ALASKA AIR GROUP INC
Form S-1
July 18, 2003

As filed with the Securities and Exchange Commission on July 18, 2003

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Alaska Air Group, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware	**4512**	**34-1697351**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

19300 Pacific Highway South
Seattle, Washington 98188
(206) 392-5040
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Bradley D. Tilden
Executive Vice President/ Finance and Chief Financial Officer
19300 Pacific Highway South
Seattle, Washington 98188
(206) 392-5040
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copy to:
Karen Dreyfus
O Melveny & Myers LLP
990 Marsh Road
Menlo Park, California 94025
(650) 473-2600

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: þ

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Note (1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Senior Convertible Notes due 2023	$150,000,000	112.6235%	$168,935,250	$13,667
Common Stock, par value $1.00 per share	(2)			(3)

(1) Estimated solely for the purpose of calculating the registration fee, pursuant to Rule 457(c), based upon the average of the bid and asked priced of the Senior Convertible Notes due 2023 on the PORTAL Market on July 14, 2003.

(2) Includes such indeterminate number of shares of common stock as shall be issuable upon conversion of the Senior Convertible Notes due 2023 being registered hereunder. Each note may be converted into common stock, initially at the conversion rate of 38.4615 shares per each $1,000 principal amount of notes (equal to a conversion price of approximately $26.00 per share), subject to adjustments. The initial number of shares of common stock issuable upon conversion of the notes is 5,769,225. Pursuant to Rule 416 there are also registered hereby the shares of common stock or other securities that may be issuable upon conversion of the notes as a result of a stock split, stock dividend, recapitalization or similar event.

(3) Pursuant to Rule 457(i), there is no additional filing fee required with respect to these securities because no additional consideration will be received in connection with the exercise of the conversion privilege.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED JULY 18, 2003

PROSPECTUS

$150,000,000

Senior Convertible Notes due 2023

Common Stock, par value $1.00 per share

We issued these notes in a private placement in March 2003. This prospectus will be used by selling security holders to resell their notes and the common stock issuable upon conversion of their notes at market prices prevailing at the time of sale at prices related to such prevailing market prices, fixed or varying prices determined at the time of sale, or at negotiated prices. The selling security holders may sell the notes or the common stock directly to purchasers or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts or commissions. We will not receive any proceeds from this offering.

We sold the notes at the original principal amount, and issue price, of $1,000 per note. The notes bear cash interest at a variable rate of interest on the original principal amount from the issue date, or from the most recent date to which interest has been paid or provided for, until March 21, 2008. During such period, cash interest is payable quarterly in arrears on March 21, June 21, September 21 and December 21 of each year, beginning June 21, 2003, until March 21, 2008, unless the notes are earlier redeemed or converted. The variable interest rate until June 21, 2003 was 3.79% per annum and commencing June 21, 2003 will be reset quarterly to a rate of 3-month LIBOR plus 2.50% per annum.

Beginning March 21, 2008, the notes will cease bearing cash interest. Instead, from such date the original principal amount of each note will commence increasing daily by the variable yield, which is equal to the variable rate of interest, to produce the variable principal amount. The variable principal amount of a note will compound quarterly, not daily. On the maturity date of the notes, a holder will receive the variable principal amount of a note. The variable yield will be a rate of 3-month LIBOR plus 2.50% per annum and will be reset quarterly. Regardless of the level of 3-month LIBOR, however, the variable yield will not exceed 5.25% per annum. The rate of accrual will be applied to the variable principal amount per note as of the most recent variable yield reset date.

Except as described herein, the notes will be senior unsecured obligations and will rank equally with our existing and future senior unsecured indebtedness. The notes will effectively rank junior to our subsidiaries liabilities.

Convertibility of the Notes

Holders may convert their notes, in multiples of $1,000 original principal amount, into 38.4615 shares of our common stock per $1,000 original principal amount of notes, subject to adjustment, only if (1) the sale price of our common stock reaches specified thresholds, (2) the credit rating assigned to the notes by either Moody s or Standard & Poor s is Caa1 or CCC+, respectively, or lower, and then only so long as such credit rating remains at or below such levels, (3) the notes are called for redemption, or (4) specified corporate transactions have occurred. Upon conversion, we will have the right to deliver, in lieu of our common stock, cash or a combination of cash and common stock in an amount described herein. Our common stock currently trades on the New York Stock Exchange under the symbol ALK. On July 17, 2003, the last reported sale price of the common stock on the NYSE was $22.21 per share.

Purchase of the Notes at the Option of the Holder

Holders may require us to purchase all or a portion of their notes on March 21, 2008, March 21, 2013 and March 21, 2018 at a price equal to the variable principal amount and accrued and unpaid cash interest, if any, on such notes as of the applicable purchase date. We may choose to pay the purchase price of such notes in cash or common stock or a combination of cash and common stock. In addition, upon a change in control of Alaska Air Group, Inc., each holder may require us to purchase for cash all or a portion of such holder s notes at a price equal to the variable principal amount and accrued and unpaid cash interest, if any, on such notes as of the date of purchase.

Redemption of the Notes at Our Option

We may redeem for cash all or a portion of the notes at any time on or after March 21, 2006, at prices calculated as described in Description of Notes Redemption of Notes at our Option.

We have not applied for listing of the notes on any securities exchange or for quotation through any automated quotation system. The notes were offered to qualified institutional buyers as defined in, and in reliance on, Rule 144A under the Securities Act, in transactions exempt from, or not subject to, the registration requirements of the Securities Act.

You should consider carefully the risks that we have described in Risk Factors beginning on page 8 before deciding whether to invest in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2003

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve a number of risks and uncertainties. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry s actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by any forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, will, could, would, shou expect, plan, anticipate, intend, believe, estimate, predict, potential, pro forma, seek, or continue or the negative of those te comparable terminology. These statements are only predictions and we can give no assurance that such expectations will prove to be correct. Some of the things that could cause our actual results to differ substantially from our expectations are:

general economic conditions as well as economic conditions in the geographic regions we serve;

the continued impact of terrorist attacks, or new actual or threatened occurrences of terrorist attacks as well as global instability and potential U.S. military involvement;

trends in the airline industry;

our significant indebtedness;

recent and future potential downgrades of our credit ratings;

the competitive environment in the airline industry and in the geographic regions we serve;

changes in federal and state laws and regulations;

changes in our operating costs and in the cost of fuel in particular;

changes in our operating strategy or development plans;

changes in prevailing interest rates and the availability of and terms of financing to fund our business;

liability and other claims asserted against us;

labor disturbances, including any resulting from the termination of our collective bargaining agreements;

changes in our acquisition and capital expenditure plans;

our ability to attract and retain qualified personnel;

inflation;

demographic changes; and

other factors described in this prospectus, including those set forth under the caption Risk Factors.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this prospectus to conform them to actual results. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under the caption Risk Factors, beginning on page 10.

We caution the reader that these risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new risk factors, nor can it assess the impact, if any, of such new risk factors on our businesses or the extent to which any factor or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended.

You should carefully read this prospectus in its entirety. This prospectus contains information that you should consider when making your investment decision.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission, or SEC, under the Securities Exchange Act of 1934, as amended. You may read and copy this information at the following locations of the SEC:

Public Reference Room 450 Fifth Street, N.W. Room 1024 Washington, D.C. 20549	Pacific Regional Office 5670 Wilshire Boulevard Suite 1100 Los Angeles, CA 90036-3648

You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Room 1024, Washington, DC 20549, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for additional information about the Public Reference Room.

The SEC also maintains an internet web site that contains reports, proxy statements and other information about issuers, including Alaska Air Group, Inc., that file electronically with the SEC. The address of that site is www.sec.gov. Our SEC filings are also available to the public at our web site at www.alaskaair.com.

PROSPECTUS SUMMARY

To understand this offering fully and for a more complete description of the legal terms of this offering as well as our company and the securities being sold in this offering, you should read carefully the entire prospectus and the other documents to which we may refer you, including Risk Factors and our consolidated financial statements and notes to those statements appearing elsewhere in this prospectus. References in this prospectus to Air Group, the Company, we, us and our refer to Alaska Air Group, Inc. and its subsidiaries, unless otherwi specified. Alaska Airlines, Inc. and Horizon Air Industries, Inc. are referred to as Alaska and Horizon, respectively, and together as our airlines.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our notes or common stock. We undertake no obligation to update this prospectus for any events occurring after the date of this prospectus.

Our Company

Alaska Air Group, Inc. is a holding company that was incorporated in Delaware in 1985. Our two principal subsidiaries are Alaska Airlines, Inc. and Horizon Air Industries, Inc. Both subsidiaries operate as airlines, although their business plans, competition, and economic risks differ substantially. Alaska is a major airline, operates an all-jet fleet, and has an average passenger trip length of 932 miles. Horizon is a regional airline, operates jet and turboprop aircraft, and has an average passenger trip length of 314 miles.

Alaska Airlines, Inc. is an Alaska corporation that was organized in 1932 and incorporated in 1937. Alaska principally serves 39 cities in six western states (Alaska, Washington, Oregon, California, Nevada, and Arizona) and Canada and six cities in Mexico. Alaska also provides non-stop service between Seattle and four eastern cities (Washington, D.C., Boston, Miami, and Newark), between Seattle and Denver, and between Anchorage and Chicago. In each year since 1973, Alaska has carried more passengers between Alaska and the U.S. mainland than any other airline. In 2002 and during the three months ended March 31, 2003, Alaska carried 14.2 million and 3.3 million revenue passengers, respectively. Passenger traffic within Alaska and between Alaska and the U.S. mainland accounted for 23% of Alaska s 2002 revenue passenger miles, West Coast traffic (including Canada) accounted for 56%, the Mexico markets 11% and other markets 10%. Based on passenger enplanements, Alaska s leading airports are Seattle, Portland, Los Angeles, and Anchorage. Based on 2002 revenues, its leading nonstop routes are Seattle-Anchorage, Seattle-Los Angeles, and Seattle-San Diego. At March 31, 2003, Alaska s operating fleet consisted of 106 jet aircraft.

Horizon Air Industries, Inc., a Washington corporation, began service in 1981, was incorporated in 1982 and was acquired by Air Group in 1986. It is the largest regional airline in the Pacific Northwest, and serves 40 cities in seven states (Washington, Oregon, Montana, Idaho, California, Colorado and Arizona) and five cities in Canada. In 2002, Horizon carried 4.8 million revenue passengers. Based on passenger enplanements, Horizon s leading airports are Seattle, Portland, Boise, and Spokane. Based on revenues, its leading nonstop routes are Seattle-Portland, Seattle-Boise, Seattle-Spokane and Seattle-Vancouver. At March 31, 2003, Horizon s operating fleet consisted of 16 jet and 43 turboprop aircraft, with the jets providing 48% of the first quarter capacity. Horizon flights are listed under the Alaska Airlines designator code in airline computer reservation systems.

Alaska and Horizon integrate their flight schedules to provide service between any two points served by their systems. In 2002 and through the first quarter of 2003, 29% of Horizon s passengers connected to Alaska. Both airlines endeavor to distinguish themselves from competitors by providing a higher level of customer service. The airlines excellent service in the form of advance seat assignments, expedited check-in, attention to customer needs, high-quality food and beverage service, well-maintained aircraft, a first-class section aboard Alaska aircraft, and other amenities is regularly recognized by independent studies and surveys of air travelers.

Our principal executive offices are located at 19300 Pacific Highway South, Seattle, Washington 98188. Our telephone number is (206) 392-5040. Our website address is www.alaskaair.com. Information on our website does not constitute part of this prospectus.

The Notes

Notes Offered	$150,000,000 aggregate original principal amount of Senior Convertible Notes due March 21, 2023. Each note was issued at a price of $1,000 per note and has an original principal amount of $1,000.
Maturity	March 21, 2023.
Cash Interest	The notes bear cash interest at a variable rate of interest on the original principal amount from the issue date, or from the most recent date to which interest has been paid or provided for, until March 21, 2008. During such period, cash interest is payable quarterly in arrears on March 21, June 21, September 21 and December 21 of each year, beginning June 21, 2003, until March 21, 2008. The variable interest rate until June 21, 2003 will be 3.79% per annum and commencing June 21, 2003 will be reset quarterly to a rate of 3-month LIBOR plus 2.50% per annum. The variable interest rate will be calculated using the actual number of days elapsed between the variable interest rate reset dates divided by 360.
Variable Principal Amount	Beginning March 21, 2008, the notes will cease bearing cash interest. Instead, from such date the original principal amount of each note will commence increasing daily by the variable yield, which is equal to the variable rate of interest, to produce the variable principal amount. The variable principal amount of a note will compound quarterly, not daily. On the maturity date of the notes, a holder will receive the variable principal amount of a note. The variable yield will be a rate of 3-month LIBOR plus 2.50% per annum and will be reset quarterly. Regardless of the level of 3-month LIBOR, however, the variable yield will not exceed 5.25% per annum. The rate of accrual will be applied to the variable principal amount per note as of the most recent variable yield reset date. The yield will be calculated using the actual number of days elapsed between the variable yield reset dates divided by 360.
Tax Original Issue Discount	Because cash interest is not payable throughout the term of the notes, the notes are considered issued with original issue discount for United States Federal income tax purposes. Accordingly, U.S. holders, as defined herein, generally will be required to include such original issue discount in their gross income for United States Federal income tax purposes based on the variable yield, regardless of the timing of receipt of the related cash payments. See Certain United States Federal Income Tax Considerations.
Conversion Rights	A holder may convert a note, in multiples of $1,000 original principal amount, into common stock only if at least one of the conditions described below is satisfied. For each $1,000 original principal amount of notes surrendered for conversion, if the conditions for conversion are satisfied, a holder will receive 38.4615 shares of our common stock or an amount of cash in lieu thereof, as described below. When we refer to common stock throughout this prospectus, we include all rights attaching

to our common stock under any future stockholder rights plan we may adopt. In lieu of delivering shares of our common stock upon conversion of all or any portion of our notes, we may elect to pay cash or a combination of cash and shares of our common stock for the notes surrendered. If we elect to pay holders cash for their notes, the payment will be based on the average sale price of our common stock for the five consecutive trading days immediately following either:

the date of our notice of our election to deliver cash, which we must give within two business days after receiving a conversion notice, unless we have earlier given notice of redemption as described in this prospectus; or

the conversion date, if we have given notice of redemption specifying that we intend to deliver cash upon conversion thereafter.

The conversion rate may be adjusted for certain reasons, but will not be adjusted for increases in the variable principal amount, accrued cash interest or interest payable upon the occurrence of a tax event. Upon conversion, a holder will not receive any cash payment representing increases in the variable principal amount or, subject to certain exceptions, accrued cash interest. Instead, increases in the variable principal amount or accrued cash interest will be deemed paid in full by the shares of common stock (or at our option, cash in lieu thereof) received by the holder on conversion.

Holders may surrender notes for conversion into our shares of common stock in any fiscal quarter commencing after June 30, 2003 if, as of the last day of the preceding fiscal quarter, the closing sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such preceding fiscal quarter was more than 110% of the accreted conversion price per share of common stock on the last day of such preceding fiscal quarter. If the foregoing condition is satisfied, then the notes will be convertible at any time at the option of the holder, through maturity. The accreted conversion price per share as of any day will equal the original or variable principal amount of a note on that day, as applicable, divided by 38.4615, subject to any adjustments to the conversion rate through that day.

Holders may also surrender their notes for conversion at any time when the credit rating assigned to the notes by either Moody s or Standard & Poor s is Caa1 or CCC+, respectively, or lower. This particular conversion right shall only exist so long as, if ever, the notes are rated at or below the foregoing levels by Moody s or Standard & Poor s.

In addition, notes in integral multiples of $1,000 original principal amount called for redemption may be surrendered for conversion until the close of business on the second business day prior to the redemption date. In addition, if we make a distribution to our stockholders with a per share value of more

	than 15% of the sale price of our common stock on the date immediately preceding the declaration of such distribution, or if we are a party to certain consolidations, mergers or binding share exchanges, notes may be surrendered for conversion, as provided in Description of Notes Conversion Rights. The ability to surrender notes for conversion will expire at the close of business on March 21, 2023.
Ranking	Except to the extent described under Description of Notes Security, the notes are senior unsecured obligations, ranking equal in right of payment to all of our other current and future unsecured and unsubordinated indebtedness, and are effectively subordinated to our current and future secured indebtedness to the extent of the security on such other indebtedness. As of March 31, 2003, we had \$1,018.9 million of indebtedness outstanding, of which \$828.6 million was secured by flight equipment and real property and \$10.1 million of which was composed of capital lease obligations. Except for the notes, all of this indebtedness is indebtedness of our subsidiary, Alaska. The notes are obligations exclusively of Alaska Air Group. We conduct a substantial portion of our operations through our subsidiaries. Our right to receive any assets of any of our subsidiaries upon its liquidation or reorganization and, as a result, our ability to use such assets to discharge our obligations to the holders of the notes, will be effectively subordinated to the claims of that subsidiary s creditors, including trade creditors. As of March 31, 2003, the liabilities of our subsidiaries were \$2,173.6 million.
Guarantees	Our obligations under the notes were not guaranteed at the time of issuance of the notes. In addition, the indenture does not preclude any of our subsidiaries from guaranteeing or pledging any assets to secure the payment of any indebtedness of such subsidiary or any other subsidiary. However, if any of our subsidiaries, directly or indirectly, guarantees any other indebtedness of Alaska Air Group, the indenture requires us to cause such subsidiary to simultaneously execute and deliver a supplemental indenture providing for the guarantee of our obligations under the notes by such subsidiary, which guarantee shall be senior to or equal with such subsidiary s guarantee of such other indebtedness of Alaska Air Group.
Security	We were required to purchase and pledge to the trustee under the indenture, as security for the notes and for the benefit of the holders of the notes, approximately \$22.3 million of U.S. government securities, which we expect, based on projected 3-month LIBOR rates, will be sufficient upon receipt of scheduled principal and interest payments thereon, to provide for the payment in full of the first twelve scheduled cash interest payments (up to and including the interest payment date on March 21, 2006) on the notes when due. See Use of Proceeds below. We will also make additional payments to the trustee to ensure that sufficient funds are available to pay cash interest then due on the notes if necessary. We will be responsible for

	determining the sufficiency of the securities to be pledged. We will engage the trustee as calculation agent to report to Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the initial purchasers, and us the results of agreed upon procedures to verify the mathematical accuracy of our computations. The notes are not otherwise secured. See Description of Notes Security.
Sinking Fund	None.
Redemption of Notes at Our Option	We may redeem for cash all or a portion of the notes at any time on or after March 21, 2006, at redemption prices calculated as described in Description of Notes Redemption of Notes at Our Option.
Purchase of the Notes by Alaska Air Group	Holders may require us to purchase all or a portion of their notes on March 21, 2008, March 21, 2013 and March 21, 2018 at a price equal to the variable principal amount and accrued and unpaid cash interest, if any, on such notes as of the applicable purchase date. We may pay the purchase price in cash or shares of our common stock or in a combination of cash and shares of our common stock. If we elect to pay the purchase price, in whole or in part, in shares of our common stock, the number of shares we deliver will be equal to the portion of the purchase price to be paid in common stock divided by the market price of a share of common stock.
Change in Control	Upon a change in control of Alaska Air Group, each holder may require us to purchase for cash all or a portion of such holder s notes at a price equal to the original or variable principal amount, as the case may be, and accrued and unpaid cash interest, if any, on such notes as of the date of change in control.
Optional Conversion to Quarterly Coupon Notes Upon Tax Event	From and after the date of the occurrence of a tax event, as described below, following March 21, 2008, we will have the option to elect, in lieu of having the variable principal amount increase, to have interest accrue and be paid in cash at the variable interest rate per year on a restated principal amount per note equal to the accrued variable principal amount on such note on the date of the tax event or the date on which we exercise such option, whichever is later. Such interest shall be payable quarterly on the interest payment dates of March 21, June 21, September 21 and December 21 of each year to holders of record at the close of business on the March 7, June 7, September 7 and December 7 immediately preceding the interest payment date. Interest will accrue from the most recent date to which interest, if applicable, has been paid or provided for or, if no interest is payable or has been paid or provided for, from the option exercise date. In the event that we exercise our option to pay interest in lieu of variable principal amount or cash interest, the redemption price, purchase price and change in control purchase price on the notes will be adjusted. However, there will be no change in the holder s

	conversion rights. See Description of Notes Optional Conversion to Quarterly Coupon Notes upon Tax Event.
DTC Eligibility	The notes were issued in fully registered book-entry form and are represented by one or more permanent global notes without coupons. Global notes were deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company in New York, New York. Beneficial interests in global notes are shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, and your interest in any global note may not be exchanged for certificated notes, except in limited circumstances described herein. See Description of Notes Book-Entry System.
Trading	We do not intend to list the notes on any national securities exchange. Our common stock is traded on the New York Stock Exchange under the symbol ALK.
Use of Proceeds	We will not receive any of the proceeds from the sale by any selling security holder of the notes or the common stock issuable upon conversion of the notes.

Recent Events

On June 24, 2003, Alaska issued a press release with respect to the following matters.

Alaska announced its meeting with leaders of its labor unions to begin a dialog over how Alaska and its labor groups can work cooperatively to better position Alaska for growth and success in the years ahead.

Alaska, already engaged in an extensive cost management program that involves the review of every aspect of its operations, confirmed that it is seeking to lower its cost per available seat mile (CASM), excluding fuel, to 7.25 cents by 2005. Alaska cautioned, however, that this is a goal and should not be viewed as a prediction of future performance.

Alaska further announced that the aim of its cost reduction efforts is to achieve a structure that enables Alaska to offer customers the services they want at fares they are willing to pay; to earn a reasonable profit; to grow Alaska s business and take advantage of opportunities; and to secure the futures of as many of its employees as possible. Alaska plans to work in collaboration with its employees to tap their creativity and their commitment to help meet its substantial challenges.

Alaska also stated that it has already identified initiatives that it believes will lower its annual operating costs by more than $100 million. Alaska plans to achieve approximately $200 million in additional savings through a combination of additional product and other cost-management initiatives, market-based wage adjustments, a common health and retirement benefits package for every work group and work rule changes focusing on greater efficiency in operations. See Risk Factors If we are unable to meet our cost reduction goals, our results of operations and financial condition may suffer. and Selected Consolidated Financial and Operating Data.

On April 16, 2003, the Emergency Wartime Supplemental Appropriations Act was signed into legislation. The act includes a $2.3 billion one-time cash payment which will be allocated to air carriers based on each carrier s share of security fees remitted and carrier fees paid to the Transportation Security Administration since its inception in February 2002. In May 2003, we received our share of the grant in the amount of $71.4 million.

RISK FACTORS

You should carefully consider the following risks, as well as the other information contained in this prospectus, before investing in the notes or the shares of common stock issuable upon conversion of the notes. If any of the following risks actually occurs, our business could be harmed. You should refer to the other information set forth in this prospectus, including our consolidated financial statements and related notes included in this prospectus.

Risks Related to the Notes

Our indebtedness could prevent us from fulfilling our obligations under the notes, increase the volatility of our earnings and otherwise restrict our activities.

We have now and will continue to have for the foreseeable future a significant amount of indebtedness. Due to our high fixed costs, including aircraft lease commitments and debt service, a decrease in revenues results in a disproportionately greater decrease in earnings. As of March 31, 2003, we had approximately $1,018.9 million of indebtedness outstanding, of which $828.6 million was secured by flight equipment and real property and $10.1 million of which was composed of capital lease obligations. Except for the notes, all of such indebtedness is indebtedness of our subsidiary, Alaska.

Our outstanding indebtedness could have important consequences to you. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to these notes;
- limit our ability to obtain additional financing for funding our growth strategy, capital expenditures, acquisitions, working capital or other purposes;
- require us to dedicate a material portion of our operating cash flow to fund interest payments on our indebtedness, thereby reducing funds available for other purposes; and
- limit our ability to withstand competitive pressures and reduce our flexibility in responding to changing business and economic conditions, including reacting to any economic slowdown in the airline industry.

In addition, we have an ongoing need to finance new aircraft deliveries, and there is no assurance that such financing will be available to us in sufficient amounts or on acceptable terms.

We have incurred operating losses in each year since 2000 and we expect that we will incur an operating loss in 2003. If we continue to incur substantial operating losses in the future, our ability to honor the notes may be impaired.

During the quarter ended March 31, 2003, we incurred an operating loss of $78.6 million. Prior to that, we incurred operating losses of $88.9 million, $126.3 million and $33.1 million for the years ended December 31, 2002, 2001 and 2000, respectively. We expect that we will incur an operating loss in 2003. The inability to achieve or sustain profitability may hinder our ability to honor the notes and our existing obligations as they become due, to obtain future equity or debt financing or to do so on economical terms and to sustain and expand our business.

The interest rate and variable yield on the notes cannot be determined at this time and may be lower than the yield on a fixed-rate debt security of comparable maturity.

The interest rate and the variable yield on the notes are based on 3-month LIBOR, as defined in this prospectus under Description of Notes LIBOR. At March 18, 2003, 3-month LIBOR was 1.27% per annum. The interest rate (until March 21, 2008) and the variable yield (after March 21, 2008) will be reset every three months. Therefore the interest rate and the variable principal amount of a note at maturity cannot be determined at this time. At June 30, 2003, the 3-month LIBOR was 1.12% per annum. The amount we pay you may be less than the return you could earn on other investments, including a fixed-rate debt security of comparable maturity. Your investment may not reflect the full opportunity cost to you when you take into account factors that affect the time value of money.

The notes are unsecured and are effectively subordinated to our secured indebtedness.

Except for a limited amount of collateral consisting of approximately $22.3 million of U.S. government securities, which are intended to provide security for the payment of cash interest on the notes for the first three years and which we expect to use towards payment of the first twelve scheduled cash interest payments on the notes when due, the notes are senior unsecured obligations, ranking equal in right of payment to all of our other current and future senior unsecured and unsubordinated indebtedness, and are effectively subordinated to our current and future secured indebtedness to the extent of the security on such other indebtedness. As of March 31, 2003, including the notes, we had $1,018.9 million of indebtedness outstanding, of which $828.6 million was secured by flight equipment and real property and $10.1 million of which was composed of capital lease obligations. Other than the notes, all of such indebtedness is indebtedness of our subsidiary, Alaska.

In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization, or other bankruptcy proceeding, holders of secured indebtedness will have prior claim to those of our assets that constitute their collateral. Except as described in this prospectus under Description of the Notes Security, holders of the notes will participate ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the notes, and potentially with all of our other general creditors, based upon the respective amounts owed to each holder or creditor, in our remaining assets. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the notes. As a result, holders of notes may receive less, ratably, than holders of secured indebtedness.

The notes are structurally subordinated. This may affect your ability to receive payments on the notes.

The notes are obligations exclusively of Alaska Air Group. We conduct a substantial portion of our operations through our subsidiaries. As a result, our cash flow and our ability to service our debt, including the notes, depend upon the earnings of our subsidiaries. In addition, we depend on the distribution of earnings, loans or other payments by our subsidiaries to us. Payments to us by our subsidiaries will be contingent upon our subsidiaries earnings and business considerations.

Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on the notes or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. In addition, any payment of dividends, distributions, loans or advances by our subsidiaries to us could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries will also be contingent upon our subsidiaries earnings and business considerations.

Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization and, as a result, our ability to use those assets to discharge our obligations to the holders of the notes, are effectively subordinated to the claims of that subsidiary s creditors, including trade creditors. As of March 31, 2003, the liabilities of our subsidiaries were $2,173.6 million. The notes do not restrict the ability of our subsidiaries to incur additional indebtedness. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to indebtedness held by us.

We may not have the ability to raise the funds necessary to finance the change in control purchase or the purchase at the option of the holder.

On specified dates and upon the occurrence of specific kinds of change in control events, holders of notes may require us to purchase their notes. However, it is possible that we would not have sufficient funds at that time to make the required purchase of notes. In addition, agreements to which we may be a party may restrict or prohibit such a payment. Further, certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a change in control under the indenture. See Description of Notes Purchase of Notes at the Option of the Holder and Change in Control Permits Purchase of Notes by Alaska Air Group at the Option of the Holder.

There is no public market for the notes, and the transfer of the notes will be restricted.

There has been no trading market for the notes prior to the offering. Although the initial purchasers of the notes have advised us that they intend to make a market in the notes, they are not obligated to do so. The initial purchasers could stop making a market in the notes at any time without notice. Accordingly, no market for the notes may develop, and any market that develops may not last. We do not intend to apply for listing of the notes on any securities exchange or other stock market.

Even after we have registered the notes and the shares of underlying common stock, we will have the right, pursuant to the registration rights agreement, to suspend the use of the shelf registration statement in certain circumstances. In the event of such a suspension, you would not be able to sell any notes or shares of common stock issuable upon conversion of the notes.

We recently experienced a downgrade in our corporate credit ratings and may experience further downgrades in the future, which may indicate a decline in our business and in our ability to make interest or principal payments on the notes.

On March 14, 2003, the senior implied rating for Alaska Air Group was downgraded from Ba3 to B1 by Moody s. On March 18, 2003, Standard & Poor s announced that it had placed its rating of 12 airlines, including Alaska Air Group, whose rating is currently BB, on CreditWatch with negative implications. The initial ratings assigned by the ratings agencies to the notes are B3 and B+ by Moody s and Standard & Poor s, respectively. We cannot assure you that our corporate credit ratings or the ratings of the notes will not decline in the future. If any of our ratings decline, this may indicate a decline in our business and may affect the trading prices, if any, of the notes and our common stock.

Risks Related to Our Business

The September 11, 2001 terrorist attacks negatively impacted our industry and our business and further threatened or actual terrorist attacks, or other hostilities involving the U.S., may significantly harm our industry and our business in the future.

The terrorist attacks of September 11, 2001 and their aftermath have negatively impacted the airline industry, including our company. Since a substantial portion of airline travel, for both business and leisure, is discretionary, further terrorist activity connected with air travel, or the threat of further terrorist activity, could result in travelers canceling or deferring their plans for air travel and have a material adverse effect on our revenues. In the fourth quarter of 2001, the temporary shutdown of domestic passenger air travel and reduced demand for air travel led Alaska to reduce its flight schedule by approximately 13% and Horizon to reduce its flight schedule by approximately 20%. Because a substantial portion of our costs are fixed in the short term, however, we were unable to offset the reduction in customer demand through cost savings, and our operating results were harmed to a proportionately greater degree. Additional terrorist attacks, the fear of such attacks or other regions or other hostilities involving the U.S. could have a further significant negative impact on the airline industry, including us, and could:

- result in a grounding of commercial air traffic by the Federal Aviation Administration;
- significantly reduce passenger traffic and yields due to a potentially dramatic drop in demand for air travel;
- increase security and insurance costs;
- increase fuel costs and volatility of fuel prices;

make it more difficult for us to obtain war risk or other insurance; and

increase costs from airport shutdowns, flight cancellations and delays resulting from security breaches and perceived safety threats.

Continued weakness in the general economy, and in the airline industry in particular, could have an adverse effect on our business.

We believe that airline traffic, including business traffic, is particularly sensitive to changes in economic growth and expectations. Weak economic growth has contributed to the airline industry suffering significant losses, which are expected to continue in 2003. During 2002, both US Airways and United Airlines filed for bankruptcy. Because airlines operating under bankruptcy protection receive increased flexibility to reduce their costs by voiding contracts and renegotiating existing business obligations, current and future airline bankruptcies could have a substantial impact on industry competition. In the event airlines who have received bankruptcy protection choose to apply some or all of the cost savings they obtain toward reduced fares, bankruptcy by airlines who compete with us may cause us to reduce our fares and result in a substantial reduction in revenue and operating margin. Continued weakness in the airline industry may also result in additional industry consolidation, greater reliance on industry alliances, such as code-sharing and frequent flyer reciprocity arrangements, and increased price competition among existing carriers, each of which could dramatically alter the competitive environment in the markets we serve and harm our operating results. Continued weak economic performance in the airline industry may also result in a further reduction in our credit rating and make it more difficult for us to raise capital on economical terms. Any general reduction in airline passenger traffic as a result of a soft economy would harm our business.

Our quarterly results can fluctuate substantially.

The airline industry is characterized generally by low profit margins and high fixed costs, primarily for personnel, aircraft fuel, debt service and rent. The expenses of an aircraft flight do not vary significantly with the number of passengers carried and, as a result, a relatively small change in the number of passengers or in pricing could have a disproportionate effect on an airline s operating and financial results. Accordingly, a minor shortfall in expected revenue levels could cause a disproportionately negative impact on our operating results. In addition to passenger loads, factors that could cause our quarterly operating results to vary include:

the timing and success of our growth plan as we increase flights in existing markets and enter new markets;

changes in fuel, security and insurance costs;

increases in personnel, marketing, aircraft ownership and other operating expenses to support our anticipated growth; and

the timing and amount of maintenance expenditures.

In addition, seasonal variations in traffic, various expenditures and weather affect our operating results from quarter to quarter. We tend to experience the highest levels of traffic and revenue during the third quarter of each year. Given our high proportion of fixed costs, seasonality can affect our profitability from quarter to quarter. Many of our areas of operations experience bad weather conditions in the winter, causing increased costs associated with deicing aircraft, canceled flights and accommodating displaced passengers. Due to our geographic area of operations, we can be more susceptible to adverse weather conditions than some of our competitors, who may be better able to spread weather-related risks over larger route systems.

Due to the factors described above, as well as other risk factors described in this prospectus, quarter-to-quarter comparisons of our operating results may not be good indicators of our future performance. In addition, it is possible that in any quarter our operating results could be below the expectations of investors and any published reports or analyses regarding our company. In that event, the price of our common stock could decline, perhaps substantially.

Increases in fuel costs would harm our business.

Fuel costs constitute a significant portion of our total operating expenses, comprising 15.1% of total operating expenses for the quarter ended March 31, 2003 and 13.1% during the year ended December 31, 2003. Significant increases in fuel costs would harm our financial condition and results of operations. We estimate that during the three months ended March 31, 2003 and during the year ended December 31, 2002, a one-cent increase in the price per gallon of fuel expense would have increased our fuel expenses by $1.0 million and $3.8 million, respectively.

Historically, fuel costs have been subject to wide price fluctuations based on geopolitical issues and supply and demand. Fuel availability is also subject to periods of market surplus and shortage and is affected by demand for both home heating oil and gasoline. Because of the effect of these events on the price and availability of fuel, the cost and future availability of fuel cannot be predicted with any degree of certainty. In the event of a fuel supply shortage, higher fuel prices or the curtailment of scheduled service could result. Some of our competitors may have more leverage in obtaining fuel. We may be unable to offset increases in the price of fuel through higher fares. To hedge our exposure to fuel price fluctuations, we began purchasing primarily crude oil call options during 2000. At March 31, 2003 and December 31, 2002, we had swap agreements for crude oil contracts in place to hedge approximately 35% of our 2003 expected jet fuel requirements. We cannot be certain, however, that our fuel hedging contracts will be sufficient to adequately protect us against fuel price increases.

If we are unable to meet our cost reduction goals, our results of operations and financial condition may suffer.

We, along with other airlines, have announced aggressive cost reduction goals that are an important part of our business strategy. The aim of these cost reduction initiatives is to improve our profitability without requiring a substantial increase in current fares and to better position us to be able to grow our business and take advantage of market opportunities. We believe that we have already identified initiatives that will reduce our annual operating costs by more than $100 million and plan on achieving approximately $200 million in additional savings through a combination of additional product and other cost-management initiatives, market-based wage adjustments, a common health and retirement benefits package for every work group and work rule changes focusing on greater efficiency in operations. Although we plan to work cooperatively with labor groups and employees to achieve these targets, operating changes are not yet in place to generate this level of cost savings. We cannot be certain that we will be able to implement changes in our operations sufficient to generate this level of savings, or that if such changes are implemented that forecasted savings will be achieved. In the event that we are unable to achieve our cost reduction goals, or our efforts prove less successful than those or our competitors, our results of operations will likely be below our own expectations as well as those of outside financial analysts, and our financial condition may be harmed.

Many of our employees are covered by collective bargaining agreements. A failure to negotiate new agreements, or to do so on terms competitive with the labor costs and practices of our competitors, could disrupt our business and increase our costs.

As of December 31, 2002, labor unions represented 83% of Alaska s and 46% of Horizon s employees. Alaska is currently in negotiations with the International Machinists and Aerospace Workers Union, which represents its clerical, office and passenger service work group. Horizon is currently in negotiations with the Association of Flight Attendants, which represents its flight attendants. Labor costs generally are a significant component of our total expenses, comprising 37% of our total operating expenses in 2002. Each of our different employee groups may require separate collective bargaining agreements, and may make demands that would increase our operating expenses and adversely affect our profitability. If we were unable to reach agreement on the terms of any collective bargaining agreement with any group of our employees or we were to experience widespread employee dissatisfaction, we could be subject to work slowdowns or stoppages. We could also become subject to protests or picketing by organized labor groups representing our employees. Any of these events would be disruptive to our operations and could harm our business. In the event any agreement we reach with an organized labor group requires us to pay wages or to incur costs that are materially higher than those we currently pay or we are unable to fully offset such increased costs through fare increases, our expenses would increase and our operating margin would be harmed.

The airline industry is highly competitive and subject to rapid change. We may be unable to compete effectively against other airlines with greater financial resources or lower operating costs, or to adjust rapidly enough in the event the basis of competition in our markets changes.

The airline industry is highly competitive as to fares, flight frequency, frequent flyer benefits, routes and service. The industry is particularly susceptible to price discounting because airlines incur only nominal costs to provide service to passengers occupying otherwise unsold seats. We currently compete with one or more other airlines on all of our routes. Many of these airlines are larger and have significantly greater financial resources, name recognition or lower operating costs than our company. Some of these competitors have chosen from time to time to add service, reduce their fares or both, in our markets. We may be unable to compete effectively against other airlines that introduce service or discounted fares in the markets that we serve.

In recent years, and particularly since its deregulation in 1978, the airline industry has undergone substantial consolidation, and it may undergo additional consolidation in the future. For example, in April 2001, American Airlines acquired the majority of Trans World Airlines assets. In addition, many airlines, including ours, have marketing alliances with other airlines. Among other things, they share the use of two-letter flight designator codes to identify their flights and fares in the computerized reservation systems and permit reciprocity in their frequent flyer programs. Any consolidation or significant alliance activity within the airline industry, or our loss of key alliance relationships, could result in our competitors having access to larger route networks and resources than us, which, in turn, could increase the risks of competition described above.

The airline industry also faces competition from ground transportation alternatives, such as the bus, train or automobile. Video teleconferencing and other methods of electronic communication may add a new dimension of competition to the industry as business travelers seek lower-cost substitutes for air travel.

Changes in government regulation imposing additional requirements and restrictions on our operations 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 Department of Transportation and the Federal Aviation Administration have issued regulations, relating to the operation of airlines that have required significant expenditures. For example, on November 19, 2001, the President signed into law the Aviation and Transportation Security Act (the Security Act). This law federalizes substantially all aspects of civil aviation security and requires among other things, the implementation of certain security measures by airlines and airports, such as the requirement that all passenger bags be screened for explosives. Funding for airline and airport security under the law is primarily provided by a new $2.50 per enplanement ticket tax, with authority granted to the TSA to impose additional fees on the air carriers if necessary to cover additional federal aviation security costs. Implementation of the requirements of the Security Act will result in increased costs for our company and our passengers. In addition to increased costs, the security measures required to be implemented under the Security Act as well as additional security measures issued by the Federal Aviation Administration have on occasion resulted in a longer check-in process for passengers and caused delays and disruptions in airline service, which has led to customer frustration and may reduce the demand for airline travel. 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. If adopted, these measures could have the effect of raising ticket prices, reducing revenue and increasing costs.

We do not expect to pay cash dividends in the foreseeable future.

We have not declared or paid cash or other dividends on our common stock since 1992 and do not expect to pay cash dividends for the foreseeable future. We currently intend to retain all future earnings for use in the operation of our business and to fund future growth. Any future cash dividends will depend upon our results of operations, financial conditions, cash requirements, the availability of a surplus and other factors.

Our insurance costs have increased substantially as a result of the September 11, 2001 terrorist attacks, and further increases in insurance costs would harm our business, financial condition and results of operations.

Following the September 11, 2001 terrorist attacks, aviation insurers dramatically increased airline insurance premiums and significantly reduced the maximum amount of insurance coverage available to airlines for liability to persons other than passengers for claims resulting from acts of terrorism, war or similar events to $50 million per event and in the aggregate. In light of this development, under the Air Transportation Safety and System Stabilization Act, the government is currently offering domestic airlines either (i) excess third-party liability war risk coverage above $50 million, or (ii) in lieu of private war risk insurance, full hull and passenger and third-party liability coverage. We have obtained the latter coverage at twice its prior limit.

Aviation insurers could increase their premiums even further in the event of additional terrorist attacks, hijackings, airline crashes or other events adversely affecting the airline industry. Furthermore, the full hull and passenger and third-party liability coverage provided by the government is available for renewable 60-day periods until August 31, 2003. While the government may extend the deadline for when it will stop providing such coverage, we cannot be certain that any extension will occur, or if it does, how long the extension will last. It is expected that should the government stop providing such coverage to the airline industry, the premiums charged by aviation insurers for this coverage will be substantially higher than the premiums currently charged by the government. Significant increases in insurance premiums would adversely impact our business, financial condition and results of operations.

Our failure to successfully expand our business could harm our financial condition and results of operations.

A part of our current profitability strategy involves increasing the frequency of flights in markets we currently serve, expanding the number of markets served and increasing flight connection opportunities. We believe that growth will allow us to achieve additional economies of scale and to manage unit costs. Increasing the number of markets we serve depends on our ability to access suitable airports, facilities and, in some cases, regulatory approvals in targeted markets. Any condition that would deny, limit or delay access to airports, facilities or approvals would constrain our ability to grow. In addition, successful growth depends on our ability to maintain yields and load factors at profitable levels. Inadequate revenues in new markets may require us to revise our current growth strategy. We cannot be certain that we will be able to successfully expand our existing markets or establish new markets, and the failure to do so could harm our business and results of operations.

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

Another accident or incident involving one of our aircraft, such as the loss of Flight 261 off the coast of California in January 2000, could involve a significant loss of life and result in a loss of faith in our airlines by the flying public. In addition, we could experience significant potential claims from injured passengers 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. Airlines are required by the Department of

Transportation to carry liability insurance. Although we believe we currently maintain liability insurance in amounts and of the type generally consistent with industry practice, the amount of such coverage may not be adequate and we may be forced to bear substantial 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 airlines, 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.

Our operations are often affected by factors beyond our control, including traffic congestion at airports, weather conditions and increased security measures, any of which could harm our operating results, financial condition and results of operations.

Like other airlines, our operations are subject to delays caused by factors beyond our control, including air traffic congestion at airports, adverse weather conditions and increased security measures. Delays frustrate passengers, reduce aircraft utilization and increase costs, all of which in turn affect our profitability. During periods of fog, snow, rain, storms or other adverse weather conditions, flights may be cancelled or significantly delayed. Cancellations or delays due to weather conditions, traffic control problems and breaches in security could harm our financial condition and results of operations.

Our business could be harmed if we are unable to attract and retain qualified personnel at reasonable costs.

Our business is labor intensive, with labor costs representing 37% of our operating expenses for the year ended December 31, 2002. We expect salaries, wages and benefits to increase on a gross basis and that these costs could increase as a percentage of our overall costs, which could harm our business. We compete against the major U.S. airlines for labor in many highly skilled positions. Many of the major U.S. airlines offer wage and benefit packages that exceed our wage and benefit packages. As a result, in the future, we may have to significantly increase wages and benefits in order to attract and retain qualified personnel or risk considerable employee turnover. If we are unable to hire, train and retain qualified employees at a reasonable cost, we may be unable to grow or sustain our business and our operating results and business prospects could be harmed or if we lose the services of key personnel. We may also have difficulty replacing management or other key personnel who leave and, therefore, the loss of any of these individuals could harm our business.

If Alaska fails to comply with financial covenants, some of its financing agreements may be terminated.

Alaska is required to comply with specific financial covenants in certain agreements, primarily its $150 million revolving credit facility. We cannot ensure that Alaska will be able to comply with these covenants or provisions or that these requirements will not limit our ability to finance our future operations or capital needs. Alaska s inability to comply with the required financial maintenance covenants or provisions could result in default under these financing agreements and would result in a cross default under Alaska s other financing agreements. In the event of any such default and our inability to obtain a waiver of the default, all amounts outstanding under the agreements could be declared to be immediately due and payable. If Alaska did not have sufficient available cash to pay all amounts that became due and payable, we or Alaska would have to seek additional debt or equity financing, which may not be available on acceptable terms, or at all. If such financing were not available, Alaska would have to sell assets in order to obtain the funds required to make accelerated payments or risk its aircraft becoming subject to repossession, which could harm our business.

USE OF PROCEEDS

We will not receive any proceeds from the sale by any selling security holder of the notes or the common stock issuable upon conversion of the notes.

PRICE RANGE OF OUR COMMON STOCK

Our common stock trades on the New York Stock Exchange under the symbol ALK. On July 14, 2003, the last reported sale price of our common stock on the NYSE was $22.55 per share. On July 14, 2003, there were approximately 4,178 holders of record of our common stock. The following table sets forth for the periods indicated below the high and low sale prices for our common stock as reported on the NYSE Composite Tape.

	High	Low
Fiscal Year Ended December 31, 2001		
Quarter ended March 31	$35.25	$24.40
Quarter ended June 30	29.50	24.60
Quarter ended September 30	33.66	17.40
Quarter ended December 31	31.10	19.26
Fiscal Year Ended December 31, 2002		
Quarter ended March 31	$33.90	$27.95
Quarter ended June 30	33.23	24.75
Quarter ended September 30	27.23	16.24
Quarter ended December 31	24.20	13.66
Fiscal Year Ending December 31, 2003		
Quarter ended March 31	$24.35	$15.28
Quarter ended June 30	21.98	15.49
Quarter ended September 30 (through July 17)	22.96	20.82

DIVIDEND POLICY

We have paid no cash dividends since 1992 and do not currently anticipate paying cash dividends in the foreseeable future. If we do consider paying cash dividends in the future, however, we will consider a number of factors before making the decision to pay dividends and the amount of such dividends if we determine to pay them. In deciding whether to propose a dividend and determining the dividend amount, our board of directors will take into account such matters as the availability of funds for dividends, general business conditions, our financial results, other capital requirements, contractual, legal and regulatory restrictions on the payment of dividends to our stockholders or by our subsidiaries to us and such other factors as our board of directors may deem relevant.

RATIO OF EARNINGS TO FIXED CHARGES

The table below sets forth our earnings to fixed charges on a consolidated, historical basis for each of the periods indicated:

	March 31,		Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
			(In thousands, except ratios)				
Earnings:							
Income (loss) before income tax expense	$(87,900)	$(52,400)	$(101,800)	$(63,515)	$		