Alaska Air Group


EXPLORATION
CANOE RIDGE
EXPLORATION
CANOE RIDGE


RUNNER


WE PROUDLY SERVE

Alaska


BEECHER'S
FLAGSHIP
HANDMADE CHEESE
Pure, all-natural · Additive-free · Aged 15 months


ALASKA AIRLINES

TO OUR SHAREHOLDERS

2014 was a record year for Alaska Air Group on many levels. We succeeded financially, our operation was strong, and our people delivered the great customer service for which we are known. But, before I provide you greater detail on our 2014 accomplishments, I want to share my thoughts on the backdrop for the year.

In last year's letter, I noted unprecedented competition in Seattle, our largest hub, and I described the steps we were taking to defend our position as the carrier of choice in the Pacific Northwest. I'm happy to report that in 2014, despite intense competition in our hometown, we produced the best results in our history.

For this, we have our 13,000 employees at Alaska and Horizon to thank. We've got a fabulous group of people here — folks that look at the outside world realistically and then get to work putting together plans that will succeed. And then they relentlessly focus on executing those plans. Earlier this year I heard Satya Nadella, the new CEO of Microsoft, speak at an event where he mentioned a Peter Drucker quote that resonated with me — "Culture eats strategy for breakfast." We have a fantastic culture here at Alaska. Our people care about each other and this company, and they work together to execute our plan — every flight, every day, with every customer, and on every project. This fabulous team and this culture are the drivers of the results we're sharing in this report.

Here are some of the highlights from this year:

> **Safety** is our top priority and the foundation for everything we do. This year, we launched a program called "Ready, Safe, Go," designed to increase safety awareness across the Air Group system. We have a strong safety record at both Alaska and Horizon, and this will help us be even better.

> **#1 on-time airline:** Our frontline folks and the leaders throughout our operation continue to run an excellent operation. 86.0% of our mainline flights arrived on

time — the highest percentage of on-time flights among the eight largest North American carriers. Reliability is one of the biggest sources of customer satisfaction, which in turn, drives customer preference. Our 13,000 employees worked hard every day to get our customers to their destinations safely, on time, and with their bags.

J.D. Power award for customer service and loyalty program: Simply put, great customer service is the reason Alaska is here today and thriving as an independent airline. Our employees were recognized in 2014, earning the J.D. Power award for "Highest in Customer Satisfaction Among Traditional Network Carriers" for the seventh year in a row. J.D. Power also published its first-ever Airline Loyalty Program Satisfaction Report in 2014, in which Alaska was ranked highest by frequent fliers. We know that taking care of our customers every day is the best way to sustain our success. We could not be more proud of our people for these extraordinary accomplishments.

Engaged employees and good labor relations: We are pleased to have a new five-year agreement with Alaska's flight attendants. Our inflight group is the best in the business, and they proved it once again by providing outstanding service throughout the contract negotiations. We now have agreements in place with all of our labor groups. The length of our labor contracts is about four years on average, which compares very favorably to the rest of the industry. Our level of employee engagement was 82% in our annual employee survey, up 3 points from the prior year, and up 19 points from three years ago. Engaged employees who are aligned with our goals are the reason we are succeeding.

Low costs, low fares, and network growth: Are low costs important? You bet they are; they enable us to provide our customers with outstanding value and enlarge the economic moat that we are building around our business. Last year, we reduced our unit costs, excluding fuel, for the 12th year out of the last 13. Alaska's costs — and our fares — are now much closer to low-cost carriers' than to legacy airlines'. And low fares mean that we can grow. In 2014 we added 16 new routes. We now serve the top 25 destinations from Seattle for business travelers, and our network now encompasses 105 cities with 216 non-stop city pairs. Low costs are a result of our continued (some say obsessive) focus on productivity and cost management.

Investment-grade credit rating: Alaska is one of only two U.S. airlines to have an investment-grade credit rating. Our balance sheet is not only one of the strongest in the business, but it also compares very favorably with high-quality industrial firms. Our long-term debt on the balance sheet back in 2008 was $1.6 billion and today it is $686 million. In fact, today we have more cash than debt on our balance sheet, and this reflects our conscious effort to put capital to work in a balanced manner and de-risk cash flows for you, our shareholders.

Shareholder returns: Strong fundamental performance in the areas I outlined above allowed us to post a record $571 million in profit and increase our earnings per share by 55%. And robust earnings enabled us to return cash to you. Based on our strong 2014 results, we increased our dividend by 60% in January. Together with our share repurchases, we distributed $417 million in cash to shareholders during 2014.

These are compelling results on multiple fronts, and some people who observe our performance ask us how we do it. The short answer is the same reason Seattle Seahawks third-year quarterback Russell Wilson got to the Big Game — twice. At the heart of this achievement is an incredible commitment to performance, to each other and to the team. We have the best employees in the business — people who are talented and dedicated and who enjoy working together to help Alaska and Horizon compete and win. Their caring and dedication comes from their fundamental values of integrity — doing the right thing — and from something we call Alaska Spirit and Horizon Heart. As I've watched the Company over the last several years, I've seen that our incredible frontline folks are matched by a highly talented group of leaders. I am regularly amazed by their heart and their ability to make positive changes.

And whether it's on a football field or off, our other CFO (our chief football officer) reminds us that champions never rest. We are undertaking several key initiatives to keep our airline strong. These initiatives include rolling out *Alaska Beyond* (our new inflight experience), developing new technology to make travel more hassle-free, improving customer service, and continuing to run a safe, reliable and on-time operation.

We're excited about the future, and our entire team is completely focused on achieving our plan so that we can continue to deliver strong results in the years to come.

Thank you for supporting and investing in Alaska Air Group.

Sincerely,

Brad Tilden
Chairman and Chief Executive Officer

2015
PROXY STATEMENT

Alaska Air Group, Inc.

Proxy

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 in the William M. Allen Theater at the Museum of Flight, 9404 East Marginal Way South, Seattle, Washington at 3 p.m. on Thursday, May 7, 2015, for the following purposes:

1. to elect to the Board of Directors the 11 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 accountants) for fiscal year 2015;
3. to seek an advisory vote to approve the compensation of the Company's Named Executive Officers;
4. to consider a stockholder proposal regarding an independent board chairman policy; and
5. to transact such other business as may properly come before the meeting or any postponement or adjournment thereof.

The Board of Directors set March 18, 2015 as the record date for the Annual Meeting. This means that owners of Alaska Air Group common stock as of the close of business on that date are entitled to receive this notice, attend the meeting in person with proper proof of ownership or by proxy (see *Can I attend the Annual Meeting, and what do I need for admission?* in the following Questions and Answers About the Annual Meeting section of this Proxy Statement); and vote at the meeting and any adjournments or postponements.

Whether or not you attend the meeting in person, we encourage you to vote by Internet or phone or to complete, sign and return your proxy prior to the meeting.

Because the majority of our stockholders will not be able to attend in person, we invite you to submit any questions you may have that would be of general stockholder interest to the Corporate Secretary via email at shannon.alberts@alaskaair.com. We will include as many of your questions as possible during the Q&A session of the meeting and will send you a copy of the response. Every stockholder 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,

Shannon K. Alberts
Corporate Secretary

March 27, 2015

IMPORTANT NOTICE REGARDING THE INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDERS MEETING TO BE HELD ON MAY 7, 2015.

Stockholders may access, view and download the 2015 Proxy Statement and 2014 Annual Report at www.edocumentview.com/alk.

ALASKA AIR GROUP, INC.
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS AND PROXY STATEMENT
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Annual Meeting Information

The Board of Directors of Alaska Air Group, Inc. (Air Group or the Company) is soliciting proxies for the 2015 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, 2015 as the record date for the meeting. Stockholders who owned Air Group common stock on that date are entitled to vote at the meeting, with each share entitled to one vote. There were 130,869,463 shares of Air Group common stock outstanding on the record date.

Internet Availability of Annual Meeting Materials

On or about March 27, 2015, stockholders of record, beneficial owners and employee participants in the Company's 401(k) plans were mailed a Notice of Internet Availability of Proxy Materials (the Notice) directing them to a website where they can access the Company's 2015 Proxy Statement and 2014 Annual Report (the Annual Meeting Materials). The Company's Form 10-K for the year ended December 31, 2014 is included in the 2014 Annual Report. It was filed with the Securities and Exchange Commission (SEC) on February 11, 2015.

If you would prefer 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 the Annual Meeting Materials at www.edocumentview.com/alk. Other information on the website does not constitute part of this Proxy Statement.

Admission to the Annual Meeting

If you would like to attend the meeting in person, you must present proof of stock ownership as of the record date along with valid, government-issued photo identification. For further details, see Can I attend the Annual Meeting, and what do I need for admission? in the following Questions and Answers About the Annual Meeting section of this Proxy Statement.

Questions and Answers about the Annual Meeting

Why am I receiving the Annual Meeting Material?

You are receiving the Annual Meeting Material from us because you owned Air Group common stock 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 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 the Company's 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's subsidiaries who hold shares of stock in one or more of the Company's 401(k) retirement plans are beneficial owners.

What am I voting on?

You are being asked to vote on the election of the 11 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, and to vote on a stockholder proposal regarding an independent chairman policy. When you sign and mail the proxy card or submit your proxy by phone or the Internet, you appoint each of Bradley D. Tilden and Shannon K. Alberts, or their respective substitutes or nominees, as your representatives at the meeting. (When we refer to the "named proxies," we are referring to Mr. Tilden and Ms. Alberts.) 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 election of each of the Board's 11 director nominees named in this Proxy Statement;
- FOR the ratification of the appointment of KPMG LLP as the Company's independent accountants for fiscal year 2015;
- FOR the ratification of the compensation of the Company's Named Executive Officers;
- AGAINST the stockholder proposal regarding an independent chairman policy.

How do I vote my shares?

Stockholders of record can vote by using the proxy card or by phone or 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 phone 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 phone 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; and/or
- in trust in one of the Company's 401(k) retirement plans can vote by telephone or internet, or by mailing the voting instruction form provided by the trustee.

Beneficial owners other than those who beneficially own stock 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.

Listed below are the various means you can use to vote your shares without attending the Annual Meeting.

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 voting are provided along with your notice, proxy card or voting instruction form. If you vote on the Internet, please do not mail your proxy card if you received one (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 are provided along with your proxy card or voting instruction form. If you vote by phone, do not mail your proxy card if you received one (unless you intend for it to revoke your prior vote submitted by phone). Your vote by phone 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.

If you received this Proxy Statement by mail, simply sign and date the enclosed proxy card or voting instruction form 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.

You can vote by telephone or by the Internet.

Internet and telephone voting facilities for stockholders of record and beneficial owners will be available 24 hours a day and will close at 11:59 p.m. Eastern Time on Wednesday, May 6, 2015. To allow sufficient time for voting by the trustee, voting instructions for the Company's 401(k) plan shares must be received no later than 11:59 p.m. Eastern Time on Monday, May 4, 2015.

Voting by the Internet or phone is fast and convenient and your vote is immediately confirmed and tabulated. By using the Internet or phone 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 during the meeting or any postponement or adjournment of the meeting.

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) owner.

The proposal to ratify the appointment of the Company's independent accountants for fiscal year 2015 is considered routine under NYSE rules. Each of the other items to be submitted for a vote is considered non-routine under applicable 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. If your broker exercises this discretion, your shares will be counted as present for the purpose of determining 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, 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 or for publication in the Company's 2015 Proxy Statement only if the stockholder gave written notice to the Company on or before November 28, 2014 and complied with the other requirements included in Article II of the Company's Bylaws.

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 Mr. Tilden and Ms. Alberts 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 hold Alaska Air Group stock in more than one account. Please complete and submit all proxies to ensure that all your shares are voted or vote by Internet or phone using each of the identification numbers.

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

Stockholders, except for persons who beneficially own shares held in trust in one of the Company's 401(k) retirement plans, may revoke a proxy and change a vote by delivering a later-dated proxy or by voting at the meeting. The later-dated proxy may be delivered by phone, Internet or mail and need not be delivered by the same means used in delivering the prior proxy submission.

Except for persons beneficially owning shares in one of the Company's 401(k) retirement plans, stockholders may do this at a later date or time by:

- voting by phone or the Internet before 11:59 p.m. Eastern Time on Wednesday, May 6, 2015 (your latest phone 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 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 owning 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 owners to change their votes by phone or the Internet, however, in all cases your vote must be submitted by 11:59 p.m. Eastern Time on Monday, May 4, 2015.

Stockholders of record 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) 392-5719.

Stockholders with shares held by a broker, trustee or bank can obtain a new voting instruction form by contacting your broker, trustee or bank.

Stockholders whose shares are held in one of the Company's 401(k) retirement plans 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 new choices will be voted.

How are shares voted that are held in the Company's 401(k) plan?

On the record date, 3,822,103 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 Notice of Proxy and Access instructions to each participant who held shares through the Company's 401(k) plans on the record date. 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 Monday, May 4, 2015. Because the shares must be voted by the trustee, those who hold shares through the 401(k) plans may not vote these shares at the meeting.

Can I attend the Annual Meeting, and what do I need for admission?

Admission to the Annual Meeting is limited to Air Group stockholders as of March 18, 2015 and persons holding valid proxies from stockholders of record. To be admitted to the Annual Meeting, you must present proof of your stock ownership as of the record date and valid, government-issued photo identification. Acceptable proof of stock ownership includes:

- the admission ticket attached to the top of your proxy card (or made available by Computershare if you submit your proxy online);
- a copy of the Notice of Proxy and Access Instructions you received by mail;
- a photocopy of your voting instruction form;
- a letter from your bank or broker confirming your ownership as of the record date;
- a brokerage statement evidencing ownership of shares of Alaska Air Group stock as of the record date; or
- a valid proxy form.

If you do not provide photo identification or comply with the other procedures outlined above upon request, you will not be admitted to the Annual Meeting. Guests of stockholders will not be admitted unless they provide their own proof of ownership according to the criteria outlined above.

Each stockholder of record or beneficial stockholder, including institutional holders, may designate one person to represent their shares at the meeting. If multiple representatives request admission on behalf of the same stockholder, the first person to register at the door with appropriate proof of ownership and proper delegation of voting authority will be allowed to attend the meeting.

Security measures may include bag search, metal detector and hand-wand search. The use of cameras (including cell phones with photographic capabilities), recording devices, smart phones and other electronic devices is strictly prohibited.

May I vote in person at the meeting?

We will provide a ballot to any record holder of the Company's 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 to attend and vote your shares at the meeting by marking your voting instruction form or 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 participants in the Company's 401(k) plans must be voted by the trustee, these shares may not be voted at the meeting.

How can I reduce the number of annual meeting materials I receive?

If you are a stockholder of record receiving multiple copies of the annual meeting materials either because you have multiple registered stockholder accounts or because you share an address with other registered stockholders, and you would like to discontinue receiving multiple copies, you can contact the Company's transfer agent, Computershare, by telephone at (877) 282-1168 or by writing to them c/o Computershare, P.O. Box 30170, College Station, TX 77842-3170.

If you are a beneficial stockholder, but not a registered stockholder, and you share an address with other beneficial stockholders, the number of annual meeting materials you receive is already being reduced because your broker, bank or other institution is permitted to deliver a single copy of this material for all stockholders at your address unless a stockholder has requested separate copies. If you would like to receive separate copies, please contact your broker, bank or institution and update your preference for future meetings.

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.

Stockholders of record may enroll in that service at the time they vote their proxies via the Internet 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/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 methods 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 65,434,732 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 owner attends with a "legal proxy" from the record holder; or if the record holder or beneficial owner has submitted a proxy or voting instructions, whether by returning a proxy card or a voting instruction form or by phone 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 11 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 designates a substitute, shares represented by proxies held by the named proxies 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.

Stockholder proposal regarding an independent chairman policy

A majority of the shares present in person or by proxy at the meeting and entitled to vote on the proposals 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.

How are votes counted?

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

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, phone 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 $33,000. To date, $29,000 has been incurred. This amount includes fees payable to Georgeson, but excludes salaries and expenses of the Company's officers, directors and employees.

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

A list of stockholders of record entitled to vote at the 2015 Annual Meeting will be available at the meeting. It will also be available Monday through Friday from March 30, 2015 through May 6, 2015 between the hours of 9 a.m. and 4 p.m., Pacific 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 Annual Meeting?

We will publish the voting results on Form 8-K on or about May 13, 2015. You can read or print a copy of that report by going to Investor Information-SEC Filings at www.alaskaair.com or by going directly to the SEC EDGAR files at www.sec.gov. You can also request a copy by calling us at (206) 392-5719 or by calling the SEC at (800) SEC-0330 for the location of a public reference room.

How can I submit a proposal for next year's annual meeting?

The Company expects to hold its next annual meeting on or about May 5, 2016. If you wish to submit a proposal for inclusion in the proxy materials for that meeting, you must send the proposal to the Corporate Secretary at the address below. The proposal must be received at the Company's corporate offices no later than November 28, 2015 to be considered for inclusion. Among other requirements set forth in the SEC's proxy rules and the Company's Bylaws, you must have continuously held a minimum of either $2,000 in market value or 1% of the Company's outstanding stock for at least one year by the date of submitting the proposal, and you must continue to own such stock through the date of the meeting.

If you intend to nominate candidates for election as directors or present a proposal at the meeting without including it in the Company's proxy materials, you must provide notice of such proposal to the Company no later than February 5, 2016. The Company's Bylaws outline procedures for giving the required notice. If you would like a copy of the procedures contained in The Company's Bylaws, please contact:

Corporate Secretary
Alaska Air Group, Inc.
P.O. Box 68947
Seattle, WA 98168

Proposal 1: Election of Directors to One-Year Terms

The Company's Bylaws provide that directors 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 the Company's Bylaws. Eleven directors are nominees for election this year and each has consented to serve a one-year term ending in 2016.

Patricia M. Bedient
Director since 2004
Age – 61

Ms. Bedient chairs the Board's Audit Committee. In January 2015, Ms. Bedient was also appointed a member of the Board's Governance and Nominating 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 managing partner of the Seattle office of Arthur Andersen LLP prior to joining Weyerhaeuser. Ms. Bedient also worked at Andersen's Portland and Boise offices as a partner and as a CPA during her 27-year career with the firm. She serves on the boards of Alaska Airlines and Horizon Air (subsidiaries of Alaska Air Group), the Overlake Hospital Medical Center Board, the Oregon State University Board of Trustees, and the University of Washington Foster School of Business Advisory Board. 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.

Ms. Bedient's extensive experience in public accounting and financial expertise qualify her to serve on the Board and to act as an audit committee financial expert, as defined by the SEC.

Marion C. Blakey
Director since 2010
Age – 66

Ms. Blakey is chair of the Board's Safety Committee. Ms. Blakey was recently named president and CEO of Rolls-Royce North America. For the last seven years, she was president and CEO of Aerospace Industries Association (AIA), the nation's largest aerospace and defense trade association. Prior to her current position, she served as the 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 boards of Alaska Airlines and Horizon Air (subsidiaries of Alaska Air Group), Noblis, the NASA Advisory Council, the President's Export Council Subcommittee on Export Administration (PECSEA), the Independent Takata Quality Assurance Panel, the International Coordinating Council of Aerospace Industries Associations (ICCAIA), as well as a number of philanthropic and community organizations, including the Washington Area Airports Task Force Advisory Board and the International Aviation Women's Association.

Ms. Blakey's experience with AIA, the FAA and the NTSB qualify her for service on the Company's Board and, because of her experience with the FAA and NTSB, she brings a very relevant and important perspective to the deliberations of the Safety Committee.

Phyllis J. Campbell
Director since 2002
Age – 63

Ms. Campbell is lead director and chair of the Board's Governance and Nominating Committee. She has been chairman of the Pacific Northwest Region for JPMorgan Chase & Co. since April 2009. She is the firm's senior executive in Washington, Oregon, and Idaho , representing JPMorgan Chase at the most senior level. From 2003 to 2009, Ms. Campbell served as president and CEO of The Seattle Foundation, one of the nation's largest community philanthropic foundations. She was president of U.S. Bank of Washington from 1993 until 2001 and served as chair of the bank's Community Board. Ms. Campbell has received several awards for her corporate and community involvement. These awards include Women Who Make A Difference and 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 Alaska Airlines and Horizon Air (subsidiaries of Alaska Air Group) and Nordstrom, where she chaired the audit committee until November 2013. Until February 2009, she served on the boards of Puget Energy and its subsidiary, Puget Sound Energy.

Ms. Campbell's business and community leadership background and her extensive governance experience qualify her for her role as lead director of the Board.

Dhiren R. Fonseca
Director since 2014
Age – 50

Mr. Fonseca was appointed to the Alaska Air Group Board in October 2014. He is a member of the Board's Audit Committee. He joined Certares LP as a partner in December 2014. Previously, Mr. Fonseca was chief commercial officer at Expedia, Inc., where he served for more than 18 years. He contributed greatly to the online travel company's growth and success, serving in a host of key roles including co-president of its global partner services group and senior vice president of corporate development among others. Mr. Fonseca helped found Exedia.com as part of the management team at Microsoft Corporation that brought the online travel company to life in 1995 and subsequently took it public in 1999. Before Expedia, he held multiple roles in product management and corporate technical sales at Microsoft Corporation. Mr. Fonseca currently serves on the boards of Alaska Airlines and Horizon Air (subsidiaries of Alaska Air Group), Caesars Acquisition Corporation, eLong, Inc., and RentPath, Inc.

Mr. Fonseca's expertise in the online travel services industry, combined with his management and technology experience at a major software and computer services company correspond with key aspects of the Company's business strategy and qualify him for service on the Alaska Air Group Board.

Jessie J. Knight, Jr.
Director since 2002
Age – 64

Mr. Knight serves on the Board's Safety Committee and its Governance and Nominating Committee. He also served on the Board's Compensation and Leadership Development Committee during 2014. Mr. Knight is executive vice president of external affairs for Sempra Energy, as well as chairman of San Diego Gas and Electric Company and chairman of Southern California Gas Company, both subsidiaries of Sempra Energy. From 2010 to 2014, he was chairman and CEO of San Diego Gas & Electric. From 2006 to 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, for eight years, Mr. Knight was vice president of marketing and strategic planning for the San Francisco Chronicle and San Francisco Examiner newspapers. While there, he won five National Clio Awards for television, radio and printed advertising and a Cannes Film Festival Golden Lion Award for business marketing. Prior to his media career, Mr. Knight spent ten years in finance and marketing with the Dole Foods Company in its banana and pineapple businesses. Mr. Knight serves on the boards of Alaska Airlines and Horizon Air (subsidiaries of Alaska Air Group), the Timken Museum of Art in San Diego, the Southern California Leadership Council, and the University of California San Diego Foundation. He is a life member of the Council on Foreign Relations and is a corporate member of the Hoover Institution at Stanford University. He is a board member of the U.S. Chamber of Commerce, The Energy Institute and

The Inter-American Dialogue. He previously served ten years on the board of the San Diego Padres Baseball Club. He served seven years on the board of Avista Corp., a utility in Spokane, Washington, where he served on the audit and governance committees, and as lead director.

Mr. Knight's expertise in brand marketing, energy markets and economic development, as well as his broad business experience qualify him for service on the Alaska Air Group Board.

Dennis F. Madsen
Director since 2003
Age – 66

Mr. Madsen serves on the Board's Compensation and Leadership Development Committee and its Audit Committee. 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 other positions at 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 chairs West Marine's compensation and leadership development committee and serves on its nominations and governance committee. Other boards on which Mr. Madsen serves include Alaska Airlines and Horizon Air (subsidiaries of Alaska Air Group), the Western Washington University Foundation, Forterra, and the Youth Outdoors Legacy Fund.

Because of his varied business background and his experience in leading a large people-oriented and customer-service-driven organization, Mr. Madsen is qualified to serve on the Alaska Air Group Board.

Helvi K. Sandvik
Director since 2013
Age – 57

Ms. Sandvik serves on the Board's Safety Committee. Since 1995, Ms. Sandvik has been president of NANA Development Corporation, a diversified business engaged in government contracting, oilfield and mining support, professional management services, and engineering and construction. She also serves on the not-for-profit board of the Native American Contractors Association and as an advisor to the Robert Aqqaluk Newlin Trust. She was director of the Federal Reserve Bank of San Francisco, Seattle Branch from 2004 to 2009 and served as its chair from 2008 to 2009. Ms. Sandvik also serves as a director of Alaska Airlines and Horizon Air (subsidiaries of Alaska Air Group).

Ms. Sandvik's business leadership experience and her intimate knowledge of the Native culture and transportation industry requirements in the state of Alaska qualify her to serve on the Alaska Air Group Board.

Katherine J. Savitt
Director since 2014
Age – 51

Ms. Savitt was appointed to the Alaska Air Group Board in October 2014. She is a member of the Board's Compensation and Leadership Development Committee. Ms. Savitt is chief marketing officer for Yahoo!, responsible for global marketing and media. Prior to Yahoo!, Ms. Savitt was founder and CEO of Lockerz, a start-up focused on social commerce for Generation Z. Previously, she was executive vice president and chief marketing officer at American Eagle Outfitters, Inc., where she led both the global marketing efforts of the company's portfolio of brands and the digital and e-commerce channels. Ms. Savitt has also served as vice president of strategic communications, content and entertainment initiatives for Amazon.com. She founded MWW/Savitt, an integrated marketing communications firm representing a diverse array of world class brands and consumer technology start-ups. She holds a bachelor's degree from Cornell University. Ms. Savitt also serves on the boards of Alaska Airlines and Horizon Air (subsidiaries of Alaska Air Group), and the Vitamin Shoppe, Inc.

Ms. Savitt's business and entrepreneurial expertise as well as her experience with digital and e-commerce marketing channels and strategic communications support areas of strategic importance and qualify her for service on the Alaska Air Group Board.

J. Kenneth Thompson
Director since 1999
Age – 63

Mr. Thompson is chair of the Board's Compensation and Leadership Development Committee and also serves on the 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). From 1998 to 2000, Mr. Thompson served as executive vice president of ARCO's Asia Pacific oil and gas operating companies in Alaska, California, Indonesia, China and Singapore. Prior to that, he was president of ARCO Alaska, Inc., the parent company's oil and gas producing division based in Anchorage, Alaska. He currently serves on the boards of Alaska Airlines and Horizon Air (subsidiaries of Alaska Air Group), Pioneer Natural Resources Company, Tetra Tech, Inc., and Coeur Mining Corporation, as well as on the non-profit board of Provision Ministry Group. Mr. Thompson chairs the environmental, health, safety and social responsibility committee and serves on the governance and nominating and the audit committees of Coeur Mining Corporation. At Tetra Tech, Mr. Thompson serves on the strategy planning committee and chairs the compensation committee. At Pioneer Natural Resources, he serves on the governance and nominating, compensation and hydrocarbon reserves committees and chairs the health, safety and environmental committee.

Mr. Thompson's business leadership and his breadth of experience in planning, operations, engineering, and safety/regulatory issues qualify him for service on the Alaska Air Group Board.

Bradley D. Tilden
Director since 2010
Age – 54

Mr. Tilden has been chairman of Alaska Air Group and of Alaska Airlines and Horizon Air (subsidiaries of Alaska Air Group) since January 2014. He has served as president of Alaska Airlines since December 2008. In May 2012, Mr. Tilden was named president and CEO of Alaska Air Group and CEO of Alaska Airlines and Horizon Air. He served as executive vice president of finance and planning from 2002 to 2008 and as CFO from 2000 to 2008 for Alaska Airlines and Alaska Air Group, and prior to 2000, was vice president of finance at Alaska Airlines and Alaska Air Group. Before joining Alaska Airlines, Mr. Tilden worked for the accounting firm PricewaterhouseCoopers. He serves on the boards of Alaska Airlines and Horizon Air, Airlines 4 America, Pacific Lutheran University, and the Boy Scouts of America. Mr. Tilden also serves on and chairs the board of the Washington Roundtable.

Mr. Tilden's role as CEO of Alaska Air Group and its operating subsidiaries, his deep airline experience, strategic planning skills and financial expertise qualify him to serve on the Air Group Board.

Eric K. Yeaman
Director since 2012
Age – 47

Mr. Yeaman serves on the Board's Audit Committee. He is president and CEO of Hawaiian Telcom (a telecommunications company serving the state of Hawaii). Prior to joining Hawaiian Telcom in June 2008, he was senior executive vice president and COO of Hawaiian Electric Company, Inc. (HECO). Mr. Yeaman joined Hawaiian Electric Industries, Inc. (HEI), HECO's parent company, in 2003 as financial vice president, treasurer and CFO. Prior to joining HEI, Mr. Yeaman held the positions of chief operating and financial officer for Kamehameha Schools from 2000 to 2003. He began his career at Arthur Andersen LLP in 1989. Mr. Yeaman serves on the not-for-profit boards of Queen's

Health Systems, Hawaii Community Foundation, Hawaii Business Roundtable, The Nature Conservancy of Hawaii, Kamehameha Schools Audit Committee, Aloha United Way, and the Harold K.L. Castle Foundation. He is also a director of Alaska Airlines and Horizon Air (subsidiaries of Alaska Air Group), Alexander & Baldwin, the United States Telcom Association, and is a member of the Hawaii Asia Pacific Association.

Mr. Yeaman's extensive business background, his experience as CEO of a public company, and his intimate knowledge of the culture of Hawaii (a region that accounts for a significant portion of Alaska's business) qualify him to serve as a member of the Air Group Board.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF THE 11 DIRECTOR NOMINEES NAMED ABOVE.

UNLESS OTHERWISE INDICATED ON YOUR PROXY, THE SHARES WILL BE VOTED FOR THE ELECTION OF THESE 11 NOMINEES AS DIRECTORS.

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 2015, 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 and 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 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 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 the Named Executive Officers, a high percentage of total direct compensation is variable and tied to the success of the Company because they 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 the interests of executives are aligned with stockholder interests. Executive compensation is designed to be internally equitable, to reward executives for responding successfully to business challenges facing the Company, and to take into consideration the Company's size relative to the rest of the industry.

The Compensation Discussion and Analysis section of this Proxy Statement describes in more detail the Company's executive compensation programs and the decisions made by the Compensation and Leadership Development Committee during 2014. Highlights of these executive compensation programs include the following:

Base Salary

In general, for the Named Executive Officers, the Committee targets base salary levels at the 25th percentile relative to the Company's airline peer group with the opportunity to earn market-level or above compensation through short- and long-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 broad-based Performance-Based Pay Plan, in which all employees participate and 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 to 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, the Board of Directors will request your advisory vote on the following resolution at the 2015 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 regarding the compensation paid to the Company's Named Executive Officers is advisory only and will not be binding on the Company or the Board and will not be construed as overruling a decision by the Company or the Board or as creating or implying any additional fiduciary duty for the Company or the Board. However, the Compensation and Leadership Development 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 the Named Executive Officers. Stockholders will be given an opportunity to cast an advisory vote on this topic annually, with the next opportunity occurring in connection with the Company's annual meeting in 2016.

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.

Proposal 4: Stockholder Proposal Regarding Independent Board Chairman

Mr. John Chevedden has given notice of his intention to present a proposal at the 2015 Annual Meeting. Mr. Chevedden's address is 2215 Nelson Avenue, No. 205, Redondo Beach, California 90278, and Mr. Chevedden represents that he has continuously owned no less than 100 shares of the Company's common stock since July 1, 2013. Mr. Chevedden's proposal and supporting statement, as submitted to the Company, appear below.

The Board of Directors opposes adoption of Mr. Chevedden's proposal and asks stockholders to review the Board's response, which follows Mr. Chevedden's proposal and supporting statement below.

The affirmative vote of the holders of a majority of the shares of common stock present, in person or represented by proxy at the meeting and entitled to vote is required to approve this proposal.

ALK: Rule 14a-8 Proposal, November 2, 2014

Proposal 4 - Independent Board Chairman

Resolved: Shareholders request that the Board of Directors adopt a policy that the Chair of the Board of Directors shall be an independent director who is not a current or former employee of the company, and whose only nontrivial professional, familial or financial connection to the company or its CEO is the directorship. The policy should be implemented so as not to violate existing agreements and should allow for departure under extraordinary circumstances such as the unexpected resignation of the chair.

When our CEO is our board chairman, this arrangement can hinder our board's ability to monitor our CEO's performance. Many companies already have an independent Chairman. An independent Chairman is the prevailing practice in the United Kingdom and many international markets. This proposal topic won 50%-plus support at 5 major U.S. companies in 2013 including 73%-support at Netflix.

This topic is of additional importance for Alaska Air because our company seems to have a default type of quasi-lead director. Plus there are questions on the independence of 5 of our directors who each have 10 to 32-years of long-tenure: Patricia Bedient, Jessie Knight, Phyllis Campbell, Kenneth Thompson and Byron Mallott. GMI Ratings, an independent investment research firm, said long-tenured directors can form relationships that may compromise director independence and therefore hinder director ability to provide effective oversight of our CEO/Chairman. These 5 directors ontrolled [sic] 87% of the votes on our 3 most important board committees.

Other concerns with director oversight include the assignment of Kenneth Thompson to our executive pay committee as chairman when he is potentially overextended with seats on 4 public boards. And Alaska Air did $2.7 million of business with Helvi Sandvik's company.

Additional issues (as reported in 2014) are an added incentive to vote for this proposal:

GMI was concerned with excessive CEO perks and pension benefits. Unvested equity awards partially or fully accelerate upon CEO termination. Meanwhile shareholders had a potential 14% stock dilution. GMI rated Alaska Air D in accounting. Alaska Air reported a $120 million charge related to how it reports its revenue from its Bank of America credit card agreement (October 2013).

Returning to the core topic of this proposal from the context of our clearly improvable corporate governance, please vote to protect shareholder value:

Independent Board Chairman - Proposal 4

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE AGAINST PROPOSAL 4 FOR THE FOLLOWING REASONS:

At the Company's 2014 annual meeting of stockholders, Mr. Chevedden proposed that the Board of Directors adopt this policy. The Board of Directors opposed the proposal last year, and stockholders rejected the proposal with over 80 percent of the votes cast opposed to it.

The Board maintains that the current leadership structure best serves the interests of the Company and its stockholders. The Board's leadership structure generally features a combined chairman and CEO role and a strong, independent lead director. However, the Board has discretion to depart from this structure where circumstances warrant and has done so in the past. The proponent would eliminate the Board's flexibility to combine the chairman and CEO roles except in "extraordinary circumstances." The Board believes that it is not in the shareholders' interests to restrict the Board's discretion in this respect.

The Board's existing leadership structure is effective and appropriately flexible

In the Board's view, the leadership structure in which the chairman and CEO roles are combined serves a number of important goals. A chair/CEO facilitates the flow of information between management and the Board, keeps the Board informed about the Company's business and the airline industry, and consults with board members in a timely manner about important issues facing the Company. The Board also believes that the current structure provides focused leadership for the Company, helps ensure accountability for the Company's performance and promotes a clear, unified vision for Alaska Air Group by assuring that the strategies adopted by the Board will be well positioned for execution by management. The Board regards this leadership structure as a strong contributor to the Company's recent success.

The Board considers many factors in determining optimal leadership structure

In choosing to combine the roles of chairman and CEO, the Board takes into consideration the highly technical nature of the airline industry and the complexity and dynamic nature of the Company's business and operating environment. In addition, the Board considers, among other things, the experience and capacity of the sitting CEO, the rigor of independent director oversight of financial, operational and safety regulatory issues, the current climate of openness between management and the Board, and the existence of other checks and balances that help ensure independent thinking and decision-making by directors.

Restricting Board discretion would be detrimental to stockholders' interests

The proposal seeks to mandate one leadership structure that would apply except in "extraordinary circumstances." Because of the presence of the independence safeguards noted above, the Board believes it is not only unnecessary, but that it would be detrimental to restrict the Board's leadership structure to one form. The members of the Board have experience with and knowledge of the challenges and opportunities the Company faces at any given time, and therefore they are in the best position to choose the leadership structure that is most appropriate for the situation. The Board's commitment to select a leadership structure that is most appropriate for the Company and its stockholders is best evidenced by the Board's decision to separate the chairman and CEO positions during 2012-2013 in connection with the transition to a new CEO.

Ten of the Board’s eleven directors are independent

The Company’s Governance Guidelines require that at least 75% of directors satisfy independence criteria established by the SEC and the NYSE and those set forth in the Director Independence section of this Proxy Statement. At present, the Board has determined that 10 out of 11 directors, or 91%, are independent according to these standards.

The Board has a strong, independent lead director

The Board’s lead director is appointed by and from among the independent board members and has specific authority that ensures objective, independent oversight of management’s strategic decisions, risk management, succession planning, and executive performance and compensation. The authority and responsibilities of the lead director are outlined in the Company’s Governance Guidelines, which are available at www.alaskaair.com. The lead director:

- serves as liaison between the chairman and the independent directors;
- is authorized to call a meeting of the independent directors at any time;
- is authorized to call a meeting of the full board at any time;
- presides at meetings where the board chairman is not present or where he/she could be perceived as having a conflict of interest;
- presides over quarterly executive sessions of the independent directors;
- approves board meeting agendas and meeting schedules to ensure that appropriate time is allotted to topics of importance;
- approves information sent to board members;
- leads the independent directors’ annual evaluation of the CEO’s performance;
- conducts interviews of independent directors annually prior to nomination for election;
- discusses proposed changes to committee assignments with each director; and
- makes herself or himself available for consultation and direct communication with major stockholders.

Responding to the proponent’s assertion that the Company has “a default type of quasi-lead director,” the Board wishes to state that the lead director role and responsibilities are meaningful and carefully tailored to promote the Board’s oversight and independence obligations.

The governance structure fosters board independence

The Board believes the Company’s corporate governance practices, beyond those allowing for a strong lead director, make it unnecessary to require an independent chairman. For example:

- Each of the Audit, the Compensation and Leadership Development, and the Governance and Nominating Committees is required to be composed solely of independent directors. This means that the oversight of key matters, such as the integrity of financial statements, CEO performance, executive compensation, the nomination of directors, and evaluation of the Board and its committees, is entrusted exclusively to independent directors.
- The Board and its committees meet regularly in executive session without management, and they have access to management and the authority to retain independent advisors, as they deem appropriate.
- All independent directors play a role in overseeing the CEO’s performance, with the Board routinely discussing this subject in executive session without the CEO present.
- The Company has a 15-year maximum term limit for new directors elected since 2012 in order to ensure fresh perspectives on the Board.

Alaska Air Group governance practices ranked among the best by ISS

As of the printing of this proxy statement, Alaska Air Group maintains a governance rating of "1" from Institutional Shareholder Services (ISS), which is the highest ranking possible.

Additional information

In considering how to vote on the proposal, it is important to note that the proponent has made several assertions that are false or misleading. The assertions are not directly related to the proposal to require an independent chairman, and they are addressed here in the interest of providing full information to investors.

- The proponent correctly cites the fact that five directors serving on the Board as of November 2, 2014 have tenures of 10 years or more, and the Board wishes to provide the following context:

  The Board has added five independent directors over the past five years, and two long-tenured directors stepped down in 2014, resulting in an average tenure of seven years among the Company's ten independent directors. The Board has a 15-year maximum term limit for directors elected since 2012 in order to ensure fresh perspectives on the Board. The Board values the experience of its directors and views a diversity of tenure as an asset that compromises neither directors' independence nor their ability to oversee the CEO.

- The proponent incorrectly states that five long-tenured directors (as of November 2, 2014) "controlled 87% of the votes on our three most important board committees."

  As a result of the board refreshment described above, the average tenures of directors on board committees has also declined. The average tenure of directors on the Audit Committee, the Compensation and Leadership Development Committee, and the Governance and Nominating Committee is six years, nine years and 12 years, respectively.

- The proponent incorrectly states that Alaska Air Group reported a $120 million "charge" related to its Bank of America credit card agreement.

  In connection with modifications to Alaska Airlines' affinity card agreement with Bank of America in July 2013, the Company recorded a one-time, favorable "special" revenue item of $192 million pre-tax ($120 million post-tax) in the third quarter of 2013. The Board refers interested investors to pages 9-10 of the Company's report on Form 10-Q for the quarter ended September 30, 2013, for additional information on this accounting matter.

- The proponent imprecisely states that "Alaska Air did $2.7 million of business with Helvi Sandvik's company."

  As disclosed in this Proxy Statement, Alaska Airlines purchased $3 million in services from an entity in which NANA Development Corporation holds a 51% interest. Director Helvi Sandvik is the president of NANA Development Corporation and has no direct material interest in the reported transactions. Accordingly, the Board affirmed her independence in light of SEC, NYSE and the Company's independence standards.

- The proponent asserts that the CEO receives excessive perquisites and pension benefits.

  In 2014, the Compensation and Leadership Development Committee decided to phase out the CEO's and other executives' perquisite allowances over a three-year period. With respect to pension benefits, the Retirement Plan for Salaried Employees and the Company's 401(k) plans are tax-qualified retirement plans in which the CEO participates on substantially the same terms as other participating employees. Federal law limits the amount that may be paid to executives under a tax-qualified retirement plan, meaning that pension benefits that would otherwise be provided to the CEO are required to be limited. The CEO receives make-up retirement benefits through an unfunded defined-benefit plan. The Board refers interested investors to the Compensation and Leadership Development Committee's detailed discussion of these executive compensation arrangements under Perquisites and Personal Benefits and Retirement Benefits/Deferred Compensation in the Compensation Discussion and Analysis section of this Proxy Statement.

- The proponent states that the CEO's unvested equity awards would partially or fully accelerate upon his termination.

  The Compensation and Leadership Development Committee has put in place change-in-control severance arrangements that trigger only if there has been a change in control and the CEO has been terminated not "for cause." The arrangements are in line with market practice and are designed to help retain the Company's key employees and maintain a stable work environment leading up to and during a change in control. For more information on the arrangements, see *Agreements Regarding Change in Control and Termination* in the Compensation Discussion and Analysis section of this Proxy Statement.

- The proponent states that shareholders face "a potential 14% stock dilution," presumably premised on the full acceleration of the CEO's unvested equity awards upon a change in control.

  If a change in control occurs and the CEO is terminated not "for cause," dilution of less than 0.5% would occur based on the acceleration of the CEO's unvested equity under existing change-in-control arrangements.

ACCORDINGLY, THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE AGAINST PROPOSAL 4.

Structure of the Board of Directors

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

Pursuant to the Bylaws, the Board of Directors has established four standing committees, which are the Audit Committee, the Compensation and Leadership Development 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. These charters are posted on the Company's website, can be accessed free of charge at www.alaskaair.com and are available in print to any stockholder who submits a written request to the Company's Corporate Secretary at P.O. Box 68947, Seattle, WA 98168.

The table below shows the current members and chairs of the standing Board committees.

Board Committee Memberships

Name	Audit Committee	Compensation and Leadership Development Committee	Governance and Nominating Committee	Safety Committee
Patricia M. Bedient	Chair		●	
Marion C. Blakey				Chair
Phyllis J. Campbell			Chair	
Dhiren R. Fonseca	●			
Jessie J. Knight, Jr.			●	●
Dennis F. Madsen	●	●		
Helvi K. Sandvik				●
Katherine J. Savitt		●		
J. Kenneth Thompson		Chair		●
Eric K. Yeaman	●			

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

Governance and Nominating Committee

Pursuant to its charter, the Governance and Nominating Committee's responsibilities include the following:

1. Develop, monitor and reassess from time to time 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 and evaluate 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 and each Board committee, including itself.
8. Annually review and reassess the adequacy of the Committee's charter and its performance, and recommend any proposed changes in its charter to the Board for approval.

Audit Committee

Pursuant to its charter, the Audit Committee's responsibilities include:

1. With regard to matters pertaining to the independent registered public accountants:
   a. appoint them and oversee their work;
   b. review at least annually their written statement regarding their internal quality-control procedures, any material issues raised by their internal quality-control review, and all relationships between the independent accountants and the Company;
   c. maintain a dialog with respect to their independence;
   d. pre-approve all auditing and non-auditing services they are to perform;
   e. review annual and quarterly financial statements and filings made with the SEC;
   f. receive and review communications required from the independent registered public accountants under applicable rules and standards;
   g. establish clear hiring policies for employees and former employees of the independent registered public accountants;
   h. review audited financial statements with management and the independent registered public accountants; and
   i. receive and review required communications from the independent registered public accountants.
2. With regard to matters pertaining to the internal auditors:
   a. review planned internal audits and their results with the internal auditors;
   b. review the structure and resources of the audit team; and
   c. review any changes to the internal audit charter.
3. With regard to matters pertaining to controls:
   a. review major financial reporting risk exposure and adequacy and effectiveness of associated internal controls;
   b. review procedures with respect to significant accounting policies and the adequacy of financial controls;
   c. discuss with management policies with respect to risk assessment and risk management, including the process by which the Company undertakes risk assessment and risk management;
   d. discuss with management, as appropriate, earnings releases and any information provided to analysts and ratings agencies;

e. develop, monitor and reassess from time to time a corporate compliance program, including a code of conduct and ethics policy, 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

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

4. Prepare the Audit Committee Report required for the annual proxy statement.
5. Annually review and reassess the adequacy of the Committee's charter and performance and recommend for Board approval any proposed changes to its charter.

Compensation and Leadership Development Committee

Pursuant to its charter, the Compensation and Leadership Development Committee's responsibilities are listed below.

1. With regard to executive and director compensation:
   a. recommend for approval by the Board changes in compensation and insurance for the Company's and its subsidiaries' nonemployee directors;
   b. set, review and approve compensation of the CEO and other elected officers of the Company and its subsidiaries; and
   c. establish the process for approving corporate goals relevant to CEO compensation and for evaluating CEO performance in light of those goals.
2. Set annual goals under the broad-based Performance-Based Pay Plan and Operational Performance Rewards Plan and administer the plans.
3. Grant stock awards and stock options.
4. Administer the supplementary retirement plans for elected officers and the equity-based incentive plans.
5. Make recommendations to the Board regarding other executive compensation issues, including modification or adoption of plans.
6. Fulfill ERISA fiduciary and non-fiduciary functions for tax-qualified retirement plans by monitoring the Alaska Air Group Pension/Benefits Administrative Committee, Defined Contribution Retirement Benefits Administrative Committee, and Pension Funds Investment Committee, and approve the membership of those committees, trustees and trust agreements, and the extension of plan participation to employees of subsidiaries.
7. Approve the terms of employment and severance agreements with elected officers and the form of change-in-control agreements.
8. Ensure a framework, process and policies are in place for CEO and executive succession, including standards for assessment, and the periodic review of CEO and other

executive-level leadership development and succession plans.

9. Administer and make recommendations to the Board of Directors with respect to the Company's equity and other long-term incentive equity plans.
10. Administer, review and modify the Company's policy regarding recoupment of certain compensation payments.
11. Produce the report on executive compensation required for the annual proxy statement.
12. Annually review and reassess the adequacy of the Committee's charter and its performance, and recommend any proposed changes in its charter to the Board for approval.

Safety Committee

Pursuant to its charter, the Safety Committee's responsibilities include the following:

1. Monitor management's efforts to ensure the safety of passengers and employees of the Air Group companies.
2. Monitor and assist management in creating a uniform safety culture that achieves the highest possible industry performance measures.
3. Review management's efforts to ensure aviation security and reduce the risk of security incidents.
4. Periodically review with management and outside experts all aspects of airline safety.
5. Evaluate the Company's health, safety and environmental policies and practices.
6. Annually review and reassess the adequacy of the Committee's performance and its charter, and recommend any proposed changes in the charter to the Board for approval.

Board and Committee Meetings

In 2014, the Board of Directors held six regular meetings. The standing Board committees held the following number of meetings in 2014:

Audit Committee - 4

Compensation and Leadership Development Committee - 5

Governance and Nominating Committee - 4

Safety Committee - 4

Each director, with the exception of Ms. Sandvik and Ms. Savitt, attended at least 75% of all Board and applicable committee meetings during 2014. Each director is expected to attend the Company's Annual Meeting of Stockholders. Last year, all directors but one attended the annual meeting. Ms. Sandvik was unable to attend the annual meeting, one board meeting and two committee meetings due to a death in her family. Ms. Savitt joined the Board in November 2014, and due to a schedule conflict, was unable to attend the Board and committee meetings that occurred immediately following her appointment.

Director Independence

The Board of Directors of the Company has determined that all of the directors, except Mr. Tilden and including each member of the Audit Committee, Governance and Nominating Committee, and Compensation and Leadership Development 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. In making its determination, the Board considered the charitable contributions made by the Company to charitable organizations with which any of its directors are affiliated. In this regard, the Board considered the value of charitable contributions made to an organization with which Ms. Bedient is affiliated as a member of its advisory board. In addition, in light of Ms. Savitt's employment as chief marketing officer at Yahoo!, Inc. (Yahoo!), the Board also considered Alaska Airlines' purchase of online marketing services from Yahoo! having a value of less than 0.1% of each party's annual gross revenues. After consideration of these matters and in accordance with the Board's independent director criteria, the Board affirmatively determined that the matters did not represent material relationships with the Company because the amounts of the contributions were immaterial with respect to the Company's and the outside organization's annual revenues.

Each member of the Company's Audit Committee meets the additional independence, financial literacy and experience requirements contained in the corporate governance listing standards of the NYSE relating to audit committees or as required by the SEC. The Board has determined that Ms. Bedient and Mr. Yeaman are audit committee financial experts as defined in SEC rules.

The Corporate Governance Guidelines are available on the Company's website at www.alaskaair.com and are available in print to any stockholder who submits a written request to the Company's Corporate Secretary.

Specifically, the Board has determined that independent directors must have no material relationship with the Company, based on all material facts and circumstances. At a minimum, an independent director must meet each of the standards listed below.

1. The director, within the last three years, has not been employed by and has no immediate family member that has been an executive officer of the Company.
2. Neither the director nor any immediate family member has, in any 12-month period during the last three years, received more than $120,000 in direct compensation from the Company other than compensation for director or committee service and pension or other deferred compensation for prior service.
3. With regard to the Company's independent accountant's firm (i) neither the director nor any immediate family member is a current partner of the Company's independent accountants firm; (ii) the director is not a current employee of the independent accountant's firm; (iii) no immediate family member is a current employee of the independent accountant's firm working in its audit, assurance or tax compliance practice; and (iv) neither the director nor any immediate family member was an employee or partner of the independent accountant's 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 served on the compensation committee of a company that employed the director or an immediate family member.
5. The director is not currently an employee of 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.

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 independence standards for the members of the Audit Committee provide that, in addition to the foregoing standards, they 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 apart from their capacity as a member of the Board as defined by applicable SEC rules.

Director Nomination Policy

Identification and Evaluation of Candidates

1. Internal Process for Identifying Candidates

The Governance and Nominating Committee (the 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 including, but not limited to, members of the Board, senior-level Company executives, individuals personally known to the members of the Board, and research.

Additionally, 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, those firms 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 9 of the Company's Bylaws. The provisions generally require that written notice of a stockholder's intent to make a nomination for the election of directors be received by the Corporate Secretary of the Company no later than the close of business on the 90th day, and no earlier than the close of business on the 120th day, prior to the first anniversary of the prior year's annual meeting. The written notice submitted by a stockholder must also satisfy the additional informational requirements set forth in Article II, Section 9 of the Bylaws. See *How can I submit a proposal for next year's annual meeting*? in the Questions and Answers About the Annual Meeting section of this Proxy Statement for further information about the deadlines applicable to the submission of director nominations for next year's annual meeting of stockholders.

The Corporate Secretary will send a copy of the Company's Bylaws to any interested stockholder upon request. The Company's Bylaws are also available on the Company's website at www.alaskaair.com.

   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 is referred to as 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 procedures described below.

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 2014 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 relationship of a personal, professional, financial or business nature 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 NYSE rules. The Notice shall also contain or be accompanied by the information or documentation described below.

- Proof of stock ownership (including the required holding period) of the stockholder or group of stockholders is required. The Committee may determine whether the required stock ownership condition has been satisfied for any stockholder that is the stockholder of record. Any stockholder that is not the stockholder of record 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 is required.
- 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 is required.
- Regarding the candidate, such person's name, age, business and residence address, principal occupation or employment, number of shares of the Company's stock beneficially owned, if any, a 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 in connection with the solicitation of proxies for election of directors pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder (the "Exchange Act") shall be provided.

- 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 shall be provided. 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 in connection with the solicitation of proxies for election of directors pursuant to Section 14(a) of the Exchange Act is required.
- The signature of each candidate and of each stockholder submitting the proposal is required.

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 Corporate Secretary will promptly forward the Notice to the Lead Director and Chair of the Governance and Nominating Committee.

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 Qualified 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.

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 nominee's relevant experience, intelligence, independence, commitment, ability to work with the CEO and within the Board culture, prominence, diversity, and age. The Governance and Nominating Committee may also consider a nominee's 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, safety, organizational development, information technology, and government and public relations. 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.

For a candidate to serve as an independent director, an independent and questioning mindset is critical. The Committee also considers a prospective candidate's workload and whether he or she would be able to attend the vast majority of Board meetings, be willing and available to serve on Board committees, and be able to devote the additional time and effort necessary to keep up with Board matters and the rapidly changing environment in which the Company operates.

Board diversity is considered broadly, not merely with regard to race, gender, or national origin, but also with regard to general background, geographical location, and other factors. The consideration of diversity is implemented through discussions at the Governance and Nominating Committee. In addition, on an annual basis, as part of the Board's self-evaluation, the Board assesses whether the mix and diversity of board members is appropriate for the Company.

Board Leadership

The Company's board leadership generally includes a combined chairman and CEO role with a strong, independent lead director; however, in 2012-2013 the Board temporarily separated the roles of chairman and CEO in connection with the transition to a new CEO.

In choosing generally to combine the roles of chairman and CEO, the Board takes into consideration the highly technical nature of the airline business and the importance of deep, industry-specific knowledge and a thorough understanding of the Company's business environment in setting agendas and leading the Board's discussions. Combining the roles also provides a clear leadership structure for the management team. Because the CEO has a depth of understanding of the many complexities of the airline business, the regulatory environment, and the Company's strategy – all of which are of critical importance to the Company's performance – the Board believes that he or she generally is best suited to serve as chairman and to preside over the majority of the Board's discussions, with the exception of the regular sessions of the independent directors, which are led by the independent lead director.

By creating an independent lead director role with specific authority, the Board is able to ensure objective evaluation of management decisions and performance and to provide independent leadership for director and management succession planning and other governance issues. The lead director's responsibilities are:

- to preside at all meetings where the board chairman is not present or where the board chairman could be perceived as having a conflict of interest, including but not limited to periodic meetings of non-management directors as described in Section 1.1.12 of the Company's Corporate Governance Guidelines;
- to approve the board meeting agendas and meeting schedules to ensure

sufficient time for discussion, and to approve information sent to the board members;

- to lead the non-management directors' annual evaluation of the CEO;
- to conduct interviews of independent directors annually, including a discussion of each individual director's self-assessment of his or her contribution prior to nomination for election;
- to discuss any proposed changes to committee assignments with each affected director in advance of making committee membership recommendations to the Board;
- to be available for consultation and direct communication if requested by a major shareholder; and
- such other duties as may be described in the Company's Corporate Governance Guidelines, including serving as liaison between the chairman and independent directors and calling meetings of the independent directors, if appropriate.

Notwithstanding the Board's preference for combining the roles of chairman and CEO, the Board may separate the CEO and chair roles from time to time at its discretion. In deciding whether to separate the roles, the Board considers, among other things, the experience and capacity of the sitting CEO, the rigor of independent director oversight of financial, operational and safety regulatory issues, the current climate of openness between management and the Board, and the existence of other checks and balances that help ensure independent thinking and decision-making by directors.

Executive Sessions and Lead Director

The Air Group Board holds regular executive sessions of non-management directors quarterly, as provided in the charter of the Governance and Nominating Committee and the Company's Corporate Governance Guidelines. The lead director, who is the chair of the Governance and Nominating Committee, presides over these executive sessions.

Risk Oversight

Alaska Air Group has adopted an enterprise-wide risk analysis and oversight program. This program is designed to: a) identify the various risks faced by the organization; b) assign responsibility for managing those risks to individual executives within the management ranks; and c) align these management assignments with appropriate board-level oversight.

Responsibility for the oversight of the program itself has been delegated to the Board's Audit Committee. In turn, the Audit Committee has tasked the Company's chief risk officer with the day-to-day design and implementation of the program. Under the program, an Alaska Air Group risk matrix has been developed and the organization's most prominent risks have been identified, responsibility has been assigned to appropriate executives, and assignments have been aligned for appropriate Board oversight, including oversight of safety-related risks by the Board's Safety Committee. Responsibility for managing these risks includes strategies related to both mitigation (acceptance and management) and transfer (insurance). The risk matrix is updated regularly. At a minimum, the Audit Committee receives quarterly updates regarding the program and an annual in-person review of the program's status by the chief risk officer.

The program also provides that the Audit Committee work with the chief risk officer and Air Group's management executive committee to annually identify the most pressing risk issues for the next year. This subset of the risk matrix is then designated for heightened oversight, including periodic presentations by the designated management executive to the appropriate Board entity. Furthermore, these areas of emphasis regarding risk are specifically reviewed and discussed with executive management during an annual executive officer planning session, held during the third quarter of each year, and are incorporated into the development of the Company's strategic plan for the coming year.

As part of its oversight of the Company's executive compensation program, the Compensation and Leadership Development Committee, along with its independent consultant and the Company's management team, has reviewed the risk impact of the Company's executive compensation. Based on this review, the Company has concluded that its executive compensation programs do not encourage risk taking to a degree that is reasonably likely to have a materially adverse impact on the Company.

The Company believes that its leadership structure, discussed in detail in the Board Leadership section above, supports the risk oversight function of the Board for the same reasons that it believes the leadership structure is most effective for the Company, namely that, while facilitating open discussion and communication from independent members of the Board, it ensures that strategic discussions are led by an individual with a deep understanding of the highly technical and complex nature of the airline business.

Code of Conduct and Ethics

The Company has adopted a Code of Conduct and Ethics that applies to all employees of the Company, including its CEO, CFO, principal accounting officer and persons performing similar functions. The Code of Conduct and Ethics may be found on the Company's website at www.alaskaair.com and is available in print to any stockholder who requests it. Information on the Company's website, however, does not form a part of this Proxy Statement. The Company intends to disclose on the Company's website any amendments (other than technical, administrative or non-substantive amendments) to, and any waivers from, a provision of the Code of Conduct and Ethics for directors or executive officers.

Certain Relationships and Related Person Transactions

Policies and Procedures for Approval of Related Person Transactions

The Board of Directors has adopted a written policy for review, approval or ratification of any transaction, arrangement or relationship in which (i) the Company was, is or will be a participant, (ii) the aggregate amount involved exceeds $120,000 in any calendar year, and (iii) a related person has or will have a direct or indirect material interest (other than solely as a result of being a director or the beneficial owner of less than 10% of another entity). For purposes of the policy, a related person is (i) any person who is, or at any time since the beginning of the last fiscal year was, one of the directors or executive officers or a nominee to become a director, (ii) any beneficial owner of more than 5% of the Company's common stock, or (iii) any immediate family member of any of these persons.

Under the policy, once such a transaction by a related person has been identified, the Audit Committee (or, for transactions that involve less than $1 million in the aggregate, the chair of the Audit Committee) must review the transaction for approval or ratification. Members of the Audit Committee or the chair of the Audit Committee, as applicable, will review all relevant facts regarding the transaction in determining whether to approve or ratify it, including the extent of the related person's interest in the transaction, whether the terms are comparable to those generally available in arm's-length transactions, and whether the transaction is consistent with the best interests of the Company. The related person involved in the transaction will not participate in the approval or ratification process except to provide additional information as requested for the review. Once initially approved or ratified, all transactions with related persons will be reviewed at least annually.

The policy does not require review or approval of the following transactions: (i) employment by the Company of an executive officer unless he or she is an immediate family member of another related person; (ii) any compensation paid by the Company to a director; and (iii) a transaction in which a related person's interest arises solely from the ownership of equity securities and all holders of the securities receive the same benefit on a pro-rata basis.

Certain Transactions with Related Persons

The Company and its subsidiaries have transactions in the ordinary course of business with other corporations of which the Company's executive officers or directors or members of their immediate families are directors, executive officers, or stockholders. With the exception of the transactions reported here, the amounts involved in these transactions are below the disclosure thresholds set by the SEC, or the executive officer or director or his or her family member does not have a direct or indirect material interest, as that term is used in SEC rules, in the transaction.

Pursuant to 17 CFR Section 229.404, the Company discloses that its subsidiary Alaska Airlines, Inc. is a party to aircraft and facilities services agreements with NANA Management Services, LLC (NMS) worth $3 million annually. NANA Development Corporation owns 51% of NMS. Director Helvi Sandvik is the president of NANA Development Corporation and a former vice president of NMS. Ms. Sandvik has no direct material interest in the transactions between Alaska Airlines and NMS.

Stockholder Communication Policy

Any stockholder or interested party who wishes to communicate with the Alaska Air Group Board of Directors or any specific director, including the lead director (who presides over executive sessions of the non-employee directors) or with the non-employee directors as a group, 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 chair of the Audit Committee for review);
- attempt to handle the inquiry directly (for example, where it is a request for information about the Company's operations or it is a stock-related matter that does not appear to require direct attention by the Board or any 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 presents a summary of all communications received since the last meeting of the Governance and Nominating Committee and will make those communications available to any director on request.

Independent Registered Public Accountants

Selection of Independent Accountants for the Current Fiscal Year

The Audit Committee of the Board of Directors has selected, and is recommending that stockholders ratify, KPMG LLP (KPMG) as the Company's independent accountants for the 2015 fiscal year. KPMG also served as the Company's independent accountants for fiscal year 2014. Representatives of KPMG 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 Accountants

During fiscal years 2014, 2013 and 2012, the Company retained KPMG as its principal independent accountants. They provided services in the following categories and amounts:

2014	
Audit Fees for the Company's Annual Financial Statements and Quarterly Reviews(1)	1,150,000
Audit-Related Fees(2)	159,220
Tax Fees(3)	16,000
All Other Fees(4)	25,000
Total Fees for 2014	**1,350,220**
2013	
Audit Fees for the Company's Annual Financial Statements and Quarterly Reviews(1)	1,080,000
Audit-Related Fees(2)	225,725
Tax Fees(3)	–
All Other Fees(4)	20,000
Total Fees for 2013	**1,325,725**
2012	
Audit Fees for the Company's Annual Financial Statements and Quarterly Reviews(1)	1,072,500
Audit-Related Fees(2)	151,800
Tax Fees(3)	–
All Other Fees(4)	20,000
Total Fees for 2012	**1,244,300**

(1) Audit fees represent the arranged fees for the years presented, including the annual audit of internal controls as mandated under Sarbanes-Oxley Section 404, and out-of-pocket expenses reimbursed during the respective year.

(2) Includes fees paid in connection with the audit of Air Group's employee benefit plans in all years. In addition, includes $100,000 in fees related to accounting for the new affinity card contract in 2013, and $28,700 related to the audit of the Company's COSO (Committee of Sponsoring Organizations) 2013 implementation in 2014.

(3) Consists of fees paid for professional services in connection with general and international tax consulting. These services were pre-approved by the Audit Committee.

(4) Consists of fees paid for professional services in connection with (i) the audit of passenger facility charges and examination of related controls, and (ii) the examination of agreed-upon procedures for the U.S. Citizenship and Immigration Services.

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 accountants, and has determined that it does not impact the independence of the accountants.

Independent Accountant Engagement Policy

The Audit Committee has established and annually reviews an Independent Accountant Engagement Policy designed to ensure that the Company's independent accountant performs its services independently and with the highest integrity and professionalism. In addition to certain specific prohibited services, the Audit Committee considers whether any service provided by the independent accountants may impair the firm's independence in fact or appearance.

The policy provides that any engagement of the Company's outside accountant must be consistent with principles determined by the SEC, namely, whether the independent accountant is capable of exercising impartial judgment on all issues encompassed within the accountant's engagement.

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 accountant for non-audit services, the Audit Committee will consider factors such as whether the services might compromise the accountant's independence, whether the accountant is the best provider for the services, and whether the proportion of audit to non-audit services is appropriate.

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

- the aggregate amount of fees paid for all such services is not more than 5% of the total fees paid by the Company to its accountant during the fiscal year in which the 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 years 2014, 2013 and 2012, there were no such services that were performed pursuant to the "de minimis 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 SEC under the Exchange Act, as amended, or incorporated by reference in any document so filed.

Review of the Company's Audited Financial Statements

The Audit Committee has reviewed and discussed with management and KPMG, the Company's independent accountants, the Company's audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. The Committee believes that management maintains an effective system of internal controls that results in fairly presented financial statements.

The Audit Committee has discussed with KPMG the matters required to be discussed by the Public Company Accounting Oversight Board (PCAOB) Auditing Standards No. 16 (Communications with Audit Committees), as amended, as adopted by the PCAOB.

The Committee has also received and reviewed the written disclosures and the KPMG letter required by PCAOB Rule 3526, Communicating with Audit Committees Concerning Independence, and has discussed with KPMG their independence.

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, 2014.

Audit Committee Charter

The Audit Committee has adopted a written charter, which is posted on the Company's website at www.alaskaair.com. It describes the roles of the Audit Committee and the independent accountants (for which the Audit Committee approves the appointment and compensation and whom the Committee oversees). In addition, it describes the Audit Committee's relationship to internal audit and the Committee's responsibilities with regard to assessing the Company's internal controls and enterprise risk.

Audit Committee Independence and Financial Expertise

All members of the Audit Committee meet the independence, financial literacy and experience requirements of the New York Stock Exchange and of the Securities and Exchange Commission. The SEC requires that at least one member qualify as a "financial expert" as defined pursuant to the Sarbanes-Oxley Act.

Ms. Bedient's experience as a public company chief financial officer and former partner of a global accounting firm and Mr. Yeaman's experience as a chief financial officer of a public company qualify each of them as financial experts.

Audit Committee of the Board of Directors

Patricia M. Bedient, Chair
Dhiren R. Fonseca, Member
Dennis F. Madsen, Member
Eric K. Yeaman, Member

2014 Director Compensation

The following table presents information regarding the compensation paid for 2014 to members of the Board of Directors who are not also the Company's employees (non-employee directors). The compensation paid to Mr. Tilden, who is also an employee, is presented in the Summary Compensation Table and the related explanatory tables. Mr. Tilden does not receive additional compensation for his service as a director. Mr. Langland and Mr. Mallott resigned from the Board of Directors in May and December 2014, respectively.

Name (a)	Fees Earned or Paid in Cash(1) ($) (b)	Stock Awards(2) ($) (c)	Option Awards(2) ($) (d)	Non-Equity Incentive Plan Compensation(2) ($) (e)	Change in Pension Value and Non-qualified Deferred Compensation Earnings(2) ($) (f)	All Other Compensation(3) ($) (g)	Total ($) (h)
Patricia M. Bedient	63,092	74,908	0	0	0	855	138,855
Marion C. Blakey	50,092	74,908	0	0	0	545	125,545
Phyllis J. Campbell	60,092	74,908	0	0	0	9,482	144,482
Dhiren R. Fonseca(4)	22,501	37,499	0	0	0	545	60,545
Jessie J. Knight, Jr.	45,092	74,908	0	0	0	1,742	121,742
R. Marc Langland(5)	0	0	0	0	0	3,936	3,936
Dennis F. Madsen	45,092	74,908	0	0	0	5,297	125,297
Byron I. Mallott(6)	45,092	74,908	0	0	0	7,888	127,888
Helvi K. Sandvik	45,092	74,908	0	0	0	3,824	123,824
Katherine J. Savitt(4)	22,501	37,499	0	0	0	545	60,545
J. Kenneth Thompson	50,092	74,908	0	0	0	9,225	134,225
Eric K. Yeaman	45,092	74,908	0	0	0	3,148	123,148

(1) Directors received an annual cash retainer of $43,000. In addition, the compensation for non-employee directors included the following:

- an annual retainer of $10,000 to the Lead Director, who is also the Governance and Nominating Committee chair;
- an annual retainer of $18,000 to the Audit Committee chair and $8,000 each to the Compensation and Leadership Development, Governance and Nominating, and Safety Committee chairs;
- an annual retainer of $1,000 to non-employee directors for service on the board of Alaska Airlines and $1,000 for service on the board of Horizon Air;
- reimbursement of expenses in connection with attending board and committee meetings as well as expenses in connection with director education.

(2) Under the terms of the Company's Stock Deferral Plan for Non-Employee Directors each board member may elect in the prior year to receive his or her annual award in the form of fully vested shares at the time of grant or to defer payment of all or a portion of the award until his or her termination of service on the Board. If no election is made the year prior to payment, common stock is issued.

In 2014, Ms. Blakey, Mr. Mallott, Ms. Sandvik and Mr. Yeaman were each granted 1,582 deferred stock units (DSUs), based on their elections to defer made in 2013. Ms. Bedient, Ms. Campbell, Mr. Knight,

Proxy

Mr. Madsen and Mr. Thompson were each issued 1,582 shares of Alaska Air Group common stock. Mr. Fonseca and Ms. Savitt received 677 shares of Alaska Air Group common stock each, the prorated value of the annual stock retainer. See discussion of these awards in Note 12 (Stock-Based Compensation Plans) to the Company's Consolidated Financial Statements included as part of the Company's 2014 Annual Report filed on Form 10-K with the SEC and incorporated herein by reference. The non-employee directors do not hold any outstanding stock options.

Alaska Air Group directors do not participate in any non-equity incentive compensation plans, nor do they participate in a nonqualified deferred compensation plan. Directors do not receive pension benefits for their service.

(3) As part of each director's compensation, the non-employee director and the non-employee director's spouse and eligible dependents were provided transportation on Alaska Airlines and Horizon Air. Included in the All Other Compensation column for each non-employee director is the incremental cost to the Company of providing these benefits. Positive-space travel is a benefit unique to the airline industry. By providing this travel without tax consequences to non-employee directors, the Company is able to deliver a highly valued benefit at a low cost, and believes this benefit encourages non-employee directors to travel, thus enhancing their connection to the Alaska Airlines and Horizon Air products and services. The All Other Compensation column (g) includes the value of reimbursements for taxes on the transportation benefits provided to each director.

(4) Ms. Savitt and Mr. Fonseca were appointed directors in October 2014, therefore, their annual cash and stock retainers were prorated.

(5) Mr. Langland resigned from the Air Group Board effective May 8, 2014. His compensation does not include the value of shares issued in connection with deferred stock units granted in prior years as a portion of his annual retainer, but not distributed until he resigned from the Board.

(6) Mr. Mallott resigned from the Air Group Board effective December 1, 2014. His compensation does not include the value of shares issued in connection with deferred stock units granted in prior years as a portion of his annual retainer, but not distributed until he resigned from the Board.

Director Stock Ownership Policy

The Company expects directors to act in the Company's best interests regardless of the number of shares they own. Each non-employee director is expected to hold shares of Company stock having a value equal to at least three times the director's annual cash retainer, such ownership to be achieved within five years of joining the Board. Deferred stock units held by directors, which are 100% vested at grant, will count toward the holding requirement even though they will not be issued until the director resigns from the Board.

Compensation Discussion and Analysis

Executive Summary

This CD&A contains a discussion of the material elements of compensation earned during 2014 by the Company's chief executive officer, its chief financial officer, its three highest paid executive officers and two executive officers who would have been among the Company's three highest paid executive officers if they had not retired before the end of 2014. Specifically, the "Named Executive Officers" include: Bradley D. Tilden, chairman, president and chief executive officer of Alaska Air Group; Brandon S. Pedersen, chief financial officer of Alaska Air Group; Benito Minicucci, chief operating officer of Alaska Airlines; Andrew R. Harrison, executive vice president and chief revenue officer of Alaska Airlines[1]; Joseph A. Sprague, senior vice president communications and external affairs of Alaska Airlines[2]; Glenn S. Johnson, former president of operating subsidiary Horizon Air Industries and executive vice president of Alaska Air Group; and Keith Loveless, former general counsel and executive vice president of Alaska Air Group.

2014 Company Performance Highlights

Alaska Air Group had numerous financial and operational achievements in 2014. For the year ended December 31, 2014, Alaska Air Group:

- posted record full-year 2014 net income, excluding special items, of $571 million, or $4.18 per diluted share, compared to $383 million, or $2.70 per diluted share, in 2013;
- shared $116 million (exceeding one month's pay for most employees) in incentive rewards with all employees;
- achieved return on invested capital of 18.6%, compared to 13.6% in 2013;
- repurchased 7,316,731 shares of its common stock, or 5.3% of shares outstanding as of January 1, in 2014, bringing total shares repurchased since 2007 to 49 million, at a total cost of $827 million;
- experienced an increase of more than 63% in the price of a share of common stock;
- lowered adjusted debt-to-total-capitalization ratio to 31% as of December 31, 2014;
- became one of only two U.S. airlines with investment grade credit ratings;
- ranked "Highest in Customer Satisfaction Among Traditional Network Carriers" by J.D. Power for the seventh year in a row;
- ranked "number one" in on-time performance among North American major airlines by FlightStats for the fifth year in a row; and
- ranked "Best U.S. Airline" by the *Wall Street Journal* for the second year in a row.

Governance Highlights

- Compensation decisions are made by a committee of directors who meet SEC and NYSE independence standards.
- The Compensation and Leadership Development Committee retains an independent consultant that provides no other services to the Company.
- There is no provision for the gross-up of excise taxes in connection with change-in-control severance payments.
- Change-in-control severance payments require a double-trigger event in order to become effective.
- The Company maintains a recoupment policy to recover compensation from executives under certain circumstances.

[1] Mr. Harrison was vice president planning and revenue management of Alaska Airlines until May 9, 2014. He was senior vice president planning and revenue management of Alaska Airlines from May 9, 2014 until February 11, 2015, when he was elected executive vice president and chief revenue officer.
[2] Mr. Sprague was vice president marketing of Alaska Airlines until May 9, 2014, when he was elected senior vice president communications and external affairs.

- The Company has executive and independent director stock ownership requirements.
- An anti-pledging and anti-hedging policy is in place.
- The Company has no executive employment agreements with the Named Executive Officers.

Consideration of Say-on-Pay Advisory Vote

At the May 2014 annual meeting, 97% of the votes were cast in favor of the advisory say-on-pay proposal in connection with the Company's 2013 compensation. The Committee believes that the vote indicates that most stockholders approve of the structure of executive compensation at Alaska Air Group. Therefore, the Committee structured executive compensation for 2014 in a way that is generally consistent with that of 2013. Stockholders have an opportunity annually to cast an advisory vote in connection with executive compensation.

2014 Compensation Program Overview

The Company's executive compensation program is designed to compensate executives appropriately and competitively and to drive superior performance. Because the Named Executive Officers are primarily responsible for the overall execution of the Company's strategy, a high percentage of their total direct compensation is variable and tied to Company performance, thereby providing incentives to achieve goals that help create value for stockholders. Highlights of the program, which did not change materially from 2013, follow.

- For 2014, the Committee approved target-level total compensation for Mr. Tilden that is 79% performance-based and aligned with stockholder value creation. With respect to the other Named Executive Officers, the Committee approved target total compensation that is, on average, 71% performance-based and aligned with stockholder value creation.
- Executives' bonuses under the Company's annual incentive pay program, in which all Company employees participate, are based on the achievement of specific performance objectives that are established at the beginning of the fiscal year by the Committee and are capped at a specified maximum amount. As illustrated in the 2014 Performance-Based Pay Calculation table, the annual incentive plan paid out above target this year primarily as a result of record profitability and excellent safety, operational and customer satisfaction scores.
- Executives' equity incentive awards generally consist of a combination of stock options, service-based restricted stock unit awards, and performance stock unit awards that vest only if specified performance levels of relative total shareholder return (TSR) are achieved. The performance stock units have a three-year performance period that is based 50% on shareholder return relative to an airline industry peer group and 50% relative to the Standard and Poor's 500 Index. These awards align an executive's opportunity with the creation of value for stockholders.

Objectives of the Company's Executive Compensation Program

The objectives of the executive compensation program are as follows:

- **to attract and retain highly qualified executives** who share the Company's values and are committed to its strategic plan by designing the total compensation package to be competitive with an appropriate peer group;
- **to motivate executives to provide excellent leadership and achieve Company goals** by

linking incentive pay to the achievement of specific targets that are reflected in the short-term incentive Performance-Based Pay Plan and the Company's strategic plan;

- **to align the interests of executives, employees, and stockholders** by tying a large portion of executives' total direct compensation (defined as base salary, short-term incentive pay and equity awards) to the achievement of objective goals related to the Company's financial performance, safety record, cost structure, and customer satisfaction; and
- **to provide executives with reasonable security to motivate them to continue employment with the Company and achieve goals** that will help the Company remain competitive and thrive for the long term.

Compensation Philosophy

The Compensation and Leadership Development Committee generally targets CEO base salary at or about the 25th percentile of the Company's airline peer group. However, the Committee may decide to set the CEO's salary below the 25th percentile after taking into consideration other factors. The CEO has the opportunity to earn total direct compensation between the 25th and 50th percentiles if annual and long-term incentive targets are reached, and to surpass the 50th percentile if those targets are exceeded.

For the other Named Executive Officers, as well as for other elected officers of the Company, the Committee generally targets base salary between the 25th and 50th percentile of airline peers and provides executives an opportunity to achieve total direct compensation at the 50th percentile if annual and long-term incentive targets are reached, and to surpass the 50th percentile if those targets are exceeded.

Other factors, including company performance, individual performance, tenure, retention goals, and internal equity influence the Committee's executive compensation-setting philosophy and practice from year-to-year.

In 2014, the Compensation and Leadership Development Committee set base salary for the CEO below the 25th percentile at the CEO's request and set base salaries for the other Named Executive Officers between the 25th and 50th percentiles of the airline peer group. Target total direct compensation for the CEO and for the Named Executive Officers fell within the same respective ranges.

How Executive Compensation is Determined

The Role of the Compensation and Leadership Development Committee and Consultants

Executive Compensation. The Compensation and Leadership Development Committee determines and approves the Named Executive Officers' compensation. The Committee also reviews management's recommended compensation for elected officers other than the Named Executive Officers.

Leadership Development. In the context of leadership development, the Committee ensures that a process and policies, including standards for assessing individual development activities and progress, are in place to guide CEO and executive management succession planning. The Committee periodically reviews development progress and succession plans for the CEO and other key management positions.

Independent Consultants. The Committee retained Meridian Compensation Partners, LLC (Meridian), to assist the Committee with its responsibilities related to the Company's executive and board of directors' compensation programs. The Committee considered the following facts in concluding that Meridian is an independent advisor.

- Meridian does not provide other services to Alaska Air Group or its subsidiaries. Meridian's services are limited to providing the Committee with advice and information solely on executive and director compensation and related corporate governance matters.
- The amount of fees paid by the Company during the 12-month period ended December 31, 2014 represents less than one percent of Meridian's total annual revenues for calendar year 2014.
- Meridian maintains policies designed to prevent conflicts of interest, which policies were detailed to the Committee.
- No Meridian partner, consultant or employee who serves the Committee has any business or personal relationship with any member of the Committee.
- No Meridian partner, consultant or employee who serves the Committee, or any of their immediate family, owns any shares of stock of the Company.
- No Meridian partner, consultant or employee who serves the Committee, or any of their immediate family, has any business or personal relationship with any executive officer of the Company.

How the Elements of the Company's Executive Compensation Program Were Selected

The Compensation and Leadership Development Committee conducts periodic reviews of the Company's executive compensation to assess its alignment with the Committee's objectives. The Committee considers how each component of compensation motivates executives to help the Company achieve its performance goals and execute its strategic plan and how it promotes retention of executives who share the Company's values. The compensation structure is designed to promote initiative, resourcefulness and teamwork by key employees whose performance and responsibilities directly affect the performance of the business.

The Committee uses both fixed compensation and variable performance-based compensation to achieve a program that is balanced, competitive and provides appropriate incentives. Base salaries, benefits, perquisites, retirement benefits, and change-in-control benefits are intended to attract and retain highly qualified executives and are paid out on a short-term or current basis. Annual incentives and long-term equity-based incentives are intended to motivate executives to achieve specific performance objectives.

The Committee believes that this mix of short-term and long-term compensation allows it to achieve dual goals of attracting and retaining highly qualified executives and providing meaningful performance incentives for those executives.

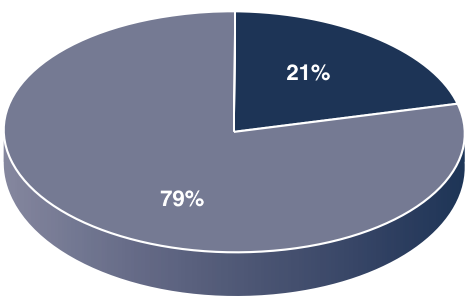
Deterrents to Excessive Risk-Taking

The Compensation and Leadership Development Committee believes it has designed the overall compensation program in such a way as to deter excessive risk-taking, to encourage executives to focus on the long-term success of the Company and to align the interests of executives with those of stockholders by:

- encompassing several different financial and operational goals;
- setting financial and operational goals that are reviewed and approved by the independent members of the Committee;
- overlapping the performance periods of awards;
- incorporating short-term and long-term performance periods of varying lengths;
- maintaining executive ownership requirements;
- capping short-term cash incentives;
- allowing Committee discretion to reduce amounts otherwise payable under certain awards;
- scaling compensation to the airline industry;
- considering internal equity among Company executives; and
- reflecting the current business challenges facing the Company.

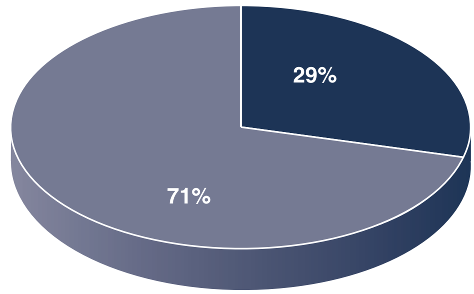
Executive Pay Mix and the Emphasis on Variable Pay

The Compensation and Leadership Development Committee believes that emphasis on variable, performance-based compensation at the senior executive levels of the Company is a key element in achieving a pay-for-performance culture and in aligning management's interests with those of the Company's stockholders. At the same time, the Committee believes that the executive compensation program provides meaningful incentives for executives while balancing risk and reward. When determining target executive pay, the Committee attempts to ensure that compensation is closely aligned with the overall strategy of the Company and that it motivates executives to achieve superior performance and stockholder returns.



Total Direct Compensation of CEO

Total direct compensation for the Company's Named Executive Officers is tailored to place a substantial emphasis on variable pay, that is, pay linked to the achievement of specific, measurable performance objectives and subject to variation depending on the degree to which such objectives are achieved. For 2014, the Committee approved target-level compensation for Mr. Tilden that is 79% variable and tied to stockholder value creation. With respect to the other Named Executive Officers, the Committee approved target compensation that is on average 71% variable and tied to stockholder value creation.



Total Direct Compensation of Other NEOs

The Use of Benchmarking Against a Peer Group

The Committee reviews and analyzes total direct compensation for the Named Executive Officers annually. In analyzing the information for 2014, the Committee reviewed the total direct compensation for executives of a peer group of airlines excluding any companies that ceased reporting compensation data during the period because they were no longer public.

The following companies represent the airline peer group selected by the Committee as a comparator for determining appropriate compensation levels for 2014:

- Air Canada
- Allegiant Travel Co.
- American Airlines Group
- Delta Air Lines
- Hawaiian Holdings
- JetBlue Airways
- Republic Airways Holdings
- SkyWest
- Southwest Airlines
- Spirit Airlines
- United Continental Holdings
- WestJet Airlines

The Committee chose to include the companies named above in its peer group for the following reasons:

- they represent a group of sufficient size to present a reasonable indicator of executive compensation levels;

- they are in the airline industry and their businesses are similar to the Company's business;
- the median annual revenue of this group approximates the Company's annual revenue; and
- the Company competes with these peer companies for talent to fill certain key, industry-related executive positions.

In the aggregate, 2014 target total cash compensation for the Named Executive Officers other than the CEO fell between the 25th and 50th percentiles of the airline peer group. Total direct compensation, which includes base salary, target annual cash compensation and long-term equity compensation, fell within the same range. For Alaska Air Group's CEO, target total cash compensation and total direct compensation were below the 25th percentile of the airline peer group.

In setting 2014 executive compensation, the Committee also reviewed data for 29 companies in the broader transportation industry having median annual revenue similar to that of Alaska Air Group to ensure that the Company's executive compensation remains competitive. The companies in this transportation industry peer group include: Air Canada, Allegiant Travel Co., AMERCO, American Airlines Group, Atlas Air Worldwide Holdings, Avis Budget Group, Con-Way Inc., Delta Air Lines, Expedia, Expeditors International of Washington, FedEx Corp., Hawaiian Holdings, Hertz Global Holdings, Hub Group, JB Hunt Transport Services, JetBlue Airways, Kirby Corp, Landstar System, Norwegian Cruise Line Holdings, Republic Airways Holdings, Royal Caribbean Cruises, Ryder System, SkyWest, Southwest Airlines, Spirit Airlines, United Continental Holdings, United Parcel Service, UTI Worldwide, and WestJet Airlines.

In the aggregate, target total cash compensation for the Company's Named Executive Officers other than the CEO fell below the 40th percentile of the transportation industry peer group. Total direct compensation fell between the 25th and the 50th percentiles. For Alaska Air Group's CEO, target total cash compensation and total direct compensation fell below the 25th percentile of the transportation industry peer group.

The Application of Internal Equity Considerations

In addition to benchmarking against airline and industry peer groups, the Committee and the CEO believe it is appropriate to consider other principles of compensation, and not accept benchmarking data as the sole basis for setting compensation. Thus, while the Committee has considered peer group data as described above, it has also applied other compensation principles, most notably internal equity, when determining executive compensation. At current levels and excluding the one-time performance award in connection with his election in 2012, Mr. Tilden's total direct compensation represents approximately two times the average total direct compensation at the executive vice president level, and approximately four times the average at the vice president level. By considering internal equity, the Committee is able to structure executive compensation in a way that is less susceptible to sudden, temporary changes in market compensation levels.

The Use of Tally Sheets

Annually, the Committee reviews tally sheets that show each element of compensation for the Named Executive Officers. Base salaries, incentive plan payments, equity awards, equity exercises, perquisites, and health and retirement benefits are included on tally sheets, which are prepared by the Company's corporate affairs and human resources departments. The Committee uses the tally sheets to verify that executive compensation is internally equitable and proportioned according to the Committee's expectations.

Current Executive Pay Elements

Base Pay

The Committee assesses each executive's duties and scope of responsibilities, past performance and expected future contributions to the Company, the market demand for the individual's skills, the individual's influence on long-term Company strategies and success, the individual's leadership performance, and internal equity considerations.

In February 2014, the Committee approved base salary of $442,000 for Mr. Tilden, which was below the 25th percentile of salaries for CEOs in the airline peer group. The chart below depicts CEO base salaries at airline peer group companies.

CEO Base Salary Comparisons (Airline Peer Group)

2014 Base Salary(1)	
Alaska Air Group, Inc.	$442,000
Base Salary (Air Group peers)	
Air Canada	$1,317,000
United Continental Holdings, Inc.	$975,000
Delta Air Lines Inc.	$725,083
75th Percentile	**$713,000**
Southwest Airlines Co.	$675,000
American Airlines Group	$700,000
Median	**$625,000**
Hawaiian Holdings, Inc.	$625,000
JetBlue Airways Corp.	$600,000
WestJet Airlines, Ltd.(2)	$534,000
25th Percentile	**$509,000**
Spirit Airlines, Inc.	$484,000
Republic Airways Holdings Inc.	$475,000
SkyWest Inc.	$410,000
Allegiant Travel Co.(3)	N/A

(1) Amounts are derived from the most recent compensation data available as of the date of this Proxy Statement. In most cases, this is the 2013 base salary as reported in the respective company's 2014 proxy statement.

(2) Base salary is provided in Canadian Dollars.

(3) Allegiant's CEO does not receive a base salary.

Performance-Based Annual Pay

The Company's Named Executive Officers are eligible to earn annual incentive pay under the Performance-Based Pay Plan, in which all Company employees participated in 2014. The Plan is intended to motivate executives and other employees to achieve specific Company goals. The Committee aligns executive compensation with the Company's strategic plan by choosing a target performance level for each operational or financial goal (outlined in the 2014 Performance-Based Pay Metrics table below) that is consistent with the Company's strategic plan goals.

The long-term success of the Company is highly dependent on running a safe and reliable operation, meeting or exceeding the expectations of customers, keeping unit costs in check, and earning profits that meet or exceed a 10 percent return on invested capital over the business cycle. Each of these key strategic objectives is reflected in the goals of the Performance-Based Pay Plan.

For the Named Executive Officers, the 2014 target participation levels are as follows:

2014 Performance-Based Pay Plan Participation Rates

Name	Target Participation as % of Base Salary
Bradley D. Tilden	100%
Brandon S. Pedersen	75%
Benito Minicucci	75%
Andrew R. Harrison(1)	70%
Joseph A. Sprague(1)	70%
Glenn S. Johnson	75%
Keith Loveless	75%

(1) Mr. Harrison and Mr. Sprague received mid-year promotions that increased their participation rates from 65% to 70%.

Incentive award payments may range from zero to 200% of the Named Executive Officer's target

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based on the achievement of performance goals set by the Committee at the beginning of each year. For each performance metric, performance at the target level will generally result in a 100% payout of the target amount for that metric, while the payout is generally 200% for performance at or above the maximum level and 25% for performance at the threshold level. The payout percentages are interpolated for performance between the levels identified below, but if performance for a particular metric is below the threshold level, no payment will be made as to that metric. The Committee retains discretion to reduce bonus amounts below the level that would otherwise be paid.

For 2014, the Performance-Based Pay Plan metrics were set as follows:

2014 Performance-Based Pay Metrics

		Threshold		Target		Maximum	
Goal	Weight	Alaska	Horizon	Alaska	Horizon	Alaska	Horizon
Operational Performance							
Safety	10 %						
Risk Level 3+ Events*		≤1.0	≤1.0	≤0.7	≤0.7	≤0.4	≤0.4
Employee Engagement/Customer Satisfaction	10 %						
The number of months we exceed the monthly customer satisfaction goal		6	6	8	8	11	11
CASM	10 %						
Cost per available seat mile excluding fuel and special items		7.65¢	12.5¢	7.55¢	12.3¢	7.45¢	12.1¢
Alaska Air Group Profitability							
Adjusted Pretax Profit**	70 %	$350 million		$550 million		$750 million	

*Safety Risk Level 3+ events are measured per 10,000 departures. These are events that elevate risk to the operation and include such things as significant damage to aircraft or other assets, injuries to employees or customers, or a significant reduction in safety.

**Adjusted pre-tax profit means the net income of Alaska Air Group as computed by Generally Accepted Accounting Principles (GAAP) and adjusted for “Excluded Items” and “Alternative Accounting Treatments.” “Excluded Items” means (a) income taxes, (b) pretax expense under any Alaska Air Group (or subsidiary) profit sharing, performance-based pay, operational performance rewards, variable pay, or similar programs as determined in the discretion of the Compensation and Leadership Development Committee, and (c) special income or expense items that, in the discretion of the Committee, should be excluded because recognizing them would not appropriately serve the goals of the Plan. These may include, without limitation, gain or loss on disposition of capital assets, impairments or other fleet exit costs, expenses from voluntary or involuntary severance programs, government refunds or assistance, and the cumulative effect of accounting changes. “Alternative Accounting Treatments” means expense or income items that, for purposes of calculating adjusted pre-tax profit, the Company (or any subsidiary) will account for based on non-GAAP methods because, in the discretion of the Committee, using GAAP accounting methods would not appropriately serve the goals of the Plan. These may include, without limitation, fuel hedge accounting on an as-settled basis.

Annual target performance measures reflect financial and operational goals that are consistent with the strategic plan. Maximum goals correlate to superior performance, while threshold goals generally correlate to an acceptable but minimal level of improvement over the prior year's performance. The 2014 Alaska Air Group profitability target of $550 million corresponded to a forecasted 2014 return on invested capital (ROIC) of 10.6%. The Company's goal is to achieve an average 10% ROIC over the business cycle, which the Company believes will allow it to grow profitably. The safety and employee engagement measures were set at levels the Committee believes will drive continuous improvement and maintain the Company's reputation as a leader in the industry in these areas. The cost per available seat mile excluding fuel and special items (CASM) metric was similarly chosen to support the Company's achievement of its strategic plan.

The Committee believes that using adjusted non-GAAP measures, such as CASM (excluding fuel and special items) and adjusted pre-tax profit, rather than GAAP measures more closely ties results to elements of performance that can be controlled by the decisions and actions of employees, thereby providing a more direct link between performance and reward. In addition, by removing the short-term impact of certain business decisions (such as the gain or loss on disposition of capital assets), the use of adjusted measures encourages executives to make decisions that are in the best interest of the Company over the long term.

Following is an example of the calculation of the 2014 Performance-Based Pay Plan payout for one of the Named Executive Officers:

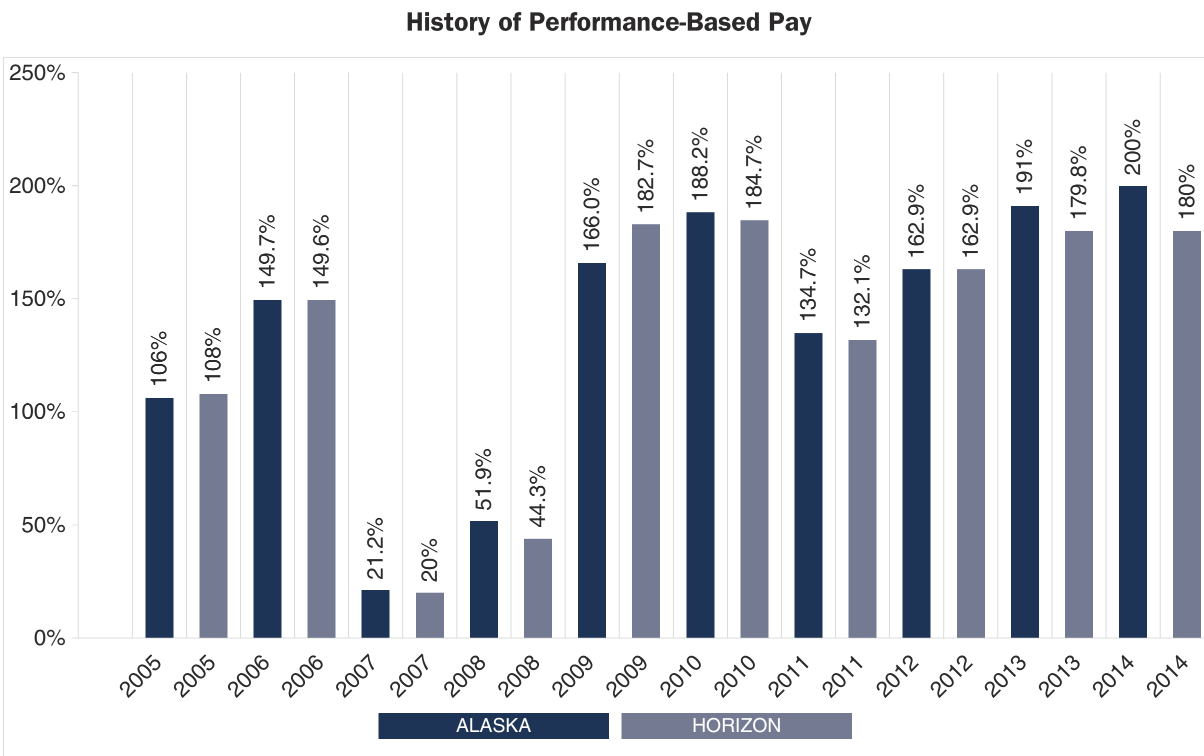
2014 Performance-Based Pay Calculation*

Metrics	Actual	% of Target Achieved	Weight		Payout %
Safety Risk Level 3+ Events	.06	200.0 %	10.0 %		20.0 %
Employee Engagement/Customer Satisfaction	12 months	200.0 %	10.0 %		20.0 %
CASM	<7.45¢	200.0 %	10.0 %		20.0 %
Alaska Air Group Profitability	$1.05 billion	200.0 %	70.0 %		140.0 %
Total Payout %					200.0 %
Participation Rate**				x	75.0 %
Payout as a % of Base Salary				=	150.0 %

*Based on Alaska Airlines' performance.

**Participation rates vary by position. The participation rate used in this example is for one of the Named Executive Officers.

The Performance-Based Pay Plan has paid out as follows since its inception:



In addition, all of the Company's employees, including the Named Executive Officers, participate in a separate incentive plan called Operational Performance Rewards, which pays a monthly incentive of $100 to all employees when certain operational performance targets are met. Awards are based on the achievement of on-time performance and customer satisfaction goals, and the maximum annual payout for each employee is $1,200. In 2014, each employee received $1,100 under the Operational Performance Rewards program.

Long-Term Equity-Based Pay

Long-term equity 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. The awards are designed to align Named Executive Officers' interests with those of stockholders. In addition, equity awards help attract and retain top-performing executives who fit a team-oriented and performance-driven culture.

Stock Options – The Company grants a portion of its long-term incentive awards to the Named Executive Officers in the form of stock options with an exercise price that is equal to the fair market value of the Company's common stock on the grant date. Thus, the Named Executive Officers will realize value from their stock options only to the degree that Alaska Air Group's stockholders realize value, provided the stockholder had purchased shares and held them for the same period as the executive. The stock options also function as a retention incentive for executives, as they generally vest ratably over a four-year period on each anniversary of the grant date and have a ten-year term.

Restricted Stock Units – The Company also grants long-term incentive awards to the Named Executive Officers in the form of restricted stock units. Subject to the executive's continued employment with the Company, the restricted stock units generally vest on the third anniversary of the date they are granted and, upon vesting, are paid in shares of Alaska Air Group common stock. The units provide a long-term retention incentive through the vesting period that requires continued service to the Company. The units are designed to further link executives' interests with those of Air Group's stockholders, as the value of the units is based on the value of Alaska Air Group common stock.

Performance Stock Units – The Company also grants the Named Executive Officers performance stock units annually as part of the long-term equity-based incentive program. The performance stock units vest only if the Company achieves performance goals established by the Committee for the performance period covered by the award. (The table below outlines the benchmarking process by which payouts are calculated.) Performance stock units also provide a retention incentive as the value of the award received is prorated based on both the executive's status as an employee during the performance period and on the achievement of performance goals.

Grants were made for the three-year performance periods beginning in January 2012, 2013 and 2014. The performance stock unit awards were based 50% on the Company's total shareholder return (TSR) performance relative to S&P 500 companies and 50% relative to the following industry peer group: Air Canada, Allegiant Travel Co., American Airlines Group, Delta Air Lines, Hawaiian Holdings, JetBlue Airways, Republic Airways Holdings, SkyWest, Southwest Airlines, Spirit Airlines, United Continental Holdings, and WestJet Airlines.

After discussion with management and an independent compensation consultant, the Committee chose relative TSR as the performance measure for these awards to provide additional incentive for executives to help create stockholder value. Given the nature of the airline business, the Committee believes that measuring TSR on a relative basis rather than on an absolute basis provides a more relevant reflection of the Company's performance by mitigating the impact of various macro-economic factors that tend to affect the entire industry and that are largely beyond the control of executives. The Committee believes that also measuring the Company's performance relative to the broad market encourages executives to manage the Company in such a way as to attract a broader range of investors.

The percentage of the performance stock units that vest may range from 0% to 200% of the target number of units subject to the award, depending on the Company's goals for the performance period. The payout percentages are interpolated for performance results falling between the levels identified below. The Committee retains discretion to reduce bonus amounts below the level that would otherwise be paid.

For the January 1, 2014 through December 31, 2016 performance period, the vesting of 50% of the stock units subject to the award will be determined in accordance with the chart below based on the Company's TSR rank versus the companies in the airline peer group, and the vesting of 50% of the stock units subject to the award will be determined in accordance with the chart below based on the Company's TSR percentile rank versus all of the companies in the Standard & Poor's 500 index.

2014 Performance Stock Unit Award Metrics

Airline Peer Group		S&P 500 Companies	
TSR Rank Among the Airline Peer Group	Percentage of Peer Group Stock Units that Vest	TSR Percentile Rank Among the S&P Index	Percentage of S&P Stock Units that Vest
1st or 2nd	200%	Above 90th	200%
3rd	175%	90th	200%
4th	150%	80th	175%
5th	125%	70th	150%
6th	100%	60th	125%
7th	80%	50th	100%
8th	60%	40th	60%
9th	40%	30th	20%
10th	20%	Below 30th	0%
11th or below	0%		

For the January 1, 2012 through December 31, 2014 performance period, the Company ranked 7th in total shareholder return (TSR) among its airline peer group and in the 98th percentile versus entities in the S&P Index. The Committee therefore approved payouts to the Named Executive Officers at 140% of target.

Equity Award Guidelines – The Committee considers and generally follows equity grant guidelines that are based on the target total direct compensation levels and pay mix described above. Target equity grants, when combined with the base salary and annual target incentive opportunity described above, are designed to achieve total direct compensation between the 25th and 50th percentiles of the peer group data for Named Executive Officers. The Committee may adjust equity grants to the Named Executive Officers above or below these target levels based on the Committee's general assessment of:

- the individual's contribution to the success of the Company's financial performance;
- internal pay equity;
- the individual's performance of job responsibilities; and
- the accounting impact to the Company and potential dilution effects of the grant.

The Committee believes that stock options, time-based restricted stock units and performance stock units each provide incentives that are important to the Company's executive compensation program as a whole. Therefore, the Committee generally allocates the grant-date value (based on the principles used in the Company's financial reporting) of each executive's total equity incentive award among these three types of awards.

2014 Equity Awards – For 2014, the guidelines applied to the Named Executive Officers are noted in the table below:

Equity Award Guidelines

Name	Equity Target as a % of Base Pay	Equity Mix		
		Stock Options	Restricted Stock Units	Performance Stock Units
Bradley D. Tilden	300%	34%	33%	33%
Brandon S. Pedersen	200%	34%	33%	33%
Benito Minicucci	250%	34%	33%	33%
Andrew R. Harrison	125%	34%	33%	33%
Joseph A. Sprague	125%	34%	33%	33%
Glenn S. Johnson	200%	34%	33%	33%
Keith Loveless	200%	34%	33%	33%

Special Equity Awards – The Committee retains discretion to make other equity awards at such times and on such terms as it considers appropriate to help achieve the goals of the Company's executive compensation program.

In May 2014, in light of the promotion of Mr. Pedersen to executive vice president and of Mr. Sprague and Mr. Harrison to senior vice president, the Committee made a one-time equity award to each composed of 50% restricted stock units and 50% stock options. The Committee also made an additional equity award of the same proportions to Mr. Minicucci based on the adjustment of his equity award target from 200% to 250% of base salary in recognition of the scope of his leadership role. With respect to each of these executives, the Committee approved awards that were calculated by deducting the equity grant value the executive received at the annual grant made in February from the equity grant value he would have received at the increased equity award target (and, in the case of Mr. Harrison and Mr. Sprague, the increased base salary) for the portion of the year he would serve in the more responsible role. The awards are designed to motivate executives to achieve superior financial results over the three-year period ending May 11, 2017 (for the restricted stock units) and over the four-year period ending May 11, 2018 (for the stock options).

Perquisites and Personal Benefits

In 2014, an amount equal to 8% of base salary was paid to each Named Executive Officer in lieu of all perquisites except for travel, life insurance, health exams, and accidental death and dismemberment insurance. The Committee decided to phase out this perquisite allowance over a three-year period that began in 2014.

Retirement Benefits/Deferred Compensation

The Company provides retirement benefits to the Named Executive Officers under the terms of qualified and non-qualified defined-benefit and defined-contribution retirement plans. The Retirement Plan for Salaried Employees (the Salaried Retirement Plan) and the Company's 401(k) plans are tax-qualified retirement plans in which Mr. Tilden, Mr. Sprague, Mr. Johnson, and Mr. Loveless participate on substantially the same terms as other participating employees. The Salaried Retirement Plan was frozen on January 1, 2014 at its then-current benefit levels. Due to maximum limitations imposed by the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code on the annual amount of a pension which may be paid under a qualified defined-benefit plan, the benefits that would otherwise be provided to these executives under the Salaried Retirement Plan are required to be limited. An unfunded defined-benefit plan, the 1995 Elected Officers Supplementary Retirement Plan (the Supplementary Retirement Plan), provides make-up benefits plus supplemental retirement benefits.

In light of the freeze on the Company's Salaried Retirement Plan effective January 1, 2014, all Named Executive Officers participate in a defined-contribution plan under the Company's Nonqualified Deferred Compensation Plan and Defined Contribution Officers Supplementary Retirement Plan.

The Named Executive Officers are also permitted to elect to defer up to 100% of their annual Performance-Based Pay payments under the Company's Nonqualified Deferred Compensation Plan. The Company believes that providing deferred compensation opportunities is a cost-effective way to permit executives to receive the tax benefits associated with delaying the income tax event on the compensation deferred. The interest earned on this deferred compensation is similar to what an ordinary investor could earn in the market.

Please see the tables under Pension and Other Retirement Plans and 2014 Nonqualified Deferred Compensation and the information following the tables for a description of these plans.

Stock Ownership Policy

The Compensation and Leadership Development Committee believes that requiring significant stock ownership by executives further aligns their interests with those of long-term stockholders. Within five years of election, each executive officer must beneficially own a number of shares of the Company's common stock with a fair market value equal to or in excess of a specified multiple of the individual's base salary as follows:

- five times base salary for the CEO; and
- two to three times base salary, depending on their respective levels of responsibilities, for the other Named Executive Officers.

Executives are required to retain 50% of any shares of common stock acquired in connection with the vesting of restricted stock units and performance stock units until the holding target is reached. Unexercised stock options, unvested restricted stock units and unvested performance stock units do not count toward satisfaction of the ownership requirements. The Committee reviews compliance with this requirement annually.

Prohibition of Speculative Transactions in Company Securities

The Company's insider trading policy prohibits executive officers, including the Named Executive Officers, from engaging in certain speculative transactions in the Company's securities, including short-term trading, short sales, publicly traded options (such as puts, calls or other derivative securities), margin accounts, pledges or hedging transactions.

Recoupment of Certain Compensation Payments

The Compensation and Leadership Development Committee has adopted a recoupment policy that applies to individuals who qualify as executive officers of the Company for purposes of Section 16 of the Securities Exchange Act of 1934. Under the policy, in such circumstances as it, in its sole discretion, determines to be appropriate, the Committee will obtain reimbursement or effect cancellation of all or a portion of any short- or long-term cash or equity incentive payments or awards where: (1) such payment or award of cash or shares was made on or after the effective date of this policy; (2) the amount of or number of shares included in any such payment or award was determined based on the achievement of financial results that were subsequently the subject of an accounting restatement due to the individual's fraudulent or grossly negligent act or omission; (3) a lesser payment or award of cash or shares would have been made to the individual based upon the restated financial results; and (4) the payment or award of cash or shares was received by the individual prior to or during the 12-month period following the first public issuance or filing of the financial results that were subsequently restated.

Agreements Regarding Change in Control and Termination

The Company has change-in-control agreements with the Named Executive Officers that provide for severance benefits if the executive's employment terminates under certain circumstances in connection with a change in control.

The Company has entered into change-in-control agreements with these executives because it believes that the occurrence, or potential occurrence, of a change-in-control transaction would create uncertainty and disruption during a critical time for the Company. The payment of cash severance benefits under the agreements is triggered if two conditions are met: (1) actual or constructive termination of employment and (2) the consummation of a change-in-control transaction. The Committee believes that the Named Executive Officers should be entitled to receive cash severance benefits only if both conditions are met. Once the change-in-control event occurs, the Named Executive Officer's severance and benefits payable under the contract begin to diminish with time so long as the executive's employment continues, until ultimate expiration of the agreement 36 months later. None of the Company's change-in-control agreements provide for reimbursement of excise taxes.

Policy with Respect to Section 162(m)

Section 162(m) of the Internal Revenue Code generally prohibits the Company from deducting certain compensation over $1 million paid to its CEO and certain other executive officers unless such compensation is based on performance objectives meeting certain criteria or is otherwise excluded from the limitation. The Committee strives whenever possible to structure its compensation plans such that they are tax-deductible, and it believes that a substantial portion of compensation paid under its current program (including the annual incentives, performance stock units and stock option grants described above) satisfies the requirements under Section 162(m). However, the Committee reserves the right to design programs that recognize a full range of performance criteria important to its success, even where the compensation paid under such programs may not be deductible. For 2014, the Company believes that no portion of its tax deduction for qualified compensation paid to its Named Executive Officers will be disallowed under Section 162(m).

Compensation and Leadership Development Committee Report

The Compensation and Leadership Development Committee has certain duties and powers as described in its charter. The Committee is currently composed of three non-employee directors who are named at the end of this report, each of whom is independent as defined by NYSE listing standards.

The Committee has reviewed and discussed with management the disclosures contained in the Compensation Discussion and Analysis section of this Proxy Statement. Based upon this review and discussion, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis section be included in the Company's 2014 Annual Report on Form 10-K on file with the SEC and the Company's 2015 Proxy Statement.[1]

Compensation and Leadership Development Committee of the Board of Directors

J. Kenneth Thompson, Chair
Dennis F. Madsen, Member
Katherine J. Savitt, Member
Jessie R. Knight, Jr., former Member

(1) SEC filings sometimes incorporate information by reference. This means the Company is referring you to information that has previously been filed with the SEC and that this information should be considered as part of the filing you are reading. Unless the Company specifically states otherwise, this report shall not be deemed to be incorporated by reference and shall not constitute soliciting material or otherwise be considered filed under the Securities Act or the Exchange Act.

Compensation and Leadership Development Committee Interlocks and Insider Participation

Mr. Thompson and Mr. Madsen were members of the Compensation and Leadership Development Committee during all of 2014. Mr. Knight served on the Committee from January 1, 2014 until November 5, 2014, at which time Ms. Savitt joined the Committee. No member of the Committee serving all or part of 2014 is or has been an executive officer or employee of the Company or has had any relationships requiring disclosure by the Company under the SEC's rules requiring disclosure of certain relationships and related-party transactions. During 2014, none of the Company's executive officers served as a director or a member of a compensation committee (or other committee serving an equivalent function) of any other entity where the entity's executive officers also served as a director or member of the Company's Compensation and Leadership Development Committee.

Summary Compensation Table

The following table presents information regarding compensation for services rendered during 2014 of the CEO, the CFO, the three other most highly compensated executive officers, and two former executives who were named executive officers for a portion of the year. These individuals are referred to as the Named Executive Officers in this Proxy Statement.

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards[1][2] ($) (e)	Option Awards[1] ($) (f)	Non-Equity Compen-sation[3] ($) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings[4] ($) (h)	All Other Compen-sation[5] ($) (i)	Total ($) (j)
Bradley D. Tilden	2014	436,769	—	975,541	460,480	874,538	521,440	199,954	3,468,722
President & CEO	2013	425,000	—	1,062,879	556,715	812,900	—	62,038	2,919,532
Alaska	2012	419,614	—	3,160,012	442,002	684,528	883,208	102,008	5,691,372
Brandon S. Pedersen	2014	327,692	—	506,126	276,653	492,538	7,779	116,880	1,727,668
EVP Finance & CFO	2013	293,846	—	1,245,010	196,539	422,085	—	95,083	2,252,563
Alaska	2012	277,692	—	319,162	145,343	340,308	—	116,999	1,199,504
Benito Minicucci	2014	359,231	—	661,027	375,187	539,846	2,691	124,164	2,062,146
Exec VP Operations	2013	329,615	—	558,618	292,606	473,324	—	107,564	1,761,727
& COO, Alaska	2012	314,038	—	603,820	274,758	384,706	—	120,402	1,697,724
Andrew R. Harrison[6] Exec VP & CRO, Alaska	2014	282,500	—	229,980	150,000	386,712	7,654	96,606	1,153,452
Joseph A. Sprague[6] Sr VP Comm & Ext Affairs, Alaska	2014	275,577	—	225,086	145,259	377,196	229,158	105,739	1,358,015
Glenn S. Johnson	2014	241,538	—	526,448	249,251	326,827	—	125,000	1,469,064
Former President	2013	335,000	—	558,618	292,606	452,798	71,547	65,526	1,776,095
Horizon Air	2012	320,308	—	517,034	222,992	392,414	564,533	77,203	2,094,484
Keith Loveless	2014	272,000	—	526,448	249,673	409,000	288,385	121,876	1,867,382
Former EVP & Gen	2013	335,000	—	558,618	292,606	481,038	4,939	53,403	1,725,604
Counsel, Alaska	2012	333,462	—	508,063	144,945	360,836	791,793	73,293	2,212,392

(1) The amounts reported in Columns (e) and (f) of the Summary Compensation Table above reflect the fair value of these awards on the grant date as determined under the principles used to calculate the value of equity awards for purposes of the Company's financial statements (disregarding any estimate of forfeitures related to service-based vesting conditions). For a discussion of the assumptions and methodologies used to value the awards reported in Column (e) and Column (f), please see the discussion of stock awards and option awards contained in Note 12 (Stock-Based Compensation Plans) to the Company's Consolidated Financial Statements, included as part of the Company's 2014 Annual Report filed on Form 10-K with the SEC and incorporated herein by reference. For information about the stock awards and option awards granted in 2014 to the Named Executive Officers, please see the discussion under 2014 Grants of Plan-Based Awards below.

(2) The amounts reported in Column (e) of the table above also include the grant date fair value of performance-based stock unit awards granted in 2012, 2013 and 2014 to the Named Executive Officers based on the probable outcome (determined as of the grant date) of the performance-based conditions applicable to the awards. The following table presents the aggregate grant date fair value of these performance-based awards included in Column (e) for 2012, 2013, and 2014, and the aggregate grant date value of these awards assuming that the highest level of performance conditions will be achieved.

	2012 Performance Awards		2013 Performance Awards		2014 Performance Awards	
Name	Aggregate Grant Date Fair Value (Based on Probable Outcome) ($)	Aggregate Grant Date Fair Value (Based on Maximum Performance) ($)	Aggregate Grant Date Fair Value (Based on Probable Outcome) ($)	Aggregate Grant Date Fair Value (Based on Maximum Performance) ($)	Aggregate Grant Date Fair Value (Based on Probable Outcome) ($)	Aggregate Grant Date Fair Value (Based on Maximum Performance) ($)
Bradley D. Tilden	2,153,080	4,306,160	448,472	896,944	525,983	1,052,966
Brandon S. Pedersen	140,600	281,200	793,000	1,586,000	234,894	469,788
Benito Minicucci	266,000	532,000	235,704	471,408	292,019	584,038
Andrew R. Harrison(6)					80,727	161,454
Joseph A Sprague(6)					80,727	161,454
Glenn S. Johnson	212,800	425,600	235,704	471,408	283,842	567684
Keith Loveless	140,600	281,200	235,704	471,408	283,842	567,6848

In 2012, the Committee awarded Mr. Tilden an additional one-time 45,460 performance stock units in connection with his election as CEO of the Company. The total performance stock unit award, which was included with Mr. Tilden's annual grant and has a three-year performance period, represents four times Mr. Tilden's 2012 base salary if target goals are met, and can range from 0% if threshold performance is not reached to 200% of target if maximum performance is achieved. The performance goals are based 50% on TSR relative to the Company's airline peer group and 50% on TSR relative to the S&P 500 Index, and are designed to pay out in proportion to the degree to which similarly invested stockholders would be rewarded.

In 2013, the Committee awarded certain senior executives a special grant of stock units, including a one-time award of an additional 26,000 performance stock units to Mr. Pedersen. The award, which was included in Mr. Pedersen's annual grant has a three-year performance period and is tied to unit-cost, return-on-invested-capital and on-time performance goals. The award can range from 0% if the threshold performance is not reached to 200% of target if maximum performance is achieved.

Mr. Harrison and Mr. Sprague were not Named Executive Officers prior to 2014, therefore, only 2014 performance stock unit awards are included.

(3) Non-Equity Compensation includes Performance-Based Pay compensation and Operational Performance Rewards, further described in the Compensation Discussion and Analysis.

(4) The amount reported in Column (h) of the Summary Compensation Table above reflects the year-over-year change in present value of accumulated benefits determined as of December 31 of each year for the Retirement Plan for Salaried Employees and the Officers Supplementary Retirement Plan (defined-benefit plan) as well as any above-market earnings on each Named Executive Officer's account under the Nonqualified Deferred Compensation Plan. The number included in Column (h) is an estimate of the value of future payments and does not represent value received. For 2014, the change in the net present value of future payments for Mr. Johnson is shown as 0 because the effect of an increase in the discount rate more than offset any increase in the net present value of future payments. For the Named Executive Officers, Company contributions to the Defined-Contribution Officers Supplementary Retirement Plan (DC-OSRP) in lieu of the defined-benefit plan are reported in Column (i) and detailed in the table in Footnote (5) below.

(5) The following table presents detailed information on the types and amounts of compensation reported for the Named Executive Officers in Column (i) of the Summary Compensation Table. For Column (i), each perquisite and other personal benefit is included in the total and identified and, if it exceeds the greater of $25,000 or 10% of the total amount of perquisites and other benefits for that officer, is quantified in the table below. All reimbursements of taxes with respect to perquisites and other benefits are identified and quantified. Tax reimbursements are provided for travel privileges unique to the airline industry. Also included in the total for Column (i) is the Company's incremental cost of providing flight benefits, annual physical, and accidental death and dismemberment insurance premiums. By providing positive-space travel without tax consequences to the Named Executive Officers, we are able to deliver a highly valued benefit at a low cost to the Company.

In addition, we believe that this benefit provides the opportunity for the Named Executive Officers to connect with the Company's front-line employees. As noted in the Compensation Discussion and Analysis section, in 2012, 2013, and 2014 we paid each of the Name Executive Officers a perquisite allowance equal to 12% of the executive's base salary in lieu of providing perquisites other than those noted above.

Itemization of All Other Compensation (Column i)

Name	Company Contribution to 401(k) Account	Company Contribution to DC-OSRP Account	Executive Allowance	Term Life Insurance Premium	Term Life Insurance Tax on Premium	Other*	Total "All Other Compensation"
Bradley D. Tilden	25,135	123,361	40,185	387	146	10,740	199,954
Brandon S. Pedersen	15,600	59,263	30,277	324	122	11,294	116,880
Benito Minicucci	15,600	67,541	32,861	356	134	7,672	124,164
Andrew R. Harrison(6)	15,600	43,210	25,677	280	105	11,734	96,606
Joseph A. Sprague(6)	31,200	38,398	25,092	273	103	10,673	105,739
Glenn S. Johnson	7,015	76,179	23,446	2,838	1,068	14,454	125,000
Keith Loveless	31,200	59,027	25,662	267	100	5,620	121,876

*Includes the Company's incremental cost of providing a flight benefit, annual physical, and the above-market amount paid for accidental death and dismemberment insurance premiums.

(6) Mr. Harrison was vice president planning and revenue management of Alaska Airlines until May 9, 2014. He served as senior vice president planning and revenue management of Alaska Airlines from May 9, 2014 until February 11, 2015 when he was elected executive vice president and chief revenue officer; Mr. Sprague was vice president of marketing of Alaska Airlines until May 9, 2014 when he was elected senior vice president communications and external affairs. Mr. Harrison and Mr. Sprague were not Named Executive Officers prior to 2014, therefore, only 2014 compensation information is included.

2014 Grants of Plan-Based Awards

The following table presents information regarding the incentive awards granted to the Named Executive Officers in 2014. Please see in the Compensation Discussion and Analysis the Performance-Based Annual Pay section for a description of the material terms of the non-equity incentive plan awards reported and the Long-Term Equity-Based Pay section for a description of the material terms of the equity-based awards reported. Each of the equity-based awards reported below was granted under the Company's 2008 Performance Incentive Plan (2008 Plan).

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards						
Name (a)	Grant Date (b)	Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	Thres-hold (#) (f)	Target (#) (g)	Maximum (#) (h)	All Other Stock Awards: Number of Shares of Stock or Units (#) (i)	All Other Option Awards: Number of Securities Under-lying Options (#) (j)	Exercise or Base Price of Option Awards ($/Sh) (k)	Grant Date Fair Value of Stock and Option Awards[1] ($) (l)
Bradley D. Tilden											
Stock Options	2/11/14								21,800	38.755	460,480
RSUs	2/11/14								11,600		449,558
PSUs	2/11/14				–	11,600	23,200				525,983
PBP Plan	N/A	110,500	442,000	884,000							
Brandon S. Pedersen											
Stock Options	2/11/14								9,780	38.755	206,582
Stock Options	5/12/14								2,660	48.945	70,071
RSUs	2/11/14							5,180			200,751
RSUs	5/12/14							1,440			70,481
PSUs	2/11/14				–	5,180	10,360				234,894
PBP Plan	N/A	63,750	255,000	510,000							
Benito Minicucci											
Stock Options	2/11/14								12,200	38.755	257,700
Stock Options	5/12/14								4,460	48.945	117,487
RSUs	2/11/14							6,440			249,582
RSUs	5/12/14							2,440			119,426
PSUs	2/11/14				–	6,440	12,880				292,019
PBP Plan	N/A	69,375	277,500	555,000							
Andrew R. Harrison											
Stock Options	2/11/14								3,360	38.755	70,973
Stock Options	5/12/14								3,000	48.945	79,027
RSUs	2/11/14							1,780			68,984
RSUs	5/12/14							1,640			80,270
PSUs	2/11/14				–	1,780	3,560				80,270
PBP Plan	N/A	52,500	210,000	420,000							
Joseph A. Sprague											
Stock Options	2/11/14								3,360	38.755	70,973
Stock Options	5/12/14								2,820	48.945	74,286
RSUs	2/11/14							1,780			68,984
RSUs	5/12/14							1,540			75,375
PSUs	2/11/14				–	1,780	3,560				80,727
PBP Plan	N/A	50,750	203,000	406,000							

Name (a)	Grant Date (b)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards: Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	Estimated Future Payouts Under Equity Incentive Plan Awards: Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)	All Other Stock Awards: Number of Shares of Stock or Units (#) (i)	All Other Option Awards: Number of Securities Underlying Options (#) (j)	Exercise or Base Price of Option Awards ($/Sh) (k)	Grant Date Fair Value of Stock and Option Awards[(1)] ($) (l)
Glenn S. Johnson											
Stock Options	2/11/14								11,800	38.755	249,251
RSUs	2/11/14							6,260			242,606
PSUs	2/11/14				–	6,260	12,520				283,842
PBP Plan	N/A	67,500	270,000	540,000							
Keith Loveless											
Stock Options	2/11/14								11,820	38.755	249,673
RSUs	2/11/14							6,260			242,606
PSUs	2/11/14				–	6,260	12,520				283,842
PBP Plan	N/A	67,500	270,000	540,000							

Key: RSUs – Restricted Stock Units; PSUs – Performance Stock Units; PBP Plan – Performance-Based Pay Plan

(1) The amounts reported in Column (l) reflect the fair value of these awards on the grant date as determined under the principles used to calculate the value of equity awards for purposes of the Company's financial statements and may or may not be representative of the value eventually realized by the executive. For a discussion of the assumptions and methodologies used to value the awards reported in Column (l), please see the discussion of stock awards and option awards contained in Note 12 (Stock-Based Compensation Plans) to the Company's Consolidated Financial Statements, included as part of the Company's 2014 Annual Report filed on Form 10-K with the SEC and incorporated herein by reference.

Outstanding Equity Awards at 2014 Fiscal Year End

The following table presents information regarding the outstanding equity awards held by each of the Named Executive Officers as of December 31, 2014, including the vesting dates for the portions of these awards that had not vested as of that date.

	Option Awards					Stock Awards			
Name (a)	Award Date (b)	Number of Securities Underlying Unexercised Options Exercisable (#) (c)	Number of Securities Underlying Unexercised Options Unexercisable (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested[(1)] ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights That Have Not Vested (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested[(1)] ($) (j)
Bradley D. Tilden									
	2/3/10	60,800	–	8.315	2/3/20				
	2/7/11	30,600	10,200 (2)	15.325	2/7/21				
	2/14/12	11,680	22,200 (3)	19.00	2/14/22	22,400 (3)	1,338,624	113,320 (4)(5)	6,772,003
	2/11/13	9,474	28,426 (6)	24.40	2/11/23	18,380 (6)	1,098,389	18,380 (5)	1,098,389
	2/11/14	–	21,800 (7)	38.755	2/11/24	11,600 (7)	693,216	11,600 (5)	693,216
Brandon S. Pedersen									
	2/7/11	–	2,760 (2)	15.325	2/7/21				
	2/14/12	–	7,300 (3)	19.00	2/14/22	7,400 (3)	442,224	7,400 (5)	442,224
	2/11/13	3,344	10,036 (6)	24.40	2/11/23	6,500 (6)	388,440	32,500 (5)(9)	1,942,200
	2/11/14	–	9,780 (7)	38.755	2/11/24	5,180 (7)	309,557	5,180 (5)	309,557
	5/12/14	–	2,660 (10)	48.945	5/12/24	1,440 (10)	86,054		
Benito Minicucci									
	2/7/11	–	7,800 (2)	15.325	2/7/21				
	2/14/12	–	13,800 (3)	19.00	2/14/22	14,000 (3)	836,640	14,000 (5)	836,640
	2/11/13	2	14,940 (6)	24.40	2/11/23	9,660 (6)	577,282	9,660 (5)	577,282
	2/11/14	–	12,200 (7)	38.755	2/11/24	6,440 (7)	384,854	6,440 (5)	384,854
	5/12/14	–	4,460 (10)	48.945	5/12/24	2,440 (10)	145,814		
Andrew R. Harrison									
	2/7/11	–	2,100	15.325	2/7/21				
	2/14/12	–	3,880 (3)	19.00	2/14/22	3,960 (3)	236,650	3,960 (5)	236,650
	2/11/13	–	4,186 (6)	24.40	2/11/23	2,700 (6)	161,352	24,700 (5)	1,476,072
	2/11/14	–	3,360 (7)	38.755	2/11/24	1,780 (7)	106,373	1,780 (5)	106,373
	5/12/14	–	3,000 (10)	48.945	5/12/24	1,640 (10)	98,006		

Name (a)	Award Date (b)	Option Awards: Number of Securities Underlying Unexercised Options Exercisable (#) (c)	Option Awards: Number of Securities Underlying Unexercised Options Unexercisable (#) (d)	Option Awards: Option Exercise Price ($) (e)	Option Awards: Option Expiration Date (f)	Stock Awards: Number of Shares or Units of Stock That Have Not Vested (#) (g)	Stock Awards: Market Value of Shares or Units of Stock That Have Not Vested(1) ($) (h)	Stock Awards: Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights That Have Not Vested (#) (i)	Stock Awards: Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested(1) ($) (j)
Joseph A. Sprague									
	2/8/08	10,200	–	6.8725	2/8/18				
	1/29/09	26,360	–	6.89	1/29/19				
	2/3/10	9,200	–	8.315	2/3/20				
	2/7/11	6,600	2,200 (2)	15.325	2/7/21				
	2/14/12	3,900	3,900 (3)	19.00	2/14/22	3,960 (3)	236,650	3,960 (5)	236,650
	2/11/13	1,380	4,140 (6)	24.40	2/11/23	2,680 (6)	160,157	24,680 (5)	1,474,877
	2/11/14	–	3,360 (7)	38.755	2/11/24	1,780 (7)	106,373	1,780 (5)	106,373
	5/12/14	–	2,820 (10)	48.945	5/12/24	1,540 (10)	92,030		
Glenn S. Johnson									
	2/7/11	–	6,500 (2)	15.325	2/7/21				
	2/14/12	–	11,200 (3)	19.00	2/14/22	11,200 (3)	669,312	11,200 (5)	669,312
	11/7/12					1,680 (8)	100,397		
	2/11/13	2	14,940 (6)	24.40	2/11/23	9,660 (6)	577,282	9,660 (5)	577,282
	2/11/14	–	8,480 (7)	38.755	2/11/24	6,260 (7)	374,098	6,260 (5)	374,098
Keith Loveless									
	2/7/11	–	3,392 (2)	15.325	2/7/21				
	2/14/12	–	7,280 (3)	19.00	2/14/22	7,400 (3)	442,224	7,400 (5)	442,224
	11/7/12	–	7,630 (8)	20.225	11/7/22	9,340 (8)	558,158		
	2/11/13	–	14,940 (6)	24.40	2/11/23	9,660 (6)	577,282	9,660 (5)	577,282
	2/11/14	–	8,488 (7)	38.755	2/11/24	6,260 (7)	374,098	6,260 (5)	374,098

(1) The dollar amounts shown in Column (h) and Column (j) are determined by multiplying the number of shares or units reported in Column (g) and Column (i), respectively, by $59.76 (the closing price of Air Group stock on 12/31/14).

(2) The unvested options under the 2/7/11 grant will become vested as follows: Mr. Tilden – 10,200 on 2/7/15; Mr. Pedersen – 2,760 on 2/7/15; Mr. Minicucci – 7,800 on 2/7/15; Mr. Harrison – 2,100 on 2/17/15; Mr. Sprague – 2,200 on 2/17/15; Mr. Johnson – 6,500 on 2/7/15; and Mr. Loveless – 3,392 on 2/17/15.

(3) The RSUs awarded on 2/14/12 will become fully vested on 2/14/15 with the exception of Mr. Johnson whose RSUs became fully vested on 3/1/15 and Mr. Loveless whose RSUs will become fully vested on 4/2/15. The unvested options under the 2/14/12 grant will become vested as follows: Mr. Tilden – 11,100 on 2/14/15 and 11,100 on 2/14/16; Mr. Pedersen – 3,648 on 2/14/15 and 3,652 on 2/14/16;

Mr. Minicucci – 6,900 on 2/14/15 and 6,900 on 2/14/16; Mr. Harrison – 1,940 on 2/14/15 and 1,940 on 2/14/16; Mr. Sprague – 1,948 on 2/14/15 and 1,952 on 2/14/16; Mr. Johnson – 5,600 on 2/14/15 and 5,600 on 2/14/16; and Mr. Loveless – 3,640 on 2/14/15 and 3,640 on 2/14/16.

(4) Mr. Tilden's 2/14/12 performance stock unit award includes an award of 45,460 additional performance stock units in connection with his election to CEO. The units will vest based on the goals set for the three-year performance period ending 12/31/14.

(5) The performance stock units reported in Column (i) are eligible to vest based on the Company's performance over a three-year period as described in the Compensation Discussion and Analysis above and in footnote (1) to the Summary Compensation Table above. The performance stock units granted on 2/7/12 will vest based on the goals set for a three-year performance period ending 12/31/14; the performance stock units granted on 2/11/13 will vest based on the goals set for a three-year performance period ending 12/31/15; and the performance stock units granted on 2/11/14 will vest based on the goals set for a three-year performance period ending 12/31/16.

(6) The RSUs awarded on 2/11/13 will become fully vested on 2/11/16 with the exception of Mr. Johnson whose RSUs became fully vested on 3/1/15 and Mr. Loveless whose RSUs will become fully vested on 4/2/15. The unvested options under the 2/11/13 grant will become vested as follows: Mr. Tilden –9,476 on 2/11/15, 9,474 on 2/11/16 and 9,476 on 2/11/17; Mr. Pedersen – 3,346 on 2/11/15, 3,344 on 2/11/16 and 3,346 on 2/11/17; Mr. Minicucci – 4,980 on 2/11/15, 4,980 on 2/11/16 and 4,980 on 2/11/17; Mr. Harrison – 1,396 on 2/11/15, 1,394 on 2/11/16 and 1,396 on 2/11/17 ; Mr. Sprague – 1,380 on 2/11/15, 1,380 on 2/11/16 and 1,380 on 2/11/17 ; Mr. Johnson – 4,980 on 2/11/15, 4,980 on 2/11/16 and 4,890 on 2/11/17; and Mr. Loveless – 4,980 on 2/11/15, 4,980 on 2/11/16 and 4,980 on 2/11/17.

(7) The RSUs awarded on 2/11/14 will become fully vested on 2/11/17 with the exception of Mr. Johnson whose RSUs became fully vested on 3/1/15 and Mr. Loveless whose RSUs will become fully vested on 4/2/15. The unvested options under the 2/11/14 grant will become vested as follows: Mr. Tilden –5,450 on 2/11/15, 5,450 on 2/11/16, 5,450 on 2/11/17 and 5,450 on 2/11/18; Mr. Pedersen – 2,444 on 2/11/15, 2,446 on 2/11/16, 2,444 on 2/11/17 and 2,446 on 2/11/18; Mr. Minicucci – 3,050 on 2/11/15, 3,050 on 2/11/16, 3,050 on 2/11/17 and 3,050 on 2/11/18; Mr. Harrison – 840 on 2/11/15, 840 on 2/11/16, 840 on 2/11/17 and 840 on 2/11/18; Mr. Sprague – 840 on 2/11/15, 840 on 2/11/16, 840 on 2/11/17 and 840 on 2/11/18; Mr. Johnson – 2,950 on 2/11/15, 2,950 on 2/11/16 and 2,950 on 2/11/17; and Mr. Loveless – 2,954 on 2/11/15, 2,956 on 2/11/16 and 2,954 on 2/11/17.

(8) The RSUs awarded on 11/7/12 will become fully vested on 11/7/15 with the exception of Mr. Johnson whose RSUs became fully vested on 3/1/15 and Mr. Loveless whose RSUs will become fully vested on 4/2/15. Mr. Loveless's unvested options under the 11/7/12 grant will become vested as follows 3,864 on 11/7/15, and 3,866 on 11/7/16.

(9) Mr. Pedersen's 2/11/13 performance stock unit award includes 26,000 additional stock units in connection with an incentive grant based on the accomplishment of specific operational and financial goals. The units will vest based on the goals set for the three-year performance period ending 12/31/15.

(10) The RSUs awarded on 5/12/14 will become fully vested on 5/12/17. The unvested options under the 5/12/14 grant will become vested as follows: Mr. Pedersen – 664 on 5/12/15, 664 on 5/12/16, 664 on 5/12/17 and 666 on 5/12/18; Mr. Minicucci – 1,114 on 5/12/15, 1,116 on 5/12/16, 1,114 on 5/12/17, and 1,116 on 5/12/18; Mr. Harrison – 750 on 5/12/15, 750 on 5/12/16, 750 on 5/12/17, and 750 on 5/12/17; Mr. Sprague – 704 on 5/12/15, 706 on 5/12/16, 704 on 5/12/17, and 706 on 5/12/18.

2014 Option Exercises and Stock Vested

The following table presents information regarding the exercise of stock options by the Named Executive Officers during 2014 and the vesting during 2014 of other stock awards previously granted to the Named Executive Officers.

	Option Awards		Stock Awards	
Name (a)	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise[1] ($) (c)	Number of Shares Acquired on Vesting (#) (d)	Value Realized on Vesting[1] ($) (e)
Bradley D. Tilden	59,720	2,115,945	63,600	2,468,104
Brandon S. Pedersen	37,820	1,417,374	17,280	670,579
Benito Minicucci	28,978	784,990	48,000	1,862,720
Andrew R. Harrison	7,734	181,635	13,200	512,248
Joseph A. Sprague	60,524	2,516,925	13,800	535,532
Glenn S. Johnson	26,878	669,425	40,800	1,583,312
Keith Loveless	28,258	773,978	21,240	824,254

(1) The amounts shown in Column (c) above for option awards are determined by multiplying the number of shares by the difference between the per-share closing price of the Company's common stock on the date of exercise and the exercise price of the options. The amounts shown in Column (e) above for stock awards are determined by multiplying the number of vested units by the per-share closing price of the Company's common stock on the vesting date.

Pension and Other Retirement Plans

The Company maintains two primary defined-benefit pension plans covering Mr. Tilden, Mr. Sprague, Mr. Johnson and Mr. Loveless. Mr. Pedersen, Mr. Minicucci and Mr. Harrison participate in the defined-contribution plans as described below. The Alaska Air Group, Inc. Retirement Plan for Salaried Employees (the Salaried Retirement Plan) is the qualified defined-benefit employee retirement plan, and Mr. Tilden, Mr. Sprague, Mr. Johnson and Mr. Loveless participate in this plan on the same general terms as other eligible employees. The Alaska Air Group, Inc. 1995 Elected Officers Supplementary Retirement Plan (the Supplementary Plan) is a nonqualified plan, in which Mr. Tilden, Mr. Sprague, Mr. Johnson and Mr. Loveless also participate.

The following table presents information regarding the present value of accumulated benefits that may become payable to the Named Executive Officers under the qualified and nonqualified defined-benefit pension plans.

Name (a)	Plan Name (b)	Number of Years Credited Service(1) (#) (c)	Present Value of Accumulated Benefit(1) ($) (d)	Payments During Last Fiscal Year ($) (e)
Bradley D. Tilden	Salaried Retirement Plan	22.840	1,229,060	N/A
	Supplementary Retirement Plan	14.920	2,157,420	N/A
Brandon S. Pedersen(2)	Salaried Retirement Plan	N/A	N/A	N/A
	Supplementary Retirement Plan	N/A	N/A	N/A
Benito Minicucci(2)	Salaried Retirement Plan	N/A	N/A	N/A
	Supplementary Retirement Plan	N/A	N/A	N/A
Andrew R. Harrison(2)	Salaried Retirement Plan	N/A	N/A	N/A
	Supplementary Retirement Plan	N/A	N/A	N/A
Joseph A. Sprague	Salaried Retirement Plan	13.590	494,600	N/A
	Supplementary Retirement Plan	5.690	525,480	N/A
Glenn S. Johnson(3)	Salaried Retirement Plan	15.740	818,720	0
	Supplementary Retirement Plan	10.450	1,890,310	0
Keith Loveless(3)	Salaried Retirement Plan	27.420	1,619,490	22,140
	Supplementary Retirement Plan	17.570	1,742,970	0

(1) The years of credited service through December 31, 2013, when the Plan was frozen, and the present value of accumulated benefits as of December 31, 2014 assume that each Named Executive Officer retires at normal retirement age and that benefits are paid out in accordance with the terms of each plan described below. For a description of the material assumptions used to calculate the present value of accumulated benefits shown above, please see Note 8 (Employee Benefits Plans) to the Company's Consolidated Financial Statements, included as part of the Company's 2014 Annual Report filed on Form 10-K with the SEC and incorporated herein by reference.

(2) In lieu of participation in the defined-benefit plans, Mr. Pedersen, Mr. Minicucci and Mr. Harrison receive a contribution to the Company's defined-contribution plans. Specifically, in lieu of participation in the Salaried Retirement Plan, Mr. Pedersen, Mr. Minicucci and Mr. Harrison each receive a Company match contribution to the Alaskasaver 401(k) Plan of up to 6% of their eligible wages. In lieu of the Supplementary Retirement Plan, Mr. Pedersen, Mr. Minicucci and Mr. Harrison also participate in the Nonqualified Deferred Compensation Plan, which is further described below.

(3) Mr. Johnson retired August 31, 2014 and Mr. Loveless retired September 30, 2014.

Salaried Retirement Plan

The Salaried Retirement Plan is a tax-qualified, defined-benefit retirement plan for salaried Alaska Airlines employees hired prior to April 1, 2003. Each of the Named Executive Officers who participates in the Plan is fully vested in his accrued benefits under the Salaried Retirement Plan. Benefits payable under the Salaried Retirement Plan are generally based on years of credited service with the Company and its affiliates and final average base salary for the five highest complete and consecutive calendar years of an employee's last ten complete calendar years of service. The annual retirement benefit at age 62 (normal retirement age under the Salaried Retirement Plan) is equal to 2% of the employee's final average base salary times years of credited service (limited to 40 years). Annual benefits are computed on a straight-life annuity basis beginning at normal retirement age. Benefits under the Salaried Retirement Plan are not subject to offset for Social Security benefits.

The tax law limits the compensation on which annual retirement benefits are based. For 2014, this limit was $260,000. The tax law also limits the annual benefits that may be paid from a tax-qualified retirement plan. For 2014, this limit on annual benefits was $210,000.

Supplementary Retirement Plans

In addition to the benefits described above, Mr. Tilden, Mr. Sprague, Mr. Johnson and Mr. Loveless are eligible to receive retirement benefits under the Supplementary Retirement Plan. This plan is a non-qualified, unfunded, defined-benefit plan. Normal retirement benefits are payable once the officer reaches age 60. Benefits are calculated as a monthly amount on a straight-life annuity basis. In general, the monthly benefit is determined as a percentage (50% to 75% of a participant's final average monthly base salary) with the percentage determined based on both the officer's length of service with the Company and length of service as an elected officer.

This benefit amount is subject to offset by the amount of the officer's Social Security benefits and the amount of benefits paid under the Salaried Retirement Plan to the extent such benefits were accrued after the officer became a participant in the Supplementary Retirement Plan. (There is no offset for any Salaried Retirement Plan benefits accrued for service before the officer became a participant in the Supplementary Retirement Plan.)

Participants in the Supplementary Retirement Plan become fully vested in their benefits under the plan upon attaining age 50 and completing 10 years of service as an elected officer. Plan benefits will also become fully vested upon a change in control of the Company or upon termination of the participant's employment due to death or disability.

In lieu of the Supplementary Retirement Plan, Mr. Pedersen, Mr. Minicucci and Mr. Harrison participate in the Company's Nonqualified Deferred Compensation Plan. This plan is a defined-contribution plan. Under this plan, the Company contributes 10% of the officer's eligible wages, as defined in plan documents, minus the maximum legal Company contribution that the Company made, or could have made, under the Company's qualified defined-contribution plan (the Alaskasaver 401(k) Plan).

On June 20, 2011, the Board of Directors amended the Salaried Retirement Plan and the Supplementary Retirement Plan to provide that, effective January 1, 2014, both plans would be frozen so that participants in the plans would not accrue any benefits with respect to services performed or compensation earned on or after that date. The Board also amended the Nonqualified Deferred Compensation Plan so that, effective January 1, 2014, officers who previously participated in the Supplementary Retirement Plan, including Mr. Tilden, Mr. Sprague, Mr. Johnson, and Mr. Loveless, and are then employed by the Company, will be eligible to participate in the Nonqualified Deferred Compensation Plan.

2014 Nonqualified Deferred Compensation

Under the Nonqualified Deferred Compensation Plan, the Named Executive Officers and other key employees may elect to receive a portion of some or all of their Performance-Based Pay awards on a deferred basis. The crediting interest rate for amounts deferred in prior years is based on the mean between the high and the low rates during the first 11 months of the preceding year of yields of Ba2-rated industrial bonds as determined by the plan administrator (rounded to the nearest one-quarter of one percent). Participants under the plan have the opportunity to elect among the investment funds offered under the Company's 401(k) plan for purposes of determining the return on their plan accounts. Alternatively, participants may allocate some or all of their plan account to an interest-bearing option with a rate equal to the yield on a Moody's index of Ba2-rated industrial bonds as of November of the preceding year, rounded to the nearest one-quarter of one percent. Subject to applicable tax laws, amounts deferred under the plan are generally distributed on termination of the participant's employment, although participants may elect an earlier distribution date and may elect payment in a lump sum or installments.

The following table presents information regarding the contributions to and earnings on the Named Executive Officers' balances under the Company's nonqualified deferred compensation plans during 2014, and also shows the total deferred amounts for the Named Executive Officers as of December 31, 2014.

Name (a)	Executive Contributions in Last FY ($) (b)	Registrant Contributions in Last FY ($) (c)	Aggregate Earnings in Last FY(1) ($) (d)	Aggregate Withdrawals/ Distributions ($) (e)	Aggregate Balance at Last FYE(1) ($) (f)
Bradley D. Tilden	–	–	–	–	–
Brandon S. Pedersen	48,005	–	6,390	–	224,905
Benito Minicucci	56,022	–	7,417	–	252,733
Andrew R. Harrison	34,623	–	3,111	–	156,967
Joseph A. Sprague	–	–	–	–	–
Glenn S. Johnson	434,172	–	24,118	54,555	752,603
Keith Loveless	–	–	–	–	–

(1) Only the portion of earnings on deferred compensation that is considered to be at above-market rates under SEC rules is required to be included as compensation for each Named Executive Officer in Column (h) of the Summary Compensation Table. Because the earnings were at market rates available to other investors, these amounts were not included on the Summary Compensation Table.

Potential Payments Upon Change in Control and Termination

The Company has entered into change-in-control agreements with each of the Named Executive Officers. Under these agreements, if a change of control occurs, a three-year employment period would go into effect. During the employment period, the executive would be entitled to:

- receive the highest monthly salary the executive received at any time during the 12-month period preceding the change in control;
- receive an annual incentive payment equal to the higher of the executive's target Performance-Based Pay incentive or the

average of the executive's annual incentive payments for the three years preceding the year in which the change in control occurs;
- continue to accrue age and service credit under the Company's retirement plans; and
- participate in fringe benefit programs that are at least as favorable as those in which the executive was participating prior to the change in control.

If the executive's employment is terminated by the Company without cause or by the executive for "good reason" during the employment period (or, in certain circumstances, if such a termination occurs prior to and in connection with a change in control), the executive would be entitled to receive a lump-sum payment equal to the value of the payments and benefits identified above that the executive would have received had he continued to be employed for the entire employment period. The amount an executive would be entitled to receive would be reduced on a pro-rata basis for any time the executive worked during the employment period. (The terms "cause," "good reason" and "change in control" are each defined in the change-in-control agreements.)

In 2012, the Company eliminated the conditional gross-up provision in favor of a modified cap provision for all executives. Under this provision, in the event that change-in-control benefits exceed the threshold amount that would trigger an excise tax under Section 280G of the Internal Revenue Code, the executive would receive the larger of the following amounts:

- the "safe harbor amount," which is equal to the level above which excise taxes are triggered; or
- the full change-in-control benefits if, after receipt of the full change-in-control benefits and payment of the excise tax, the after-tax amount is greater than the safe harbor amount described above.

In addition, outstanding and unvested stock options, restricted stock units and the target number of performance stock units would become vested under the terms of the Company's equity plans. Under the 2008 Performance Incentive Plan, awards will not vest unless a termination of employment without cause or for good reason also occurs or an acquirer does not assume outstanding awards. Finally, the executive's unvested benefits under the Supplementary Retirement Plan would vest on a change in control whether or not the executive's employment was terminated. The outstanding equity awards held by the executives as of December 31, 2014 are described in the Outstanding Equity Awards at Fiscal Year End table and each executive's accrued benefits under the Company's retirement plans are described above under Pension and Other Retirement Plans.

In the event the executive's employment terminates by reason of death, disability or retirement, (i) restricted stock units would become vested under the terms of the Company's equity plans; (ii) a prorated portion of the performance stock units would vest at the conclusion of the performance period based on actual performance and the portion of the performance period in which the executive was employed; and (iii) stock options would become fully vested upon death or disability and would become vested to the extent they would have vested in the next three years upon retirement. Stock options would remain exercisable for three years following termination of employment or until their expiration date, whichever comes first.

In the tables below, we have estimated the potential cost to the Company of providing the benefits shown to each of the Company's Named Executive Officers as if the executive's employment had terminated due to retirement, death or disability, or due to change in control on December 31, 2014. The value of accelerated vesting shown in the Equity Acceleration column below assumes the performance share units pay at target. As described above, except for the equity acceleration value, the amount an executive would be entitled to receive would be reduced on a pro-rata basis for any time the executive worked during the employment period.

These calculations are estimates for proxy disclosure purposes only. Actual payments may differ based on factors such as transaction price, timing of employment termination and payments, methodology for valuing stock options, changes in compensation, and other factors.

Retirement

Name	Cash Severance	Enhanced Retirement Benefit	Benefit Continuation	Lifetime Airfare Benefit(1)	Equity Acceleration(2)	Total
Bradley D. Tilden	$0	$0	$0	$15,678	$11,820,305	$11,835,983
Brandon S. Pedersen	$0	$0	$0	$16,870	$3,819,110	$3,835,982
Benito Minicucci	$0	$0	$0	$8,903	$4,556,236	$4,565,140
Andrew R. Harrison	$0	$0	$0	$20,814	$2,332,942	$2,353,756
Joseph A. Sprague	$0	$0	$0	$15,597	$2,291,910	$2,307,507
Glenn S. Johnson	$0	$0	$0	$16,017	$2,763,560	$2,779,577
Keith Loveless	$0	$0	$0	$7,473	$2,707,628	$2,715,101

Death or Disability

Name	Cash Severance	Enhanced Retirement Benefit	Benefit Continuation	Lifetime Airfare Benefit(1)	Equity Acceleration(2)	Total
Bradley D. Tilden	$0	$0	$0	$15,678	$11,934,782	$11,950,460
Brandon S. Pedersen	$0	$0	$0	$16,870	$3,877,564	$3,894,434
Benito Minicucci	$0	$0	$0	$8,903	$4,632,360	$4,641,264
Andrew R. Harrison	$0	$0	$0	$20,814	$2,358,698	$2,379,512
Joseph A. Sprague	$0	$0	$0	$15,597	$2,317,116	$2,332,713
Glenn S. Johnson(6)	–	–	–	–	–	–
Keith Loveless(6)	–	–	–	–	–	–

Change in Control

Name	Cash Severance(3)	Enhanced Retirement Benefit(4)	Benefit Contin-uation(5)	Lifetime Airfare Benefit(1)	Equity Acceleration(2)	Excise Tax(6)	Cutback Due to Modified Cap	Total
Bradley D. Tilden	$3,694,716	$443,441	$208,229	$15,678	$13,000,266	($2,010,692)	$0	$15,351,639
Brandon S. Pedersen	$2,271,681	$190,816	$176,140	$16,870	$4,734,650	($956,632)	$0	$6,433,526
Benito Minicucci	$2,504,626	$214,866	$160,708	$8,903	$5,083,159	$0	($995,143)	$6,977,120
Andrew R. Harrison	$1,839,079	$150,668	$165,433	$20,814	$2,923,941	($666,954)	$0	$4,432,981
Joseph A. Sprague	$1,802,136	$416,740	$156,858	$15,597	$2,917,295	($715,017)	$0	$4,593,609
Glenn S. Johnson(6)	–	–	–	–	–	–	–	–
Keith Loveless(6)	–	–	–	–	–	–	–	–

(1) All employees who retire with more than ten years of service are entitled to flight benefits on Alaska Airlines and Horizon Air. Flight benefits for the Named Executive Officers are for positive-space travel, for which the Company also provides a tax reimbursement. Messrs. Tilden, Pedersen, Harrison, Sprague, Johnson and

Loveless qualify for these benefits under all termination scenarios. In this column, we show the present value of this benefit, calculated using a discount rate equal to 120% of the long-term AFR (Applicable Federal Rate) for December 2014 and Internal Revenue Code Section 401(e) mortality tables for 2015, described above in the Pension and Other Retirement Benefits section above. Other assumptions include that the lifetime average annual usage is equal to actual average annual usage amounts in 2012 through 2014, and that the annual value of the benefit is equal to the annual incremental cost to the Company, which will be the same as the average of the incremental cost incurred to provide air travel benefits to the executive in those years as disclosed under the All Other Compensation column in the Summary Compensation Table. Messrs. Johnson and Loveless retired effective August 31, 2014 and September 30, 2014, respectively, therefore the information above reflects actual valuations.

(2) Represents the "in-the-money" value of unvested stock options and the face value of unvested restricted stock and performance stock unit awards that would vest upon termination of employment in the circumstances described above based on a stock price of $59.76, the closing price of the Company's common stock on December 31, 2014. The value of the extended term of the options is not reflected in the table because we have assumed that the executive's outstanding stock options would be assumed by the acquiring company pursuant to a change in control.

(3) Represents the amount obtained by multiplying three by the sum of the executive's highest rate of base salary during the preceding 12 months and the higher of the executive's target incentive or his average incentive for the three preceding years.

(4) Represents the sum of (a) for Mr. Sprague, the present value of the unvested portion of the nonqualified retirement benefits that would vest upon a change in control, (b) the matching contribution the executive would have received under the Company's qualified defined contribution plan had the executive continued to contribute the maximum allowable amount during the employment period, and (c) the contribution the executive would have received under the Company's nonqualified defined contribution plan had the executive continued to participate in the plan during the employment period.

(5) Represents the estimated cost of (a) 18 months of premiums under the Company's medical, dental and vision programs, and (b) three years of continued participation in life, disability, accidental death insurance and other fringe benefit programs.

(6) Valuations for death and change in control are not included as Mr. Johnson retired August 31, 2014 and Mr. Loveless retired September 30, 2014.

Securities Ownership of Certain Beneficial Owners and Management

This table shows how much Company common stock is owned as of March 18, 2015, by (a) each director and nominee, (b) each of the Company's executive officers named in the Summary Compensation Table, and (c) all executive officers as a group. Except as otherwise indicated and subject to applicable community property laws, the persons named in the table below have sole voting and investment power with respect to all shares of common stock beneficially owned.

Securities Ownership of Management

Name	Number of Shares of Common Stock Owned(1)	Options Exercisable within 60 Days	Total Shares Beneficially Owned(2)	Percent of Outstanding Shares(3)
Patricia M. Bedient	24,496	—	24,496	*
Marion C. Blakey	9,692	—	9,692	*
Phyllis J. Campbell	37,392	—	37,392	*
Dhiren R. Fonseca	677	—	677	*
Jessie J. Knight, Jr.	41,504	—	41,504	*
Dennis F. Madsen	23,705	—	23,705	*
Helvi K. Sandvik	2,190	—	2,190	*
Katherine J. Savitt	677	—	677	*
J. Kenneth Thompson	38,324	—	38,324	*
Bradley D. Tilden	279,730	148,780	428,510	*
Eric K. Yeaman	4,260	—	4,260	*
Brandon S. Pedersen	24,124	4,844	28,968	*
Benito Minicucci	56,116	23,846	79,962	*
Andrew R. Harrison	10,545	840	11,385	*
Joseph A Sprague	22,693	54,512	77,205	*
Glenn S. Johnson	2,356	0	2,356	*
Keith Loveless	8,173	0	8,173	*
All Company directors and executive officers as a group (22 persons)	607,776	255,948	863,724	*

*Less than 1%

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

(2) Total beneficial ownership is determined in accordance with the rules of the SEC and represents the sum of the Number of Shares of Common Stock Owned and Options Exercisable within 60 Days columns. Beneficial ownership does not include shares of common stock payable upon the vesting of restricted stock units, none of which will vest within 60 days of the record date, except for those granted to Mr. Loveless, as follows: Mr. Tilden, 52,380; Mr. Pedersen, 20,520; Mr. Minicucci, 32,540; Mr. Harrison, 10,080; and Mr. Sprague, 9,960. Mr. Loveless's outstanding RSUs (32,660) will fully vest on 4/2/15. This table also excludes shares of common stock payable upon vesting of performance stock units, none of which will vest within 60 days following the record date, and which are described in the 2014 Grants of Plan Based Awards table.

Total shares beneficially owned reported for non-employee directors also include underlying common shares to be issued upon the director's resignation from the Board in connection with deferred stock units granted as part of their annual compensation. The aggregate number of deferred stock units granted to date: Ms. Bedient, 22,914; Ms. Blakey, 9,692; Ms. Campbell, 21,344; Mr. Knight, 21,344; Mr. Madsen, 22,914; Ms. Sandvik, 1,582; Mr. Thompson, 21,344; and Mr. Yeaman, 2,690.

(3) We determined applicable percentage ownership based on 130,869,463 shares of the Company's common stock outstanding as of March 18, 2015.

5% or More Beneficial Owners

The table below identifies those persons known by us to have beneficial ownership of more than 5% of the Company's outstanding common stock, as of March 18, 2015.

Beneficial Owner Name and Address	Number of Shares Owned	Percent of Outstanding Shares (1)
Blackrock, Inc. (2) 55 East 52nd Street New York, New York 10022	9,269,396	7.08%
The Vanguard Group (3) 100 Vanguard Blvd. Malvern, Pennsylvania	8,851,920	6.68%
Renaissance Technologies LLC (4) 800 Third Avenue New York, New York 10022	7,811,600	5.97%
PRIMECAP Management Company (5) 225 South Lake Ave. #400 Pasadena, California 91101	7,196,526	5.49%

(1) We determine applicable percentage ownership based on more than 68,825,259 shares of the Company's common stock outstanding as of March 18, 2014.

(2) A Schedule 13G/A filed on January 12, 2015 by BlackRock, Inc. reported sole voting power over 8,863,044 shares and sole dispositive power over all 9,269,396 shares.

(3) A Schedule 13G/A filed on February 9, 2015 by The Vanguard Group reported sole voting power over 81,172 shares, sole dispositive power over 8,773,748 shares and shared dispositive power over 78,172 shares.

(4) A Schedule 13G/A filed on February 12, 2015 by Renaissance Technologies LLC reported sole voting and dispositive power over all 7,811,600 shares.

(5) A Schedule 13G/A filed on February 10, 2015 by PRIMECAP Management Company reported sole voting power over 867,600 shares and sole dispositive power over all 7,196,526 shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act 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 other reports were required, the Company believes that everyone subject to Section 16(a) filed the required reports on a timely basis during 2014.

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Annual Report
on
Form 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from to

Commission File Number 1-8957

ALASKA AIR GROUP, INC.

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

19300 International Boulevard, Seattle, Washington 98188
Telephone: (206) 392-5040

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 Par Value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

As of January 31, 2015, shares of common stock outstanding totaled 131,284,654. The aggregate market value of the shares of common stock of Alaska Air Group, Inc. held by nonaffiliates on June 30, 2014, was approximately $6.4 billion (based on the closing price of $47.29 per share on the New York Stock Exchange on that date).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Definitive Proxy Statement relating to 2015 Annual Meeting of Shareholders are incorporated by reference in Part III.

ALASKA AIR GROUP, INC.

ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2014

TABLE OF CONTENTS

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control.

Our forward-looking statements are based on the information currently available to us and speak only as of the date on which this report was filed with the SEC. We expressly disclaim any obligation to issue any updates or revisions to our forward-looking statements, even if subsequent events cause our expectations to change regarding the matters discussed in those statements. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such differences might be significant and materially adverse to our shareholders. For a discussion of these and other risk factors in this Form 10-K, see “Item 1A: Risk Factors.” Please consider our forward-looking statements in light of those risks as you read this report.

PART I

ITEM 1. OUR BUSINESS

Alaska Air Group ("Air Group") operates Alaska Airlines ("Alaska") and Horizon Air ("Horizon"), which together with its partner regional airlines serve more than 100 cities through an expansive network in Alaska, the Lower 48, Hawaii, Canada and Mexico. During 2014, we carried 29 million passengers while earning record full-year adjusted earnings of $571 million.

Our objective is to be one of the most respected U.S. airlines by our customers, employees, and shareholders. We believe our success depends on our ability to provide safe air transportation, develop relationships with customers by providing exceptional customer service and low fares, and maintain a competitive cost structure to compete effectively. It is important to us that we achieve our objective as a socially responsible company that values not just our performance, but also our people, our community, and our environment.

While aircraft and technology enable us to provide air transportation, we recognize this is fundamentally a people business. Our employees maintain and strengthen our relationships with our customers, and our success depends on our employees working together to successfully execute on our strategy. In 2014, Alaska Airlines ranked "Highest in Customer Satisfaction among Traditional Network Carriers" by J.D. Power for the seventh year in a row. Alaska Airlines also held the No. 1 spot in the Wall Street Journal's "Middle Seat" scorecard for U.S. airlines for two years in a row. We have been the leader in the industry for on-time performance among major airlines for the past five years. For achieving safety, customer service, operational and financial goals, we rewarded our employees with a record $116 million in incentive pay.

In support of the communities that we serve, we strive to be an industry leader in environmental and community stewardship. In 2014, Air Group improved fuel efficiency by 2.1% from the prior year. Air Group donated $9.5 million to approximately 1,200 charitable organizations and our employees volunteered more than 21,000 hours of community service. We pledged $1.5 million in grants to support job training for workers at Seattle-Tacoma airport, voluntarily increased wages to $12 per hour for certain vendors in Seattle, sponsored $2.5 million for Seattle's bike-share program, and pledged $2.5 million to Seattle's Museum of Flight to guide students toward a future in science, technology, engineering, and math. For all of the efforts that we have made in our communities, Seattle Business Magazine awarded Alaska Air Group with the 2014 Community Impact Award.

We earned record financial results in 2014, marking our eleventh consecutive annual profit on an adjusted basis. We achieved an after-tax return on invested capital of 18.6%, more than double our weighted average cost of capital. Strong earnings improved our cash flow and strengthened our balance sheet resulting in a debt-to-capital ratio of 31%, which compares favorably with other high-quality industrial transport companies. Due to our strong financial health, we are now one of only two U.S. airlines with investment grade credit ratings. With the cash generated by the continued success we have had in the past decade, we were able to invest in our business for profitable growth and to enhance the customer experience. All of our 737-800/900/900ER aircraft now feature innovative Recaro seats with power at every seat, and in December 2014, we debuted our Wi-Fi enabled in-flight entertainment system and our branded in-flight experience, Alaska Beyond™. In addition, we have invested in our core market, Seattle, by adding six new non-stop destinations and increasing capacity by 4% in 2014. For 2015, we are committed to increasing capacity in Seattle by 10%.

As we look to the future, we will build on the success of the past few years by executing our strategic plan – the Five Focus Areas:

Safety and Compliance

We have an unwavering commitment to run a safe and compliant operation, and we will not compromise this commitment in the pursuit of other initiatives. Alaska and Horizon, in coordination with the FAA, are implementing a Safety Management System (SMS) to better identify and manage risk. Both airlines are in the final phase of SMS implementation and are on track for completion and final FAA-certification in 2015. During the current year, 100% of our Alaska and Horizon aircraft technicians completed the requirements for the FAA's "Diamond Certificate of Excellence" award. This is the 13th consecutive year Alaska Airlines has received the award and the 13th time in the last 15 years for Horizon. In 2014, we launched Ready, Safe, Go - a safety campaign designed to increase safety awareness across the Air Group System.

People Focus

Our success depends on our employees. Higher employee engagement drives higher productivity, superior execution, and better customer service, which is why we listen to our employees for feedback in shaping our strategy. In 2014, our employee engagement was at 82% in our annual employee survey, up from 79% in the prior year. To help develop and train our people on core leadership principles and promote engagement across our airlines, all of Air Group's leaders participated in a multi-day workshop called "Gear Up". We plan to sponsor "Gear Up 2" in 2015 to further increase employee engagement.

We understand that aligning our employees' goals with the company's goals is important in achieving success. All employees participate in our Performance-Based Pay (PBP) and Operational Performance Rewards (OPR) programs, which encourage employees to work together to achieve metrics related to safety, profitability, on-time performance, low costs and customer satisfaction. Over the last five years, our incentive programs have paid out on average, 8.7% of annual pay, or more than one month's pay, for most employees. This is consistent with one of our guiding principles that we want to pay our people well with a goal of reaching the industry's best productivity over time. To that end, we signed four long-term agreements with various labor groups during the year, which provide the company, employees, and investors with long-term stability.

Hassle-Free Customer Experience

We want to be the easiest airline to fly. In each step of the customer's journey, from booking a ticket to check-in, from flying in our aircraft to claiming baggage at the final destination, we want to provide a hassle-free experience for our customers. Our industry-leading on-time performance for the past five years make us reliable to our customers, and we are the only airline that guarantees checked baggage delivery to the carousel within 20 minutes. Customers can tag their own bags at airport kiosks, or in some cases at their homes, and we now have fingerprint scan entry to our airport lounges (Boardrooms). We lead the travel industry in mobile innovation with iPhone, Android, and Microsoft apps that allow passengers to purchase tickets, check-in, upgrade seats, and reserve food for the flight - all with helpful notifications that inform customers when there are changes to their flights. The Transportation Security Administration (TSA) Pre-Check Program is available in 28 of our locations, which allows eligible customers to opt-in for reduced screening requirements. We also introduced the Alaska Listens survey with five simple questions designed to get timely feedback from our customers - and we guarantee a response within 72 hours if there is an issue that needs to be resolved. As passengers take more control of their travel experience, we are able to reduce the time it takes a customer to move from the airport curb to the aircraft.

Energetic and Compelling Brand

We want to be recognized as the preferred airline to fly. With our message, "Calling All Explorers," we want our customers to choose us whether they are exploring new destinations or traveling to familiar cities, because flying on Alaska is an adventure in itself. Our Alaska Beyond™ flight experience, launched in 2014, features Beyond Entertainment™, Beyond Delicious™, Beyond Comfort™, and Beyond Service™, which together create a unique Alaska experience that is designed to go above and beyond customer expectations. Customers can now stream in-flight entertainment to their personal devices, enjoy gourmet Tom Douglas signature entrées, rest comfortably in our Recaro seats with power, enhanced space, and six-way adjustable headrests, and fly with our flight crews that provide J.D. Power award-winning customer service. We will refresh the visuals at our gates to communicate a consistent message to our customers and will roll out more airport and in-flight enhancements in 2015.

Due to the increased competition in 2014, we focused our marketing efforts to defend our Seattle market. We launched our TV advertising campaign in partnership with Russell Wilson, the quarterback for the Seattle Seahawks and Alaska Airline's Chief Football Officer. The Alaska Air blog was introduced in 2014 to better connect with our customers and provide Alaska news stories in an informal and authentic way. We remain focused on strengthening our relationship with our customers in all of our markets through our energetic brand message and exceptional in-flight experience. We are currently planning to refresh all of our airport stations at over 100 destinations with our new brand image in 2015.

Low Fares, Low Costs and Network Growth

We believe that in order to provide low fares for customers in a growing network of destinations, while returning value to our shareholders, we must maintain a competitive cost structure. In 2014, we lowered our unit costs, excluding fuel, by 1.3% on a consolidated basis, representing the fifth consecutive year of annual reduction. We achieved this through a continued focus on productivity, cost management, and network growth. We increased employee productivity by 2.0% in 2014 and will continue to focus on that metric as we leverage growth. We also manage fuel costs by flying larger, more fuel-efficient aircraft, which have increased our fuel efficiency as measured by available seat miles flown per gallon by 4.5% over the last five years. Additionally, we have added split-scimitar winglets to 48 aircraft, which are expected to increase fuel efficiency by 1.5% per aircraft. Looking forward, we have committed to purchasing 42 737-900ER and 37 737-MAX aircraft with deliveries from 2015 to 2022, and three Q400 aircraft with deliveries from 2015 to 2017. In addition, we will increase regional capacity by having SkyWest operate seven E-175s with deliveries from 2015 to 2016. The capacity increase with the new B737s, Q400s, and E175s position us for growth and ensure that we will continue to operate the most fuel-efficient aircraft available for the foreseeable future.

In 2014, we added 16 new markets to our network and exited five as we continued to better match supply with demand. We strengthened our Seattle network in 2014 by offering non-stop flights to markets like Albuquerque, Baltimore, Cancun, Detroit, New Orleans, and Tampa, and began 7 non-stop routes out of Salt Lake City. New routes in 2015 will include Seattle to Milwaukee, Oklahoma City, and Washington D.C. (Dulles), from Las Vegas to Mammoth Lakes, from San Diego to Kona, and from Portland to St. Louis.

AIR GROUP

Alaska Air Group is a Delaware corporation incorporated in 1985 and the holding company of Alaska Airlines and Horizon Air. Although Alaska and Horizon both operate as airlines, their business plans, competition, and economic risks differ substantially. Alaska Airlines is an Alaska corporation that was organized in 1932 and incorporated in 1937. Horizon Air Industries is a Washington corporation that first began service and was incorporated in 1981. Horizon was acquired by Air Group in 1986. Alaska operates a fleet of passenger jets (mainline) and contracts with Horizon, SkyWest Airlines, Inc.

(SkyWest) and Peninsula Airways, Inc. (PenAir) for regional capacity such that Alaska receives all passenger revenue from those flights. Horizon operates a fleet of turboprop aircraft and sells all of its capacity to Alaska pursuant to a capacity purchase arrangement. The majority of our revenues are generated by transporting passengers, but in recent years we have focused on growing our ancillary revenues. The percentage of revenues by category is as follows:

	2014	2013	2012	2011	2010
Mainline passenger revenue	70%	70%	71%	69%	68%
Regional passenger revenue	15%	16%	16%	17%	17%
Other revenue	13%	12%	11%	12%	12%
Freight and Mail revenue	2%	2%	2%	2%	3%
Total	100%	100%	100%	100%	100%

We attempt to deploy aircraft into the network in ways that best optimize our revenues and profitability, and reduce our seasonality.

The percentage of our capacity by region is as follows:

	2014	2013	2012	2011	2010
West Coast	36%	34%	35%	37%	41%
Transcon/midcon	22%	22%	19%	19%	19%
Hawaii	18%	19%	20%	16%	11%
Alaska	15%	16%	17%	18%	19%
Mexico	6%	7%	7%	9%	8%
Canada	3%	2%	2%	1%	2%
Total	100%	100%	100%	100%	100%

MAINLINE

We offer extensive north/south service within the western U.S., Canada and Mexico, and passenger and dedicated cargo services to and within the state of Alaska. We also provide long-haul east/west service to Hawaii and 24 cities in the mid-continental and eastern U.S., primarily from Seattle, where we have our largest concentration of departures; although we do offer long-haul departures from other cities as well.

In 2014, we carried 21 million revenue passengers in our mainline operations. At December 31, 2014, Alaska's operating fleet consisted of 137 Boeing 737 jet aircraft, compared to 131 B737 aircraft as of December 31, 2013.

The percentage of mainline passenger capacity by region and average stage length is presented below:

	2014	2013	2012	2011	2010
West Coast	31%	28%	29%	31%	33%
Transcon/midcon	25%	25%	22%	21%	24%
Hawaii	20%	21%	22%	18%	13%
Alaska	16%	18%	18%	20%	21%
Mexico	7%	7%	8%	8%	7%
Canada	1%	1%	1%	2%	2%
Total	100%	100%	100%	100%	100%
Average Stage Length	1,182	1,177	1,161	1,114	1,085

REGIONAL

Our regional operations consist of flights operated by Horizon, SkyWest and PenAir. In 2014, our regional operations carried approximately 8.3 million revenue passengers, primarily in the states of Washington, Oregon, Idaho and California. Horizon is the largest regional airline in the Pacific Northwest and carries about 90% of Air Group's regional revenue passengers. In 2014, we increased regional jet flying provided by SkyWest and amended our capacity purchase agreement to start flying Embraer E-175s, which will support new markets such as Seattle-Milwaukee, Seattle-Oklahoma City, and Portland-St. Louis in 2015.

Based on 2014 passenger enplanements on regional aircraft, our leading airports are Seattle and Portland. At December 31, 2014, Horizon's operating fleet consisted of 51 Bombardier Q400 turboprop aircraft. Horizon flights are listed under Alaska's designator code in airline reservation systems, and in customer-facing locations.

The percentage of regional passenger capacity by region and average stage length is presented below:

	2014	2013	2012	2011	2010
West Coast	66%	66%	68%	68%	71%
Pacific Northwest	19%	21%	20%	19%	17%
Canada	8%	9%	9%	9%	9%
Alaska	4%	2%	2%	2%	2%
Midcon	2%	1%	–%	–%	–%
Mexico	1%	1%	1%	2%	1%
Total	100%	100%	100%	100%	100%
Average Stage Length	339	329	332	329	333

MILEAGE PLAN

The Alaska Airlines Mileage Plan™ program provides a comprehensive suite of frequent flier benefits. Miles can be earned by flying on Alaska or on one of our 14 airline partners, or by using the Alaska Airlines Visa Signature card, or through other non-airline partners. Our extensive list of airline partners includes carriers associated with two of the three major global alliances (Oneworld and SkyTeam), making it easier for our members to earn miles and reach preferred status in our Mileage Plan™, and have access to a large network of travel destinations. Further, members can receive 25,000 bonus miles upon signing up for the Alaska Airlines Visa Signature card and earn triple miles on purchases made on Alaska Airlines flights or on alaskaair.com. Alaska Airlines Visa Signature cardholders also receive an annual companion ticket that allows members to purchase an additional ticket for $99 plus tax, with no restrictions or black-out dates. Earned miles can be redeemed for flights on Alaska Airlines or on any of our partner airlines, or for upgrades to First Class on Alaska Airlines for as low as 15,000 miles. All of these benefits give our Mileage Plan™ members more value for their travel on Alaska Airlines, which led to our Mileage Plan™ receiving the highest rank by frequent fliers in the first-ever J.D. Power Airline Loyalty/Rewards Program Satisfaction Report in 2014.

Mileage Plan™ revenues represent approximately 10% of Air Group's total revenues. Furthermore, our Mileage Plan™ helps drive more revenue through attaining new customers and building customer loyalty through the benefits that we provide. The Mileage Plan™ provides more value per dollar spent on the Alaska Airlines Visa Signature card, in comparison to other comparable frequent flier programs in the industry. Summary of the benefits provided in comparison to some of our competitors are as follows:

	Alaska Airlines Signature Visa	**Platinum Select AAdvantage**	**Gold Delta SkyMiles**	**United Mileage Plus Explorer**	**Southwest Rapid Rewards Premier**
Bonus miles upon approval	Yes	No	No	No	No
Bonus miles awarded	25,000 upon approval	30,000 after spending $1,000 in 3 months	30,000 after spending $1,000 in 3 months	30,000 after spending $1,000 in 3 months	50,000 after spending $2,000 in 3 months
Annual fee	$75	$95	$95	$95	$99
Miles for "on" spend	3x	2x	2x	2x	2x
Companion fare	Yes - annual companion fare purchased for $99 plus tax.	No	No	No	No
First bag free	No	Yes	Yes	Yes	No bag fees

AGREEMENTS WITH OTHER AIRLINES

Our agreements fall into three different categories: Frequent Flier, Codeshare, and Interline agreements. Frequent Flier Agreements offer mileage credits and redemptions for our Mileage Plan™ members. Alaska offers one of the most comprehensive frequent flier programs for our Mileage Plan™ members through our frequent flier partnerships with 14 domestic and international carriers.

Codeshare agreements allow one or more marketing carriers to sell seats on a single operating carrier that services passengers under multiple flight numbers. The sale of codeshare seats can vary depending on the sale arrangement. For example, in a free-sale arrangement, the marketing carrier sells the operating carrier's inventory without any restriction; whereas in a block space arrangement, a fixed amount of seats are sold to the marketing carrier by the operating carrier. The interchangeability of the flight code between carriers provides a greater selection of flights for customers, along with increased flexibility for mileage accrual and redemption.

Interline agreements allow airlines to jointly offer a competitive, single-fare itinerary to customers traveling via multiple carriers to a final destination. An interline itinerary offered by one airline may not necessarily be offered by the other, and the fares collected from passengers are prorated and distributed to interline partners according to preexisting agreements between the carriers. Frequent Flier, Codeshare, and Interline agreements help increase our traffic and revenue by providing more route choices to customers.

We have marketing alliances with a number of airlines that provide frequent flier and codesharing opportunities. Alliances are an important part of our strategy and enhance our revenues by:

- offering our customers more travel destinations and better mileage credit/redemption opportunities, including elite qualifying miles on all of our major U.S. and international airline partners;
- giving our Mileage Plan™ program a competitive advantage because of our partnership with carriers from two of the three major global alliances (Oneworld and SkyTeam);
- giving us access to more connecting traffic from other airlines; and
- providing members of our alliance partners' frequent flier programs an opportunity to travel on Alaska and its regional affiliates while earning mileage credit in our partners' programs.

Most of our codeshare relationships are free-sale codeshares, where the marketing carrier sells seats on the operating carrier's flights from the operating carrier's inventory, but takes no inventory risk. Our marketing agreements have various termination dates, and at any time, one or more may be in the process of renegotiation.

The comprehensive summary of alliances with other airlines is as follows:

	Frequent Flier Agreement	**Codeshare – Alaska Flight # on Flights Operated by Other Airline**	**Codeshare – Other Airline Flight # on Flights Operated by Alaska /Horizon /SkyWest**
Major U.S. or International Airlines			
Aeromexico	Yes	No	Yes
American Airlines/Envoy	Yes	Yes	Yes
Air France	Yes	No	Yes
British Airways	Yes	No	No
Cathay Pacific Airways	Yes	No	Yes
Delta Air Lines[a]	Yes	Yes	Yes
Emirates	Yes	No	No
KLM	Yes	No	Yes
Korean Air	Yes	No	Yes
LAN S.A.	Yes	No	Yes
Fiji Airways[b]	Yes	No	Yes
Qantas	Yes	No	Yes
Regional Airlines			
SkyWest[b]	No	Yes	No
Era Alaska	Yes	Yes	No
PenAir[b]	Yes	Yes	No

(a) Alaska has codeshare agreements with the Delta Connection carriers SkyWest, ExpressJet, Endeavor, and Compass as part of its agreement with Delta.
(b) These airlines do not have their own frequent flier program. However, Alaska's Mileage Plan™ members can earn and redeem miles on these airlines' route systems.

The following is the financial impact of our marketing alliances:

	2014	2013	2012	2011	2010
Air Group Marketed Revenues	**90.6%**	90.0%	90.2%	89.3%	89.9%
Codeshare Agreements:					
American Airlines	**2.9%**	2.6%	2.7%	3.4%	3.1%
Delta Air Lines	**2.3%**	3.8%	3.4%	3.6%	3.7%
Others	**0.9%**	0.9%	0.8%	0.8%	0.8%
Interline Agreements:					
Domestic Interline	**2.5%**	1.9%	2.1%	2.2%	1.9%
International Interline	**0.8%**	0.8%	0.8%	0.7%	0.6%
Total Operating Revenue	**100.0%**	100.0%	100.0%	100.0%	100.0%

OTHER REVENUE

Other revenue consists of freight and mail revenue, and ancillary revenue such as bag fees, change fees, on-board food and beverage, and Boardroom membership. Total other revenue, excluding Mileage Plan™ revenue, represents about 3% of our total revenues. In recent years, we have seen growth in our ancillary revenue as we expand services on-board such as Tom Douglas signature meals, in-flight entertainment, and Wi-Fi. We have increased our bag fees to better match industry average prices, but we also offer a 20-minute bag guarantee so that we deliver value to our customers through fast, reliable service. As we focus on ways to better serve our customers, we expect our ancillary revenues will continue to grow.

GENERAL

The airline industry is highly competitive, subject to various uncertainties, and has historically been characterized by low profit margins. Uncertainties include general economic conditions, volatile fuel prices, industry instability, new competition, a largely unionized work force, the need to finance large capital expenditures and the related availability of capital, government regulation, and potential aircraft incidents. Airlines have high fixed costs, primarily for wages, aircraft fuel, aircraft ownership, and facilities rents. Because expenses of a flight do not vary significantly based on the number of passengers carried, a relatively small change in the number of passengers or in pricing has a disproportionate effect on an airline's operating and financial results. In other words, a minor shortfall in expected revenue levels could cause a disproportionately negative impact on our operating and financial results. Passenger demand and ticket prices are, to a large measure, influenced by the general state of the economy, current global economic and political events, and total available airline seat capacity.

In 2014, the airline industry reported record revenues and profits as the global economy continued to recover and oil prices were stable for most of the year, with a significant decline in the fourth quarter.

As the industry strengthens, airlines are now making significant investments in airports, in new planes, and in new services to differentiate their customer service offering. Thus, the level of competition is expected to increase.

FUEL

Our business and financial results are highly affected by the price and, potentially, the availability of aircraft fuel. The cost of aircraft fuel is volatile and outside of our control, and it can have a significant and immediate impact on our operating results. Over the past five years, aircraft fuel expense ranged from 27% to 35% of operating expenses. Fuel prices are impacted by changes in both the price of crude oil and refining margins, and can vary by region in the U.S.

The average annual price of crude oil in the last five years has increased from a low of $80 per barrel in 2010 to a high of $98 in 2013. Although the price of crude oil was $53 per barrel at the end of 2014, the full-year average was $93 per barrel. For us, a $1 per barrel change in the price of oil equates to approximately $11 million of fuel cost annually. Said another way, a one-cent change in our fuel price per gallon will impact our expected annual fuel cost by approximately $5 million per year.

Refining margins, which represent the price of refining crude oil into aircraft fuel, are a smaller portion of the overall price of jet fuel, but also contributed to the price volatility in recent years. Refining margin prices have fluctuated between $14 per barrel and $36 per barrel in the last five years, and averaged $23 in 2014.

Generally, West Coast aircraft fuel prices are somewhat higher and more volatile than prices in the Gulf Coast or on the East Coast, putting our operation at a competitive disadvantage. Our average raw fuel cost per gallon decreased 6% in 2014, decreased 4% in 2013, and increased 2% in 2012.

The percentages of our aircraft fuel expense by crude and refining margins, as well as the percentage of our aircraft fuel expense of operating expenses are as follows:

	2014	2013	2012	2011	2010
Crude oil	72%	71%	65%	70%	79%
Refining margins	18%	19%	25%	24%	14%
Other[a]	10%	10%	10%	6%	7%
Total	100%	100%	100%	100%	100%
Aircraft fuel expense	32%	34%	35%	34%	27%

[a] Other includes gains and losses on settled fuel hedges, unrealized mark-to-market fuel hedge gains or losses, taxes and other into-plane costs.

We use crude oil call options as hedges to decrease our exposure to the volatility of jet fuel prices. Historically, we have had jet fuel refining margin swap contracts, but we discontinued the use of the refining margin swaps in the third quarter of 2014. Call options effectively cap our pricing for the crude oil, limiting our exposure to increasing fuel prices for about half of our planned fuel consumption. With call options, we are hedged against volatile crude oil price increases, and during a period of decline in crude oil prices, we only forfeit cash previously paid for hedge premiums. Currently, we hedge approximately 18 months in advance of crude oil consumption.

We believe that operating fuel-efficient aircraft is the best hedge against high fuel prices. Alaska operates an all-Boeing 737 fleet and Horizon operates an all-Bombardier Q400 turboprop fleet. Air

Group's fuel-efficiency rate expressed in available seat miles flown per gallon (ASMs/g) improved from 73.6 ASMs/g in 2010 to 76.9 ASMs/g in 2014. These improvements have not only reduced our fuel consumption rate, but also the amount of greenhouse gases and other pollutants that our operations emit.

COMPETITION

Competition in the airline industry is intense and unpredictable. Our competitors consist primarily of other airlines and, to a lesser extent, other forms of transportation. Competition can be direct, in the form of another carrier flying the exact non-stop route, or indirect, where a carrier serves the same two cities non-stop from an alternative airport in that city or via an itinerary requiring a connection at another airport. Our five principal competitors, in order of competitive overlap, are Delta, United, Southwest, American, and Hawaiian. Delta significantly increased their capacity at Sea-Tac in 2014, and we expect them to continue to do so in 2015. Based on schedules filed with the U.S. Department of Transportation, we expect the amount of competitive capacity overlap from these carriers to increase more than 12% in 2015, weighted based on our network. We also compete with several other domestic and international carriers, but to a lesser extent than with our principal competitors.

We believe that the following principal competitive factors are important to our customers:

- Safety record
- Customer service and reputation

  We compete with other airlines in areas of customer service such as on-time performance, passenger amenities - including first class seating, quality of buy-on-board products, aircraft type, and comfort. In 2014, Alaska Airlines ranked "Highest in Customer Satisfaction among Traditional Network Carriers" by J.D. Power and Associates for the seventh year in a row. All of our 2014 mainline aircraft deliveries included the Boeing Sky Interior, and we launched the new Alaska Beyond™ in-flight experience, which features our streaming in-flight entertainment, gourmet food designed by Tom Douglas, and comfortable seats with additional space and power as part of our exceptional, above and beyond flight experience.

- Fares and ancillary services

  The pricing of fares is a significant competitive factor in the airline industry, and the increased availability of fare information on the Internet allows travelers to easily compare fares and identify competitor promotions and discounts. Pricing is driven by a variety of factors including, but not limited to, market-specific capacity, market share per route/geographic area, cost structure, fare vs. ancillary revenue strategies, and demand.

  For example, airlines often discount fares to drive traffic in new markets or to stimulate traffic when necessary to improve load factors. In addition, traditional network carriers have been able to reduce their operating costs through bankruptcies and mergers, while low-cost carriers have continued to grow their fleets and expand their networks, potentially enabling them to better control costs per available seat mile (the average cost to fly an aircraft seat one mile), which in turn may enable them to lower their fares. These factors can reduce our pricing power and that of the airline industry as a whole.

  Domestic airline capacity is dominated by four large carriers, representing approximately 85% of total seats. Accordingly, if these carriers discount their fares or enter into our core markets, we must match those fares in order to maintain our load factors, often resulting in year-over-year decreases in our yields. We will defend our core markets vigorously, and if necessary redeploy capacity to better match supply with demand. We believe the restructuring we've completed over the past decade has decreased our costs to the point we can offer competitive fares while still earning appropriate pre-tax margins.

- Routes served, flight schedules, codesharing and interline relationships, and frequent flier programs

  We also compete with other airlines based on markets served, the frequency of service to those markets, and frequent flier opportunities. Some airlines have more extensive route structures than we do, and they offer significantly more international routes. In order to expand opportunities for our customers, we enter into codesharing and interline relationships with other airlines that provide reciprocal frequent flier mileage credit and redemption privileges. These relationships allow us to offer our customers access to more destinations than we can on our own, gain exposure in markets we don't serve and allow our customers more opportunities to earn and redeem frequent flier miles. Our Mileage Plan™ offers one of the most comprehensive benefits to our members with the ability to earn and redeem miles on 14 of our partner carriers.

In addition to domestic or foreign airlines that we compete with on most of our routes, we also compete with ground transportation in our short-haul markets in the regional operations. Both carriers, to some extent, also compete with technology such as video conferencing and internet-based meeting tools that have changed the need for, or frequency of face-to-face business meetings.

TICKET DISTRIBUTION

Airline tickets are distributed through three primary channels:

- *Alaskaair.com:* It is less expensive for us to sell through this direct channel and, as a result, we continue to take steps to drive more business to our website. In addition, we believe this channel is preferable from a branding and customer-relationship standpoint in that we can establish ongoing communication with the customer and tailor offers accordingly.

- *Traditional and online travel agencies:* Both traditional and online travel agencies typically use Global Distribution Systems (GDS), such as Sabre, to obtain their fare and inventory data from airlines. Bookings made through these agencies result in a fee that is charged to the airline. Many of our large corporate customers require us to use these agencies. Some of our competitors do not use this distribution channel and, as a result, have lower ticket distribution costs.

- *Reservation call centers:* These call centers are located in Phoenix, AZ, Kent, WA, and Boise, ID. We generally charge a $15 fee for booking reservations through these call centers.

Our sales by channel are as follows:

	2014	2013	2012	2011	2010
Alaskaair.com	57%	55%	54%	51%	48%
Traditional agencies	25%	27%	27%	28%	28%
Online travel agencies	12%	13%	13%	13%	15%
Reservation call centers	6%	5%	6%	8%	9%
Total	100%	100%	100%	100%	100%

SEASONALITY AND OTHER FACTORS

Our results of operations for any interim period are not necessarily indicative of those for the entire year because our business is subject to seasonal fluctuations. Our profitability is generally lowest during the first and fourth quarters due principally to lower traffic. Profitability typically increases in the second quarter and then reaches its highest level during the third quarter as a result of vacation travel, including increased activity in the state of Alaska. However, we have taken steps over the past few years to better manage the seasonality of our operations by adding flights to leisure destinations, like Hawaii, and expanding to cities in the mid-continental and eastern U.S.

In addition to passenger loads, factors that could cause our quarterly operating results to vary include:

- general economic conditions and resulting changes in passenger demand,
- changes in fuel costs,
- pricing initiatives by us or our competitors,
- increases in competition at our primary airports, and
- increases or decreases in passenger and volume-driven variable costs.

Many of the markets we serve experience inclement weather conditions in the winter, causing increased costs associated with deicing aircraft, canceling flights, and reaccommodating displaced passengers. Due to our geographic area of operations, we can be more susceptible to adverse weather conditions, particularly in the state of Alaska and the Pacific Northwest, than some of our competitors, who may be better able to spread weather-related risks over larger route systems.

No material part of our business or that of our subsidiaries is dependent upon a single customer, or upon a few high-volume customers.

EMPLOYEES

Our business is labor intensive. As of December 31, 2014, we employed 13,952 (10,846 at Alaska and 3,106 at Horizon) active full-time and part-time employees. Wages and benefits, including variable incentive pay, represented approximately 41% of our total non-fuel operating expenses in both 2014 and 2013.

Most major airlines, including ours, have employee groups that are covered by collective bargaining agreements. Airlines with unionized work forces have higher labor costs than carriers without unionized work forces, and they may not have the ability to adjust labor costs downward quickly enough to respond to new competition or slowing demand. At December 31, 2014, labor unions represented 83% of Alaska’s and 48% of Horizon’s employees. Our relations with our U.S. labor organizations are governed by the Railway Labor Act (RLA). Under this act, collective bargaining agreements do not expire but instead become amendable as of a stated date. If either party wishes to modify the terms of any such agreement, it must notify the other party in the manner prescribed by the RLA and/or described in the agreement. After receipt of such notice, the parties must meet for direct negotiations, and if no agreement is reached, either party may request the National Mediation Board (NMB) to initiate a process including mediation, arbitration, and a potential “cooling off” period that must be followed before either party may engage in self-help.

Alaska's union contracts at December 31, 2014 were as follows:

Union	Employee Group	Number of Employees	Contract Status
Air Line Pilots Association International (ALPA)	Pilots	1,562	Amendable 03/31/2018
Association of Flight Attendants (AFA)	Flight attendants	3,374	Amendable 12/17/2019
International Association of Machinists and Aerospace Workers (IAM)	Ramp service and stock clerks	613	Amendable 7/19/2018
IAM	Clerical, office and passenger service	2,717	Amendable 1/1/2019
Aircraft Mechanics Fraternal Association (AMFA)	Mechanics, inspectors and cleaners	630	Amendable 10/17/2016
Mexico Workers Association of Air Transport	Mexico airport personnel	85	Amendable 9/29/2014
Transport Workers Union of America (TWU)	Dispatchers	41	Amendable 3/24/2015

Horizon's union contracts at December 31, 2014 were as follows:

Union	Employee Group	Number of Employees	Contract Status
International Brotherhood of Teamsters (IBT)	Pilots	607	Amendable 12/14/2018
AFA	Flight attendants	550	Amendable 07/18/18
IBT	Mechanics and related classifications	272	Amendable 12/16/2020
National Automobile, Aerospace, Transportation and General Workers	Station personnel in Vancouver and Victoria, BC, Canada	50	Amendable 2/14/2016

EXECUTIVE OFFICERS

The executive officers of Alaska Air Group, Inc. and executive officers of Alaska and Horizon who have significant decision-making responsibilities, their positions and their respective ages are as follows:

Name	Position	Age	Air Group or Subsidiary Officer Since
Bradley Tilden	Chairman, President and Chief Executive Officer of Alaska Air Group, Inc. and Alaska Airlines, Inc. and Chief Executive Officer of Horizon Air Industries, Inc.	54	1994
Benito Minicucci	Executive Vice President/Operations and Chief Operating Officer of Alaska Airlines, Inc.	48	2004
Brandon Pedersen	Executive Vice President/Finance and Chief Financial Officer of Alaska Air Group, Inc. and Alaska Airlines, Inc.	48	2003
Andrew Harrison	Senior Vice President of Planning and Revenue Management of Alaska Air Group, Inc. and Alaska Airlines, Inc.	44	2008
Dave Campbell	President and Chief Operating Officer of Horizon Air Industries, Inc.	53	2014
Herman Wacker	Chief Ethics & Compliance Officer, General Counsel, and Vice President of Legal at Alaska Air Group, Inc.	66	2014

Mr. Tilden joined Alaska Airlines in 1991, became Controller of Alaska Air Group, Inc. and Alaska Airlines in 1994, Chief Financial Officer in February 2000, Executive Vice President/Finance and Chief Financial Officer in January 2002, Executive Vice President/Finance and Planning in 2007, and President of Alaska Airlines in December 2008. He is a member of Air Group's Management Executive Committee and was elected to the Air Group Board in 2010. He was elected Chief Executive Officer of Alaska Air Group, Inc., Alaska Airlines and Horizon Air Industries in May 2012, and was elected Chairman of the Board in November 2013.

Mr. Minicucci joined Alaska Airlines in 2004 as Staff Vice President of Maintenance and Engineering and was promoted to Vice President of Seattle Operations in June 2008. He was elected Executive Vice President/Operations and Chief Operating Officer of Alaska Airlines in December 2008. He is a member of Air Group's Management Executive Committee.

Mr. Pedersen joined Alaska Airlines in 2003 as Staff Vice President/Finance and Controller of Alaska Air Group and Alaska Airlines and was elected Vice President/Finance and Controller for both entities in 2006. He was elected Vice President/Finance and Chief Financial Officer of Alaska Air Group and Alaska Airlines in June 2010, and elected as Executive Vice President/Finance and Chief Financial Officer in 2014. He is a member of Air Group's Management Executive Committee.

Mr. Harrison joined Alaska Airlines in 2003 as the Managing Director of Internal Audit and was elected Vice President of Planning and Revenue Management in 2008. He was elected Senior Vice President of Planning and Revenue Management in 2014. He is a member of Air Group's Management Executive Committee.

Mr. Campbell joined Horizon Air in 2014 as President and Chief Operating Officer. Prior to joining Horizon, Mr. Campbell served more than 25 years of experience in maintenance and flight operations. Most recently, he served as the vice president of maintenance and engineering at jetBlue Airways from January 2014 to August 2014, and prior to that, he served as vice president of safety and operational performance at American Airlines. He joined American in 1988 after serving for four years in the U.S. Air Force and has overseen maintenance, quality, technical operations and safety. He is a member of Air Group's Management Executive Committee.

Mr. Wacker has been Chief Ethics & Compliance Officer at Alaska Air Group, Inc. and Alaska Airlines, Inc. since May 2014 and was elected General Counsel in October 2014. Mr. Wacker has been Vice President of Legal at Alaska Air Group, Inc. since February 2014 and served as its Managing Director of Labor & Employment Law from June 2007 to February 2014. He served as an Associate General Counsel of Alaska Airlines Inc. and Alaska Air Group Inc. since June 2007. He is a member of Air Group's Management Executive Committee.

REGULATION

GENERAL

The airline industry is highly regulated. The Department of Transportation (DOT), the Federal Aviation Administration (FAA) and the Transportation Security Administration (TSA) exercise significant regulatory authority over air carriers.

- *DOT:* In order to provide passenger and cargo air transportation in the U.S., a domestic airline is required to hold a certificate of public convenience and necessity issued by the DOT. Subject to certain individual airport capacity, noise and other restrictions, this certificate permits an air carrier to operate between any two points in the U.S. Certificates do not expire, but may be revoked for failure to comply with federal aviation statutes, regulations, orders or the terms of the certificates. While airlines are permitted to establish their own fares without governmental regulation, the DOT has jurisdiction over the approval of international codeshare agreements, marketing alliance agreements between major domestic carriers, international and some domestic route authorities, Essential Air Service market subsidies, carrier liability for personal or property damage, and certain airport rates and charges disputes. International treaties may also contain restrictions or requirements for flying outside of the U.S. and impose different carrier liability limits than those applicable to domestic flights. The DOT has been active in implementing a variety of "passenger protection" regulations, covering subjects such as advertising, passenger communications, denied boarding compensation and tarmac delay response.

- *FAA:* The FAA, through Federal Aviation Regulations (FARs), generally regulates all aspects of airline operations, including establishing personnel, maintenance and flight operation standards. Domestic airlines are required to hold a valid air carrier operating certificate issued by the FAA. Pursuant to these regulations we have established, and the FAA has approved, our operations specifications and a maintenance program for each type of aircraft we operate. The maintenance program provides for the ongoing maintenance of such aircraft, ranging from frequent routine inspections to major overhauls. From time to time the FAA issues airworthiness directives (ADs) that must be incorporated into our aircraft maintenance program and operations. All airlines are subject to enforcement actions that are brought by the FAA from time to time for alleged violations of FARs or ADs. At this time, we are not aware of any enforcement proceedings that could either materially affect our financial position or impact our authority to operate.

- *TSA:* Airlines serving the U.S. must operate a TSA-approved Aircraft Operator Standard Security Program (AOSSP), and comply with TSA Security Directives (SDs) and regulations. Airlines are subject to enforcement actions that are brought by the TSA from time to time for alleged violations of the AOSSP, SDs or security regulations. We are not aware of any enforcement proceedings that could either materially affect our financial position or impact our authority to operate. Under TSA authority, we are required to collect a September 11 Security Fee of $5.60 per one-way trip from passengers and remit that sum to the government to fund aviation security measures. Through September 2014, carriers also paid the TSA a security infrastructure fee to cover passenger and property screening costs. These security infrastructure fees amounted to $10 million in 2014 and $13 million each year in 2013 and 2012.

The Department of Justice and DOT have jurisdiction over airline antitrust matters. The U.S. Postal Service has jurisdiction over certain aspects of the transportation of mail and related services. Labor relations in the air transportation industry are regulated under the Railway Labor Act. To the extent we continue to fly to foreign countries and pursue alliances with international carriers, we may be subject to certain regulations of foreign agencies and international treaties.

ENVIRONMENTAL AND OCCUPATIONAL SAFETY MATTERS

We are subject to various laws and government regulations concerning environmental matters and employee safety and health in the U.S. and other countries. U.S. federal laws that have a particular effect on us include the Airport Noise and Capacity Act of 1990, the Clean Air Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act, Superfund Amendments and Reauthorization Act, and the Oil Pollution Control Act. We are also subject to the oversight of the Occupational Safety and Health Administration (OSHA) concerning employee safety and health matters. The U.S. Environmental Protection Agency, OSHA, and other federal agencies have been authorized to create and enforce regulations that have an impact on our operations. In addition to these federal activities, various states have been delegated certain authorities under these federal statutes. Many state and local governments have adopted environmental and employee safety and health laws and regulations. We maintain our safety, health and environmental programs in order to meet or exceed these requirements.

We expect there will be legislation in the future to reduce carbon and other greenhouse gas emissions. Alaska and Horizon have transitioned to more fuel-efficient aircraft fleets.

The Airport Noise and Capacity Act recognizes the rights of airport operators with noise problems to implement local noise abatement programs so long as they do not interfere unreasonably with interstate or foreign commerce or the national air transportation system. Authorities in several cities have established aircraft noise reduction programs, including the imposition of nighttime curfews. We believe we have sufficient scheduling flexibility to accommodate local noise restrictions.

Although we do not currently anticipate that these regulatory matters, individually or collectively, will have a material effect on our financial condition, results of operations or cash flows, new regulations or compliance issues that we do not currently anticipate could have the potential to harm our financial condition, results of operations or cash flows in future periods.

INSURANCE

We carry Airline Hull, Spares and Comprehensive Legal Liability Insurance in amounts and of the type generally consistent with industry practice to cover damage to aircraft, spare parts and spare engines, as well as bodily injury and property damage to passengers and third parties. We also have coverage for War and Allied Perils, including hijacking, terrorism, malicious acts, strikes, riots, civil commotion and other identified perils.

We believe that our emphasis on safety and our state-of-the-art flight deck safety technology help to control the cost of aviation insurance.

WHERE YOU CAN FIND MORE INFORMATION

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

ITEM 1A. RISK FACTORS

If any of the following occurs, our business, financial condition and results of operations could suffer. In such case, the trading price of our common stock could also decline. We operate in a continually changing business environment. In this environment, new risks may emerge and already identified risks may vary significantly in terms of impact and likelihood of occurrence. Management cannot predict such developments, nor can it assess the impact, if any, on our business of such new risk factors or of events described in any forward-looking statements.

We have adopted an enterprise wide Risk Analysis and Oversight Program designed to identify the various risks faced by the organization, assign responsibility for managing those risks to individual executives as well as align these risks with Board oversight. These enterprise-level identified risks have been aligned to the risk factors discussed below.

SAFETY, COMPLIANCE AND OPERATIONAL EXCELLENCE

Our reputation and financial results could be harmed in the event of an airline accident or incident.

An accident or incident involving one of our aircraft or an aircraft operated by one of our codeshare partners or CPA carriers could involve a significant loss of life and result in a loss of confidence in our airlines by the flying public and/or aviation authorities. We could experience significant claims from injured passengers, by-standers and surviving relatives, as well as costs for the repair or replacement of a damaged aircraft and its consequential temporary or permanent loss from service. We maintain liability insurance in amounts and of the type generally consistent with industry practice, as do our codeshare partners and CPA carriers. However, the amount of such coverage may not be adequate to fully cover all claims and we may be forced to bear substantial economic losses from an accident. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our business and financial results. Moreover, any aircraft accident or incident, even if fully insured and even if it does not involve one of our aircraft, could cause a public perception that our airlines or the equipment they fly are less safe or reliable than other transportation alternatives, which would harm our business.

Changes in government regulation imposing additional requirements and restrictions on our operations or on the airports at which we operate could increase our operating costs and result in service delays and disruptions.

Airlines are subject to extensive regulatory and legal requirements, both domestically and internationally, that involve significant compliance costs. In the last several years, Congress has passed laws, and the U.S. DOT, the TSA and the FAA have issued regulations that have required significant expenditures relating to the maintenance and operation of airlines and establishment of consumer protections.

Similarly, there are a number of legislative and regulatory initiatives and reforms at the federal, state, and local level, including increasingly stringent laws protecting the environment, minimum wage requirements, and health care mandates that could affect our relationship with our workforce and cause our expenses to increase without an ability to pass through these costs.

Almost all commercial service airports are owned and/or operated by units of local or state governments. Airlines are largely dependent on these governmental entities to provide adequate airport facilities and capacity at an affordable cost. Many airports have increased their rates and charges to air carriers related to higher security costs, increased costs related to updated infrastructures, and other costs. Additional laws, regulations, taxes, and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce the demand for air travel. Although lawmakers may impose these additional fees and view them as "pass-through" costs, we believe that a higher total ticket price will influence consumer purchase and travel decisions and may result in an overall decline in passenger traffic, which would harm our business.

The airline industry continues to face potential security concerns and related costs.

The terrorist attacks of September 11, 2001 and their aftermath negatively affected the airline industry, including our company. Additional terrorist attacks, the fear of such attacks or other hostilities involving the U.S. could have a further significant negative effect on the airline industry, including us, and could:

- significantly reduce passenger traffic and yields as a result of a potentially dramatic drop in demand for air travel;
- significantly increase security and insurance costs;
- make war risk or other insurance unavailable or extremely expensive;
- increase fuel costs and the volatility of fuel prices;
- increase costs from airport shutdowns, flight cancellations and delays resulting from security breaches and perceived safety threats; and
- result in a grounding of commercial air traffic by the FAA.

The occurrence of any of these events would harm our business, financial condition and results of operations.

We rely on third-party vendors for certain critical activities.

We have historically relied on outside vendors for a variety of services and functions critical to our business, including airframe and engine maintenance, ground handling, fueling, computer reservation system hosting, telecommunication systems, and information technology infrastructure and services. As part of our cost-reduction efforts, our reliance on outside vendors has increased and may continue to do so in the future, especially since we rely on timely and effective third-party performance in conjunction with many of our technology-related initiatives. In addition, in recent years, Alaska and Horizon have subcontracted their heavy aircraft maintenance, fleet service, facilities maintenance, and ground handling services at certain airports, including Seattle-Tacoma International Airport, to outside vendors.

Even though we strive to formalize agreements with these vendors that define expected service levels, our use of outside vendors increases our exposure to several risks. In the event that one or more vendors go into bankruptcy, ceases operation or fails to perform as promised, replacement services may not be readily available at competitive rates, or at all. If one of our vendors fails to perform adequately, we may experience increased costs, delays, maintenance issues, safety issues or negative public perception of our airline. Vendor bankruptcies, unionization, regulatory compliance issues or significant changes in the competitive marketplace among suppliers could adversely affect vendor services or force us to renegotiate existing agreements on less favorable terms. These events could result in disruptions in our operations or increases in our cost structure.

Our operations are often affected by factors beyond our control, including delays, cancellations, and other conditions, which could harm our business, financial condition and results of operations.

Like other airlines, our operations often are affected by delays, cancellations and other conditions caused by factors largely beyond our control.

Other conditions that might impact our operations include:

- lack of a national airline policy;
- lack of operational approval (e.g. new routes, aircraft deliveries, etc.) due to government shutdown;
- congestion at airports or air traffic control problems;
- adverse weather conditions;
- increased security measures or breaches in security;
- contagious illness and fear of contagion;
- international or domestic conflicts or terrorist activity; and
- other changes in business conditions.

Due to our concentration of flights in the Pacific Northwest and Alaska, we believe a large portion of our operation is more susceptible to adverse weather conditions. A general reduction in airline passenger traffic as a result of any of the above-mentioned factors could harm our business, financial condition and results of operations.

STRATEGY

The airline industry is highly competitive and susceptible to price discounting and changes in capacity, which could have a material adverse effect on the Company. If we cannot successfully compete in the marketplace, our business, financial condition and operating results will be materially adversely affected.

The U.S. airline industry is characterized by substantial price competition. In recent years, the market share held by low-cost carriers has increased significantly and is expected to continue to increase. Airlines also compete for market share by increasing or decreasing their capacity, including route systems and the number of markets served. Several of our competitors have increased their capacity in markets we serve, particularly on the West Coast, therefore increasing competition for those destinations. This increased competition in both domestic and international markets may have a material adverse effect on the Company’s results of operations, financial condition or liquidity.

We continue to strive toward aggressive cost-reduction goals that are an important part of our business strategy of offering the best value to passengers through competitive fares while achieving acceptable profit margins and return on capital. If we are unable to reduce our costs over the long-term and achieve sustained targeted return on invested capital, we will likely not be able to grow our business in the future or weather industry downturns and therefore our financial results may suffer.

The airline industry may undergo further restructuring, consolidation, or the creation or modification of alliances or joint ventures, any of which could have a material adverse effect on our business, financial condition and results of operations.

We continue to face strong competition from other carriers due to restructuring, consolidation, and the creation and modification of alliances and joint ventures. Since deregulation, both the U.S. and international airline industries have experienced consolidation through a number of mergers and acquisitions. Carriers may improve their competitive positions through airline alliances, slot swaps/ acquisitions, and/or joint ventures. Certain airline joint ventures further competition by allowing airlines to coordinate routes, pool revenues and costs, and enjoy other mutual benefits, achieving many of the benefits of consolidation.

We depend on a few key markets to be successful.

Our strategy is to focus on serving a few key markets, including Seattle, Los Angeles, Anchorage, Portland, Hawaii and San Diego. A significant portion of our flights occur to and from our Seattle hub. In 2014, passengers to and from Seattle accounted for 61% of our total passengers.

We believe that concentrating our service offerings in this way allows us to maximize our investment in personnel, aircraft, and ground facilities, as well as to gain greater advantage from sales and marketing efforts in those regions. As a result, we remain highly dependent on our key markets. Our business could be harmed by any circumstances causing a reduction in demand for air transportation in our key markets. An increase in competition in our key markets could also cause us to reduce fares or take other competitive measures that could harm our business, financial condition and results of operations.

Economic uncertainty or another recession would likely impact demand for our product and could harm our financial condition and results of operations.

The airline industry, which is subject to relatively high fixed costs and highly variable and unpredictable demand, is particularly sensitive to changes in economic conditions. We are also highly dependent on U.S. consumer confidence and the health of the U.S. economy. Unfavorable U.S. economic conditions have historically driven changes in travel patterns and have resulted in reduced spending for both leisure and business travel. For some consumers, leisure travel is a discretionary expense, and shorthaul travelers, in particular, have the option to replace air travel with surface travel. Businesses are able to forgo air travel by using communication alternatives such as videoconferencing and the Internet or may be more likely to purchase less expensive tickets to reduce costs, which can result in a decrease in average revenue per seat. Unfavorable economic conditions also hamper the ability of airlines to raise fares to counteract increased fuel, labor, and other costs. Unfavorable or even uncertain economic conditions could negatively affect our financial condition and results of operations.

We are dependent on a limited number of suppliers for aircraft and parts.

Alaska is dependent on Boeing as its sole supplier for aircraft and many aircraft parts. Horizon is similarly dependent on Bombardier. Additionally, each carrier is dependent on sole suppliers for aircraft engines. As a result, we are more vulnerable to any problems associated with the supply of those aircraft and parts, including design defects, mechanical problems, contractual performance by the manufacturers, or adverse perception by the public that would result in customer avoidance or in actions by the FAA resulting in an inability to operate our aircraft.

We rely on partner airlines for codeshare and frequent flier marketing arrangements.

Alaska and Horizon are parties to marketing agreements with a number of domestic and international air carriers, or “partners,” including, but not limited to, American Airlines and Delta Air Lines. These agreements provide that certain flight segments operated by us are held out as partner “codeshare” flights and that certain partner flights are held out for sale as Alaska codeshare flights. In addition, the agreements generally provide that members of Alaska’s Mileage Plan™ program can earn miles on or redeem miles for partner flights and vice versa. We receive revenue from flights sold under codeshare and from interline arrangements. In addition, we believe that the frequent flier arrangements are an important part of our Mileage Plan™ program. The loss of a significant partner through bankruptcy, consolidation, or otherwise, could have a negative effect on our revenues or the attractiveness of our Mileage Plan™, which we believe is a source of competitive advantage.

There is ongoing speculation that further airline consolidation or reorganization could occur in the future. We routinely engage in analysis and discussions regarding our own strategic position, including alliances, codeshare arrangements, interline arrangements, frequent flier program enhancements, and may have future discussions with other airlines regarding similar activities. If other airlines participate in consolidation or reorganization, those airlines may significantly improve their cost structures or revenue generation capabilities, thereby potentially making them stronger competitors of ours and potentially impairing our ability to realize expected benefits from our own strategic relationships.

INFORMATION TECHNOLOGY

We rely heavily on automated systems to operate our business, and a failure to invest in new technology, or a disruption of our current systems or their operators could harm our business.

We depend on automated systems to operate our business, including our airline reservation system, our telecommunication systems, our website, our maintenance systems, our check-in kiosks, and other systems. Substantially all of our tickets are issued to passengers as electronic tickets and the majority of our customers check in using our website or our airport kiosks. We depend on our reservation system to be able to issue, track and accept these electronic tickets. In order for our operations to work efficiently, we must continue to invest in new technology to ensure that our website, reservation system, and check-in systems are able to accommodate a high volume of traffic, maintain secure information, and deliver important flight information. Substantial or repeated website, reservations system or telecommunication systems failures or service disruptions could reduce the attractiveness of our services and cause our customers to do business with another airline. In addition, we rely on other automated systems for crew scheduling, flight dispatch, and other operational needs. Disruptions, untimely recovery, or a breach of these systems could result in the loss of important data, an increase of our expenses, an impact on our operational performance, or a possible temporary cessation of our operations.

If we do not maintain the privacy and security of our information, we could damage our reputation and incur substantial legal and regulatory costs.

We accept, store, and transmit information about our customers, our employees, our business partners and our business. In addition, we frequently rely on third-party hosting sites and data processors, including cloud providers. Our sensitive information relies on secure transmission over public and private networks. A compromise of our systems, the security of our infrastructure, or those of other business partners that result in our information being accessed or stolen by unauthorized persons could adversely affect our operations and our reputation.

FINANCIAL CONDITION AND FINANCIAL MARKETS

Our business, financial condition, and results of operations are substantially exposed to the volatility of jet fuel prices. Significant increases in jet fuel costs would harm our business.

Fuel costs constitute a significant portion of our total operating expenses, accounting for 32%, 34% and 35% of total operating expenses for the years ended 2014, 2013 and 2012, respectively. Future increases in the price of jet fuel may harm our business, financial condition and results of operations, unless we are able to increase fares and fees, or add additional ancillary fees to attempt to recover increasing fuel costs.

Certain of the Company's financing agreements have covenants that impose operating and financial restrictions on the Company and its subsidiaries.

Certain of our credit facilities and indentures governing our secured borrowings impose certain operating and financial covenants on us. Such covenants require us to maintain, depending on the particular agreement, minimum liquidity and/or minimum collateral coverage ratios, and other negative covenants customary for such financings. A decline in the value of collateral could result in a situation where we may not be able to maintain the required collateral coverage ratio.

Our ability to comply with these covenants may be affected by events beyond our control, including the overall industry revenue environment and the level of fuel costs, and we may be required to seek waivers or amendments of covenants, repay all or a portion of the debt or find alternative sources of financing.

Our maintenance costs will increase as our fleet ages, and we will periodically incur substantial maintenance costs due to the maintenance schedules of our aircraft fleet.

As of December 31, 2014, the average age of our NextGen aircraft (B737-800, -900, -900ERs) was approximately 6.1 years, and the average age of our Q400 aircraft was approximately 8.1 years. Our relatively new aircraft require less maintenance now than they will in the future. Any significant increase in maintenance expenses could have a material adverse effect on our results of operations.

BRAND AND REPUTATION

As we evolve our brand to appeal to a changing demographic and grow into new markets, we will engage in strategic initiatives that may not be favorably received by all customers.

We continue to focus on strategic initiatives designed to increase our brand appeal to a diverse and evolving demographic of airline travelers. These efforts could include significant improvements to our in-airport and on-board environments, increasing our direct customer relationships through improvements to our purchasing portals (digital and mobile), and optimization of our customer loyalty programs.

In pursuit of these efforts we may negatively affect our reputation with some of our existing customer base.

LABOR RELATIONS AND LABOR STRATEGY

A significant increase in labor costs, unsuccessful attempts to strengthen our relationships with union employees, or loss of key personnel could adversely affect our business and results of operations.

Labor costs are a significant component of our total expenses, accounting for approximately 41%, 42% and 42% of our non-fuel operating expenses in 2014, 2013 and 2012, respectively. Each of our represented employee groups has a separate collective bargaining agreement, and could make demands that would increase our operating expenses and adversely affect our financial performance if we agree to them. The same result could apply if we experience a significant increase in vendor labor costs that ultimately flow through to us.

As of December 31, 2014, labor unions represented approximately 83% of Alaska's and 48% of Horizon's employees. Although we have been successful in maturing communications, negotiating approaches, and other strategies to enhance workforce engagement in the Company's long-term vision, future uncertainty around open contracts could be a distraction, affecting employee focus in our business and diverting management's attention from other projects and issues.

We compete against the major U.S. airlines and other businesses for labor in many highly skilled positions. If we are unable to hire, train and retain qualified employees at a reasonable cost, sustain employee engagement in the Company's strategic vision, or if we are unsuccessful at implementing succession plans for our key staff, we may be unable to grow or sustain our business. In recent years, there have been pilot shortages in the regional market. Attrition beyond normal levels could negatively impact our operating results and our business prospects could be harmed.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

AIRCRAFT

The following table describes the aircraft we operate and their average age at December 31, 2014:

Aircraft Type	Seats	Owned	Leased	Total	Average Age in Years
B737 Freighters & Combis	0/72	6	–	6	21.2
B737-400/700	144/124	17	18	35	16.9
B737-800/900/900ER	163/181/181	86	10	96	6.1
Total Mainline Fleet		109	28	137	9.5
Q400	76	36	15	51	8.1
CRJ-700[(a)]	70	2	6	8	12.3
Total Regional Fleet		38	21	59	8.7
Total		147	49	196	9.3

(a) We also have eight leased CRJ-700s currently subleased to a third party to be operated for other carriers.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" discusses future orders and options for additional aircraft.

71 of our owned aircraft secure long-term debt arrangements or collateralize our revolving credit facility. See further discussion in "Liquidity and Capital Resources."

Alaska's leased B737 aircraft have lease expiration dates between 2015 and 2022. Horizon's leased Q400 aircraft have expiration dates in 2018, and the leases on the 14 CRJ-700 aircraft have expiration dates between 2018 and 2020. Alaska and Horizon have the option to extend most of the leases for additional periods, or the right to purchase the aircraft at the end of the lease term, usually at the then-fair-market value of the aircraft.

GROUND FACILITIES AND SERVICES

We own terminal buildings in various cities in the state of Alaska and several buildings located at or near Seattle-Tacoma International Airport (Sea-Tac) near Seattle, WA. These include a multi-bay hangar and shops complex (used primarily for line maintenance), a flight operations and training center, an air cargo facility, an information technology office and datacenter, and various other commercial office buildings.

We lease ticket counters, gates, cargo and baggage space, ground equipment, office space, and other support areas at the majority of the airports they serve. We also lease operations, training, and aircraft maintenance facilities in Portland and Spokane, as well as line maintenance stations in Boise, Bellingham, Eugene, San Jose, Medford, Redmond, Seattle, and Spokane. Further, we lease call center facilities in Phoenix, AZ and Boise, ID.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

As of December 31, 2014, there were 131,556,573 shares of common stock of Alaska Air Group, Inc. issued and 131,481,473 shares outstanding and 2,555 shareholders of record. In 2014, we paid quarterly dividends of $0.125 per share in March, June, September, and December. Our common stock is listed on the New York Stock Exchange (symbol: ALK). The following table shows the trading range of Alaska Air Group, Inc. common stock on the New York Stock Exchange:

	2014		2013	
	High	Low	High	Low
First Quarter	**$ 46.66**	**$ 36.48**	$ 31.98	$ 21.97
Second Quarter	**50.04**	**44.56**	33.74	25.21
Third Quarter	**49.64**	**42.60**	32.11	25.83
Fourth Quarter	**59.77**	**41.49**	39.10	30.59

SALES OF NON-REGISTERED SECURITIES

None

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

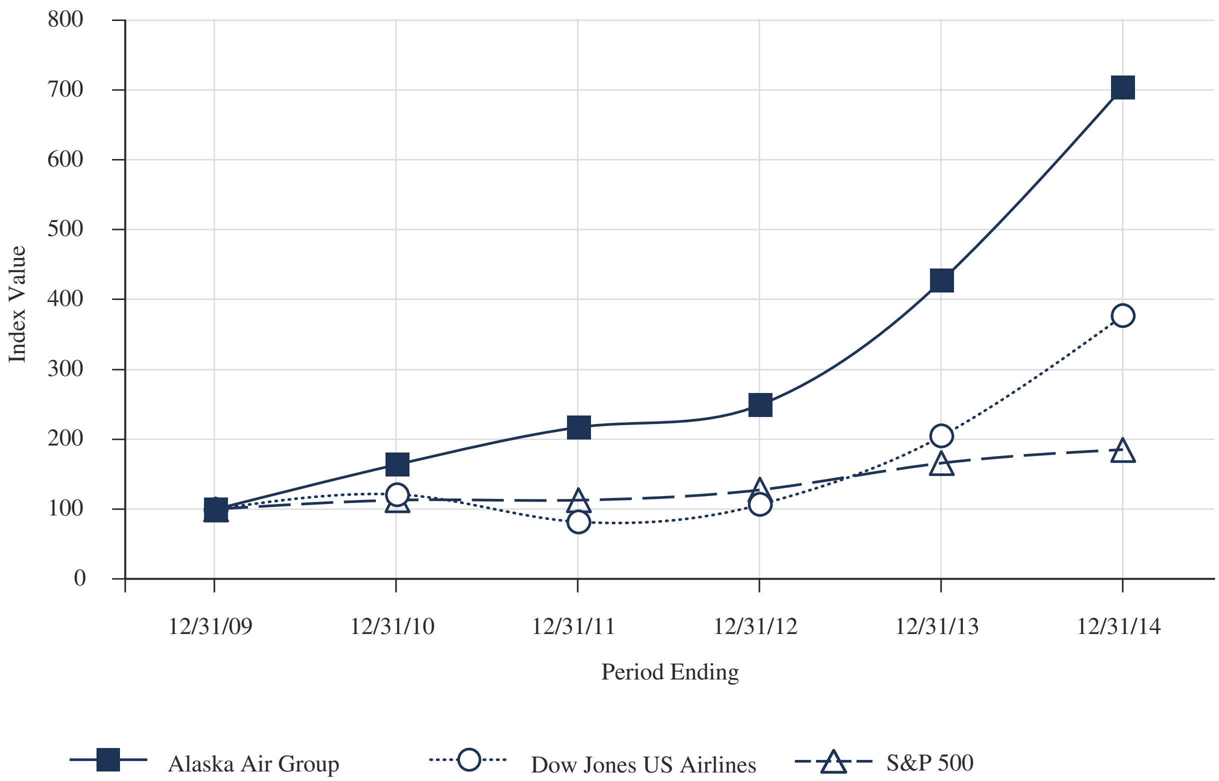
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares (or units) Purchased as Part of Publicly Announced Plans or Programs	Maximum remaining dollar value of shares that can be purchased under the plan *(in millions)*
October 1, 2014 – October 31, 2014	853,906	$ 45.81	853,906	
November 1, 2014 – November 30, 2014	584,947	55.58	584,947	
December 1, 2014 – December 31, 2014	619,851	57.08	619,851	
Total	2,058,704	$ 52.82	2,058,704	$ 384

Purchased pursuant to a $650 million repurchase plan authorized by the Board of Directors in May 2014.

PERFORMANCE GRAPH

The following graph compares our cumulative total stockholder return since December 31, 2009 with the S&P 500 Index and the Dow Jones U.S. Airlines Index. The graph assumes that the value of the investment in our common stock and each index (including reinvestment of dividends) was $100 on December 31, 2009.

Comparison of 5 year Cumulative Total Return



Form 10-K

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

	2014	2013	2012	2011	2010
CONSOLIDATED OPERATING RESULTS *(audited)*					
Year Ended December 31 (in millions, except per-share amounts):					
Operating Revenues[a]	**$ 5,368**	$ 5,156	$ 4,657	$ 4,318	$ 3,832
Operating Expenses	**4,406**	4,318	4,125	3,869	3,361
Operating Income	**962**	838	532	449	471
Nonoperating income (expense), net of interest capitalized[b]	**13**	(22)	(18)	(55)	(65)
Income before income tax	**975**	816	514	394	406
Net Income	**$ 605**	$ 508	$ 316	$ 245	$ 251
Average basic shares outstanding	**135.445**	139.910	141.416	143.510	143.288
Average diluted shares outstanding	**136.801**	141.878	143.568	146.842	147.142
Basic earnings per share	**4.47**	3.63	2.23	1.71	1.75
Diluted earnings per share	**4.42**	3.58	2.20	1.66	1.71
Cash dividend declared per share	**$ 0.50**	0.20	–	–	–
CONSOLIDATED FINANCIAL POSITION *(audited)*					
At End of Period (in millions):					
Total assets	**6,181**	5,838	5,505	5,167	5,017
Long-term debt, including current portion	**803**	871	1,032	1,307	1,534
Shareholders' equity	**2,127**	2,029	1,421	1,174	1,106
OPERATING STATISTICS *(unaudited)*					
Consolidated:[c]					
Revenue passengers (000)	**29,278**	27,414	25,896	24,790	23,334
Revenue passenger miles (RPM) (000,000) "traffic"	**30,718**	28,833	27,007	25,032	22,841
Available seat miles (ASM) (000,000) "capacity"	**36,078**	33,672	31,428	29,627	27,736
Load factor	**85.1%**	85.6%	85.9%	84.5%	82.4%
Yield	**14.91¢**	14.80¢	14.92¢	14.81¢	14.30¢
Passenger revenues per ASM (PRASM)	**12.69¢**	12.67¢	12.82¢	12.51¢	11.78¢
Operating revenues per ASM (RASM)[d]	**14.88¢**	14.74¢	14.82¢	14.57¢	13.82¢
Operating expenses per ASM, excluding fuel and noted items (CASMex)[d]	**8.36¢**	8.47¢	8.48¢	8.55¢	8.82¢
Mainline:					
Revenue passengers (000)	**20,972**	19,737	18,526	17,810	16,514
RPMs (000,000) "traffic"	**27,778**	26,172	24,417	22,586	20,350
ASMs (000,000) "capacity"	**32,430**	30,411	28,180	26,517	24,434
Load factor	**85.7%**	86.1%	86.6%	85.2%	83.3%
Yield	**13.58¢**	13.33¢	13.45¢	13.26¢	12.75¢
PRASM	**11.64¢**	11.48¢	11.65¢	11.29¢	10.62¢
CASMex[d]	**7.45¢**	7.54¢	7.56¢	7.60¢	7.85¢
Regional:					
Revenue passengers (000)	**8,306**	7,677	7,371	6,980	6,820
RPMs (000,000) "traffic"	**2,940**	2,661	2,590	2,446	2,491
ASMs (000,000) "capacity"	**3,648**	3,261	3,247	3,110	3,302
Load factor	**80.6%**	81.6%	79.8%	78.6%	75.4%
Yield	**27.40¢**	29.20¢	28.81¢	29.13¢	26.95¢
PRASM	**22.08¢**	23.83¢	22.98¢	22.94¢	20.33¢

[(a)] In the third quarter of 2013, the Company adopted Accounting Standards Update 2009-13, "Multiple-Deliverable Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force" (ASU 2009-13).
[(b)] Capitalized interest was $20 million, $21 million, $18 million, $12 million, and $6 million for 2014, 2013, 2012, 2011, and 2010, respectively.
[(c)] Includes flights under Capacity Purchase Agreements operated by PenAir and by SkyWest beginning in May 2011.
[(d)] See reconciliation of RASM and CASMex to the most directly related GAAP measure in the "Results of Operations" section.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand the Company, our operations and our present business environment. MD&A is provided as a supplement to – and should be read in conjunction with – our consolidated financial statements and the accompanying notes. All statements in the following discussion that are not statements of historical information or descriptions of current accounting policy are forward-looking statements. Please consider our forward-looking statements in light of the risks referred to in this report's introductory cautionary note and the risks mentioned in Part I, "Item 1A. Risk Factors." This overview summarizes the MD&A, which includes the following sections:

- *Year in Review*—highlights from 2014 outlining some of the major events that happened during the year and how they affected our financial performance.

- *Results of Operations*—an in-depth analysis of our revenues by segment and our expenses from a consolidated perspective for the three years presented in our consolidated financial statements. To the extent material to the understanding of segment profitability, we more fully describe the segment expenses per financial statement line item. We believe this analysis will help the reader better understand our consolidated statements of operations. Financial and statistical data is also included here. This section also includes forward-looking statements regarding our view of 2015.

- *Liquidity and Capital Resources*—an analysis of cash flows, sources and uses of cash, contractual obligations, commitments and off-balance sheet arrangements, and an overview of financial position.

- *Critical Accounting Estimates*—a discussion of our accounting estimates that involve significant judgment and uncertainties.

YEAR IN REVIEW

Our 2014 consolidated pretax income was $975 million compared to $816 million in 2013. The $159 million improvement was primarily due to the net increase of $212 million in revenues, a decrease of $49 million in our fuel expense, and $13 million in non-operating income compared to a non-operating loss of $22 million in the prior year. Partially offsetting these benefits was an increase in non-fuel operating expenses of $167 million, or 6%, to support the increased capacity of 7%.

The growth in revenues of $212 million was primarily due to an increase in passenger revenue of $312 million resulting from a 6.5% increase in traffic and 0.7% higher ticket yields, partially offset by a special mileage plan revenue item of $192 million resulting from the adoption of new accounting standards in the prior year. The increase in operating expenses was primarily due to increases in wages and benefits, contracted services and depreciation expense as we expanded our fleet and entered into new markets where we almost exclusively use vendors for our station operations.

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

Accomplishments and Highlights

Financial highlights from 2014 include:

- Reported record full-year net income, excluding special items, of $571 million, or $4.18 per diluted share, compared to $383 million, or $2.70 per diluted share in 2013.
- Reported net income for the full year under GAAP of $605 million, or $4.42 per diluted share, compared to net income of $508 million, or $3.58 per diluted share in 2013.
- Declared a $0.20 per share dividend, up 60% from the prior quarter. The dividend will be paid on March 10, to shareholders of record as of February 24, 2015.
- Paid $0.125 per-share quarterly cash dividend on December 3, bringing total dividend payments in 2014 to $68 million.
- Repurchased 7,316,731 shares of common stock for an average price of $47.23 during 2014 for $348 million, or 6.9% of market capitalization at the beginning of 2014. Since 2007, Air Group has used $827 million to repurchase 49 million shares at an average price of $16.85.
- Grew passenger revenues by 8% compared to the fourth quarter of 2013, and by 7% compared to full-year 2013.
- Generated record full-year adjusted pretax margin of 17.2% in 2014 compared to 12.4% in 2013.
- Achieved return on invested capital of 18.6% in 2014, compared to 13.6% in 2013.
- Generated over $1.0 billion in operating cash flows and $336 million in free cash flows in 2014.
- Lowered adjusted debt-to-total capitalization ratio to 31% as of December 31, 2014.
- Held $1.2 billion in unrestricted cash and marketable securities as of December 31, 2014.
- Became one of only two U.S. airlines with investment grade credit ratings.
- Named "Top Dividend Stock of the Dow Transports" at Dividend Channel with 1.2% yield.

Year-to-date highlights of Alaska Air Group's five-year strategic plan:

Safety & Compliance

- Launched Ready, Safe, Go safety campaign designed to increase safety awareness across the Air Group System.

People Focus

- Awarded a record $116 million in incentive pay to employees for 2014, or more than one month's pay for most employees. Over the last five years, employees have earned more than $473 million in incentive pay, averaging 8.7% of annual pay.

- Signed a five-year agreement with Alaska Airline's Flight Attendants in December 2014.
- Signed a six-year contract with Horizon's aircraft technicians and fleet service agents in June 2014.
- Signed a five-year contract with Alaska's clerical, office, and passenger service employees in April 2014.
- Signed a four-year contract with Horizon's dispatchers in April 2014.
- Completed "Gear Up" - an intensive leadership workshop for over 1,200 leaders at Alaska and Horizon.

Hassle-free Customer Experience

- Ranked "Highest in Customer Satisfaction Among Traditional Network Carriers" by J.D. Power and Associates for the seventh year in a row.
- Ranked as the best airline in the U.S. by The Wall Street Journal's "Middle Seat" scorecard for two consecutive years.
- Ranked highest by frequent fliers in the first-ever J.D. Power Airline Loyalty/Rewards Program Satisfaction Report.
- Held the top spot in U.S. Department of Transportation on-time performance among largest eight U.S. airlines for the twelve months ended November 2014.
- Named No. 1 on-time carrier in North America for the fifth year in a row by FlightStats in January 2015.
- Launched online self-tag baggage options for passengers flying from Seattle to San Diego, Anchorage, and Juneau.
- Became the launch customer of Boeing's new, innovative, high-capacity 737 Space Bins, which will increase bag capacity in the cabin by 48%.

Energetic & Compelling Brand

- Launched Alaska Beyond™ in-flight experience featuring gourmet Tom Douglas signature meals, new streaming in-flight entertainment, and power at every seat on our 737-800/900/900ER aircraft.
- Received the 2014 Community Impact Award from Seattle Business Magazine.
- Celebrated the opening of the Alaska Airlines Center sports complex at the University of Alaska Anchorage.
- Committed over $7 million to support local communities, including job training for workers at the Seattle-Tacoma airport, STEM-focused education programs at Seattle's Museum of Flight, and Seattle's new bicycle sharing program.
- Flew 13 relief flights to Los Cabos, Loreto, and Mazatlan, Mexico and transported approximately 2,000 passengers to safety following Hurricane Odile.

Low Fares, Low Costs, and Network Growth

- Delivered ten additional Boeing 737-900ERs, which will further strengthen Alaska's fuel-efficient fleet.
- Exercised options for two Q400 aircraft to be delivered in 2017, and ordered an additional Q400.
- Added new Recaro seats and power at every seat for 95 aircraft.

- Increased fuel efficiency (as measured by seat-miles per gallon) by 2.1% over 2013.
- Added split-scimitar winglets to 48 planned aircraft, which are expected to improve fuel efficiency by 1.5% per aircraft.
- Lowered unit costs excluding fuel and special items for the fifth consecutive year, to the lowest level ever.
- Grew Seattle departures by 4% in 2014 and expect to grow Seattle departures by 10% in 2015.
- New routes launched and announced in 2014 are as follows:

New Non-Stop Routes (Launched)	Frequency	Start Date
Salt Lake City to Portland	2x Daily	6/9/2014
Salt Lake City to San Diego	2x Daily	6/10/2014
Salt Lake City to Los Angeles	Daily	6/11/2014
Salt Lake City to San Jose	Daily	6/12/2014
Salt Lake City to Boise	Daily	6/16/2014
Salt Lake City to Las Vegas	2x Daily	6/16/2014
Salt Lake City to San Francisco	Daily	6/18/2014
Portland to Kalispell	Daily, Seasonal	6/9/2014
Seattle to New Orleans	Daily	6/12/2014
Seattle to Tampa	Daily	6/20/2014
Seattle to Baltimore	Daily	9/2/2014
Seattle to Detroit	Daily	9/4/2014
Seattle to Albuquerque	Daily	9/18/2014
Portland to Puerto Vallarta, Mexico	3x Weekly (Seasonal)	11/4/2014
Seattle to Cancun, Mexico	Daily (Seasonal)	11/6/2014
Portland to Los Cabos, Mexico	4x Weekly (Seasonal)	11/20/2014

New Non-Stop Routes (Announced)	Frequency	Start Date
Las Vegas to Mammoth Lakes	2x Weekly (Seasonal)	1/15/2015
San Diego to Kona	3x Weekly	3/5/2015
Seattle to Washington D.C. (Dulles)	Daily	3/11/2015
Seattle to Milwaukee	Daily	7/1/2015
Seattle to Oklahoma City	Daily	7/1/2015
Portland to St. Louis	Daily	7/1/2015

Capital Allocation

In 2014, we repurchased 7,316,731 shares of our common stock for $348 million under the share repurchase programs authorized by our Board of Directors. Since 2007, we have repurchased 49 million shares of common stock under such programs for $827 million for an average price of approximately $17 per share. In 2014, we increased our quarterly dividend 25% from $0.10 per share to $0.125 per share, and subsequent to December 31, 2014, we announced a 60% increase to $0.20 per share. Overall, we returned $416 million to shareholders during 2014 and expect to exceed that amount in 2015.

Outlook

Our primary focus every year is to run safe, compliant and reliable operations at our airlines. In addition to our primary objective, we will remain focused on providing a hassle-free experience for our customers, and building a compelling brand to support network growth. Specifically, we will continue to improve our in-flight experience with our Alaska Beyond™ in-flight experience featuring Tom Douglas signature meals, new streaming in-flight entertainment, comfortable Recaro seats with power at every seat, and our award-winning customer service.

Currently, we see strong demand for 2015, and because of our strong balance sheet and the structure of our fleet, we will flex our fleet to meet demand and allocate capacity in the markets that meet our return objectives. This includes our expectation to grow departures out of Seattle by 10% in 2015. Additionally, competitive capacity is expected to be 15% higher in the first quarter and 12% higher in 2015 based on current schedules. We expect Delta Air Lines, our largest direct competitor, to increase its overlapping capacity from 41% in 2014 to 50% in 2015.

Long-term, we plan to vigorously defend our markets through great customer service, Mileage Plan™ promotions, schedule changes, community events, and additional advertising efforts. We will also continue to focus on lowering unit costs so that we can compete more effectively. Furthermore, the significant decline in fuel prices over the past several months improves our financial outlook as fuel is one of our largest operating expenses.

Given our current fleet plan, we expect capacity to increase approximately 11% in the first quarter of 2015 and between 9% and 10% for the full-year 2015.

RESULTS OF OPERATIONS
2014 COMPARED WITH 2013

Our consolidated net income for 2014 was $605 million, or $4.42 per diluted share, compared to net income of $508 million, or $3.58 per diluted share, in 2013. Significant items impacting the comparability between the periods are as follows:

- Both periods include adjustments to reflect the timing of net unrealized mark-to-market gains or losses related to our fuel hedge positions. For 2014, we recognized net mark-to-market adjustments of $23 million ($15 million after tax, or $0.11 per diluted share) compared to gains of $8 million ($5 million after tax, or $0.03 per share) in 2013.

- In 2014, we recognized a one-time, non-cash benefit from the curtailment of certain post-retirement benefit plans of $20 million and a one-time gain associated with the settlement of a legal matter of $10 million. The aggregate $30 million ($19 million in aggregate after tax, or $0.13 per diluted share) is included in Special items in the consolidated statement of operations.

- In 2013, we recognized a one-time, non-cash Special mileage plan revenue item of $192 million ($120 million after tax, or $0.85 per diluted share) that resulted from the application of new accounting rules associated with the modified Bank of America Affinity Card Agreement, and the effect of an increase in the estimate of the number of frequent flier miles expected to expire unused.

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

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

- We believe it is the basis by which we are evaluated by industry analysts;

- By eliminating fuel expense and certain special items from our unit metrics, we believe that we have better visibility into the results of our non-fuel continuing operations. Our industry is highly competitive and is characterized by high fixed costs, so even a small reduction in non-fuel operating costs can result in a significant improvement in operating results. In addition, we believe that all domestic carriers are similarly impacted by changes in jet fuel costs over the long run, so it is important for management (and thus investors) to understand the impact of (and trends in) company-specific cost drivers such as labor rates and productivity, airport costs, maintenance costs, etc., which are more controllable by management;

- Prior year Operating revenue per ASM (RASM) excludes a favorable, one-time, non-cash Special mileage plan revenue item of $192 million primarily related to our modified affinity card agreement with Bank of America, executed in July 2013. In accordance with accounting standards, we recorded this item in the third quarter of 2013, and it reflects a non-cash adjustment of the value of miles outstanding in the program. We believe it is appropriate to exclude this special revenue item from recurring revenues from operations;

- CASM excluding fuel and special items is one of the most important measures used by management and by the Air Group Board of Directors in assessing quarterly and annual cost performance;

- Our results excluding fuel expense and special items serve as the basis for our various employee incentive plans, thus the information allows investors to better understand the changes in variable incentive pay expense in our consolidated statements of operations; and

- It is useful to monitor performance without these items as it improves a reader's ability to compare our results to those of other airlines.

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

Excluding the impact of mark-to-market fuel hedge adjustments, special items, and the one-time Special mileage plan revenue item, our adjusted consolidated net income for 2014 was $571 million, or $4.18 per diluted share, compared to an adjusted consolidated net income of $383 million, or $2.70 per share, in 2013.

	Twelve Months Ended December 31,			
	2014		2013	
(in millions, except per-share amounts)	Dollars	Diluted EPS	Dollars	Diluted EPS
Net income and diluted EPS as reported	**$ 605**	**$ 4.42**	$ 508	$ 3.58
Mark-to-market fuel hedge adjustments, net of tax	**(15)**	**(0.11)**	(5)	(0.03)
Special items, net of tax	**(19)**	**(0.14)**	–	–
Special mileage plan revenue, net of tax	**–**	**–**	(120)	(0.85)
Non-GAAP adjusted income and per-share amounts	**$ 571**	**$ 4.18**	$ 383	$ 2.70

Revenues adjusted for the one-time Special mileage plan item are as follows:

	Twelve Months Ended December 31,		
	2014	2013	% Change
Total operating revenues	**$ 5,368**	$ 5,156	4.1
Less: Special mileage plan revenue	**–**	192	NM
Adjusted Revenue	**$ 5,368**	$ 4,964	8.1
Consolidated ASMs	**36,078**	33,672	7.1
RASM	**14.88¢**	14.74¢	0.9

NM - Not Meaningful

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Our operating costs per ASM (CASM) are summarized below:

	Twelve Months Ended December 31,		
	2014	**2013**	**% Change**
Consolidated:			
Total operating expenses per ASM (CASM)	**12.21¢**	12.82¢	(4.8)
Less the following components:			
Aircraft fuel, including hedging gains and losses	**3.93**	4.35	(9.7)
Special items	**(0.08)**	–	NM
CASM, excluding fuel and fleet transition costs	**8.36¢**	8.47¢	(1.3)
Mainline:			
Total mainline operating expenses per ASM (CASM)	**11.15¢**	11.77¢	(5.3)
Less the following components:			
Aircraft fuel, including hedging gains and losses	**3.79**	4.23	(10.4)
Special items	**(0.09)**	–	NM
CASM, excluding fuel	**7.45¢**	7.54¢	(1.2)

NM - Not meaningful

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

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

	Twelve Months Ended December 31,				
	2014	**2013**	**Change**	**2012**	**Change**
Consolidated Operating Statistics:[(a)]					
Revenue passengers (000)	**29,278**	27,414	6.8%	25,896	5.9%
RPMs (000,000) "traffic"	**30,718**	28,833	6.5%	27,007	6.8%
ASMs (000,000) "capacity"	**36,078**	33,672	7.1%	31,428	7.1%
Load factor	**85.1%**	85.6%	(0.5) pts	85.9%	(0.3) pts
Yield	**14.91¢**	14.80¢	0.7%	14.92¢	(0.8)%
PRASM	**12.69¢**	12.67¢	0.2%	12.82¢	(1.2)%
RASM[(b)]	**14.88¢**	14.74¢	0.9%	14.82¢	(0.5)%
CASM excluding fuel and fleet transition costs[(b)]	**8.36¢**	8.47¢	(1.3)%	8.48¢	(0.1)%
Economic fuel cost per gallon[(b)]	**$3.08**	$3.30	(6.7)%	$3.37	(2.1)%
Fuel gallons (000,000)	**469**	447	4.9%	422	5.9%
ASM's per gallon	**76.9**	75.3	2.1%	74.5	1.1%
Average number of full-time equivalent employees (FTEs)	**12,739**	12,163	4.7%	11,955	1.7%
Mainline Operating Statistics:					
Revenue passengers (000)	**20,972**	19,737	6.3%	18,526	6.5%
RPMs (000,000) "traffic"	**27,778**	26,172	6.1%	24,417	7.2%
ASMs (000,000) "capacity"	**32,430**	30,411	6.6%	28,180	7.9%
Load factor	**85.7%**	86.1%	(0.4) pts	86.6%	(0.5) pts
Yield	**13.58¢**	13.33¢	1.9%	13.45¢	(0.9)%
PRASM	**11.64¢**	11.48¢	1.4%	11.65¢	(1.5)%
CASM excluding fuel[(b)]	**7.45¢**	7.54¢	(1.2)%	7.56¢	(0.3)%
Economic fuel cost per gallon[(b)]	**$3.07**	$3.30	(7.0)%	$3.36	(1.8)%
Fuel gallons (000,000)	**407**	393	3.6%	368	6.8%
ASM's per gallon	**79.7**	77.4	3.0%	76.6	1.0%
Average number of FTE's	**9,910**	9,493	4.4%	9,178	3.4%
Aircraft utilization	**10.5**	10.6	(0.9)%	10.7	(0.9)%
Average aircraft stage length	**1,182**	1,177	0.4%	1,161	1.4%
Mainline operating fleet at period-end	**137 a/c**	131 a/c	6 a/c	124 a/c	7 a/c
Regional Operating Statistics:[(c)]					
Revenue passengers (000)	**8,306**	7,677	8.2%	7,371	4.2%
RPMs (000,000) "traffic"	**2,940**	2,661	10.5%	2,590	2.7%
ASMs (000,000) "capacity"	**3,648**	3,261	11.9%	3,247	0.4%
Load factor	**80.6%**	81.6%	(1.0) pts	79.8%	1.8 pts
Yield	**27.40¢**	29.20¢	(6.2)%	28.81¢	1.4%
PRASM	**22.08¢**	23.83¢	(7.3)%	22.98¢	3.7%

(a) Except for FTEs, data includes information related to regional CPA flying with Horizon, SkyWest and PenAir.

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

(c) Data presented includes information related to regional CPAs.

OPERATING REVENUES

Total operating revenues increased $212 million, or 4%, during 2014 compared to the same period in 2013. Adjusted for the Special mileage plan revenue item recognized in 2013, operating revenues increased $404 million, or 8% during 2014. The changes are summarized in the following table:

	Twelve Months Ended December 31,		
(in millions)	**2014**	**2013**	**% Change**
Passenger			
Mainline	**$ 3,774**	$ 3,490	8
Regional	**805**	777	4
Total passenger revenue	**$ 4,579**	$ 4,267	7
Freight and mail	**114**	113	1
Other - net	**675**	584	16
Special mileage plan revenue	**–**	192	NM
Total operating revenues	**$ 5,368**	$ 5,156	4

NM - Not meaningful

Passenger Revenue - Mainline

Mainline passenger revenue for 2014 increased by 8% on a 6.6% increase in capacity and a 1.4% increase in PRASM compared to 2013. The increase in capacity was driven by new routes, seats added to our existing fleet as part of our cabin improvement project, and delivery of 10 737-900ERs in 2014. The increase in PRASM was driven by a 1.9% increase in ticket yield, partially offset by a 0.4 point decrease in load factor compared to the prior year. Increase in yield was due to reallocation of capacity to markets with stronger demand and by a change in revenue allocation between Mainline and Regional service because of certain industry pricing changes. Without the industry change, Mainline yields would have increased by 0.9%.

We expect competitive pressures on unit revenues to continue into 2015. However, we expect total passenger revenue to increase with the expected 8% growth in our capacity.

Passenger Revenue - Regional

Regional passenger revenue increased by $28 million, or 4%, compared to 2013 on an 11.9% increase in capacity, partially offset by a 7.3% decrease in PRASM compared to 2013. The decrease in PRASM was due to a 6.2% decrease in ticket yield coupled with a 1.0 point decrease in load factor compared to the prior year. The decline in yield was driven mostly by a change in revenue allocation between Mainline and Regional service because of certain industry pricing changes. Without the revenue allocation adjustment, yield would have decreased 1.7%. Additionally, the average trip length for our Regional flights increased 3%, which also put downward pressure on yields.

We expect Regional passenger revenue to increase in 2015, primarily due to our expanded capacity purchase agreement with SkyWest to fly E-175 regional aircraft beginning in the third quarter of 2015. These aircraft will offer three booking classes.

Other - Net

Other–net revenue increased $91 million, or 16%, from 2013. This is primarily due to an increase in our Mileage Plan™ revenues of $39 million or 15%, due to increase in miles sold and an increase in cash received per mile. Additionally, bag fees and ticket change fees are up 23% and 12%, respectively, due to changes in our fee structure that took effect in November 2013.

We expect our Other–net revenue to increase in 2015 as we provide more product offerings and have more passengers.

Special Mileage Plan Revenue

In 2013, we modified and extended our co-branded credit card agreement with Bank of America Corporation (BAC). In connection with this agreement and as a result of applying related accounting standards, we recorded a one-time, non-cash Special mileage plan revenue item of $192 million primarily related to our revaluation of the deferred revenue liability related to miles previously sold to BAC.

OPERATING EXPENSES

Total operating expenses increased $88 million, or 2%, compared to 2013, primarily driven by higher non-fuel costs due to increased capacity. We believe it is useful to summarize operating expenses as follows, which is consistent with the way expenses are reported internally and evaluated by management:

	Twelve Months Ended December 31,		
(in millions)	**2014**	**2013**	**% Change**
Fuel expense	**$ 1,418**	$ 1,467	(3)
Non-fuel expenses	**3,018**	2,851	6
Special items	**(30)**	–	NM
Total Operating Expenses	**$ 4,406**	$ 4,318	2

NM - Not Meaningful

Form 10-K

Significant operating expense variances from 2013 are more fully described below.

Wages and Benefits

Wages and benefits increased during 2014 by $50 million, or 5%, compared to 2013. The primary components of wages and benefits are shown in the following table:

	Twelve Months Ended December 31,		
(in millions)	**2014**	**2013**	**% Change**
Wages	**$ 862**	$ 788	9
Medical and other benefits	**150**	145	3
Defined contribution plans	**53**	44	20
Pension - Defined benefit plans	**9**	50	(82)
Payroll taxes	**62**	59	5
Total wages and benefits	**$ 1,136**	$ 1,086	5

Wages increased 9%, primarily due to annualization of new labor contracts that included higher rates, a 4.7% increase in full-time employee equivalents, and an $8 million signing bonus paid to Alaska's flight attendants in December 2014 when a new collective bargaining agreement was ratified. The increase in FTEs is to support the growth in our business.

Defined contribution plans increased 20% due to an increase in the number of employees participating in the plans and an increase in the employer contribution for non-union employees previously in the pension plan.

Pension expense decreased 82%, compared to the same period in the prior year. The decline is due to having a lower accumulated loss to amortize as a result of higher plan assets, a higher discount rate at December 31, 2013 compared to December 31, 2012, and the freezing of plan benefits for our non-union employees beginning January 1, 2014.

We expect wages and benefits to be higher in 2015 compared to 2014 on a 3% to 4% increase in FTEs and higher pension expense of approximately $20 million.

Variable Incentive Pay

Variable incentive pay expense increased from $105 million in 2013 to $116 million in 2014. The increase is due to actual results exceeding our targets for financial and operational performance more so than in the prior year in addition to a higher wage base.

We expect variable incentive pay in 2015 to be lower due to changes to our incentive pay metrics to reflect our improving performance. However, actual amounts could differ based on 2015 performance.

Aircraft Fuel

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

Aircraft fuel expense decreased $49 million, or 3% compared to 2013. The elements of the change are illustrated in the following table:

	Twelve Months Ended December 31,			
	2014		**2013**	
(in millions, except for per gallon amounts)	**Dollars**	**Cost/Gal**	**Dollars**	**Cost/Gal**
Raw or "into-plane" fuel cost	**$ 1,400**	**$ 2.99**	$ 1,423	$ 3.19
(Gains) losses on settled hedges	**41**	**0.09**	52	0.11
Consolidated economic fuel expense	**$ 1,441**	**$ 3.08**	$ 1,475	$ 3.30
Mark-to-market fuel hedge adjustments	**(23)**	**(0.05)**	(8)	(0.02)
GAAP fuel expense	**$ 1,418**	**$ 3.03**	$ 1,467	$ 3.28
Fuel gallons	**469**		447	

Fuel gallons consumed increased 4.9% in line with the increase in departures and capacity, partially offset by a 2.1% improvement in fuel efficiency as measured by ASMs per gallon.

The raw fuel price per gallon decreased 6.3% as a result of lower West Coast jet fuel prices. West Coast jet fuel prices are impacted by both the price of crude oil, as well as refining margins associated with the conversion of crude oil to jet fuel. The decrease in raw fuel price per gallon during 2014 was due to a decrease in average crude oil prices of 5.2% and decrease in refining margins of 15.7%, as compared to the prior year.

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

Losses recognized for hedges that settled during the year were $41 million in 2014, compared to losses of $52 million in 2013. These amounts represent the cash received, or paid, net of the premium expense recognized for those hedges.

In the third quarter of 2014, we discontinued the hedge program for refining margins. We currently expect our economic fuel price per gallon to be approximately 41.0% lower in the first quarter of 2015 than the first quarter of 2014 due to lower West Coast jet fuel prices and the decrease in premium costs related to our fuel hedge program. As both oil prices and refining margins are volatile, we are unable to forecast the full-year cost with any certainty.

Aircraft Maintenance

Aircraft maintenance decreased by $18 million, or 7%, compared to the prior year. The decrease is primarily due to a $22 million reduction in our power-by-the-hour (PBH) expense, $11 million in lower lease return costs, and five fewer unscheduled engine checks for our Q400 aircraft. Offsetting these decreases was an $11 million increase in engine maintenance expense primarily related to our 737-400 engines, and slightly higher airframe checks for both our 737 and Q400 fleet.

The decrease in our PBH expense is due to fewer engines covered by the contracts in the current year, along with reduced flying on the engines that are still under the current contract. The decrease is return costs is due to the four aircraft we returned during the current year and two aircraft we returned at the end of the prior year with no lease return costs expected for lease returns in 2015.

We expect aircraft maintenance to be 10% to 15% higher in 2015 due to an increase in our engine maintenance expense for both fleet types.

Landing Fees and Other Rentals

Landing fees and other rental expenses increased $17 million, or 6%, primarily due to increased flying in 2014 as we increased capacity and entered into new markets.

We expect landing fees and other rental expenses to increase in 2015 due to the expected capacity growth.

Contracted Services

Contracted services increased $33 million, or 15%, including $15 million additional purchased capacity from SkyWest and $15 million increased contract ramp and passenger handling costs resulting from new stations and rate increases in Seattle.

We expect contracted services to be higher in 2015, as we expand into new stations and start E-175 flying with SkyWest.

Selling Expenses

Selling expenses increased by $20 million, or 11%, compared to 2013, mostly due to increased promotional and advertising activities in Seattle and increased credit card commissions from higher revenue.

We expect selling expense to increase in 2015, reflecting our growth in passengers.

Depreciation and Amortization

Depreciation and amortization expenses increased by $24 million, or 9%, due to increased number of aircraft in our fleet.

We expect depreciation and amortization expense to increase approximately 15% in the next year as we continue to purchase aircraft and make other customer focused investments.

Food and Beverage Service

Food and beverage service expenses increased by $9 million, or 11%, due to the increased number of passengers, and more premium product offerings.

We expect food and beverage expenses to outpace passenger growth in 2015, as we invest more in our onboard product.

Other Operating Expenses

Other operating expenses increased $30 million, or 11%, compared to 2013. The increase is primarily driven by IT project costs, higher professional fees, and flight crew hotel costs.

We expect other operating expenses to be higher in 2015 due to additional training costs, and other personnel expenses.

Special Items

In the fourth quarter of 2014, we recorded special items for $30 million. This is primarily due to a $20 million non-cash curtailment gain related to certain post-retirement benefits that were reduced in 2014. The remaining gain is related to a one-time cash settlement related to a legal matter.

Consolidated Nonoperating Income (Expense)

During 2014, we recorded nonoperating income of $13 million, compared to an expense of $22 million in 2013. The $35 million favorable change is due to gains recorded in the current year related to the sale of certain equity securities and reduced interest expense due to lower average debt levels. Additionally, in the prior year, we incurred costs of $12 million to overhaul and repair three aircraft that were previously subleased to another carrier.

Operating Costs per Available Seat Mile

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

	Twelve Months Ended December 31,				
	2014	2013	2014	2013	% Change
(in millions, except CASM)	Amount	Amount	CASM	CASM	CASM
Wages and benefits	**$ 1,136**	$ 1,086	**3.16¢**	3.23¢	**(2.2)%**
Variable incentive pay	**116**	105	**0.32**	0.31	**3.2%**
Aircraft maintenance	**229**	247	**0.63**	0.73	**(13.7)%**
Aircraft rent	**110**	119	**0.30**	0.35	**(14.3)%**
Landing fees and other rentals	**279**	262	**0.77**	0.78	**(1.3)%**
Contracted services	**254**	221	**0.70**	0.66	**6.1%**
Selling expenses	**199**	179	**0.55**	0.53	**3.8%**
Depreciation and amortization	**294**	270	**0.81**	0.80	**1.3%**
Food and beverage service	**93**	84	**0.26**	0.25	**4.0%**
Other	**308**	278	**0.86**	0.83	**3.6%**
Non-fuel Expenses[(a)]	**$ 3,018**	$ 2,851	**8.36¢**	8.47¢	**(1.3)%**

(a) Excludes special items recorded in 2014.

Additional Segment Information

Refer to the Notes of the Consolidated Financial Statements for a detailed description of each segment. Below is a summary of each segments' profitability.

Alaska Mainline

Pretax profit for Alaska Mainline was $834 million in 2014 compared to $530 million in 2013. The $284 million increase in Mainline passenger revenue is described previously. Mainline operating expense excluding fuel increased by $124 million, due to increased capacity, departures, expanding to new locations, and higher advertising and promotional activity in Seattle and our new locations. Additionally, we increased spending on IT infrastructure projects, and incurred more depreciation as we continue to purchase aircraft. Economic fuel cost as defined above decreased due to a decline in the economic price per gallon, and increased fuel efficiency, slightly offset by an increase in consumption.

Alaska Regional

Pretax profit for Alaska Regional was $74 million in 2014 compared to $69 million in 2013. The $28 million increase in Alaska Regional passenger revenue is described previously. The increased Regional revenue was offset by higher expenses to support additional capacity. Additionally, we recorded a $12 million loss in 2013 related to overhaul and repair of three aircraft that were previously subleased to another carrier.

Horizon

Pretax profit for Horizon was $17 million in 2014 compared to $20 million in 2013. CPA Revenues (100% of which are from Alaska and eliminated in consolidation) increased due to additional capacity in the state of Alaska. The $8 million increase in Horizon's non-fuel operating expenses was driven by increased wages to support additional aircraft in the fleet, higher pilot training costs, and increased depreciation and amortization due to the three additional Q400 aircraft added in Q4 of 2013.

2013 COMPARED WITH 2012

Our consolidated net income for 2013 was $508 million, or $3.58 per diluted share, compared to net income of $316 million, or $2.20 per diluted share, in 2012. Significant items impacting the comparability between the periods are as follows:

- Both periods include adjustments to reflect the timing of net unrealized mark-to-market gains or losses related to our fuel hedge positions. For 2013, we recognized net mark-to-market gains of $8 million ($5 million after tax, or $0.03 per diluted share) compared to losses of $38 million ($23 million after tax, or $0.17 per share) in 2012.

- In 2013, we recognized a one-time, non-cash Special mileage plan revenue item of $192 million ($120 million after tax, or $0.85 per diluted share) that resulted from the application of new accounting rules associated with the modified Bank of America Affinity Card Agreement, and the effect of an increase in the estimate of the number of frequent flier miles expected to expire unused.

Excluding the mark-to-market fuel hedge adjustments, and the one-time Special mileage plan revenue item, our adjusted consolidated net income for 2013 was $383 million, or $2.70 per diluted share, compared to an adjusted consolidated net income of $339 million, or $2.37 per share, in 2012.

	Twelve Months Ended December 31,			
	2013		2012	
(in millions, except per-share amounts)	**Dollars**	**Diluted EPS**	**Dollars**	**Diluted EPS**
Net income and diluted EPS as reported	**$ 508**	**$ 3.58**	$ 316	$ 2.20
Mark-to-market fuel hedge adjustments, net of tax	**(5)**	**(0.03)**	23	0.17
Special mileage plan revenue	**(120)**	**(0.85)**	–	–
Non-GAAP adjusted income and per-share amounts	**$ 383**	**$ 2.70**	$ 339	$ 2.37

Revenues adjusted for the one-time Special mileage plan item is as follows:

	Twelve Months Ended December 31,		
	2013	**2013**	**% Change**
Total operating revenues	**$ 5,156**	$ 4,657	10.7
Less: Special mileage plan revenue	**192**	–	NM
Adjusted Revenue	**$ 4,964**	$ 4,657	6.6
Consolidated ASMs	**33,672**	31,428	7.1
RASM	**14.74¢**	14.82¢	(0.5)

NM - Not meaningful

Our operating costs per ASM are summarized below:

	Twelve Months Ended December 31,		
	2013	**2012**	**% Change**
Consolidated:			
Total operating expenses per ASM (CASM)	**12.82¢**	13.12¢	(2.3)
Less the following components:			
Aircraft fuel, including hedging gains and losses	**4.35**	4.64	(6.3)
CASM, excluding fuel and fleet transition costs	**8.47¢**	8.55¢	(0.9)
Mainline:			
Total mainline operating expenses per ASM (CASM)	**11.77¢**	12.09¢	(2.6)
Less the following components:			
Aircraft fuel, including hedging gains and losses	**4.23**	4.53	(6.6)
CASM, excluding fuel	**7.54¢**	7.56¢	(0.3)

NM - Not Meaningful

OPERATING REVENUES

Total operating revenues increased $499 million, or 11%, during 2013 compared to the same period in 2012. The changes are summarized in the following table:

	Twelve Months Ended December 31,		
(in millions)	**2013**	**2012**	**% Change**
Passenger			
Mainline	**$ 3,490**	$ 3,284	6
Regional	**777**	746	4
Total passenger revenue	**$ 4,267**	$ 4,030	6
Freight and mail	**113**	111	2
Other - net	**584**	516	13
Special mileage plan revenue	**192**	–	NM
Total operating revenues	**$ 5,156**	$ 4,657	11

NM - Not meaningful

Passenger Revenue – Mainline

Mainline passenger revenue for 2013 increased by 6% on a 7.9% increase in capacity and a 1.5% increase in PRASM compared to 2012. The increase in capacity was driven by new routes added in 2013 and larger aircraft. The decrease in PRASM was driven by a 0.9% decrease in ticket yield and a 0.5 point decrease in load factor compared to the prior year. Increased competition in the state of Alaska and along the west coast put downward pressures on yield and load factor.

Passenger Revenue – Regional

Regional passenger revenue increased by $31 million, or 4%, compared to 2012 on a 0.4% increase in capacity and 3.7% increase in PRASM compared to 2012. The increase in PRASM was due to a 1.4% increase in ticket yield coupled with a 1.8 point increase in load factor compared to the prior year. The increase in regional revenues is due to better matching the right aircraft with the right market to avoid over-supply of capacity and maintaining yields and load factors.

Freight and Mail

Freight and mail revenue increased $2 million, or 2%, primarily due to increased freight volumes.

Other – Net

Other–net revenue increased $68 million, or 13%, from 2012. This is primarily due to an increase in our Mileage Plan™ revenues of $47 million or 22%, as a result of a higher rate per mile sold to Bank of America Corporation (BAC) under our new affinity card program and growth in the Mileage Plan™ program. Additionally, bag fees increased by 7.8%, and change fees increased by 7.3%, due to increases in the number of passengers.

Special Mileage Plan Revenue

In 2013, we modified and extended our co-branded credit card agreement with BAC. In connection with this agreement and as a result of applying related accounting standards, we recorded a one-time, non-cash Special mileage plan revenue item of $192 million primarily related to our revaluation of the deferred revenue liability related to miles previously sold to BAC.

OPERATING EXPENSES

Total operating expenses increased $193 million, or 5%, compared to 2012, primarily driven by wages and variable incentive pay. Fuel expense remained flat due to a decrease in fuel cost per gallon offset by an increase in fuel consumption. We believe it is useful to summarize operating expenses as follows, which is consistent with the way expenses are reported internally and evaluated by management:

	Twelve Months Ended December 31,		
(in millions)	2013	2011	% Change
Fuel expense	**$ 1,467**	$ 1,459	1
Non-fuel expenses	**2,851**	2,666	7
Total Operating Expenses	**$ 4,318**	$ 4,125	5

Significant operating expense variances from 2012 are more fully described below.

Wages and Benefits

Wages and benefits increased during 2013 by $48 million, or 5%, compared to 2012. The primary components of wages and benefits are shown in the following table:

	Twelve Months Ended December 31,		
(in millions)	2013	2012	% Change
Wages	**$ 788**	$ 742	6
Pension - Defined benefit plans	**50**	57	(12)
Defined contribution plans	**44**	43	2
Medical and other benefits	**145**	138	5
Payroll taxes	**59**	58	2
Total wages and benefits	**$ 1,086**	$ 1,038	5

Wages increased 6%, primarily due to a ratified contract with Alaska's pilots that was effective April 1, 2013. Additionally, we hired 2% more FTEs to support increased flying and other strategic initiatives, such as IT and hassle-free projects.

Pension expense decreased 12%, compared to the same period in the prior year. The decline is due to having a lower accumulated loss to amortize as a result of higher plan assets and improved funded status compared to the prior year.

Medical benefits increased 5% from the prior year primarily due to an increase in employee health-care claims and an increase in the cost of health care services.

Variable Incentive Pay

Variable incentive pay expense increased from $88 million in 2012 to $105 million in 2013. The increase is due to actual results exceeding our target results of financial and operational performance more so than in the prior year.

Aircraft Fuel

Aircraft fuel expense increased $8 million, or 1% compared to 2012. The elements of the change are illustrated in the following table:

	Twelve Months Ended December 31,			
	2013		2012	
(in millions, except for per gallon amounts)	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or “into-plane” fuel cost	**$ 1,423**	**$ 3.19**	$ 1,397	$ 3.31
Gains on settled hedges	**52**	**0.11**	24	0.06
Consolidated economic fuel expense	**$ 1,475**	**$ 3.30**	$ 1,421	$ 3.37
Mark-to-mark fuel hedge adjustments	**(8)**	**(0.02)**	38	0.09
GAAP fuel expense	**$ 1,467**	**$ 3.28**	$ 1,459	$ 3.46
Fuel gallons	**447**		422	

Fuel gallons consumed increased 5.9% in line with the increase in departures and capacity.

The raw fuel price per gallon decreased 3.6% as a result of lower West Coast jet fuel prices. The decrease in raw fuel price per gallon during 2013 was due to a decline in refining margins of 27%, offset by the increase in average crude oil prices of 4%, as compared to the prior year.

Losses recognized for hedges that settled during the year were $52 million in 2013, compared to losses of $24 million in 2012. These amounts represent the cash received, or paid, net of the premium expense recognized for those hedges.

Aircraft Maintenance

Aircraft maintenance increased by $25 million, or 11%, compared to the prior year, primarily due to a $14 million increase in lease return provisions. During the year we modified one of our power-by-the-hour agreements and terminated another related to our B737 fleet, resulting in a decrease in expense under those agreements but an increase in engine events and related expense that we are now responsible for. For our B737 and Q400 fleets, we also experienced heavier, more expensive checks, on flat volumes.

Landing Fees and Other Rentals

Landing fees and other rentals increased $19 million, or 8%, primarily due to the increase in rates from the Port of Seattle lease signed in late 2013. Additionally, we experienced increased rates throughout our network with increased departures and passengers.

Contracted Services

Contracted services increased $21 million, or 11%, primarily due to more capacity purchase flying with SkyWest and higher rates with PenAir. Additionally, we experienced higher passenger and ramp handling costs, and other services as a result of an increase in the number of flights to airports where outside vendors are used.

Selling Expenses

Selling expenses increased by $11 million, or 6%, compared to 2012 as a result of higher commissions with credit cards and interline commissions related to international routes.

Other Operating Expenses

Other operating expenses increased $30 million, or 13%, compared to 2012. The increase is driven by a variety of factors such as higher professional fees, IT costs, losses on the disposal of assets, property taxes, and new uniforms.

Consolidated Nonoperating Income (Expense)

Net nonoperating expense increased $4 million from 2012. This is due to the overhaul and repair of three aircraft that were previously subleased to another carrier. Partially offsetting the sublease loss was a gain on the sale of equity securities.

Operating Costs per Available Seat Mile

	Twelve Months Ended December 31,				
	2013	2012	2013	2012	% Change
(in millions, except CASM)	Amount	Amount	CASM	CASM	CASM
Wages and benefits	**$ 1,086**	$ 1,038	**3.23¢**	3.30¢	**(2.1)%**
Variable incentive pay	**105**	88	**0.31**	0.28	**10.7%**
Aircraft maintenance	**247**	222	**0.73**	0.71	**2.8%**
Aircraft rent	**119**	116	**0.35**	0.37	**(5.4)%**
Landing fees and other rentals	**262**	243	**0.78**	0.77	**1.3%**
Contracted services	**221**	200	**0.66**	0.64	**3.1%**
Selling expenses	**179**	168	**0.53**	0.53	**–%**
Depreciation and amortization	**270**	264	**0.80**	0.84	**(4.8)%**
Food and beverage service	**84**	79	**0.25**	0.25	**–%**
Other	**278**	248	**0.83**	0.79	**5.1%**
Non-fuel Expenses	**$ 2,851**	$ 2,666	**8.47¢**	8.48¢	**(0.1)%**

Additional Segment Information

Refer to the Notes of the Consolidated Financial Statements for a detailed description of each segment. Below is a summary of each segments' profitability.

Alaska Mainline

Pretax profit for Alaska Mainline was $530 million in 2013 compared to $466 million in 2012. The $206 million increase in Mainline passenger revenue is described previously, as well as the increased revenues from the modified credit card agreement. Mainline operating expense excluding fuel increased by $162 million, driven mainly by increased wages and incentive pay, increased rates and volumes on landing fees and rents, and increased other expenses to support our growth in operations. Economic fuel cost as defined above increased due to a 6.8% increase in consumption, on a slight decrease in the economic price per gallon.

Alaska Regional

Pretax profit for Alaska Regional was $69 million in 2013 compared to $62 million in 2012. The $31 million increase in Alaska Regional passenger revenue is described previously. Alaska Regional expenses were slightly higher due to additional flying by SkyWest and higher rates from PenAir, and increased landing fees and rents due to increased flying and higher rates. Also impacting pretax profit is the $12 million loss due to the overhaul and repair of three aircraft that were previously subleased to another carrier.

Horizon

Pretax profit for Horizon was $20 million in 2013 compared to $24 million in 2012. CPA Revenues (100% of which are from Alaska and eliminated in consolidation) decreased due to lower operational incentives being met. The $3 million increase in Horizon's non-fuel operating expenses was driven by wages and incentive pay, and an increase in airframe checks and other unscheduled events.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are:

- Our existing cash and marketable securities balance of $1.2 billion, and our expected cash from operations;
- Our 76 unencumbered aircraft in our operating fleet as of December 31, 2014, that could be financed, if necessary;
- Our combined $200 million bank line-of-credit facilities, with none currently outstanding;

In 2014, we took free and clear delivery of ten B737-900ER aircraft. We made debt payments totaling $119 million. In addition, we continued to return capital to our shareholders by repurchasing $348 million of our common stock in 2014, and paid dividends totaling $68 million. Because of our strong balance sheet and financial performance, in 2014 we became one of only two airlines in the U.S. with investment grade credit ratings. We will continue to focus on preserving a strong liquidity position and evaluate our cash needs as conditions change.

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

In our cash and marketable securities portfolio, we invest only in securities that meet our primary investment strategy of maintaining and securing investment principal. Our investment portfolio is managed by reputable firms that adhere to our investment policy that sets forth investment objectives, approved and prohibited investments, and duration and credit quality guidelines. Our policy and the portfolio managers are continually reviewed to ensure that the investments are aligned with our strategy.

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

(in millions, except per share and debt-to-capital amounts)	**December 31, 2014**	December 31, 2013	Change
Cash and marketable securities	**$ 1,217**	$ 1,330	$ (113)
Cash, marketable securities, and unused lines of credit as a percentage of trailing twelve months revenue[(a)]	**26%**	31%	(5)pts
Long-term debt, net of current portion	**686**	754	(68)
Shareholders' equity	**2,127**	2,029	98
Long-term debt-to-capital ratio[(b)]	**31%:69%**	35%:65%	(4)pts

(a) Excludes Special mileage plan revenue item.

(b) Calculated using the present value of remaining aircraft lease payments for aircraft that are in our operating fleet as of the balance sheet date.

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

ANALYSIS OF OUR CASH FLOWS

Cash Provided by Operating Activities

In 2014, we generated over $1 billion in operating cash flows compared to $981 million in 2013. The increase of $49 million is primarily due to an increase in earnings, an increase in our advance ticket sales, and a decrease in pension contributions, partially offset by a $177 million increase in payments for income taxes.

Cash provided by operating activities was $981 million in 2013, compared to $753 million in 2012. The $228 million increase is primarily due to an increase in revenues, excluding Special mileage plan revenue item, an increase in cash receipts related to our Mileage Plan™ program, decrease in pension contributions, and cash savings in 2013 as we shortened the tenor of our fuel hedge program. Partially offsetting these increases were additional cash paid in taxes, and an increase in operating expenses to support the growth in revenues.

We typically generate positive cash flows from operations, and expect to use a portion to invest in capital expenditures and increasing shareholder value by stock repurchases and dividends.

Cash Used in Investing Activities

Cash used in investing activities was $541 million during 2014, compared to $698 million in 2013. Our capital expenditures were $694 million, or $128 million higher than in 2013. This is due to the delivery of ten B737-900ERs, the completion of our B737 cabin improvement project, and the exercise of 16 B737 options, two Q400 options, and deposits for an incremental Q400. This compares to the delivery of nine B737-900ERs and three Q400s in the prior year.

As of December 31, 2014, we had firm commitments for 73 B737 aircraft through 2022 with options to acquire up to 48 additional 737 NextGen (NG) aircraft and MAX aircraft in 2017 through 2024. We also have options to acquire five Q400 aircraft with deliveries from 2018 to 2019. The options for all fleet types give us the flexibility, but not the obligation, to grow the fleet assuming profitability and return on invested capital targets can be met.

The table below reflects total expected capital expenditures and the additional expenditures if options were exercised. Included in the table are six new aircraft, two of which are options exercises and four of which are expected new aircraft orders approved by the Board of Directors on February 10, 2015. These aircraft are expected to be delivered in 2016 and 2017. Additional options will be exercised only if we believe return on invested capital targets can be met:

	2014 Actuals	2015	2016	2017	2018
Aircraft and aircraft purchase deposits - firm	$ 498	$ 580	$ 535	$ 485	$ 405
Other flight equipment	131	50	35	25	25
Other property and equipment	65	120	80	80	80
Total property and equipment additions	$ 694	$ 750	$ 650	$ 590	$ 510
Option aircraft and aircraft deposits, if exercised	$ –	$ –	$ 35	$ 145	$ 315

Cash used in investing activities was $698 million during 2013, compared to $645 million in 2012. Our capital expenditures were $566 million, or $48 million higher than in 2012. This is due to the delivery of nine B737-900ER aircraft, and three Q400 aircraft, compared to four B737-900ER aircraft, three B737-800 aircraft, and two Q400 aircraft in the prior year.

Cash Used by Financing Activities

Cash used by financing activities was $462 million during 2014, compared to $325 million in 2013. During the current year, we made debt payments of $119 million, stock repurchases of $348 million, and cash dividend payments of $68 million, partially offset by proceeds from debt of $51 million. In 2013, we made debt payments of $161 million, stock repurchases of $159 million, and cash dividend payments of $28 million. In 2012, we made debt payments of $275 million and stock repurchases of $60 million, which was offset by proceeds from a reimbursement for our Los Angeles International Airport T6 project of $178 million.

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

Bank Line-of-Credit Facility

The Company has two $100 million credit facilities. Both facilities have variable interest rates based on LIBOR plus a specified margin. One of the $100 million facilities, which expires in September 2017, is secured by aircraft. The other $100 million facility is secured by certain accounts receivable, spare engines, spare parts and ground service equipment, and expires March 2017. The Company has no immediate plans to borrow using either of these facilities.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Aircraft Purchase Commitments

At December 31, 2014, we had firm orders to purchase 76 aircraft. In addition, we had options to acquire 48 additional B737 aircraft and options to acquire five Q400 aircraft. Also, we have options to add regional capacity by having SkyWest operate up to 16 more E-175 aircraft than the seven aircraft we already have committed.

The following table summarizes our projected fleet count by year, as of February 11, 2015:

	Actual Fleet Count		Expected Fleet Activity[a]			
Aircraft	**Dec 31, 2013**	**Dec 31, 2014**	**2015 Changes**	**Dec 31, 2015**	**2016 - 2017 Changes**	**Dec 31, 2017**
B737 Freighters & Combis	6	6	–	6	(3)	3
B737 Passenger Aircraft[b]	125	131	10	141	9	150
Total Mainline Fleet	131	137	10	147	6	153
Q400	51	51	1	52	2	54
E-175[c]	–	–	5	5	2	7
CRJ700[c]	8	8	–	8	–	8
Total Regional Fleet	59	59	6	65	4	69
Total	190	196	16	212	10	222

(a) The expected fleet counts at December 31, 2015, 2016, and 2017 are subject to change.
(b) 2015 changes include the expected delivery of 11 Boeing 737-900ER aircraft offset by the scheduled return of one 737-400 aircraft to the lessor.
(c) Aircraft are operated under capacity purchase agreements with a third party.

For future firm orders and option exercises, we may finance the aircraft through internally generated cash, long-term debt, or lease arrangements.

Future Fuel Hedge Positions

All of our future oil positions are call options, which are designed to effectively cap the cost of the crude oil component of our jet fuel purchases. With call options, we are hedged against volatile crude oil price increases; and, during a period of decline in crude oil prices, we only forfeit cash previously paid for hedge premiums. Our crude oil positions are as follows:

	Approximate % of Expected Fuel Requirements	**Weighted-Average Crude Oil Price per Barrel**	**Average Premium Cost per Barrel**
First Quarter 2015	50%	$105	$4
Second Quarter 2015	50%	$97	$3
Third Quarter 2015	40%	$98	$3
Fourth Quarter 2015	30%	$94	$3
Full Year 2015	**42%**	**$99**	**$3**
First Quarter 2016	20%	$88	$3
Second Quarter 2016	10%	$73	$4
Full Year 2016	**7%**	**$83**	**$3**

Contractual Obligations

The following table provides a summary of our principal payments under current and long-term debt obligations, operating lease commitments, aircraft purchase commitments and other obligations as of December 31, 2014.

(in millions)	2015	2016	2017	2018	2019	Beyond 2019	Total
Current and long-term debt obligations	$ 117	$ 115	$ 121	$ 151	$ 114	$ 185	$ 803
Operating lease commitments[a]	206	195	161	98	86	360	1,106
Aircraft purchase commitments	516	496	471	430	393	653	2,959
Interest obligations[b]	37	33	28	21	14	13	146
Other obligations[c]	61	56	60	42	31	245	495
Total	$ 937	$ 895	$ 841	$ 742	$ 638	$ 1,456	$ 5,509

[a] Operating lease commitments generally include aircraft operating leases, airport property and hangar leases, office space, and other equipment leases. Included here are seven E-175 aircraft that will be operated by SkyWest under a capacity purchase agreement beginning in 2015.

[b] For variable-rate debt, future obligations are shown above using interest rates in effect as of December 31, 2014.

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

Defined Benefit Pensions

The table above excludes contributions to our various pension plans, which could be approximately $30 to $35 million in 2015, although there is no minimum required contribution. The unfunded liability for our qualified defined-benefit pension plans was $133 million at December 31, 2014, compared to a $60 million overfunded position at December 31, 2013. This results in a 94% funded status on a projected benefit obligation basis compared to 104% funded as of December 31, 2013.

Credit Card Agreements

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

Deferred Income Taxes

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

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

In 2014, we made tax payments of $326 million, and had an effective tax rate of 37.9%. In early 2015, we will receive a tax refund of approximately $80 million primarily due to an overpayment of estimated tax prior to bonus depreciation legislation enacted late in 2014. We believe that we have the liquidity to make our future tax payments.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of our financial position and results of operations in this MD&A are based upon our consolidated financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect our financial position and results of operations. See Note 1 to the consolidated financial statements for a description of our significant accounting policies.

Critical accounting estimates are defined as those that reflect significant management judgment and uncertainties and that potentially may result in materially different results under varying assumptions and conditions. Management has identified the following critical accounting estimates and has discussed the development, selection and disclosure of these policies with our audit committee.

MILEAGE PLAN

Our Mileage Plan™ loyalty program awards miles to member passengers who fly on our airlines and many of our travel partners. We also sell services, including miles for transportation, to non-airline partners, such as hotels, car rental agencies, and a major bank that offers Alaska Airlines affinity credit cards. In either case, the outstanding miles may be redeemed for travel on our airlines or any of our travel partners. As long as the Mileage Plan™ is in existence, we have an obligation to provide this future travel.

For miles earned by passengers who fly on us or our travel partners, we recognize a liability and a corresponding selling expense representing the incremental cost associated with the obligation to provide travel in the future. For services sold through one of our non-airline partners, the sales proceeds that represent award transportation and certificates for discounted companion travel are deferred and recognized when the transportation is delivered, and the remaining components are recorded as commission in other-net revenue in the period the services are performed. Commission revenue recognized for the years ended December 31, 2014, 2013 and 2012 was $261 million, $213 million and $143 million, respectively. The deferred revenue is recognized as passenger revenue when awards are issued and flown on one of our airlines or expire, and as other-net revenue for awards issued and flown on partner airlines.

At December 31, 2014, we had approximately 146 billion miles outstanding, resulting in an aggregate liability and deferred revenue balance of $730 million. Both the liability and the deferred revenue are determined based on several assumptions that require significant management judgment to estimate and formulate. There are uncertainties inherent in these estimates; therefore, different assumptions could affect the amount and/or timing of revenue recognition or Mileage Plan™ expenses. The most significant assumptions in accounting for the Mileage Plan™ are described below.

1. The rate at which we defer sales proceeds related to services sold through non-airline partners:

We defer sales proceeds under two accounting methodologies: the relative selling price method, which represents approximately 94% of sold miles, and the residual accounting method, which represents the remaining 6%. For contracts that were modified after the effective date of Accounting Standards Update 2009-13, “Multiple-Deliverable Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force” (ASU 2009-13), we determined our best estimate of selling price by considering multiple inputs and methods including, but not limited to, the estimated selling price of comparable travel, discounted cash flows, brand value, published selling prices, number of miles awarded and the number of miles redeemed. We estimated the selling prices and volumes over the terms of the agreements in order to determine the allocation of proceeds to each of the multiple deliverables. This relative allocation is evaluated annually and updated according to changes in the assumptions of the volume of related deliverables. A 1% shift between the allocation of cash proceeds to travel deliverables from marketing deliverables would defer the timing of revenue recognition by approximately $4 million.

For remaining contracts that continue to be accounted for under the residual method, as our estimates of selling price change, the amount we defer changes, resulting in the recognition of a higher or lower portion of the cash proceeds to commission revenue in any given period. A 10% increase in the estimated selling price of travel (and related deferral rate) would decrease commission revenue by approximately $2 million in the period cash is received. This amount would instead be recognized in a future period when award travel takes place.

2. The number of miles that will not be redeemed for travel (breakage):

The liability for outstanding Mileage Plan™ mileage credits includes all mileage credits that are expected to be redeemed, including mileage credits earned by members whose mileage account balances have not yet reached the minimum mileage credit level to redeem an award. Our estimate of the number of miles that will not be redeemed (breakage) considers historical activity in our members’ accounts and other factors. Based on statistical analysis of historical data, our current breakage rate is 17.4%. A hypothetical 1% change in our estimate of breakage has approximately a $6 million effect on the liability.

3. The number of miles used per award:

We estimate how many miles will be used per award. For example, our members may redeem credit for award travel to various locations or choose between a highly restricted award and an unrestricted award. Our estimates are based on the current requirements in our Mileage Plan™ program and historical award redemption patterns.

4. The number of awards redeemed for travel on our airlines versus other airlines:

The cost for us to carry an award passenger is typically lower than the cost we will pay to our travel partners. We estimate the number of awards that will be redeemed on our airlines versus on our travel partners, and accrue the estimated costs based on historical redemption patterns. If the number of awards redeemed on our travel partner is higher or lower than estimated, we may need to adjust our liability and corresponding expense.

5. The costs that will be incurred to provide award travel:

When a frequent flier travels on his or her award ticket on one of our airlines, incremental costs such as food, fuel and insurance are incurred to carry that passenger. We estimate what these costs will be (excluding any contribution to overhead and profit) and accrue a liability. If the passenger travels on another airline on an award ticket, we often must pay the other airline for carrying the passenger. The other airline costs are based on negotiated agreements and are often substantially higher than the costs we would incur to carry that passenger. We estimate how much we will pay to other airlines for future travel awards based on historical redemptions and settlements with other carriers and accrue a liability accordingly. The costs actually incurred by us or paid to other airlines may be higher or lower than the costs that were estimated and accrued, and therefore we may need to adjust our liability and recognize a corresponding expense.

We regularly review significant Mileage Plan™ assumptions and change our assumptions if facts and circumstances indicate that a change is necessary. Any such change in assumptions could have a significant effect on our financial position and results of operations.

PENSION PLANS

Accounting rules require recognition of the overfunded or underfunded status of an entity's defined-benefit pension and other postretirement plans as an asset or liability in the consolidated financial statements and requires recognition of the changes in funded status in other comprehensive income. Pension expense is recognized on an accrual basis over employees' approximate service periods and is generally independent of funding decisions or requirements. We recognized expense for our qualified defined-benefit pension plans of $9 million, $50 million, and $57 million in 2014, 2013, and 2012, respectively. We expect the 2015 expense to be approximately $28 million, as a result of a lower discount rate, a lower expected return on assets, and an increase in estimated participant longevity assumptions.

The calculation of pension expense and the corresponding liability requires the use of a number of important assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate. Changes in these assumptions can result in different expense and liability amounts, and future actual experience can differ from these assumptions.

Pension liability and future pension expense decrease as the discount rate increases. We discounted future pension obligations using a rate of 4.20% and 4.85% at December 31, 2014 and 2013, respectively. The discount rate was determined using current rates earned on high-quality, long-term bonds with maturities that correspond with the estimated cash distributions from the pension plans. At December 31, 2014, we refined the yield curve to use a pool of higher-yielding bonds estimated to be more reflective of settlement rates, as we are taking steps to ultimately terminate or settle plans that are frozen and move toward freezing benefits in active plans in the future. If the discount rate decreased by 0.5% (from 4.20% to 3.70%), our projected benefit obligation at December 31, 2014 would increase by approximately $152 million and our estimated 2015 pension expense would increase by approximately $10 million.

Pension liability and future pension expense can increase or decrease as assumptions in the actuarial data changes. In December 31, 2014, new mortality tables became available using more recent participant data. The new tables are intended to update and replace the RP-2000 tables that have been used in actuarial valuations since 2000. We have elected to apply proprietary mortality tables provided by a third party actuary which is segregated into industry-specific mortality information and includes actual participant data from our plans. As expected, the tables reflect the longer expected lifespans of employees. Generally speaking, the new tables reflect an 11%—12% longer life expectancy of people age 65 than the 2000 tables. The change in the assumption increased our projected benefit obligation by approximately $80 million at December 31, 2014.

Pension expense normally increases as the expected rate of return on pension plan assets decreases. As of December 31, 2014, we estimate that the pension plan assets will generate a long-term rate of return of 6.50%, which decreased 0.25% from the rate at December 31, 2013. The decrease in rate is due to the shift of our pension asset portfolio into more fixed income investments that better match the cash flows of our expected benefit payments and reduce the volatility of future returns. We regularly review the actual asset allocation and periodically rebalance investments as appropriate. This expected long-term rate of return on plan assets at December 31, 2014 is based on an allocation of U.S. and non-U.S. equities and U.S. fixed-income securities. A decrease in the expected long-term rate of return of 0.5% (from 6.50% to 6.00%) would increase our estimated 2015 pension expense by approximately $10 million.

All of our defined-benefit pension plans are now closed to new entrants. Additionally, benefits in our non-union defined-benefit plans were frozen January 1, 2014.

Future changes in plan asset returns, assumed discount rates and various other factors related to the participants in our pension plans will impact our future pension expense and liabilities. We cannot predict what these factors will be in the future.

LONG-LIVED ASSETS

As of December 31, 2014, we had approximately $4.3 billion of property and equipment and related assets, net of accumulated depreciation. In accounting for these long-lived assets, we make estimates about the expected useful lives of the assets, changes in fleet plans, the expected residual values of the assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the long-lived assets, management decisions regarding the future use of the assets, a significant change in the long-lived assets condition, and operating cash flow losses associated with the use of the long-lived asset.

There is inherent risk in estimating the fair value of our aircraft and related parts and their salvage values at the time of impairment. Actual proceeds upon disposition of the aircraft or related parts could be materially less than expected, resulting in additional loss. Our estimate of salvage value at the time of disposal could also change, requiring us to increase the depreciation expense on the affected aircraft.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We have interest-rate risk on our variable-rate debt obligations and our available-for-sale marketable investment portfolio, and commodity-price risk in jet fuel required to operate our aircraft fleet. We purchase the majority of our jet fuel at prevailing market prices and seek to manage market risk through execution of our hedging strategy and other means. We have market-sensitive instruments in the form of fixed-rate debt instruments, and financial derivative instruments used to hedge our exposure to jet-fuel price increases and interest-rate increases. We do not purchase or hold any derivative financial instruments for trading purposes.

Aircraft Fuel

Currently, our fuel-hedging portfolio consists of crude oil call options. Historically, we have had jet fuel refining margin swap contracts, but we have discontinued the use of the refining margin swaps in the third quarter of 2014. Call options effectively cap our pricing for the crude oil, limiting our exposure to increasing fuel prices for about half of our planned fuel consumption. With call options, we are hedged against volatile crude oil price increases, and during a period of decline in crude oil prices, we only forfeit cash previously paid for hedge premiums. We believe there is risk in not hedging against the possibility of fuel price increases. We estimate that a 10% increase or decrease in crude oil prices as of December 31, 2014 would increase or decrease the fair value of our crude oil hedge portfolio by approximately $3 million.

Our portfolio value of fuel hedge contracts was $7 million at December 31, 2014 compared to a portfolio value of $16 million at December 31, 2013. We do not have any collateral held by counterparties to these agreements as of December 31, 2014.

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

Interest Rates

We have exposure to market risk associated with changes in interest rates related primarily to our debt obligations and short-term investment portfolio. Our debt obligations include variable-rate instruments, which have exposure to changes in interest rates. This exposure is somewhat mitigated through our variable-rate investment portfolio. A hypothetical 10% change in the average interest rates incurred on variable-rate debt during 2014 would correspondingly change our net earnings and cash flows associated with these items by less than $1 million. In order to help mitigate the risk of interest rate fluctuations, we have fixed the interest rates on certain existing variable-rate debt agreements. Our variable-rate debt is approximately 24% of our total long-term debt at December 31, 2014 compared to 19% at December 31, 2013.

We also have investments in marketable securities, which are exposed to market risk associated with changes in interest rates. If short-term interest rates were to average 1% more than they did in 2014, interest income would increase by approximately $14 million.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SELECTED QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (unaudited)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
(in millions, except per share)	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Operating revenues[a]	**$1,222**	$1,133	**$1,375**	$1,256	**$1,465**	$1,557	**$1,306**	$1,210
Operating income	**141**	64	**263**	174	**316**	470	**242**	130
Net income	**94**	37	**165**	104	**198**	289	**148**	78
Basic earnings per share[b]	**0.69**	0.26	**1.20**	0.75	**1.47**	2.07	**1.12**	0.56
Diluted earnings per share[b]	**0.68**	0.26	**1.19**	0.74	**1.45**	2.04	**1.11**	0.56

(a) In the third quarter of 2013, the Company adopted Accounting Standards Update 2009-13, "Multiple-Deliverable Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force" (ASU 2009-13).

(b) For earnings per share, the sum of the quarters may not equal the total for the full year due to rounding.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Alaska Air Group, Inc.:

We have audited the accompanying consolidated balance sheets of Alaska Air Group, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alaska Air Group, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 11 to the consolidated financial statements, the Company's affinity card agreement was materially modified effective July 2, 2013. As a result, the Company changed its method of accounting for consideration received under this agreement in accordance with Accounting Standards Update No. 2009-13, Multiple Deliverable Revenue Arrangements, in 2013.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Alaska Air Group, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 11, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Seattle, Washington
February 11, 2015

CONSOLIDATED BALANCE SHEETS

As of December 31 *(in millions)*	**2014**	**2013**
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 107**	$ 80
Marketable securities	**1,110**	1,250
Total cash and marketable securities	**1,217**	1,330
Receivables - less allowance for doubtful accounts of $1 and $1	**259**	152
Inventories and supplies - net	**58**	60
Deferred income taxes	**117**	113
Prepaid expenses and other current assets	**105**	107
Total Current Assets	**1,756**	1,762
Property and Equipment		
Aircraft and other flight equipment	**5,165**	4,677
Other property and equipment	**896**	838
Deposits for future flight equipment	**555**	446
	6,616	5,961
Less accumulated depreciation and amortization	**2,317**	2,068
Total Property and Equipment - Net	**4,299**	3,893
Other Assets	**126**	183
Total Assets	**$ 6,181**	$ 5,838

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS - *(continued)*

As of December 31 ***(in millions except share amounts)***	**2014**	**2013**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**62**	64
Accrued wages, vacation and payroll taxes	**232**	211
Air traffic liability	**631**	564
Other accrued liabilities	**629**	624
Current portion of long-term debt	**117**	117
Total Current Liabilities	**1,671**	1,580
Long-Term Debt, Net of Current Portion	**686**	754
Other Liabilities and Credits		
Deferred income taxes	**750**	709
Deferred revenue	**374**	335
Obligation for pension and postretirement medical benefits	**246**	123
Other liabilities	**327**	308
	1,697	1,475
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $0.01 par value Authorized: 5,000,000 shares, none issued or outstanding	**–**	–
Common stock, $0.01 par value Authorized: 200,000,000 shares, Issued: 2014 - 131,556,573 shares; 2013 - 137,533,382 shares, Outstanding: 2014 - 131,481,473 shares; 2013 - 137,491,906 shares	**1**	1
Capital in excess of par value	**296**	606
Treasury stock (common), at cost: 2014 - 75,100 shares; 2013 - 41,476 shares	**(4)**	(2)
Accumulated other comprehensive loss	**(310)**	(183)
Retained earnings	**2,144**	1,607
	2,127	2,029
Total Liabilities and Shareholders' Equity	**$ 6,181**	$ 5,838

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended December 31 *(in millions, except per-share amounts)*	2014	2013	2012
Operating Revenues			
Passenger			
Mainline	**$ 3,774**	$ 3,490	$ 3,284
Regional	**805**	777	746
Total passenger revenue	**4,579**	4,267	4,030
Freight and mail	**114**	113	111
Other - net	**675**	584	516
Special mileage plan revenue	**–**	192	–
Total Operating Revenues	**5,368**	5,156	4,657
Operating Expenses			
Wages and benefits	**1,136**	1,086	1,038
Variable incentive pay	**116**	105	88
Aircraft fuel, including hedging gains and losses	**1,418**	1,467	1,459
Aircraft maintenance	**229**	247	222
Aircraft rent	**110**	119	116
Landing fees and other rentals	**279**	262	243
Contracted services	**254**	221	200
Selling expenses	**199**	179	168
Depreciation and amortization	**294**	270	264
Food and beverage service	**93**	84	79
Other	**308**	278	248
Special items	**(30)**	–	–
Total Operating Expenses	**4,406**	4,318	4,125
Operating Income	**962**	838	532
Nonoperating Income (Expense)			
Interest income	**21**	18	19
Interest expense	**(48)**	(56)	(64)
Interest capitalized	**20**	21	18
Other - net	**20**	(5)	9
	13	(22)	(18)
Income before income tax	**975**	816	514
Income tax expense	**370**	308	198
Net Income	**$ 605**	$ 508	$ 316
Basic Earnings Per Share:	**$ 4.47**	$ 3.63	$ 2.23
Diluted Earnings Per Share:	**$ 4.42**	$ 3.58	$ 2.20
Shares used for computation:			
Basic	**135.445**	139.910	141.416
Diluted	**136.801**	141.878	143.568
Cash dividend declared per share	**$ 0.50**	$ 0.20	$ –

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS

Year Ended December 31 (in millions)	2014	2013	2012
Net Income	**$ 605**	$ 508	$ 316
Other Comprehensive Income (Loss):			
Related to marketable securities:			
Unrealized holding gains (losses) arising during the period	**2**	(9)	9
Reclassification of (gains) losses into Other-net nonoperating income (expense)	**(2)**	(2)	(7)
Income tax benefit (expense)	**–**	4	(1)
Total	**–**	(7)	1
Related to employee benefit plans:			
Actuarial gains/(losses) related to pension and other post retirement benefit plans	**(210)**	358	(107)
Reclassification of net pension expense into Wages and benefits	**9**	42	39
Income tax benefit (expense)	**76**	(150)	25
Total	**(125)**	250	(43)
Related to interest rate derivative instruments:			
Unrealized holding gains (losses) arising during the period	**(8)**	10	(10)
Reclassification of (gains) losses into Aircraft rent	**6**	6	6
Income tax benefit (expense)	**–**	(6)	–
Total	**(2)**	10	(4)
Other Comprehensive Income (Loss)	**(127)**	253	(46)
Comprehensive Income	**$ 478**	$ 761	$ 270

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions)	***Common Stock Outstanding***	**Common Stock**	**Capital in Excess of Par Value**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Total**
Balances at December 31, 2011	*141.900*	$ 1	$ 877	$ (125)	$ (390)	$ 811	$1,174
2012 net income	–	–	–	–	–	316	316
Other comprehensive income/(loss)	–	–	–	–	(46)	–	(46)
Common stock repurchase	*(3.372)*	–	(60)	–	–	–	(60)
Stock-based compensation	–	–	15	–	–	–	15
Retirement of treasury stock	–	–	(125)	125	–	–	–
Stock issued for employee stock purchase plan	*0.314*	–	4	–	–	–	4
Stock issued under stock plans	*1.912*	–	18	–	–	–	18
Balances at December 31, 2012	*140.754*	1	729	–	(436)	1,127	1,421
2013 net income	–	–	–	–	–	508	508
Other comprehensive income/(loss)	–	–	–	–	253	–	253
Common stock repurchase	*(4.984)*	–	(157)	(2)	–	–	(159)
Stock-based compensation	–	–	16	–	–	–	16
Cash dividend declared	–	–	–	–	–	(28)	(28)
Stock issued for employee stock purchase plan	*0.342*	–	6	–	–	–	6
Stock issued under stock plans	*1.380*	–	12	–	–	–	12
Balances at December 31, 2013	*137.492*	1	606	(2)	(183)	1,607	2,029
2014 net income	–	–	–	–	–	605	605
Other comprehensive income/(loss)	–	–	–	–	(127)	–	(127)
Common stock repurchase	*(7.317)*	–	(346)	(2)	–	–	(348)
Stock-based compensation	–	–	16	–	–	–	16
Cash dividend declared	–	–	–	–	–	(68)	(68)
Stock issued for employee stock purchase plan	*0.299*	–	9	–	–	–	9
Stock issued under stock plans	*1.007*	–	11	–	–	–	11
Balances at December 31, 2014	*131.481*	$ 1	$ 296	$ (4)	$ (310)	$ 2,144	$2,127

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 *(in millions)*	2014	2013	2012
Cash flows from operating activities:			
Net income	**$ 605**	$ 508	$ 316
Adjustments to reconcile net income to net cash provided by operating activities:			
Special mileage plan accounting adjustment	**–**	(192)	–
Depreciation and amortization	**294**	270	264
Stock-based compensation and other	**6**	32	10
Changes in certain assets and liabilities:			
Changes in deferred tax provision	**114**	146	94
(Increase) decrease in accounts receivable	**(110)**	(19)	9
Increase (decrease) in air traffic liability	**67**	29	45
Increase (decrease) in deferred revenue	**40**	84	33
Changes in pension and other postretirement benefits	**(18)**	62	71
Other - net	**32**	148	25
Pension contribution	**–**	(87)	(114)
Net cash provided by operating activities	**1,030**	981	753
Cash flows from investing activities:			
Property and equipment additions:			
Aircraft and aircraft purchase deposits	**(498)**	(487)	(455)
Other flight equipment	**(131)**	(41)	(24)
Other property and equipment	**(65)**	(38)	(39)
Total property and equipment additions	**(694)**	(566)	(518)
Assets constructed for others (Terminal 6 at LAX)	**–**	–	(56)
Purchases of marketable securities	**(949)**	(1,218)	(1,130)
Sales and maturities of marketable securities	**1,092**	1,089	1,048
Proceeds from disposition of assets and changes in restricted deposits	**10**	(3)	11
Net cash used in investing activities	**(541)**	(698)	(645)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	**51**	–	–
Long-term debt payments	**(119)**	(161)	(275)
Common stock repurchases	**(348)**	(159)	(60)
Cash dividend paid	**(68)**	(28)	–
Proceeds and tax benefit from issuance of common stock	**27**	24	31
Terminal 6 at LAX reimbursement	**–**	2	178
Other financing activities	**(5)**	(3)	38
Net cash used in financing activities	**(462)**	(325)	(88)
Net increase (decrease) in cash and cash equivalents	**27**	(42)	20
Cash and cash equivalents at beginning of year	**80**	122	102
Cash and cash equivalents at end of year	**$ 107**	$ 80	$ 122
Supplemental disclosure:			
Cash paid during the year for:			
Interest	**$ 28**	$ 35	$ 46
Income taxes	**326**	149	78

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alaska Air Group, Inc.
December 31, 2014

NOTE 1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The consolidated financial statements include the accounts of Alaska Air Group, Inc. (Air Group or the Company) and its subsidiaries, Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon), through which the Company conducts substantially all of its operations. All significant intercompany balances and transactions have been eliminated. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and their preparation requires the use of management's estimates. Actual results may differ from these estimates.

Certain reclassifications, such as changes in our equity structure, have been made to prior year financial statements to conform to classifications used in the current year.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less, such as money market funds, commercial paper and certificates of deposit. They are carried at cost, which approximates market value. The Company reduces cash balances when funds are disbursed. Due to the time delay in funds clearing the banks, the Company normally maintains a negative balance in its cash disbursement accounts, which is reported as a current liability. The amount of the negative cash balance was $7 million and $11 million at December 31, 2014 and 2013, respectively, and is included in accounts payable, with the change in the balance during the year included in other financing activities in the consolidated statements of cash flows.

The Company has restricted cash balances primarily used to guarantee various letters of credit, self-insurance programs, or other contractual rights. Restricted cash consists of highly liquid securities with original maturities of three months or less. They are carried at cost, which approximates fair value.

Marketable Securities

Investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. All cash equivalents and short-term investments are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Changes in market value, excluding other-than-temporary impairments, are reflected in accumulated other comprehensive loss (AOCL).

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Company uses a systematic methodology that considers available quantitative and qualitative evidence in evaluating potential impairment. If the cost of an investment exceeds its fair value, management evaluates, among other factors, general market conditions, credit quality of debt instrument issuers, the duration and extent to which the fair value is less than cost, our intent and ability to hold, or plans to sell, the investment. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to Other-net in the consolidated statements of operations and a new cost basis in the investment is established.

Receivables

Receivables are due on demand and consist primarily of airline traffic (including credit card) receivables, Mileage Plan™ partners, amounts due from other airlines related to interline agreements, government tax authorities, and other miscellaneous amounts due to the Company, and are net of an allowance for doubtful accounts. Management determines the allowance for doubtful accounts based on known troubled accounts and historical experience applied to an aging of accounts.

Inventories and Supplies—net

Expendable aircraft parts, materials and supplies are stated at average cost and are included in inventories and supplies–net. An obsolescence allowance for expendable parts is accrued based on estimated lives of the corresponding fleet type and salvage values. The allowance for all non-surplus expendable inventories was $34 million and $30 million at December 31, 2014 and 2013, respectively. Inventory and supplies–net also includes fuel inventory of $21 million and $23 million at December 31, 2014 and 2013, respectively. Repairable and rotable aircraft parts inventories are included in flight equipment.

Property, Equipment and Depreciation

Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives less an estimated salvage value, which are as follows:

Aircraft and related flight equipment:	
Boeing 737 aircraft	20 years
Bombardier Q400	15 years
Buildings	25-30 years
Minor building and land improvements	10 years
Capitalized leases and leasehold improvements	Shorter of lease term or estimated useful life
Computer hardware and software	3-5 years
Other furniture and equipment	5-10 years

Salvage values used for aircraft are 10% of the fair value, but as aircraft near the end of their useful lives, we update the salvage value estimates based on current market conditions and expected use of the aircraft. “Related flight equipment” includes rotable and repairable spare inventories, which are depreciated over the associated fleet life unless otherwise noted.

Capitalized interest is based on the Company’s weighted-average borrowing rate, is added to the cost of the related asset, and is depreciated over the estimated useful life of the asset.

Maintenance and repairs, other than engine maintenance on some B737-700 and -900 engines, are expensed when incurred. Major modifications that extend the life or improve the usefulness of aircraft are capitalized and depreciated over their estimated period of use. Maintenance on some B737-700 and -900 engines is covered under power-by-the-hour agreements with third parties, whereby the Company pays a determinable amount, and transfers risk, to a third party. The Company expenses the contract amounts based on engine usage.

The Company evaluates long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the total carrying amount of an asset or asset group may not be recoverable. The Company groups assets for purposes of such reviews at the lowest level for which identifiable cash flows of the asset group are largely independent of the cash flows of other groups of assets and liabilities. An impairment loss is considered when estimated future undiscounted cash flows expected to result from the use of the asset or asset group and its eventual disposition are less than its carrying amount. If the asset or asset group is not considered recoverable, a write-down equal to the excess of the carrying amount over the fair value will be recorded.

Internally Used Software Costs

The Company capitalizes costs to develop internal-use software that are incurred in the application development stage. Amortization commences when the software is ready for its intended use and the amortization period is the estimated useful life of the software, generally three to five years. Capitalized costs primarily include contract labor and payroll costs of the individuals dedicated to the development of internal-use software.

Deferred Revenue

Deferred revenue results primarily from the sale of Mileage Plan™ miles to third-parties. This revenue is recognized when award transportation is provided or over the term of the applicable agreement.

Operating Leases

The Company leases aircraft, airport and terminal facilities, office space, and other equipment under operating leases. Some of these lease agreements contain rent escalation clauses or rent holidays. For scheduled rent escalation clauses during the lease terms or for rental payments commencing at a date other than the date of initial occupancy, the Company records minimum rental expenses on a straight-line basis over the terms of the leases in the consolidated statements of operations.

Leased Aircraft Return Costs

Cash payments associated with returning leased aircraft are accrued when it is probable that a cash payment will be made and that amount is reasonably estimable. Any accrual is based on the time remaining on the lease, planned aircraft usage and the provisions included in the lease agreement, although the actual amount due to any lessor upon return will not be known with certainty until lease termination.

As leased aircraft are returned, any payments are charged against the established accrual. The accrual is part of other current and long-term liabilities, and was $1 million and $15 million as of December 31, 2014 and December 31, 2013, respectively.

Revenue Recognition

Passenger revenue is recognized when the passenger travels. Tickets sold but not yet used are reported as air traffic liability until travel or date of expiration. Air traffic liability includes approximately $33 million and $26 million related to travel credits for future travel, as of December 31, 2014 and December 31, 2013, respectively. These credits are recognized into revenue either when the passenger travels or the date of expiration, which is twelve months from issuance. Commissions to travel agents and related fees are expensed when the related revenue is recognized. Passenger traffic commissions and related fees not yet recognized are included as a prepaid expense. Taxes collected from passengers, including transportation excise taxes, airport and security fees and other fees, are recorded on a net basis within passenger revenue in the consolidated statements of operations. Due to complex pricing structures, refund and exchange policies, and interline agreements with other airlines, certain amounts are recognized as revenue using estimates regarding both the timing of the revenue recognition and the amount of revenue to be recognized. These estimates are based on the Company's historical data.

Freight and mail revenues are recognized when service is provided.

Other - net revenues are primarily related to the Mileage Plan™ and they are recognized as described in the "Mileage Plan" paragraph below. Other - net also includes certain ancillary or non-ticket revenues, such as checked-bag fees, reservations fees, ticket change fees, on-board food and beverage sales, and to a much lesser extent commissions from car and hotel vendors, and from the sales of travel insurance. These items are recognized as revenue when the related services are provided. Boardroom (airport lounge) memberships are recognized as revenue over the membership period.

Mileage Plan

Alaska operates a frequent flier program ("Mileage Plan™") that provides travel awards to members based on accumulated mileage. For miles earned by flying on Alaska or Horizon and through airline partners, the estimated cost of providing award travel is recognized as a selling expense and accrued as a liability as miles are earned and accumulated.

Alaska also sells services, including miles for transportation, to non-airline partners, such as hotels, car rental agencies, and a major bank that offers Alaska Airlines affinity credit cards. The Company defers passenger revenue related to air transportation and certificates for discounted companion travel until the transportation is delivered. The deferred proceeds are recognized as passenger revenue for awards redeemed and flown on Alaska or Horizon, and as Other-net revenue for awards redeemed and flown on other airlines (less the cost paid to the other airlines based on contractual agreements). For the elements that represent use of the Alaska Airlines brand and access to frequent flier member lists and advertising, it is recognized as commission income in the period that those elements are sold and included in Other - net revenue in the consolidated statements of operations.

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

	2014	2013
Current Liabilities:		
Other accrued liabilities	**$ 343**	$ 314
Other Liabilities and Credits:		
Deferred revenue	**367**	323
Other liabilities	**20**	19
Total	**$ 730**	$ 656

The amounts recorded in other accrued liabilities relate primarily to deferred revenue expected to be realized within one year, which includes Mileage Plan™ awards that have been issued but not yet flown for $33 million and $31 million at December 31, 2014 and 2013, respectively.

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

	2014	2013	2012
Passenger revenues	**$ 246**	$ 208	$ 183
Other-net revenues	**295**	256	209
Special mileage plan revenue[(a)]	**–**	192	–
Total Mileage Plan revenues	**$ 541**	$ 656	$ 392

(a) Refer to Note 11 for further information.

Other–net revenue includes commission revenues of $261 million, $213 million, and $143 million in 2014, 2013, and 2012, respectively.

Selling Expenses

Selling expenses include credit card fees, global distribution systems charges, the estimated cost of Mileage Plan™ travel awards earned through air travel, advertising, promotional costs, commissions, and incentives. Advertising production costs are expensed the first time the advertising takes place. Advertising expense was $49 million, $28 million, and $26 million during the years ended December 31, 2014, 2013, and 2012, respectively.

Derivative Financial Instruments

The Company's operations are significantly impacted by changes in aircraft fuel prices and interest rates. In an effort to manage our exposure to these risks, the Company periodically enters into fuel and interest rate derivative instruments. These derivative instruments are recognized at fair value on the balance sheet and changes in the fair value is recognized in AOCL or in the consolidated statements of operations, depending on the nature of the instrument.

The Company does not hold or issue derivative fuel hedge contracts for trading purposes and does not apply hedge accounting. For cash flow hedges related to our interest rate swaps, the effective portion of the derivative represents the change in fair value of the hedge that offsets the change in fair value of the hedged item. To the extent the change in the fair value of the hedge does not perfectly offset the change in the fair value of the hedged item, the ineffective portion of the hedge is immediately recognized in interest expense.

Fair Value Measurements

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

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

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

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

The Company has elected not to use the Fair Value Option for non-financial instruments, and accordingly those assets and liabilities are carried at amortized cost. For financial instruments, those assets and liabilities are carried at fair value and are determined based on the market approach or income approach depending upon the level of inputs used.

Income Taxes

The Company uses the asset and liability approach for accounting and reporting income taxes. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance would be established, if necessary, for the amount of any tax benefits that, based on available evidence, are not expected to be realized. The Company accounts for unrecognized tax benefits in accordance with the accounting standards.

Stock-Based Compensation

Accounting standards require companies to recognize as expense the fair value of stock options and other equity-based compensation issued to employees as of the grant date. These standards apply to all stock awards that the Company grants to employees as well as the Company's Employee Stock Purchase Plan (ESPP), which features a look-back provision and allows employees to purchase stock at a 15% discount. All stock-based compensation expense is recorded in wages and benefits in the consolidated statements of operations.

Earnings Per Share (EPS)

Diluted EPS is calculated by dividing net income by the average common shares outstanding plus additional common shares that would have been outstanding assuming the exercise of in-the-money stock options and restricted stock units, using the treasury-stock method. In 2014, 2013, and 2012, antidilutive stock options excluded from the calculation of EPS were not material.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standard Update 2014-09, "Revenue from Contracts with Customers" (ASU 2014-09), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

NOTE 2. CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES

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

December 31, 2014	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$ 4	$ –	$ –	$ 4
Cash equivalents	103	–	–	103
Cash and cash equivalents	107	–	–	107
U.S. government and agency securities	166	–	–	166
Foreign government bonds	25	–	–	25
Asset-backed securities	130	–	–	130
Mortgage-backed securities	127	–	(1)	126
Corporate notes and bonds	644	3	(2)	645
Municipal securities	18	–	–	18
Marketable securities	1,110	3	(3)	1,110
Total	$ 1,217	$ 3	$ (3)	$ 1,217

December 31, 2013	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$ 9	$ –	$ –	$ 9
Cash equivalents	71	–	–	71
Cash and cash equivalents	80	–	–	80
U.S. government and agency securities	295	1	(2)	294
Foreign government bonds	11	–	–	11
Asset-backed securities	146	–	–	146
Mortgage-backed securities	144	1	(2)	143
Corporate notes and bonds	628	4	(2)	630
Municipal securities	26	–	–	26
Marketable securities	1,250	6	(6)	1,250
Total	$ 1,330	$ 6	$ (6)	$ 1,330

Unrealized losses from fixed-income securities are primarily attributable to changes in interest rates. Management does not believe any remaining unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence as of December 31, 2014.

Activity for marketable securities (in millions):

	2014	2013	2012
Proceeds from sales and maturities	**$ 1,092**	$ 1,089	$ 1,048
Gross realized gains	**4**	4	9
Gross realized losses	**(2)**	(2)	(2)

Maturities for marketable securities (in millions):

December 31, 2014	Cost Basis	Fair Value
Due in one year or less	$ 141	$ 140
Due after one year through five years	958	959
Due after five years through 10 years	10	10
Due after 10 years	1	1
Total	$ 1,110	$ 1,110

NOTE 3. DERIVATIVE INSTRUMENTS

Fuel Hedge Contracts

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

As of December 31, 2014, the Company had fuel hedge contracts outstanding covering 246 million gallons of crude oil that will be settled from January 2015 to June 2016. Refer to the contractual obligations and commitments section of Item 7 for further information.

Interest Rate Swap Agreements

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

Fair Values of Derivative Instruments

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

	2014	2013
Derivative Instruments Not Designated as Hedges		
Fuel hedge contracts		
Fuel hedge contracts, current assets	**$ 3**	$ 12
Fuel hedge contracts, noncurrent assets	**4**	4
Derivative Instruments Designated as Hedges		
Interest rate swaps		
Other accrued liabilities	**(6)**	(7)
Other liabilities	**(13)**	(10)
Losses in accumulated other comprehensive loss (AOCL)	**(19)**	(17)

The net cash received (paid) for new positions and settlements was $(9) million, $5 million, and $(19) million during 2014, 2013, and 2012, respectively.

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

	2014	2013	2012
Derivative Instruments Not Designated as Hedges			
Fuel hedge contracts			
Gains (losses) recognized in aircraft fuel expense	**$ (18)**	$ (44)	$ (62)
Derivative Instruments Designated as Hedges			
Interest rate swaps			
Gains (losses) recognized in aircraft rent	**(6)**	(6)	(6)
Gains (losses) recognized in other comprehensive income (OCI)	**(8)**	10	(10)

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

Credit Risk and Collateral

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

The Company posted collateral of $3 million, $7 million and $15 million as of December 31, 2014, 2013 and 2012, respectively. The collateral was provided to a counterparty associated with the net liability position of the interest rate swap agreements offset by the net asset position of the fuel hedge contracts under a master netting arrangement.

NOTE 4. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments on a Recurring Basis

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

December 31, 2014	Level 1	Level 2	Total
Assets			
Marketable securities			
U.S. government and agency securities	$ 166	$ –	$ 166
Foreign government bonds	–	25	25
Asset-backed securities	–	130	130
Mortgage-backed securities	–	126	126
Corporate notes and bonds	–	645	645
Municipal securities	–	18	18
Derivative instruments			
Fuel hedge contracts			
Call options	–	7	7
Liabilities			
Derivative instruments			
Interest rate swap agreements	–	(19)	(19)

December 31, 2013	Level 1	Level 2	Total
Assets			
Marketable securities			
U.S. government and agency securities	$ 294	$ –	$ 294
Foreign government bonds	–	11	11
Asset-backed securities	–	146	146
Mortgage-backed securities	–	143	143
Corporate notes and bonds	–	630	630
Municipal securities	–	26	26
Derivative instruments			
Fuel hedge contracts			
Call options	–	16	16
Liabilities			
Derivative instruments			
Interest rate swap agreements	–	(17)	(17)

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

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

The Company has no other financial assets that are measured at fair value on a nonrecurring basis at December 31, 2014.

Fair Value of Other Financial Instruments

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

Cash and Cash Equivalents: Carried at amortized costs which approximate fair value.

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

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

	2014	2013
Carrying Amount	**$ 614**	$ 703
Fair value	**666**	762

NOTE 5. ASSETS CONSTRUCTED FOR OTHERS

In March 2012, the Company placed into service assets constructed for others (Terminal 6 at LAX), including a new baggage system, additional gates, new common use systems, expansion of security screening checkpoints, and a new ticket lobby, all of which were constructed for the City of Los Angeles and Los Angeles World Airports (LAWA). For accounting and financial reporting purposes, the Company is considered to be the owners of the assets constructed for others and did not qualify for sale and leaseback accounting when the non-proprietary assets were transferred to the City of Los Angeles due to the Company's continuing involvement with the project. The assets are depreciated over the life of the lease based on the straight-line method, while the liability is amortized on the effective interest method based on the lease rental payments. At December 31, 2014, the net asset was $178 million, and the liability was $174 million.

Future minimum payments related to the Terminal 6 lease are included in facility leases described in the "Commitments and Contingencies" note.

NOTE 6. LONG-TERM DEBT

Long-term debt obligations (in millions):

	2014	2013
Fixed-rate notes payable due through 2024	**$ 614**	$ 703
Variable-rate notes payable due through 2025	**189**	168
Long-term debt	**803**	871
Less current portion	**117**	117
	$ 686	$ 754

Weighted-average fixed-interest rate	**5.7%**	5.7%
Weighted-average variable-interest rate	**1.6%**	1.7%

All of the Company's borrowings are secured by aircraft.

During 2014, the Company issued $51 million in debt and made debt payments of $119 million. As of December 31, 2014, none of the Company's borrowings were restricted by financial covenants.

Long-term debt principal payments for the next five years and thereafter (in millions):

	Total
2015	$ 117
2016	115
2017	121
2018	151
2019	114
Thereafter	185
Total principal payments	$ 803

Bank Line of Credit

The Company has two $100 million credit facilities. Both facilities have variable interest rates based on LIBOR plus a specified margin. One of the $100 million facilities, which expires in September 2017, is secured by aircraft. The other $100 million facility, which expires in March 2017, is secured by certain accounts receivable, spare engines, spare parts and ground service equipment. The Company has no immediate plans to borrow using either of these facilities. These facilities have a requirement to maintain a minimum unrestricted cash and marketable securities balance of $500 million. The Company was in compliance with this covenant at December 31, 2014.

NOTE 7. INCOME TAXES

Deferred Income Taxes

Deferred income taxes reflect the impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and such amounts for tax purposes. Primarily due to differences in depreciation rates for federal income tax purposes and for financial reporting purposes, the Company has generated a net deferred tax liability.

Deferred tax (assets) and liabilities comprise the following (in millions):

	2014	2013
Excess of tax over book depreciation	**$ 1,042**	$ 919
Other–net	**22**	21
Gross deferred tax liabilities	**1,064**	940
Mileage Plan	**(206)**	(185)
Inventory obsolescence	**(20)**	(18)
Deferred gains	**(10)**	(12)
Employee benefits	**(166)**	(85)
Fuel hedge contracts	**(5)**	(14)
Other–net	**(24)**	(30)
Gross deferred tax assets	**(431)**	(344)
Net deferred tax liabilities	**633**	596
Current deferred tax asset	**(117)**	(113)
Noncurrent deferred tax liability	**750**	709
Net deferred tax liability	**$ 633**	$ 596

The Company has concluded that it is more likely than not that its deferred tax assets will be realizable and thus no valuation allowance has been recorded as of December 31, 2014. This conclusion is based on the expected future reversals of existing taxable temporary differences, anticipated future taxable income, and the potential for future tax planning strategies to generate taxable income, if needed. The Company will continue to reassess the need for a valuation allowance during each future reporting period.

Components of Income Tax Expense

The components of income tax expense were as follows (in millions):

	2014	2013	2012
Current tax expense:			
Federal	**$ 229**	145	$ 83
State	**27**	17	11
Total current	**256**	162	94
Deferred tax expense:			
Federal	**103**	131	94
State	**11**	15	10
Total deferred	**114**	146	104
Income tax expense	**$ 370**	$ 308	$ 198

Income Tax Rate Reconciliation

Income tax expense reconciles to the amount computed by applying the U.S. federal rate of 35% to income before income tax and accounting change as follows (in millions):

	2014	2013	2012
Income before income tax	**$ 975**	$ 816	$ 514
Expected tax expense	**341**	286	180
Nondeductible expenses	**4**	4	3
State income taxes	**25**	21	14
Other–net	**–**	(3)	1
Actual tax expense	**$ 370**	$ 308	$ 198
Effective tax rate	**37.9%**	37.7%	38.5%

Uncertain Tax Positions

The Company has identified its federal tax return and its state tax returns in Alaska, Oregon, and California as “major” tax jurisdictions. A summary of the Company’s jurisdictions and the periods that are subject to examination are as follows:

Jurisdiction	Period
Federal	2011 to 2013
Alaska	2011 to 2013
California	2010 to 2013
Oregon	2007 to 2013

The 2002 to 2007 Oregon tax returns are subject to examination only to the extent of net operating loss carryforwards from those years that were utilized in 2010 and later years.

At December 31, 2014, the total amount of unrecognized tax benefits is recorded as a liability, all of which impact the effective tax rate. Unrecognized tax benefits on uncertain tax positions were not material as of December 31, 2014, 2013 and 2012. No interest or penalties related to these tax positions were accrued as of December 31, 2014.

NOTE 8. EMPLOYEE BENEFIT PLANS

Four defined-benefit and five defined-contribution retirement plans cover various employee groups of Alaska and Horizon. The defined-benefit plans provide benefits based on an employee’s term of service and average compensation for a specified period of time before retirement. The qualified defined-benefit pension plans are closed to new entrants.

Accounting standards require recognition of the overfunded or underfunded status of an entity’s defined-benefit pension and other postretirement plan as an asset or liability in the consolidated financial statements and requires recognition of the funded status in AOCL.

Qualified Defined-Benefit Pension Plans

The Company's pension plans are funded as required by the Employee Retirement Income Security Act of 1974 (ERISA).

The defined-benefit plan assets consist primarily of marketable equity and fixed-income securities. The Company uses a December 31 measurement date for these plans.

Weighted average assumptions used to determine benefit obligations:

	2014	**2013**
Discount rate	**4.20%**	4.85%
Rate of compensation increases[(a)]	**2.85% to 3.91%**	2.90% to 3.93%

(a) Varies by plan and related work group.

Weighted average assumptions used to determine net periodic benefit cost:

	2014	**2013**	**2012**
Discount rate	**4.85%**	3.95%	4.65%
Expected return on plan assets	**6.75%**	7.25%	7.25%
Rate of compensation increases[(a)]	**2.90% to 3.93%**	3.05% to 4.02%	2.94% to 4.17%

(a) Varies by plan and related work group.

The discount rate was determined using current rates earned on high-quality, long-term bonds with maturities that correspond with the estimated cash distributions from the pension plans. At December 31, 2014, the Company selected a discount rate using a pool of higher-yielding bonds estimated to be more reflective of settlement rates, as management has taken steps to ultimately terminate or settle plans that are frozen and move toward freezing benefits in active plans in the future. In determining the expected return on plan assets, the Company assesses the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Plan assets are invested in common commingled trust funds invested in equity and fixed income securities. The asset allocation of the funds in the qualified defined-benefit plans, by asset category, is as follows:

	2014	**2013**
Asset category:		
Money market fund	**–%**	3%
Domestic equity securities	**33%**	39%
Non-U.S. equity securities	**14%**	17%
Fixed income securities	**53%**	41%
Plan assets	**100%**	100%

The Company's investment policy focuses on achieving maximum returns at a reasonable risk for pension assets over a full market cycle. The Company uses a fund manager and invests in various asset classes to diversify risk.

Target allocations for the primary asset classes based on current funded status are approximately:

Domestic equities:	27% - 38%
Non-U.S. equities:	11% - 19%
Fixed income:	48% - 58%

The Company determines the strategic allocation between equity and fixed income based on current funded status and other characteristics of the plan. As the funded status improves, the Company increases the fixed income allocation of the portfolio, and decreases the equity allocation. Actual asset allocations are reviewed regularly and periodically rebalanced as appropriate.

As of December 31, 2014, all assets were invested in common commingled trust funds. The Company uses the net asset values of these funds to determine fair value as allowed using the practical expediency method outlined in the accounting standards.

Plan asset by fund category and fair value hierarchy level (in millions):

	2014	2013	Level
Fund type:			
Money market fund	**$ –**	$ 45	1
U.S. equity market fund	**634**	684	2
Non-U.S. equity fund	**272**	301	2
Credit bond index fund	**190**	127	2
Government/credit bond index fund	**821**	612	2
Plan assets	**$ 1,917**	$ 1,769	

The following table sets forth the status of the qualified defined-benefit pension plans (in millions):

	2014	2013
Projected benefit obligation (PBO)		
Beginning of year	**$ 1,709**	$ 1,873
Service cost	**33**	46
Interest cost	**81**	73
Plan settlement	**–**	–
Actuarial (gain) loss	**298**	(226)
Benefits paid	**(71)**	(57)
End of year	**$ 2,050**	$ 1,709
Plan assets at fair value		
Beginning of year	**$ 1,769**	$ 1,538
Actual return on plan assets	**219**	205
Employer contributions	**–**	83
Plan settlements	**–**	–
Benefits paid	**(71)**	(57)
End of year	**$ 1,917**	$ 1,769
Funded status (unfunded)	**$ (133)**	$ 60
Percent funded	**94%**	104%

The accumulated benefit obligation for the combined qualified defined-benefit pension was $1.9 billion and $1.6 billion at December 31, 2014, and 2013, respectively.

The amounts recognized in the consolidated balance sheets (in millions):

	2014	2013
Plan assets-long term (within long term Other Assets)	**$ –**	$ 60
Accrued benefit liability-long term	**133**	–
Total liability recognized	**$ 133**	$ –

The amounts not yet reflected in net periodic benefit cost and included in AOCL:

	2014	2013
Prior service credit	**$ (12)**	$ (14)
Net loss	**514**	331
Amount recognized in AOCL (pretax)	**$ 502**	$ 317

The expected amortization of prior service credit and net loss from AOCL in 2015 is $1 million and $26 million, respectively, for the qualified defined-benefit pension plans.

Net pension expense for the qualified defined-benefit plans included the following components (in millions):

	2014	2013	2012
Service cost	**$ 33**	$ 46	$ 38
Interest cost	**81**	73	73
Expected return on assets	**(117)**	(111)	(93)
Amortization of prior service cost	**(1)**	(1)	(1)
Recognized actuarial loss	**13**	43	40
Net pension expense	**$ 9**	$ 50	$ 57

Historically, the Company's practice has been to contribute to the qualified defined-benefit pension plans an amount equal to the greater of 1) the minimum required by law, 2) the Pension Protection Act (PPA) target liability, or 3) the service cost as actuarially calculated. There are no current funding requirements for the Company's plans in 2015. The Company expects to contribute between $30 million and $35 million to the qualified defined-benefit pension plans during 2015. The Company expects to contribute approximately $4 million to the nonqualified defined-benefit pension plans during 2015.

Future benefits expected to be paid over the next ten years under the qualified defined-benefit pension plans from the assets of those plans (in millions):

2015	$ 78
2016	86
2017	93
2018	93
2019	104
2020 - 2024	600

Nonqualified Defined-Benefit Pension Plan

Alaska also maintains an unfunded, noncontributory defined-benefit plan for certain elected officers. This plan uses a December 31 measurement date. The assumptions used to determine benefit obligations and the net period benefit cost for the nonqualified defined-benefit pension plan are similar to those used to calculate the qualified defined-benefit pension plan. The plan's unfunded status, PBO, accumulated benefit obligation is immaterial. The net pension expense in prior year and expected future expense is also immaterial.

Postretirement Medical Benefits

The Company allows certain retirees to continue their medical, dental, and vision benefits by paying all or a portion of the active employee plan premium until eligible for Medicare, currently age 65. This results in a subsidy to retirees, because the premiums received by the Company are less than the actual cost of the retirees' claims. The accumulated postretirement benefit obligation (APBO) for this subsidy is unfunded. This liability was determined using an assumed discount rate of 4.20% and 4.85% at December 31, 2014 and 2013, respectively. The Company does not believe the U.S. Health Care Reform: The Patient Protection and Affordable Care Act and The Health Care and Education Reconciliation Act will have a significant impact on the Company's cost for postretirement medical benefits.

During 2014, the Company made changes to the postretirement medical benefits for non-union personnel and certain labor groups to sunset the postretirement medical benefits beginning in 2015. As a result of these changes, the Company recognized a partial curtailment gain of $25 million during December 31, 2014. The curtailment gain included $5 million associated with an embedded sick leave subsidy. This subsidy was used to establish a new compensated absence liability. The net impact of the curtailment gain of $20 million is included in special items in the income statement.

(in millions)	**2014**	2013
Accumulated postretirement benefit obligation		
Beginning of year	**$ 89**	$ 117
Service cost	**3**	5
Interest cost	**4**	4
Curtailment gain	**(25)**	–
Actuarial loss (gain)	**12**	(35)
Benefits paid	**(2)**	(2)
End of year	**$ 81**	$ 89
Plan assets at fair value		
Beginning of year	**$ –**	$ –
Employer contributions	**2**	2
Benefits paid	**(2)**	(2)
End of year	**$ –**	$ –
Funded status (unfunded)	**$ (81)**	$ (89)

The amounts recognized in the consolidated balance sheets (in millions):

	2014	2013
Accrued benefit liability-current	**$ 4**	$ 3
Accrued benefit liability-long term	**77**	86
Total liability recognized	**$ 81**	$ 89

AMOUNTS NOT YET REFLECTED IN NET PERIODIC BENEFIT COST AND INCLUDED IN AOCL:

(in millions)	**2014**	2013
Prior service cost	**$ –**	$ 1
Net gain	**(32)**	(48)
Amount recognized in AOCL (pretax)	**$ (32)**	$ (47)

The Company uses a December 31 measurement date to assess obligations associated with the subsidy of retiree medical costs. Net periodic benefit cost for the postretirement medical plans included the following components (in millions):

	2014	2013	2012
Service cost	**$ 3**	$ 5	$ 5
Interest cost	**4**	4	5
Amortization of prior service cost	**1**	1	1
Recognized actuarial (gain) loss	**(3)**	(2)	(1)
Curtailment gain	**(25)**	–	–
Net periodic benefit (gain) cost	**$ (20)**	$ 8	$ 10

This is an unfunded plan. The Company expects to contribute approximately $4 million to the postretirement medical benefits plan in 2015, which is equal to the expected benefit payments.

Future benefits expected to be paid over the next ten years under the postretirement medical benefits plan (in millions):

2015	$ 4
2016	4
2017	5
2018	5
2019	5
2020 - 2024	28

The assumed health care cost trend rates to determine the expected 2015 benefits cost are 7.7%, 7.7%, 5.0% and 4.0% for medical, prescription drugs, dental and vision costs, respectively. The assumed trend rate declines steadily through 2028 where the ultimate assumed trend rates are 4.7% for medical, prescription drugs and dental, and 4.0% for vision.

A 1% higher or lower trend rate in health care costs has the following effect on the Company's postretirement medical plans (in millions):

	2014	2013	2012
Change in service and interest cost			
1% higher trend rate	**$ 1**	$ 1	$ 2
1% lower trend rate	**(1)**	(1)	(1)
Change in year-end postretirement benefit obligation			
1% higher trend rate	**$ 9**	$ 10	$ 14
1% lower trend rate	**(8)**	(9)	(12)

Defined-Contribution Plans

The defined-contribution plans are deferred compensation plans under section 401(k) of the Internal Revenue Code. All of these plans require Company contributions. Total expense for the defined-contribution plans was $54 million, $44 million, and $43 million in 2014, 2013, and 2012, respectively.

The Company also has a noncontributory, unfunded defined-contribution plan for certain elected officers of the Company who are ineligible for the nonqualified defined-benefit pension plan. Amounts recorded as liabilities under the plan are not material to the consolidated balance sheet at December 31, 2014 and 2013.

Pilot Long-term Disability Benefits

Alaska maintains a long-term disability plan for its pilots. The long-term disability plan does not have a service requirement. Therefore, the liability is calculated based on estimated future benefit payments associated with pilots that were assumed to be disabled on a long-term basis as of December 31, 2014 and does not include any assumptions for future disability. The liability includes the discounted expected future benefit payments and medical costs. The total liability was $16 million and $12 million, which was recorded net of a prefunded trust account of $2 million and $1 million, and included in long-term other liabilities on the consolidated balance sheets as of December 31, 2014 and December 31, 2013, respectively.

Employee Incentive-Pay Plans

Alaska and Horizon have employee incentive plans that pay employees based on certain financial and operational metrics. These metrics are set and approved annually by the Compensation Committee of the Board of Directors. The aggregate expense under these plans in 2014, 2013 and 2012 was $116 million, $105 million, and $88 million, respectively. The plans are summarized below:

- *Performance-Based Pay* (PBP) is a program that rewards all employees. The program is based on four separate metrics related to Air Group profitability, safety, achievement of unit-cost goals, and employee engagement as measured by customer satisfaction.

- The *Operational Performance Rewards Program* entitles all Air Group employees to quarterly payouts of up to $300 per person if certain operational and customer service objectives are met.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Future minimum fixed payments for commitments as of December 31, 2014 (in millions):

	Aircraft Leases	Facility Leases	Aircraft Commitments	Capacity Purchase Agreements	Engine Maintenance
2015	$ 111	$ 95	$ 516	$ 51	$ 10
2016	102	93	496	56	–
2017	72	89	471	60	–
2018	57	41	430	42	–
2019	46	40	393	31	–
Thereafter	164	196	653	245	–
Total	$ 552	$ 554	$ 2,959	$ 485	$ 10

Lease Commitments

At December 31, 2014, the Company had lease contracts for 64 aircraft, which have remaining noncancelable lease terms ranging from 2015 to 2028. Of these aircraft, 14 are subleased to a third-party carrier, and seven aircraft are E-175 regional jets, of which five aircraft will begin operations under a CPA with SkyWest during 2015. The majority of airport and terminal facilities are also leased. Rent expense was $288 million, $290 million, and $275 million, in 2014, 2013, and 2012, respectively.

Aircraft Commitments

As of December 31, 2014, the Company is committed to purchasing 73 B737 aircraft (36 B737-900ER aircraft and 37 B737 MAX aircraft, with deliveries in 2015 through 2022) and three Q400 aircraft, with deliveries in 2015 through 2017. In addition, the Company has options to purchase an additional 48 B737 aircraft and five Q400 aircraft, and options to increase capacity with 16 E-175 aircraft through our CPA with SkyWest.

Capacity Purchase Agreements (CPAs)

In November 2014, Alaska amended its CPA with SkyWest, which includes a 12-year lease for seven Embraer E-175s. The seven aircraft have delivery dates ranging from June 2015 to February 2016. The future minimum lease payments related to the aircraft in the amended contract are included in the aircraft leases column and the minimum lease payments associated with operating the flights are included in the capacity purchase agreements column of the commitments table.

At December 31, 2014, Alaska had CPAs with three carriers, including the Company's wholly-owned subsidiary, Horizon. Horizon sells 100% of its capacity under a CPA with Alaska. In addition, Alaska has a CPA with PenAir to fly certain routes in the state of Alaska. Under these agreements, Alaska pays the carriers an amount which is based on a determination of their cost of operating those flights and other factors intended to approximate market rates for those services. Future payments (excluding Horizon) are based on minimum levels of flying by the third-party carriers, which could differ materially due to variable payments based on actual levels of flying and certain costs associated with operating flights such as fuel.

Engine Maintenance

The Company has a power-by-the-hour (PBH) maintenance agreement for some of the B737-700 and B737-900 engines. This agreement transfers risk to a third-party service provider and fixes the amount the Company pays per flight hour in exchange for maintenance and repairs under a predefined maintenance program. Future payments are based on minimum flight hours.

Contingencies

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

NOTE 10. SHAREHOLDERS' EQUITY

Common Stock Changes

During the second quarter of 2014, shareholders voted to increase the number of authorized shares from 100 million to 200 million shares, and reduce the par value of common stock from $1 per share to $0.01 per share, and the Board of Directors declared a two-for-one stock split by means of a stock distribution. The additional shares were distributed on July 9, 2014, to the shareholders of record on June 23, 2014. All historical share and per share information has been recast to reflect the changes in the Company's equity structure.

Dividends

During 2014, the Board of Directors declared dividends of $0.50 per share. The Company paid dividends of $68 million to shareholders of record during 2014.

Subsequent to year-end, the Board of Directors declared a quarterly cash dividend of $0.20 per share to be paid on March 10, 2015 to shareholders of record as of February 24, 2015. This is a 60% increase from the most recent quarterly dividends of $0.125 per share.

Common Stock Repurchase

In May 2014, the Board of Directors authorized a $650 million share repurchase program, which does not have a set expiration date. In September 2012, the Board of Directors authorized a $250 million share repurchase program, which was completed in July 2014. In February 2012, the Board of Directors authorized a $50 million share repurchase program, which was completed in September 2012. In June 2011, the Board of Directors authorized a $50 million share repurchase program, which was completed in January 2012.

Share repurchase activity (in millions, except shares):

	2014		2013		2012	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
2014 $650 million Repurchase Program	**5,497,427**	**$ 265**	–	$ –	–	$ –
2012 $250 million Repurchase Program	**1,819,304**	**83**	4,984,186	159	405,020	8
2012 $50 million Repurchase Program	**–**	**–**	–	–	2,874,202	50
2011 $50 million Repurchase Program	**–**	**–**	–	–	92,680	2
Total	**7,316,731**	**$ 348**	4,984,186	$ 159	3,371,902	$ 60

Retirement of Treasury Shares

In 2014, the Company retired 7,283,107 common shares that had been held in treasury. At December 31, 2014, the Company held 75,100 shares in treasury.

Accumulated Other Comprehensive Loss (AOCL)

AOCL consisted of the following (in millions, net of tax):

	2014	2013
Related to marketable securities	**–**	–
Related to employee benefit plans	**(298)**	(173)
Related to interest rate derivatives	**(12)**	(10)
	$ (310)	$ (183)

NOTE 11. SPECIAL ITEMS

Special Mileage Plan Revenue

In the third quarter of 2013, the Company modified its Affinity Card Agreement (Agreement) with Bank of America Corporation (BAC), through which the Company sells miles and other items to BAC and the Company's loyalty program members accrue frequent flyer miles based on purchases using credit cards issued by BAC. As a result of the execution of the Agreement, consideration received as part of this agreement is subject to Accounting Standards Update 2009-13, "Multiple-Deliverable Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force" (ASU 2009-13).

The Company followed the rollforward transition approach of ASU 2009-13, which required that the Company's existing deferred revenue balance be adjusted to reflect the value, on a relative selling price basis, of any undelivered element remaining at the date of contract modification as if the Company had been applying ASU 2009-13 since inception of the Agreement. The relative selling price of the undelivered element (air transportation) is lower than the rate at which it had been deferred under the previous contract and the Company recorded a one-time, non-cash adjustment to decrease frequent flyer deferred revenue and increase Special mileage plan revenue. The amount recorded for the year ended December 31, 2013 was $192 million.

Also during the third quarter of 2013, as part of the Company's ongoing evaluation of Mileage Plan program assumptions, the Company performed a statistical analysis of historical data, which refined its estimate of the amount of breakage in the mileage population. This new refinement enables the Company to better identify historical differences between certain of its mileage breakage estimates and the amounts that have actually been experienced. As a result, the Company increased its estimate of the number of frequent flyer miles expected to expire unused from 12.0% to 17.4%. Included in the Special mileage plan revenue item above is $44 million of additional revenue related to the effect of the change on the deferred revenue balance.

Special Items

Refer to Note 8. Employee Benefit Plans for detailed information about the one-time benefit related to the curtailment of certain postretirement benefit plans. In the fourth quarter of 2014, we recorded a one-time gain of $10 million associated with the settlement of a legal matter.

NOTE 12. STOCK-BASED COMPENSATION PLANS

The table below summarizes the components of total stock-based compensation (in millions):

	2014	2013	2012
Stock options	**$ 3**	$ 3	$ 2
Stock awards	**10**	10	11
Deferred stock awards	**1**	1	1
Employee stock purchase plan	**2**	2	1
Stock-based compensation	**$ 16**	$ 16	$ 15
Tax benefit related to stock-based compensation	**$ 6**	$ 6	$ 5

Unrecognized stock-based compensation for non-vested options and awards and the weighted-average period the expense will be recognized (in millions):

	Amount	Weighted-Average Period
Stock options	$ 2	0.8
Stock awards	8	0.6
Unrecognized stock-based compensation	$ 10	0.7

The Company has various equity incentive plans under which it may grant stock awards to directors, officers and employees. The Company also has an employee stock purchase plan (ESPP).

The Company is authorized to issue 36 million shares of common stock under these plans, of which 16,914,785 shares remain available for future grants of either options or stock awards as of December 31, 2014.

Stock Options

Stock options to purchase common stock are granted at the fair market value of the stock on the date of grant. The stock options granted have terms of up to ten years.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants:

	2014	2013	2012
Expected volatility	65%	67%	55%
Expected term	6 years	6 years	6 years
Risk-free interest rate	1.87%	1.10%	1.08%
Expected dividend yield	1.25	–	–
Weighted-average grant date fair value per share	$ 21.70	$ 14.74	$ 8.62
Estimated fair value of options granted (millions)	$ 3	$ 3	$ 2

The expected market price volatility is based on the historical volatility. The expected term is based on the estimated period of time until exercise based on historical experience. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected dividend yield is based on the estimated weighted average dividend yield over the expected term. The expected forfeiture rates are based on historical experience.

The tables below summarize stock option activity:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Life (Years)	Aggregate Intrinsic Value (in millions)
Outstanding, December 31, 2013	1,143,684	$ 14.25	6.6	$ 26
Granted	143,050	40.01		
Exercised	(573,140)	11.39		
Forfeited or expired	(5,906)	38.76		
Outstanding, December 31, 2014	707,688	$ 21.57	6.4	$ 27
Exercisable, December 31, 2014	**243,726**	**$ 12.32**	**5.4**	**$ 12**
Vested or expected to vest, December 31, 2014	**706,748**	**$ 21.56**	**6.4**	**$ 27**

(in millions)	**2014**	**2013**	**2012**
Intrinsic value of option exercises	**$ 20**	$ 19	$ 11
Cash received from stock option exercises	**6**	8	7
Tax benefit related to stock option exercises	**7**	7	4
Fair value of options vested	**2**	3	4

Stock Awards

Restricted Stock Units (RSUs) are awarded to eligible employees and entitle the grantee to receive shares of common stock at the end of the vest period. The fair value of the RSUs is based on the stock price on the date of grant. The RSUs "cliff vest" after three years, or the period from the date of grant to the employee's retirement eligibility, and expense is recognized accordingly. Performance Share Units (PSUs) are awarded to certain executives to receive shares of common stock if specific performance goals and market conditions are achieved. There are several tranches of PSUs which vest when performance goals and market conditions are met.

The following table summarizes information about outstanding stock awards:

	Number of Units	Weighted-Average Grant Date Fair Value	Weighted-Average Contractual Life (Years)	Aggregate Intrinsic Value (in millions)
Non-vested, December 31, 2013	1,278,430	$ 19.58	0.6	$ 47
Granted	400,650	31.85		
Vested	(630,390)	16.53		
Forfeited	(21,300)	19.48		
Non-vested, December 31, 2014	1,027,390	$ 26.19	0.6	$ 61

Deferred Stock Awards

Deferred Stock Units (DSUs) are awarded to members of its Board of Directors as part of their retainers. The underlying common shares are issued upon retirement from the Board, but require no future service period. As a result, the entire intrinsic value of the awards is expensed on the date of grant.

Employee Stock Purchase Plan (ESPP)

The ESPP allows employees to purchase common stock at 85% of the stock price on the first day of the offering period or the specified purchase date, whichever is lower. Employees may contribute up to 10% of their base earnings during the offering period to purchase stock. Employees purchased 298,283, 171,227, and 157,373 shares in 2014, 2013, and 2012 under the ESPP.

NOTE 13. OPERATING SEGMENT INFORMATION

Air Group has two operating airlines - Alaska Airlines and Horizon Air. Each is a regulated airline with separate management teams. To manage the two operating airlines and the revenues and expenses associated with the CPAs, management views the business in three operating segments.

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

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

Horizon - Horizon operates regional aircraft. All of Horizon's capacity is sold to Alaska under a CPA. Expenses included those typically borne by regional airlines such as crew costs, ownership costs, and maintenance costs.

Additionally, the following table reports "Air Group Adjusted," which is not a measure determined in accordance with GAAP. The Company's chief operating decision-makers and others in management use this measure to evaluate operational performance and determine resource allocations. Adjustments are further explained below in reconciling to consolidated GAAP results.

Operating segment information is as follows (in millions):

Year Ended December 31, 2014	Alaska Mainline	Alaska Regional	Horizon	Consolidating	Air Group Adjusted[(a)]	Special Items[(b)]	Consolidated
Operating revenues							
Passenger							
Mainline	$ 3,774	$ –	$ –	$ –	$ 3,774	$ –	$ 3,774
Regional	–	805	–	–	805	–	805
Total passenger revenues	3,774	805	–	–	4,579	–	4,579
CPA revenues	–	–	371	(371)	–	–	–
Freight and mail	109	5	–		114	–	114
Other-net	592	78	5		675		675
Total operating revenues	4,475	888	376	(371)	5,368	–	5,368
Operating expenses							
Operating expenses, excluding fuel	2,417	623	349	(371)	3,018	(30)	2,988
Economic fuel	1,251	190	–	–	1,441	(23)	1,418
Total operating expenses	3,668	813	349	(371)	4,459	(53)	4,406
Nonoperating income (expense)							
Interest income	20	–	–	1	21	–	21
Interest expense	(32)	–	(12)	(4)	(48)	–	(48)
Other	39	(1)	2	–	40	–	40
	27	(1)	(10)	(3)	13	–	13
Income (loss) before income tax	$ 834	$ 74	$ 17	$ (3)	$ 922	$ 53	$ 975

Year Ended December 31, 2013	Alaska Mainline	Alaska Regional	Horizon	Consolidating	Air Group Adjusted[(a)]	Special Items[(b)]	Consolidated
Operating revenues							
Passenger							
Mainline	$ 3,490	$ –	$ –	$ –	$ 3,490	$ –	$ 3,490
Regional	–	777	–	–	777	–	777
Total passenger revenues	3,490	777	–	–	4,267	–	4,267
CPA revenues	–	–	368	(368)	–	–	–
Freight and mail	109	4	–		113	–	113
Other-net	513	66	5		584	192	776
Total operating revenues	4,112	847	373	(368)	4,964	192	5,156
Operating expenses							
Operating expenses, excluding fuel	2,293	585	341	(368)	2,851	–	2,851
Economic fuel	1,294	181	–	–	1,475	(8)	1,467
Total operating expenses	3,587	766	341	(368)	4,326	(8)	4,318
Nonoperating income (expense)							
Interest income	18	–	–	–	18	–	18
Interest expense	(38)	–	(14)	(4)	(56)	–	(56)
Other	25	(12)	2	1	16	–	16
	5	(12)	(12)	(3)	(22)	–	(22)
Income (loss) before income tax	$ 530	$ 69	$ 20	$ (3)	$ 616	$ 200	$ 816

Year Ended December 31, 2012	Alaska Mainline	Alaska Regional	Horizon	Consolidating	Air Group Adjusted[a]	Special Items[b]	Consolidated
Operating revenues							
Passenger							
Mainline	$ 3,284	$ –	$ –	$ –	$ 3,284	$ –	$ 3,284
Regional	–	746	–	–	746	–	746
Total passenger revenues	3,284	746	–	–	4,030	–	4,030
CPA revenues	–	–	369	(369)	–	–	–
Freight and mail	107	4	–	–	111	–	111
Other-net	448	61	7	–	516	–	516
Total operating revenues	3,839	811	376	(369)	4,657	–	4,657
Operating expenses							
Operating expenses, excluding fuel	2,131	566	338	(369)	2,666	–	2,666
Economic fuel	1,238	183	–	–	1,421	38	1,459
Total operating expenses	3,369	749	338	(369)	4,087	38	4,125
Nonoperating income (expense)							
Interest income	19	–	–	–	19	–	19
Interest expense	(47)	–	(16)	(1)	(64)	–	(64)
Other	24	–	2	1	27	–	27
	(4)	–	(14)	–	(18)	–	(18)
Income (loss) before income tax	$ 466	$ 62	$ 24	$ –	$ 552	$ (38)	$ 514

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

(b) Includes accounting adjustments related to Special mileage plan revenue, mark-to-market fuel-hedge accounting charges, non-cash curtailment gain, and a one-time gain related to a legal matter.

	2014	2013	2012
Depreciation:			
Alaska[a]	**$ 243**	223	$ 217
Horizon	**51**	47	47
Parent company	**–**	–	–
Consolidated	**$ 294**	$ 270	$ 264
Capital expenditures:			
Alaska[a]	**$ 659**	$ 494	$ 477
Horizon	**35**	72	41
Consolidated	**$ 694**	$ 566	$ 518
Total assets at end of period:			
Alaska[a]	**$ 6,772**	$ 5,832	
Horizon	**818**	840	
Parent company	**3,552**	2,762	
Elimination of inter-company accounts	**(4,961)**	(3,596)	
Consolidated	**$ 6,181**	$ 5,838	

(a) There are no depreciation expenses, capital expenditures or assets associated with purchased capacity flying at Alaska Regional.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Principal Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal controls over financial reporting during the fourth quarter of 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the 2013 framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

We intend to regularly review and evaluate the design and effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis and to improve these controls and procedures over time and to correct any deficiencies that we may discover in the future. While we believe the present design of our disclosure controls and procedures and internal control over financial reporting are effective, future events affecting our business may cause us to modify our controls and procedures.

The Company's independent registered public accounting firm has issued an attestation report regarding its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2014.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Alaska Air Group, Inc.:

We have audited Alaska Air Group, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Alaska Air Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting (included in Item 9A). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Alaska Air Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Alaska Air Group, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 11, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington
February 11, 2015

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

See “Executive Officers of the Registrant” under Item 1, “Our Business,” in Part I of this Form 10-K for information on the executive officers of Air Group and its subsidiaries. Except as provided herein, the remainder of the information required by this item is incorporated herein by reference from the definitive Proxy Statement for Air Group’s 2015 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year ended December 31, 2014 (hereinafter referred to as our “2015 Proxy Statement”).

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference from our 2015 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND RELATED STOCKHOLDER MATTERS

Securities Authorized for Issuance Under Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,920,362[1]	$ 21.57[2]	16,914,785[3]
Equity compensation plans not approved by security holders	–	Not applicable	–
Total	1,920,362	$ 21.57	16,914,785

(1) Of these shares, 670,368 subject to options then outstanding under the 2008 Plan, and 1,212,674 were subject to outstanding restricted, performance and deferred stock unit awards granted under the 2008 Plan. In addition, 37,320 were subject to options then outstanding under the 2004 Plan. Outstanding performance awards are reflected in the table assuming that the target level of performance will be achieved. No new award of grants may be made under the 2004 Plan.

(2) This number does not reflect the 1,212,674 shares that were subject to outstanding stock unit awards granted under the 2008 Plan.

(3) Of the aggregate number of shares that remained available for future issuance, 10,200,360 shares were available under the 2008 Plan and 6,795,273 shares were available under the ESPP. Subject

to certain express limits of the 2008 Plan, shares available for award purposes under the 2008 Plan generally may be used for any type of award authorized under that plan including options, stock appreciation rights, and other forms of awards granted or denominated in shares of our common stock including, without limitation, stock bonuses, restricted stock, restricted stock units and performance shares. Full-value shares issued under the 2008 Plan are counted against the share limit as 1.7 shares for every one share issued. This table does not give effect to that rule.

Other information required by this item is set forth under the heading "Beneficial Ownership of Securities" in our 2015 Proxy Statement and is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference from our 2015 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference from our 2015 Proxy Statement.

PART IV

ITEM 15. EXHIBITS

The following documents are filed as part of this report:

1. *Exhibits:* See Exhibit Index.

SIGNATURES

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

ALASKA AIR GROUP, INC.

By: /s/ BRADLEY D. TILDEN Date: February 11, 2015

Bradley D. Tilden
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on February 11, 2015 on behalf of the registrant and in the capacities indicated.

/s/ BRADLEY D. TILDEN **Bradley D. Tilden**	Chairman, President, and Chief Executive Officer (Principal Executive Officer)
/s/ BRANDON S. PEDERSEN **Brandon S. Pedersen**	Executive Vice President/Finance and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ PATRICIA M. BEDIENT **Patricia M. Bedient**	Director
/s/ MARION C. BLAKEY **Marion C. Blakey**	Director
/s/ PHYLLIS J. CAMPBELL **Phyllis J. Campbell**	Director
/s/ DHIREN R. FONSECA **Dhiren R. Fonseca**	Director
/s/ JESSIE J. KNIGHT, JR. **Jessie J. Knight, Jr.**	Director
/s/ DENNIS F. MADSEN **Dennis F. Madsen**	Director
/s/ HELVI K. SANDVIK **Helvi K. Sandvik**	Director
/s/ KATHERINE J. SAVITT **Katherine J. Savitt**	Director
/s/ J. KENNETH THOMPSON **J. Kenneth Thompson**	Director
/s/ ERIC K. YEAMAN **Eric K. Yeaman**	Director

EXHIBIT INDEX

Certain of the following exhibits have heretofore been filed with the Securities and Exchange Commission and are incorporated by reference from the documents below. Certain others are filed herewith. The exhibits are numbered in accordance with Item 601 of Regulation S-K.

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
3.1	Amended and Restated Certificate of Incorporation of Registrant	10-Q	August 6, 2014	3.1	
3.2	Bylaws of Registrant, as amended April 30, 2010	8-K	May 3, 2010	3.2	
10.1#	Aircraft General Terms Agreement, dated June 15, 2005, between the Boeing Company and Alaska Airlines, Inc.	10-Q	August 5, 2005	10.1	
10.2#	Purchase Agreement No. 2497, dated June 15, 2005, between the Boeing Company and Alaska Airlines, Inc.	10-Q	August 5, 2005	10.2	
10.3#	Supplemental Agreement No. 23 to Purchase Agreement No. 2497 between The Boeing Company and Alaska Airlines, Inc.	10-Q/A	August 2, 2011	10.1	
10.4#	Supplemental Agreement No. 29 to Purchase Agreement No. 2497 between The Boeing Company and Alaska Airlines, Inc.	10-K	February 14, 2013	10.1	
10.5#	Purchase Agreement No. 3866 between The Boeing Company and Alaska Airlines, Inc.	10-K	February 14, 2013	10.2	
10.6*	Alaska Air Group Performance Based Pay Plan (formerly "Management Incentive Plan"), as amended and restated February 11, 2014	10-Q	May 9, 2014	10.1	
10.7*†	Alaska Air Group Performance Based Pay Plan Annex	10-K	February 11, 2015		
10.8*	Alaska Air Group, Inc. 2004 Long-Term Incentive Plan Nonqualified Stock Option Agreement	10-K	February 20, 2008	10.8.1	
10.9*	Alaska Air Group, Inc. 2008 Performance Incentive Plan, Form of Nonqualified Stock Option Agreement	10-Q	August 4, 2011	10.3	
10.10*	Alaska Air Group, Inc. 2008 Performance Incentive Plan, Form of Performance Stock Unit Award Agreement	10-Q	August 4, 2011	10.4	
10.11*	Alaska Air Group, Inc. 2008 Performance Incentive Plan, Form of Stock Unit Award Agreement	10-Q	August 4, 2011	10.5	
10.12*	Alaska Air Group, Inc. 2008 Performance Incentive Plan, Form of Stock Unit Award Agreement Incentive Award	10-Q	August 4, 2011	10.6	
10.13*†	Alaska Air Group, Inc. 2008 Performance Incentive Plan, Amended for Stock-Split	10-K	February 11, 2015		
10.14*†	Alaska Air Group, Inc. 2010 Employee Stock Purchase Plan, Amended for Stock-Split	10-K	February 11, 2015		

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
10.15*†	Alaska Air Group, Inc. Stock Deferral Plan for Non-Employee Directors	10-K	February 11, 2015		
10.16*	Alaska Air Group, Inc. Nonqualified Deferred Compensation Plan, as amended	10-Q	August 4, 2011	10.1	
10.17*	1995 Elected Officers Supplementary Retirement Plan, as amended	10-Q	August 4, 2011	10.2	
10.18*†	Form of Alaska Air Group, Inc. Change of Control Agreement for named executive officers, as amended and restated October 16, 2014	10-K	February 11, 2015		
21†	Subsidiaries of Registrant				
23.1†	Consent of Independent Registered Public Accounting Firm (KPMG LLP)				
31.1†	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2†	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1†	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2†	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS†	XBRL Instance Document				
101.SCH†	XBRL Taxonomy Extension Schema Document				
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document				
†	Filed herewith				
*	Indicates management contract or compensatory plan or arrangement.				
#	Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.				

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ALASKA AIR GROUP DIRECTORS

Patricia M. Bedient
Executive Vice President and CFO, Weyerhaeuser Company

Marion C. Blakey
President and CEO, Rolls-Royce North America

Phyllis J. Campbell
Chairman, Pacific Northwest, JP Morgan Chase & Co.

Dhiren R. Fonseca
Partner
Certares LP

Jessie J. Knight, Jr.
Executive Vice President, External Affairs, Sempra Energy Chairman, San Diego Gas & Electric Co.

Dennis F. Madsen

Helvi K. Sandvik
President, NANA Development Corp.

Katherine J. Savitt
Chief Marketing Officer, Yahoo!

J. Kenneth Thompson
President and CEO, Pacific Star Energy LLC

Bradley D. Tilden
Chairman, President and CEO
Alaska Air Group, Inc.

Eric K. Yeaman
President and CEO
Hawaiian Telcom

ALASKA AIR GROUP OFFICERS

Bradley D. Tilden
Chairman, President and CEO

Brandon S. Pedersen
Executive Vice President Finance and CFO

Shannon K. Alberts
Corporate Secretary

Mark G. Eliasen
Vice President Finance and Treasurer

Thomas W. Nunn
Vice President Safety

Herman W. Wacker
Vice President Legal and General Counsel

ALASKA AIRLINES OFFICERS

Bradley D. Tilden
Chairman, President and CEO

Andrew R. Harrison
Executive Vice President and CRO

Benito Minicucci
Executive Vice President Operations and COO

Brandon S. Pedersen
Executive Vice President Finance and CFO

Joseph A. Sprague
Senior Vice President Communications and External Affairs

Shannon K. Alberts
Corporate Secretary

VICE PRESIDENTS:

Ann E. Ardizzone
Strategic Sourcing and Supply Chain Management

Gary L. Beck
Flight Operations

Jeffrey M. Butler
Airport Operations and Customer Service

Mark G. Eliasen
Finance and Treasurer

Karen A. Gruen
Corporate Real Estate

John P. Kirby
Capacity Planning

R. Curtis Kopf
Customer Innovation

Kris M. Kutchera
Information and Technology Services

Gregory A. Mays
Maintenance and Engineering

Thomas W. Nunn
Safety

Andrea L. Schneider
Inflight Services

Veresh Sita
Chief Information Officer

Shane R. Tackett
Revenue Management

Herman L. Wacker
Legal and General Counsel

Sangita C. Woerner
Marketing

Tamara S. Young
Human Resources

HORIZON AIR OFFICERS

Bradley D. Tilden
Chairman and CEO

David L. Campbell
President and COO

Shannon K. Alberts
Corporate Secretary

Mark G. Eliasen
Treasurer

VICE PRESIDENTS:

Yvonne M. Daverin
Maintenance and Engineering

Diana M. Shaw
Customer Service

CORPORATE PROFILE

Alaska Air Group, Inc. is the holding company for Alaska Airlines and Horizon Air, Seattle-based carriers that collectively serve more than 100 destinations in the United States, Canada and Mexico. Alaska Air Group was organized as a Delaware corporation in 1985.

Alaska Airlines, Inc., an Alaska corporation founded in 1932, is noted for its award-winning customer service, industry-leading on-time performance, technological innovation and environmental stewardship. In the past year, Alaska provided scheduled air service for about 20.9 million passengers. Alaska flies more than 180 aircraft to 100 plus destinations throughout the United States, Canada and Mexico. For 2014, Alaska reported record financial results and one of the highest profit margins in the airline industry. The company has been profitable for 11 consecutive years. Alaska has earned many accolades, including ranking highest in customer satisfaction among traditional carriers in the J.D. Power North American Airline Satisfaction Study for seven years in a row. The airline also ranked No. 1 in on-time performance for five consecutive years by FlightStats, and was named the Best Airline in the U.S. by *The Wall Street Journal* for the second consecutive year. Its hubs are Seattle, Anchorage, Portland and Los Angeles. Learn more about Alaska Airlines route network at www.alaskaair.com.

Horizon Air Industries, Inc., a Washington corporation organized in 1981, is noted for its operational performance and safety record. Horizon Air is a regional carrier and performs all of its flying for Alaska Airlines under a capacity purchase arrangement. In the past year, Horizon Air provided scheduled air service for nearly 7.5 million passengers to 45 destinations throughout Oregon, Washington, Idaho, Montana, California, Alaska, Baja California Sur (Mexico), and Alberta and British Columbia, Canada. Horizon's general office is located in Seattle and its primary maintenance base is located in Portland, Oregon.

CORPORATE SUSTAINABILITY REPORT

Alaska Air Group is committed to leading our industry in environmental stewardship. We are dedicated to honorable and responsible relationships with our customers, employees, investors, business partners and the communities where we fly. The Company's Sustainability Report can be accessed at www.alaskaair.com.

INVESTOR INFORMATION

CORPORATE HEADQUARTERS
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Seattle, Washington 98188

Mailing Address:
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Seattle, Washington 98168-0947

INDEPENDENT AUDITORS
KPMG LLP
Seattle, Washington

ANNUAL MEETING
Thursday, May 7, 2015
3 p.m. Pacific Time
Museum of Flight
William M. Allen Theater
9404 East Marginal Way South
Seattle, Washington

TRANSFER AGENT AND REGISTRAR
Computershare Trust Company N.A.
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Internet: www.computershare.com/investor

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LISTING OF SECURITIES
New York Stock Exchange
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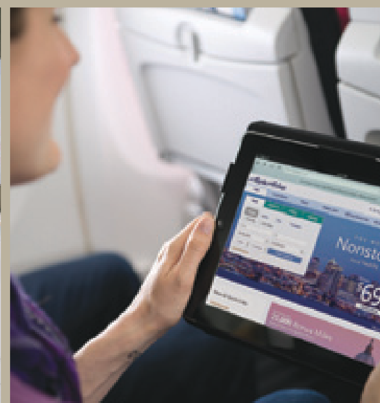



Alaska
Introducing
Alaska Beyond
Beyond


ALASKAN
AMBER




Flight Amenities


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