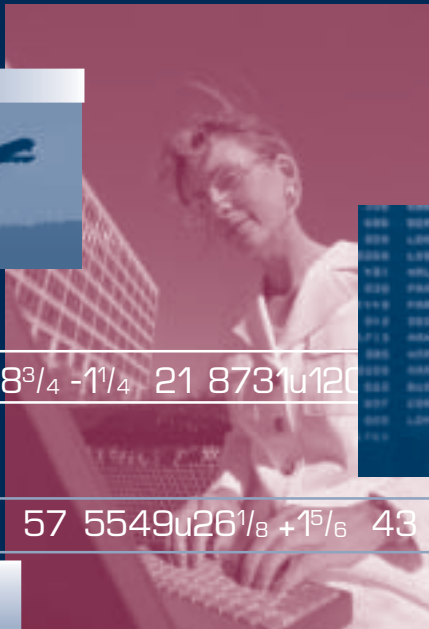


Alaska Air Group, Inc.

EMPLOYEE STOCK PURCHASE PLAN EMPLOYEE GUIDE



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THE AAG EMPLOYEE STOCK PURCHASE PLAN

Just as Alaska Airlines and Horizon Air rely on the integrity and spirit of our employees, our goal is to make sure that the people who contribute to our success share in that success. Making you a part owner of the Company through the Employee Stock Purchase Plan gives you a powerful interest in having the Company continue to grow and succeed, with benefits for you as well as Alaska Air Group.



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AAG Employee Stock Purchase Plan At A Glance

Who's Eligible	<ul style="list-style-type: none">■ Anyone who has been an employee of Alaska Airlines or Horizon Air for at least one year.
Offering Periods	<p>There are two Offering Periods per year:</p> <ul style="list-style-type: none">■ September 1 – August 31■ March 1 – February 28 (29th in a leap year)
When you can enroll	<ul style="list-style-type: none">■ July 15- August 15 for Offering Period starting September 1■ January 15 – February 15 for Offering Period starting March 1
Your contributions	<ul style="list-style-type: none">■ 1 – 10% of your after-tax pay.
Why participate	<ul style="list-style-type: none">■ On quarterly purchase dates you can buy Alaska Air Group common stock at a 15% discount from the fair market value on the <i>first</i> business day of the Offering Period or the <i>last</i> business day of the quarterly Purchase Period, whichever is lower.
Payroll deductions	<ul style="list-style-type: none">■ Your contributions are automatically deducted on an after-tax basis every pay period.
Changing/suspending your contributions	<ul style="list-style-type: none">■ You can suspend your contributions by providing the appropriate notice at any time. You can change the amount of your contributions only during an Open Enrollment Period.
Withdrawals	<ul style="list-style-type: none">■ You can withdraw at any time by providing appropriate notice. Your payroll deductions will stop and you will be issued a check for your accumulated payroll deductions within a reasonable time period. If you withdraw from the Plan, you must wait until the next Open Enrollment Period to re-join.
Where shares are held	<ul style="list-style-type: none">■ Your shares will be held in an account set up for you at Salomon Smith Barney.
When you can sell	<ul style="list-style-type: none">■ You may sell shares you have held for at least one year after purchase.
How to enroll	<ul style="list-style-type: none">■ You may enroll on-line at http://www.alaskasworld.com/CorpAffairs/EmpStock/default.aspor■ If you do not have web access, you may request an Enrollment/Change Form from Corporate Affairs/SEAZZ-AS at 206-431-7043 or by email at stockpurchaseplan@alaskaair.com.

Savoring our success...one AAG stock investment at time.

As an employee of an Alaska Air Group company, you invest your time and talents into helping the Company grow and succeed. To help you share in the benefits of this successful partnership, Alaska Air Group is pleased to offer the AAG Employee Stock Purchase Plan. The AAG Employee Stock Purchase Plan is a way to share in Alaska Air Group's success. The plan allows eligible employees the opportunity to buy shares of Alaska Air Group's common stock each quarter at a **discounted price** through regular payroll deductions.

How is the AAG Employee Stock Purchase Plan different from the current Employee Stock Purchase Plan?

Currently, Alaska Airlines and Horizon Air employees can purchase Alaska Air Group stock monthly at its current market price through convenient regular payroll deductions.

The AAG Employee Stock Purchase Plan offers eligible employees the opportunity to buy shares of Alaska Air Group's common stock each quarter at a **discounted price** through regular payroll deductions.

Who is eligible to participate?

You're eligible to enroll in the AAG Employee Stock Purchase Plan if you:

- are an employee of Alaska Airlines or Horizon Air, and
- have worked as a regular employee for either company for at least one year.

How does the AAG Employee Stock Purchase Plan work?

- An eligible employee may enroll in a 12-month Offering Period during the Open Enrollment Period prior to the start of that Offering Period.
- Each Offering Period consists of four quarterly Purchase Periods, during which time your payroll deductions are accumulated. You can contribute from 1% to 10% of your gross base pay to the Plan – in whole percentage increments.
- Your after-tax contributions are automatically deducted from your paycheck each pay period (and converted to U.S. dollars for non-U.S. employees).
- Each quarter, your contributions are used to purchase Alaska Air Group (ALK) common stock at a 15% discount.
- Once purchased, your shares are held for you in an account in your name with Salomon Smith Barney – the broker selected by the Company to administer the AAG Employee Stock Purchase Plan.
- Your contributions automatically continue for the next Offering Period unless you complete and submit an Enrollment/Change Form indicating a change or withdrawal from the Plan, or unless you terminate employment with Alaska Air Group or its subsidiaries.

offering period

Two periods of twelve months commencing on September 1 and March 1 of each year

purchase period

A period of three months within an Offering Period. There are four Purchase Periods offered during one Offering Period.

How is the discounted price determined?

At the end of each quarter, your contributions are used to buy Alaska Air Group stock at a 15% discount off the lower fair market value* of Alaska Air Group stock on:

- the *first* business day of the Offering Period, or
- the *last* business day of the quarterly Purchase Period.

*The fair market value of the stock is the regular trading session closing price as reported by the New York Stock Exchange www.nyse.com.

Questions to ask yourself before you decide to enroll in the AAG Employee Stock Purchase Plan:

- Is Alaska Air Group stock the best investment for me?
- Do I understand the risks associated with investing in stock?
- How much can I afford to contribute to the Plan each pay period?

Remember participation in the Plan is voluntary. Before enrolling in the Plan, you may wish to consult a financial advisor.



Enrolling in the AAG Employee Stock Purchase Plan

You may enroll in the AAG Employee Stock Purchase Plan during an Open Enrollment Period. Currently we have two Offering Periods a year, as shown below. Your participation will begin with the first Offering Period following your enrollment and will remain in effect for successive Offering Periods unless you withdraw from the Plan or terminate your employment with Alaska Air Group or its subsidiaries.

How do I enroll in the Plan?

Enrolling is easy...

- You may enroll in the AAG Employee Stock Purchase Plan via the Internet at <http://www.alaskasworld.com/CorpAffairs/EmpStock/default.asp> during the Open Enrollment Period. You may change your contribution amount via the Internet or by requesting an Enrollment/Change Form (if you do not have Internet access) as many times as you like up to the last day of the Open Enrollment Period. After the Open Enrollment Period is closed you will not be able to change your percentage unless you suspend your contributions.
- You may also enroll in the AAG Employee Stock Purchase Plan by requesting a hard copy of the form from Corporate Affairs/SEAZZAS at 206-431-7043 or by email at stockpurchaseplan@alaskaair.com.

Your payroll deductions will begin with the first full pay period after the new Offering Period begins.

If you choose to withdraw from the AAG Employee Stock Purchase Plan after the Open Enrollment Period ends, please complete the Enrollment/Change Form found at <http://www.alaskasworld.com/CorpAffairs/EmpStock/default.asp>. You may also obtain a hard copy of the form from Corporate Affairs/SEAZZ-AS at 206-431-7043.

Non-US employees must request an international subscription form from Corporate Affairs in order to complete enrollment.

Open Enrollment Periods

Enroll or make changes during this period:

July 15 – August 15

January 15 – February 15

Offering Periods

Effective Offering Periods and subsequent offerings:

September 1 – August 31

March 1 – February 28

How much may I contribute to the Plan?

You may contribute, by payroll deduction, any amount between 1% and 10% of your regular salary for each full payroll period in the Offering Period. Amounts will be withheld only in whole percentages. Once you have authorized deductions, they will be deducted from your after-tax paycheck each full pay period during the Offering Period and held by the Company without interest until the Purchase Period is completed.

Can I make changes or suspend my contributions and still remain in the Plan?

You can make changes to your contributions only during the Open Enrollment Period. You may suspend your contribution at any time by decreasing your contribution to 0%. However, you may not otherwise change your contributions except during Open Enrollment Periods. If you choose to suspend your contributions, your payroll deductions will cease and any previous deductions will be used to purchase stock for you on the next Purchase Date. You must change your election during the next Open Enrollment for your payroll deductions to resume.

If I decide not to join now will I have another opportunity?

You may join during any Open Enrollment Period during which the Plan is in effect. Currently we offer two Open Enrollment Periods each year. You may enroll only during those windows. The Plan will remain in effect unless the Board of Directors terminates the Plan or the number of shares reserved under the Plan have all been purchased.

How do I withdraw from the Plan?

You may withdraw from the Plan at any time by submitting an Enrollment/Change Form to Corporate Affairs/SEAZZ-AS indicating your desire to withdraw. Your payroll deductions will stop and you will be issued a check for your accumulated payroll deductions as soon as practical following receipt of your form. If you do withdraw from the Plan, you must wait until the next Offering Period or Open Enrollment Period to re-enroll.

Can I re-enroll in the Plan?

If you have withdrawn from the Plan and want to restart your contributions, you must fill out an Enrollment/Change Form and submit it to Corporate Affairs/SEAZZ-AS during an Open Enrollment Period. To re-enroll, you must be eligible for the Plan as described on page 5.

What happens if I leave the Company?

If at any time you cease to be employed by Alaska Air Group or one of its subsidiaries, you will be withdrawn from the Plan automatically and your uninvested payroll deductions will be returned to you.

If you are rehired, you may rejoin the Plan through the standard enrollment process as long as all eligibility requirements have been met.

Can the Plan be amended or terminated?

Yes. The Board of Directors of Alaska Air Group may amend or terminate the Plan. Certain amendments will require shareholder approval.

Purchasing AAG Employee Stock Purchase Plan Shares

At the end of each quarterly Purchase Period, your cumulative AAG Employee Stock Purchase Plan contributions are used to buy Alaska Air Group stock. Your shares of Alaska Air Group stock are then held in your personal AAG Employee Stock Purchase Plan account at Salomon Smith Barney.

How many shares can I buy?

The number of shares purchased depends on the market price (or fair market value) of the Company's common stock on the first day of the Offering Period and the last day of the Purchase Periods and the cumulative amount of your contribution at the end of each Purchase Period. On the last trading day of the Purchase Period, accumulated contributions will be used to purchase whole and fractional shares at the purchase price. These shares will be credited to your account at Salomon Smith Barney.

The IRS limits the number of shares that can be purchased in any calendar year. No participant may purchase more than \$25,000 (in total fair market value) of stock in a calendar year. For purposes of this calculation the value is based on the fair market value at the start of the Offering Period.

The AAG Employee Stock Purchase Plan also limits the number of shares a participant may purchase in an Offering Period to 2,000 shares.

In no event may you participate if you own five percent or more of the outstanding stock of the Company.

Let's look at a sample contribution:

Net base pay each pay period (after taxes)	\$1,000.00
Your AAG ESPP contribution percentage	6%
Your AAG ESPP dollar contribution each pay period	\$60.00
Your AAG ESPP quarterly contribution (\$60 x 6 pay periods)	\$360.00
Then, determine the lower of:	
AAG stock price on the first business day of the Offering Period; or	\$20.00
AAG stock price on the last business day of the quarterly Purchase Period	\$25.00
Subtract 15% from the lower price:	
Lower AAG stock price	\$20.00
15% discount off the lower stock price	85%
Discounted AAG stock purchase price	\$17.00
Your contributions during the Purchase Period	\$360.00
Divided by your discounted Purchase Price	\$17.00
Number of shares purchased for the Purchase Period	21.18

How can I find out the number of shares purchased for me at the close of the purchase date?

You may view the total number of shares purchased for you at the close of each Purchase Period by accessing your account on the Salomon Smith Barney Benefit ACCESS website at <http://www.alaskasworld.com/CorpAffairs/EmpStock/default.asp>.

What happens if there is a stock split, stock dividend, or other change affecting the Company's common stock?

Your shares reserved under the Plan will be adjusted proportionately in the event of a stock split or stock dividend. In the event of any other change affecting the Company's common stock, the Company's Board of Directors will make any necessary adjustments.

Can my rights to purchase stock with payroll deductions be assigned to anyone else?

No. The plan is designed as a benefit for employees of the Company.

Selling Your AAG Employee Stock Purchase Plan Shares

When can I sell my shares?

You can sell your shares any time after you have held them for one year following the date of purchase.

If you hold the stock for at least one year after purchase and two years after the start of the Offering Period during which the shares were purchased, the more favorable capital gains rate will apply to a portion of your gain. These tax rules are discussed in greater detail under Tax Implications on page 11.

In addition, federal and state securities laws may restrict a participant's right to sell shares. For example, an employee who is aware of material non-public information may not sell his or her stock before the news is disclosed to the public. If you think you may fall into this category, please refer to Alaska Air Group's insider trading policy, or call Corporate Affairs at 206-431-7043.

Why is there a one-year holding period after purchase?

The Plan is designed to encourage employee ownership in Alaska Air Group stock. Owning Company stock helps align the interests of employees with those of shareholders and encourages business decisions that will result in the greatest return to investors over the long term.

Are there any other restrictions?

You may not use your AAG Employee Stock Purchase Plan shares as part of a margin loan or other similar arrangement.

How do I sell my shares?

You may sell your shares by logging on to the Salomon Smith Barney Benefit ACCESS site at <http://www.alaskasworld.com/CorpAffairs/EmpStock/default.asp> or by calling Salomon Smith Barney through their Interactive Telephone System (ITS) at 1-866-252-4759 (U.S. & Canada employees) or 212-615-7056 (Mexico employees). Please refer to page 14 for further information on the Benefit ACCESS website and the ITS.

Under the current law, the Federal Income Tax consequences of the grant and exercise of the stock under an employee stock purchase plan (as defined in Section 423 of the Internal Revenue Code) and the subsequent disposition of shares acquired under such Plan, are set forth below. Please note that this information applies to U.S. federal tax guidelines only. State and local regulations may affect the calculations and, therefore, the tax consequences. Non-US residents may be subject to different guidelines. You must check with your own tax advisor for valuation of your complete tax consequences.

First day of the Offering Period

You are not taxed at the start of the Offering Period.

Date of stock purchase

You are not taxed when shares are purchased even though they are purchased at a discount.*

Sale of shares acquired under the Plan

Qualifying Dispositions – If shares are sold two years or more after the first day of the Offering Period **and** one year after the Purchase Date, then you will recognize ordinary income in the amount of the lesser of (i) your actual gain (the amount by which your sales price for the shares exceeds your purchase price), or (ii) any profit up to 15% of the market value of the shares at the beginning of the Offering Period. Any further profit is taxable as long-term capital gain and any loss is treated as long-term capital loss. Detailed examples are provided on the following pages.

Disqualifying Dispositions – If shares are sold within two years from the beginning of the Offering Period or one year from the Purchase Date then the difference between the Purchase Price and Fair Market Value on the Purchase Date is treated as ordinary income and will be reported on your W-2 in the year of the sale. Any further profit is taxable as either short-term or long-term capital gain. Detailed examples are provided on the following pages. These examples assume long-term capital gain.

The following pages contain several examples of the potential tax implications of selling ESPP shares. These examples are intended to be illustrative, but do not capture all possible outcomes. Therefore, it is important to consult with your tax adviser to determine your specific tax results.

qualifying disposition

A sale of shares acquired through an employee stock purchase plan (Section 423 plan) after the required holding periods of two years from the grant date and one year from the purchase/exercise date.

disqualifying disposition

A sale of shares acquired through an employee stock purchase plan (Section 423 plan) within two years from the offering date or enrollment date or within one year from the purchase date.

**Legislation has been proposed that would impose payroll taxes, including Social Security and Medicare taxes, on employee stock purchase plans beginning two years following adoption of the legislation. Under the proposed regulations, the payroll taxes would be due at the time of purchase on the discounted amount only. These new rules have not yet been adopted. If they are, employees will be notified.*



Tax implications for the Company

It is important that the Company track disqualifying dispositions for its own tax filings. For this reason, employees must notify the Company of disqualifying dispositions. By keeping your shares in the account set up for you, any disqualifying dispositions will be tracked and your reporting obligation will be fulfilled. However, in the event that your shares are maintained outside of this account you should notify the Company that your shares have been sold by returning the Disposition Survey that will be sent to you on a regular basis.

If at any time the Company is required to withhold from the participant's compensation the amount necessary to meet applicable withholding obligations, including any withholding attributable to sale or early disposition of stock by the employee.



GLOSSARY

capital gain

Profit from the sale of a capital asset.

capital loss

Loss from the sale of a capital asset.

short-term capital gain

Capital assets held 12 months or less. Short-term capital gains are taxed at the same rates as wages and other ordinary income.

long-term capital gain

Capital assets held more than 12 months. The long-term capital gains tax rate is generally 20%.

fair market value

The closing price of a share of the common stock on the offering date or the purchase date as reported on the New York Stock Exchange.



Rising Stock Price

Example of Tax Implications*

FMV at start of Offering Period	\$10.00	09/01/02
FMV at Purchase	\$20.00	11/30/02
Purchase Price	\$ 8.50	11/30/02
Sale Price	\$25.00	

QUALIFYING DISPOSITION (Sale)

If shares are sold two years or more after the first day of the Offering Period and one year after the Purchase Date

Sale Date	Ordinary Income	Long Term Capital Gain
9/30/04	$\text{Lesser of } \$25.00 - \$8.50 = \$16.50$ or $\$10.00 - \$8.50 = \$1.50$ Taxed at 35%* = \$0.52	$\$25.00 - \$10.00 = \$15.00$ Taxed at 20%* = \$3.00 Total Tax = \$3.52/share

Assume that the fair market value stock price is \$10.00 per share on the first day of the Offering Period, \$20.00 on the Purchase Date and \$25.00 when you sell. If you satisfy the holding period requirement, you would recognize ordinary income equal to the lesser of (i) the sale price minus the purchase price ($\$25.00 - \$8.50 = \$17.50$), or (ii) the fair market value at the start of the Offering Period minus the purchase price ($\$10.00 - \$8.50 = \$1.50$). You would have a long-term capital gain of \$15.00 per share ($\25.00 less your basis of \$10.00 per share). Your total tax due is \$3.52 per share.

DISQUALIFYING DISPOSITION (Sale)

If shares are sold within two years from the start of the Offering Period or one year from the Purchase Date

Sale Date	Ordinary Income	Long Term Capital Gain
11/30/03	$\$20.00 - \$8.50 = \$11.50$ Taxed at 35%* = \$4.02	$\$25.00 - \$20.00 = \$5.00$ Taxed at 20%* = \$1.00 Total Tax = \$5.02/share

Assume once again that the fair market value stock price is \$10.00 per share on the first day of the Offering Period, \$20.00 on the Purchase Date and \$25.00 when you sell. If you fail to satisfy the holding period requirement, but hold the stock for more than 1 year, you would recognize ordinary income equal to the fair market value on the Purchase Date minus the purchase price ($\$20.00 - \$8.50 = \$11.50$) and a long-term capital gain of \$5.00 per share ($\25.00 less your basis of \$20.00 per share). Note that the disqualifying disposition results in a total tax due of \$5.02 per share (an additional tax due of \$1.50 per share over the qualifying disposition sale).

**Currently, the long-term capital gains rate is 20%. These examples assume an ordinary income tax rate of 35%. Please note that figures and percentages are for demonstration purposes only. Your tax percentages may differ from those shown here. Please consult with your personal tax advisor prior to selling your AAG Employee Stock Purchase Plan Shares.*

Rebounding Stock Price

Example of Tax Implications*

FMV at start of Offering Period	\$10.00	09/01/02
FMV at Purchase	\$ 5.00	11/30/02
Purchase Price	\$ 4.25	11/30/02
Sale Price	\$20.00	

QUALIFYING DISPOSITION (Sale)

If shares are sold two years or more after the first day of the Offering Period and one year after the Purchase Date

Sale Date	Ordinary Income	Long Term Capital Gain
9/30/04	Lesser of \$20.00 - \$4.25 = \$15.75 or \$10.00 - \$4.25 = \$5.75 Taxed at 35%* = \$2.01	\$20.00 - \$10.00 = \$10.00 Taxed at 20%* = \$2.00 Total Tax = \$4.01/share

Assume that the fair market value stock price is \$10.00 per share on the first day of the Offering Period, falls to \$5.00 on the Purchase Date and rebounds to \$20.00 when you sell. If you satisfy the holding period requirement, you would recognize ordinary income equal to the lesser of (i) the sale price minus the purchase price (\$20.00 - \$4.25=\$15.75), or (ii) the fair market value at the start of the Offering Period minus the purchase price (\$10.00 - \$4.25=\$5.75). You would have a long-term capital gain of \$10.00 per share (\$20.00 less your basis of \$10.00 per share). Your total tax due is \$4.01 per share.

DISQUALIFYING DISPOSITION (Sale)

If shares are sold within two years from the start of the Offering Period or one year from the Purchase Date

Sale Date	Ordinary Income	Long Term Capital Gain
11/30/03	\$5.00 - \$4.25 = \$0.75 Taxed at 35%* = \$ 0.26	\$20.00 - \$5.00 = \$15.00 Taxed at 20%* = \$3.00 Total Tax = \$3.26/share

Assume once again that the fair market value stock price is \$10.00 per share on the first day of the Offering Period, falls to \$5.00 on the Purchase Date and is \$20.00 when you sell. If you fail to satisfy the holding period requirement, but hold the stock for more than 1 year, you would recognize ordinary income equal to the fair market value on the Purchase Date minus the purchase price (\$5.00 - \$4.25 = \$0.75) and a long-term capital gain of \$15.00 per share (\$20.00 less your basis of \$5.00 per share). Note that the disqualifying disposition results in a total tax due of \$3.26 per share (\$0.75 per share less tax than the qualifying disposition sale).

**Currently, the long-term capital gains rate is 20%. These examples assume an ordinary income tax rate of 35%. Please note that figures and percentages are for demonstration purposes only. Your tax percentages may differ from those shown here. Please consult with your personal tax advisor prior to selling your AAG Employee Stock Purchase Plan Shares.*

Falling Stock Price

Example of Tax Implications*

FMV at start of Offering Period	\$10.00	09/01/02
FMV at Purchase	\$ 5.00	11/30/02
Purchase Price	\$ 4.25	11/30/02
Sale Price	\$ 3.00	

QUALIFYING DISPOSITION (Sale)

If shares are sold two years or more after the first day of the Offering Period and one year after the Purchase Date

Sale Date	Ordinary Income	Long Term Capital Loss
9/30/04	Lesser of $\$3.00 - \$4.25 = \$0.00^{**}$ or $\$10.00 - \$4.25 = \$5.75$ Taxed at 35%* = \$0.00	$\$3.00 - \$4.25 = -\$1.25$ Taxed at 20%* = $-\$0.25$ Total Tax = $-\$0.25/\text{share}$

Assume that the fair market value stock price is \$10.00 per share on the first day of the Offering Period, falls to \$5.00 on the Purchase Date and falls further to \$3.00 on the date of sale (below your purchase price of \$4.25). If you satisfy the holding period requirement, you would recognize no ordinary income - the ordinary income would equal the lesser of the selling price minus the purchase price [$\$3.00 - \$4.25 = \$0.00$] or the price at the start of the Offering Period minus the purchase price [$\$10.00 - \$4.25 = \$5.75$]. There would be a long-term capital loss of \$1.25 per share (\$3.00 less your basis of \$4.25 per share). Your total tax due is $-\$0.25$ per share, assuming that you have long-term capital gain to use as an offset on your long-term capital loss.

DISQUALIFYING DISPOSITION (Sale)

If shares are sold within two years from the start of the Offering Period or one year from the Purchase Date

Sale Date	Ordinary Income	Long Term Capital Loss
11/30/03	$\$5.00 - \$4.25 = \$0.75$ Taxed at 35%* = \$0.26	$\$3.00 - \$5.00 = -\$2.00$ Taxed at 20%* = $-\$0.40$ Total Tax = $-\$0.14/\text{share}$

Assume once again that the fair market value stock price is \$10.00 per share on the first day of the Offering Period, falls to \$5.00 on the Purchase Date and falls further to \$3.00 on the date of sale (below your purchase price of \$4.25). If you fail to satisfy the holding period requirement, but hold the stock for more than 1 year, you would recognize ordinary income equal to the fair market value on the Purchase Date minus the purchase price ($\$5.00 - \$4.25 = \$0.75$) and a long-term capital loss of \$2.00 per share (\$3.00 less your basis of \$5.00 per share). Note that the disqualifying disposition results in ordinary income even though there may be a loss on the sale. There would be a long-term capital loss tax due of $-\$0.14$ per share (an additional tax due of \$0.11 per share over the qualifying disposition sale). This assumes that you have a long-term capital gain to use as an offset on your long-term capital loss.

**Currently, the long-term capital gains rate is 20%. These examples assume an ordinary income tax rate of 35%. Please note that figures and percentages are for demonstration purposes only. Your tax percentages may differ from those shown here. Please consult with your personal tax advisor prior to selling your AAG Employee Stock Purchase Plan Shares.*

*** Please note that only gain is tracked here - ordinary income cannot be less than zero in this calculation.*

Your AAG Employee Stock Purchase Plan Account with Salomon Smith Barney

Who is Salomon Smith Barney?

Salomon Smith Barney is a global, full-service financial firm that provides brokerage, investment banking and asset management services to corporations, governments and individuals around the world.

Alaska Air Group has retained Salomon Smith Barney to act as the designated broker for our AAG Employee Stock Purchase Plan.

What happens to my shares after they are purchased?

Once Salomon Smith Barney has purchased Alaska Air Group stock on your behalf, your shares are held in your Salomon Smith Barney Benefit ACCESS account. This account is set up for you automatically at the time of your first AAG Employee Stock Purchase Plan purchase. This account is separate from any other Salomon Smith Barney account you may have.

What records will I receive regarding my account?

Salomon Smith Barney will mail quarterly statements to your home address after each purchase. These statements reflect the number of shares of Alaska Air Group stock you purchased during that period, the price paid for those shares, the number of shares you own to date and the market value of your shares on the date the statement was produced.

At the beginning of each calendar year, Salomon Smith Barney will send you a statement of your AAG Employee Stock Purchase Plan shares that were purchased on your behalf during the previous calendar year. This statement contains tax information you will need when you decide to sell your stock. It is important that you keep these records.

Alaska Air Group, Inc.

SALOMON SMITH BARNEY

A member of citigroup

The Benefit Access Website

You have the ability to access your AAG Employee Stock Purchase Plan account online. Salomon Smith Barney has created a powerful, user-friendly website that provides you with access to your AAG Employee Stock Purchase Plan information. In addition to viewing a history of your completed purchases, you may sell your shares by placing a real-time order on the website.

Detailed instructions for accessing the Salomon Smith Barney Benefit ACCESS website are located at <http://www.alaskasworld.com/CorpAffairs/EmpStock/default.asp>. The paragraphs below highlight specific features of the AAG Employee Stock Purchase Plan section of the website.

To facilitate navigation through the stock purchase site, it has been organized into four main sections:

- View your purchase account
- Sell your purchased shares
- Stock purchase calculators
- Client Service Center

View your purchase account

Allows you to monitor and manage your AAG Employee Stock Purchase Plan account in a user-friendly and sortable format with comprehensive links to definitions and help pages, including:

- **Current Balance** – View your account value and position and the shares available for sale (this account is designed to hold Alaska Air Group, Inc. stock exclusively).
- **Transaction History** – View your stock purchase statement information.
- **Order Summary** – View and modify orders that are pending execution.
- **Account Information Summary** – Review a listing of your personal ESPP account information.
- **Your Portfolio** – Link to Salomon Smith Barney ACCESS to view your portfolio positions or cash balances that may be held in other Salomon Smith Barney account(s) that you may have.

Stock purchase calculators

Salomon Smith Barney has designed a variety of tools to assist you in placing trades.

- **Stock Purchase Trading Simulator** – Simulates trades without placing an order. If you like the results, convert

it to a real order.

- **Stock Purchase Tutorial** – This interactive educational tool provides you with a step-by-step guide to placing an order.

Sell your purchased shares

Sell your AAG Employee Stock Purchase Plan shares by placing a real-time market sell order or a limit sell order.

- Complete the Order Entry Ticket.
- Review your results before submission.
- Submit your order.
- Receive an online confirmation of order.

Client Service Center

There are several features to provide you with information and assistance:

- Site Map
- Frequently asked questions and answers
- Important phone numbers
- Forms Library for download
- Comprehensive glossary of terms
- Links to other Salomon Smith Barney sites

An important note about security:

The privacy and security of your account information are important to us. With this in mind, we have implemented procedures to help protect the privacy of your data when you access your account through our website. As a result, online access to view your stock purchase account and sell your shares is only possible through a Secure Sockets Layer (SSL) enabled web browser that supports encryption technology, preventing unauthorized users from viewing your account information as it travels over the Internet. We also have installed an authentication process that all clients must use each time they log on to the site. This includes the use of a confidential Internet User Name, Password and Trading PIN. Please note there are certain limitations to the use of the site and the level of encryption if you are a plan participant in a non-U.S. jurisdiction.

Salomon Smith Barney Interactive Telephone System

In addition to the Benefit Access website, the interactive telephone system allows you to manage shares purchased for you through the AAG Employee Stock Purchase Plan. Through various menu selections you are able to:

- Access real-time quotes during market hours
- Place a real-time market order or limit order
- Customize your Trading PIN
- Check your IRS W-8BEN/W-9 Status (if you are a U.S. citizen, you can certify your IRS W-9 status through the Interactive Telephone System)
- Speak with a Client Service Representative

The system is available seven days a week. To access your AAG Employee Stock Purchase Plan account through the Interactive Telephone System, simply dial:

1-866-252-4759 U.S./Canada Employees

1-212-615-7056 International Employees

Enter your Social Security Number (U.S.) or Global ID Number (International) and your Trading PIN. Your Trading PIN was issued to you in your Welcome Package. You are strongly encouraged to customize your Trading PIN to a four-digit number that is easy for you to remember. The system will immediately provide you with a current quote for Alaska Air Group, Inc. stock.

Can I speak with a Client Service Representative?

Yes. You may speak with a Client Service Representative between the hours of 8:00 a.m. and 6:00 p.m. Eastern Time, Monday through Friday on days when the New York Stock Exchange is open.

Can I place a transaction through either the interactive telephone system or the through a Client Service Representative?

Yes. The only difference is that you will need to know your Trading PIN to place a transaction through the Interactive Telephone System. You do not need to know your Trading PIN to place a transaction through a Client Service Representative.

Can I place a trade through Salomon Smith Barney's Interactive Telephone System after market hours?

Yes, but your trade will not be entered for execution until the market re-opens the following day. Please be advised that the stock's closing price may not represent the stock's opening price the following day. An after hours trade, therefore, may not secure the price you wish to receive.

Market hours are Monday-Friday, 9:30 a.m.–4:00 p.m. Eastern Time. Market days and times may vary based on U.S. holiday schedules.

Employee Stock Purchase Account

How to Use Salomon Smith Barney's INTERACTIVE TELEPHONE SYSTEM:

- Enter your Social Security # or Global ID #
- Enter your Personal Identification # (PIN)
- Listen to a Stock Quote

- Press 1 Sell Shares at Market Price
- Press 2 Sell Shares at Limit Price
- Press 3 Review Most Recent Transactions
- Press 4 Request Transaction History
- Press 5 Customize Your PIN
- Press 6 IRS W-8BEN/W-9 Status
- Press 8 Repeat Current Menu Options
- Press 9 Return to Main Menu
- Press 0 Speak to a Client Service Specialist

1

Sell Shares at Market Price
• Shares sold at current market price

2

Sell Shares at Limit Price
• Shares sold when limit price is reached
• Change or cancel a limit order

3

Review Most Recent Transactions
• Review your last three transactions and share balance

4

Request Transaction History
• Summary mailed showing account activity for the last two years

5

Customize Your PIN
• Customize your PIN and file it in a safe place for your security

6

IRS W-8BEN/W-9 Status
• Check your current status
• Certify electronically (U.S. Citizens only)

7

7

8

Repeat Current Menu Options
(at any time during call)

9

Return to Main Menu
(at any time during call)

*

0

Speak to a Client Service Specialist
(at any time during call—available during normal business hours)

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Terms To Know:

Limit Sell Order:

An order to sell your shares at a specific price. This type of order remains in effect until it is either executed or canceled (Good 'til Canceled). You must enter the whole dollar price and any fractional amount (1/8, 1/4, etc).

Market Sell Order:

An order to sell your shares at the current market price. Please note that due to market fluctuations the current market quote given through the system may not be the actual sale price.

Quote:

Sell Price (Bid):

The highest price an investor is willing to pay for a security at a given time.
Note: when selling shares, you are selling at the "bid."

Offer Price (Ask):

The lowest price an investor is willing to sell a security at a given time.
Note: when buying shares, you are buying at the "ask."

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Information

Market Orders and Limit Orders

- If you choose to enter a Market Sell Order OR a Limit Sell Order, you must input the number of shares (and the limit price if applicable).
- Next, you will be asked to state your name and date of birth as a confirmation.
- Finally, you will receive a confirmation number. If you do not receive a confirmation number, please speak to a Client Service Specialist.

Lost or Misplaced PIN

If you do not know your PIN, you will automatically be transferred to a Client Service Specialist.

IRS W-8/W-9 Status

To check W-8BEN/W-9 tax status as per Internal Revenue Service (IRS) regulations, please press "6" and follow the automated telephone system prompts. **Please Note: you do not need to certify if you have already filed a Form W-8BEN or a Form W-9 or certified W-9 status on the interactive telephone system.**

Address Changes

For permanent address changes, please follow your company's guidelines for updating your personal records. Temporary address changes only last 30 business days and must be submitted in writing to Salomon Smith Barney.



Alaska Air Group, Inc.