

ALASKA AIR GROUP INC
Form DEF 14A
April 25, 2005

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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 (Amendment No.)

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.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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**2005 NOTICE OF
ANNUAL STOCKHOLDERS MEETING
& PROXY STATEMENT**

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LETTER TO STOCKHOLDERS
P.O. Box 68947
Seattle, Washington 98168

April 11, 2005

Dear Stockholder:

We cordially invite you to attend our 2005 Annual Meeting of Stockholders. The meeting will be held at 2 p.m. on Tuesday, May 17, 2005, in the William M. Allen Theater at the Museum of Flight in Seattle.

We encourage you to participate at this meeting, but whether or not you plan to attend, please complete and submit your proxy as soon as possible. As explained in the proxy statement,

you can vote over the Internet, by telephone, by mail, or at the meeting;

you can use any of these means to change your vote and thereby revoke any earlier vote; and

voting by proxy will not prevent you from attending the meeting, but it will ensure that your vote will be counted if you are unable to attend the meeting.

The execution of your proxy card will revoke any previously executed proxies, and you may revoke any previously executed proxies by voting in person at the meeting. For more detailed information on revocation of a proxy and voting at the meeting, see "What if I change my mind after I submit my proxy?" on page 4.

Your opinion and your vote are important to us regardless of the number of shares you own.

We look forward to visiting with you at the meeting and addressing your questions and comments.

Sincerely,

William S. Ayer
Chairman and Chief Executive Officer

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
P.O. Box 68947
Seattle, Washington 98168**

The 2005 Annual Meeting of Stockholders of Alaska Air Group, Inc. will be held in the William M. Allen Theater at the Museum of Flight in Seattle, 9404 E. Marginal Way South, Seattle, Washington at 2 p.m. on Tuesday, May 17, 2005, for the following purposes:

1. To elect four directors for three-year terms.
 2. To consider and vote on the six stockholder proposals described in the accompanying proxy statement, if those proposals are properly presented at the meeting.
 3. To transact such other business as may properly come before the meeting or any adjournment thereof.
- Stockholders owning Company common stock at the close of business on March 18, 2005, are entitled to vote.

By Order of the Board of Directors,

Keith Loveless
General Counsel & Corporate Secretary

April 11, 2005

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ANNUAL MEETING INFORMATION

The Board of Directors of Alaska Air Group, Inc. (AAG or the Company) is soliciting proxies for this year s 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, 2005, 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 27,182,129 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 the 2004 Annual Report, were mailed to stockholders and made available via the Internet on or about April 22, 2005. The Company s Annual Report on Form 10-K for the year ended December 31, 2004, is included in the 2004 Annual Report. It was filed with the Securities and Exchange Commission (SEC) and is available on the Company s website at www.alaskaair.com.

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, you have a stockholder account with our transfer agent, EquiServe Trust Company, N.A., which makes you a stockholder of record. If you hold your shares in a brokerage, trust or similar account, you are a beneficial owner, not a stockholder of record. Employees of the Company who hold shares of stock in one or more of the Company s 401(k) retirement plans or employee stock purchase plans are also beneficial holders.

What am I voting on?

You are being asked to vote on the election of four directors and six stockholder proposals. When you sign and mail the proxy card or submit your proxy by telephone or the Internet, you appoint William S. Ayer and Keith Loveless 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 the Board s director nominees, and

AGAINST the other proposals.

How do I vote my shares?

Record holders may vote by using the proxy card or by telephone or by the Internet. Persons who beneficially own stock 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 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 and, if made available by the bank, telephone and/or Internet voting.

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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 or employee stock purchase plans can vote using the voting instruction form provided by the trustee or by telephone or Internet.

Persons who beneficially own stock, 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 they obtain a legal proxy from the Person or entity holding the stock for him, 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 (which may in turn have been passed on to it by the ultimate record holder) to grant proxies or to vote at the meeting.

Set forth below are the various means—Internet, phone and mail—for voting without attending the annual meeting. Subject to applicable time deadlines for Internet and phone voting applicable to most shareholders and the time deadline for all means of voting for persons holding in a 401(k) retirement plan or an employee stock purchase plan for Company employees, a person voting by any of these means may vote again using that means or another means and the later-dated vote will have the effect of revoking the earlier-dated vote. Thus a person who votes on May 1 using the Internet can change her vote on May 2 by using the Internet, phone, or mail and the effect of the voting on May 2 would be to revoke the earlier May 1 vote. A record holder can attend the annual meeting and vote, which will have the effect of revoking a previously given proxy. A beneficial holder (other than an employee holding in a 401(k) retirement plan or employee stock purchase plan) who has been given a legal proxy by the record holder can attend the meeting and vote, which will have the effect of revoking a previously given proxy or voting information form.

You may vote on the Internet.

Stockholders of record and most beneficial owners of the Company's common stock may 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. Subject to rules relating to broker non-votes and limitations in the powers of trustees of employee plans to 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 may vote by phone.

Stockholders of record and most beneficial owners of the Company's common stock may vote by phone. Instructions for voting by phone are provided along with your proxy card or voting instructions. If you vote by telephone, please do not mail in your proxy card. Subject to rules relating to broker non-votes and limitations in the powers of trustees of employee plans to 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 may 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.

If you return a signed proxy card but do not mark your choices, your shares will be voted in accordance with the recommendations of the Board of Directors shown above. If you do not mark your choices on the voting instruction form, the voting of your shares will be subject to rules relating to broker non-votes and limitations in the powers of trustees of employee plans.

The availability of telephone and Internet voting.

EquiServe's Internet and telephone voting facilities for stockholders of record and 401(k) plan participants will be available 24 hours a day, and will close at 11:59 p.m. Eastern Time on May 16, 2005.

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However, to allow sufficient time for voting by the trustee, voting instructions for 401(k) plan shares must be received by 11:59 p.m. Eastern Time on May 12, 2005. The availability of telephone and Internet voting for beneficial holders other than 401(k) participants is set forth on the voting instruction form.

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

Under the Company's Bylaws, a stockholder may bring business before the meeting only if the stockholder has given written notice to the Company on or before February 12, 2005. The only such business as to which the Company received notice are the six stockholder proposals described in this proxy statement and included on the Company's proxy card and three other proposals omitted from this proxy statement in accordance with SEC Rule 14a-8 and described under Opposing Solicitation on page 50. Under SEC Rule 14a-4(c)(6), the form of proxy may grant discretionary authority regarding proposals omitted under SEC Rule 14a-8 and the proxy card does grant such authority. Mr. Ayer and Mr. Loveless, pursuant to such discretionary authority, will vote against the omitted proposals if they are properly presented at the meeting. Under the Bylaws, business not set forth in the notice of meeting but otherwise properly brought before the meeting by or at the direction of the Board of Directors may be acted on. The Company has no knowledge or notice that any such business will be brought before the meeting. As to other matters that properly come before the meeting and are not on the proxy card, Mr. Ayer and Mr. Loveless will vote the shares for which they hold proxies in accordance with their best judgment.

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 AAG 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 irrespective of the method (i.e., telephone, Internet or mail) in which you originally voted by delivery of 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, 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 stock 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 on the Internet (which may not be available to some beneficial holder) before 11:59 p.m. Eastern Time on May 16, 2005 (your latest telephone or Internet proxy is 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 record holder in order to vote at the meeting.)

Persons beneficially holding stock in one of the Company's 401(k) retirement plans must vote by Internet or telephone no later than 11:59 p.m. on May 12, 2005 and if they vote by mail, their voting instruction form must be received no later than such time. Such persons cannot vote in person at the meeting. Subject to such qualifications, such holders have the same rights as other record and beneficial holders to change their votes.

If you are a registered stockholder, you may 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 may obtain a new voting instruction by contacting your broker, trustee or bank. If your shares are held by one of the Company's 401(k) retirement plans or employee stock purchase plans, you may obtain a new voting instruction by contacting the trustee of such plan. You may 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 and submit it in accordance with

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the accompanying instructions and in a timely manner, any earlier proxy card or voting instructions will be revoked and your choices on the proxy card or voting instruction will be voted as you instruct.

What are broker non-votes?

As indicated above, if you are a stockholder of record who submits a proxy but does not indicate how the proxies should vote on one or more matters, the named proxies will vote as recommended by the Company. However, if your shares are held by a broker and you do not provide instructions to the broker on how to vote (whether you use the Internet or phone or return the enclosed voting instruction form), the absence of instructions may cause a broker non-vote on the matters for which you do not provide instructions. Accordingly, if you want to vote your shares on a matter, it is important that you provide voting instructions on that matter.

Specifically, brokers will not be allowed to vote on any of the Proposals 2-7 for which you do not provide instructions. For example, if you provide instructions for Proposals 2-6, but not for Proposal 7, the broker will not cast a vote on your behalf on Proposal 7; in other words, there will be a broker non-vote on Proposal 7.

When there is a broker non-vote, the stockholder grants a limited proxy that does not empower the holder to vote on a particular proposal(s). Whether the shares represented by the broker non-vote are taken into account in determining the number of shares that must affirmatively vote for a proposal in order for it to be approved depends on the requirements of the applicable Bylaw. For purposes of Proposal 7, broker non-votes are not taken into consideration. On Proposals 2-6, broker non-votes are taken into consideration.

Based upon a revised preliminary proxy statement referred to under Opposing Solicitation on page 50, the election of directors will not be contested for purposes of New York Stock Exchange Rule 452 and accordingly, a broker will have the discretion to vote your shares in the absence of specific instructions.

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

At the record date, 1,577,856 shares were held in the trust for Alaska Air Group 401(k) plan participants. The Company's transfer agent, EquiServe, sent a proxy statement, an annual report and a voting instruction form to each participant who held shares through the Company's 401(k) plans at the record date. The trustees, Vanguard and Fidelity, 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 trustee will not vote the shares on such matters.

To allow sufficient time for voting by the trustee, your voting instructions for 401(k) plan shares must be received by 11:59 p.m. Eastern Time on May 12, 2005. Because the shares must be voted by the trustee, employees who hold stock through the 401(k) plans may not vote these shares at the meeting.

May I vote in person at the meeting?

We will pass out a ballot to anyone 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 at the meeting. You may request a legal proxy from your stockbroker 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.

Can I receive future materials via the Internet?

If you vote on the Internet, simply follow the prompts for enrolling in the 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.

Stockholders of record may enroll in that service at any time after the annual meeting and can read additional information about this option and request electronic delivery by going to EquiServe's website, www.econsent.com/alk. Beneficial owners cannot use EquiServe's site, but should find information regarding

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the availability of this service in the proxy materials for this annual meeting. If you are a beneficial owner and do not find such instructions, please go to www.InvestorDelivery.com or contact your broker.

If you already receive your proxy materials via the Internet, you will continue to receive them that way until you instruct otherwise through one of the websites referenced above.

How many shares must be present to hold the meeting?

A majority of the Company's outstanding shares as of the record date must be present 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 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 the record holder has granted a proxy, whether by returning a proxy card or by telephone or Internet, without regard to whether the proxy actually casts a vote, withholds or abstains from voting.

How many votes must the nominees have to be elected?

Directors are elected by a plurality, and the four nominees who receive the highest number of *for* votes will be elected. There is no cumulative voting for the Company's directors. A properly executed proxy marked "Withheld from all nominees" or withholding authority to vote for one or more nominees with respect to the election of directors will not be voted for the directors from whom authority to vote is withheld. However, the shares represented will be counted for purposes of determining whether there is a quorum. Withheld votes and broker non-votes, if applicable, will not be taken into account in determining the outcome of the election of directors.

What happens if a nominee is unable to stand for election?

The Board of Directors may reduce the number of seats on the Board or they may designate a substitute nominee. If the Board designates a substitute, shares represented by proxies will be voted *for* the substitute nominee.

How many votes must each of the stockholder proposals receive in order to pass?

A majority of the shares present in person or by proxy and entitled to vote at the meeting must be voted *for* Proposal 7 in order for it to pass. A properly executed proxy marked "Abstain" with respect to a matter will not be voted, but will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote. The effect of broker non-votes is discussed above in "What are broker non-votes". However, Proposal 7 is a recommendation to the Board of Director and would not take effect automatically, even if it received the votes of holders of a majority of the shares present and entitled to vote at the meeting.

The Board has determined, based on the opinion of its counsel, Preston Gates & Ellis LLP, that the adoption and implementation of Bylaw Proposals 2 through 6 would violate Delaware law for the reasons set forth in the Board responses to each proposal.

Each proposed Bylaw contains a restriction on the Board's power to amend and repeal the proposed Bylaws.

Proposal 2 involves an additional restriction, on the board of directors, which is a restriction on the power of the Board of Directors to manage the business of the corporation in connection with rights plans.

Proposal 4 involves a mandate for cumulative voting, which the Company does not currently have.

Bylaw Proposal 5 mandates the elimination of the Company's classified board.

In each case, in light of the provisions of the Company's certificate of incorporation, the result sought by the proposed Bylaws can be achieved only by amendment of the certificate of incorporation, and none of the results can be achieved through the adoption or amendment of Bylaws. Under Delaware law, the first step in

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amending the certificate is for the Board of Directors to adopt a resolution setting forth the amendment proposed, declaring its advisability, and either calling a special meeting of the stockholders entitled to vote in respect thereof for the consideration of such amendment or directing that the amendment proposed be considered at the next annual meeting of the stockholders. Only after such actions have been taken can the shareholders vote. The proposed Bylaws attempt to achieve their desired results without the necessary step of the board action required by Delaware law. In order for the various results sought to be achieved by the Bylaws (restriction on the Board's power to amend or repeal Bylaws in Proposals 2-6; restriction on the Board's power to manage the business in connection with rights plans in Proposal 2; mandating cumulative voting in Proposal 4; and mandating elimination of the Company's classified board in Proposal 5), it would be necessary to amend the Certificate of Incorporation. In light of the Company's certificate of Incorporation, Bylaws are ineffective as a means of achieving such results. The proposals are not cast in terms of amendments to the Certificate of Incorporation and the Board of Directors has not adopted a resolution recommending to the stockholders an amendment to the Certificate of Incorporation concerning the subject matter of the proposal. So the Bylaws, if adopted, would be ineffective as a means of achieving the desired results. If procedures were followed to amend the certificate of incorporation, the results sought to be achieved by the proposed Bylaws could be achieved.

Accordingly, even if such proposals receive the vote necessary for shareholder approval (the affirmative vote of a majority of the outstanding shares entitled to vote thereon plus the affirmative vote of the holders of three-fourths of the stock present in person or represented by proxy at the meeting), the Company will not treat the vote as effective to adopt, amend, modify, or repeal the Bylaw. Summaries of the opinions of counsel, whose inclusion counsel has consented to, are included in the Board responses to each of the proposals.

Because the polls close for all proposals at the same time, the Company treats the vote on all stockholder proposals as simultaneous (as opposed to sequential in the order set forth in the Proxy statement). The result is that the vote on Proposal 6 will not affect the vote on proposals 2-5.

A properly executed proxy marked Abstain with respect to a matter will not be voted, but will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote. The effect of broker non-votes is discussed above in What are broker non-votes.

How are votes counted?

Voting results will be tabulated by EquiServe Trust Company, N.A. Mr. Carl T. Hagberg of Hagberg and Associates will serve as the independent inspector of elections. 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 Shareholder Communications Inc. (Georgeson) to assist in the solicitation of proxies for the meeting. Georgeson may use three employees in connection with the solicitations. It is intended that proxies will be solicited by the following means: additional mailings, personal interview, mail, telephone and electronic means. Proxies may also be solicited by the persons identified as Participants under the heading Participants in the Solicitation, who will receive no additional compensation therefor, except for reimbursement of expenses. 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 \$15,000, of which \$8,000 has been incurred to date. 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 annual meeting will be available at the annual meeting. It will also be available Monday through Friday from May 6 through May 16, 2005, between the hours of 9 a.m. and 4 p.m., local time, at the offices of the Corporate Secretary, 19300 International Blvd.,

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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 final results in our quarterly report on Form 10-Q for the second quarter of 2005. You can read or print a copy of that report by going to the Company's website, www.alaskaair.com, and then choosing Company Information, Investor Information, and Securities and Exchange Commission Filings. You can find the same Form 10-Q by going directly to the SEC EDGAR files at www.sec.gov. You can also get a copy by calling us at (206) 392-5567, 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 twelve directors. The directors are divided into three classes so that approximately one-third of the directors are elected each year for three-year terms. 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. Four directors are nominees for election this year and each has consented to serve a three-year term ending in 2008. The remaining directors will continue to serve the terms set out below.

NOMINEES FOR ELECTION TO TERMS EXPIRING IN 2005

Name	Principal Occupation or Employment and Other Business Affiliations	Age	Director Since
Phyllis J. Campbell	Mrs. Campbell has been a director since 2002 and serves on the Company's Compensation and Safety Committees. She is President and CEO of The Seattle Foundation. She was President of U.S. Bank of Washington from 1993 until 2001 and has served as Chair of the Bank's Community Board. She also is on the boards of Alaska Airlines, Nordstrom, SAFECO Corporation and Puget Energy, and is a member of the Board of Trustees of Seattle University.	53	2002
Mark R. Hamilton	Mr. Hamilton has been a director since 2001 and serves on the Company's Audit and Safety Committees, as well as on the board of Horizon Air. He has served as President of the University of Alaska since 1998. That same year, he retired as a U.S. Army Major General following 31 years of active military duty, primarily in the fields of teaching, management and administration. Formerly, Mr. Hamilton was Chief of Staff of the Alaskan Command at Elmendorf Air Force Base and Commander of Division Artillery at Fort Richardson. Mr. Hamilton is a graduate of the U.S. Military Academy at West Point and is the recipient of the Army's highest peacetime award, the Distinguished Service Medal.	59	2001
Byron I. Mallott	Mr. Mallott has been a director since 1982 and is Chairman of the Company's Audit Committee. He is President of the First Alaskans Institute (a nonprofit organization dedicated to the development of Alaska Native peoples and their communities). 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 revenues. He was a director of Sealaska Corporation, Juneau, Alaska, from 1972 to 1988, Chairman from 1976 to 1983, and Chief Executive Officer from 1982 to 1992. He owns Mallott Enterprises (personal investments) and is a director of Alaska Airlines, Sealaska Corporation and the Alaska Communications Systems Group Incorporated.	61	1982

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Name	Principal Occupation or Employment and Other Business Affiliations	Age	Director Since
Richard A. Wien	Mr. Wien has been a director since 1982. He serves on the Company's Audit Committee and is Chairman of the Safety Committee. Mr. Wien played an active role in the management of Wien Airlines until 1969, when he was elected President of Merric, Inc., an Alaska helicopter contract and charter service company. After Merric merged with Era Aviation in 1973, Mr. Wien served as Era's Executive Vice President until 1981. He has been Chairman and Chief Executive Officer of Florcraft, Inc. (retail flooring), Fairbanks and Anchorage, Alaska, since 1986. He is also a director of Alaska Airlines and Usibelli Coal Mine.	69	1982

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A
VOTE FOR ELECTION OF EACH OF THE DIRECTOR
NOMINEES.**

CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2006

Name	Principal Occupation or Employment and Other Business Affiliations	Age	Director Since
Patricia M. Bedient	Ms. Bedient was appointed to the Board of Directors in December 2004. She is Vice President of Strategic Planning for Weyerhaeuser, one of the world's largest integrated forest products companies. A certified public accountant, 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 CPA during her 27-year career with Andersen. Ms. Bedient is on the Oregon State University Foundation Board of Trustees, the Weyerhaeuser Foundation 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 World Forestry Center, the City Club of Portland, St. Mary's Academy of Portland and the Chamber of Commerce of Boise, Idaho. She is a member of the American Institute of CPAs and the Washington Society of CPAs.	51	2004
Bruce R. Kennedy	Mr. Kennedy has been a director since 1972 and serves as Chairman of the Governance and Nominating Committee. He is Chairman Emeritus of Alaska Air Group and served as its Chairman, Chief Executive Officer and President from 1985 to 1991. He was also Chairman of Alaska Airlines from 1979 to 1991, Chief Executive Officer from 1979 to 1990 and President from 1978 to 1990. He is on the board of directors of Horizon Air and serves as Chairman of Quest Aircraft Trust, an aircraft design and manufacturing company.	66	1972

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Name	Principal Occupation or Employment and Other Business Affiliations	Age	Director Since
Jessie J. Knight, Jr.	Mr. Knight has been a director since 2002 and serves on the Compensation Committee and the Governance and Nominating Committee. He is the President and Chief Executive Officer of the San Diego Regional Chamber of Commerce, an organization whose primary focus is economic development. Before assuming his current position in 1999, Mr. Knight served from 1993 through 1998 as a commissioner of the California Public Utilities Commission, which is responsible for the regulatory oversight of all energy, telecommunications, shipping, railroad and investor-owned utilities in the state. Mr. Knight is also on the board of directors of Alaska Airlines, Avista Corporation and Environmental Power Corporation and is a standing member of the Council on Foreign Relations.	54	2002
J. Kenneth Thompson	Mr. Thompson has been a director since October 1999 and serves on the Company's Governance and Nominating Committee and its Safety Committee. He 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. Mr. Thompson is President and CEO of Pacific Star Energy LLC, a natural gas pipeline company in Alaska. He is also managing partner of Alaska Venture Capital Group and Chairman of AVCG's oil and gas exploration subsidiary, Brooks Range Petroleum Corporation, which are private companies. He is on the board of directors of Coeur d'Alene Mines Corporation, Horizon Air, and a number of community service organizations.	53	1999

CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2007

Name	Principal Occupation or Employment and Other Business Affiliations	Age	Director Since
William S. Ayer	Mr. Ayer has been a director since 1999. He is Chairman, President and CEO of Alaska Air Group and Alaska Airlines and Chairman of Horizon Air. He served as Alaska Airlines' president and chief operating officer from November 1997 to January 2002. Prior to that, he served in various marketing, planning and operational capacities with Horizon Air, including Senior Vice President, Operations. Mr. Ayer serves on the boards of Alaska Airlines, Puget Energy, Angel Flight, the Alaska Airlines Foundation, the University of Washington Business School Advisory Board and the Museum of Flight.	50	1999
Dennis F. Madsen	Mr. Madsen has been a director since 2003 and serves on the Compensation and Safety Committees. He was President and CEO of Recreational Equipment, Inc. (REI), a retailer and online merchant for outdoor gear and clothing through March 2005. He served as REI's Executive Vice President and Chief Operating Officer from 1987 to 2000 and has held numerous positions throughout the Company. Mr. Madsen also serves on the boards	56	2003

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of Alaska Airlines, the Western Washington University Foundation,
Western Washington University and the Washington Roundtable.

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Name	Principal Occupation or Employment and Other Business Affiliations	Age	Director Since
R. Marc Langland	Mr. Langland has been a director since 1991. He is a member of the Company's Governance and Nominating Committee and Chairman of the Compensation Committee. He has been President of Northrim Bank, Anchorage, Alaska, since November 1990 and Chairman since January 1998. Mr. Langland has also been Chairman, President and CEO of its parent company, Northrim BanCorp, Inc., since December 2001. He was Chairman and Chief Executive Officer 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 Chairman from June 1990 to January 1991. He is also a director of Horizon Air, Northrim BanCorp, Inc., Saltchuk Resources and Usibelli Coal Mine, and is a member of the Anchorage Chamber of Commerce.	63	1991
John V. Rindlaub	Mr. Rindlaub has been a director since 1996 and serves on the Company's Audit and Compensation Committees. He is CEO, Pacific Northwest Region, Wells Fargo Bank. Prior to joining Wells Fargo, he held a number of positions with Bank of America between 1989 and 2001, including President, Bank of America, Northwest and Chairman of Seafirst Bank. Prior to his position at Seafirst, Mr. Rindlaub was Group Executive Vice President/Asia Division for Bank America and a managing director for Bankers Trust Company New York, Investment Banking Group. He is also a director of Horizon Air, Saltchuk Resources, Inc., Washington Roundtable and the Greater Seattle Chamber of Commerce.	60	1996

CORPORATE GOVERNANCE**STRUCTURE OF THE BOARD OF DIRECTORS**

In accordance with the Delaware General Corporation Law and the Company's Certificate of Incorporation and Bylaws, our business affairs are managed under the direction of our Board of Directors. Directors meet their responsibilities by, among other things, participating in meetings of the Board and Board committees on which they sit, discussing matters with our Chairman and Chief Executive Officer and other officers, reviewing materials provided to them, and visiting our facilities.

Pursuant to the Bylaws, the Board of Directors has established four standing committees, which are the Audit Committee, the Compensation Committee, the Governance and Nominating Committee, and the Safety Committee. Only independent directors serve on these committees. The Board has adopted a written charter for each committee. The charters of the Audit, Compensation, Governance and Nominating, and Safety Committees are posted on the Company's website and can be accessed free of charge at www.alaskaair.com and are available in print to any stockholder who requests them.

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The table below shows the current membership of the standing Board committees. An asterisk identifies the chairman of each committee.

Name	Audit	Compensation	Governance and Nominating	Safety
Patricia M. Bedient				
Phyllis J. Campbell		X		X
Mark R. Hamilton	X			X
Bruce R. Kennedy			X*	
Jessie J. Knight, Jr.		X	X	
R. Marc Langland		X*	X	
Byron I. Mallott	X*			
Dennis F. Madsen		X		X
John V. Rindlaub	X	X		
J. Kenneth Thompson			X	X
Richard A. Wien	X			X*

* Committee chair

The principal functions of the standing Board committees are as follows.

Audit Committee

1. Matters pertaining to the independent auditors:
appoint them and oversee their work;

review at least annually their statement regarding their internal quality-control procedures and their relationship with the Company;

maintain a dialogue with respect to their independence;

pre-approve all auditing and non-auditing services they are to perform;

review annual and quarterly financial statements and filings made with the SEC; and

receive and review communications required from the independent auditors under applicable rules and standards.

2. Review the planned activities and results of the internal auditors and any changes in the internal audit charter.

3. Prepare the Audit Committee report required for the annual proxy statement.

4. Matters pertaining to controls:

review financial risk and associated internal controls;

review procedures with respect to significant accounting policies and the adequacy of financial controls;

discuss with management, as appropriate, earnings releases and any information provided to analysts and rating agencies;

develop and monitor a Corporate Compliance program, including a Code of Conduct and Ethics, decide on requested changes to or waivers of such program and code relating to officers and directors, and establish

procedures for confidential treatment of complaints concerning accounting, internal controls or auditing matters; and

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obtain and review at least quarterly a statement from the CEO, CFO and Disclosure Committee disclosing any significant deficiencies in internal controls and any fraud that involves management or other employees with significant roles in internal controls.

5. Annually review and reassess the adequacy of its charter and the Committee's performance and recommend for Board approval any proposed changes to the charter.

Compensation Committee

1. Establish the process for approving corporate goals relevant to CEO compensation and evaluating CEO performance in light of those goals.

2. Set the salary of the CEO.

3. Approve salaries of other executive officers of the Company and of Alaska Airlines and Horizon Air.

4. Set annual goals under the Performance-Based-Pay Plan and administer the Plan.

5. Grant stock awards and stock options.

6. Administer the supplementary retirement plans for elected officers and the equity-based incentive plans.

7. Make recommendations to the Board regarding other executive compensation issues, including modification or adoption of plans.

8. Fulfill ERISA fiduciary and non-fiduciary functions for tax-qualified retirement plans by monitoring the Pension/ Benefits Administrative Committee and the Pension/ Benefits Investment Fund Committee, and approving the membership of those committees, trustees and trust agreements, and extension of plan participation to employees of subsidiaries.

9. Approve the terms of employment and severance agreements with elected officers and the form of change-in-control agreements.

10. Review management development and succession plans.

11. Administer the Company's equity and other long-term incentive plans.

12. Produce the report on executive compensation required for the annual proxy statement.

13. Annually review and reassess the adequacy of the committee's charter and its performance, and recommend any proposed changes in the charter to the Board of Directors.

Governance and Nominating Committee

1. Develop and monitor the Corporate Governance Guidelines.

2. Evaluate the size and composition of the Board.

3. Develop criteria for Board membership.

4. Evaluate the independence of existing and prospective members of the Board.

5. Seek qualified candidates for election to the Board.

6. Evaluate the nature, structure and composition of other Board committees.

7. Take steps it deems necessary or appropriate with respect to annual assessments of the performance of the Board, each other Board committee, and itself.

8. Annually review and reassess the adequacy of the committee's charter and its performance, and recommend any proposed changes in the charter to the Board of Directors.

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Safety Committee

1. Monitor management efforts to ensure the safety of passengers and employees.
2. Monitor and assist management in creating a uniform safety culture that achieves the highest possible industry performance measures.
3. Periodically review with management and outside experts all aspects of airline safety.
4. Evaluate the Company's health, safety and environmental policies and practices.

The Board of Directors held four regular meetings. The standing Board committees in 2004 and the number of meetings they held were as follows:

Audit Committee 8

Compensation Committee 8

Governance and Nominating Committee 4

Safety Committee 4

Each director attended at least 83% of all Board and applicable committee meetings during 2004. Each director is expected to attend the Company's Annual Meeting of Stockholders. Last year, all then-current directors attended the annual meeting.

BOARD AND COMMITTEE INDEPENDENCE

Each member of the Company's Audit Committee meets the independence, financial literacy and experience requirements defined in the new corporate governance listing standards of the NYSE and the applicable rules of the Securities and Exchange Commission. The Board has determined that John Rindlaub is an audit committee financial expert as defined in the rules of the Securities and Exchange Commission.

Furthermore, the Board of Directors of the Company has determined that all of the directors except Mr. Ayer and Ms. Bedient, who will be deemed independent in May 2005, and each member of the Audit Committee, Governance & Nominating Committee and Compensation Committee, are independent under the NYSE listing standards and the Company's independent director standards that are set forth in the Company's Corporate Governance Guidelines. The Corporate Governance Guidelines are available on the Company's Internet website at www.alaskaair.com and are available in print to any stockholder who requests a copy. Specifically, the Board has determined that independent directors meet the following criteria:

An independent director must have no material relationship with the Company, based on all material facts and circumstances. At minimum, an independent director must meet each of the standards listed below.

1. The director has not, within the last three years, been employed by, and no immediate family member has been an executive officer of, the Company.

2. Neither the director nor any immediate family member has, in any 12-month period in the last three years, received more than \$100,000 in direct compensation from the Company, other than compensation for director or committee service and pension or other deferred compensation for prior service.

3. (i) Neither the director nor any immediate family member is a current partner of the Company's independent auditor; (ii) the director is not a current employee of the audit firm; (iii) no immediate family member is a current employee of the audit firm working in its audit, assurance or tax compliance practice; (iv) neither the director nor any immediate family member was an employee or partner of the audit firm within the last three years and worked on the Company's audit within that time.

4. Neither the director nor any immediate family member has, within the last three years, been part of an interlocking directorate. This means that no executive officer of the Company serves on the compensation committee of a company that employs the director or immediate family member.

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5. The director is not currently an employee, and no immediate family member is an executive officer, of another company (i) that represented at least 2% or \$1 million, whichever is greater, of the Company's gross revenues, or (ii) of which the Company represented at least 2% or \$1 million, whichever is greater, of such other company's gross revenues, in any of the last three fiscal years. Charitable contributions are excluded from this calculation.

The Board considers that the following situations do not create material relationships:

a. the receipt by a director of retirement compensation earned under one or more tax-qualified or nonqualified plans during the director's employment with the Company;

b. ordinary-course business between the Company and an organization of which the Board member is an officer or director, where the amount of such business is immaterial with respect to the Company's or the organization's annual revenues; or

c. the receipt of cash or in-kind contributions from the Company by a tax-exempt charitable organization of which the Board member is an officer or director, the value of which is immaterial with respect to the Company's or the charitable organization's annual revenues.

For the purposes of these standards, Company includes all Alaska Air Group subsidiaries and other affiliates.

Immediate family member includes the director's spouse, domestic partner, parents, children, siblings, mothers-and-fathers-in-law, sons- and daughters-in-law, and anyone sharing the director's home. The members of the Audit Committee, in addition to the foregoing standards, may not (a) receive any compensation other than director's fees for Board and Audit Committee service and permitted retirement pay, or (b) be an affiliate of the Company as defined by applicable SEC rule.

DIRECTOR NOMINATION POLICY

Identification and Evaluation of Candidates

1. Internal Process for Identifying Candidates

The Governance and Nominating Committee has two primary methods for identifying candidates (other than those proposed by the Company's stockholders, as discussed below). First, on a periodic basis, the Committee solicits ideas for possible candidates from a number of sources—members of the Board, senior level Company executives, individuals personally known to the members of the Board, and research, including database and Internet searches.

Second, the Committee may from time to time use its authority under its charter to retain at the Company's expense one or more search firms to identify candidates (and to approve any such firms' fees and other retention terms). If the Committee retains one or more search firms, they may be asked to identify possible candidates who meet the minimum and desired qualifications established by the Committee and to undertake such other duties as the Committee may direct.

2. Candidates Proposed by Stockholders

a. General Nomination Right of All Stockholders

Any stockholder of the Company may nominate one or more persons for election as a director of the Company at an annual meeting of stockholders if the stockholder complies with the notice, information and consent provisions contained in Article II, Section 8 of the Company's Bylaws. Specifically, these provisions require that written notice of a stockholder's intent to make a nomination for the election of Directors be received by the Secretary of the Company at least 90 days in advance of the third Tuesday in May (with respect to elections held at a regular annual meeting of stockholders), and that such notice include:

The name and address of the stockholder who intends to make the nomination and of the person(s) to be nominated;

A representation that the stockholder of record is entitled to vote at the meeting;

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A description of all arrangements or understandings between the stockholder and each nominee and any other person(s) (naming them) pursuant to which the nomination is to be made;

Other information regarding each nominee as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated by the Board of Directors; and

The consent of each nominee to serve as a Director if elected.

The Corporate Secretary will send a copy of the Company's Bylaws to any interested stockholder who requests them.

b. Consideration of Director Candidates Recommended by Stockholders

The Committee will evaluate candidates recommended by a single stockholder, or group of stockholders, that has beneficially owned more than 5% of the Company's outstanding common stock for at least one year and that satisfies the notice, information and consent provisions set forth below (such individual or group, the "Qualified Stockholder"). The Committee's policy on the evaluation of candidates recommended by stockholders who are not Qualified Stockholders is to evaluate such recommendations, and establish procedures for such evaluations, on a case-by-case basis. This policy allows the Committee to devote an appropriate amount of its own and the Company's resources to each such recommendation, depending on the nature of the recommendation itself and any supporting materials provided. In addition, as discussed above, non-Qualified Stockholders have the ability to nominate one or more director candidates directly at the Annual Meeting. All candidates (whether identified internally or by a stockholder) who, after evaluation, are then recommended by the Committee and approved by the Board will be included in the Company's recommended slate of director nominees in its proxy statement.

c. Initial Consideration of Candidates Recommended by Qualified Stockholders

The Committee will evaluate candidates recommended by Qualified Stockholders in accordance with the following procedures.

Qualified Stockholders may propose a candidate for evaluation by the Committee by delivering a written notice to the Committee satisfying each of the requirements described below (the "Notice"). The Notice must be received by the Committee not less than 120 calendar days before the anniversary of the date that the Company's proxy statement was released to stockholders in connection with the previous year's annual meeting. No such notice was received in connection with the 2005 Annual Meeting.

Any candidate recommended by a Qualified Stockholder must be independent of the Qualified Stockholder in all respects (i.e., free of any material personal, professional, financial or business relationships from the nominating stockholder), as determined by the Committee or by applicable law. Any candidate submitted by a Qualified Stockholder must also meet the definition of an "independent director" under applicable New York Stock Exchange (NYSE) rules.

The Notice shall also contain or be accompanied by the following information or documentation:

Proof of the required stock ownership (including the required holding period) of the stockholder or group of stockholders. The Committee may determine whether the required stock ownership condition has been satisfied for any stockholder that is the registered owner. Any stockholder that is not the registered stockholder must submit such evidence as the Committee deems reasonable to evidence the required ownership percentage and holding period.

A written statement that the stockholder intends to continue to own the required percentage of shares through the date of the annual meeting with respect to which the candidate is nominated.

The name or names of each stockholder submitting the proposal, the name of the candidate, and the written consent of each such stockholder and the candidate to be publicly identified.

Regarding the candidate, such person's name, age, business and residence addresses, principal occupation or employment, number of shares of the Company's stock, if any, beneficially owned, a

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written resume or curriculum vitae of personal and professional experiences, and all other information relating to the candidate that would be required to be disclosed in a proxy statement or other filings required to be made in connection with the solicitation of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder (the Exchange Act).

Regarding the candidate, information, documents or affidavits demonstrating to what extent the candidate meets the required minimum criteria, and the desirable qualities or skills, established by the Committee. The Notice must also include a written statement that the stockholder submitting the proposal and the candidate will make available to the Committee all information reasonably requested in furtherance of the Committee's evaluation of the candidate.

Regarding the stockholder submitting the proposal, the person's business address and contact information and any other information that would be required to be disclosed in a proxy statement or other filings required to be made in connection with the solicitation of proxies for election of directors pursuant to Section 14 of the Exchange Act.

The signature of each candidate and of each stockholder submitting the proposal.

The Notice shall be delivered in writing, by registered or certified, first-class mail, postage prepaid, to the following address:

Board of Directors
Alaska Air Group, Inc.
PO Box 68947
Seattle, WA 98168

The general counsel and secretary will promptly forward the Notice to the Chair of the Governance and Nominating Committee.

d. Initial Consideration of Candidates Recommended by Other Stockholders

If, based on the Committee's initial screening of a candidate recommended by a Qualified Stockholder, a candidate continues to be of interest to the Committee, the Chair of the Committee will request that the CEO interview the candidate and the candidate will be interviewed by one or more of the other Committee members. If the results of these interviews are favorable, the candidate recommended by a Qualified Stockholder will be evaluated as set forth below. Except as may be required by applicable law, rule or regulation, the Committee will have no obligation to discuss the outcome of the evaluation process or the reasons for the Committee's recommendations, with any stockholder who made a proposal.

3. Evaluation of Candidates

As to each recommended candidate that the Committee believes merits consideration, the Committee will cause to be assembled information concerning the background, qualifications and appropriate references of the candidate, including information concerning the candidate required to be disclosed in the Company's proxy statement under the rules of the SEC and any relationship between the candidate and the person or persons recommending the candidate.

The Committee will then (i) determine if the candidate satisfies the qualifications set forth below under the caption Policy on Minimum Qualifications for All Directors ; (ii) conduct interviews with the candidate as it deems necessary and appropriate and (iii) consider the contribution that the candidate can be expected to make to the overall functioning of the Board. The Committee will then meet to consider and finalize its list of recommended candidates for the Board's consideration.

The Governance and Nominating Committee will consider incumbent candidates based on the same criteria used for candidates recommended by Qualified Stockholders, provided that incumbents will also be considered on the basis of the Committee's annual evaluations of the effectiveness of the Board, its committees and their members.

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Policy on Minimum Qualifications for All Directors

While there is no formal list of qualifications, the Governance and Nominating Committee considers, among other things, the prospective nominees' relevant experience, intelligence, independence, commitment, ability to work with the Chief Executive Officer and within the Board culture, prominence, diversity, age, understanding of the Company's business and other factors deemed relevant. For candidates to serve as independent directors, an independent and questioning mindset is critical. The Committee also considers whether the prospective candidates' workloads would allow them to attend the vast majority of Board meetings, be willing and available to serve on Board committees, and devote the additional time and effort necessary to keep up with Board matters and the rapidly changing environment in which the Company operates. Different substantive areas may assume greater or lesser significance at particular times, in light of the Board's present composition and the Committee's (or the Board's) perceptions about future issues and needs. Relevant experiences might include, among other things, company CEO experience, senior level international experience, senior level regulatory or legal experience, and relevant senior level expertise in one or more of the following areas: finance, accounting, sales and marketing, organizational development, information technology and public relations.

STOCKHOLDER COMMUNICATION POLICY

Any stockholder or interested party who wishes to communicate with our board of directors or any specific directors, including non-management directors, may write to:

Board of Directors
Alaska Air Group, Inc.
PO Box 68947
Seattle, WA 98168

Depending on the subject matter, management will:

forward the communication to the director or directors to whom it is addressed (for example, if the communication received deals with questions, concerns or complaints regarding accounting, internal accounting controls and auditing matters, it will be forwarded by management to the Chairman of the Audit Committee for review);

attempt to handle the inquiry directly (for example, where it is a request for information about us or our operations or it is a stock-related matter that does not appear to require direct attention by our board of directors or an individual director); or

not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic.

At each meeting of the Governance and Nominating Committee, the Corporate Secretary and General Counsel will present a summary of all communications received since the last meeting of the Governance and Nominating Committee that were not forwarded and will make those communications available to any director on request.

EXECUTIVE SESSIONS AND LEAD DIRECTOR

The Board generally holds regular executive sessions of non-management directors quarterly. As provided in the Governance and Nominating Committee Charter, the Lead Director for these executive sessions is the chairman of the Governance and Nominating Committee.

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DIRECTOR COMPENSATION

We do not pay directors who are also employees of the Company any additional compensation for their service as directors, except for the reimbursement of expenses incurred in attending meetings. In 2004, compensation for nonemployee directors included the following:

an annual retainer of \$20,000, with a minimum of 25% of the retainer paid in the form of Alaska Air Group common stock issued under the Company's 2004 Long Term Incentive Plan. (In connection with this practice, the Board has set stock ownership guidelines for directors.) Beginning in June 2005, the annual retainer will increase to \$30,000, \$15,000 (or 50%) of which will be paid in common shares. The increase in retainer follows a market comparison by Watson Wyatt that showed that Alaska directors were significantly lagging their counterparts in overall compensation and, in particular, in the stock component of their pay.

\$2,000 for each Audit Committee meeting and \$1,200 for each Board or other committee meeting in which a nonemployee director participated in person, or \$750 if participation was via telephone;

\$500 for participation in telephone updates that occur between meetings;

an annual retainer of \$4,000 to the Audit Committee chairperson and \$2,000 to other committee chairpersons;

an annual retainer of \$1,000 to nonemployee directors who served on the Board of Directors of Alaska Airlines or Horizon Air; and

reimbursement of expenses in connection with attending Board and committee meetings as well as expenses in connection with director education.

In addition to the retainers and meeting fees mentioned above, and as part of a director's compensation package, a nonemployee director, a nonemployee director's spouse and a nonemployee director's dependent children are provided transportation on Alaska and Horizon Air.

CEO AND CFO CERTIFICATIONS

In accordance with NYSE listing standards, the Company's 2004 CEO certification required by Section 303a.12(a) of the NYSE Listed Company Manual has been filed with the NYSE. In addition, the Company's CEO and CFO certifications required under Section 302 of the Sarbanes-Oxley Act are filed as exhibits to the Company's Annual Report on Form 10-K.

CODE OF CONDUCT AND ETHICS

The Company has adopted a Code of Conduct & Ethics that applies to all employees of the Company, including our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. The Code of Conduct & Ethics is located on the Company's Internet website at www.alaskaair.com and is available in print to any stockholder who requests it. The Company intends to disclose any amendments to, and any waivers from a provision of the Code of Conduct and Ethics for directors or executive officers on the Company's Internet website.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company and its subsidiaries have transactions in the ordinary course of business with other corporations of which the Company's directors are executive officers. The amounts involved are below disclosure thresholds set by the SEC, and, in any case, the Company does not consider the amounts involved in such transactions to be material in relation to its business and believes that such amounts are not material in relation to the business of such other corporations or the interests of the directors involved.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and certain of its officers to send reports of their ownership of Company common stock and changes in such ownership to the SEC and the NYSE. The Company assists its directors and officers by preparing forms for filing. SEC regulations also require the Company to identify in this proxy statement any person subject to this requirement who failed to file a report on a timely basis. Based on a review of copies of reports furnished to the Company and written representations that no reports were required, the Company believes that, with the following exception, all of its directors and officers subject to Section 16(a) complied with the reporting requirements with respect to transactions during 2004. On March 1, 2004, the Compensation Committee granted stock options to a broad range of key employees, including executive officers. The grants were reported on Form 4 reports filed March 17, 2004. The executive officers for whom the late report was filed include William S. Ayer, George Bagley, Bradley D. Tilden, Gregg A. Saretsky, Keith Loveless, Jeffrey D. Pinneo, Glenn S. Johnson, and Brandon Pedersen.

INDEPENDENT AUDITORS

Termination of Deloitte & Touche LLP; Engagement of KPMG LLP

On August 10, 2004, the Audit Committee dismissed Deloitte & Touche LLP and engaged KPMG LLP, as its independent auditor for the year ending December 31, 2004.

The Company disclosed these events in a Current Report on Form 8-K filed with the SEC on August 13, 2004 (the Form 8-K), which included the following information:

Deloitte's report on Air Group's financial statements for each of the years ended December 31, 2003, and December 31, 2002, did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles, except the report contained explanatory paragraphs relating to the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" and the revision to the financial statements discussed in the notes thereto.

During the years ended December 31, 2003 and 2002, and the interim period between December 31, 2003, and the date of Deloitte's dismissal, there were no disagreements between Air Group, Alaska or Horizon and Deloitte on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to Deloitte's satisfaction, would have caused them to make reference to the subject matter of the disagreement in connection with their report for such years; and there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K, except as follows:

In connection with its audit of Air Group's consolidated financial statements for the year ended December 31, 2003, Deloitte advised the Audit Committee of two matters related to its internal controls that Deloitte considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. First, Deloitte noted that although the company reconciles its balance sheet accounts regularly, and those reconciliations are reviewed by someone other than the preparer, the Company should improve its process of analyzing the underlying account detail. Second, Deloitte noted that Horizon was not reconciling its inventory of expendable parts on a timely basis.

In connection with its audit of Air Group's consolidated financial statements for the year ended December 31, 2002, Deloitte advised the Audit Committee of one matter that Deloitte considered to be a reportable condition. Deloitte noted design deficiencies specific to password controls in the Peoplesoft application software and the security configuration of the Peoplesoft Financials application.

Air Group believes that the reportable conditions described above have been corrected.

Air Group has authorized Deloitte to fully respond to the inquiries, if any, of Air Group's, Alaska's or Horizon's successor independent accountants concerning the matters described above. Air Group requested that Deloitte furnish Air Group with a letter addressed to the Securities and Exchange Commission stating whether they agree with the statements made in the Form 8-K, and if not, stating the respects in which they

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do not agree. The required letter from Deloitte with respect to the above statements made by the Registrant was filed as Exhibit 16 to the Form 8-K.

During the years ended December 31, 2003 and 2002, and through the date of the Form 8-K, neither Air Group nor Alaska nor Horizon nor anyone acting on their behalf consulted KPMG LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on Air Group's or Alaska's or Horizon's financial statements, or any other matters or reportable events listed in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Selection of Independent Auditors for the Current Fiscal Year

The Audit Committee of the Board of Directors has selected KPMG LLP as the Company's independent public auditors for the current fiscal year. Representatives of KPMG LLP are expected to attend the meeting to respond to questions from stockholders and will have the opportunity to make a statement, if they wish to do so.

Fees Paid to Independent Auditors

During fiscal year 2004, the Company retained Deloitte & Touche LLP and KPMG LLP as its principal auditors. During fiscal year 2003, the Company retained Deloitte & Touche LLP as its principal auditors. The independent auditors provided services in the following categories and amounts:

2004	Deloitte & Touche LLP	KPMG LLP	Total 2004
Audit Fees for the Company's Annual Financial Statements and Quarterly Reviews ⁽¹⁾	\$ 467,000	\$ 1,339,000	\$ 1,806,000
Audit-Related Fees ⁽²⁾	176,000		176,000
Tax Fees ⁽³⁾	67,000	52,314	119,314
All Other Fees ⁽⁴⁾	26,000		26,000
Total Fees for 2004	\$ 736,000	\$ 1,391,314	\$ 2,127,314
2003			Total 2003
Audit Fees for the Company's Annual Financial Statements and Quarterly Reviews	\$ 892,000		\$ 892,000
Audit-Related Fees ⁽²⁾	247,000		247,000
Tax Fees ⁽³⁾	48,000		48,000
All Other Fees ⁽⁴⁾	39,000		39,000
Total Fees for 2003	\$ 1,226,000		\$ 1,226,000

(1) Audit fees paid in 2004 include, for the first time, the annual audit of internal controls as mandated under Sarbanes Oxley Section 404, which accounts for a significant portion of the fee increase over 2003.

(2) Includes fees paid in connection with the audit of Air Group's employee benefit plans. Also includes fees for professional services in connection with the private placement and registration of our \$150 million convertible notes.

(3)

Fees for professional services in connection with tax consulting, planning and tax return review. Substantially all of the tax fees paid to Deloitte & Touche were paid after their dismissal as our principal auditor. The tax fees paid to KPMG with the exception of \$22,000 in connection with one specific project were paid prior to their appointment as our principal auditor.

- (4) Fees for professional services in connection with (i) the audit of security costs incurred as reported to the Transportation Security Administration, (ii) the audit of passenger facility charges and examination of related controls, (iii) the examination of agreed-upon procedures for the U.S. Citizenship and Immigration Services, and (iv) the audit of airport improvement fees and examination of related controls.

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The Audit Committee has considered whether the provision of the non-audit services referenced above is compatible with maintaining the independence of the Company's independent auditors, and has determined that it does not impact the independence of the auditors.

Independent Auditor Engagement Policy

The Audit Committee has established an Independent Auditor Engagement Policy that is designed to ensure that the Company's auditor performs its services independently and with the highest integrity and professionalism. The Audit Committee reviews the policy annually.

The policy provides that any engagement of the Company's outside auditor must be consistent with principles determined by the SEC, namely, that the independent auditor cannot audit its own work, perform management functions or act as an advocate for the client.

Permitted services under the policy include audit services, audit-related services, certain tax services and certain other services not prohibited by SEC rules or other federal regulations. Before retaining its independent auditor for non-audit services, the Audit Committee will consider factors such as whether the services might compromise the auditor's independence, whether the auditor is the best provider for the services, and the appropriate proportion of audit to non-audit services.

All services must be pre-approved by the Audit Committee except for certain non-audit services that meet the de minimis exception under 17 CFR Section 210.2-01, namely:

the aggregate amount of fees paid for all such non-audit services is not more than 5 percent of the total fees paid by the Company to its auditor during the fiscal year in which the non-audit services are provided;

such services were not recognized by the Company at the time of the engagement to be non-audit services; and

such services are promptly brought to the attention of the Audit Committee and approved prior to the completion of the audit.

During fiscal year 2004, there were no non-audit services that were approved pursuant to this exception.

AUDIT COMMITTEE REPORT

The following report of the Audit Committee shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or incorporated by reference in any document so filed.

Review of Our Company's Audited Financial Statements

The Audit Committee has reviewed and discussed with management and KPMG, the Company's independent auditors, the Company's audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004. We believe that management maintains an effective system of internal controls that results in fairly presented financial statements.

The discussions with KPMG LLP also included the material and judgmental matters required by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants.

We have also received and reviewed the written disclosures and the letter from KPMG LLP required by Independence Standard No. 1, *Independence Discussions with Audit Committees*, as amended, by the Independence Standards Board, and have discussed with KPMG their independence.

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Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in Alaska Air Group's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

Audit Committee of the Board of Directors

Byron I. Mallott, Chairperson
 Mark R. Hamilton, Member
 John V. Rindlaub, Member
 Richard A. Wien, Member

**SECURITY OWNERSHIP OF CERTAIN
 BENEFICIAL OWNERS AND MANAGEMENT**

This table shows how much Company common stock is owned as of March 18, 2005, by (a) each director and nominee, (b) each of the Company's five most highly compensated executive officers, and (c) all executive officers as a group. The number shown for each person includes shares that he or she may vote or invest alone,

holds with his or her spouse, with shared voting and investment power,

holds otherwise with shared voting and investment power,

holds in one of the Company's 401(k) plans, or

may acquire through stock option exercises through June 10, 2005.

	Shares Beneficially Owned(a)	Options	Stock Units and Interests(b)	Total	Percent of Outstanding Shares
		Exercisable within 60 Days			
Nonemployee Directors and Nominees					
Patricia M. Bedient	90			90	
Phyllis J. Campbell	1,514			1,514	
Mark R. Hamilton	635			635	
Bruce R. Kennedy	9,844			9,844	
Jessie J. Knight, Jr.	403			403	
R. Marc Langland	4,070			4,070	
Dennis F. Madsen	946			946	
Byron I. Mallott	2,462			2,462	
John V. Rindlaub	4,857			4,857	
J. Kenneth Thompson	3,761			3,761	
Richard A. Wien	4,855			4,855	

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Executive Officers	Shares	Options	Stock	Total	Percent of Outstanding Shares
	Beneficially Owned(a)	Exercisable within 60 Days	Units and Interests(b)		
William S. Ayer	10,329	354,725	15,400	380,454	1.4
George D. Bagley	1,039	221,400	6,690	229,129	
Gregg A. Saretsky	1,224	104,976	5,570	111,770	
Bradley D. Tilden	2,588	88,850	5,350	96,788	
Keith Loveless		63,375	3,680	67,055	
Jeffery D. Pinneo	3,242	60,275	4,870	68,387	
Glenn S. Johnson	3,473	39,600	3,230	46,303	
Brandon Pederson		2,975	1,690	4,665	
All directors and all executive officers as a group (19 persons)	55,332	936,176	46,480	1,034,577	3.8

(a) Consists of the aggregate total of shares of common stock held by the reporting person either directly or indirectly, including 401(k) plan holdings.

(b) Consists of the aggregate total of RSUs (Restricted Stock Units) granted in 2004, which will vest November 10, 2007.

The table below identifies those known to have beneficial ownership of more than 5% of the Company's outstanding common stock, as of December 31, 2004, except for information relating to the Alaska Airlines and Horizon Air 401(k) Plans, which is as of March 18, 2005.

Name and Address	Number of Shares Owned	Percent of Outstanding Shares
Vanguard PRIMECAP Fund(1) 100 Vanguard Boulevard Malvern, PA 19355	2,540,000	9.4
Donald Smith & Co., Inc.(2) 152 West 57th Street New York, NY 10019	2,531,000	9.3
Dimensional Fund Advisors Inc.(3) 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	2,131,000	7.9
Franklin Resources, Inc.(4) One Franklin Parkway San Mateo, CA 94403-1906	1,852,013	6.8
Alaska Airlines, Inc. and Horizon Air Industries, Inc. Employee 401(k) Plans(5) c/o Vanguard Fiduciary Trust Company 500 Admiral Nelson Blvd. Malvern, PA. 19355	1,577,856	5.8

Barclay's Global Investors, NA(6) 45 Fremont Street San Francisco, CA 94105	1,591,930	5.9
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(1) Information is based on a Schedule 13G filed by Vanguard PRIMECAP Fund (Vanguard) on February 14, 2005. Vanguard reported in the Schedule 13G that it had sole voting power over all 2,540,000 shares.

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- (2) Information is based on a Schedule 13G filed by Donald Smith & Co., Inc. (Donald Smith) on February 9, 2005.
Donald Smith reported in the Schedule 13