.S. Bank National Association
1 Federal Street, 3rd Floor
Boston, Massachusetts 02110

Attention: Corporate Trust Services

Dear Sirs:

We are delivering this letter in connection with the proposed transfer of \$ _____ Original Principal Amount of the Senior Convertible Notes due 2023 (the "Securities") issued by Alaska Air Group, Inc. (the "Company"), which are convertible into shares of the Company's Common Stock, \$1.00 par value per share (the "Common Stock").

We hereby confirm that:

(i) we are an "accredited investor" within the meaning of Rule 501(a)(1), (2) or (3) under the Securities Act of 1933, as amended (the "Securities Act"), or an entity in which all of the equity owners are accredited investors within the meaning of Rule 501(a)(1), (2) or (3) under the Securities Act (an "Institutional Accredited Investor");

(ii) the purchase of Securities by us is for our own account or for the account of one or more other Institutional Accredited Investors or as fiduciary for the account of one or more trusts, each of which is an "accredited investor" within the meaning of Rule 501(a)(7) under the Securities Act and for each of which we exercise sole investment discretion or (B) we are a "bank," within the meaning of Section 3(a)(2) of the Securities Act, or a "savings and loan association" or other institution described in Section 3(a)(5)(A) of the Securities Act that is acquiring Securities as fiduciary for the account of one or more institutions for which we exercise sole investment discretion;

(iii) we will acquire Securities having a minimum original principal amount of not less than \$250,000 for our own account or for any separate account for which we are acting;

(iv) we have such knowledge and experience in financial and business matters that we are capable of evaluating the merits and risks of purchasing Securities; and

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(v) we are not acquiring Securities with a view to distribution thereof or with any present intention of offering or selling Securities or the Common Stock issuable upon conversion thereof, except as permitted below; provided that the disposition of our property and property of any accounts for which we are acting as fiduciary shall remain at all times within our control.

We understand that the Securities were originally offered and sold in a transaction not involving any public offering within the United States within the meaning of the Securities Act and that the Securities and the Common Stock issuable upon conversion thereof (the Securities and such Common Stock hereinafter referred to as the "Securities") have not been registered under the Securities Act, and we agree, on our own behalf and on behalf of each account for which we acquire any Securities, that if in the future we decide to resell or otherwise transfer such Securities prior to the date (the "Resale Restriction

Termination Date") which is two years after the later of the last day the Securities of this issue were issued and the last date on which the Company or an affiliate of the Company was the owner of the Security, such Securities may be resold or otherwise transferred only (i) to Alaska Air Group, Inc. or any subsidiary thereof, or (ii) for as long as the Securities are eligible for resale pursuant to Rule 144A, to a person it reasonably believes is a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) that purchases for its own account or for the account of a qualified institutional buyer to which notice is given that the transfer is being made in reliance on Rule 144A, or (iii) to an Institutional Accredited Investor that is acquiring the Security for its own account, or for the account of such Institutional Accredited Investor for investment purposes and not with a view to, or for offer or sale in connection with, any distribution in violation of the Securities Act, or (iv) pursuant to another available exemption from registration under the Securities Act (if applicable), or (v) pursuant to a registration statement which has been declared effective under the Securities Act and, in each case, in accordance with any applicable securities laws of any state of the United States or any other applicable jurisdiction and in accordance with the legends set forth on the Securities. We further agree to provide any person purchasing any of the Securities from us other than pursuant to clause (v) above a notice advising such purchaser that resales of such securities are restricted as stated herein. We understand that the trustee or the transfer agent, as the case may be, for the Securities will not be required to accept for registration of transfer any Securities pursuant to (iii) or (iv) above except upon presentation of evidence satisfactory to the Company that the foregoing restrictions on transfer have been complied with. We further understand that any Securities will be in the form of definitive physical certificates and that such certificates will bear a legend reflecting the substance of this paragraph other than certificates representing Securities transferred pursuant to clause (v) above.

We acknowledge that the Company, others and you will rely upon our confirmations, acknowledgments and agreements set forth herein, and we agree to notify you promptly in writing if any of our representations or warranties herein ceases to be accurate and complete.

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THIS LETTER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK.

(Name of Purchaser)

By: _____
Name:
Title:
Address:

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REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement") is made and entered into as of March 21, 2003 between Alaska Air Group, Inc., a Delaware corporation (the "Company"), and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and each of the other Initial Purchasers named in Schedule I hereto (collectively, the "Initial Purchasers"), for whom Merrill Lynch is acting as representative, pursuant to the Purchase Agreement, dated March 18, 2003 (the "Purchase Agreement"), between the Company and the Initial Purchasers. In order to induce the Initial Purchasers to enter into the Purchase Agreement, the Company has agreed to provide the registration rights set forth in this Agreement. The execution of this Agreement is a condition to the closing under the Purchase Agreement.

The Company agrees with the Initial Purchasers, (i) for their benefit as Initial Purchasers and (ii) for the benefit of the beneficial owners (including the Initial Purchasers) from time to time of the Notes (as defined herein), and the beneficial owners from time to time of the Underlying Common Stock (as defined herein) issued upon conversion of Notes (each of the foregoing a "Holder" and together the "Holders"), as follows:

SECTION 1. Definitions. Capitalized terms used herein without definition shall have their respective meanings set forth in the Purchase Agreement. In addition to the terms that are defined elsewhere in this Agreement, the following terms shall have the following meanings:

"Affiliate", with respect to any specified person, has the meaning specified in Rule 144.

"Applicable Conversion Price" means, as of any date of determination, the Applicable Principal Amount per \$1,000 original principal amount of Notes as of such date of determination divided by the Conversion Rate in effect as of such date of determination or, if no Notes are then outstanding, the Conversion Rate that would be in effect were Notes then outstanding.

"Applicable Principal Amount" means, as of any date of determination, (1) with respect to each \$1,000 original principal amount of Notes means the accrued variable principal amount with respect to such Notes through such date of determination, (2) if the Notes have been converted to quarterly coupon notes upon a Tax Event, the Restated Principal Amount with respect to the Notes, or (3) if no Notes are then outstanding, such sum calculated as if such Notes were then outstanding.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in The City of New York are authorized or obligated by law or executive order to close.

"Common Stock" means any shares of the common stock, \$1.00 par value, of the Company and any other shares of common stock as may constitute "Common Stock" for purposes of the Indenture, including the Underlying Common Stock.

"Company" has the meaning specified in the first paragraph of this Agreement.

"Conversion Rate" has the meaning assigned to such term in the Indenture.

"Damages Accrual Period" has the meaning specified in Section 2(e) hereof.

"Damages Payment Date" means each March 21 and September 21.

"Deferral Notice" has the meaning specified in Section 3(i) hereof.

"Deferral Period" has the meaning specified in Section 3(i) hereof.

"Effectiveness Deadline Date" has the meaning specified in Section 2(a) hereof.

"Effectiveness Period" means the period of two years from the Issue Date or such shorter period ending on the date that all Registrable Securities have ceased to be Registrable Securities.

"Event" has the meaning specified in Section 2(e) hereof.

"Event Date" has the meaning specified in Section 2(e) hereof.

"Event Termination Date" has the meaning specified in Section 2(e) hereof.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

"Filing Deadline Date" has the meaning specified in Section 2(a) hereof.

"Holder" has the meaning specified in the second paragraph of this Agreement.

"Indenture" means the Indenture dated as of the date hereof, as amended from time to time, between the Company and U.S. Bank National Association, as trustee, pursuant to which the Notes are being issued.

"Initial Purchasers" has the meaning specified in the first paragraph of this Agreement.

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"Initial Shelf Registration Statement" has the meaning specified in Section 2(a) hereof.

"Issue Date" means March 21, 2003.

"Liquidated Damages Amount" has the meaning specified in Section 2(e) hereof.

"Material Event" has the meaning specified in Section 3(i) hereof.

"Notes" means the Senior Convertible Notes due 2023 of the Company to be purchased pursuant to the Purchase Agreement.

"Notice and Questionnaire" means a written notice delivered to the Company containing substantially the information called for by the Selling Security Holder Notice and Questionnaire attached as Annex A to the Offering Memorandum of the Company dated March 18, 2003 relating to the Notes.

"Notice Holder" means on any date, any Holder that has delivered a Notice and Questionnaire to the Company on or prior to such date.

"Prospectus" means the prospectus included in any Registration Statement (including, without limitation, a prospectus that discloses information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 415 promulgated under the Securities Act), as amended or supplemented by any amendment or prospectus supplement, including post-effective amendments, and all materials incorporated by reference or explicitly deemed to be incorporated by reference in such Prospectus.

"Purchase Agreement" has the meaning specified in the first paragraph of this Agreement.

"Record Holder" means, with respect to any Damages Payment Date relating to any Note or shares of Underlying Common Stock as to which any Liquidated Damages Amount has accrued, the registered holder of such Note or such shares of Underlying Common Stock, as the case may be, on the 15th day immediately prior to the next succeeding Damages Payment Date.

"Registrable Securities" means the Notes and the Underlying Common Stock until such securities have been converted or exchanged and, at all times subsequent to any such conversion or exchange, any securities into or for which such securities have been converted or exchanged, and any security issued with

respect thereto upon any stock dividend, split, merger or similar event until, in the case of any such security, the earliest of (i) its effective registration under the Securities Act and resale in accordance with the Registration Statement covering it, (ii) expiration of the holding period that would be applicable thereto under Rule 144(k) were it not held by an Affiliate of the Company, or (iii) its sale to the public pursuant to Rule 144.

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"Registration Expenses" has the meaning specified in Section 5 hereof.

"Registration Statement" means any registration statement of the Company that covers any of the Registrable Securities pursuant to the provisions of this Agreement, including the Prospectus, amendments and supplements to such registration statement, including post-effective amendments, all exhibits, and all materials incorporated by reference or explicitly deemed to be incorporated by reference in such registration statement.

"Restated Principal Amount" has the meaning assigned to such term in the Indenture.

"Restricted Securities" has the meaning assigned to such term in Rule 144.

"Rule 144" means Rule 144 under the Securities Act, as such Rule may be amended from time to time, or any similar or successor rule or regulation hereafter adopted by the SEC having substantially the same effect as such Rule.

"Rule 144A" means Rule 144A under the Securities Act, as such Rule may be amended from time to time, or any similar or successor rule or regulation hereafter adopted by the SEC having substantially the same effect as such Rule.

"SEC" means the United States Securities and Exchange Commission and any successor agency.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated by the SEC thereunder.

"Shelf Registration Statement" has the meaning specified in Section 2(a) hereof.

"Subsequent Shelf Registration Statement" has the meaning specified in Section 2(b) hereof.

"Tax Event" has the meaning assigned to such term in the Indenture.

"TIA" means the Trust Indenture Act of 1939, as amended.

"Trustee" means U.S. Bank National Association (or any successor entity), the Trustee under the Indenture.

"Underlying Common Stock" means the Common Stock into which the Notes are convertible or issued upon any such conversion.

SECTION 2. Shelf Registration.

(a) The Company shall prepare and file or cause to be prepared and filed with the SEC no later than a date which is one-hundred and twenty (120) days after the Issue Date (the "Filing Deadline Date") a Registration Statement for an offering to be made on a

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delayed or continuous basis pursuant to Rule 415 of the Securities Act (a "Shelf Registration Statement") registering the resale from time to time by Holders of all of the Registrable Securities (the "Initial Shelf Registration Statement"). The Initial Shelf Registration Statement shall be on Form S-3 or another appropriate form permitting registration of such Registrable Securities for resale by such Holders in accordance with the methods of distribution reasonably elected by the Holders and set forth in the Initial Shelf Registration

Statement; provided that in no event will such method(s) of distribution take the form of an underwritten offering of the Registrable Securities without the prior agreement of the Company. The Company shall use its commercially reasonable efforts to cause the Initial Shelf Registration Statement to be declared effective under the Securities Act no later than the date (the "Effectiveness Deadline Date") that is two-hundred and ten (210) days after the Issue Date, and to keep, subject to Section 3(i)(A) hereof, the Initial Shelf Registration Statement (or any Subsequent Shelf Registration Statement) continuously effective under the Securities Act until the expiration of the Effectiveness Period. Each Holder that became a Notice Holder on or prior to the date ten (10) Business Days prior to the time that the Initial Shelf Registration Statement became effective shall be named as a selling security holder in the Initial Shelf Registration Statement and the related Prospectus in such a manner as to permit such Holder to deliver such Prospectus to purchasers of Registrable Securities in accordance with applicable law (other than laws not generally applicable to all such Holders). Notwithstanding the foregoing, no Holder shall be entitled to have the Registrable Securities held by it covered by such Shelf Registration Statement unless such Holder has provided a Notice and Questionnaire in accordance with Section 2(d) and is in compliance with Section 4. None of the Company's security holders (other than the Holders of Registrable Securities) shall have the right to include any of the Company's securities in the Shelf Registration Statement (or any subsequent Shelf Registration Statement).

(b) If the Initial Shelf Registration Statement or any Subsequent Shelf Registration Statement ceases to be effective for any reason at any time during the Effectiveness Period (other than because all Registrable Securities registered thereunder have been resold pursuant thereto or shall have otherwise ceased to be Registrable Securities), the Company shall use its commercially reasonable efforts to obtain the prompt withdrawal of any order suspending the effectiveness thereof, and in any event shall within thirty (30) days of such cessation of effectiveness amend the Shelf Registration Statement in a manner reasonably expected by the Company to obtain the withdrawal of the order suspending the effectiveness thereof, or file an additional Shelf Registration Statement covering all of the securities that as of the date of such filing are Registrable Securities (a "Subsequent Shelf Registration Statement"). If a Subsequent Shelf Registration Statement is filed, the Company shall use its commercially reasonable efforts to cause the Subsequent Shelf Registration Statement to become effective as promptly as is reasonably practicable after such filing or, if filed during a Deferral Period, after the expiration of such Deferral Period, and to keep such Registration Statement (or subsequent Shelf Registration Statement), subject to Section 3(i)(A) hereof, continuously effective until the end of the Effectiveness Period.

(c) The Company shall supplement and amend the Shelf Registration Statement if required by the rules, regulations or instructions applicable to the registration form used by the Company for such Shelf Registration Statement, if required by the Securities Act or, to the extent to which the Company does not reasonably object, as

reasonably requested by the Initial Purchasers or by the Trustee on behalf of the registered Holders.

(d) Each Holder of Registrable Securities agrees that if such Holder wishes to sell Registrable Securities pursuant to a Shelf Registration Statement and related Prospectus, it will do so only in accordance with this Section 2(d) and Section 3(i) and Section 4. Each Holder of Registrable Securities wishing to sell Registrable Securities pursuant to a Shelf Registration Statement and related Prospectus agrees to deliver a Notice and Questionnaire to the Company at least five (5) Business Days prior to any intended distribution of Registrable Securities under the Shelf Registration Statement. From and after the date the Initial Shelf Registration Statement is declared effective, the Company shall, as promptly as is reasonably practicable after the date a fully completed and legible Notice and Questionnaire is received by the Company, (i) if required by applicable law, file with the SEC a post-effective amendment to the Shelf Registration Statement or prepare and, if required by applicable law, file a supplement to the related Prospectus or a supplement or amendment to any document incorporated therein by reference or file any other document required by the SEC so that the Holder delivering such Notice and Questionnaire is named as a selling security holder in the Shelf Registration Statement and the related Prospectus in such a manner as to permit such Holder to deliver such Prospectus

to purchasers of the Registrable Securities in accordance with applicable law (other than laws not generally applicable to all Holders of Registrable Securities wishing to sell Registrable Securities pursuant to the Shelf Registration Statement and related Prospectus) and, if the Company shall file a post-effective amendment to the Shelf Registration Statement, use its commercially reasonable efforts to cause such post-effective amendment to be declared effective under the Securities Act as promptly as is reasonably practicable; (ii) provide such Holder copies of any documents filed pursuant to Section 2(d)(i); and (iii) notify such Holder as promptly as is reasonably practicable after the effectiveness under the Securities Act of any post-effective amendment filed pursuant to Section 2(d)(i); provided that if such Notice and Questionnaire is delivered during a Deferral Period, the Company shall so inform the Holder delivering such Notice and Questionnaire and shall take the actions set forth in clauses (i), (ii) and (iii) above upon expiration of the Deferral Period in accordance with Section 3(i), provided further that if under applicable law the Company has more than one option as to the type or manner of making any such filing, it will make the required filing or filings in the manner or of a type that is reasonably expected to result in the earliest availability of the Prospectus for effecting resales of Registrable Securities. Notwithstanding anything contained herein to the contrary, the Company shall be under no obligation to name any Holder that is not a Notice Holder as a selling security holder in any Registration Statement or related Prospectus; provided, however, that any Holder that becomes a Notice Holder pursuant to the provisions of Section 2(d) of this Agreement (whether or not such Holder was a Notice Holder at the time the Registration Statement was initially declared effective) shall be named as a selling security holder in the Registration Statement or related Prospectus subject to and in accordance with the requirements of this Section 2(d).

(e) The parties hereto agree that the Holders of Registrable Securities will suffer damages, and that it would not be feasible to ascertain the extent of such damages with precision, if (i) the Initial Shelf Registration Statement has not been filed on or prior to the Filing Deadline Date, (ii) the Initial Shelf Registration Statement has not been declared

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effective under the Securities Act on or prior to the Effectiveness Deadline Date, or (iii) the aggregate duration of Deferral Periods in any period exceeds the number of days permitted in respect of such period pursuant to Section 3(i) hereof (each of the events of a type described in any of the foregoing clauses (i) through (iii) is individually referred to herein as an "Event," and the Filing Deadline Date in the case of clause (i), the Effectiveness Deadline Date in the case of clause (ii), and the date on which the aggregate duration of Deferral Periods in any period exceeds the number of days permitted by Section 3(i) hereof in the case of clause (iii), being referred to herein as an "Event Date"). Events shall be deemed to continue until the "Event Termination Date," which shall be the following dates with respect to the respective types of Events: the date the Initial Shelf Registration Statement is filed in the case of an Event of the type described in clause (i), the date the Initial Shelf Registration Statement is declared effective under the Securities Act in the case of an Event of the type described in clause (ii), and termination of the Deferral Period that caused the limit on the aggregate duration of Deferral Periods in a period set forth in Section 3(i) to be exceeded in the case of the commencement of an Event of the type described in clause (iii).

Accordingly, commencing on (and including) any Event Date and ending on (but excluding) the next date after an Event Termination Date (a "Damages Accrual Period"), the Company agrees to pay, as liquidated damages and not as a penalty, an amount (the "Liquidated Damages Amount"), payable on the Damages Payment Dates to Record Holders of then outstanding Notes that are Registrable Securities or of then outstanding shares of Underlying Common Stock issued upon conversion of Notes that are Registrable Securities, as the case may be, accruing, for each portion of such Damages Accrual Period beginning on and including a Damages Payment Date (or, in respect of the first time that the Liquidation Damages Amount is to be paid to Holders on a Damages Payment Date as a result of the occurrence of any particular Event, from the Event Date) and ending on but excluding the first to occur of (A) the date of the end of the Damages Accrual Period or (B) the next Damages Payment Date, at a rate per annum equal to one-quarter of one percent (0.25%) for the first ninety (90)-day period from the Event Date, and thereafter at a rate per annum equal to one-half of one percent (0.50%) of the aggregate Applicable Principal Amount of such Notes, the aggregate Applicable Conversion Price of the shares of Underlying Common Stock

and the Restated Principal Amount of the Semi-annual Coupon Notes, as the case may be, in each case determined as of the Business Day immediately preceding the next Damages Payment Date; provided that any Liquidated Damages Amount accrued with respect to any Note or portion thereof called for redemption on a redemption date or converted into Underlying Common Stock on a conversion date or to Semi-annual Coupon Notes prior to the Damages Payment Date shall, in any such event, be paid instead to the Holder who submitted such Note or portion thereof for redemption or conversion on the applicable redemption date or conversion date, as the case may be, on such date (or promptly following the conversion date, in the case of conversion). Notwithstanding the foregoing, no Liquidated Damages Amounts shall accrue as to any Registrable Security from and after the earlier of (x) the date such security is no longer a Registrable Security and (y) expiration of the Effectiveness Period. The rate of accrual of the Liquidated Damages Amount with respect to any period shall not exceed the rate provided for in this paragraph notwithstanding the occurrence of multiple concurrent Events. Following the cure of all Events requiring the payment by the Company of Liquidated Damages Amounts to the Holders of Registrable Securities pursuant to this Section, the accrual of Liquidated Damages Amounts will cease

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(without in any way limiting the effect of any subsequent Event requiring the payment of the Liquidated Damages Amount by the Company).

The Trustee, subject to the applicable provisions of the Indenture, shall be entitled, but shall not be obligated, on behalf of Holders of Notes, Underlying Common Stock or Semi-annual Coupon Notes, to seek any available remedy for the enforcement of this Agreement, including for the payment of any Liquidated Damages Amount. Notwithstanding the foregoing, the parties agree that the sole monetary damages payable for a violation of the terms of this Agreement with respect to which liquidated damages are expressly provided shall be such Liquidated Damages Amount. Nothing shall preclude a Notice Holder or Holder of Registrable Securities from pursuing or obtaining specific performance or other equitable relief with respect to this Agreement.

All of the Company's obligations set forth in this Section 2(e) that are outstanding with respect to any Registrable Security at the time such security ceases to be a Registrable Security shall survive until such time as all such obligations with respect to such security have been satisfied in full (notwithstanding termination of this Agreement pursuant to Section 8(k)).

The parties hereto agree that the liquidated damages provided for in this Section 2(e) constitute a reasonable estimate of the damages that may be incurred by Holders of Registrable Securities by reason of the failure of the Shelf Registration Statement to be filed or declared effective or available for effecting resales of Registrable Securities in accordance with the provisions hereof.

SECTION 3. Registration Procedures. In connection with the registration obligations of the Company under Section 2 hereof, the Company shall:

(a) Before filing any Registration Statement or Prospectus or any amendments or supplements (other than supplements that do nothing more substantive than name one or more Notice Holders as selling security holders) thereto with the SEC, furnish to the Initial Purchasers copies of all such documents proposed to be filed and use its commercially reasonable efforts to reflect in each such document when so filed with the SEC such comments as the Initial Purchasers reasonably shall propose within three (3) Business Days of the delivery of such copies to the Initial Purchasers.

(b) Prepare and file with the SEC such amendments and post-effective amendments to each Registration Statement as may be necessary to keep such Registration Statement continuously effective for the applicable period specified in Section 2(a); cause the related Prospectus to be supplemented by any required Prospectus supplement, and as so supplemented to be filed pursuant to Rule 424 (or any similar provisions then in force) under the Securities Act; and use its commercially reasonable efforts to comply with the provisions of the Securities Act applicable to it with respect to the disposition of all securities covered by such Registration Statement during the Effectiveness Period in accordance with the intended methods of disposition by the sellers thereof set forth in such Registration Statement as so amended or such Prospectus as so supplemented.

(c) As promptly as reasonably practicable give notice to the Notice Holders and the Initial Purchasers (i) when any Prospectus, Prospectus supplement, Registration Statement or post-effective amendment to a Registration Statement has been filed with the SEC and, with respect to a Registration Statement or any post-effective amendment, when the same has been declared effective (provided, however, that the Company shall not be required by this clause (i) to notify (A) the Initial Purchasers of the filing of a Prospectus supplement that does nothing more substantive than name one or more Notice Holders as selling security holders or (B) any Notice Holder of the filing of a Prospectus supplement that does nothing more substantive than name one or more other Notice Holders as selling security holders), (ii) of any request, following the effectiveness of the Initial Shelf Registration Statement under the Securities Act, by the SEC or any other federal or state governmental authority for amendments or supplements to any Registration Statement or related Prospectus or for additional information, (iii) of the issuance by the SEC or any other federal or state governmental authority of any stop order or injunction suspending or enjoining the use of any Prospectus or the effectiveness of any Registration Statement or the initiation or threatening of any proceedings for that purpose, (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose, (v) of the occurrence of (but not the nature of or details concerning) a Material Event (provided, however, that no notice by the Company shall be required pursuant to this clause (v) in the event that the Company either promptly files a Prospectus supplement to update the Prospectus or a Current Report on Form 8-K or other appropriate Exchange Act report that is incorporated by reference into the Registration Statement, which, in either case, contains the requisite information with respect to such Material Event that results in such Registration Statement no longer containing any untrue statement of material fact or omitting to state a material fact necessary to make the statements contained therein not misleading) and (vi) of the determination by the Company that a post-effective amendment to a Registration Statement will be filed with the SEC, which notice may, at the discretion of the Company (or as required pursuant to Section 3(i)), state that it constitutes a Deferral Notice, in which event the provisions of Section 3(i) shall apply.

(d) Use its commercially reasonable efforts to obtain the withdrawal of any order suspending the effectiveness of a Registration Statement or the lifting of any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction in which they have been qualified for sale, in either case as promptly as reasonably practicable or, if any such order or suspension is made effective during any Deferral Period, as promptly as reasonably practicable after the expiration of such Deferral Period.

(e) If reasonably requested by the Initial Purchasers or any Notice Holder, as promptly as reasonably practicable incorporate in a Prospectus supplement or post-effective amendment to a Registration Statement such information as the Initial Purchasers or such Notice Holder shall, on the basis of a written opinion of nationally recognized counsel experienced in such matters, determine to be required to be included therein by applicable law and make any required filings of such Prospectus supplement or such post-effective amendment as required by applicable law; provided that the Company

shall not be required to take any actions under this Section 3(e) that are not, in the reasonable opinion of counsel for the Company, in compliance with applicable law.

(f) As promptly as reasonably practicable after the filing of such documents with the SEC, furnish to each Notice Holder and the Initial Purchasers, upon their request and without charge, at least one (1) conformed copy of the Registration Statement and any amendment thereto, including financial statements, but excluding schedules, all documents incorporated or deemed to be incorporated therein by reference and all exhibits (unless requested in writing to the Company by such Notice Holder or the Initial

Purchasers, as the case may be).

(g) During the Effectiveness Period (except during such periods that a Deferral Notice is outstanding and has not been revoked), deliver to each Notice Holder in connection with any sale of Registrable Securities pursuant to a Registration Statement, without charge, as many copies of the Prospectus or Prospectuses relating to such Registrable Securities and any amendment or supplement thereto as such Notice Holder may reasonably request; and the Company hereby consents (except during such periods that a Deferral Notice is outstanding and has not been revoked) to the use of such Prospectus or each amendment or supplement thereto by each Notice Holder in connection with any offering and sale of the Registrable Securities covered by such Prospectus or any amendment or supplement thereto in the manner set forth therein.

(h) Subject to Section 3(i), prior to any public offering of the Registrable Securities pursuant to the Shelf Registration Statement, use its commercially reasonable efforts to register or qualify or cooperate with the Notice Holders in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any Notice Holder reasonably requests in writing (which request may be included in the Notice and Questionnaire), it being agreed that no such registration or qualification will be made unless so requested; prior to any public offering of the Registrable Securities pursuant to the Shelf Registration Statement, use its commercially reasonable efforts to keep each such registration or qualification (or exemption therefrom) effective during the Effectiveness Period in connection with such Notice Holder's offer and sale of Registrable Securities pursuant to such registration or qualification (or exemption therefrom) and do any and all other acts or things necessary to enable the disposition in such jurisdictions of such Registrable Securities in the manner set forth in the relevant Registration Statement and the related Prospectus; provided that the Company will not be required to (i) qualify as a foreign corporation or as a dealer in securities in any jurisdiction where it is not otherwise qualified, (ii) take any action that would subject it to general service of process in suits or to taxation in any such jurisdiction where it is not then so subject or (iii) register or qualify securities prior to the effective date of any Registration Statement under Section 2 hereof as long as such registration or qualification is completed prior to any completion of any public offering of the Registrable Securities.

(i) Upon (A) the issuance by the SEC of a stop order suspending the effectiveness of the Shelf Registration Statement or the initiation of proceedings with respect to the Shelf Registration Statement under Section 8(d) or 8(e) of the Securities Act, (B) the

occurrence of any event or the existence of any fact (a "Material Event") as a result of which any Registration Statement shall contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or any Prospectus shall contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (including, in any such case, as a result of the non-availability of financial statements), or (C) the occurrence or existence of any development, event, fact, situation or circumstance relating to the Company that, in the discretion of the Company, makes it appropriate to suspend the availability of the Shelf Registration Statement and the related Prospectus, (i) in the case of clause (B) above, subject to the next sentence, as promptly as practicable prepare and file a post-effective amendment to such Registration Statement or a supplement to the related Prospectus or any document incorporated therein by reference or file any other required document that would be incorporated by reference into such Registration Statement and Prospectus so that such Registration Statement does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and such Prospectus does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, as thereafter delivered to the purchasers of the Registrable Securities being sold thereunder, and, in the case of a post-effective amendment to a Registration Statement, subject to the next sentence, use its commercially reasonable efforts

to cause it to be declared effective as promptly as is reasonably practicable, and (ii) give notice to the Notice Holders that the availability of the Shelf Registration Statement is suspended (a "Deferral Notice") and, upon receipt of any Deferral Notice, each Notice Holder agrees not to sell any Registrable Securities pursuant to the Registration Statement until such Notice Holder's receipt of copies of the supplemented or amended Prospectus provided for in clause (i) above, or until it is advised in writing by the Company that the Prospectus may be used, and has received copies of any additional or supplemental filings that are incorporated or deemed incorporated by reference in such Prospectus. The Company will use its commercially reasonable efforts to ensure that the use of the Prospectus may be resumed (x) in the case of clause (A) above, as promptly as is practicable, (y) in the case of clause (B) above, as soon as, in the sole judgment of the Company, public disclosure of such Material Event would not be prejudicial to or contrary to the interests of the Company or, if necessary to avoid unreasonable burden or expense, as soon as reasonably practicable thereafter and (z) in the case of clause (C) above, as soon as, in the discretion of the Company, such suspension is no longer appropriate. So long as the period during which the availability of the Registration Statement and any Prospectus is suspended (the "Deferral Period") does not exceed forty-five (45) days during any three (3) month period or one hundred and twenty (120) days during any twelve (12) month period, the Company shall not incur any obligation to pay liquidated damages pursuant to Section 2(e).

(j) If reasonably requested in writing in connection with a disposition of Registrable Securities pursuant to a Registration Statement, make reasonably available for inspection during normal business hours by a representative for the Notice Holders of such Registrable Securities and any broker-dealers, attorneys and accountants retained by such

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Notice Holders, all relevant financial and other records, pertinent corporate documents and properties of the Company and its subsidiaries, and cause the appropriate executive officers, directors and designated employees of the Company and its subsidiaries to make reasonably available for inspection during normal business hours all relevant information reasonably requested by such representative for the Notice Holders or any such broker-dealers, attorneys or accountants in connection with such disposition, in each case as is customary for similar "due diligence" examinations; provided, however, that such persons shall first agree in writing with the Company that any information that is reasonably designated by the Company in writing as confidential at the time of delivery of such information shall be kept confidential by such persons and shall be used solely for the purposes of exercising rights under this Agreement, unless (i) disclosure of such information is required by court or administrative order or is necessary to respond to inquiries of regulatory authorities; provided, however, that such persons shall as promptly as reasonably practicable, provide written notice to the Company of any request by any such regulatory authority for any such confidential information of the Company in order to allow the Company a reasonable amount of time to seek an appropriate protective order to prevent the disclosure of such information, (ii) disclosure of such information is required by law (including any disclosure requirements pursuant to federal securities laws in connection with the filing of any Registration Statement or the use of any Prospectus referred to in this Agreement), (iii) such information becomes generally available to the public other than as a result of a disclosure or failure to safeguard by any such person or (iv) such information becomes available to any such person from a source other than the Company and such source is not bound by a confidentiality agreement or otherwise obligated to keep such information confidential; and provided further that the foregoing inspection and information gathering shall, to the greatest extent possible, be coordinated on behalf of all the Notice Holders and the other parties entitled thereto by the counsel referred to in Section 5.

(k) Comply with all applicable rules and regulations of the SEC and make generally available to its security holders earning statements (which need not be audited) satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder (or any similar rule promulgated under the Securities Act) no later than forty-five (45) days after the end of any twelve (12)-month period (or ninety (90) days after the end of any twelve (12)-month period if such period is a fiscal year) commencing on the first day of the first fiscal quarter of the Company commencing after the effective date of a Registration Statement, which statements shall cover said twelve (12)-month periods.

(l) Cooperate with each Notice Holder to facilitate the timely preparation and delivery of certificates representing Registrable Securities sold pursuant to a Registration Statement, and cause such Registrable Securities to be in such denominations as are permitted by the Indenture and registered in such names as such Notice Holder may request in writing at least five (5) Business Days prior to any sale of such Registrable Securities.

(m) Provide a CUSIP number for all Registrable Securities covered by each Registration Statement not later than the effective date of such Registration Statement and provide the Trustee for the Notes and the transfer agent for the Common Stock with certificates for the Registrable Securities that are in a form eligible for deposit with The Depository Trust Company.

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(n) Make a reasonable effort to provide such information as is required for any filings required to be made with the National Association of Securities Dealers, Inc.

(o) Upon (i) the filing of the Initial Shelf Registration Statement and (ii) the effectiveness of the Initial Shelf Registration Statement, announce the same, in each case by release to Businesswire, Reuters Economic Services, Bloomberg Business News or any other means of dissemination reasonably expected to make such information known publicly.

(p) Take all actions necessary, or reasonably requested by the holders of a majority of the Registrable Securities being sold, in order to expedite or facilitate disposition of such Registrable Securities; provided that the Company shall not be required to take any action in connection with an underwritten offering without its consent.

(q) Cause the Indenture to be qualified under the TIA not later than the effective date of any Registration Statement; and in connection therewith, cooperate with the Trustee to effect such changes to the Indenture as may be required for the Indenture to be so qualified in accordance with the terms of the TIA and execute, and use its commercially reasonable efforts to cause the Trustee to execute, all documents as may be required to effect such changes, and all other forms and documents required to be filed with the SEC to enable the Indenture to be so qualified in a timely manner.

SECTION 4. Holder's Obligations. Each Holder agrees, by acquisition of the Registrable Securities, that no Holder of Registrable Securities shall be entitled to sell any of such Registrable Securities pursuant to a Registration Statement or to receive a Prospectus relating thereto, unless such Holder has furnished the Company with a Notice and Questionnaire as required pursuant to Section 2(d) hereof (including the information required to be included in such Notice and Questionnaire) and the information set forth in the next sentence. Each Notice Holder agrees promptly to furnish to the Company in writing all information required to be disclosed in order to make the information previously furnished to the Company by such Notice Holder not misleading, any other information regarding such Notice Holder and the distribution of such Registrable Securities as may be required to be disclosed in the Registration Statement under applicable law or pursuant to SEC comments and any information otherwise required by the Company to comply with applicable law or regulations. Each Holder further agrees, following termination of the Effectiveness Period, to notify the Company, within ten (10) Business Days of a request, of the amount of Registrable Securities sold pursuant to the Registration Statement and, in the absence of a response, the Company may assume that all of the Holder's Registrable Securities were so sold.

SECTION 5. Registration Expenses. The Company shall bear all fees and expenses incurred in connection with the performance by the Company of its obligations under Sections 2 and 3 of this Agreement whether or not any of the Registration Statements are declared effective. Such fees and expenses shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses (x) with respect to filings required to be made with the National Association of Securities Dealers, Inc. and (y) of compliance with federal and state securities or Blue Sky laws to the extent such filings

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or compliance are required pursuant to this Agreement (including, without limitation, reasonable fees and disbursements of the counsel specified in the next sentence in connection with Blue Sky qualifications of the Registrable Securities under the laws of such jurisdictions as the Notice Holders of a majority of the Registrable Securities being sold pursuant to a Registration Statement may designate)), (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities in a form eligible for deposit with The Depository Trust Company), (iii) duplication expenses relating to copies of any Registration Statement or Prospectus delivered to any Holders hereunder, (iv) fees and disbursements of counsel for the Company in connection with the Shelf Registration Statement, and (v) reasonable fees and disbursements of the Trustee and its counsel and of the registrar and transfer agent for the Common Stock (it being agreed and understood that the Company shall not be responsible for all underwriting discounts, commissions and transfer taxes, if any, relating to the sale or disposition of such Notice Holder's Registrable Securities). In addition, the Company shall bear or reimburse the Notice Holders for the fees and disbursements of one firm of legal counsel for the Holders, which shall, upon the written consent of the Initial Purchasers (which shall not be unreasonably withheld), be another nationally recognized law firm experienced in securities law matters designated by the Company. In addition, the Company shall pay the internal expenses of the Company (including, without limitation, all salaries and expenses of officers and employees performing legal or accounting duties), the expense of any annual audit, the fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange on which the same securities of the Company are then listed and the fees and expenses of any person, including special experts, retained by the Company.

SECTION 6. Indemnification; Contribution.

(a) The Company agrees to indemnify and hold harmless each Initial Purchaser and each Holder of Registrable Securities and each person, if any, who controls any Initial Purchaser or any holder of Registrable Securities within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading or arising out of any untrue statement or alleged untrue statement of a material fact included in any preliminary prospectus or the Prospectus (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such

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untrue statement or omission, or any such alleged untrue statement or omission, provided that (subject to Section 6(d) below) any such settlement is effected with the prior written consent of the Company; and

(iii) subject to Section 6(c) below, against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under (i) or (ii) above;

provided, however, that this indemnity agreement shall not apply to any loss,

liability, claim, damage or expense to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information, including, without limitation, the Notice and Questionnaire, furnished to the Company by or on behalf of the Initial Purchasers, such Holder of Registrable Securities (which also acknowledges the indemnity provisions herein) or any person, if any, who controls the Initial Purchaser or any such Holder of Registrable Securities expressly for use in the Registration Statement (or any amendment thereto), or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto); provided further that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense (1) arising from an offer or sale of Registrable Securities occurring during a Deferral Period, if a Deferral Notice was given to such Notice Holder or (2) if the Holder fails to deliver at or prior to the written confirmation of sale, the most recent Prospectus, as amended or supplemented, and such Prospectus, as amended or supplemented, would have corrected such untrue statement or omission or alleged untrue statement or omission of a material fact and the delivery thereof was required by law.

(b) In connection with any Shelf Registration Statement in which a Holder, including, without limitation, the Initial Purchasers, of Registrable Securities is participating, in furnishing information relating to such Holder of Registrable Securities to the Company in writing expressly for use in such Registration Statement, any preliminary prospectus, the Prospectus or any amendments or supplements thereto, the holders of such Registrable Securities agree, severally and not jointly, to indemnify and hold harmless each Initial Purchaser and each person, if any, who controls an Initial Purchaser within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act and the Company, and each person, if any, who controls the Company within the meaning of either such Section, against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto) or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Holder of Registrable Securities (which also acknowledges the indemnity provisions herein) or any person, if any, who controls any such Holder of Registrable Securities expressly for use in

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the Registration Statement (or any amendment thereto) or such preliminary prospectus or the Prospectus (or any amendment or supplement thereto).

The Initial Purchasers agree to indemnify and hold harmless the Company, the Holders of Registrable Securities, and each person, if any, who controls the Company or any Holder of Registrable Securities within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a) of this Section 6, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto) or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with written information furnished to the Company by or on behalf of the Initial Purchasers expressly for use in the Registration Statement (or any amendment thereto) or such preliminary prospectus or the Prospectus (or any amendment or supplement thereto).

(c) Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action or proceeding commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of these indemnity provisions. The indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceeding and shall pay the reasonable fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain a separate firm as its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the

retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the indemnifying party shall not, in respect of the legal expenses of any indemnified party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for (A) the reasonable fees and expenses of more than one firm (in addition to any local counsel) for the Initial Purchasers, Holders of Registrable Securities, and all persons, if any, who control an Initial Purchaser or Holders of Registrable Securities within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act or (B) the reasonable fees and expenses of more than one firm (in addition to any local counsel) for the Company, its directors, and each person, if any, who controls the Company within the meaning of either such Section, and that all such reasonable fees and expenses shall be reimbursed as they are incurred. In the event a separate firm is retained for the Initial Purchasers, Holders of Registrable Securities, and control persons of the Initial Purchasers and Holders of Registrable Securities, such firm shall be designated in writing by the Initial Purchasers. In the event a separate firm is retained for the Company, and such directors, officers and control persons of the Company, such firm shall be designated in writing by the Company. No

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indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 6 (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 6(a)(ii) effected without its written consent if (i) such settlement is entered into more than sixty (60) days after receipt by such indemnifying party of aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least forty-five (45) days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement; provided that an indemnifying party shall not be liable for any such settlement effected without its consent if such indemnifying party (1) reimburses such indemnified party in accordance with such request to the extent it considers such request to be reasonable and (2) provides written notice to the indemnified party describing any unpaid balance it believes is unreasonable and the reasons therefor, in each case prior to the date of such settlement.

(e) If the indemnification to which an indemnified party is entitled under this Section 6 is for any reason unavailable to or insufficient although applicable in accordance with its terms to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, in such proportion as is appropriate to reflect the relative fault of the indemnifying party or parties on the one hand and of the indemnified party on the other hand in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative fault of the Company on the one hand and the holders of the Registrable Securities or the Initial Purchasers on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or by the holder of the Registrable Securities or the Initial Purchasers and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 6(e) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in

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this Section 6(e). The aggregate amount of losses, liabilities, claims, damages, and expenses incurred by an indemnified party and referred to above in this Section 6(e) shall be deemed to include any out-of-pocket legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 6, neither the Holder of any Registrable Securities nor an Initial Purchaser shall be required to indemnify or contribute any amount in excess of the amount by which the total price at which the Registrable Securities sold by such Holder of Registrable Securities or by the Initial Purchaser, as the case may be, and distributed to the public were offered to the public exceeds the amount of any damages that such Holder of Registrable Securities or the Initial Purchaser has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 6(e), each person, if any, who controls an Initial Purchaser or any holder of Registrable Securities within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as the Initial Purchaser or such holder, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as the Company.

SECTION 7. Information Requirements. The Company covenants that, if at any time before the end of the Effectiveness Period the Company is not subject to the reporting requirements of the Exchange Act, it will cooperate with any Holder of Registrable Securities and take such further reasonable action as any Holder of Registrable Securities may reasonably request in writing (including, without limitation, making such reasonable representations as any such Holder may reasonably request), all to the extent required from time to time to enable such Holder to sell Registrable Securities without registration under the Securities Act within the limitations of Rule 144 and Rule 144A under the Securities Act and customarily taken in connection with sales pursuant to such exemptions. Upon the written request of any Holder of Registrable Securities, the Company shall deliver to such Holder a written statement as to whether it has complied with such filing requirements, unless such a statement has been included in the Company's most recent annual or quarterly report required to be filed and filed pursuant to Section 13 or Section 15(d) of the Exchange Act. Notwithstanding the foregoing, nothing in this Section 7 shall be deemed to require the Company to register any of its securities under any section of the Exchange Act.

SECTION 8. Miscellaneous

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(a) No Conflicting Agreements. The Company is not, as of the date hereof, a party to, nor shall it, on or after the date of this Agreement, enter into, any agreement with respect to the Company's securities that conflicts with the rights granted to the Holders of Registrable Securities in this Agreement. The Company represents and warrants that the rights granted to the Holders of Registrable Securities hereunder do not in any way conflict with the rights granted to the holders of the Company's securities under any other agreements.

(b) Amendments and Waivers. The provisions of this Agreement,

including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the Company has obtained the written consent of Holders of a majority of the then outstanding Underlying Common Stock constituting Registrable Securities (with Holders of Notes or Semi-annual Coupon Notes deemed to be the Holders, for purposes of this Section, of the number of outstanding shares of Underlying Common Stock into which such Notes or Semi-annual Coupon Notes are or would be convertible or exchangeable as of the date on which such consent is requested). Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders of Registrable Securities whose securities are being sold pursuant to a Registration Statement and that does not directly or indirectly affect the rights of other Holders of Registrable Securities may be given by Holders of at least a majority of the Registrable Securities being sold by such Holders pursuant to such Registration Statement; provided that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence. Each Holder of Registrable Securities outstanding at the time of any such amendment, modification, supplement, waiver or consent or thereafter shall be bound by any such amendment, modification, supplement, waiver or consent effected pursuant to this Section 8(b), whether or not any notice, writing or marking indicating such amendment, modification, supplement, waiver or consent appears on the Registrable Securities or is delivered to such Holder.

(c) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, by telecopier, by courier guaranteeing overnight delivery or by first-class mail, return receipt requested, and shall be deemed given (i) when made, if made by hand delivery, (ii) upon confirmation, if made by telecopier, (iii) one (1) Business Day after being deposited with such courier, if made by overnight courier, or (iv) on the date indicated on the notice of receipt, if made by first-class mail, to the parties as follows:

if to a Holder of Registrable Securities that is not a Notice Holder, at the address for such Holder then appearing in the Registrar (as defined in the Indenture);

if to a Notice Holder, at the most current address given by such Holder to the Company in a Notice and Questionnaire or any amendment thereto;

if to the Company, to:

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Alaska Air Group, Inc.
19300 Pacific Highway South
Seattle, Washington 98188
Telephone No. (206) 433-3362
Facsimile No. (206) 431-5007
Attention: Brad Tilden, Chief Financial Officer

with a copy to:

O'Melveny & Myers LLP
400 South Hope Street
Los Angeles, California 90071
Telephone No. (213) 430-6605
Facsimile No. (213) 430-6407
Attention: David Johnson, Esq.

and

if to the Initial Purchasers, to:

Merrill Lynch & Co.,
Merrill Lynch, Pierce, Fenner & Smith Incorporated
4 World Financial Center
New York, New York 10080
Attention: Syndicate Department
Telecopier: 212-738-1069

or to such other address as such person may have furnished to the other persons identified in this Section 8(c) in writing in accordance herewith.

(d) Approval of Holders. Whenever the consent or approval of Holders of a specified percentage of Registrable Securities is required hereunder, Registrable Securities held by the Company or its Affiliates (other than the Initial Purchasers or subsequent Holders of Registrable Securities if such subsequent Holders are deemed to be such affiliates solely by reason of their holdings of such Registrable Securities) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

(e) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto and, without requiring any express assignment, shall inure to the benefit of and be binding upon each Holder of any Registrable Securities; provided that nothing herein shall be deemed to permit any assignment, transfer of other disposition of Registrable Securities in violation of the terms of the Purchase Agreement. If any transferee of any Holder shall acquire Registrable Securities in any manner, whether by operation of law or otherwise, such Registrable Securities shall be subject to all of the terms of this Agreement and by taking and holding such Registrable Securities, such person shall be conclusively deemed to have agreed to be bound by and to perform all of the terms and provisions of this Agreement.

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(f) Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be original and all of which taken together shall constitute one and the same agreement.

(g) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(h) Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES THEREOF.

(i) Severability. If any term, provision, covenant or restriction of this Agreement is held to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, and the parties hereto shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction, it being intended that all of the rights and privileges of the parties hereto shall be enforceable to the fullest extent permitted by law.

(j) Entire Agreement. This Agreement is intended by the parties hereto as a final expression of their agreement and is intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein and the registration rights granted by the Company with respect to the Registrable Securities. Except as provided in the Purchase Agreement, there are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein, with respect to the registration rights granted by the Company with respect to the Registrable Securities. This Agreement supersedes all prior agreements and undertakings among the parties hereto with respect to such registration rights.

(k) Termination. This Agreement and the obligations of the parties hereunder shall terminate upon the expiration of the Effectiveness Period, except for (i) any liabilities or obligations under Section 4, 5 or 6 hereof and the obligations to make payments of and provide for liquidated damages under Section 2(e) hereof to the extent such damages accrue prior to the end of the Effectiveness Period, each of which shall remain in effect in accordance with its terms.

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IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

Very truly yours,

ALASKA AIR GROUP, INC.

By: _____
Name:
Title:

Agreed and accepted as of the date
first above written:

MERRILL LYNCH & CO.
MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By: MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By: _____
Name:
Title:

For itself and the other several Initial Purchasers named
in Schedule I of this Agreement.

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SCHEDULE I

Initial Purchasers

Merrill Lynch, Pierce, Fenner & Smith Incorporated
Goldman, Sachs & Co.

Sch. I - 1

PLEDGE AGREEMENT

This PLEDGE AGREEMENT (the "Pledge Agreement") is made and entered into as of March 21, 2003 by Alaska Air Group, Inc., a Delaware corporation (the "Pledgor"), having its principal office at 19300 Pacific Highway South, Seattle, Washington 98188, in favor of U.S. Bank National Association, in its capacity as trustee (the "Trustee") for the holders from time to time (the "Holders") of the Notes (as defined herein), issued by the Pledgor under the Indenture referred to below. Capitalized terms used and not defined in this Pledge Agreement have the meanings set forth or referred to in the Indenture.

W I T N E S S E T H

WHEREAS, the Pledgor and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co. (collectively, the "Initial Purchasers") are parties to a Purchase Agreement dated March 18, 2003 (the "Purchase Agreement"), pursuant to which the Pledgor will issue and sell to the Initial Purchasers \$150,000,000 aggregate original principal amount of Senior Convertible Notes due 2023 (the "Initial Notes") and pursuant to which the Pledgor has granted to the Initial Purchasers options to purchase all or any part of an additional \$25,000,000 aggregate original principal amount of the Notes (the "Option Notes" and together with the Initial Notes, the "Notes");

WHEREAS, the Pledgor and the Trustee have entered into that certain indenture dated as of the date hereof (as amended, restated, supplemented or otherwise modified from time to time, the "Indenture"), pursuant to which the Pledgor is issuing the Initial Notes on the date hereof;

WHEREAS, the Pledgor is the beneficial owner of, and desires to pledge the security entitlements (the "Pledged Security Entitlements") with respect to, (i) the United States Treasury securities identified by CUSIP number in Schedule I hereto, and credited to the account with U.S. Bank National Association (the "Account Holder"), ABA No. 042000013, Routing Symbol CINTI/1050, for Account No. 221169000, in the name of "U.S. Bank National Association, as Trustee for the benefit of the holders of the Senior Convertible Notes due 2023 of Alaska Air Group, Collateral Pledge Account" (the "Pledged Account") and (ii) all other financial assets credited from time to time to the Pledged Account (collectively with the assets described in clause (i) above, the "Pledged Financial Assets");

WHEREAS, to secure the obligation of the Pledgor under the Indenture and the Notes to pay all or a portion of each of the first twelve scheduled interest payments on the Notes when due and to secure repayment of the original principal amount and interest on the Notes in the event that the Notes become due and payable prior to such time as the first twelve scheduled

interest payments thereon shall have been paid in full (collectively, the "Obligations"), the Pledgor has agreed (i) to pledge to the Trustee for its benefit and the ratable benefit of the Holders of the Notes, a security interest in the Collateral (as defined herein) securing the payment and performance by the Pledgor of all of the Obligations and (ii) to execute and deliver this Pledge Agreement;

WHEREAS, it is a condition precedent to the initial purchase of the Notes by the initial Holders thereof that the Pledgor shall have executed and delivered this Pledge Agreement; and

WHEREAS, unless otherwise defined herein or in the Indenture, terms used in Article 8 or 9 of the Uniform Commercial Code as in effect in the State of New York ("UCC") and/or in the Federal Book Entry Regulations (as defined below) are used in this Pledge Agreement as such terms are defined in such Article 8 or 9 and/or the Federal Book Entry Regulations. The term "Federal Book Entry Regulations" means (a) the federal regulations contained in Subpart B ("Treasury/Reserve Automated Debt Entry System (TRADES)") governing book-entry securities consisting of U.S. Treasury bonds, notes and bills and Subpart D ("Additional Provisions") of 31 C.F.R. Part 357, 31 C.F.R. ss. 357.2, ss. 357.10 through ss. 357.14 and ss. 357.41 through ss. 357.44 and (b) to the extent substantially identical to the federal regulations referred to in clause (a) above (as in effect from time to time), the federal regulations governing other

book-entry securities.

AGREEMENT

NOW, THEREFORE, in consideration of the premises herein contained, and in order to induce the initial Holders of the Notes to purchase the Notes, the Pledgor hereby agrees with the Trustee, for the benefit of the Trustee and for the ratable benefit of the Holders of the Notes, as follows:

SECTION 1. Pledge and Grant of Security Interest. The Pledgor hereby pledges to the Trustee, for its benefit and for the ratable benefit of the Holders of the Notes, and hereby grants to the Trustee, a security interest and continuing lien in, all of the Pledgor's right, title and interest in and to the property set out in paragraphs (a) through (d) below (in each case, whether now owned or hereafter acquired or created by the Pledgor, wherever located and whether now or hereafter existing or arising and whether consisting of security accounts, securities (including Treasury Securities), security entitlements, financial assets and other investment property, deposit accounts, payment intangibles and other general intangibles or any other property) (hereinafter collectively referred to as the "Collateral"):

(a) the Pledged Financial Assets and the certificates, if any, representing the Pledged Financial Assets, and all dividends, interest, money (as defined in the UCC), instruments (as defined in the UCC, the "Instruments") and other property from time to time received, receivable or otherwise distributed or distributable in respect of or in exchange for any or all of such Pledged Financial Assets;

(b) the Pledged Account and all security entitlements with respect thereto, all Pledged Security Entitlements with respect to all Pledged Financial Assets from time to

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time credited, or required to be credited thereto (including, without limitation, pursuant to Section 4(i) of this Pledge Agreement), to the Pledged Account, any and all securities accounts in which the Pledged Security Entitlements are carried, and all dividends, interest, cash, instruments and other property from time to time received, receivable or otherwise distributed or distributable in respect of or in exchange for any or all of such Pledged Security Entitlements;

(c) all other securities, securities entitlements and other financial assets hereafter acquired by the Pledgor pursuant to Article 13 of the Indenture; and

(d) all proceeds of any and all of the Collateral (including, without limitation, proceeds that constitute property of the types described in clauses (a), (b) and (c) of this Section 1) all investments of the Collateral and, to the extent not otherwise included, all cash proceeds.

SECTION 2. Security for Obligations. This Pledge Agreement secures, and the Collateral is collateral security for, the prompt and complete payment and performance when due (whether at stated maturity, by acceleration or otherwise) of all the Obligations or other obligations of the Pledgor, whether for principal, interest, fees or otherwise, now or hereafter existing, under this Pledge Agreement, the Notes or the Indenture (all such obligations being the "Secured Obligations"). Without limiting the generality of the foregoing, this Pledge Agreement secures, and the Collateral is collateral security for, the payment of all amounts that constitute part of the Secured Obligations and would be owed by the Pledgor to the Trustee or the Holders under the Notes or the Indenture but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Pledgor.

SECTION 3. Maintaining the Pledged Account. So long as any Secured Obligation shall remain outstanding:

(a) The Pledgor will maintain separately the Pledged Account with the Account Holder.

(b) It shall be a term and condition of the Pledge Agreement,

notwithstanding any term or condition to the contrary in any other agreement relating to the Pledged Account, and except as otherwise provided by the provisions of Section 5 and Section 18 hereof, that no funds shall be paid or released to or for the account of, or withdrawn by or for the account of, the Pledgor or any other Person from the Pledged Account.

The Pledged Account shall be subject to such applicable laws, and such applicable regulations of the Board of Governors of the Federal Reserve System and of any other appropriate banking or governmental authority, as may now or hereafter be in effect.

SECTION 4. Delivery of Collateral. (a) All cash, certificates or instruments representing or evidencing the Pledged Financial Assets, the Pledged Security Entitlements or the Pledged Account shall be delivered to and held by or on behalf of the Trustee pursuant hereto and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to the

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Trustee. The Trustee shall have the right, at any time in its discretion and without notice to the Pledgor, to transfer to or to register in the name of the Trustee or any of its nominees any or all of the Collateral. In addition, the Trustee shall have the right at any time to exchange certificates or instruments representing or evidencing any or all of the Collateral for certificates or instruments of smaller or larger denominations. Also, the Trustee shall have the right at any time to convert Collateral consisting of financial assets credited to the Pledged Account to Collateral consisting of financial assets held directly by the Trustee, and to convert Collateral consisting of financial assets held directly by the Trustee to Collateral consisting of financial assets credited to the Pledged Account.

(b) With respect to any Collateral in which the Pledgor has any right, title or interest and that constitutes an uncertificated security, the Pledgor shall cause the issuer thereof either (i) to register the Trustee as the registered owner of such security or (ii) to agree in writing with the Pledgor and the Trustee that such issuer will comply with instructions with respect to such security originated by the Trustee without further consent of the Pledgor, such agreement to be in form and substance satisfactory to the Trustee.

(c) With respect to any Collateral in which the Pledgor has any right, title or interest and that constitutes a security entitlement, the Pledgor shall cause the securities intermediary with respect to such security entitlement either (i) to identify in its records the Trustee as the entitlement holder of such security entitlement against such securities intermediary or (ii) to agree in writing with the Pledgor and the Trustee that such securities intermediary will comply with entitlement orders (that is, notifications communicated to such securities intermediary directing transfer or redemption of the financial asset to which the Pledgor has a security entitlement) originated by the Trustee without further consent of the Pledgor, such agreement to be in substantially the form of Annex A hereto or otherwise in form and substance satisfactory to the Trustee.

(d) With respect to any Collateral that constitutes a securities account, the Pledgor will comply with subsection (c) of this Section 4 with respect to all security entitlements carried in such securities account.

(e) Prior to or concurrently with the execution and delivery hereof and prior to the transfer to the Trustee of the Pledged Security Entitlements, as provided in subsections (a) through (c) of this Section 4, the Trustee shall establish the Pledged Account with the Account Holder. Upon transfer of the Pledged Financial Assets to the Trustee, as confirmed to the Trustee by the securities intermediary, the Trustee shall make appropriate book entries indicating that the Pledged Financial Assets have been credited to and are held in the Pledged Account. Subject to the other terms and conditions of this Pledge Agreement, all funds or other property held by the Trustee pursuant to this Pledge Agreement shall be held in the Pledged Account subject (except as expressly provided in Sections 5(a), (b) and (c) hereof) to the exclusive dominion and control of the Trustee and exclusively for the benefit of the Trustee and for the ratable benefit of the Holders of the Notes and segregated from all other funds or other property otherwise held by the Trustee.

(f) All Collateral shall be retained in the appropriate Pledged Account pending disbursement pursuant to the terms hereof.

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(g) Concurrently with the execution and delivery of this Pledge Agreement, the Trustee is delivering to the Pledgor a duly executed Control Agreement (the "Control Agreement"), in the form of Annex A hereto.

(h) Concurrently with the execution and delivery of this Pledge Agreement, the Pledgor is delivering to the Trustee acknowledgment copies or stamped receipt copies of proper financing statements, duly filed on or before the Closing Date under the UCC, covering the Collateral described in this Pledge Agreement.

(i) The Pledgor covenants and agrees with the Trustee and the Holders of the Notes that in the event of a Registration Default, as defined in the Registration Rights Agreement, and the interest rate on the Notes is increased as provided in Section 2(e) of the Registration Rights Agreement, the Company shall purchase and deliver free to the Trustee additional Pledged Security Entitlements in such amount as will be, in the Opinion of the Company, sufficient upon receipt of scheduled interest and/or principal payments of all Pledged Security Entitlements thereafter held in the Pledged Account, to provide payment for the first twelve scheduled interest payments due on the Notes (assuming the additional interest requirement remains in effect for the entire period). The Trustee as calculation agent shall report to the Initial Purchasers and the Company, the results of agreed-upon procedures to verify the mathematical accuracy of the Company's computations. The additional Pledged Security Entitlements shall be pledged by the Pledgor to the Trustee for the benefit of the Holders and shall be held by the Trustee in the Pledged Account.

SECTION 5. Disbursements. (a) Three business days prior to the due date of any of the first twelve scheduled interest payments on the Notes, the Pledgor may, pursuant to written instructions given by the Pledgor to the Trustee (an "Issuer Order"), direct the Trustee to release from the Pledged Account and pay to the Holders of the Notes proceeds to provide for payment, in whole or in part, of such interest then due on the Notes. Upon receipt of an Issuer Order, the Trustee will (i) issue a Payment Order (as defined in the Control Agreement) to the Account Holder for the release from the Pledged Account of such funds to the Trustee in accordance with such Issuer Order and (ii) pay such funds to the Holders of the Notes in accordance with the Indenture and the Notes. In the event that the funds released from the Pledged Account prior to any interest payment date are not sufficient to pay in full the interest due on the Notes on such interest payment date (a "Shortfall"), nothing in this Section 5 shall relieve the Pledgor of its obligations under the Notes and the Indenture to pay such Shortfall to the Holders of the Notes on such interest payment date; provided, however, that no such Shortfall shall be paid from proceeds of the Collateral unless such proceeds constitute a Surplus (as defined below). In the event that the funds available for release from the Pledged Account prior to any interest payment date exceed the interest due on the Notes on such interest payment date (a "Surplus"), such Surplus shall be retained in the Pledged Account and may be applied to the next Shortfall(s), if any. Nothing in this Section 5 shall affect the Trustee's rights to apply the Collateral to the payments of amounts due on the Notes upon acceleration thereof.

(b) If the Pledgor makes any of the first twelve scheduled interest payments on the Notes or portion of such an interest payment from a source of funds other than the Pledged Account ("Pledgor Funds"), the Pledgor may, after payment in full of such interest payment, direct the Trustee pursuant to an Issuer Order to issue a Payment Order (as defined in the Control

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Agreement) to the Account Holder for the release to the Pledgor or to another party at the direction of the Pledgor (the "Pledgor's Designee") proceeds from the Pledged Account in an amount less than or equal to the amount of Pledgor Funds applied to such interest payment; provided, however, that the foregoing shall not apply in the event that such payment of Pledgor Funds is made in order to compensate for any Shortfall. Upon receipt by the Trustee of such Issuer Order and provided the Trustee has received such interest payment, the Trustee

shall direct the Account Holder pursuant to a Payment Order to pay over to the Pledgor or the Pledgor's Designee, as the case may be, the requested amount from proceeds in the Pledged Account as soon as practicable.

(c) At least three Business Days prior to the due date of each of the first twelve scheduled interest payments on the Notes, the Pledgor shall give the Trustee notice (by Issuer Order) as to whether such interest payment will be made pursuant to Section 5(a) or 5(b) above and the respective amounts of interest that will be paid from the Pledged Account and from Pledgor Funds. Any Pledgor Funds to be used to make any interest payment shall be delivered to the Trustee, in immediately available funds, prior to 10:00 a.m. (New York City time) on such interest payment date. If no such notice is given or such Pledgor Funds have not been so delivered, the Trustee will act pursuant to Section 5(a) above as if it had received an Issuer Order pursuant thereto for the payment of the interest then due from the Pledged Account.

(d) The Trustee shall instruct the Account Holder to liquidate Collateral in the Pledged Account (pursuant to written instructions from Pledgor) in order to make any of the scheduled payments of interest on the Notes, unless there are sufficient funds in the Pledged Account on such interest payment date. The Trustee shall be entitled to instruct the Account Holder to sell any Collateral as contemplated hereunder prior to the maturity of such Collateral and shall not be responsible for any costs and expenses of such sale.

(e) Nothing contained in this Pledge Agreement shall (i) afford the Pledgor any right to issue entitlement orders with respect to any of the Pledged Security Entitlements or any securities account in which any such security entitlement may be carried, or otherwise afford the Pledgor control of any Pledged Security Entitlement or (ii) otherwise give rise to any rights of Pledgor with respect to the Pledged Financial Assets or any securities account in which any such security entitlement may be carried, other than the Pledgor's rights under this Pledge Agreement as the beneficial owner of collateral pledged to and subject to the exclusive dominion and control (except as expressly provided in Sections 5(a) and (b) hereof) of the Trustee in its capacity as such (and not as a securities intermediary) before the payment in full, when due, of the first twelve scheduled interest payments on the Notes. The Pledgor acknowledges, confirms and agrees that the Trustee is an entitlement holder of the Pledged Security Entitlements solely as Trustee for the Holders of the Notes and not as a securities intermediary.

SECTION 6. Investing of Amounts in the Pledged Account. If requested and as directed by the Pledgor, the Trustee will, subject to the provisions of Sections 3, 5 and 13 of this Pledge Agreement, from time to time, instruct the Account Holder to invest interest paid on the Pledged Financial Assets and reinvest other proceeds of any Pledged Financial Assets that may mature or be sold, in each case, in (i) identified United States Treasury securities or (ii) selected shares of a money market fund registered under the Investment Company Act of 1940, as

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amended, the portfolio of which consists of United States Treasury securities, in each case credited to the Pledged Account.

SECTION 7. Representations and Warranties. The Pledgor hereby represents and warrants that:

(a) This Pledge Agreement has been duly authorized, validly executed and delivered by the Pledgor and constitutes a valid and binding agreement of the Pledgor, enforceable against the Pledgor in accordance with its terms, except as (i) the enforceability hereof may be limited by bankruptcy, insolvency, fraudulent conveyance, preference, reorganization, moratorium or similar laws now or hereafter in effect relating to or affecting creditors' rights or remedies generally, (ii) the availability of equitable remedies may be limited by equitable principles of general applicability, (iii) the exculpation provisions and rights to indemnification hereunder may be limited by U.S. federal and state securities laws and public policy considerations and (iv) the waiver of rights and defenses contained in Section 13(b), Section 19.8 and Section 19.12 hereof may be limited by applicable law.

(b) The Pledgor's exact legal name, as defined in Section 9-503(a) of the UCC, is Alaska Air Group, Inc. The Pledgor is located (within the

meaning of Section 9-307 of the UCC) in the State of Delaware and has its chief executive office in the State of Washington.

(c) The Pledgor is the legal and beneficial owner of the Collateral free and clear of any Lien, claim, option or right of others (except for the security interests created by this Pledge Agreement). No effective financing statement or instrument similar in effect covering all or any part of the Collateral or listing the Pledgor or any trade name of the Pledgor with respect to all or any part of the Collateral is on file in any public or recording office, other than the financing statements filed pursuant to this Pledge Agreement.

(d) All filings and other actions (including, without limitation, (A) actions necessary to obtain control of the Collateral as provided in Sections 9-104, 9-105, 9-106 and 9-107 of the UCC and (B) actions necessary to perfect the Trustee's security interest with respect to the Collateral evidenced by a certificate of ownership) necessary to perfect the security interest in the Collateral created under this Pledge Agreement have been duly made or taken and are in full force and effect, and this Pledge Agreement creates in favor of the Trustee for its benefit and the ratable benefit of the Holders of the Notes a valid and, together with such filings and other actions, perfected first priority security interest in the Collateral, securing the payment of the Secured Obligations.

(e) The execution and delivery by the Pledgor of, and the performance by the Pledgor of its obligations under, this Pledge Agreement will not contravene any provision of applicable law or the Certificate of Incorporation of the Pledgor or any material agreement or other material instrument binding upon the Pledgor or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the

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Pledgor, or result in the creation or imposition of any Lien on any assets of the Pledgor, except for the security interests granted under this Pledge Agreement.

(f) No consent of any other person and no approval, authorization, order of, action by notice to, filing or qualification with, any governmental authority, regulatory body, agency or other third party is required for (i) the grant by the Pledgor of the assignment, pledge and security interest granted under this Pledge Agreement, (ii) the execution or delivery by the Pledgor of, or the performance by the Pledgor of its obligations under, this Pledge Agreement, (iii) the perfection or maintenance of the assignment, pledge and security interest created hereunder (including the first priority nature of such assignment, pledge or security interest), except for the filing of financing and continuation statements under the UCC, which financing statements have been duly filed and are in full force and effect, or (iv) for the exercise by the Trustee of its voting or other rights provided for in this Pledge Agreement or the remedies in respect of the Collateral pursuant to this Pledge Agreement, except as may be required in connection with the disposition of any portion of the Collateral by laws affecting the offering and sale of securities generally.

(g) There are no legal or governmental proceedings pending or, to the best of the Pledgor's knowledge, threatened to which the Pledgor is a party or to which any of the properties of the Pledgor is subject that would materially adversely affect the power or ability of the Pledgor to perform its obligations under this Pledge Agreement or to consummate the transactions contemplated hereby.

(h) The pledge of the Collateral pursuant to this Pledge Agreement is not prohibited by law or governmental regulation (including, without limitation, Regulations G, T, U and X of the Board of Governors of the Federal Reserve System) applicable to the Pledgor.

(i) No Event of Default (as defined below) exists.

(j) The jurisdiction (for purposes of Section 8-110(e) of the UCC) of the securities intermediary that maintains the Pledged Account and all securities accounts carrying the Pledged Securities Entitlements is New

York.

SECTION 8. Further Assurances. (a) The Pledgor agrees that from time to time, at the expense of the Pledgor, the Pledgor will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, and that the Trustee may reasonably request, in order to perfect and protect any pledge or security interest granted or purported to be granted hereunder or to enable the Trustee to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, the Pledgor will: (i) if any Collateral shall be evidenced by a promissory note or other instrument, deliver and pledge to the Trustee hereunder such note or instrument, duly endorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to the Trustee; (ii) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as the Trustee may reasonably request, in order to

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perfect and preserve the pledge and security interest granted or purported to be granted hereby; (iii) deliver and pledge to the Trustee for its benefit and the ratable benefit of the Holders of the Notes certificates representing Collateral that constitutes certificated securities, accompanied by undated stock or bond powers executed in blank; and (iv) deliver to the Trustee evidence that all other action that the Trustee may deem reasonably necessary or desirable in order to perfect and protect the security interest created by Pledgor under this Pledge Agreement has been taken.

(b) The Pledgor hereby authorizes the Trustee to file one or more financing or continuation statements, and amendments thereto, with respect to the Collateral, in each case without the signature of the Pledgor, and regardless of whether any particular asset described in such financing statements falls within the scope of UCC. A photocopy or other reproduction of this Pledge Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law. The Pledgor ratifies its authorization for the Trustee to have filed such financing statements, continuation statements or amendments filed prior to the date hereof.

(c) The Pledgor will furnish to the Trustee from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Trustee may reasonably request, all in reasonable detail.

(d) The Pledgor will promptly pay all reasonable costs incurred in connection with any of the foregoing within 45 days of receipt of an invoice therefor. The Pledgor also agrees, whether or not requested by the Trustee, to take all actions that are necessary to perfect or continue the perfection of, or to protect the first priority of, the Trustee's security interest in and to the Collateral, including the filing of all necessary financing and continuation statements, and to protect the Collateral against the rights, claims or interests of third persons (other than any such rights, claims or interests created by or arising through the Trustee).

SECTION 9. Covenants. (a) The Pledgor covenants and agrees with the Trustee and the Holders of the Notes that from and after the date of this Pledge Agreement until the earlier of payment in full in cash of (x) each of the first twelve scheduled interest payments on the Notes when due under the terms of the Indenture or (y) all obligations due and owing under the Indenture and the Notes in the event such obligations become due and payable prior to the payment of the first twelve scheduled interest payments on the Notes:

(i) that (A) it will not (and will not purport to) sell, assign or otherwise dispose of, or grant any option or warrant with respect to, any of the Collateral or its beneficial interest therein, and (B) it will not create or suffer to exist any Lien or other adverse interest upon or with respect to any of the Collateral or its beneficial interest therein (except for the security interests granted under this Pledge Agreement);

(ii) that it will not (A) enter into any agreement or understanding that restricts or inhibits or purports to restrict or inhibit the Trustee's rights or remedies hereunder, including, without limitation, the

Trustee's right to sell or otherwise dispose of the Collateral or (B) fail to pay or discharge any tax, assessment or levy of any nature with respect to its beneficial interest in the Collateral not later than five days prior to the date

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of any proposed sale under any judgment, writ or warrant of attachment with respect to such beneficial interest;

(iii) that it will not change its name, type of organization, jurisdiction of organization, organizational identification number or location from those set forth in Section 7(b) hereof without first giving at least 30 days' prior written notice to the Trustee and taking all action required by the Trustee for the purpose of perfecting or protecting the security interest granted by this Pledge Agreement; and

(iv) that it will, and cause the Trustee and the Account Holder to, execute and deliver on or prior to any Date of Delivery (as defined in Section 2(b) of the Purchase Agreement) a supplement to this Pledge Agreement, reasonably satisfactory to the Initial Purchasers, providing for the pledge of additional Collateral to secure all Obligations in respect of the Option Notes.

SECTION 10. Power of Attorney. In addition to all of the powers granted to the Trustee pursuant to the Indenture, the Pledgor hereby irrevocably appoints the Trustee as the Pledgor's attorney-in-fact (with full power of substitution), with full authority in the place and stead of the Pledgor and in the name of the Pledgor or otherwise, from time to time in the Trustee's discretion, to take any action and to execute any instrument that is necessary or advisable or as the Trustee may deem necessary or advisable to accomplish the purposes of this Pledge Agreement, including, without limitation:

(a) to ask for, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral,

(b) to receive, indorse and collect any drafts or other instruments, documents and chattel paper, in connection with clause (a) above,

(c) to file any claims or take any action or institute any proceedings that the Trustee may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of the Trustee with respect to any of the Collateral, and

(d) to pay or discharge taxes or Liens levied or placed upon the Collateral that the Pledgor has failed to pay or discharge in accordance herewith, the legality or validity thereof and the amounts necessary to discharge the same to be determined by the Trustee in its sole reasonable discretion, and such payments made by the Trustee to become part of the Obligations of the Pledgor to the Trustee, due and payable immediately upon demand;

provided, however, that the Trustee shall have no obligation to perform any of the foregoing actions. The Trustee's authority under this Section 10 shall include, without limitation, the authority to endorse and negotiate any checks or instruments representing proceeds of Collateral in the name of the Pledgor, execute and give receipt for any certificate of ownership or any document constituting Collateral, transfer title to any item of Collateral, or any other documents deemed necessary or appropriate by the Trustee to preserve, protect or perfect the security interest in the Collateral granted hereunder and to file the same, prepare, file and sign the

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Pledgor's name on any notice of Lien, and to take any other actions arising from or incident to the powers granted to the Trustee in this Pledge Agreement. This power of attorney is coupled with an interest and is irrevocable by the Pledgor.

SECTION 11. No Assumption of Duties; Reasonable Care. The powers conferred on the Trustee hereunder are solely to protect the security interest

of the Trustee for its benefit and the ratable benefit of the Holders of the Notes in the Collateral and shall not impose any duty on the Trustee to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Trustee shall have no duty as to any Collateral as to (i) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not the Trustee has or is deemed to have knowledge of such matters, (ii) taking of any necessary steps to preserve rights against any parties or any other rights pertaining to any Collateral or (c) investing or reinvesting any of the Collateral or any loss on any investment. The Trustee shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that which it accords its own property. The Trustee shall be entitled to all the rights, benefits, privileges and immunities accorded to it under the Indenture.

SECTION 12. Indemnity and Expenses. (a) The Pledgor agrees to indemnify, defend and save and hold harmless the Trustee and its officers, directors, employees, agents and advisors (each, an "Indemnified Party") from and against, and shall pay on demand, any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or resulting from this Pledge Agreement (including, without limitation, enforcement of this Pledge Agreement), except to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct.

(b) The Pledgor will, within five (5) business days after demand, pay to the Trustee the amount of any and all reasonable expenses, including, without limitation, the reasonable fees and expenses of its counsel and of any experts and agents, that the Trustee may incur in connection with (i) the review, negotiation and administration of this Pledge Agreement, (ii) the custody or preservation of, or the sale of, collection from or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of the Trustee or the Holders of the Notes hereunder or (iv) the failure by the Pledgor to perform or observe any of the provisions hereof.

SECTION 13. Remedies. If any Event of Default under the Indenture (including, without limitation, any default hereunder constituting an Event of Default (any such Event of Default being referred to in this Pledge Agreement as an "Event of Default")) shall have occurred and be continuing:

(a) The Trustee and the Holders of the Notes may exercise in respect of the Collateral, in addition to all other rights and remedies given by law or by this Pledge Agreement or the Indenture, all of the rights and remedies of a secured party under the

UCC (whether or not the UCC applies to the affected Collateral) and also may: (i) require the Pledgor to, and the Pledgor hereby agrees that it will at its expense and upon request of the Trustee forthwith, assemble all or part of the Collateral as directed by the Trustee and make it available to the Trustee at a place and time to be designated by the Trustee that is reasonably convenient to both parties and (ii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at any broker's board or at public or private sale, in one or more sales or lots, at any of the Trustee's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Trustee may deem commercially reasonable. The Pledgor agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Trustee shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Trustee may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. The purchaser of any or all Collateral so sold shall thereafter hold the same absolutely, free from any claim, encumbrance or right of any kind whatsoever created by or through the Pledgor. Any sale of the

Collateral conducted in conformity with reasonable commercial practices of banks, insurance companies, commercial finance companies, or other financial institutions disposing of property similar to the Collateral shall be deemed to be commercially reasonable. The Trustee or any Holder of Notes may, in its own name or in the name of a designee or nominee, buy any of the Collateral at any public sale and, if permitted by applicable law, at any private sale. All expenses (including court costs and reasonable attorneys' fees, expenses and disbursements) of, or incident to, the enforcement of any of the provisions hereof shall be recoverable from the proceeds of the sale or other disposition of the Collateral.

(b) Any cash held by or on behalf of the Trustee and all cash proceeds received by or on behalf of the Trustee in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Trustee, be held by the Trustee as collateral for, and/or then or at any time thereafter applied (after payment of any amounts payable to the Trustee pursuant to Section 12(b) of this Pledge Agreement) in whole or in part by the Trustee for the ratable benefit of the Holders of the Notes against, all or any part of the Secured Obligations in such order as the Trustee shall elect. Any surplus of such cash or cash proceeds held by or on behalf of the Trustee and remaining after payment in full of all the Secured Obligations shall be paid over to the Pledgor or to whomsoever may be lawfully entitled to receive such surplus.

(c) The Trustee may, without notice to the Pledgor except as required by law and at any time or from time to time, charge, set-off and otherwise apply all or any part of the Secured Obligations against the Pledged Account or any part thereof.

(d) The Pledgor agrees to (i) provide the Trustee with such information as may be necessary, or in the opinion of the Trustee, advisable to enable the Trustee to effect the sale of the Collateral and (ii) use its reasonable best efforts to do or cause to be done all such other acts and things as may be necessary to make such sale or sales of all or any portion of the Collateral pursuant to this Section 13 valid and binding and in compliance

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with any and all other applicable requirements of law. The Pledgor further agrees that a breach of any of the covenants contained in this Section 13(d) will cause irreparable injury to the Trustee and the Holders of the Notes, that the Trustee and the Holders of the Notes have no adequate remedy at law in respect of such breach and, as a consequence, that each and every covenant contained in this Section 13(d) shall be specifically enforceable against the Pledgor, and the Pledgor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants except for a defense that no Event of Default has occurred and is continuing.

(e) The Pledgor acknowledges the impossibility of ascertaining the amount of damages that would be suffered by the Trustee or any Holders of the Notes by reason of the failure by the Pledgor to perform any of the covenants contained in Section 13(d) above and, consequently, agrees that, if the Pledgor shall fail to perform any of such covenants, it will pay, as liquidated damages and not as a penalty, an amount equal to the value of the Collateral on the date the Trustee shall demand compliance with Section 13(d) above.

SECTION 14. Security Interest Absolute. All rights of the Trustee and the Holders of the Notes and the pledges, assignments and security interests hereunder, and all obligations of the Pledgor hereunder, shall be irrevocable, absolute and unconditional irrespective of, and the Pledgor hereby irrevocably waives (to the maximum extent permitted by applicable law) any defenses it may now have or may hereafter acquire in any way relating to, any or all of the following:

(a) any lack of validity or enforceability of the Indenture or Notes or any other agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Secured Obligations, or any other

amendment or waiver of or any consent to any departure from the Indenture or Notes or any other agreement or instrument relating thereto;

(c) any taking, exchange or release of, or non-perfection of any Liens on, any Collateral or any other collateral for all or any of the Secured Obligations;

(d) any manner of application of any Collateral or any other collateral, or proceeds thereof, to all or any of the Secured Obligations, or any manner of sale or other disposition of any Collateral or any other collateral for all or any of the Secured Obligations or any other assets of the Pledgor;

(e) any change, restructuring or termination of the corporate structure or existence of the Pledgor; or

(f) to the extent permitted by applicable law, any other circumstance (including, without limitation, any statute of limitations) or any existence of or reliance on any representation by the Trustee or any Holder of the Notes, which might otherwise constitute a defense available to, or a discharge of, the Pledgor in respect of the Secured Obligations or of this Pledge Agreement.

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This Pledge Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Secured Obligations is rescinded or must otherwise be returned by the Trustee or any Holder of the Notes or by any other Person upon the insolvency, bankruptcy or reorganization of the Pledgor or otherwise, all as though such payment had not been made.

SECTION 15. Amendments, Waivers and Consents. (a) No amendment or waiver of any provision of this Pledge Agreement, and no consent to any departure by the Pledgor from any provision of this Pledge Agreement, shall in any event be effective unless the same shall be in writing and signed by the Trustee, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure on the part of the Trustee or any Holder of the Notes to exercise, and no delay in exercising any right hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right.

SECTION 16. Notices. Any notice or communication given hereunder shall be sufficiently given if in writing and delivered in person or mailed by first class mail, commercial courier service or telecopier communication, addressed as follows; or, as to any party, at such other address as shall be designated by such party in a written notice to the other parties:

if to the Pledgor:

Alaska Air Group, Inc.
19300 Pacific Highway South
Seattle, Washington 98188
Fax: (206) 431-5007
Attention: Amber Post

with a copy to:

O'Melveny & Myers
990 Marsh Road
Menlo Park, CA 94025
Fax: (650) 473-2601
Attention: Karen Dreyfus

if to the Trustee:

U.S. Bank, National Association
1 Federal Street, 3 rd Floor,
Boston, MA 02110
Fax: (617) 603-6667
Attention: Julie A. Balerna

with a copy to:

One State Street
Hartford, CT 06103
Fax: (860) 240-2800
Attention: Robert Borden

All such notices and other communications shall, when mailed, delivered or telecopied, respectively, be effective when deposited in the mails, delivered or telecopied, respectively, addressed as aforesaid.

SECTION 17. Continuing Security Interest. This Pledge Agreement shall create a continuing security interest in the Collateral and (a) shall, unless otherwise provided in this Pledge Agreement, remain in full force and effect until the payment in full in cash of the Secured Obligations, (b) be binding upon the Pledgor, its successors and assigns and (c) inure, together with the rights and remedies of the Trustee hereunder, to the benefit of the Trustee and the Holders of the Notes and their respective successors, transferees and assigns.

SECTION 18. Termination. So long as no Event of Default shall have occurred and be continuing, this Pledge Agreement (other than Pledgor's obligations under Section 12 hereof) shall terminate upon the earlier of (i) the redemption of the Notes in whole, (ii) the payment in full of each of the first twelve scheduled interest payments on the Notes when due, or (iii) the discharge of the Indenture. Upon any such termination, without any necessary action on the part of the Pledgor, (i) the Control Agreement(s) will terminate and control of the Pledged Account and the Pledged Security Entitlements shall revert to the Pledgor, (ii) the Trustee shall promptly obtain from the Account Holder and deliver to the Pledgor all certificates and instruments representing any portion of the Pledged Financial Assets constituting certificated securities and (iii) the Trustee shall no longer have any rights in any of the Collateral.

SECTION 19. Miscellaneous Provisions.

Section 19.1. No Adverse Interpretation of Other Agreements. This Pledge Agreement may not be used to interpret another pledge, security or debt agreement of the Pledgor or any subsidiary thereof. No such pledge, security or debt agreement (other than the Indenture) may be used to interpret this Pledge Agreement.

Section 19.2. Severability. The provisions of this Pledge Agreement are severable, and if any clause or provision shall be held invalid, illegal or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect in that jurisdiction only such clause or provision, or part thereof, and shall not in any manner affect such clause or provision in any other jurisdiction or any other clause or provision of this Pledge Agreement in any jurisdiction.

Section 19.3. Headings. The headings in this Pledge Agreement have been inserted for convenience of reference only, are not to be considered a part hereof and shall in no way modify or restrict any of the terms or provisions hereof.

Section 19.4. Counterpart Originals. This Pledge Agreement may be signed in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same agreement. Delivery of an executed counterpart of a

signature page to this Pledge Agreement by telecopier shall be effective as delivery of an original executed counterpart of this Pledge Agreement.

Section 19.5. Benefits of Pledge Agreement. Nothing in this Pledge Agreement, express or implied, shall give to any person, other than the parties hereto and their successors hereunder, and the Holders of the Notes and the Account Holder, any benefit or any legal or equitable right, remedy or claim

under this Pledge Agreement.

Section 19.6. Interpretation of Agreement. To the extent a term or provision of this Pledge Agreement conflicts with the Indenture, the Indenture shall control with respect to the subject matter of such term or provision. Acceptance of or acquiescence in a course of performance rendered under this Pledge Agreement shall not be relevant to determine the meaning of this Pledge Agreement even though the accepting or acquiescing party had knowledge of the nature of the performance and opportunity for objection.

Section 19.7. Survival of Representations and Covenants. All representations, warranties and covenants of the Pledgor contained herein shall survive the execution and delivery of this Pledge Agreement, and shall terminate only upon the termination of this Pledge Agreement, except as otherwise specified in such representatives, warranties and covenants.

Section 19.8. Waivers. The Pledgor waives presentment and demand for payment of any of the Obligations, protest and notice of dishonor or default with respect to any of the Obligations, and all other notices to which the Pledgor might otherwise be entitled, except as otherwise expressly provided herein or in the Indenture.

Section 19.9. Authority of the Trustee. (a) The Trustee shall have and be entitled to exercise all powers hereunder that are specifically granted to the Trustee by the terms hereof, together with such powers as are reasonably incident thereto. The Trustee may perform any of its duties hereunder or in connection with the Collateral by or through agents or employees and shall be entitled to retain counsel and to act in reliance upon the advice of counsel concerning all such matters. Except as otherwise expressly provided in this Pledge Agreement or the Indenture, neither the Trustee nor any director, officer, employee, attorney or agent of the Trustee shall be liable to the Pledgor for any action taken or omitted to be taken by the Trustee, in its capacity as Trustee, hereunder, except for its own bad faith, gross negligence or willful misconduct, and the Trustee shall not be responsible for the validity, effectiveness or sufficiency hereof or of any document or security furnished pursuant hereto. The Trustee and its directors, officers, employees, attorneys and agents shall be entitled to rely on any communication, instrument or document believed by it or them to be genuine and correct and to have been signed or sent by the proper person or persons.

(b) The Pledgor acknowledges that the rights and responsibilities of the Trustee under this Pledge Agreement with respect to any action taken by the Trustee or the exercise or non-exercise by the Trustee of any option, right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Pledge Agreement shall, as between the Trustee and the Holders of the Notes, be governed by the Indenture and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Trustee and the Pledgor, the Trustee shall be conclusively presumed to be acting as agent for the

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Holders of the Notes with full and valid authority so to act or refrain from acting, and the Pledgor shall not be obligated or entitled to make any inquiry respecting such authority.

Section 19.10. Final Expression. This Pledge Agreement, together with the Indenture and any other agreement executed in connection herewith, is intended by the parties as a final expression of this Pledge Agreement and is intended as a complete and exclusive statement of the terms and conditions thereof.

Section 19.11. Rights of Holders of the Notes. No Holder of Notes shall have any independent rights hereunder other than those rights granted to individual Holders of the Notes pursuant to Section 6.06 of the Indenture; provided that nothing in this subsection shall limit any rights granted to the Trustee under the Notes or the Indenture.

Section 19.12. Governing Law; Submission to Jurisdiction; Waiver of Jury Trial; Waiver of Damages. (a) This Pledge Agreement shall be governed by, and construed in accordance with, the laws of the state of New York.

(b) The Pledgor agrees that the Trustee shall, in its capacity as

trustee or in the name and on behalf of any Holder of Notes, have the right, to the extent permitted by applicable law, to proceed against the Pledgor or the Collateral in a court in any location reasonably selected in good faith (and having personal or in rem jurisdiction over the Pledgor or the Collateral, as the case may be) to enable the Trustee to realize on the Collateral, or to enforce a judgment or other court order entered in favor of the Trustee. The Pledgor agrees that it will not assert any counterclaims, setoffs or crossclaims in any proceeding brought by the Trustee to realize on such property or to enforce a judgment or other court order in favor of the Trustee, except for such counterclaims, setoffs or crossclaims which, if not asserted in any such proceeding, could not otherwise be brought or asserted. The Pledgor waives any objection that it may have to the location of the court in the city of New York once the Trustee has commenced a proceeding described in this paragraph including, without limitation, any objection to the laying of venue or based on the grounds of forum non conveniens.

(c) The Pledgor agrees that neither any Holder of Notes nor (except as otherwise provided in this Pledge Agreement or the Indenture) the Trustee in its capacity as trustee shall have any liability to the Pledgor (whether arising in tort, contract or otherwise) for losses suffered by the Pledgor in connection with, arising out of, or in any way related to, the transactions contemplated and the relationship established by this Pledge Agreement, or any act, omission or event occurring in connection therewith, unless it is determined by a final and nonappealable judgment of a court that is binding on the Trustee or such Holder of Notes, as the case may be, that such losses were the result of acts or omissions on the part of the Trustee or such Holder of Notes, as the case may be, constituting bad faith, gross negligence or willful misconduct.

(d) To the extent permitted by applicable law, the Pledgor waives the posting of any bond otherwise required of the Trustee or any Holder of Notes in connection with any judicial process or proceeding to enforce any judgment or other court order pertaining to this Pledge Agreement or any related agreement or document entered in favor of the Trustee or any Holder of Notes, or to enforce by specific performance, temporary restraining order or

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preliminary or permanent injunction, this Pledge Agreement or any related agreement or document between the Pledgor on the one hand and the Trustee and/or the Holders of the Notes on the other hand.

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IN WITNESS WHEREOF, the Pledgor and the Trustee have each caused this Pledge Agreement to be duly executed and delivered as of the date first above written.

Pledgor:

ALASKA AIR GROUP, INC.

By:

Name: Bradley Tilden
Title: Executive Vice President/Finance
& Chief Financial Officer

Trustee:

U.S. BANK NATIONAL ASSOCIATION
as Trustee

By:

Name:
Title:

SCHEDULE I

Pledged Financial Assets

Par Amount -----	Ticker -----	Maturity Date -----	CUSIP No. -----
1,452,000	B	6/19/03	912795MS7
1,422,000	SP	8/15/03	912820BG1
1,464,000	SP	11/15/03	912820DJ3
1,566,000	S	2/15/04	912833CK4
1,713,000	S	5/15/04	912833FU9
1,867,000	SP	8/15/04	912820BK2
1,987,000	S	11/15/04	912833FV7
2,096,000	S	2/15/05	912833CM0
2,247,000	S	5/15/05	912833FW5
2,423,000	S	8/15/05	912833CN8
2,377,000	SP	11/15/05	912820BQ9
2,322,000	SP	2/15/06	912803AJ2

ANNEX A

CONTROL AGREEMENT

This CONTROL AGREEMENT (the "Agreement") dated as of March 21, 2003 by and among Alaska Air Group, Inc. (the "Pledgor") and U.S. Bank National Association, in its capacity as trustee (the "Trustee"), and U.S. Bank National Association, a national banking association, in its capacity as securities intermediary and depository bank (the "Account Holder").

PRELIMINARY STATEMENTS:

SECTION 1. The Pledgor has granted the Trustee a security interest (the "Security Interest") in certain security entitlements (the "Pledged Security Entitlements") with respect to certain U.S. Treasury securities (the "Pledged Financial Assets") identified on Schedule I attached hereto maintained by the Trustee with the Account Holder and carried from time to time in an account with the Account Holder, ABA No. 042000013, Account No. 221169000 at the Federal Reserve Bank, Cleveland, Ohio, in the name of "U.S. Bank, National Association, as Trustee for the benefit of the holders of the Senior Convertible Notes due 2023 of Alaska Air Group, Collateral Pledge Account" (the "Pledged Account") and all additions thereto and substitutions and proceeds thereof (collectively, the "Collateral"), pursuant to, and as more particularly described in, a Pledge Agreement dated as of March 21, 2003, among the Pledgor and the Trustee (as the same may hereafter be amended, supplemented or otherwise modified from time to time, the "Pledge Agreement"; terms defined in the Pledge Agreement and not otherwise defined herein are used herein as therein defined). The Pledgor acknowledges having received value for such pledge of the Collateral.

SECTION 2. Terms defined in Article 8 or 9 of the Uniform Commercial Code as in effect in the State of New York (the "UCC") are used in this Agreement (including, without limitation, paragraph (1) above) as such terms are defined in such Article 8 or 9.

SECTION 3. The Pledgor, the Trustee and the Account Holder are delivering this Agreement pursuant to the terms of the Pledge Agreement.

NOW, THEREFORE, in consideration of the premises and mutual agreements contained herein, the parties hereto hereby agree as follows:

SECTION 1. Notice of Exclusive Control. The Pledgor and Trustee are entering into this Agreement to perfect, and confirm the first priority lien of, the Trustee's Security Interest in the Collateral. The Account Holder agrees to promptly make all necessary entries or notations in its books and records to reflect the Trustee's Security Interest in the Collateral and to apply any value distributed on account of any Pledged Financial Assets as directed in writing by the Trustee without further consent from the Pledgor. The Account Holder acknowledges that the Trustee has exclusive control over the Pledged Account and

all Pledged Security Entitlements contained therein from time to time.

SECTION 2. The Account. The Account Holder represents and warrants to, and agrees with, the Pledgor and the Trustee and the Holders of the Notes that:

(a) The Account Holder has established the Pledged Account and shall not change the name or account number of the Pledged Account without the prior written consent of the Trustee.

(b) The Account Holder maintains the Pledged Account for the Trustee, and all property (including, without limitation, all funds and financial assets) held by the Account Holder for the account of the Trustee is, and will continue to be, credited to the Pledged Account. The Account Holder is a Securities Intermediary as defined in Section 8-102(a)(xiv) of the UCC and is acting as such in relation to the Trustee, the Pledgor and the Pledged Account and with respect to all property credited thereto, from time to time.

(c) To the extent that funds are credited to the Pledged Account, the Pledged Account is a deposit account; and to the extent that financial assets are credited to the Pledged Account, the Pledged Account is a securities account. The Account Holder is (i) the bank with which the Pledged Account is maintained and (ii) the securities intermediary with respect to financial assets held in the Pledged Account. The Trustee is (x) the Account Holder's customer with respect to the Pledged Account and (y) the entitlement holder with respect to financial assets credited from time to time to the Pledged Account.

(d) All financial assets in registered form or payable to or to the order of and credited to the Pledged Account shall be registered in the name of, payable to or to the order of, or endorsed to, the Account Holder and in no case during the term of the Pledge Agreement will any financial asset credited to the Pledged Account be registered in the name of, payable to or to the order of, or endorsed to, the Pledgor, except to the extent the foregoing have been subsequently endorsed by the Pledgor to the Account Holder or in blank.

(e) Notwithstanding any other agreement to the contrary, the Account Holder's jurisdiction with respect to the Pledged Account for purposes of the UCC is, and will continue to be for so long as the Security Interest shall be in effect, the State of New York.

(f) The Account Holder does not know of any claim to or interest in the Pledged Account or any property (including, without limitation, all funds and financial assets) credited to the Pledged Account, except for claims and interests of the parties referred to in this Agreement.

SECTION 3. Control by Trustee. (a) The Account Holder will comply with (A) all written instructions directing disposition of the funds in the Pledged Account (such instructions, a "Payment Order"), (B) all notifications and entitlement orders that the Account Holder receives directing it to transfer or redeem any financial asset in the Pledged Account and (C) all other directions concerning the Collateral, including, without limitation, directions to distribute to the Trustee proceeds of any such transfer or redemption or interest on any property

in the Pledged Account (any such instruction, notification or direction referred to in clause (A), (B) or (C) above being an "Account Direction"), in each case of clauses (A), (B) and (C) above originated by the Trustee without further consent by the Pledgor or any other person.

(b) The Trustee hereby acknowledges that it shall maintain and exercise control of the Pledged Account on behalf of the Holders of the Notes.

(c) The Account Holder will not (i) comply with Account Directions or other directions concerning the Collateral originated by the Pledgor or (ii) distribute to the Pledgor interest or other distributions on or in respect of the Collateral.

SECTION 4. Priority of Trustee's Security Interest. (a) The Account Holder (i) subordinates to the Security Interest and in favor of the Trustee any security interest, lien, or right of setoff the Account Holder may have, now or in the future, against the Pledged Account or property in the Pledged Account, and (ii) agrees that it will not exercise any right in respect of any such security interest or lien or any such right of setoff until the Security Interest is terminated, except that the Account Holder will retain its prior lien on property in the Pledged Account to secure payment for property purchased for the Pledged Account and normal commissions and fees for the Pledged Account.

(b) The Account Holder will not enter into any other agreement with any Person relating to Account Directions or other directions with respect to the Pledged Account.

SECTION 5. Statements, Confirmations, and Notices of Adverse Claims.

(a) The Account Holder will send copies of all statements and confirmations for the Pledged Account simultaneously to the Pledgor and the Trustee.

(b) When the Account Holder knows of any claim or interest in the Pledged Account or any property credited to the Pledged Account other than the claims and interests of the parties referred to in this Agreement, the Account Holder will promptly notify the Trustee and the Pledgor of such claim or interest.

SECTION 6. The Account Holder's Responsibility. (a) The Account Holder will not be liable to the Pledgor or the Trustee or the Holders of the Notes for complying with an Account Direction or other direction concerning the Collateral originated by the Trustee, even if the Pledgor notifies the Account Holder that the Trustee is not legally entitled to issue the Account Direction or such other direction unless the Account Holder takes the action after it is served with an injunction, restraining order, or other legal process enjoining it from doing so, issued by a court of competent jurisdiction, and had a reasonable opportunity to act on the injunction, restraining order or other legal process.

(b) This Agreement does not create any obligation of the Account Holder except for those expressly set forth in this Agreement and in Part 5 of Article 8 of the UCC and in Article 4 of the UCC. In particular, the Account Holder need not investigate whether the Trustee is entitled under the Trustee's agreements with the Pledgor to give an Account Direction or other direction concerning the Pledged Account. The Account Holder may conclusively rely on notices and communications it believes given by the appropriate party.

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(c) In no event shall the Account Holder or any of its affiliates, shareholders, directors, officers, employees or agents be liable for indirect, special, punitive, incidental or consequential damages of any kind whatsoever even if advised of the possibility of such damages, other than such damages caused by its own bad faith, gross negligence or willful misconduct.

(d) Without limiting the foregoing, and notwithstanding any provision to the contrary elsewhere, the Account Holder and its affiliates, shareholders, directors, officers, employees or agents:

(i) shall have no responsibilities, obligations or duties in respect of the subject matter hereof other than those expressly set forth in this Agreement, and no implied duties, responsibilities, covenants or obligations shall be read into this Agreement against the Account Holder. Without limiting the foregoing, the Account Holder shall have no duty or authority to determine and/or investigate whether or not an event of default exists under any agreement between the Pledgor and the Trustee, or to determine and/or investigate whether or not the Trustee is entitled to give any Account Direction with respect to the Collateral;

(ii) may in any instance where the Account Holder determines that it lacks or is uncertain as to its authority to take or refrain from taking certain action hereunder, or as to any of the requirements of this Agreement under the circumstance before it, delay or refrain from taking any action unless and until it shall have received appropriate written instructions from the Trustee or advice from legal counsel selected by it (or other appropriate advisor), as the case may be, detailing the action

required to be taken hereunder and the Account Holder may rely conclusively on any such instructions or advice;

(iii) so long as it and they shall have acted (or refrained from acting) in good faith and within the reasonable belief that such action or omission is duly authorized or within the discretion or powers granted to it hereunder, shall not be responsible or liable for any error of judgment in any action taken, suffered or omitted by it or them, or for any act done or step taken or omitted, or for any mistake of fact or law, unless such action constitutes gross negligence or willful misconduct as finally determined by a non-appealable judgment of a court of competent jurisdiction on its (or their) part;

(iv) will not be responsible or liable to the Pledgor, the Trustee, or any other person or entity whatsoever for the due execution, legality, validity, enforceability, genuineness, effectiveness or sufficiency of this Agreement (provided, however, that the Account Holder warrants that the Account Holder has legal capacity and has been duly authorized to enter into this Agreement) or for any statement, warranty or representation made by any other party in connection with this Agreement;

(v) will not incur any responsibility or liability by acting or not acting in reliance upon advice of counsel, or upon any notice, consent, certificate, instruction,

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Account Direction, statement, wire instruction, telecopy or other writing reasonably and in good faith believed by it or them to be genuine and in conformance with this Agreement and signed or sent by the proper party or parties and contemplated herein; and

(vi) shall not be required to expend or risk its or their own funds, or to take any action (including the institution or defense of legal proceedings) which in its or their reasonable judgment may cause it or them to incur or suffer any expense or liability, unless the Account Holder shall have been provided with security or indemnity, acceptable to Account Holder in its sole discretion, for the payment of the costs, expenses (including reasonable attorneys' fees) and liabilities which may be incurred therein or thereby.

(e) If any Collateral subject to this Agreement is at any time attached or levied upon, or in case the transfer or delivery of any such Collateral shall be stayed or enjoined, or in the case of any other legal process or judicial order affecting such Collateral, the Account Holder is authorized to comply with any such order in any manner as the Account Holder or its legal counsel reasonably deems appropriate. The Account Holder shall give prompt written notice to the Pledgor and the Trustee of any such attachment, levy, stay, injunction or legal process. If the Account Holder complies with any process, order, writ, judgment or decree relating to the Collateral subject to this Agreement, then the Account Holder shall not be liable or responsible to the Pledgor, the Trustee, or any other person or entity whatsoever even if such order, writ, judgment, decree or process is subsequently modified, vacated or otherwise determined to have been without legal force or effect.

(f) The Account Holder shall not be liable or responsible for any delays or failures in performance of any of its duties hereunder which result from events or conditions beyond its reasonable control and so long as the same exist or continue and cannot reasonably be remedied by the Account Holder in accordance with its normal business practices. Such events or conditions shall include, but shall not be limited to, acts of God, strikes, lockouts, riots, acts of war or terrorism, epidemics, nationalization, expropriation, currency restrictions, governmental regulations superimposed after the fact, fire, communication line failures (including the unavailability of the Federal Reserve Bank wire or telex or other wire or communication facility), power failures, earthquakes or other disasters.

SECTION 7. Indemnity. The Pledgor will indemnify the Account Holder, its officers, directors, employees and agents against claims, liabilities and expenses arising out of this Agreement (including, without limitation, reasonable attorney's fees and disbursements), except to the extent the claims, liabilities or expenses are caused by the Account Holder's gross negligence or willful misconduct as found by a court of competent jurisdiction in a final,

non-appealable judgment.

SECTION 8. Termination; Survival. (a) This Agreement shall terminate automatically upon receipt by the Account Holder of written notice executed by two officers of the Trustee that (i) all of the Secured Obligations have been paid in full in cash or otherwise satisfied or (ii) all of the Collateral has been released, which ever is earlier, and the Account Holder shall thereafter be relieved of all duties and obligations hereunder. The Account Holder

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may terminate this Agreement on 60 days' prior notice to the Trustee and the Pledgor, provided that before such termination the Account Holder and the Pledgor shall make arrangements to transfer the property in the Pledged Account to another securities intermediary that shall have executed, together with the Trustee and the Pledgor, a control agreement in favor of the Trustee and the Holders of the Notes in respect of such property in substantially the form of this Agreement or otherwise in form and substance satisfactory to the Trustee.

(b) In the event that the Trustee no longer serves as Trustee for the Collateral, the Trustee, the Account Holder and the Pledgor shall make arrangements for another Person to assume the rights and obligations of the Trustee hereunder, and such Person shall have executed, together with the Account Holder and the Pledgor, a control agreement in favor of such Person and the Holders of the Notes in substantially the form of this Agreement or otherwise in form and substance satisfactory to the Trustee.

(c) Sections 7 and 8 will survive termination of this Agreement.

SECTION 9. Conflict with Other Agreements. (a) In the event of any conflict between this Agreement (or any portion thereof) and any other agreement now existing or hereafter entered into, the terms of this Agreement shall prevail;

(b) No amendment or modification of this Agreement or waiver of any right hereunder shall be binding on any party hereto unless it is in writing and is signed by all of the parties hereto;

(c) The Account Holder hereby confirms and agrees that:

(i) There are no other agreements entered into between the Account Holder and the Pledgor with respect to the Pledged Account;

(ii) It has not entered into, and until the termination of the this Agreement will not enter into, any agreement with any other person relating to the Pledged Account and/or any financial assets credited thereto pursuant to which it has agreed to comply with entitlement orders (as defined in Section 8-102(a)(8) of the UCC) of such other person; and

(iii) It has not entered into, and until the termination of this Agreement will not enter into, any agreement with the Pledgor or the Trustee purporting to limit or condition the obligation of the Account Holder to comply with Account Directions as set forth in Section 3 hereof.

SECTION 10. Permitted Investments. In accordance with the Pledge Agreement, the Trustee shall direct the Account Holder with respect to the selection of investments to be made with the funds in the Pledged Account.

SECTION 11. Entire Agreement. This Agreement is the entire agreement, and supersedes any prior agreements, and contemporaneous oral agreements, of the parties

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concerning its subject matter. The Trustee and the Account Holder shall be entitled to all the rights, benefits, privileges and immunities accorded to the Trustee under the Indenture.

SECTION 12. Amendments. No modification, amendment or waiver of, nor consent to any departure by any party from, any provision of this Agreement will be effective unless made in writing signed by the parties hereto, and then such

waiver or consent shall be effective only in the specific instance and for the purpose for which given.

SECTION 13. Financial Assets. The Account Holder agrees with Trustee and the Pledgor that, to the fullest extent permitted by applicable law, all property credited from time to time to the Pledged Account will be treated as financial assets under Article 8 of the UCC.

SECTION 14. Notices. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder must be in writing and will be effective upon receipt if delivered personally, or if sent by facsimile transmission with confirmation of delivery, or by nationally recognized overnight courier service, to the Pledgor's and the Trustee's addresses as set forth in the Pledge Agreement, and to the Account Holder's address as set forth below, or to such other address as any party may give to the others in writing for such purpose.

SECTION 15. Binding Effect. This Agreement shall become effective when it shall have been executed by the Pledgor, the Trustee and the Account Holder, and thereafter shall be binding upon and inure to the benefit of the Pledgor, the Trustee and the Account Holder and their respective successors and assigns.

SECTION 16. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto 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. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of an original executed counterpart of this Agreement.

SECTION 17. Governing Law and Jurisdiction. THIS AGREEMENT WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. Each of the parties hereby irrevocably submits for itself and its property in any legal action or proceeding relating to this Agreement, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction and venue of the courts of the State of New York, the courts of the United States of America in New York, and appellate courts from any thereof.

SECTION 18. WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) OF ANY NATURE RELATING TO THIS AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. EACH PARTY HERETO ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

Pledgor:

ALASKA AIR GROUP, INC.

By:

Name: Bradley Tilden
Title: Executive Vice President/Finance
& Chief Financial Officer

Trustee:

U.S. BANK NATIONAL ASSOCIATION
as Trustee

By:

Name:
Title:

Account Holder:

U.S. BANK NATIONAL ASSOCIATION,
as Account Holder

By:

Name:
Title:

SCHEDULE I

Pledged Financial Assets

Par Amount	Ticker	Maturity Date	
-----	-----	-----	
1,452,000	B	6/19/03	912795MS7
1,422,000	SP	8/15/03	912820BG1
1,464,000	SP	11/15/03	912820DJ3
1,566,000	S	2/15/04	912833CK4
1,713,000	S	5/15/04	912833FU9
1,867,000	SP	8/15/04	912820BK2
1,987,000	S	11/15/04	912833FV7
2,096,000	S	2/15/05	912833CM0
2,247,000	S	5/15/05	912833FW5
2,423,000	S	8/15/05	912833CN8
2,377,000	SP	11/15/05	912820BQ9
2,322,000	SP	2/15/06	912803AJ2

CONTROL AGREEMENT

This CONTROL AGREEMENT (the "Agreement") dated as of March 21, 2003 by and among Alaska Air Group, Inc. (the "Pledgor") and U.S. Bank National Association, in its capacity as trustee (the "Trustee"), and U.S. Bank National Association, a national banking association, in its capacity as securities intermediary and depository bank (the "Account Holder").

PRELIMINARY STATEMENTS:

(1) The Pledgor has granted the Trustee a security interest (the "Security Interest") in certain security entitlements (the "Pledged Security Entitlements") with respect to certain U.S. Treasury securities (the "Pledged Financial Assets") identified on Schedule I attached hereto maintained by the Trustee with the Account Holder and carried from time to time in an account with the Account Holder, ABA No. 042000013, Account No. 221169000 at the Federal Reserve Bank, Cleveland, Ohio, in the name of "U.S. Bank, National Association, as Trustee for the benefit of the holders of the Senior Convertible Notes due 2023 of Alaska Air Group, Collateral Pledge Account" (the "Pledged Account") and all additions thereto and substitutions and proceeds thereof (collectively, the "Collateral"), pursuant to, and as more particularly described in, a Pledge Agreement dated as of March 21, 2003, among the Pledgor and the Trustee (as the same may hereafter be amended, supplemented or otherwise modified from time to time, the "Pledge Agreement"; terms defined in the Pledge Agreement and not otherwise defined herein are used herein as therein defined). The Pledgor acknowledges having received value for such pledge of the Collateral.

(2) Terms defined in Article 8 or 9 of the Uniform Commercial Code as in effect in the State of New York (the "UCC") are used in this Agreement (including, without limitation, paragraph (1) above) as such terms are defined in such Article 8 or 9.

(3) The Pledgor, the Trustee and the Account Holder are delivering this Agreement pursuant to the terms of the Pledge Agreement.

NOW, THEREFORE, in consideration of the premises and mutual agreements contained herein, the parties hereto hereby agree as follows:

SECTION 1. Notice of Exclusive Control. The Pledgor and Trustee are entering into this Agreement to perfect, and confirm the first priority lien of, the Trustee's Security Interest in the Collateral. The Account Holder agrees to promptly make all necessary entries or notations in its books and records to reflect the Trustee's Security Interest in the Collateral and to apply any value distributed on account of any Pledged Financial Assets as directed in writing by

the Trustee without further consent from the Pledgor. The Account Holder acknowledges that the Trustee has exclusive control over the Pledged Account and all Pledged Security Entitlements contained therein from time to time.

SECTION 2. The Account. The Account Holder represents and warrants to, and agrees with, the Pledgor and the Trustee and the Holders of the Notes that:

(a) The Account Holder has established the Pledged Account and shall not change the name or account number of the Pledged Account without the prior written consent of the Trustee.

(b) The Account Holder maintains the Pledged Account for the Trustee, and all property (including, without limitation, all funds and financial assets) held by the Account Holder for the account of the Trustee is, and will continue to be, credited to the Pledged Account. The Account Holder is a Securities Intermediary as defined in Section 8-102(a)(xiv) of the UCC and is acting as such in relation to the Trustee, the Pledgor and the Pledged Account and with respect to all property credited thereto, from time to time.

(c) To the extent that funds are credited to the Pledged Account, the Pledged Account is a deposit account; and to the extent that financial

assets are credited to the Pledged Account, the Pledged Account is a securities account. The Account Holder is (i) the bank with which the Pledged Account is maintained and (ii) the securities intermediary with respect to financial assets held in the Pledged Account. The Trustee is (x) the Account Holder's customer with respect to the Pledged Account and (y) the entitlement holder with respect to financial assets credited from time to time to the Pledged Account.

(d) All financial assets in registered form or payable to or to the order of and credited to the Pledged Account shall be registered in the name of, payable to or to the order of, or endorsed to, the Account Holder and in no case during the term of the Pledge Agreement will any financial asset credited to the Pledged Account be registered in the name of, payable to or to the order of, or endorsed to, the Pledgor, except to the extent the foregoing have been subsequently endorsed by the Pledgor to the Account Holder or in blank.

(e) Notwithstanding any other agreement to the contrary, the Account Holder's jurisdiction with respect to the Pledged Account for purposes of the UCC is, and will continue to be for so long as the Security Interest shall be in effect, the State of New York.

(f) The Account Holder does not know of any claim to or interest in the Pledged Account or any property (including, without limitation, all funds and financial assets) credited to the Pledged Account, except for claims and interests of the parties referred to in this Agreement.

SECTION 3. Control by Trustee. (a) The Account Holder will comply with (A) all written instructions directing disposition of the funds in the Pledged Account (such instructions, a "Payment Order"), (B) all notifications and entitlement orders that the Account Holder receives directing it to transfer or redeem any financial asset in the Pledged Account and (C) all other directions concerning the Collateral, including, without limitation, directions to distribute to the Trustee proceeds of any such transfer or redemption or interest on any property

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in the Pledged Account (any such instruction, notification or direction referred to in clause (A), (B) or (C) above being an "Account Direction"), in each case of clauses (A), (B) and (C) above originated by the Trustee without further consent by the Pledgor or any other person.

(b) The Trustee hereby acknowledges that it shall maintain and exercise control of the Pledged Account on behalf of the Holders of the Notes.

(c) The Account Holder will not (i) comply with Account Directions or other directions concerning the Collateral originated by the Pledgor or (ii) distribute to the Pledgor interest or other distributions on or in respect of the Collateral.

SECTION 4. Priority of Trustee's Security Interest. (a) The Account Holder (i) subordinates to the Security Interest and in favor of the Trustee any security interest, lien, or right of setoff the Account Holder may have, now or in the future, against the Pledged Account or property in the Pledged Account, and (ii) agrees that it will not exercise any right in respect of any such security interest or lien or any such right of setoff until the Security Interest is terminated, except that the Account Holder will retain its prior lien on property in the Pledged Account to secure payment for property purchased for the Pledged Account and normal commissions and fees for the Pledged Account.

(b) The Account Holder will not enter into any other agreement with any Person relating to Account Directions or other directions with respect to the Pledged Account.

SECTION 5. Statements, Confirmations, and Notices of Adverse Claims. (a) The Account Holder will send copies of all statements and confirmations for the Pledged Account simultaneously to the Pledgor and the Trustee.

(b) When the Account Holder knows of any claim or interest in the Pledged Account or any property credited to the Pledged Account other than the claims and interests of the parties referred to in this Agreement, the Account Holder will promptly notify the Trustee and the Pledgor of such claim or

interest.

SECTION 6. The Account Holder's Responsibility. (a) The Account Holder will not be liable to the Pledgor or the Trustee or the Holders of the Notes for complying with an Account Direction or other direction concerning the Collateral originated by the Trustee, even if the Pledgor notifies the Account Holder that the Trustee is not legally entitled to issue the Account Direction or such other direction unless the Account Holder takes the action after it is served with an injunction, restraining order, or other legal process enjoining it from doing so, issued by a court of competent jurisdiction, and had a reasonable opportunity to act on the injunction, restraining order or other legal process.

(b) This Agreement does not create any obligation of the Account Holder except for those expressly set forth in this Agreement and in Part 5 of Article 8 of the UCC and in Article 4 of the UCC. In particular, the Account Holder need not investigate whether the Trustee is entitled under the Trustee's agreements with the Pledgor to give an Account Direction or other direction concerning the Pledged Account. The Account Holder may conclusively rely on notices and communications it believes given by the appropriate party.

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(c) In no event shall the Account Holder or any of its affiliates, shareholders, directors, officers, employees or agents be liable for indirect, special, punitive, incidental or consequential damages of any kind whatsoever even if advised of the possibility of such damages, other than such damages caused by its own bad faith, gross negligence or willful misconduct.

(d) Without limiting the foregoing, and notwithstanding any provision to the contrary elsewhere, the Account Holder and its affiliates, shareholders, directors, officers, employees or agents:

(i) shall have no responsibilities, obligations or duties in respect of the subject matter hereof other than those expressly set forth in this Agreement, and no implied duties, responsibilities, covenants or obligations shall be read into this Agreement against the Account Holder. Without limiting the foregoing, the Account Holder shall have no duty or authority to determine and/or investigate whether or not an event of default exists under any agreement between the Pledgor and the Trustee, or to determine and/or investigate whether or not the Trustee is entitled to give any Account Direction with respect to the Collateral;

(ii) may in any instance where the Account Holder determines that it lacks or is uncertain as to its authority to take or refrain from taking certain action hereunder, or as to any of the requirements of this Agreement under the circumstance before it, delay or refrain from taking any action unless and until it shall have received appropriate written instructions from the Trustee or advice from legal counsel selected by it (or other appropriate advisor), as the case may be, detailing the action required to be taken hereunder and the Account Holder may rely conclusively on any such instructions or advice;

(iii) so long as it and they shall have acted (or refrained from acting) in good faith and within the reasonable belief that such action or omission is duly authorized or within the discretion or powers granted to it hereunder, shall not be responsible or liable for any error of judgment in any action taken, suffered or omitted by it or them, or for any act done or step taken or omitted, or for any mistake of fact or law, unless such action constitutes gross negligence or willful misconduct as finally determined by a non-appealable judgment of a court of competent jurisdiction on its (or their) part;

(iv) will not be responsible or liable to the Pledgor, the Trustee, or any other person or entity whatsoever for the due execution, legality, validity, enforceability, genuineness, effectiveness or sufficiency of this Agreement (provided, however, that the Account Holder warrants that the Account Holder has legal capacity and has been duly authorized to enter into this Agreement) or for any statement, warranty or representation made by any other party in connection with this Agreement;

(v) will not incur any responsibility or liability by acting or not acting in reliance upon advice of counsel, or upon any notice, consent,

certificate, instruction,

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Account Direction, statement, wire instruction, telecopy or other writing reasonably and in good faith believed by it or them to be genuine and in conformance with this Agreement and signed or sent by the proper party or parties and contemplated herein; and

(vi) shall not be required to expend or risk its or their own funds, or to take any action (including the institution or defense of legal proceedings) which in its or their reasonable judgment may cause it or them to incur or suffer any expense or liability, unless the Account Holder shall have been provided with security or indemnity, acceptable to Account Holder in its sole discretion, for the payment of the costs, expenses (including reasonable attorneys' fees) and liabilities which may be incurred therein or thereby.

(e) If any Collateral subject to this Agreement is at any time attached or levied upon, or in case the transfer or delivery of any such Collateral shall be stayed or enjoined, or in the case of any other legal process or judicial order affecting such Collateral, the Account Holder is authorized to comply with any such order in any manner as the Account Holder or its legal counsel reasonably deems appropriate. The Account Holder shall give prompt written notice to the Pledgor and the Trustee of any such attachment, levy, stay, injunction or legal process. If the Account Holder complies with any process, order, writ, judgment or decree relating to the Collateral subject to this Agreement, then the Account Holder shall not be liable or responsible to the Pledgor, the Trustee, or any other person or entity whatsoever even if such order, writ, judgment, decree or process is subsequently modified, vacated or otherwise determined to have been without legal force or effect.

(f) The Account Holder shall not be liable or responsible for any delays or failures in performance of any of its duties hereunder which result from events or conditions beyond its reasonable control and so long as the same exist or continue and cannot reasonably be remedied by the Account Holder in accordance with its normal business practices. Such events or conditions shall include, but shall not be limited to, acts of God, strikes, lockouts, riots, acts of war or terrorism, epidemics, nationalization, expropriation, currency restrictions, governmental regulations superimposed after the fact, fire, communication line failures (including the unavailability of the Federal Reserve Bank wire or telex or other wire or communication facility), power failures, earthquakes or other disasters.

SECTION 7. Indemnity. The Pledgor will indemnify the Account Holder, its officers, directors, employees and agents against claims, liabilities and expenses arising out of this Agreement (including, without limitation, reasonable attorney's fees and disbursements), except to the extent the claims, liabilities or expenses are caused by the Account Holder's gross negligence or willful misconduct as found by a court of competent jurisdiction in a final, non-appealable judgment.

SECTION 8. Termination; Survival. (a) This Agreement shall terminate automatically upon receipt by the Account Holder of written notice executed by two officers of the Trustee that (i) all of the Secured Obligations have been paid in full in cash or otherwise satisfied or (ii) all of the Collateral has been released, which ever is earlier, and the Account Holder shall thereafter be relieved of all duties and obligations hereunder. The Account Holder

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may terminate this Agreement on 60 days' prior notice to the Trustee and the Pledgor, provided that before such termination the Account Holder and the Pledgor shall make arrangements to transfer the property in the Pledged Account to another securities intermediary that shall have executed, together with the Trustee and the Pledgor, a control agreement in favor of the Trustee and the Holders of the Notes in respect of such property in substantially the form of this Agreement or otherwise in form and substance satisfactory to the Trustee.

(b) In the event that the Trustee no longer serves as Trustee for the Collateral, the Trustee, the Account Holder and the Pledgor shall make

arrangements for another Person to assume the rights and obligations of the Trustee hereunder, and such Person shall have executed, together with the Account Holder and the Pledgor, a control agreement in favor of such Person and the Holders of the Notes in substantially the form of this Agreement or otherwise in form and substance satisfactory to the Trustee.

(c) Sections 7 and 8 will survive termination of this Agreement.

SECTION 9. Conflict with Other Agreements. (a) In the event of any conflict between this Agreement (or any portion thereof) and any other agreement now existing or hereafter entered into, the terms of this Agreement shall prevail;

(b) No amendment or modification of this Agreement or waiver of any right hereunder shall be binding on any party hereto unless it is in writing and is signed by all of the parties hereto;

(c) The Account Holder hereby confirms and agrees that:

(i) There are no other agreements entered into between the Account Holder and the Pledgor with respect to the Pledged Account;

(ii) It has not entered into, and until the termination of the this Agreement will not enter into, any agreement with any other person relating to the Pledged Account and/or any financial assets credited thereto pursuant to which it has agreed to comply with entitlement orders (as defined in Section 8-102(a)(8) of the UCC) of such other person; and

(iii) It has not entered into, and until the termination of this Agreement will not enter into, any agreement with the Pledgor or the Trustee purporting to limit or condition the obligation of the Account Holder to comply with Account Directions as set forth in Section 3 hereof.

SECTION 10. Permitted Investments. In accordance with the Pledge Agreement, the Trustee shall direct the Account Holder with respect to the selection of investments to be made with the funds in the Pledged Account.

SECTION 11. Entire Agreement. This Agreement is the entire agreement, and supersedes any prior agreements, and contemporaneous oral agreements, of the parties

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concerning its subject matter. The Trustee and the Account Holder shall be entitled to all the rights, benefits, privileges and immunities accorded to the Trustee under the Indenture.

SECTION 12. Amendments. No modification, amendment or waiver of, nor consent to any departure by any party from, any provision of this Agreement will be effective unless made in writing signed by the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

SECTION 13. Financial Assets. The Account Holder agrees with Trustee and the Pledgor that, to the fullest extent permitted by applicable law, all property credited from time to time to the Pledged Account will be treated as financial assets under Article 8 of the UCC.

SECTION 14. Notices. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder must be in writing and will be effective upon receipt if delivered personally, or if sent by facsimile transmission with confirmation of delivery, or by nationally recognized overnight courier service, to the Pledgor's and the Trustee's addresses as set forth in the Pledge Agreement, and to the Account Holder's address as set forth below, or to such other address as any party may give to the others in writing for such purpose.

SECTION 15. Binding Effect. This Agreement shall become effective when it shall have been executed by the Pledgor, the Trustee and the Account Holder, and thereafter shall be binding upon and inure to the benefit of the Pledgor, the Trustee and the Account Holder and their respective successors and assigns.

SECTION 16. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto 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. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of an original executed counterpart of this Agreement.

SECTION 17. Governing Law and Jurisdiction. THIS AGREEMENT WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. Each of the parties hereby irrevocably submits for itself and its property in any legal action or proceeding relating to this Agreement, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction and venue of the courts of the State of New York, the courts of the United States of America in New York, and appellate courts from any thereof.

SECTION 18. WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) OF ANY NATURE RELATING TO THIS AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. EACH PARTY HERETO ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

Pledgor:

ALASKA AIR GROUP, INC.

By:

Name: Bradley Tilden
Title: Executive Vice President/Finance
& Chief Financial Officer

Trustee:

U.S. BANK NATIONAL ASSOCIATION
as Trustee

By:

Name:
Title:

Account Holder:

U.S. BANK NATIONAL ASSOCIATION,
as Account Holder

By:

Name:
Title:

SCHEDULE I

Pledged Financial Assets

Par Amount	Ticker	Maturity Date	
-----	-----	-----	
1,452,000	B	6/19/03	912795MS7
1,422,000	SP	8/15/03	912820BG1
1,464,000	SP	11/15/03	912820DJ3
1,566,000	S	2/15/04	912833CK4
1,713,000	S	5/15/04	912833FU9
1,867,000	SP	8/15/04	912820BK2
1,987,000	S	11/15/04	912833FV7
2,096,000	S	2/15/05	912833CM0
2,247,000	S	5/15/05	912833FW5
2,423,000	S	8/15/05	912833CN8
2,377,000	SP	11/15/05	912820BQ9
2,322,000	SP	2/15/06	912803AJ2

EXHIBIT 99.1

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 Quarterly Report of Alaska Air Group, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John F. Kelly, 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; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By /s/John F. Kelly

John F. Kelly
Chief Executive Officer
May 14, 2003

EXHIBIT 99.2

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 Quarterly Report of Alaska Air Group, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bradley D. Tilden, 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; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By /s/Bradley D. Tilden

Bradley D. Tilden
Chief Financial Officer
May 14, 2003

CERTIFICATIONS

I, John F. Kelly, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alaska Air Group, Inc. for the period ended March 31, 2003;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 14, 2003

By /s/John F. Kelly

John F. Kelly
Chief Executive Officer

CERTIFICATIONS

I, Bradley D. Tilden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alaska Air Group, Inc. for the period ended March 31, 2003;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 14, 2003

By /s/ Bradley D. Tilden

Bradley D. Tilden
Chief Financial Officer