

ALASKA AIR GROUP INC
Form PREC14A
March 30, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

(Name of Registrant as Specified In Its Charter)

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

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P.O. Box 68947
Seattle, Washington 98168

April [], 2004

Dear Stockholder:

We cordially invite you to attend our 2004 Annual Meeting of Stockholders. The meeting will be held at 2 p.m. on May 18, 2004, in the William M. Allen Theater at The Museum of Flight in Seattle.

We encourage you to participate at this meeting, but whether or not you plan to attend, please complete and submit your proxy as soon as possible. You can vote over the Internet, by telephone or by mail. Your opinion and your vote are important to us regardless of the number of shares you own. Voting by proxy will not prevent you from voting in person if you attend the meeting, but it will ensure that your vote is counted if you are unable to attend.

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

Sincerely,

/s/ WILLIAM S. AYER

William S. Ayer
Chairman and Chief Executive Officer

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Alaska Air Group, Inc.
P.O. Box 68947
Seattle, Washington 98168

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

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The 2004 Annual Meeting of Stockholders of Alaska Air Group, Inc. will be held in the William M. Allen Theater at The Museum of Flight in Seattle, 9404 E. Marginal Way South, Seattle, Washington at 2 p.m. on May 18, 2004, for the following purposes:

1. To elect four directors for three-year terms.
2. To approve the Alaska Air Group, Inc. 2004 Long-Term Incentive Equity Plan.
3. To consider and vote on the eight stockholder proposals described in the accompanying proxy statement, if those proposals are properly presented at the meeting.
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

Stockholders owning Company common stock at the close of business on March 19, 2004 are entitled to vote.

By Order of the Board of Directors,

/s/ KEITH LOVELESS

Keith Loveless
General Counsel & Corporate Secretary

April [], 2004
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ANNUAL MEETING INFORMATION

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

The Board set March 19, 2004, as the record date for the meeting. Stockholders who owned Company common stock on that date are entitled to vote at the meeting, with each share entitled to one vote. There were 26,803,691 shares of Company common stock outstanding on the record date.

Annual meeting materials, which include this proxy statement, a proxy card or voting instruction form, and the 2003 Annual Report, were mailed to stockholders and made available via the Internet on or about April [], 2004. The Company's Annual Report on Form 10-K for the year ended December 31, 2003 is included in the 2003 Annual Report. It was filed with the Securities and Exchange Commission ("SEC") and is available on the Company's website at www.alaskaair.com.

QUESTIONS AND ANSWERS

Why am I receiving this annual meeting information and proxy?

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

You may own shares of Alaska Air Group common stock in several different ways. If you have one or more stock certificates in your possession, you also have a stockholder account with our transfer agent, EquiServe Trust Company, N.A., which makes you a stockholder of record. If you hold your shares in a brokerage account, you are a beneficial owner, not a stockholder of record. Employees of the Company may indirectly hold shares of stock in one or more of the Company's 401(k) retirement plans or employee stock purchase plans.

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When you sign and mail the proxy card or submit your proxy by telephone or the Internet, you appoint William S. Ayer and Keith Loveless as your representatives at the meeting. Mr. Ayer and Mr. Loveless will vote your shares at the meeting as you have instructed on your proxy. This way, your shares will be voted even if you cannot attend the meeting.

If an issue that is not on the proxy card comes up for vote at the meeting, Mr. Ayer and Mr. Loveless will vote the shares for which they hold proxies in accordance with their best judgment.

What am I voting on?

You are being asked to vote on the election of four directors, a proposal to approve the Alaska Air Group, Inc. 2004 Long-Term Incentive Equity Plan, and eight stockholder proposals.

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

FOR the Board's director nominees,

FOR the proposal to approve the Alaska Air Group, Inc. 2004 Long-Term Incentive Equity Plan, and

AGAINST the other proposals.

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How do I cast my vote?

You may vote on the Internet.

You may vote via the Internet regardless of whether you receive your annual meeting materials through the mail or via the Internet. Instructions for doing so were provided with your proxy statement. If you vote on the Internet, please do not mail in your proxy card.

You may vote by phone.

Instructions for voting by phone were provided with your proxy statement. If you vote by telephone, please do not mail in your proxy card.

You may vote by mail.

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

If you return a signed card but do not mark your choices, your shares will be voted in accordance with the recommendations of the Board of Directors, shown above.

You may vote in person at the meeting.

We will pass out a ballot to anyone who requests one at the meeting. If you hold your shares through a broker, you must bring a legal proxy in order to vote at the meeting. You may request a legal proxy from your stockbroker or at the Internet voting site to which your voting materials direct you.

EquiServe's Internet and telephone voting facilities for stockholders of record and 401(k) plan participants will be available 24 hours a day, and will close at 11:59 p.m. Eastern Time on May 17, 2004. However, to allow sufficient time for voting by the trustee, voting instructions for 401(k) plan shares must be received by 11:59 p.m. Eastern Time on May 13, 2004.

The law of Delaware, under which the Company is incorporated, specifically permits electronically transmitted proxies, provided that each such proxy contains or is submitted with information from which the inspectors of election can determine that it was authorized by the stockholder. The voting procedures available to stockholders of record and participants in the Company's 401(k) plans are designed to

authenticate each stockholder by use of a control number, to allow stockholders to vote their shares, and to confirm that their instructions have been properly recorded.

Can I receive future materials via the Internet?

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

You also may enroll in that service at any time after the annual meeting. Stockholders of record can read additional information about this option and request electronic delivery by going to EquiServe's website, www.econsent.com/alk. Beneficial owners cannot use EquiServe's site, but should find information regarding the availability of this service in the proxy materials for this annual meeting. If you are a beneficial owner and do not find such instructions, please go to www.InvestorDelivery.com or contact your broker.

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

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

It means that you have more than one account for your AAG shares. Please complete and submit all proxies to ensure that all your shares are voted.

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

You may revoke your proxy and change your vote at any time before the polls close at the meeting. You may do this by:

voting again by telephone or on the Internet (your latest telephone or Internet proxy is counted),

signing another proxy card with a later date, or

voting again at the meeting. (If you hold your shares through a broker, you must bring a legal proxy in order to vote at the meeting.)

Will my shares be voted if I do not submit my proxy?

If you are a stockholder of record and do not submit your proxy or vote in person at the meeting, your shares will not be voted. If you are a beneficial owner and you do not submit voting instructions to your broker, your broker may vote your shares under certain circumstances. Brokerage firms have discretionary authority under rules of the New York Stock Exchange ("NYSE") to vote customers' shares on routine matters as to which they have not received voting instructions. At this meeting, the only matter that could be routine is Proposal 1, the election of directors. If the NYSE determines that the election of directors is "contested," the election will become a non-routine matter with respect to those stockholders whose proxy is solicited by a party other than the Company's Board of Directors.

When a brokerage firm votes its customers' uninstructed shares on routine matters, these shares are counted for purposes of establishing a quorum to conduct business at the meeting. However, brokers cannot vote those same shares on non-routine matters. A broker "non-vote" occurs when a broker holding shares for a beneficial owner does not vote them on a particular proposal because the broker does not have discretionary voting power for that proposal and has not received voting instructions from the beneficial owner. Broker non-votes will not be included in the number of shares present and entitled to vote with respect to any non-routine proposal and therefore will have no effect on the results of voting on that proposal.

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

The Alaska Air Group 401(k) trust includes Employee Stock Ownership Plan features. At the record date, 1,694,216 shares were held in the trust for participants. The Company's transfer agent, EquiServe, sent a proxy statement, an annual report and a voting instruction form to each participant who held shares through the Company's 401(k) plans at the record date. The trustee will vote the shares in accordance with instructions received from participants. The trustee will vote shares for which no instructions were received in the same proportion, for and against, as the shares for which instructions were received.

To allow sufficient time for voting by the trustee, your voting instructions for 401(k) plan shares must be received by 11:59 p.m. Eastern Time on May 13, 2004.

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How many shares must be present to hold the meeting?

A majority of the Company's outstanding shares as of the record date must be present at the meeting in order to hold the meeting and conduct business. Shares are counted as present at the meeting if the stockholder attends the meeting or has voted by proxy.

How many votes must the nominees have to be elected?

In the election of directors, the four nominees who receive the highest number of *for* votes will be elected.

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

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

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

A majority of the shares present in person or by proxy and entitled to vote at the meeting must be voted *for* each proposal in order for it to pass. However, all of the stockholder proposals are *recommendations* to the Board of Directors. They are not binding and do not take effect automatically, even if they receive the votes of holders of a majority of the shares present and entitled to vote at the meeting.

How many votes must the Company's proposal receive in order to pass?

The affirmative vote of a majority of the votes cast is required to approve the 2004 Long-Term Incentive Equity Plan, provided that the total vote cast represents over 50% of all votes entitled to be cast on the proposal.

How are votes counted?

You may vote *for* or you may *withhold* authority to vote for each nominee for director. You may vote *for* or *against* or *abstain* on the other proposals.

If you abstain from voting on any proposal, the abstention has the same effect as a vote *against* such proposal. If you sign your proxy card without giving instructions for voting, your shares will be counted in accordance with the recommendations of the Board of Directors: *for* each Board nominee, *for* the proposal to approve the 2004 Long-Term Incentive Equity Plan, and *against* each of the other proposals.

Voting results are tabulated by our transfer agent, EquiServe Trust Company, N.A.

Who pays the costs of proxy solicitation?

The Company pays for distributing and soliciting proxies and reimburses brokers, nominees, fiduciaries and other custodians their reasonable fees and expenses in forwarding proxy materials to beneficial owners. The Company has engaged Georgeson Shareholder

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Communications Inc. ("Georgeson") to assist in the solicitation of proxies for the meeting. Georgeson will use three employees in connection with the solicitations. It is intended that proxies will be solicited by the following means: additional mailings, personal interview, mail, telephone and electronic means. Proxies may also be solicited by the persons identified as Participants under the heading "Participants in the Solicitation", who will receive no additional compensation therefore, except for reimbursement of expenses. Although no precise estimate can be made at this time, we anticipate that the aggregate

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amount we will spend in connection with the solicitation of proxies will be \$ _____, of which \$ _____ has been incurred to date. This amount includes fees payable to Georgeson, but excludes salaries and expenses of our officers, directors and employees.

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

A list of stockholders of record entitled to vote at the annual meeting will be available at the annual meeting. It will also be available Monday through Friday from May 7 through May 17, 2004, between the hours of 9 a.m. and 4 p.m., local time, at the offices of the Corporate Secretary, 19300 Pacific Highway South, Seattle WA 98188. A stockholder of record may examine the list for any legally valid purpose related to the annual meeting.

Where can I find the voting results of the meeting?

We will publish the final results in our quarterly report on Form 10-Q for the second quarter of 2004. You can read or print a copy of that report by going to the Company's website, www.alaskaair.com, and then choosing Company Information, Investor Information, and Securities and Exchange Commission Filings. You can find the same Form 10-Q by going directly to the SEC EDGAR files at www.sec.gov. You can also get a copy by calling us at (206) 392-5567, or by calling the SEC at (800) SEC-0330 for the location of a public reference room.

PROPOSAL 1. ELECTION OF DIRECTORS

The Company currently has twelve directors. Mr. Cosgrave is retiring from the Board after this meeting.

The directors are divided into three classes so that approximately one-third of the directors are elected each year for three-year terms. Directors are elected to hold office until their successors are elected and qualified, or until resignation or removal in the manner provided in our Bylaws. Four directors are nominees for election this year and each has consented to serve a three-year term ending in 2007. The remaining directors will continue to serve the terms set out below.

NOMINEES FOR ELECTION TO TERMS EXPIRING IN 2007

Name	Principal Occupation or Employment and Other Business Affiliations	Age	Director Since
William S. Ayer	Mr. Ayer has been a director since 1999. He is Chairman, President and Chief Executive Officer of Alaska Air Group and Alaska Airlines, and served as the airline's president and chief operating officer from November 1997 to January 2002. Prior to that, he served in various marketing, planning and operational capacities with Horizon Air, including Sr. Vice President Operations. Mr. Ayer serves on the boards of Alaska Airlines, Angel Flight America, the Alaska Airlines Foundation, the University of Washington Business School Advisory Board, and the Museum of Flight.	49	1999

Dennis F. Madsen	Mr. Madsen was appointed to the Board effective December 1, 2003, and serves on the Compensation and Safety Committees. He is President and CEO of Recreational Equipment, Inc. (REI), a retailer and online merchant for outdoor gear and clothing. He served as REI's Executive Vice President and Chief Operating Officer from 1987 to 2000 and has held numerous positions throughout the Company during his 37-year career. Mr. Madsen serves on the boards of the Western Washington University Foundation, the Washington Roundtable and Alaska Airlines.	55	2003
R. Marc Langland	Mr. Langland has been a director since 1991. He is a member of the Company's Governance and Nominating Committee and Chairman of the Compensation Committee. He has been President of Northrim Bank, Anchorage, Alaska, since November 1990 and Chairman since January 1998. Mr. Langland has also been Chairman, President and CEO of its parent company, Northrim BanCorp, Inc., since December 2001. He was Chairman and Chief Executive Officer of Key Bank of Alaska from 1987 to 1988 and President from 1985 to 1987. He served on the Board of Trustees of the Alaska Permanent Fund Corporation from February 1987 to January 1991 and was Chairman from June 1990 to January 1991. He is also a director of Alaska Airlines and Northrim BanCorp, Inc.	62	1991
John V. Rindlaub	Mr. Rindlaub has been a director since 1996 and serves on the Company's Audit and Compensation Committees. He is CEO, Pacific Northwest Region, Wells Fargo Bank. Prior to joining Wells Fargo, he held a number of positions with Bank of America between 1989 and 2001, including President, Bank of America, Northwest and Chairman of Seafirst Bank. Prior to his position at Seafirst, Mr. Rindlaub was Group Executive Vice President/Asia Division for Bank America and a managing director for Bankers Trust Company New York, Investment Banking Group. He is also a director of Horizon Air.	59	1996

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

CONTINUING DIRECTORS WHOSE TERMS EXPIRE IN 2005

Name	Principal Occupation or Employment And Other Business Affiliations	Age	Director Since
Phyllis J. Campbell	Mrs. Campbell has been a director since January 2002 and serves on the Company's Compensation and Safety Committees. She is President and CEO of The Seattle Foundation. She was President of U.S. Bank of Washington from 1993 until 2001 and has served as Chair of the Bank's	52	2002

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Name	Principal Occupation or Employment And Other Business Affiliations	Age	Director Since
	Community Board. She also is on the boards of Alaska Airlines, SAFECO Corporation, and Puget Sound Energy Inc., and is a member of the Board of Trustees of Seattle University.		
Mark R. Hamilton	Mr. Hamilton has been a director since 2001 and serves on the Company's Audit and Safety Committees, as well as on the board of Horizon Air. He has served as President of the University of Alaska since 1998. That same year, he retired as a U.S. Army Major General following 31 years of active military duty, primarily in the fields of teaching, management and administration. Formerly, Mr. Hamilton was Chief of Staff of the Alaskan Command at Elmendorf Air Force Base and Commander of Division Artillery at Fort Richardson. Mr. Hamilton is a graduate of the U.S. Military Academy at West Point and is the recipient of the Army's highest peacetime award, the Distinguished Service Medal.	58	2001
Byron I. Mallott	Mr. Mallott has been a director since 1982 and is Chairman of the Company's Audit Committee. He is President of the First Alaskans Institute (a nonprofit organization dedicated to the development of Alaska Native peoples and their communities). From 1995 to 1999, he served as Executive Director (chief executive officer) of the Alaska Permanent Fund Corporation, a trust managing proceeds from the state of Alaska's oil revenues. He was a director of Sealaska Corporation, Juneau, Alaska, from 1972 to 1988, Chairman from 1976 to 1983, and Chief Executive Officer from 1982 to 1992. He owns Mallott Enterprises (personal investments) and is a director of Horizon Air, Sealaska Corporation, and the Alaska Communications Systems Group Incorporated.	60	1982
Richard A. Wien	Mr. Wien has been a director since 1982. He serves on the Company's Audit Committee and is Chairman of the Safety Committee. Mr. Wien played an active role in the management of Wien Airlines until 1969, when he was elected President of Merric, Inc., an Alaska helicopter contract and charter service company. After Merric merged with Era Aviation in 1973, Mr. Wien served as Era's Executive Vice President until 1981. He has been Chairman and Chief Executive Officer of Florcraft, Inc. (retail flooring), Fairbanks and Anchorage, Alaska, since 1986. He is also a director of Horizon Air.	68	1982

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Name	Principal Occupation or Employment and Other Business Affiliations	Age	Director Since
Bruce R. Kennedy	Mr. Kennedy has been a director since 1972 and serves as Chairman of the Governance and Nominating Committee. He is Chairman Emeritus of Alaska Air Group and served as its Chairman, Chief Executive Officer and President from 1985 to 1991. He was also Chairman of Alaska Airlines from 1979 to 1991, Chief Executive Officer from 1979 to 1990 and President from 1978 to 1990. He is on the board of directors of Horizon Air and serves as Chairman of Quest Aircraft Trust, an aircraft design and manufacturing company.	65	1972
Jessie J. Knight, Jr.	Mr. Knight has been a director since 2002 and serves on the Compensation Committee and the Governance and Nominating Committee. He is the President and Chief Executive Officer of the San Diego Regional Chamber of Commerce, an organization whose primary focus is economic development. Before assuming his current position in 1999, Mr. Knight served from 1993 through 1998 as a commissioner of the California Public Utilities Commission, which is responsible for the regulatory oversight of all energy, telecommunications, shipping, railroad and investor-owned utilities in the state. Mr. Knight is on the board of directors of Alaska Airlines, Avista Corporation and Environmental Power Corporation. He is also a standing member of the Council on Foreign Relations.	53	2002
J. Kenneth Thompson	Mr. Thompson has been a director since October 1999 and serves on the Company's Governance and Nominating Committee and its Safety Committee. He served as executive vice president of ARCO's Asia Pacific oil and gas operating companies in Alaska, California, Indonesia, China and Singapore from 1998 to 2000. Prior to that, he was President of ARCO Alaska, Inc., the parent company's oil and gas producing division based in Anchorage. Mr. Thompson is President and CEO of Pacific Star Energy LLC. He is also President of Pacific Rim Leadership Development, LLC, an executive consulting firm in Anchorage, Alaska and serves on the board of Alaska Airlines.	52	1999

CORPORATE GOVERNANCE

STRUCTURE OF THE BOARD OF DIRECTORS

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

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

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

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

*
Committee chair.

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

Audit Committee

1. Matters pertaining to the independent auditors:
 - appoint them and oversee their work;
 - review at least annually their statement regarding their internal quality-control procedures and their relationship with the Company;
 - maintain a dialogue with respect to their independence;
 - pre-approve all auditing and non-auditing services they are to perform;
 - review annual and quarterly financial statements and filings made with the SEC; and
 - receive and review communications required from the independent auditors under applicable rules and standards.
2. Review the planned activities and results of the internal auditors and any changes in the internal audit charter.

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

4. Matters pertaining to controls:

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review financial risk and associated internal controls;

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

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

develop and monitor a Corporate Compliance program, including a Code of Conduct and Ethics, decide on requested changes to or waivers of such program and code, and establish procedures for confidential treatment of complaints concerning accounting, internal controls or auditing matters; and

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

5. Other matters: annually review and reassess the adequacy of its charter and the Committee's performance and recommend any proposed changes to the Board of Directors.

Compensation Committee

1. Establish the process for approving corporate goals relevant to CEO compensation and evaluating CEO performance in light of those goals.
2. Set the salary of the CEO.
3. Approve salaries of other executive officers of the Company and of Alaska Airlines and Horizon Air.
4. Set annual goals under the Performance-Based Pay Plan and administer the Plan.
5. Grant stock awards and stock options.
6. Administer the supplementary retirement plans for elected officers and the equity-based incentive plans.
7. Make recommendations to the Board regarding other executive compensation issues, including modification or adoption of plans.
8. Fulfill ERISA fiduciary and non-fiduciary functions for tax-qualified retirement plans by monitoring the Pension/Benefits Administrative Committee and the Pension/Benefits Investment Fund Committee, and approving the membership of those committees, trustees and trust agreements, and extension of plan participation to employees of subsidiaries.
9. Approve the terms of employment and severance agreements with elected officers and the form of change-in-control agreements.
10. Review management development and succession plans.
11. Administer the Company's stock option and other long-term incentive plans.
- 12.

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

13. Annually review and reassess the adequacy of its charter and recommend any proposed changes in the charter to the Board of Directors.

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14. Annually review the Committee's performance.

Governance and Nominating Committee

1. Develop and monitor the Corporate Governance Guidelines.
2. Evaluate the size and composition of the Board.
3. Develop criteria for Board membership.
4. Evaluate the independence of existing and prospective members of the Board.
5. Seek qualified candidates for election to the Board.
6. Evaluate the nature, structure and composition of other Board committees.
7. Take steps it deems necessary or appropriate with respect to annual assessments of the performance of the Board, each other Board committee, and itself.
8. Annually review and reassess the adequacy of its charter.

Safety Committee

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

The Board of Directors held four regular meetings and four special meetings in 2003. The standing Board committees in 2003 and the number of meetings they held were as follows:

Audit Committee 7

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Compensation Committee 5

Governance and Nominating Committee 6

Safety Committee 4

Each director attended at least 85% of all Board and applicable committee meetings during 2003 with the exception of Mr. Mallott who, because of illness, attended 73%.

BOARD AND COMMITTEE INDEPENDENCE

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

Furthermore, the Board of Directors of the Company has determined that a majority of the directors and each member of the Audit Committee, Governance & Nominating Committee and Compensation Committee, is independent under the NYSE listing standards in that such directors:

1. have not been employed by the Company within the last five years;
2. have not received more than \$100,000 in direct compensation from the Company in any of the last five years, other than director and committee fees and pension or other deferred compensation for prior service;
3. have not been employed by or otherwise affiliated with the Company's independent auditor within the last five years;
4. have not, within the last five years, been part of an interlocking directorate in which an executive officer of the Company serves on the compensation committee of another company that concurrently employs the director;
5. have not, in any of the last five years, been employed or otherwise affiliated with a company that has made payments to, or received payments from, the Company that exceed the greater of \$1 million or 2% of such other company's gross revenues; and
6. otherwise have no material relationship with the Company.

With respect to the sixth standard, the Board considers that the following situations do not create material relationships:

- a) the receipt by a director of retirement compensation earned under one or more tax-qualified or nonqualified plans during the director's employment with the Company;
- b) ordinary-course business between the Company and an organization of which the Board member is an officer or director, where the amount of such business is immaterial with respect to the Company's or the organization's annual revenues; or
- c) the receipt of cash or in-kind contributions from the Company by a tax-exempt charitable organization of which the Board member is an officer or director, the value of which is immaterial with respect to the Company's or the charitable organization's annual revenues.

For the purposes of these standards, "Company" includes Alaska Air Group's subsidiaries and other affiliates. In addition, none of the independent directors has an immediate family member that meets any of these criteria. The members of the Audit Committee, in addition to the foregoing criteria, meet the additional criteria of SEC Rule 10A-3 that they neither (1) accept any direct compensation from the Company other than director and committee fees and pension or other deferred compensation for prior service, nor (2) are an affiliated person of the Company.

DIRECTOR NOMINATION POLICY

Identification and Evaluation of Candidates

1.

Internal Process for Identifying Candidates

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

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

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2.

Candidates Proposed by Stockholders

a.

General Nomination Right of All Stockholders

Any stockholder of the Company may nominate one or more persons for election as a director of the Company at an annual meeting of stockholders if the stockholder complies with the notice, information and consent provisions contained in Article II, Section 8 of the Company's bylaws. The Company's bylaws are available publicly on the Company's website at the following address: <http://www.alaskaair.com>.

b.

Consideration of Director Candidates Recommended by Stockholders

The Committee will evaluate candidates recommended by stockholders as set forth below. The Committee has established the procedures described in the following section 2.c. for evaluating candidates recommended to the Committee by Qualified Stockholders (defined below). The Committee does not have a formal policy with respect to the evaluation of director candidates recommended by other stockholders and will establish procedures on a case by case basis. All candidates (whether identified internally or by a stockholder) who, after evaluation, are then recommended by the Committee and approved by the Board will be included in the Company's recommended slate of director nominees in its proxy statement.

c.

Candidates Recommended by Qualified Stockholders

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

A single stockholder, or group of stockholders, that has beneficially owned more than 5% of the Company's outstanding common stock for at least one year and that satisfies the notice, information and consent provisions set forth below (such individual or group, the "Qualified Stockholder"), may propose a candidate for evaluation by the Committee by delivering a written notice to the Committee satisfying each of the requirements described below (the "Notice"). The Notice must be received by the Committee not less than 120 calendar days before the anniversary of the date that the Company's proxy statement was released to stockholders in connection with the previous year's annual meeting. No such notice was received in connection with the 2004 Annual Meeting.

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

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

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

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

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

Regarding the candidate, such person's name, age, business and residence addresses, principal occupation or employment, number of shares of the Company's stock, if any, beneficially owned, a written resume or curriculum vitae of personal and professional experiences, and all other information relating to the candidate that would be required to be disclosed in a proxy statement or other filings required to be made in connection with the solicitation of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder (the "Exchange Act").

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

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

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

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

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

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

If, based on the Committee's initial evaluation of a candidate recommended by a Qualified Stockholder, a candidate continues to be of interest to the Committee, the Chair of the Committee will request that the CEO interview the candidate and the candidate will be interviewed by one or more of the other Committee members. If the results of these interviews are favorable, the Committee will arrange to have appropriate reference and background checks conducted and reported to the Committee. The Committee will then meet to consider and finalize its list of

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recommended candidates for the Board's consideration. Except as may be required by applicable law, rule or regulation, the Committee will have no obligation to discuss the outcome of the evaluation process or the reasons for the Committee's recommendations, with any stockholder who made a proposal.

3.

Evaluation of Incumbent Candidates

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

Policy on Minimum Qualifications for All Directors

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

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level regulatory or legal experience, and relevant senior level expertise in one or more of the following areas: finance, accounting, sales and marketing, organizational development, information technology and public relations.

STOCKHOLDER COMMUNICATION POLICY

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

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

Depending on the subject matter, management will:

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

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

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

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

EXECUTIVE SESSIONS AND LEAD DIRECTOR

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

DIRECTOR COMPENSATION

We do not pay directors who are also employees of the Company any additional compensation for their service as directors, except for the reimbursement of expenses incurred in attending meetings. In 2003, compensation for nonemployee directors included the following:

an annual retainer of \$20,000, with a minimum of 25% of the retainer paid in the form of Alaska Air Group common stock issued under the Company's Nonemployee Director Stock Plan. (In connection with this practice, the Board has set stock ownership guidelines for directors);

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

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

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

reimbursement of expenses in connection with attending Board and committee meetings.

In addition, directors, their spouses and their dependent children are eligible for complimentary travel privileges on Alaska Airlines and Horizon Air.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and certain of its officers to send reports of their ownership of Company common stock and changes in such ownership to the SEC and the NYSE. The Company assists its directors and officers by preparing forms for filing. SEC regulations also require the Company to identify in this proxy statement any person subject to this requirement who failed to file a report on a timely basis. Based on a review of copies of reports furnished to the Company and written representations that no reports were required, the Company believes that all of its directors and officers subject to Section 16(a) complied with the reporting requirements with respect to transactions during 2003.

INDEPENDENT AUDITORS

Termination of Arthur Andersen LLP; Engagement of Deloitte & Touche LLP

On May 22, 2002, the Company dismissed Arthur Andersen LLP ("Andersen"), and engaged Deloitte & Touche LLP, as its independent auditors. This determination was recommended by the Audit Committee and approved by the Board of Directors.

The Company disclosed these events in a Current Report on Form 8-K filed with the SEC on May 28, 2002 (the "Form 8-K") and an amendment thereto filed on June 8, 2002, which included the following information:

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Andersen's reports on the Company's financial statements for each of the years ended December 31, 2001 and 2000 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During the years ended December 31, 2001 and 2000 and the interim period between December 31, 2001 and the dismissal of Andersen, there were no disagreements between the Company and Andersen on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to Andersen's satisfaction, would have caused them to make reference to the subject matter of the disagreement in connection with their report for such years; and there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

During the years ended December 31, 2001 and 2000 and the interim period between December 31, 2001 and the dismissal of Andersen, neither the Company nor anyone acting on its behalf consulted Deloitte & Touche LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be

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rendered on the Company's financial statements, or any other matters or reportable events listed in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Andersen provided to the Company a letter addressed to the SEC stating that it agreed with the statements of the Company made in the Form 8-K in response to Item 304(a).

Selection of Independent Auditors for the Current Fiscal Year

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

Fees to Independent Auditors

During fiscal year 2003, the Company retained Deloitte & Touche LLP as its principal auditor. During fiscal year 2002, the Company retained its principal auditors, Arthur Andersen LLP and Deloitte & Touche LLP, to provide services in the following categories and amounts:

2002	Deloitte & Touche LLP	Arthur Andersen LLP	Total 2002
Audit Fees for the Company's Annual Financial Statements and Quarterly Reviews	\$ 1,188,940	\$ 91,132	\$ 1,280,072
Audit-Related Fees(1)		30,000	30,000
Tax Fees(2)	5,325	64,000	69,325
All Other Fees(3)	132,900	24,600	157,500
2003			Total 2003
Audit Fees for the Company's Annual Financial Statements and Quarterly Reviews	\$ 875,821		\$ 875,821
Audit-Related Fees(1)	247,340		247,340
Tax Fees(2)	48,146		48,146
All Other Fees(4)	55,957		55,957

(1) Includes \$104,000 for professional services in connection with the audit of Alaska Airlines 401(k) plans. Also includes fees for professional services in connection with the private placement and registration of our \$150 million convertible notes.

- (2) Fees for professional services in connection with tax consulting, planning and tax return review.
- (3) Fees for professional services in connection with the audit of the security costs incurred as reported to the Transportation Security Administration, and accounting and reporting issues related to the airline government assistance.
- (4) Fees for professional services in connection with audits of various fees paid to the government.

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

Independent Auditor Engagement Policy

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

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

Permitted services under the policy include audit services, audit-related services, certain tax services and certain other services not prohibited by SEC rules or other federal regulations.

All services must be pre-approved by the Audit Committee or otherwise specifically authorized pursuant to procedures set forth in the policy, except for certain non-audit services that meet the "de minimis exception" under 17 CFR Section 210.2-01, namely:

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

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

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

AUDIT COMMITTEE REPORT

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

Review of Our Company's Audited Financial Statements

The Audit Committee has reviewed and discussed with management and Deloitte & Touche LLP, the Company's independent auditors, the Company's audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003. We believe that management maintains an effective system of internal controls that results in fairly presented financial statements.

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

Public Accountants.

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

Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in Alaska Air Group's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

Audit Committee of the Board of Directors

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

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

This table shows how much Company common stock is owned as of March 19, 2004 by (a) each director and nominee, (b) each of the Company's five most highly compensated executive officers, and (c) all executive officers as a group. The number shown for each person includes shares that he or she

may vote or invest alone,

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

holds otherwise with shared voting and investment power,

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

may acquire through stock option exercises through June 12, 2004

NAME	NUMBER OF SHARES OWNED(1)	PERCENT OF OUTSTANDING SHARES
William S. Ayer	285,857(1)	1.07
George D. Bagley	174,758(1)	*
Phyllis J. Campbell	1,514	*
Ronald F. Cosgrave	8,700	*
Mary Jane Fate	3,397(2)	*
Mark R. Hamilton	635	*
John F. Kelly	555,056(1)	2.07
Bruce R. Kennedy	9,415	*
Jessie J. Knight, Jr.	403	*
R. Marc Langland	3,534	*
Byron I. Mallott	2,033	*

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NAME	NUMBER OF SHARES OWNED(1)	PERCENT OF OUTSTANDING SHARES
Dennis F. Madsen	89	*
Jeffrey D. Pinneo	46,442(1)	*