

ALASKA AIR GROUP INC
Form DEF 14A
April 04, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Alaska Air Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

P.O. Box 68947

Seattle, Washington 98168

To our Stockholders:

The Annual Meeting of Stockholders of Alaska Air Group, Inc. (the Annual Meeting) will be held at the Museum of Flight in Seattle, Washington at 2 p.m. on Tuesday, May 17, 2011, for the following purposes:

1. To elect to the Board of Directors the ten nominees named in this proxy statement, each for a one-year term;
2. To ratify the appointment of KPMG LLP as the Company's independent registered public accountants (the independent accounts) for fiscal year 2011;
3. To seek an advisory vote in regard to the compensation of the Company's named executive officers;
4. To seek an advisory vote in regard to the frequency of future advisory votes on named executive officer compensation;
5. To seek an advisory vote on stockholders' right to act by written consent;
6. To approve an amendment of the Company's 2008 Performance Incentive Plan; and
7. To transact such other business as may properly come before the meeting or any postponement or adjournment thereof.

Stockholders owning Company common stock at the close of business on March 18, 2011 are entitled to receive this notice and to vote at the meeting. All stockholders are requested to be present in person or by proxy. Whether or not you attend the meeting in person, we encourage you to vote by internet or telephone or complete, sign and return your proxy prior to the meeting.

Every shareholder vote is important. To ensure your vote is counted at the Annual Meeting, please vote as promptly as possible.

By Order of the Board of Directors,

Keith Loveless

Corporate Secretary and General Counsel

April 4, 2011

**IMPORTANT NOTICE REGARDING THE INTERNET AVAILABILITY OF PROXY MATERIALS FOR
THE STOCKHOLDER MEETING TO BE HELD ON MAY 17, 2011.**

Stockholders may access, view and download the 2011 proxy statement and 2010 Annual Report over the internet at www.edocumentview.com/alk

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ALASKA AIR GROUP, INC.

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ANNUAL MEETING INFORMATION

The Board of Directors of Alaska Air Group, Inc. (AAG or the Company) is soliciting proxies for the 2011 Annual Meeting of Stockholders. This proxy statement contains important information for you to consider when deciding how to vote on the matters brought before the meeting. Please read it carefully.

The Board set March 18, 2011 as the record date for the meeting. Stockholders who owned Company common stock on that date are entitled to vote at the meeting, with each share entitled to one vote. There were 36,031,033 shares of Company common stock outstanding on the record date.

Annual Meeting materials, which include this proxy statement, a proxy card or voting instruction form, and our 2010 Annual Report, were delivered to our stockholders on or about April 4, 2011. Certain stockholders were mailed a Notice of Internet Availability of Proxy Materials on the same date. The Company's Form 10-K for the year ended December 31, 2010 is included in the 2010 Annual Report. It was filed with the Securities and Exchange Commission (SEC) on February 23, 2011.

Internet Availability of Annual Meeting Materials

Under SEC rules, Alaska Air Group has elected to make our proxy materials available over the internet rather than mail hard copies to stockholders of record and to a segment of employee participants in the Company's 401(k) Plans. On or about April 4, 2011, we mailed to these stockholders a Notice of Internet Availability of Proxy Materials (the Notice) directing them to a website where they can access our 2011 proxy statement and 2010 annual report to stockholders, and to view instructions on how to vote via the internet or by telephone. If you received the Notice and would like to receive a paper copy of the proxy materials, please follow the instructions printed on the Notice and the material will be mailed to you.

All stockholders may access, view and download this proxy statement and our 2010 Annual Report over the internet at www.edocumentview.com/alk. Information on the website does not constitute part of this proxy statement.

QUESTIONS AND ANSWERS

Why am I receiving this annual meeting information and proxy?

You are receiving this annual meeting information and proxy from us because you owned shares of common stock in Alaska Air Group as of the record date for the Annual Meeting. This proxy statement describes issues on which you may vote and provides you with other important information so that you can make informed decisions.

You may own shares of Alaska Air Group common stock in several different ways. If your stock is represented by one or more stock certificates registered in your name or if you have a Direct Registration Service (DRS) advice evidencing shares held in book entry form, then you have a stockholder account with our transfer agent, Computershare Trust Company, N.A. (Computershare), and you are a stockholder of record. If you hold your shares in a brokerage, trust or similar account, then you are the beneficial owner but not the stockholder of record of those shares. Employees of the Company who hold shares of stock in one or more of the Company's 401(k) retirement plans are beneficial owners.

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What am I voting on?

You are being asked to vote on the election of the ten director nominees named in this proxy statement, to ratify the appointment of KPMG LLP as the Company's independent accountants, to provide an advisory vote in regard to the compensation of the Company's named executive officers, to provide an advisory vote in regard to the frequency of future advisory vote on named executive officer compensation, to provide an advisory vote on stockholders right to act by written consent, and to approve an amendment of the Company's 2008 Performance Incentive Plan (the 2008 Plan). When you sign and mail the proxy card or submit your proxy by telephone or the internet, you appoint each of William S. Ayer and Keith Loveless, or their respective substitutes or nominees, as your representatives at the meeting. (When we refer to the named proxies, we are referring to Messrs. Ayer and Loveless.) This way, your shares will be voted even if you cannot attend the meeting.

How does the Board of Directors recommend I vote on each of the proposals?

FOR each of the Board's ten director nominees named in this proxy statement;

FOR the ratification of the appointment of KPMG LLP as the Company's independent accountants for fiscal 2011;

FOR the ratification of the compensation of the Company's named executive officers;

ONE YEAR with respect to the frequency of future advisory votes on named executive officer compensation;

AGAINST the advisory vote on stockholders right to act by written consent; and

FOR the amendment of the Company's 2008 Performance Incentive Plan.

How do I vote my shares?

Stockholders of record can vote by using the proxy card or by telephone or by the internet. Beneficial owners whose stock is held:

in a brokerage account can vote by using the voting instruction form provided by the broker or by telephone or the internet.

by a bank, and who have the power to vote or to direct the voting of the shares, can vote using the proxy or the voting information form provided by the bank or, if made available by the bank, by telephone or the internet.

in trust under an arrangement that provides the beneficial owner with the power to vote or to direct the voting of the shares can vote in accordance with the provisions of such arrangement.

in trust in one of the Company's 401(k) retirement plans can vote using the voting instruction form provided by the trustee. Beneficial owners, other than persons who beneficially own shares held in trust in one of the Company's 401(k) retirement plans, can vote at the meeting provided that he or she obtains a legal proxy from the person or entity holding the stock for him or her (typically a broker, bank, or trustee). A beneficial owner can obtain a legal proxy by making a request to the broker, bank, or trustee. Under a legal proxy, the bank, broker, or trustee confers all of its rights as a record holder to grant proxies or to vote at the meeting.

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Listed below are the various means internet, phone and mail you can use to vote your shares without attending the Annual Meeting.

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You can vote on the internet.

Stockholders of record and beneficial owners of the Company's common stock can vote via the internet regardless of whether they receive their annual meeting materials through the mail or via the internet. Instructions for doing so are provided along with your proxy card or voting instruction form. If you vote on the internet, please do not mail in your proxy card (unless you intend for it to revoke your prior internet vote). Your internet vote will authorize the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

You can vote by phone.

Stockholders of record and beneficial owners of the Company's common stock can vote by phone. Instructions for voting by phone are provided along with your proxy card or voting instruction form. If you vote by telephone, please do not mail in your proxy card (unless you intend for it to revoke your prior telephone vote). Your phone vote will authorize the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

You can vote by mail.

Simply sign and date the proxy card or voting instruction form received with this proxy statement and mail it in the enclosed prepaid and addressed envelope. If you mark your choices on the card or voting instruction form, your shares will be voted as you instruct.

The availability of telephone and internet voting.

Internet and telephone voting facilities for stockholders of record and beneficial holders will be available 24 hours a day and will close at 11:59 p.m. Eastern Time on Monday, May 16, 2011. To allow sufficient time for voting by the trustee, voting instructions for 401(k) plan shares must be received no later than 11:59 p.m. Eastern Time on Thursday, May 12, 2011.

Voting by the internet or telephone is fast and convenient and your vote is immediately confirmed and tabulated. By using the internet or telephone to vote, you help Alaska Air Group conserve natural resources and reduce postage and proxy tabulation costs.

How will my shares be voted if I return a blank proxy or voting instruction form?

If you sign and return a proxy card without giving specific voting instructions, your shares will be voted in accordance with the recommendations of the Board of Directors shown above and as the named proxies may determine in their discretion with respect to any other matters properly presented for a vote before the meeting or any postponement or adjournment thereof.

If my shares are held in a brokerage account, how will my shares be voted if I do not return voting instructions to my broker?

If you hold your shares in street name through a brokerage account and you do not submit voting instructions to your broker, your broker may generally vote your shares in its discretion on matters designated as routine under the rules of the New York Stock Exchange (NYSE). However, a broker cannot vote shares held in street name on matters designated as non-routine by the NYSE, unless the broker receives voting instructions from the street name (beneficial) holder. The proposal to ratify the appointment of the Company's independent accountants for fiscal 2011 is considered routine under NYSE rules. Each of the other items to be submitted for a vote of stockholders at the annual meeting is considered non-routine under applicable

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NYSE rules. Accordingly, if you hold your shares in street name through a brokerage account and you do not submit voting instructions to your broker, your broker may exercise its discretion to vote your shares on the proposal to ratify the appointment of the Company's independent accountants but will not be permitted to vote your shares on any of the other items at the annual meeting. If your broker exercises this discretion, your shares will be counted as present for the purpose of determining the presence of a quorum at the annual meeting and will be voted on the proposal to ratify the Company's independent accountants in the manner instructed by your broker, but your shares will constitute broker non-votes on each of the other items at the annual meeting. For a description of the effect of broker non-votes on the proposals at the annual meeting, see "How many votes must the nominees have to be elected?" and "Not including the election of directors, how many votes must the proposals receive in order to pass?"

What other business may be properly brought before the meeting, and what discretionary authority is granted?

Under the Company's Bylaws, as amended April 30, 2010, a stockholder may bring business before the meeting for publication in the Company's 2011 proxy statement only if the stockholder gave written notice to the Company on or before November 30, 2010 and complied with the other requirements included in Article II of the Company's Bylaws. The only such business

as to which the Company received proper advance notice from a stockholder are two stockholder proposals that the Company was permitted to exclude from this proxy statement under applicable rules and regulations of the SEC. If either of these stockholder proposals are properly presented at the annual meeting, the named proxies intend to utilize the discretionary authority to vote against such proposals.

The Company has not received valid notice that any business other than that described or referenced in this proxy statement will be brought before the meeting. As to any other matters that may properly come before the meeting and are not on the proxy card, the proxy grants to Messrs. Ayer and Loveless the authority to vote in their discretion the shares for which they hold proxies.

What does it mean if I receive more than one proxy card, voting instruction form or email notification from the Company?

It means that you have more than one account for your Alaska Air Group shares. Please complete and submit all proxies to ensure that all your shares are voted or vote by internet or telephone using each of the identification numbers.

What if I change my mind after I submit my proxy?

You may revoke your proxy and change your vote by delivering a later-dated proxy or, except for persons who beneficially own shares held in trust in one of the Company's 401(k) retirement plans, by voting at the meeting. The later-dated proxy may be delivered by telephone, internet or mail and need not be delivered by the same means used in delivering the to-be-revoked proxy. Except for persons beneficially holding shares in one of the Company's 401(k) retirement plans, you may do this at a later date or time by:

voting by telephone or the internet before 11:59 p.m. Eastern Time on Monday, May 16, 2011 (your latest telephone or internet proxy will be counted);

signing and delivering a proxy card with a later date; or

voting at the meeting. (If you hold your shares beneficially through a broker, you must bring a legal proxy from the

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broker in order to vote at the meeting. Please also note that attendance at the meeting, in and of itself, without voting in person at the meeting, will not cause your previously granted proxy to be revoked.)

Persons beneficially holding shares in one of the Company's 401(k) retirement plans cannot vote in person at the meeting and must vote in accordance with instructions from the trustees. Subject to these qualifications, such holders have the same rights as other record and beneficial holders to change their votes.

If you are a registered stockholder, you can obtain a new proxy card by contacting the Company's Corporate Secretary, Alaska Air Group, Inc., P.O. Box 68947, Seattle, WA 98168, telephone (206) 392-5131.

If your shares are held by a broker, trustee or bank, you can obtain a new voting instruction form by contacting your broker, trustee or bank.

If your shares are held by one of the Company's 401(k) retirement plans, you can obtain a new voting instruction form by contacting the trustee of such plan. You can obtain information about how to contact the trustee from the Company's Corporate Secretary. Please refer to the section below titled "How are shares voted that are held in a Company 401(k) plan?" for more information.

If you sign and date the proxy card or voting instruction form and submit it in accordance with the accompanying instructions and in a timely manner, any earlier proxy card or voting instruction form will be revoked and your choices on the proxy card or voting instruction form will be voted as you instruct.

How are shares voted that are held in a Company 401(k) plan?

On the record date, 1,321,846 shares were held in trust for Alaska Air Group 401(k) plan participants. The trustees, Vanguard Fiduciary Trust Company (Vanguard) and Fidelity Management Trust Company (Fidelity), provided instructions to each participant who held shares through the Company's 401(k) plans on the record date. Vanguard sent a Notice of Proxy and Access Instructions to participants; Fidelity mailed full sets of proxy materials. The trustees will vote only those shares for which instructions are received from participants. If a participant does not indicate a preference as to a matter, including the election of directors, then the trustees will not vote the participant's shares on such matters.

To allow sufficient time for voting by the trustee, please provide voting instructions no later than 11:59 p.m. Eastern Time on Thursday, May 12, 2011. Because the shares must be voted by the trustee, employees who hold shares through the 401(k) plans may not vote these shares at the meeting.

May I vote in person at the meeting?

We will provide a ballot to any record holder of our stock who requests one at the meeting. If you hold your shares through a broker, you must bring a legal proxy from your broker in order to vote by ballot at the meeting. You may request a legal proxy from your broker by indicating on your voting

instruction form that you plan to attend and vote your shares at the meeting, or at the internet voting site to which your voting materials direct you. Please allow sufficient time to receive a legal proxy through the mail after your broker receives your request. Because shares held by employees in the 401(k) plans must be voted by the trustee, these shares may not be voted at the meeting.

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Can I receive future materials via the internet?

If you vote on the internet, simply follow the prompts for enrolling in electronic proxy delivery service. This will reduce the Company's printing and postage costs, as well as the number of paper documents you will receive.

Registered stockholders may enroll in that service at the time they vote their proxy or at any time after the Annual Meeting and can read additional information about this option and request electronic delivery by going to www.computershare.com/us/investor. If you hold shares beneficially, please contact your broker to enroll for electronic proxy delivery.

At this time, employee participants in a Company 401(k) plan may not elect to receive notice and proxy materials via electronic delivery.

If you already receive your proxy materials via the internet, you will continue to receive them that way until you instruct otherwise through the website referenced above.

How many shares must be present to hold the meeting?

A majority of the Company's outstanding shares entitled to vote as of the record date, or 18,015,517 shares, must be present or represented at the meeting and entitled to vote in order to hold the meeting and conduct business (i.e., to constitute a quorum). Shares are counted as present or represented at the meeting if the stockholder of record attends the meeting; if the beneficial holder attends with a legal proxy from the record holder; or if the record holder or beneficial holder has submitted a proxy or voting instructions, whether by returning a proxy card or voting instructions or by telephone or internet, without regard to whether the proxy or voting instructions actually casts a vote or withholds or abstains from voting.

How many votes must the nominees have to be elected?

The Company's Bylaws (as amended April 30, 2010) require that each director be elected annually by a majority of votes cast with respect to that director. This means that the number of votes for a director must exceed the number of votes against that director. In the event that a nominee for director receives more against votes for his or her election than for votes, the Board must consider such director's resignation following a recommendation by the Board's Governance and Nominating Committee. The majority voting standard does not apply, however, in the event that the number of nominees for director exceeds the number of directors to be elected. In such circumstances, directors will instead be elected by a plurality of the votes cast, meaning that the persons receiving the highest number of for votes, up to the total number of directors to be elected at the Annual Meeting, will be elected.

With regard to the election of directors, the Board intends to nominate the ten persons identified as its nominees in this proxy statement. Because the Company has not received notice from any stockholder of an intent to nominate directors at the Annual Meeting, each of the directors must be elected by a majority of votes cast.

Abstain votes and broker non-votes are not treated as votes cast with respect to a director and therefore will not be counted in determining the outcome of the election of directors.

What happens if a director candidate nominated by the Board of Directors is unable to stand for election?

The Board of Directors may reduce the number of seats on the Board or it may designate a substitute nominee. If the Board

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designates a substitute, shares represented by proxies held by the named proxies, Messrs. Ayer and Loveless, will be voted for the substitute nominee.

Not including the election of directors, how many votes must the proposals receive in order to pass?

Ratification of the appointment of KPMG LLP as the Company's independent accountants

A majority of the shares present in person or by proxy at the meeting and entitled to vote on the proposal must be voted for the proposal in order for it to pass. Abstain votes are deemed present and entitled to vote and are included for purposes of determining the number of shares constituting a majority of shares present and entitled to vote. Accordingly, an abstention, because it is not a vote for will have the effect of a negative vote.

Advisory vote regarding the compensation of the Company's named executive officers

A majority of the shares present in person or by proxy at the meeting and entitled to vote on the proposal must be voted for the proposal in order for it to pass. Abstain votes are deemed present and entitled to vote and are included for purposes of determining the number of shares constituting a majority of shares present and entitled to vote. Accordingly, an abstention, because it is not a vote for will have the effect of a negative vote. In addition, broker non-votes are not considered entitled to vote for purposes of determining whether the proposal has been approved by stockholders and therefore will not be counted in determining the outcome of the vote on the proposal.

Advisory vote regarding the frequency of the named executive officer compensation vote

Stockholders may vote for holding an advisory vote on executive compensation every one year, every two years or every three years or stockholders may abstain from voting on this proposal. This proposal is advisory only and the vote results are not binding on the Company or our Board. Our Board will consider the outcome of the vote in determining the frequency of future advisory votes on executive compensation, and our Board currently intends to adopt the frequency option that receives the most votes cast by our stockholders. Broker non-votes and abstentions will not be counted in determining the frequency option that receives the most votes cast by our stockholders.

Advisory vote on stockholders' right to act by written consent

If a majority of the votes cast on the proposal vote for the proposal, the Board of Directors will take the steps necessary to allow stockholders to act by the written consent of a majority of the Company's outstanding shares. Abstain votes and broker non-votes are not treated as votes cast and therefore will not be counted in determining whether a majority of the votes cast voted for the proposal.

Approval of the Amendment of the Company's 2008 Performance Incentive Plan

Approval of the proposed amendments to the 2008 Performance Incentive Plan requires the affirmative vote of a majority of the shares represented at the Annual Meeting, either in person or by proxy, and entitled to vote on the matter. In addition, under NYSE rules, approval of the 2008 Plan also requires the affirmative vote of the majority of the votes cast on the proposal, provided that the total of votes cast on the proposal represent over 50% of the voting power of the total outstanding shares of stock. Broker non-votes will not be considered entitled to vote for purposes of determining whether the proposal has been

approved by stockholders, but they could impair our ability to satisfy the requirement

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that the total votes cast on the proposal represent over 50% of the voting power of the total outstanding shares of stock. Abstain votes are deemed present and entitled to vote on the proposal and are included for purposes of determining the number of shares present and entitled to vote. Accordingly, an abstention, not being a vote for will have the effect of a vote against the proposal.

How are votes counted?

Voting results will be tabulated by Computershare. Computershare will also serve as the independent inspector of elections.

Is my vote confidential?

The Company has a confidential voting policy as a part of its governance guidelines, which are published on the Company's website.

Who pays the costs of proxy solicitation?

The Company pays for distributing and soliciting proxies and reimburses brokers, nominees, fiduciaries and other custodians their reasonable fees and expenses in forwarding proxy materials to beneficial owners. The Company has engaged Georgeson Inc. (Georgeson) to assist in the solicitation of proxies for the meeting. It is intended that proxies will be solicited by the following means: additional mailings, personal interview, mail, telephone and electronic means. Although no precise estimate can be made at this time, we anticipate that the aggregate amount we will spend in connection with the solicitation of proxies will be approximately \$20,000. To date, \$16,000 has been incurred. This amount includes fees payable to Georgeson, but excludes salaries and expenses of our officers, directors and employees.

Is a list of stockholders entitled to vote at the meeting available?

A list of stockholders of record entitled to vote at the 2011 Annual Meeting will be available at the Annual Meeting. It will also be available Monday through Friday from April 4, 2011 through May 14, 2011 between the hours of 9 a.m. and 4 p.m., local time, at the offices of the Corporate Secretary, 19300 International Blvd., Seattle, WA 98188. A stockholder of record may examine the list for any legally valid purpose related to the Annual Meeting.

Where can I find the voting results of the meeting?

We will publish the voting results in a Form 8-K on or about May 20, 2011. You can read or print a copy of that report by going to the Company's website www.alaskaair.com/company, and then selecting Investor Information, and SEC Filings. You can read or print a copy of that report by going directly to the SEC EDGAR files at <http://www.sec.gov>. You can also get a copy by calling us at (206) 392-5131, or by calling the SEC at (800) SEC-0330 for the location of a public reference room.

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PROPOSAL 1.

ELECTION OF DIRECTORS

The Company currently has ten directors. The Company's Bylaws provide that the directors up for election this year shall serve a one-year term. Directors are elected to hold office until their successors are elected and qualified, or until resignation or removal in the manner provided in our Bylaws. Ten directors are nominees for election this year and each has consented to serve a one-year term ending in 2012.

NOMINEES FOR ELECTION TO TERMS EXPIRING IN 2012

William S. Ayer

Director since 1999

Age 56

Mr. Ayer has served as chair, president and CEO of Alaska Air Group as well as chair of Alaska Airlines and Horizon Air since May 2003. He has been CEO of Alaska Airlines since 2002, and served as president of Alaska Airlines from 1997 to 2008. Prior to 2003, Mr. Ayer worked in various marketing, planning and operational capacities at Alaska Airlines and Horizon Air. He serves on the boards of Alaska Airlines and Horizon Air, Puget Energy, Angel Flight West, the Alaska Airlines Foundation, the University of Washington Business School Advisory Board and the Museum of Flight. Mr. Ayer is chair of the boards of Puget Energy and its subsidiary, Puget Sound Energy. He also serves as a member of the governance and audit committees of the Puget Energy board. Mr. Ayer's strategic planning skills and his responsibilities for execution of the Company's strategic plan uniquely qualify him for his position on the Air Group Board.

Patricia M. Bedient

Director since 2004

Age 57

Ms. Bedient serves as chair of the Board's audit committee. She is executive vice president and CFO for the Weyerhaeuser Company, one of the world's largest integrated forest products companies. A certified public accountant (CPA) since 1978, she served as the managing partner of Arthur Andersen LLP's Seattle office prior to joining Weyerhaeuser. Ms. Bedient also worked at the firm's Portland and Boise offices as a partner and as a certified public accountant (CPA) during her 27-year career with Andersen. She currently serves on the Alaska Airlines Board, the Overlake Hospital Medical Center Board and the advisory board of the University of Washington School of Business. She has also served on the boards of a variety of civic organizations including the Oregon State University Foundation board of trustees, the World Forestry Center, City Club of Portland, St. Mary's Academy of Portland and the Chamber of Commerce in Boise, Idaho. She is a member of the American Institute of CPAs and the Washington Society of CPAs. Ms. Bedient received her bachelor's degree in business administration, with concentrations in finance and accounting, from Oregon State University in 1975. With her extensive experience in public accounting and her financial expertise, Ms. Bedient is especially qualified to serve on the Board and to act as a financial expert.

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Marion C. Blakey

Director since 2010

Age 62

Ms. Blakey was appointed to the Alaska Air Group Board in October 2010. Mr. Ayer, Alaska Air Group President and CEO, recommended Ms. Blakey for consideration by the Governance and Nominating Committee. The Governance and Nominating Committee recommended that the Board of Directors appoint Ms. Blakey a director and nominee for election at the 2011 Annual Meeting. She serves on the Board's audit and safety committees. Ms. Blakey is president and CEO of The Aerospace Industries Association, the nation's largest aerospace and defense trade association. Prior positions included administrator of the Federal Aviation Administration (the FAA) from 2002 to 2007 and chair of the National Transportation Safety Board (the NTSB) from 2001 to 2002. Ms. Blakey also serves on the board of Noblis and the NASA Advisory Council, as well as a number of philanthropic and community organizations including the Steven's Institute Advisory Board, the Washington Area Airports Task Force Advisory Board, International Aviation Women's Association, Belizean Grove Advisory Board and Best Friends Foundation Advisory Board. Ms. Blakey's experience with the FAA and the NTSB specially qualify her for service on the Company's Board and Safety Committee.

Phyllis J. Campbell

Director since 2002

Age 59

Ms. Campbell serves as chair of the Board's compensation committee. She was named chair of the Pacific Northwest Region of JPMorgan Chase & Co. in April 2009. She also serves on the firm's executive committee. From 2003 to 2009, Ms. Campbell served as president and CEO of The Seattle Foundation. She was president of U.S. Bank of Washington from 1993 until 2001 and also served as chair of the Bank's Community Board. Ms. Campbell has received several awards for her corporate and community involvement. These awards include the Women Who Make A Difference Award, and the Director of the Year from the Northwest Chapter of the National Association of Corporate Directors. Since August 2007, Ms. Campbell has served on Toyota's Diversity Advisory Board. She also serves on the boards of Horizon Air, the Joshua Green Corporation, and Nordstrom, where she is chair of the audit committee. Until February 2009, Ms. Campbell served on the boards of Puget Energy and Puget Sound Energy. Ms. Campbell is also a member of the Board of Trustees of Seattle University. Ms. Campbell's business and community leadership background and governance experience uniquely qualify her for her service on the Board.

Jessie J. Knight, Jr.

Director since 2002

Age 60

Mr. Knight serves on the Board's safety committee and its governance and nominating committee. In April 2010, Mr. Knight became president and CEO for San Diego Gas and Electric Company, a subsidiary of Sempra Energy. From 2006 to April 2010, he was executive vice president of external affairs at Sempra Energy. From 1999 to 2006, Mr. Knight served as president and CEO of the San Diego Regional Chamber of Commerce and, from 1993 to 1998, he was a commissioner of the California Public Utilities Commission. Prior to this, Mr. Knight won five coveted National Clio Awards for television, radio and printed advertising and a Cannes Film Festival Golden Lion Award for business marketing while at the *San Francisco Chronicle* and *San Francisco Examiner* newspapers. Mr. Knight also serves on the

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boards of Alaska Airlines, the San Diego Padres Baseball Club, and the Timken Museum of Art in San Diego. He is also a standing member of the Council on Foreign Relations. Mr. Knight's knowledge and expertise on brand and marketing make him particularly qualified for the Alaska Air Group Board.

R. Marc Langland

Director since 1991

Age 69

Mr. Langland is lead director and chair of the Board's governance and nominating committee. He has been chair and a director of Northrim Bank (Anchorage, Alaska) since 1998, and served as the bank's president from 1990 until 2009. Mr. Langland has also served as chair, president and CEO of the bank's parent company, Northrim Bancorp, Inc. since December 2001. In 2001, Mr. Langland was inducted into the Alaska Business Hall of Fame. He was chair and CEO of Key Bank of Alaska from 1987 to 1988 and president from 1985 to 1987. He served on the board of trustees of the Alaska Permanent Fund Corporation from February 1987 to January 1991 and was chair from June 1990 to January 1991. He is also a director of Horizon Air, Usibelli Coal Mine, Elliott Cove Capital Management, and Pacific Wealth Advisors, and is a member of the Anchorage Chamber of Commerce and a board member and past chairman of Commonwealth North. Mr. Langland's background and skills honed as an Alaskan business leader and banker uniquely qualify him for his role on the Alaska Air Group Board.

Dennis F. Madsen

Director since 2003

Age 62

Mr. Madsen serves on the Board's compensation and audit committees. He is currently the chair of Pivotlink Software, a business intelligence service company in Bellevue, Washington. In 2008, Mr. Madsen became chair of specialty retailer Evolucion Inc. From 2000 to 2005, Mr. Madsen was president and CEO of Recreational Equipment, Inc. (REI), a retailer and online merchant for outdoor gear and clothing. He served as REI's executive vice president and COO from 1987 to 2000, and prior to that held numerous positions throughout REI. In 2010, Mr. Madsen was appointed a director of West Marine Inc., a publicly traded retail company in the recreational boating sector. He also serves on West Marine's governance and compensation committees. Other boards on which Mr. Madsen is a member include Alaska Airlines, Horizon Air, Pivotlink Software, the Western Washington University Foundation, Western Washington University, Islandwood, Performance Bicycles, and the Youth Outdoors Legacy Fund. Mr. Madsen's experience in leading a large people-oriented and customer-service driven organization qualifies him for service on the Alaska Air Group Board.

Byron I. Mallott

Director since 1982

Age 67

Mr. Mallott serves on the Board's safety and governance and nominating committees. Currently he is a senior fellow of the First Alaskans Institute, a nonprofit organization dedicated to the development of Alaska Native peoples and their communities, a position he has held since 2000. Since 2007, Mr. Mallott has served on the Board of Trustees of the Smithsonian Institution's National Museum of the American Indian. Mr. Mallott has served the state of Alaska in various advisory and executive capacities, and has also served as mayor of Yakutat and as mayor of Juneau. From 1995 to 1999, he served as executive director (chief executive officer) of the Alaska Permanent Fund Corporation, a trust managing proceeds from the state of Alaska's oil reserves. He was a director of Sealaska

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Corporation (Juneau, Alaska) from 1972 to 1988, chair from 1976 to 1983, and CEO from 1982 to 1992. He owns Mallott Enterprises (personal investments) and is a director of Alaska Airlines, director and member of the nominating committee of Sealaska Corporation, and a director and member of the audit committee of Yak-Tat Kwaan, Inc. and Native American Bank, NA.

Mr. Mallott's leadership of native Alaskan people and his experience with governmental affairs specially qualifies him for his role on the Board.

J. Kenneth Thompson

Director since 1999

Age 59

Mr. Thompson serves on the Board's compensation committee and is chair of the Board's safety committee. Since 2000, Mr. Thompson has been president and CEO of Pacific Star Energy LLC, a private energy investment company in Alaska, with partial ownership in the oil exploration firm Alaska Venture Capital Group (AVCG LLC) where he serves as the managing director. Mr. Thompson served as executive vice president of ARCO's Asia Pacific oil and gas operating companies in Alaska, California, Indonesia, China and Singapore from 1998 to 2000. Prior to that, he was president of ARCO Alaska, Inc., the parent company's oil and gas producing division based in Anchorage, Alaska. He also serves on the boards of Horizon Air, Tetra Tech, and Coeur d'Alene Mines Corporation, as well as a number of community service organizations. Mr. Thompson also serves on the environmental, health, safety & social responsibility committee and the audit committee of Coeur d'Alene Mines Corporation. At Tetra Tech, Inc., Mr. Thompson serves on the audit, governance/nominating, compensation and strategy planning committees. Mr. Thompson's planning, operations and safety/regulatory experience specially qualifies him for his Alaska Air Group Board service.

Bradley D. Tilden

Director since 2010

Age 50

Mr. Tilden was appointed to the Alaska Air Group Board in December 2010. He has served as president of Alaska Airlines since December 2008. He served as executive vice president of finance and planning from 2002 to 2008 and as chief financial officer from 2000 to 2008 at both Alaska Airlines and Alaska Air Group. Prior to 2000, Mr. Tilden was vice president of finance at Alaska Airlines and Alaska Air Group. He also serves on the boards of Flow International, Pacific Lutheran University and the Chief Seattle Council of the Boy Scouts of America. Mr. Tilden's strategic planning skills and financial expertise qualify him to serve on the Air Group Board.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE *FOR* THE ELECTION OF THE TEN NOMINEES NAMED ABOVE AS DIRECTORS.

UNLESS OTHERWISE INDICATED ON YOUR PROXY, THE SHARES WILL BE VOTED *FOR* THE ELECTION OF THESE TEN NOMINEES AS DIRECTORS.

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PROPOSAL 2.

**RATIFICATION OF THE APPOINTMENT OF THE COMPANY'S
INDEPENDENT ACCOUNTANTS**

The Audit Committee has selected KPMG LLP (KPMG) as the Company's independent accountants for fiscal year 2011, and the Board is asking stockholders to ratify that selection. Although current law, rules, and regulations, as well as the charter of the Audit Committee, require the Audit Committee to engage, retain, and supervise the independent accountants, the Board considers the selection of the independent accountants to be an important matter of stockholder concern and is submitting the selection of KPMG for ratification by stockholders as a matter of good corporate practice.

The affirmative vote of holders of a majority of the shares of common stock represented at the meeting entitled to vote on the proposal is required to ratify the selection of KPMG as the Company's independent accountant for the current fiscal year.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE *FOR* THE RATIFICATION OF THE
COMPANY'S INDEPENDENT ACCOUNTANTS.**

PROPOSAL 3.

**ADVISORY VOTE REGARDING THE COMPENSATION
OF THE COMPANY'S NAMED EXECUTIVE OFFICERS**

The Company is providing its stockholders with the opportunity to cast a non-binding, advisory vote on the compensation of the Company's named executive officers as disclosed pursuant to the SEC's executive compensation disclosure rules and set forth in this proxy statement (including in the compensation tables and the narrative discussion accompanying those tables as well as in the Compensation Discussion and Analysis).

As described more fully in the Compensation Discussion and Analysis section beginning on page 46 of this proxy statement, the structure of the Company's executive compensation program is designed to compensate executives appropriately and competitively and to drive superior performance. For named executive officers, a high percentage of total direct compensation is variable and tied to the success of the Company because these are the senior leaders primarily responsible for the overall execution of the Company's strategy. The Company's strategic goals are reflected in its incentive-based executive compensation programs so that executives' interests are aligned with stockholder interests. Executive compensation is designed to be internally equitable, reflective of the business challenges facing the Company, and scaled to the industry.

The Compensation Discussion and Analysis section of this proxy statement describes the Company's executive compensation programs and the decisions made by the Compensation Committee in 2010 in more detail. Highlights of these executive compensation programs include the following:

Base Salary

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In general, for the Named Executive Officers, the Committee targets base salary levels at the 25th percentile relative to the Company's peer group with the opportunity to earn market-level compensation through short- and long-

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term incentive plans that pay when performance objectives are met.

Annual Incentive Pay

The Company's Named Executive Officers are eligible to earn annual incentive pay under the Performance-Based Pay plan, which is intended to motivate the executives to achieve specific Company goals. Annual target performance measures reflect near-term financial and operational goals that are consistent with the strategic plan.

Long-term Incentive Pay

Equity-based incentive awards that link executive pay to stockholder value are an important element of the Company's executive compensation program. Long-term equity incentives that vest over three- or four-year periods are awarded annually, resulting in overlapping vesting periods that are designed to discourage short-term risk-taking and align Named Executive Officers' long-term interests with those of stockholders while helping the Company attract and retain top-performing executives who fit a team-oriented and performance-driven culture.

In accordance with the requirements of Section 14A of the Exchange Act (which was added by the Dodd-Frank Wall Street Reform and Consumer Protection Act) and the related rules of the SEC, our Board of Directors will request your advisory vote on the following resolution at the 2011 Annual Meeting:

RESOLVED, that the compensation paid to the named executive officers, as disclosed in this proxy statement pursuant to the SEC's executive compensation disclosure rules (which disclosure includes the Compensation Discussion and Analysis, the compensation tables and the narrative discussion that accompanies the compensation tables), is hereby approved.

This proposal on the compensation paid to our named executive officers is advisory only and will not be binding on the Company or our Board and will not be construed as overruling a decision by the Company or our Board or creating or implying any additional fiduciary duty for the Company or our Board. However, the Compensation Committee, which is responsible for designing and administering the Company's executive compensation program, values the opinions expressed by stockholders in their vote on this proposal and will consider the outcome of the vote when making future compensation decisions for our named executive officers.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE *FOR* THE APPROVAL OF THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE SEC'S EXECUTIVE COMPENSATION DISCLOSURE RULES.

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PROPOSAL 4.

ADVISORY VOTE ON FREQUENCY OF FUTURE ADVISORY

VOTE ON NAMED EXECUTIVE OFFICER COMPENSATION

As described in Proposal No. 3 above, the Company's stockholders are being provided the opportunity to cast an advisory vote on the compensation of the Company's named executive officers.

This Proposal No. 4 affords stockholders the opportunity to cast an advisory vote on how often the Company should include an advisory vote on executive compensation in its proxy materials for future annual stockholder meetings (or special stockholder meeting for which the Company must include executive compensation information in the proxy statement for that meeting). Under this Proposal No. 4, stockholders may vote to have the advisory vote on executive compensation held every one year, every two years or every three years.

After careful consideration, our Board of Directors believes that advisory votes on executive compensation should be conducted every year so that stockholders may annually express their views on the Company's executive compensation program. The Compensation Committee, which administers the Company's executive compensation program, values the opinions expressed by stockholders in these votes and will consider the outcome of these votes when making future compensation decisions for our named executive officers.

This proposal on the frequency of future advisory votes on executive compensation is advisory only and will not be binding on the Company or our Board. In voting on this proposal, you will be able to indicate your preference regarding the frequency of future advisory votes on executive compensation by specifying a choice of one year, two years or three years. If you do not have a preference regarding the frequency of future advisory votes on executive compensation, you should abstain from voting on the proposal. Stockholders are not voting to approve or disapprove the Board's recommendation. Although non-binding, the Board and the Compensation Committee will carefully review the voting results. Notwithstanding the Board's recommendation and the outcome of the stockholder vote, the Board may in the future decide to conduct advisory votes on executive compensation on a more or less frequent basis and may vary practice based on factors such as discussions with stockholders and the adoption of material changes to the Company's executive compensation program.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE TO HOLD FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION *EVERY ONE YEAR* (AS OPPOSED TO EVERY TWO YEARS OR EVERY THREE YEARS).

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PROPOSAL 5.

ADVISORY VOTE ON THE RIGHT OF STOCKHOLDERS TO ACT BY WRITTEN CONSENT

Background

At the Company's 2010 annual meeting, Alaska Air Group stockholders holding a majority of our outstanding shares of common stock approved a stockholder proposal requesting that our Board of Directors undertake necessary steps to permit our stockholders to act by the written consent of a majority of shares outstanding. In response to last year's vote, the Board is seeking confirmation that stockholders continue to believe that the adoption of this provision is in the best interests of the Company and its stockholders. The Board acknowledges that it is unusual to ask stockholders to reaffirm a previous stockholder vote; however, since the Company's last meeting of stockholders, the Board believes that stockholders and other prominent voices in the corporate governance community have recognized that the ability of stockholders to act by written consent risks potential abuse and may not be in the best interests of stockholders where a company has alternative mechanisms in place to enable stockholders to express their views or take action. Accordingly, the Board has determined that it is in the best interests of the Company and its stockholders to put this matter before stockholders again.

In reaching this determination, the Board considered the following:

- Several of the Company's institutional stockholders have raised concerns over the possibility that the ability of stockholders to act by written consent, if implemented, could result in a potential for abuse. Based on conversations with a sampling of our stockholders, the Board believes holders of approximately 13% of the Company's outstanding shares who supported the proposal last year would not support the proposal again this year. A swing of this magnitude would have changed the outcome of last year's vote as we believe it would have resulted in both less than a majority of our outstanding shares and less than a majority of the votes cast on the proposal voting in favor of the proposal.
- In particular, stockholders have expressed concern to us that a written consent solicitation could be used to deny the ability of some stockholders to vote or otherwise have a say on important issues such as merger transactions or other contests for corporate control. These stockholders worry that the written consent process could be used, with little or no notice to the Board or its stockholders, to replace existing members of the Board. This is especially true for the Company because our stockholders have the ability to remove directors without cause and without requiring a supermajority vote to do so. When combined with a contest for corporate control of the Company, the Board believes that such an event could impair its ability to achieve the best results for stockholders. More significantly, the uncertain timetable created by the written consent procedure—the action is effective as soon as consents representing the requisite number of shares are received

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could deter potential higher bids in the event of a hostile acquisition proposal, as potential bidders may not want to engage in the cost and effort of due diligence and negotiations given the possibility that at any time, with little or no notice, members of the Board of Directors might be replaced.

- In addition to disenfranchising minority stockholders, providing stockholders with the ability to act by written consent of a majority of outstanding shares is subject to a potential risk of abuse because it could enable a group of as few as ten stockholders, if they control a majority of the Company's outstanding shares, to bypass even minimum procedural mechanisms and take action without any advance notice or disclosure to the Company's other stockholders.
- The Board believes that the potential for abuse associated with the right to act by written consent, especially in the circumstances described above, outweighs the benefits to stockholders of such a right. The Board believes that due to changes to the Company's governance practices and stockholder rights provisions that it has implemented over the past several years, alternative protective measures are in place at the Company to provide stockholders with an ability to express their views and take action even where they do not have the ability to act by the written consent of a majority of the outstanding shares. These actions include:

In April 2010, prior to our 2010 annual meeting of stockholders and in response to a prior stockholder proposal, the Board amended the Company's Bylaws to give stockholders who own ten percent or more of the Company's outstanding shares an unfettered right to call a special meeting. Pursuant to this unfettered right, there are no restrictions on the number of stockholders that are permitted to group together to reach the ten percent threshold and any business may be proposed by a stockholder for a special meeting unless it is not a proper subject for stockholder action under applicable law. In addition, the Board believes that it has imposed a reasonable limit on when a special meeting of stockholders can be held—limiting it only when an annual meeting will be held within 90 days after the special meeting request is received.

In September 2009, the Board adopted a majority vote standard in uncontested elections. In an uncontested election where the number of director nominees does not exceed the number of directors to be elected, each director nominee will be elected only if a majority of the votes cast with respect to a director nominee are voted in favor of his or her election. In a contested election, consistent with corporate governance best practices, directors will be elected by a plurality of the votes cast.

At the Company's annual meeting of stockholders in 2006, the Board sought and received stockholder approval to amend the Company's Certificate of Incorporation to provide for the annual election of directors, which the Company implemented beginning with its 2007 annual meeting of stockholders.

In response to stockholder feedback, the Company eliminated its Stockholder Rights Plan in 2002 by

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accelerating its expiration date by four years. In 2005, the Company also adopted a policy that it will adopt a Stockholder Rights Plan in the future only if it is approved by the Company's stockholders or, if adopted by the Board pursuant to the exercise of its fiduciary duties, it is approved by the Company's stockholders within one year of adoption.

At the Company's 2009 and 2010 annual meetings of stockholders, the Board voluntarily sought an annual advisory vote from stockholders on the executive compensation paid to its named executive officers. In this proxy statement, in recognition of the value of receiving regular stockholder input on the Company's executive compensation programs, the Board has also recommended that stockholders vote to require future advisory votes on executive compensation on an annual basis (rather than every two years or every three years).

In light of the change in sentiment by stockholders and other prominent members of the corporate governance community since stockholders voted last year on the ability of stockholders to act by written consent, the Board believes it is in the best interests of all the Company's stockholders to seek an advisory vote to confirm whether the Company's stockholders continue to believe that stockholders should have the ability to act by the written consent of a majority of outstanding shares.

While the Board believes it is advisable and appropriate to seek the advisory vote of stockholders requested by this proposal, for the reasons discussed above, the Board nonetheless continues to believe that the ability of stockholders to take action by majority written consent is not in the best interests of the Company or its stockholders. Notwithstanding this view or the Board's recommendation on this proposal, if a majority of the votes cast on the proposal vote in favor of this proposal, the Board will take the steps necessary to allow stockholders to act by the written consent of a majority of the Company's outstanding shares.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE AGAINST A STOCKHOLDERS
RIGHT TO ACT BY WRITTEN CONSENT.**

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PROPOSAL 6.

APPROVAL OF THE AMENDED ALASKA AIR GROUP, INC.

2008 PERFORMANCE INCENTIVE PLAN

General

At the Annual Meeting, stockholders will be asked to approve the following amendments to the Alaska Air Group, Inc. 2008 Performance Incentive Plan (the 2008 Plan), which were adopted, subject to stockholder approval, by the Board of Directors on February 9, 2011.

Increase in Aggregate Share Limit. The 2008 Plan currently limits the aggregate number of shares of Common Stock that may be delivered pursuant to all awards granted under the 2008 Plan to 2,100,000 shares. The proposed amendments would increase this limit by an additional 2,200,000 shares so that the new aggregate share limit for the 2008 Plan would be 4,300,000 shares in addition to the shares originally authorized and not issued under the Alaska Air Group, Inc. 2004 Long-Term Incentive Plan (the 2004 Plan). As noted below, shares subject to awards granted under the 2004 Plan which expire, or for any reason are cancelled or terminated, after May 20, 2008 without being exercised or paid are also available for award grant purposes under the 2008 Plan. The proposed amendments would also increase the limit on the number of shares that may be delivered pursuant to incentive stock options granted under the 2008 Plan to 4,300,000 shares. For purposes of clarity, any shares that are delivered pursuant to incentive stock options also count against (and are not in addition to) the aggregate 2008 Plan share limit described above.

Extension of Performance-Based Award Feature. One element of the 2008 Plan is the flexibility to grant certain performance-based awards designed to satisfy the requirements for deductibility of compensation under Section 162(m) of the U.S. Internal Revenue Code (the Code). These awards are referred to as Performance-Based Awards and are in addition to other awards, such as stock options and stock appreciation rights, expressly authorized under the 2008 Plan which may also qualify as performance-based compensation for Section 162(m) purposes. If stockholders approve this 2008 Plan proposal, the Performance-Based Award feature of the 2008 Plan will be extended through the first annual meeting of our stockholders that occurs in 2016 (this expiration time is earlier than the general expiration date of the 2008 Plan and is required under applicable tax rules). (See the section titled Performance-Based Awards below.)

As of March 18, 2011, a total of 1,802,094 shares of Common Stock were subject to outstanding awards granted under the 2008 Plan (with shares subject to full value awards being counted as 1.7 shares for each share subject to the award as described below), and an additional 377,618 shares of Common Stock were then available for new award grants under the 2008 Plan.

The Company believes that incentives and stock-based awards focus employees on the objective of creating stockholder value and promoting the success of the Company, and that incentive compensation plans like the

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2008 Plan are an important attraction, retention and motivation tool for participants in the plan.

The Board of Directors approved the foregoing amendments based on a belief that the number of shares currently available under the 2008 Plan does not give the Company sufficient authority and flexibility to adequately provide for future incentives. The Board of Directors believes that these amendments would give the Company greater flexibility to structure future incentives and better attract, retain and award key employees.

If stockholders do not approve this proposal, the current share limits under, and other terms and conditions of, the 2008 Plan will continue in effect.

Summary Description of the 2008 Performance Incentive Plan

The principal terms of the 2008 Plan are summarized below. The following summary is qualified in its entirety by the full text of the 2008 Plan, which has been filed as an exhibit to the copy of this Proxy Statement that was filed electronically with the SEC and can be reviewed on the SEC's website at <http://www.sec.gov>. You may also obtain, free of charge, a copy of the 2008 Plan by writing to the Stock Plan Administrator, Alaska Air Group, Inc., P.O. Box 68947, Seattle, WA 98168.

Purpose.

The purpose of the 2008 Plan is to promote the success of the Company and the interests of our stockholders by providing an additional means for us to attract, motivate, retain and reward officers, employees, nonemployee directors and other eligible persons through the grant of awards and incentives for high levels of individual performance and improved financial performance of the Company. Equity-based awards are also intended to further align the interests of award recipients and our stockholders.

Administration.

Our Board of Directors has delegated general administrative authority for the 2008 Plan to the Compensation Committee. A committee may delegate some or all of its authority with respect to the 2008 Plan to another committee of directors, and certain limited authority to grant awards to employees may be delegated to one or more officers of the Company. (The appropriate acting body, be it the Board of Directors, a committee within its delegated authority, or an officer within his or her delegated authority, is referred to in this proposal as the Administrator).

The Administrator has broad authority under the 2008 Plan with respect to award grants including, without limitation, the authority:

to select participants and determine the type(s) of award(s) that they are to receive;

to determine the number of shares that are to be subject to awards and the terms and conditions of awards, including the price (if any) to be paid for the shares or the award;

to cancel, modify, or waive the Company's rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding awards, subject to any required consents;

to accelerate or extend the vesting or exercisability or extend the term of any or all outstanding awards;

subject to the other provisions of the 2008 Plan, to make certain adjustments to an outstanding award and to authorize the conversion, succession or substitution of an award; and

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to allow the purchase price of an award or shares of the Company's common stock to be paid in the form of cash, check, or electronic funds transfer, by the delivery of already-owned shares of the Company's common stock or by a reduction of the number of shares deliverable pursuant to the award, by services rendered by the recipient of the award, by notice and third party payment or cashless exercise on such terms as the Administrator may authorize, or any other form permitted by law.

No Repricing.

In no case (except due to an adjustment to reflect a stock split or similar event or any repricing that may be approved by stockholders) will any adjustment be made to a stock option or stock appreciation right award under the 2008 Plan (by amendment, cancellation and regrant, exchange or other means) that would constitute a repricing of the per share exercise or base price of the award.

Eligibility.

Persons eligible to receive awards under the 2008 Plan include officers or employees of the Company or any of its subsidiaries, directors of the Company, and certain consultants and advisors to the Company or any of its subsidiaries. As of March 18, 2011, approximately 12,000 officers and employees of the Company and its subsidiaries (including all of the Company's named executive officers), and each of the Company's eight non-employee directors, were considered eligible under the 2008 Plan.

Authorized Shares; Limits on Awards.

The maximum number of shares of the Company's common stock that may be issued or transferred pursuant to awards under the 2008 Plan currently equals the sum of: (1) 2,100,000 shares, plus (2) the number of shares available for additional award grant purposes under the 2004 Plan as of May 20, 2008 and determined immediately prior to the termination of the authority to grant new awards under that plan as of May 20, 2008, plus (3) the number of any shares subject to stock options granted under the 2004 Plan and outstanding as of May 20, 2008 which expire, or for any reason are cancelled or terminated, after May 20, 2008 without being exercised (including any shares subject to outstanding stock options granted under the 1999 Long-Term Incentive Equity Plan (the 1999 Plan) which expire, or for any reason are cancelled or terminated, after May 20, 2008 without being exercised that would otherwise become available for award grant purposes under the 2004 Plan in accordance with the terms of that plan), plus (4) the number of any shares subject to restricted stock and restricted stock unit awards granted under the 2004 Plan that are outstanding and unvested as of May 20, 2008 which are forfeited, terminated, cancelled, or otherwise reacquired after May 20, 2008 without having become vested. As of March 18, 2011, 486,939 shares were subject to awards then outstanding under the 2004 Plan and the 1999 Plan. No additional awards may be granted under the 2004 Plan or the 1999 Plan.

If stockholders approve this 2008 Plan proposal, the aggregate share limit for the 2008 Plan would be increased by an additional 2,200,000 shares.

Shares issued in respect of any full-value award granted under the 2008 Plan will be counted against the share limit described in the preceding paragraph as 1.7 shares for every one share actually issued in connection with the award. For example, if the Company granted 100 shares of its

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common stock under the 2008 Plan, 170 shares would be charged against the share limit with respect to that award. For this purpose, a full-value award generally means any award granted under the plan other than a stock option or stock appreciation right.

The following other limits are also contained in the 2008 Plan:

The maximum number of shares that may be delivered pursuant to options qualified as incentive stock options granted under the plan currently is 2,100,000 shares. If stockholders approve this 2008 Plan proposal this limit would be increased by an additional 2,200,000 shares of the Company's common stock so that the new incentive stock option limit for the 2008 Plan would be 4,300,000 shares. For purposes of clarity, any shares that are delivered pursuant to incentive stock options also count against (and are not in addition to) the aggregate 2008 Plan share limit described above.

The maximum number of shares subject to options and stock appreciation rights that are granted during any calendar year to any individual under the plan is 300,000 shares.

Performance-Based Awards under Section 5.2 of the 2008 Plan payable only in cash and not related to shares and granted to a participant in any one calendar year will not provide for payment of more than \$1,000,000.

To the extent that an award is settled in cash or a form other than shares, the shares that would have been delivered had there been no such cash or other settlement will not be counted against the shares available for issuance under the 2008 Plan. In the event that shares are delivered in respect of a dividend equivalent right, only the actual number of shares delivered with respect to the award shall be counted against the share limits of the 2008 Plan. To the extent that shares are delivered pursuant to the exercise of a stock appreciation right or stock option, the number of underlying shares as to which the exercise related shall be counted against the applicable share limits, as opposed to only counting the shares actually issued. (For purposes of clarity, if a stock appreciation right relates to 100,000 shares and is exercised at a time when the payment due to the participant is 15,000 shares, 100,000 shares shall be charged against the applicable share limits with respect to such exercise.) Shares that are subject to or underlie awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under the 2008 Plan will again be available for subsequent awards under the 2008 Plan. Shares that are exchanged by a participant or withheld by the Company to pay the exercise price of an award granted under the 2008 Plan, as well as any shares exchanged or withheld to satisfy the tax withholding obligations related to any award, will not be available for subsequent awards under the 2008 Plan. In addition, the 2008 Plan generally provides that shares issued in connection with awards that are granted by or become obligations of the company through the assumption of awards (or in substitution for awards) in connection with an acquisition of another company will not count against the shares available for issuance under the 2008 Plan. The Company may not increase the applicable share limits of the 2008 Plan by repurchasing shares of common stock on the market (by using cash received through the exercise of stock options or otherwise).

Types of Awards.

The 2008 Plan authorizes stock options, stock appreciation rights, restricted stock, stock bonuses and other forms of awards

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granted or denominated in the Company's

common stock or units of the Company's common stock, as well as cash bonus awards pursuant to Section 5.2 of the 2008 Plan. The 2008 Plan retains flexibility to offer competitive incentives and to tailor benefits to specific needs and circumstances. Any award may be paid or settled in cash.

A stock option is the right to purchase shares of the Company's common stock at a future date at a specified price per share (the exercise price). The per share exercise price of an option generally may not be less than the fair market value of a share of the Company's common stock on the date of grant. The maximum term of an option is ten years from the date of grant. An option may either be an incentive stock option or a nonqualified stock option. Incentive stock option benefits are taxed differently from nonqualified stock options, as described under Federal Income Tax Consequences of Awards Under the 2008 Plan below. Incentive stock options are also subject to more restrictive terms and are limited in amount by the U.S. Internal Revenue Code and the 2008 Plan. Incentive stock options may only be granted to employees of the Company or a subsidiary.

A stock appreciation right is the right to receive payment of an amount equal to the excess of the fair market value of share of the Company's common stock on the date of exercise of the stock appreciation right over the base price of the stock appreciation right. The base price will be established by the Administrator at the time of grant of the stock appreciation right and generally may not be less than the fair market value of a share of the Company's common stock on the date of grant. Stock appreciation rights may be granted in connection with other awards or independently. The maximum term of a stock appreciation right is ten years from the date of grant.

The per share exercise price of an option or the per share base price of a stock appreciation right may, however, be less than the fair market value of a share of the Company's common stock on the date of grant if the option or stock appreciation right will be treated as a full-value award under the share-counting rules for the 2008 Plan described above.

The other types of awards that may be granted under the 2008 Plan include, without limitation, stock bonuses, restricted stock, performance stock, stock units, dividend equivalents, or similar rights to purchase or acquire shares, and cash awards granted consistent with Section 5.2 of the 2008 Plan as described below.

Performance-Based Awards.

The Administrator may grant awards that are intended to be performance-based within the meaning of Section 162(m) of the U.S. Internal Revenue Code (Performance-Based Awards). Performance-Based Awards are in addition to any of the other types of awards that may be granted under the 2008 Plan (including options and stock appreciation rights which may also qualify as performance-based awards for Section 162(m) purposes). Performance-Based Awards may be in the form of restricted stock, performance stock, stock units, other rights, or cash bonus opportunities.

The vesting or payment of Performance-Based Awards (other than options or stock appreciation rights) will depend on the absolute or relative performance of the Company on a consolidated, subsidiary, segment, division, or business unit basis. The Administrator will establish the criterion or criteria and target(s) on which performance will be measured. The Administrator must establish criteria and targets in advance of applicable deadlines.

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under the U.S. Internal Revenue Code and while the attainment of the performance targets remains substantially uncertain. The criteria that the Administrator may use for this purpose will include one or more of the following: earnings per share, cash flow (which means cash and cash equivalents derived from either net cash flow from operations or net cash flow from operations, financing and investing activities), stock price, total stockholder return, gross revenue, revenue growth, operating income (before or after taxes), net earnings (before or after interest, taxes, depreciation and/or amortization), return on equity or on assets or on net investment, cost containment or reduction, profitability, economic value added, market share, productivity, safety, customer satisfaction, on-time performance, or any combination thereof. The performance measurement period with respect to an award may range from three months to ten years. Performance targets will be adjusted to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting changes or other extraordinary events not foreseen at the time the targets were set unless the Administrator provides otherwise at the time of establishing the targets.

Performance-Based Awards may be paid in stock or in cash (in either case, subject to the limits described under the heading *Authorized Shares; Limits on Awards* above). Before any Performance-Based Award (other than an option or stock appreciation right) is paid, the Administrator must certify that the performance target or targets have been satisfied. The Administrator has discretion to determine the performance target or targets and any other restrictions or other limitations of Performance-Based Awards and may reserve discretion to reduce payments below maximum award limits.

Deferrals.

The Administrator may provide for the deferred payment of awards, and may determine the other terms applicable to deferrals. The Administrator may provide that deferred settlements include the payment or crediting of interest or other earnings on the deferred amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in shares.

Assumption and Termination of Awards.

Generally, and subject to limited exceptions set forth in the 2008 Plan, if the Company dissolves or undergoes certain corporate transactions such as a merger, business combination, or other reorganization, or a sale of substantially all of its assets, all awards then-outstanding under the 2008 Plan will become fully vested or paid, as applicable, and will terminate or be terminated in such circumstances, unless the Administrator provides for the assumption, substitution or other continuation of the award. The Administrator also has the discretion to establish other change in control provisions with respect to awards granted under the 2008 Plan.

Transfer Restrictions.

Subject to certain exceptions contained in Section 5.7 of the 2008 Plan, awards under the 2008 Plan generally are not transferable by the recipient other than by will or the laws of descent and distribution and are generally exercisable, during the recipient's lifetime, only by the recipient. Any amounts payable or shares issuable pursuant to an award generally will be paid only to the recipient or the recipient's beneficiary or representative. The Administrator has discretion, however, to establish written conditions and procedures for the transfer of awards to other persons or entities, provided that such

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transfers comply with applicable federal and state securities laws and, with limited exceptions set forth in the 2008 Plan, are not made for value.

Adjustments.

As is customary in incentive plans of this nature, each share limit and the number and kind of shares available under the 2008 Plan and any outstanding awards, as well as the exercise or purchase prices of awards, and performance targets under certain types of performance-based awards, are subject to adjustment in the event of certain reorganizations, mergers, combinations, recapitalizations, stock splits, stock dividends, or other similar events that change the number or kind of shares outstanding, and extraordinary dividends or distributions of property to the stockholders.

No Limit on Other Authority.

The 2008 Plan does not limit the authority of the Board of Directors or any committee to grant awards or authorize any other compensation, with or without reference to the Company's common stock, under any other plan or authority.

Termination of or Changes to the 2008 Plan.

The Board of Directors may amend or terminate the 2008 Plan at any time and in any manner. Stockholder approval for an amendment will be required only to the extent then required by applicable law or any applicable listing agency or required under Sections 162, 422 or 424 of the U.S. Internal Revenue Code to preserve the intended tax consequences of the plan. For example, stockholder approval will be required for any amendment that proposes to increase the maximum number of shares that may be delivered with respect to awards granted under the 2008 Plan. (Adjustments as a result of stock splits or similar events will not, however, be considered an amendment requiring stockholder approval.) Unless terminated earlier by the Board of Directors, the authority to grant new awards under the 2008 Plan will terminate on March 12, 2018. Outstanding awards, as well as the Administrator's authority with respect thereto, generally will continue following the expiration or termination of the plan. Generally speaking, outstanding awards may be amended by the Administrator (except for a repricing), but the consent of the award holder is required if the amendment (or any plan amendment) materially and adversely affects the holder.

Federal Income Tax Consequences of Awards under the 2008 Plan

The U.S. federal income tax consequences of the 2008 Plan under current federal law, which is subject to change, are summarized in the following discussion of the general tax principles applicable to the 2008 Plan. This summary is not intended to be exhaustive and, among other considerations, does not describe the deferred compensation provisions of Section 409A of the U.S. Internal Revenue Code to the extent an award is subject to and does not satisfy those rules, nor does it describe state, local, or international tax consequences.

With respect to nonqualified stock options, the company is generally entitled to deduct and the participant recognizes taxable income in an amount equal to the difference between the option exercise price and the fair market value of the shares at the time of exercise. With respect to incentive stock options, the company is generally not entitled to a deduction nor does the

participant recognize income at the time of exercise, although the participant may be subject to the U.S. federal alternative minimum tax.

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The current federal income tax consequences of other awards authorized under the 2008 Plan generally follow certain basic patterns: nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value over the price paid (if any) only at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant); bonuses, stock appreciation rights, cash and stock-based performance awards, dividend equivalents, stock units, and other types of awards are generally subject to tax at the time of payment; and compensation otherwise effectively deferred is taxed when paid. In each of the foregoing cases, the company will generally have a corresponding deduction at the time the participant recognizes income.

If an award is accelerated under the 2008 Plan in connection with a change in control (as this term is used under the U.S. Internal Revenue Code), the company may not be permitted to deduct the portion of the compensation attributable to the acceleration (parachute payments) if it exceeds certain threshold limits under the U.S. Internal Revenue Code (and certain related excise taxes may be triggered). Furthermore, the aggregate compensation in excess of \$1,000,000 attributable to awards that are not performance-based within the meaning of Section 162(m) of the U.S. Internal Revenue Code may not be permitted to be deducted by the company in certain circumstances.

Specific Benefits under the 2008 Performance Incentive Plan

The Company has not approved any awards that are conditioned upon stockholder approval of the proposed amendments to the 2008 Plan and is not currently considering any specific award grants that are conditioned upon such approval. If the additional shares that will be available under the 2008 Plan if stockholders approve the proposed amendments had been in existence in fiscal 2010, the Company expects that its award grants for fiscal 2010 would not have been substantially different from those actually made in that year under the 2008 Plan. For information regarding stock-based awards granted to the Company's named executive officers during fiscal 2010, see the material in this proxy statement under the heading Executive Compensation.

The closing market price for a share of the Company's common stock as of March 18, 2011 was \$60.03 per share.

AGGREGATE PAST GRANTS UNDER THE 2008 PLAN

As of February 28, 2011, awards covering 1,452,055 shares of Common Stock had been granted under the 2008 Plan. (This number of shares includes shares subject to awards that expired or terminated without having been exercised and paid and became available for new award grants under the 2008 Plan.) The following table shows information regarding the distribution of those awards among the persons and groups identified below, option exercises and restricted stock and restricted stock units vesting prior to that date, and option and unvested restricted stock and restricted stock unit holdings as of that date (with outstanding performance awards being reflected in the table assuming that the target level of performance is achieved).

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Name	Number of Shares Underlying Options as of 2/28/11				Number of Shares/ Units Subject to Past Restricted Stock/ Unit Grants	Number of Shares/ Units Vested as of 2/28/11	Number of Shares/ Units Outstanding and Unvested as of 2/28/11
	Number of Shares Subject to Past Option Grants	Number of Shares Acquired on Exercise	Exercisable	Unexercisable			
Named Executive Officers:							
William S. Ayer	171,158	0	35,305	135,853	103,313	0	103,313
Glenn S. Johnson	46,292	17,446	0	28,846	54,102	0	54,102
Bradley D. Tilden	67,538	0	24,869	42,669	47,744	0	47,744
Benito Minicucci	44,726	7,863	8,275	28,588	54,590	0	54,590
Jeffrey D. Pinneo	25,800	9,000	1,950	12,900	17,500	13,000	4,500
Brandon S. Pedersen	12,320	0	4,140	8,180	16,215	0	16,215
Total for Current Named Executive Officer Group (6 persons):	367,834	34,309	74,539	257,036	293,474	13,000	280,464
Non-Executive Director Group:							
Patricia M. Bedient	0	0	0	0	4,126	4,126	0
Marion C. Blakey	0	0	0	0	425	425	0
Phyllis J. Campbell	0	0	0	0	4,126	4,126	0
Mark R. Hamilton	0	0	0	0	4,126	4,126	0
Jessie J. Knight, Jr.	0	0	0	0	4,126	4,126	0
R. Marc Langland	0	0	0	0	4,126	4,126	0
Dennis F. Madsen	0	0	0	0	4,126	4,126	0
Byron I. Mallott	0	0	0	0	4,126	4,126	0
J. Kenneth Thompson	0	0	0	0	4,126	4,126	0
Total for Current Non-Executive Director Group:	0	0	0	0	33,433	33,433	0
Each other person who has received 5% or more of the options, warrants or rights under the 2008 Plan	N/A	N/A	N/A	N/A	N/A	N/A	N/A
All employees, including all current officers who are not executive officers or directors, as a group	241,279	57,037	33,190	139,286	516,035	6,060	509,975
Total	609,113	91,346	107,729	396,322	842,942	52,493	790,439

Mr. Ayer, Mr. Tilden and each of the non-executive directors identified above is a nominee for re-election as a director at the 2011 annual meeting.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR APPROVAL OF
THE AMENDED ALASKA AIR GROUP 2008 PERFORMANCE INCENTIVE PLAN**

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The Company currently maintains four equity compensation plans that have been approved by the Company's stockholders: the 2008 Plan, the 2004 Plan, the 2010 Employee Stock Purchase Plan (the ESPP) and the 1999 Plan. In addition, the Company currently maintains the 1997 Non-Officer Long-Term Incentive Equity Plan (the 1997 Plan) which was not approved by the Company's stockholders. Stockholders are being asked to approve certain amendments to the 2008 Plan, as described above.

The following table sets forth, for each of the Company's equity compensation plans, the number of shares of common stock subject to outstanding options and other rights, the weighted-average exercise price of outstanding options, and the number of shares remaining available for future award grants as of December 31, 2010.

Plan category	Number of shares of Common Stock to be issued upon exercise of outstanding options and rights	Weighted-average exercise price of outstanding options	Number of shares of Common Stock remaining available for future issuance under equity compensation plans (excluding shares reflected in the first column)
Equity compensation plans approved by stockholders	2,044,477(1)	\$ 30.28(2)	3,560,866(3)
Equity compensation plans not approved by stockholders(4)	8,500	\$ 28.31	