

ALASKA AIR GROUP INC

Form 424B3

November 17, 2003

**Table of Contents**

Filed Pursuant to Rule 424(b)(3)  
Registration Number 333-107177

**PROSPECTUS SUPPLEMENT NO. 2  
(To Prospectus dated October 7, 2003)**

**\$150,000,000**

**Senior Convertible Notes due 2023**

**Common Stock, par value \$1.00 per share**

This document supplements the prospectus of Alaska Air Group, Inc., dated October 7, 2003 and the prospectus supplement dated November 4, 2003, relating to the notes issued in a private placement in March 2003 and the common stock issuable upon conversion of the notes. The information in this prospectus supplement replaces and supersedes the information set forth under the heading "Selling Security Holders" in the prospectus dated October 7, 2003 and the prospectus supplement dated November 4, 2003. This prospectus supplement also includes the attached Quarterly Report on Form 10-Q of Alaska Air Group, Inc. for the quarterly period ended September 30, 2003.

This prospectus supplement is incorporated by reference into, and should be read in conjunction with, the prospectus dated October 7, 2003 and the prospectus supplement dated November 4, 2003. This prospectus supplement is not complete without, and may not be delivered or utilized except in connection with, the prospectus dated October 7, 2003 and the prospectus supplement dated November 4, 2003.

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

**You should consider carefully the risks that we have described in "Risk Factors" beginning on page 4 of the prospectus dated October 7, 2003.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus supplement is November 17, 2003

---

**Table of Contents**

**SELLING SECURITY HOLDERS**

We originally issued the notes in a private placement in March 2003. The notes were resold by the initial purchasers to qualified institutional buyers within the meaning of Rule 144A under the Securities Act in transactions exempt from registration under the Securities Act. The selling securityholders may from time to time offer and sell pursuant to this prospectus any or all of the notes listed below and shares of our common stock issued upon conversion of those notes. When we refer to the selling securityholders in this prospectus, we mean those persons listed in the table below, as well as the permitted pledgees, donees, assignees, transferees, successors and others who later hold any of the selling securityholders' interests.

The table below sets forth the name of each selling securityholder, the principal amount at maturity of notes, as of November 17, 2003, that each selling securityholder may offer pursuant to this prospectus and the number of shares of our common stock into which those notes are convertible. Unless set forth below, none of the selling securityholders has, or within the past three years has had, any material relationship with us or any of our predecessors or affiliates.

We have prepared the table below based on information given to us by the selling securityholders on or prior to November 17, 2003. However, any or all of the notes or shares of our common stock listed below may be offered for sale pursuant to this prospectus by the selling securityholders from time to time. Accordingly, no estimate can be given as to the amounts of notes or our common stock that will be held by the selling securityholders upon consummation of any sales pursuant to this prospectus. In addition, the selling securityholders listed in the table below may have acquired, sold or transferred, in transactions exempt from the registration requirements of the Securities Act, some or all of their notes since the date as of which the information in the table is presented.

Information about the selling securityholders may change over time. Any changed information will be set forth in prospectus supplements to the extent we are advised of the changes. From time to time, additional information concerning ownership of the notes and our common stock may rest with certain holders thereof not named in the table below and of whom we are unaware.

**Table of Contents**

Name	Original Principal Amount of Notes Beneficially Owned That May be Sold	Percentage of Notes Outstanding Before Offering*	Number of Shares of Common Stock Held Before Offering(1)	Number of Shares of Common Stock Offered for Sale(1) (2)	Number of Shares of Common Stock Held After Offering(3)
1976 Distribution Trust FBO A.R. Lauder / Zinterhofer(4)	9,000	*	346	346	
2000 Revocable Trust FBO A.R. Lauder / Zinterhofer (5)	9,000	*	346	346	
Advent Convertible Master (Cayman) L.P. (6)	7,683,000	5.12	295,499	295,499	
Afra Health Fund(a) (7)	270,000	*	10,384	10,384	
AIG DKR SoundShore Oasis Holding Fund Ltd. (8)	1,000,000	*	38,461	38,461	
AIG DKR SoundShore Strategic Holding Fund Ltd.(9)	1,000,000	*	38,461	38,461	
Alcon Laboratories(10)	465,000	*	17,884	17,884	
Allentown City Firefighters Pension Plan(11)	14,000	*	538	538	
Allentown City Officers & Employees Pension Fund (12)	20,000	*	769	769	
Allentown City Police Pension Plan (13)	280,000	*	10,769	10,769	
Alpha US Sub Fund 4 LLC (14)	336,000	*	12,923	12,923	
Arapahoe County Colorado (15)	58,000	*	2,230	2,230	
Argent Classic Convertible Arbitrage Fund L.P. (16)	300,000	*	11,538	11,538	
Argent Classic Convertible Arbitrage Fund II, L.P. (17)	100,000	*	3,846	3,846	
Argent Classic Convertible Arbitrage (Bermuda) Fund Ltd. (18)	700,000	*	26,923	26,923	
Argent Low Lev Convertible Arbitrage Fund LLC (19)	300,000	*	11,538	11,538	
Argent Low Lev Convertible Arbitrage Fund Ltd. (20)	1,800,000	1.20	69,230	69,230	
Arlington County Employees Retirement System	650,000	*	24,999	24,999	
Asante Health Systems (21)	803,000	*	30,884	30,884	
Banc of America Capital Management, LLC (22)(a)	1,350,000	*	51,923	51,923	
Barclays Global Investors Diversified Alpha Plus Funds c/o Forest Investment Mngt. LLC (23)(a)	487,000	*	18,730	18,730	
BNP Paribas Arbitrage (24)	6,500,000	4.33	249,999	249,999	
BNP Paribas Equity Strategies, SNC (25)	627,000	*	36,775	24,115	12,660
BP Amoco PLC Master Trust (26)	482,000	*	18,538	18,538	
British Virgin Islands Social Security Board (27)	105,000	*	4,038	4,038	
Calamos Convertible Fund Calamos Investment Trust (28)	2,500,000	1.67	96,153	96,153	



**Table of Contents**

Name	Original Principal Amount of Notes Beneficially Owned That May be Sold	Percentage of Notes Outstanding Before Offering*	Number of Shares of Common Stock Held Before Offering(1)	Number of Shares of Common Stock Offered for Sale(1) (2)	Number of Shares of Common Stock Held After Offering(3)
Calamos Market Neutral Fund - Calamos Investment Trust (29)	2,500,000	1.67	96,153	96,153	
City and County of San Francisco Retirement System (30)	1,776,000	1.18	68,307	68,307	
City of New Orleans (31)	245,000	*	9,423	9,423	
City University of New York (32)	181,000	*	6,961	6,961	
CNH CA Master Account, L.P. (33)	2,100,000	1.40	80,769	80,769	
Convertible Securities Fund (34)	20,000	*	769	769	
Coastal Convertibles LTD (35)	1,000,000	*	38,461	38,461	
CooperNeff Convertible Strategies (Cayman) Master Fund, L.P.	681,000	*	32,664	26,192	6,472
Credit Suisse First Boston Europe Limited (36)(a)	30,750,000	20.50	1,182,691	1,182,691	
Delaware Pubic Employees Retirement System (37)	1,862,000	1.24	71,615	71,615	
Deutsche Bank Securities, Inc. (38)(a)	4,309,000	2.87	165,730	165,730	
Forest Fulcrum Fund LP (39)(a)	1,344,000	*	51,692	51,692	
Forest Global Convertible Fund Ltd., Class A-5 (40)(a)	5,017,000	3.34	192,961	192,961	
Forest Multi-Strategy Master Fund SPC, on behalf of its Multi-Strategy segregated portfolio (41)(a)	1,681,000	1.12	64,653	64,653	

**Table of Contents**

Name	Original Principal	Percentage of Notes Outstanding Before Offering*	Number of Shares of		Number of Shares of Common Stock Held After Offering(3)
	Amount of Notes Beneficially Owned That May be Sold		Number of Shares of Common Stock Held Before Offering(1)	Common Stock Offered for Sale(1) (2)	
Georgia Municipal (42)	28,000	*	1,076	1,076	
The Grable Foundation (43)	97,000	*	3,730	3,730	
Grady Hospital Foundation (44)	159,000	*	6,115	6,115	
HFR Arbitrage Fund (45)	380,000	*	14,615	14,615	
HFR CA Select Fund (46)	800,000	*	30,769	30,769	
Hotel Union & Hotel Industry of Hawaii Pension Plan (47)	170,000	*	6,538	6,538	
Independence Blue Cross (48)	502,000	*	19,307	19,307	
Jefferies and Company Inc. (49)	4,000	*	153	153	
KBC Financial Products USA Inc. (50)(a)	1,090,000	*	41,923	41,923	
KBC Financial Products (Cayman Islands) Ltd. (51)	3,515,000	2.34	135,192	135,192	
Laurel Ridge Capital, L.P. (52)	1,000,000	*	38,461	38,461	
LLT Limited (53)(a)	236,000	*	9,076	9,076	
Lyxor/Forest Fund Ltd. c/o Forest Investment Mngt LLC (54)(a)	2,112,000	1.41	81,230	81,230	
Lyxor Master Fund Ref: Argent/LowLev CB c/o Argent (55)	500,000	*	19,230	19,230	
Mainstay Convertible Fund (56)(a)	4,470,000	2.98	171,922	171,922	
Mainstay VP Convertible Fund (57)(a)	2,120,000	*	81,538	81,538	

**Table of Contents**

Name	Original Principal Amount of Notes Beneficially Owned That May be Sold	Percentage of Notes Outstanding Before Offering*	Number of Shares of Common Stock Held Before Offering(1)	Number of Shares of Common Stock Offered for Sale(1) (2)	Number of Shares of Common Stock Held After Offering(3)
Merrill Lynch Insurance Group (58)	402,000	*	15,461	15,461	
Municipal Employees (59)	286,000	*	10,999	10,999	
Nations Convertible Securities Fund (60)	1,330,000	*	51,153	51,153	
New Orleans Firefighters Pension / Relief Fund (61)	163,000	*	6,269	6,269	
New York Life Insurance Company (Post 82) (62)(a)	4,900,000	3.27	188,461	188,461	
New York Life Insurance Company (Pre 82) (63)(a)	2,245,000	1.50	86,346	86,346	
New York Life Separate Account #7 (64)(a)	105,000	*	4,038	4,038	
Occidental Petroleum Corporation (65)	323,000	*	12,423	12,423	
Ohio Bureau of Workers Compensation (66)	217,000	*	8,346	8,346	
Policeman and Firemen Retirement System of the City of Detroit (67)	675,000	*	25,961	25,961	
Polygon Global Opportunities Master Fund (68)	3,000,000	2.00	115,384	115,384	
Pro-mutual (69)	902,000	*	34,692	34,692	
Relay 11 Holdings Co. c/o Forest Investment Mngt. LLC (70)(a)	308,000	*	11,846	11,846	
RBC Alternative Assets LP c/o Forest Investment Mngt. LLC (71)(a)	410,000	*	15,769	15,769	
San Diego County Employee Retirement Association (72)	1,000,000	*	38,461	38,461	
Silverback Master Ltd.	3,500,000	2.33	134,615	134,615	



**Table of Contents**

Name	Original Principal Amount of Notes Beneficially Owned That May be Sold	Percentage of Notes Outstanding Before Offering*	Number of Shares of Common Stock Held Before Offering(1)	Number of Shares of Common Stock Offered for Sale(1) (2)	Number of Shares of Common Stock Held After Offering(3)
Singlehedge U.S Convertible Arbitrage Fund	103,000	*	3,961	3,961	
Sphinx Convertible Arb Fund Faster Fund Ltd. (73)	179,000	*	6,884	6,884	
Sphinx Convertible Arbitrage SPC c/o Forest Investment Mngt. LLC (74)(a)	179,000	*	6,884	6,884	
SSI Blended Market Neutral L.P. (75)	326,000	*	12,538	12,538	
SSI Hedge Convertible Market Neutral L.P. (76)	352,000	*	13,538	13,538	
State of Maryland Retirement Agency (77)	3,843,000	2.56	147,807	147,807	
Sturgeon Limited (78)	89,000	*	3,423	3,423	
Tag Associates (79)	71,000	*	2,730	2,730	
TCW Group, Inc. (80)	4,390,000	2.93	168,845	168,845	
Topanga XI	1,146,000	*	44,076	44,076	
Trustmark Insurance (81)	837,000	*	32,192	32,192	
Univest Convertible Arbitrage Fund Ltd. c/o Forest Investment Mngt. LLC (82)(a)	308,000	*	11,846	11,846	
Viacom Inc. Pension Plan Master Trust (83)	15,000	*	576	576	
Wolverine Asset Management, LLC (84)	2,229,000	1.49	85,730	85,730	
Xavex Convertible 4 Fund c/o Forest Investment Mngt. LLC (85)(a)	225,000	*	8,653	8,653	
Xavex Convertible Arbitrage 2 Fund (86)	100,000	*	3,846	3,846	
Zazove Convertible Arbitrage Fund L.P. (87)	1,250,000	*	48,076	48,076	

**Table of Contents**

Name	Original Principal Amount of Notes Beneficially Owned That May be Sold	Percentage of Notes Outstanding Before Offering*	Number of Shares of Common Stock Held Before Offering(1)	Number of Shares of Common Stock Offered for Sale(1) (2)	Number of Shares of Common Stock Held After Offering(3)
Zazove Income Fund, L.P. (88)	1,200,000	*	46,153	46,153	
Zurich Institutional Benchmark Master Fund, Ltd. (89)	2,000,000	1.33	76,923	76,923	
Zurich Institutional Benchmark Master Fund c/o Argent (90)	100,000	*	3,846	3,846	
Zurich Institutional Benchmark Master Fund Ltd. (91)	1,293,000	*	49,730	49,730	
Any other holder of notes or future transferee from any such holder (92)	11,502,000	7.67%	442,384	442,384	
<b>Total</b>	<b>150,000,000</b>	<b>100.00%</b>	<b>5,788,357</b>	<b>5,769,225</b>	<b>19,132</b>

\* Less than 1%

- (a) The selling securityholder and/or certain of its affiliates are NASD registered broker-dealers. The selling securityholder has advised the Registrant that it has purchased the securities covered by the Registration Statement in the ordinary course of its business, and that, at the time of the purchase of such securities, it did not have any agreements or understandings, directly or indirectly, with any person to distribute the securities.
- (1) The number of conversion shares shown in the table above assumes conversion of the full amount of notes held by such holder at the initial conversion rate of 38.4615 shares per \$1,000 principal amount at maturity of notes. This conversion rate is subject to certain adjustments. Accordingly, the number of shares of common stock issuable upon conversion of the notes may increase or decrease from time to time. Under the terms of the indenture, fractional shares will not be issued upon conversion of the notes. Cash will be paid instead of fractional shares, if any. As of October 31, 2003, we had 26,707,579 shares of common stock outstanding.
- (2) The shares of common stock that may be sold upon conversion of the notes by any selling securityholder will not represent 1% or more of our outstanding common stock, except Advent Convertible Master (Cayman) L.P. (1.1%) and Credit Suisse First Boston Europe Limited (4.4%).
- (3) Assumes all of the notes and shares of common stock issuable upon their conversion are sold in the offering.
- (4) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (5) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (6) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (7) The selling security holder is a fund of Mackay Shields, LLC, an indirect wholly-owned subsidiary of New York Life Insurance Company.
- (8) DKR Capital Partners L.P. ( DKR LP ) is a registered investment advisor with the Securities and Exchange Commission and as such, serves as the managing general partner of the investment manager to AIG DKR SoundShore Oasis Holding Fund Ltd. (the Fund ). DKR LP has retained certain individuals to act as the portfolio manager to the Fund managed by DKR LP. As such, DKR LP and certain portfolio managers have shared dispositive and voting power over the securities.
- (9) DKR Capital Partners L.P. ( DKR LP ) is a registered investment advisor with the Securities and Exchange Commission and as such, serves as the managing general partner of the investment manager to AIG DKR SoundShore Strategic Holding Fund Ltd. (the Fund ). DKR LP has retained certain



**Table of Contents**

individuals to act as the portfolio manager to the Fund managed by DKR LP. As such, DKR LP and certain portfolio managers have shared dispositive and voting power over the securities.

- (10) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (11) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (12) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (13) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (14) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (15) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (16) Nathaniel Brown, as principal of this entity, exercises sole voting or dispositive power with respect to these securities.
- (17) Nathaniel Brown, as principal of this entity, exercises sole voting or dispositive power with respect to these securities.
- (18) Nathaniel Brown, as principal of this entity, exercises sole voting or dispositive power with respect to these securities.
- (19) Nathaniel Brown, as principal of this entity, exercises sole voting or dispositive power with respect to these securities.
- (20) Nathaniel Brown, as principal of this entity, exercises sole voting or dispositive power with respect to these securities.
- (21) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (22) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (23) Includes \$20,000 aggregate principal amount held by Convertible Securities Fund and \$130,000 aggregate principal amount held by Nations Convertible Securities Fund, each an affiliate of Banc of America Capital Management, LLC. Eddie L. Cassens, CFA, Managing Director and Yangfang C. Yan, Portfolio Manager, of Bank of America Capital Management, LLC share voting and dispositive power with respect to these securities.
- (24) The selling securityholder is controlled by Forest Partners II LP, of which Michael A. Boyd is General Partner. Michael A. Boyd is the principal of Michael A. Boyd Inc. and exercises sole voting and dispositive power with respect to these securities.
- (25) Mike Cohen Vice President of EQD Convertibles Trading at BNP Paribas, has voting and dispositive power over these securities.
- (26) SSI Investment Management, Inc., exercises sole voting or dispositive power with respect to these securities. Major shareholders of SSI Investment Management are John Gottfurcht, George Douglas and Amy Jo Gottfurcht.
- (27) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (28) Nick Calamos, as Senior Executive Vice President, Chief Investment Officer and Director of Investments for Calamos Asset Management, Inc., has sole voting or dispositive power with respect to these securities.

**Table of Contents**

- (29) Nick Calamos, as Senior Executive Vice President, Chief Investment Officer and Director of Investments for Calamos Asset Management, Inc., has sole voting or dispositive power with respect to these securities.
- (30) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (31) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (32) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (33) CNH Partners, LLC is the Investment Advisor of the Selling Security Holder and has sole voting and dispositive power over the Registrable Securities. Investment Principals for the Advisor are Rober Krail, Mark Mitchell, and Todd Pulvino. They have voting and dispositive power over these securities.
- (34) Eddie L. Cassens, CFA, Managing Director and Yangang C. Yan, Portfolio Manager have voting and dispositive power over these securities.
- (35) Jay Lurie, a principal of Harbor Capital Management LLC, has voting and dispositive power over these securities.
- (36) David Clarkson, Managing Director of Credit Suisse First Boston Europe Limited, has voting and dispositive power over these securities.
- (37) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (38) Includes \$1,609,000 aggregate principal amount held by Deutsche Bank Securities, Inc. ( Deutsche Bank ) and \$2,700,000 aggregate principal amount held by DBAG London, an affiliate of Deutsche Bank. Deutsche Bank is a reporting company under the Securities Exchange Act of 1934 and exercises sole voting and dispositive power with respect to these securities.
- (39) The selling securityholder is controlled by Forest Partners II LP, of which Michael A. Boyd is General Partner. Michael A. Boyd is the principal of Michael A. Boyd Inc. and exercises sole voting and dispositive power with respect to these securities.
- (40) The selling securityholder is controlled by Forest Partners II LP, of which Michael A. Boyd is General Partner. Michael A. Boyd is the principal of Michael A. Boyd Inc. and exercises sole voting and dispositive power with respect to these securities.
- (41) The selling securityholder is controlled by Forest Partners II LP, of which Michael A. Boyd is General Partner. Michael A. Boyd is the principal of Michael A. Boyd Inc. and exercises sole voting and dispositive power with respect to these securities.
- (42) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (43) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (44) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (45) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (46) Gene T. Pretti, a principal of this entity, has voting and dispositive power over the securities.
- (47) SSI Investment Management, Inc. exercises sole voting or dispositive power with respect to these securities. Major shareholders of SSI Investment Management are John Gottfurcht, George Douglas and Amy Jo Gottfurcht.
- (48) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.

Edgar Filing: ALASKA AIR GROUP INC - Form 424B3

- (49) SSI Investment Management, Inc. exercises sole voting or dispositive power with respect to these securities. Major shareholders of SSI Investment Management are John Gottfurcht, George Douglas and Amy Jo Gottfurcht.

**Table of Contents**

- (50) KBC Financial Products USA Inc. exercises voting and investing control over any shares of common stock issuable upon conversion of the securities owned by this selling holder. Luke Edwards, Managing Director, exercises voting and investment control on behalf of KBC Financial Products USA Inc.

**Table of Contents**

- (70) The selling securityholder is controlled by Forest Partners II LP, of which Michael A. Boyd is General Partner. Michael A. Boyd is the principal of Michael A. Boyd Inc. and exercises sole voting and dispositive power with respect to these securities.
- (71) Forest Investment Mngt. LLC is 100% owned by Forest Partners II LP. Michael A. Boyd Inc., is the General Partner. Michael A. Boyd is the principal of Michael A. Boyd Inc. and exercises sole voting and dispositive power with respect to these securities.
- (72) Gene T. Pretti, a principal of this entity, has voting and dispositive power over the securities.
- (73) SSI Investment Management, Inc. exercises sole voting or dispositive power with respect to these securities. Major shareholders of SSI Investment Management are John Gottfurcht, George Douglas and Amy Jo Gottfurcht.
- (74) The selling securityholder is controlled by Forest Partners II LP, of which Michael A. Boyd is General Partner. Michael A. Boyd is the principal of Michael A. Boyd Inc. and exercises sole voting and dispositive power with respect to these securities.
- (75) SSI Investment Management, Inc. has voting and dispositive power over these shares. Major shareholders of SSI Investment Management are John Gottfurcht, George Douglas and Amy Jo Gottfurcht.
- (76) SSI Investment Management, Inc. has voting and dispositive power over these shares. Major shareholders of SSI Investment Management are John Gottfurcht, George Douglas and Amy Jo Gottfurcht.
- (77) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (78) Sturgeon Limited shares dispositive power with CooperNeff Advisors, Inc. CooperNeff Advisors, Inc. exercises sole voting power with respect to these securities.
- (79) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (80) Thomas Lyon, Managing Director of TCW Group, Inc., has voting and dispositive power over these securities.
- (81) Advent Capital Management, LLC is the investment advisor of this entity and Paul Latronica, a vice president of the investment advisor, has the power to direct the voting and disposition of the securities held by this entity.
- (82) The selling securityholder is controlled by Forest Partners II LP, of which Michael A. Boyd is General Partner. Michael A. Boyd is the principal of Michael A. Boyd Inc. and exercises sole voting and dispositive power with respect to these securities.
- (83) SSI Investment Management, Inc. exercises sole voting or dispositive power with respect to these securities. Major shareholders of SSI Investment Management are John Gottfurcht, George Douglas and Amy Jo Gottfurcht.
- (84) Rober Bellick, Chris Gust and Eric Henschel share voting and dispositive power with respect to these securities.
- (85) The selling securityholder is controlled by Forest Partners II LP, of which Michael A. Boyd is General Partner. Michael A. Boyd is the principal of Michael A. Boyd Inc. and exercises sole voting and dispositive power with respect to these securities.
- (86) Nathaniel Brown, as principal of this entity, exercises sole voting or dispositive power with respect to these securities.
- (87) Gene T. Pretti, a principal of this entity, has voting and dispositive power over the securities.
- (88) Gene T. Pretti, a principal of this entity, has voting and dispositive power over the securities.
- (89) Gene T. Pretti, a principal of this entity, has voting and dispositive power over the securities.
- (90) Nathaniel Brown, as principal of this entity, exercises sole voting or dispositive power with respect to these securities.
- (91) SSI Investment Management, Inc. exercises sole voting or dispositive power with respect to these securities. Major shareholders of SSI Investment Management are John Gottfurcht, George Douglas and Amy Jo Gottfurcht. Zazove Associates LLC exercises sole voting or dispositive power with respect to 1,000,000 of these securities.
- (92) Information concerning other selling securityholders will be set forth in prospectus supplements from time to time, if required.





**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2003.

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-8957

**ALASKA AIR GROUP, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

91-1292054  
(I.R.S. Employer  
Identification No.)

19300 Pacific Highway South, Seattle, Washington 98188  
(Address of principal executive offices)

Registrant's telephone number, including area code: (206) 392-5040

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The registrant has 26,707,579 common shares, par value \$1.00, outstanding at October 31, 2003.

**TABLE OF CONTENTS**

SELLING SECURITY HOLDERS

PART I. FINANCIAL STATEMENTS

ITEM 1. Financial Statements

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

ITEM 4. Controls and Procedures

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

ITEM 6. Exhibits and Reports on Form 8-K

Signatures

---

**Table of Contents****TABLE OF CONTENTS**

<b>PART I. FINANCIAL INFORMATION</b>	
Item 1.	Financial Statements
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 3.	Quantitative and Qualitative Disclosure About Market Risk
Item 4.	Controls and Procedures
<b>PART II. OTHER INFORMATION</b>	
Item 1.	Legal Proceedings
Item 6.	Exhibits and Reports on Form 8-K
Signatures	

**Cautionary Note regarding Forward-Looking Statements**

In addition to historical information, this Quarterly Report on Form 10-Q may contain forward-looking statements that are based on the best information currently available to management. These forward-looking statements are intended to be subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance and involve known and unknown risks and uncertainties that may cause our actual results or performance to be materially different from those indicated by any forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as forecast, may, will, could, should, expect, plan, believe, potential or other similar words indicating events or contingencies. Some of the things that could cause our actual results to differ from our expectations are: economic conditions; the continued impact of terrorist attacks, global instability and potential U.S. military involvement; our significant indebtedness; downgrades of our credit ratings; the competitive environment and other trends in our industry; changes in laws and regulations; changes in our operating costs including fuel; changes in our business plans; interest rates and the availability of financing; liability and other claims asserted against us; labor disputes; our ability to attract and retain qualified personnel; and inflation. For a discussion of these and other risk factors, review the information under the caption Risk Factors in Amendment No. 1 to our registration statement on Form S-1 filed on August 23, 2003 as well as Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2002. All of the forward-looking statements are qualified in their entirety by reference to the risk factors discussed therein. These risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new risk factors, nor can it assess the impact, if any, of such new risk factors on our business or events described in any forward-looking statements. We disclaim any obligation to publicly update or revise any forward-looking statements after the date of this report to conform them to actual results.

**Table of Contents****PART I. FINANCIAL STATEMENTS**

## ITEM 1. Financial Statements

**CONSOLIDATED BALANCE SHEETS (unaudited)**

Alaska Air Group, Inc.

**ASSETS**

(In Millions)	December 31, 2002	September 30, 2003
<b>Current Assets</b>		
Cash and cash equivalents	\$ 269.0	\$ 221.7
Marketable securities	366.8	526.9
Receivables - net	125.4	142.1
Inventories and supplies	71.9	68.0
Deferred income taxes	61.2	83.4
Prepaid expenses and other current assets	82.0	80.5
	<hr/>	<hr/>
<b>Total Current Assets</b>	976.3	1,122.6
	<hr/>	<hr/>
<b>Property and Equipment</b>		
Flight equipment	2,066.4	2,304.7
Other property and equipment	430.9	448.8
Deposits for future flight equipment	93.5	89.2
	<hr/>	<hr/>
	2,590.8	2,842.7
Less accumulated depreciation and amortization	811.4	891.5
<b>Total Property and Equipment - Net</b>	1,779.4	1,951.2
	<hr/>	<hr/>
<b>Intangible Assets</b>	50.9	50.9
	<hr/>	<hr/>
<b>Other Assets</b>	74.1	114.7
	<hr/>	<hr/>
<b>Total Assets</b>	\$2,880.7	\$3,239.4
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

**Table of Contents****CONSOLIDATED BALANCE SHEETS (unaudited)**

Alaska Air Group, Inc.

**LIABILITIES AND SHAREHOLDERS EQUITY**

(In Millions)	December 31, 2002	September 30, 2003
<b>Current Liabilities</b>		
Accounts payable	\$ 132.1	\$ 125.6
Accrued aircraft rent	76.0	66.9
Accrued wages, vacation and payroll taxes	87.4	87.3
Other accrued liabilities	222.2	259.7
Air traffic liability	211.6	265.7
Current portion of long-term debt and capital lease obligations	48.6	55.7
	<u>777.9</u>	<u>860.9</u>
<b>Long-Term Debt and Capital Lease Obligations</b>	<u>856.7</u>	<u>1,041.0</u>
<b>Other Liabilities and Credits</b>		
Deferred income taxes	157.2	200.3
Deferred revenue	232.0	238.7
Other liabilities	201.2	215.5
	<u>590.4</u>	<u>654.5</u>
<b>Shareholders Equity</b>		
Common stock, \$1 par value		
Authorized: 100,000,000 shares		
Issued: 2002 - 29,309,726 shares		
2003 - 29,426,315 shares	29.3	29.4
Capital in excess of par value	483.3	485.1
Treasury stock, at cost: 2002 - 2,736,287 shares		
2003 - 2,729,393 shares	(62.5)	(62.3)
Accumulated other comprehensive income (loss)	(80.2)	(84.6)
Retained earnings	285.8	315.4
	<u>655.7</u>	<u>683.0</u>
<b>Total Liabilities and Shareholders Equity</b>	<u>\$2,880.7</u>	<u>\$3,239.4</u>

See accompanying notes to consolidated financial statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

Alaska Air Group, Inc.

<b>Three Months Ended September 30</b> <b>(In Millions Except Per Share Amounts)</b>	<b>2002</b>	<b>2003</b>
<b>Operating Revenues</b>		
Passenger	\$ 570.7	\$ 645.8
Freight and mail	21.1	22.6
Other - net	28.8	33.8
<b>Total Operating Revenues</b>	<b>620.6</b>	<b>702.2</b>
<b>Operating Expenses</b>		
Wages and benefits	224.1	237.9
Contracted services	22.2	24.4
Aircraft fuel	82.7	94.7
Aircraft maintenance	35.8	42.4
Aircraft rent	48.3	49.2
Food and beverage service	18.6	17.6
Commissions	7.2	4.6
Other selling expenses	32.5	31.5
Depreciation and amortization	34.4	32.7
(Gain) loss on sale of assets	(0.3)	0.1
Landing fees and other rentals	38.1	43.3
Other	51.5	45.0
<b>Total Operating Expenses</b>	<b>595.1</b>	<b>623.4</b>
<b>Operating Income</b>	<b>25.5</b>	<b>78.8</b>
<b>Nonoperating Income (Expense)</b>		
Interest income	6.0	5.5
Interest expense	(11.2)	(13.3)
Interest capitalized	0.6	0.4
U.S. government compensation	0.4	
Other - net	(2.0)	(3.2)
	(6.2)	(10.6)
Income before income tax	19.3	68.2
Income tax expense	6.8	27.5
<b>Net Income</b>	<b>\$ 12.5</b>	<b>\$ 40.7</b>
<b>Basic Earnings Per Share</b>	<b>\$ 0.47</b>	<b>\$ 1.53</b>
<b>Diluted Earnings Per Share</b>	<b>\$ 0.47</b>	<b>\$ 1.52</b>
Shares used for computation:		
Basic	26.549	26.660
Diluted	26.562	26.796

See accompanying notes to consolidated financial statements.





**Table of Contents****CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

Alaska Air Group, Inc.

Nine Months Ended September 30 (In Millions Except Per Share Amounts)	2002	2003
<b>Operating Revenues</b>		
Passenger	\$ 1,552.0	\$ 1,678.2
Freight and mail	59.4	63.6
Other - net	85.0	89.7
<b>Total Operating Revenues</b>	<b>1,696.4</b>	<b>1,831.5</b>
<b>Operating Expenses</b>		
Wages and benefits	638.8	697.5
Contracted services	69.3	74.5
Aircraft fuel	222.6	265.0
Aircraft maintenance	121.3	140.2
Aircraft rent	141.6	146.1
Food and beverage service	49.9	46.6
Commissions	31.1	11.4
Other selling expenses	96.2	87.7
Depreciation and amortization	100.7	98.2
(Gain) loss on sale of assets	(0.8)	0.2
Landing fees and other rentals	103.9	120.6
Other	150.9	139.3
<b>Total Operating Expenses</b>	<b>1,725.5</b>	<b>1,827.3</b>
<b>Operating Income (Loss)</b>	<b>(29.1)</b>	<b>4.2</b>
<b>Nonoperating Income (Expense)</b>		
Interest income	16.1	11.5
Interest expense	(34.7)	(38.6)
Interest capitalized	1.4	1.9
U.S. government compensation	0.5	71.4
Other - net	8.9	2.7
	(7.8)	48.9
Income (loss) before income tax and accounting change	(36.9)	53.1
Income tax expense (benefit)	(12.8)	23.5
Income (loss) before accounting change	(24.1)	29.6
Cumulative effect of accounting change	(51.4)	
<b>Net Income (Loss)</b>	<b>\$ (75.5)</b>	<b>\$ 29.6</b>
<b>Basic and Diluted Earnings (Loss) Per Share:</b>		
Income (loss) before accounting change	\$ (0.91)	\$ 1.11
Cumulative effect of accounting change	(1.93)	
<b>Net Earnings (Loss) Per Share</b>	<b>\$ (2.84)</b>	<b>\$ 1.11</b>

Edgar Filing: ALASKA AIR GROUP INC - Form 424B3

Shares used for computation:		
Basic	26.543	<b>26.621</b>
Diluted	26.543	<b>26.680</b>

See accompanying notes to consolidated financial statements.

**Table of Contents****CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (unaudited)**

Alaska Air Group, Inc.

(In Millions)	Common Shares Outstanding	Common Stock	Capital in Treasury Excess of Par Value	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balances at December 31, 2002:	26.573	\$29.3	\$483.3	\$(62.5)	\$ (80.2)	\$285.8	\$655.7
Net income for the nine months ended September 30, 2003						29.6	29.6
Other comprehensive income (loss):							
Related to marketable securities:							
Change in fair value					(3.6)		
Reclassification to earnings					3.8		
Income tax effect					(0.1)		
					0.1		0.1
Related to fuel hedges:							
Change in fair value					14.6		
Reclassification to earnings					(21.9)		
Income tax effect					2.8		
					(4.5)		(4.5)
Total comprehensive loss							25.2
Stock issued under stock plans	0.124	0.1	1.8	0.2			2.1
<b>Balances at September 30, 2003</b>	<b>26.697</b>	<b>\$29.4</b>	<b>\$485.1</b>	<b>\$(62.3)</b>	<b>\$ (84.6)</b>	<b>\$315.4</b>	<b>\$683.0</b>

See accompanying notes to consolidated financial statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

Alaska Air Group, Inc.

Nine Months Ended September 30 (In Millions)	2002	2003
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (75.5)	\$ 29.6
Adjustments to reconcile net loss to net cash provided by operating activities:		
Cumulative effect of accounting change	51.4	
Depreciation and amortization	100.7	98.2
Amortization of airframe and engine overhauls	46.5	47.8
Gain on marketable securities		(0.1)
Changes in derivative fair values	(6.0)	1.8
(Gain) loss on sale of assets	(0.8)	0.2
Increase (decrease) in deferred income taxes	(9.3)	23.6
Increase in accounts receivable	(4.2)	(16.3)
Increase in prepaid expenses and other current assets	(16.9)	(1.6)
Increase in air traffic liability	11.7	54.2
(Decrease) increase in other current liabilities	(15.1)	22.0
Increase in deferred revenue and other-net	34.6	13.1
Net cash provided by operating activities	117.1	272.5
<b>Cash flows from investing activities:</b>		
Proceeds from disposition of assets	3.5	3.1
Purchases of marketable securities	(457.1)	(695.2)
Sales and maturities of marketable securities	275.7	535.3
Property and equipment additions:		
Aircraft purchase deposits	(24.8)	(35.3)
Capitalized overhauls	(40.7)	(56.1)
Aircraft	(36.8)	(194.4)
Other flight equipment	(12.6)	(12.1)
Other property	(33.4)	(22.8)
Aircraft deposits returned	41.4	1.2
Restricted deposits and other	(13.4)	(32.3)
Net cash used in investing activities	(298.2)	(508.6)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term debt	25.5	247.0
Offering costs in connection with issuance of long-term debt		(4.7)
Long-term debt and capital lease payments	(26.8)	(55.6)
Proceeds from issuance of common stock	0.3	2.1
Net cash provided by (used in) financing activities	(1.0)	188.8
Net change in cash and cash equivalents	(182.1)	(47.3)
Cash and cash equivalents at beginning of period	490.8	269.0
<b>Cash and cash equivalents at end of period</b>	<b>\$ 308.7</b>	<b>\$ 221.7</b>
Supplemental disclosure of cash paid (refunded) during the period for:		
Interest (net of amount capitalized)	\$ 32.1	\$ 31.1
Income taxes	(20.8)	(0.1)

See accompanying notes to consolidated financial statements.

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

Alaska Air Group, Inc.

**Note 1. Basis of Presentation and Significant Accounting Policies**

The accompanying unaudited consolidated financial statements of Alaska Air Group, Inc. (Air Group) include the accounts of our principal subsidiaries, Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon). As used in these Notes to Consolidated Financial Statements, the terms we, us, our and similar terms refer to Air Group and, unless the context indicates otherwise, our subsidiaries. These interim consolidated financial statements are unaudited and should be read in conjunction with the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2002. In the opinion of management, all adjustments have been made which are necessary to present fairly our financial position as of September 30, 2003, as well as the results of our operations for the three and nine months ended September 30, 2002 and 2003. The adjustments made were of a normal recurring nature.

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities, as well as the reported amounts of revenues and expenses. Significant estimates made by us include assumptions used to record liabilities, expenses and revenue associated with our Mileage Plan, estimated useful lives of property and equipment and the amounts of certain accrued liabilities. Actual results may differ from our estimates.

*Change in Accounting Principle*

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. In connection with the adoption of this statement, we determined that all of our goodwill was impaired. As a result, effective January 1, 2002, we recorded a one-time, non-cash charge of \$51.4 million (\$12.5 million for Alaska and \$38.9 million for Horizon) to write-off all of our goodwill. This charge is reflected as a cumulative effect of accounting change in our Consolidated Statement of Operations for the nine months ended September 30, 2002.

*New Accounting Standards*

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, which requires the consolidation of variable interest entities, as defined. A variable interest entity is one in which a company absorbs a majority of the entity's expected losses, receives a majority of the entity's expected returns, or both, as a result of ownership, contractual or other financial interests in the entity. The principal characteristics of variable interest entities are (1) an insufficient amount of equity to absorb the entity's expected losses, (2) equity owners as a group are not able to make decisions about the entity's activities, or (3) equity that does not absorb the entity's losses or receive the entity's residual returns. This Interpretation is currently applicable to variable interest entities created after January 31, 2003. In October 2003, the FASB agreed to defer the effective date of FIN 46 to December 31, 2003 for variable interests held by public companies in entities that existed prior to February 1, 2003. This deferral is to allow time for implementation issues to be addressed through the issuance of a potential modification to the interpretation. The deferral revised the

**Table of Contents**

effective date for consolidation of these entities to the period ended December 31, 2003 for calendar year end companies. While we are still evaluating the impact of this Interpretation, we currently do not believe that any entities will be consolidated as a result of Interpretation No. 46.

**Note 2. Prepaid Expenses and Other Assets**

At December 31, 2002 and September 30, 2003, our prepaid expenses and other assets included prepaid aircraft rent of \$30.4 million and \$43.3 million, respectively.

**Note 3. Stock Option Plans**

We have three stock option plans that provide for the grant of options to purchase Air Group common stock at stipulated prices on the date of the grant to officers and employees of Air Group and its subsidiaries. We apply the intrinsic value method in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, in accounting for stock options. Accordingly, no compensation cost has been recognized for these plans as the exercise price of options equals the fair market value on the date of grant.

The following table represents the effect of net income (loss) before accounting change, net income (loss) and earnings (loss) per share if we had applied the fair value based method and recognition provisions of SFAS No. 123 to our stock-based employee compensation (in millions, except per share amounts):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income (loss) before accounting change:				
As reported	\$ 12.5	\$ <b>40.7</b>	\$ (24.1)	\$ <b>29.6</b>
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax	(1.5)	(1.4)	(4.4)	(4.6)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Pro forma income (loss) before accounting change	\$ 11.0	\$ <b>39.3</b>	\$ (28.5)	\$ <b>25.0</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**Table of Contents**

	<b>Three Months Ended September 30, 2002</b>		<b>Nine Months Ended September 30, 2003</b>	
	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>
Net income (loss):				
As reported	\$ 12.5	\$ <b>40.7</b>	\$ (75.5)	\$ <b>29.6</b>
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(1.5)	(1.4)	(4.4)	(4.6)
Pro forma net income (loss)	<u>\$ 11.0</u>	<u>\$ <b>39.3</b></u>	<u>\$ (79.9)</u>	<u>\$ <b>25.0</b></u>
Basic earnings (loss) per share before accounting change:				
As reported	\$ 0.47	\$ <b>1.53</b>	\$ (0.91)	\$ <b>1.11</b>
Pro forma	0.42	<b>1.47</b>	(1.07)	<b>0.94</b>
Diluted earnings (loss) per share before accounting change:				
As reported	\$ 0.47	\$ <b>1.52</b>	\$ (0.91)	\$ <b>1.11</b>
Pro forma	0.42	<b>1.47</b>	(1.07)	<b>0.94</b>
Basic earnings (loss) per share:				
As reported	\$ 0.47	\$ <b>1.53</b>	\$ (2.84)	\$ <b>1.11</b>
Pro forma	0.42	<b>1.47</b>	(3.01)	<b>0.94</b>
Diluted earnings (loss) per share:				
As reported	\$ 0.47	\$ <b>1.52</b>	\$ (2.84)	\$ <b>1.11</b>
Pro forma	0.42	<b>1.47</b>	(3.01)	<b>0.94</b>

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. SFAS No. 148 amends the transition and disclosure provisions of SFAS No. 123. During the fourth quarter of 2002, we adopted the disclosure provisions of SFAS No. 148 and we are currently evaluating SFAS No. 148 to determine if we will adopt SFAS No. 123 to account for employee stock options using the fair value method and, if so, when we will transition to that method. If we had adopted the prospective transition method as prescribed by SFAS No. 148 in the third quarter of 2003, compensation expense of \$0.2 million and \$0.6 million would have been recorded on an after-tax basis for the three and nine months ended September 30, 2003, respectively.



**Table of Contents****Note 4. Frequent Flyer Program**

Alaska's Mileage Plan liabilities are included under the following balance sheet captions (in millions):

	<b>December 31, 2002</b>	<b>September 30, 2003</b>
	<u>                    </u>	<u>                    </u>
<b>Current Liabilities:</b>		
Other accrued liabilities	\$ 87.0	\$ 106.3
<b>Other Liabilities and Credits (non-current):</b>		
Deferred revenue	183.9	192.6
Other liabilities	32.1	23.7
	<u>                    </u>	<u>                    </u>
Total	\$ 303.0	\$ 322.6
	<u>                    </u>	<u>                    </u>

**Note 5. Earnings Per Share**

Earnings (loss) per share (EPS) calculations were as follows (in millions except per share amounts). Stock options are excluded from the calculation of diluted EPS because they are antidilutive. For the three months ended September 30, 2002 and 2003, stock options represented 3.1 million shares and 2.4 million shares, respectively. For the nine months ended September 30, 2002 and 2003, stock options represented 2.4 million shares and 3.1 million shares, respectively..

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Basic</b>				
Income (loss) before accounting change	\$ 12.5	\$ 40.7	\$ (24.1)	\$ 29.6
Weighted average shares outstanding	26.549	26.660	26.543	26.621
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Earnings (loss) per share before accounting change	\$ 0.47	\$ 1.53	\$ (0.91)	\$ 1.11
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Diluted</b>				
Income (loss) before accounting change	\$ 12.5	\$ 40.7	\$ (24.1)	\$ 29.6
Weighted average shares outstanding	26.549	26.660	26.543	26.621
Assumed exercise of stock options	.013	.136		.059
Diluted EPS shares	26.562	26.796	26.543	26.680
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Earnings (loss) per share before accounting change	\$ 0.47	\$ 1.52	\$ (0.91)	\$ 1.11
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

Diluted EPS excludes the assumed conversion of the convertible notes we issued on March 21, 2003 (See Note 7). Holders of these convertible notes have the option to require us to repurchase the securities on certain dates, the first being March 21, 2008. In addition, until March 21, 2008, holders may surrender the notes for conversion into our shares of common stock (or, at our election, cash) if the closing sale price of our common stock exceeds \$28.60 for a 20-day period in a consecutive 30-day period. After March 21, 2008, the required sale price of our common stock for such period increases based on the variable yield of the notes. If this condition is satisfied, the notes will be convertible at any time thereafter at the option of the holder, through maturity, and will be included in our calculation of diluted EPS on a go-forward basis. In the event that the security holders decide to exercise their convertibility options, we intend to satisfy our obligation with cash.

During the third quarter of 2003, at no time did our stock price in a 20-day period exceed \$28.60 in a consecutive 30-day period. However, in the fourth quarter of 2003, the notes will become



**Table of Contents**

convertible at the option of the holder based on the current trading prices of our common stock. Accordingly, in future periods we will include these convertible notes in our calculation of diluted EPS to the extent they are not anti-dilutive to the diluted EPS calculation.

**Note 6. Operating Segment Information**

Operating segment information for Alaska and Horizon for the three and nine month periods ended September 30 was as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2003	2002	2003
<b>Operating revenues:</b>				
Alaska*	\$512.4	<b>\$585.3</b>	\$1,403.3	<b>\$ 1,522.9</b>
Horizon*	116.6	<b>132.7</b>	315.1	<b>342.3</b>
Elimination of intercompany revenues*	(8.4)	<b>(15.8)</b>	(22.0)	<b>(33.7)</b>
<b>Consolidated</b>	<b>\$620.6</b>	<b>\$702.2</b>	<b>\$1,696.4</b>	<b>\$ 1,831.5</b>
<b>Income (loss) before income tax and accounting change:</b>				
Alaska	\$ 13.1	<b>\$ 50.1</b>	\$ (28.7)	<b>\$ 39.1</b>
Horizon	5.9	<b>19.5</b>	(7.1)	<b>19.9</b>
Other	(0.3)	<b>(1.4)</b>	(1.1)	<b>(5.9)</b>
<b>Consolidated</b>	<b>\$ 19.3</b>	<b>\$ 68.2</b>	<b>\$ (36.9)</b>	<b>\$ 53.1</b>
<b>Total assets at end of period:</b>				
Alaska			\$2,756.7	<b>\$ 3,072.7</b>
Horizon			222.8	<b>257.4</b>
Other			812.7	<b>911.1</b>
Elimination of intercompany accounts			(891.3)	<b>(1,001.8)</b>
<b>Consolidated</b>			<b>\$2,900.9</b>	<b>\$ 3,239.4</b>

\* Certain reclassifications have been made to the September 30, 2002 Alaska and Horizon statements of operations to conform to the September 30, 2003 presentation.

**Table of Contents****Note 7. Long-Term Debt and Capital Lease Obligations**

At December 31, 2002, and September 30, 2003, long-term debt and capital lease obligations were as follows (in millions):

	<b>December 31, 2002</b>	<b>September 30, 2003</b>
Fixed rate notes payable due through 2015	\$ 439.9	\$ 396.7
Variable rate notes payable due through 2018	453.6	541.6
Senior convertible notes due through 2023		150.0
	<hr/>	<hr/>
Long-term debt	893.5	1,088.3
Capital lease obligations	11.8	8.4
Less current portion	(48.6)	(55.7)
	<hr/>	<hr/>
	\$ 856.7	\$ 1,041.0
	<hr/>	<hr/>

During the first nine months of 2003, we issued \$97.0 million (\$65.0 million in the second quarter of 2003 and \$32.0 million in the third quarter of 2003) of debt secured by flight equipment, having interest rates that vary with LIBOR and payment terms ranging from 12 to 15 years.

On March 21, 2003, we completed the private placement of \$150.0 million of floating rate senior convertible notes due in 2023 (the Notes). The Notes bear interest for the first five years from date of issuance at a variable interest rate of 3-month LIBOR plus 2.5% (3.64% at September 30, 2003). This interest is paid quarterly in arrears. Thereafter, the Notes will cease bearing cash interest and instead, the principal value of the Notes will increase daily by the unpaid interest which will be calculated at LIBOR plus 2.5%, up to a maximum of 5.25%.

The Notes are convertible into shares of our common stock at the option of the holder (or cash, at our option) only upon the occurrence of certain events which include the following:

- a) Our common stock trading at a value for a 20-day period greater than 110% of the conversion price in a 30-day period ending on the fiscal quarter.
- b) Our obtaining a low credit rating, as defined.
- c) Upon redemption of the Notes.
- d) Upon certain corporate transactions.

The conversion price is equal to the original or variable principal, divided by 38.4615. At date of issuance, the conversion price was equal to \$26.00 per share. Upon conversion, we may deliver, in lieu of common stock, cash or a combination of cash and common stock. We may redeem all or a portion of the Notes in cash or common stock or a combination of cash and common stock at any time on or after the third anniversary of the issuance of the Notes. In addition, holders may require us to purchase all or a portion of their Notes on the 5th, 10th and 15th anniversaries of the issuance of the Notes and upon the occurrence of a change of control or tax event at principal plus accrued interest.

The Notes are senior unsecured obligations and rank equally with our existing and future senior unsecured indebtedness.

**Table of Contents**

Net proceeds from the offering totaled \$145.3 million. Approximately \$19.7 million of the net proceeds is restricted to collateralize interest payments for the first three years and is reported as restricted cash (\$6.6 million recorded in prepaid expenses and other current assets and \$13.1 million in other assets) in our Consolidated Balance Sheet as of September 30, 2003.

**Note 8. Contingencies**

We are a party to ordinary routine litigation incidental to our business and with respect to which no material liability is expected. Management believes the ultimate disposition of these matters is not likely to materially affect our financial position or results of operations. This forward-looking statement is based on management's current understanding of the relevant law and facts; it is subject to various contingencies, including the potential costs and risks associated with litigation and the actions of judges and juries.

**Note 9. U.S. Government Compensation**

On April 16, 2003, the Emergency Wartime Supplemental Appropriations Act (the Act) was signed into legislation. The Act includes \$2.3 billion of one-time cash payments to air carriers, allocated based on each carrier's share of security fees remitted and carrier fees paid to the Transportation Security Administration (TSA) since its inception in February 2002. Additionally, passenger security fees were not imposed by the TSA and carrier fees were not paid during the period June 1, 2003 through September 30, 2003. In May 2003, we received our share of the one-time cash grant in the amount of \$71.4 million (\$52.8 million for Alaska and \$18.6 million for Horizon).

In August 2003, we received \$2.7 million (\$2.5 million for Alaska and \$0.2 million for Horizon) from the Federal Aviation Administration in reimbursement of flight deck reinforcement expenditures. The reimbursement was recorded as an offset to our capital costs.

During the third quarter of 2002 we received \$0.4 million (\$0.2 million Alaska and \$0.2 million Horizon) under the Air Transportation Safety and System Stabilization Act to compensate us for direct and incremental losses as a result of the September 11th terrorist attacks.

**Note 10. Horizon Code Share Agreement**

On September 18, 2003, Horizon entered into a 12-year agreement with Frontier Airlines to operate regional jet service as Frontier JetExpress, effective January 1, 2004. Initially, Horizon will operate four 70-seat Bombardier CRJ-700 aircraft as Frontier JetExpress and plans on expanding this fleet to nine airplanes by May 30, 2004. Horizon will be responsible for flying and maintaining the aircraft and Frontier will maintain control over scheduling and destinations. In exchange for providing these services, Horizon will receive a base fee and performance-based incentives.

During the fourth quarter of 2003, Horizon will complete the necessary transition to begin Frontier JetExpress operations on January 1, 2004.

**Table of Contents****Alaska Airlines Financial and Statistical Data**

Financial Data (in millions):	Three Months Ended September 30			Nine Months Ended September 30		
	2002	2003	% Change	2002	2003	% Change
<b>Operating Revenues:</b>						
Passenger	\$ 468.0	\$ 532.5	13.8%	\$ 1,275.5	\$ 1,380.1	8.2%
Freight and mail	19.7	21.4	8.6%	55.6	59.8	7.6%
Other - net	24.7	31.4	27.1%	72.2	83.0	15.0%
<b>Total Operating Revenues</b>	<b>512.4</b>	<b>585.3</b>	<b>14.2%</b>	<b>1,403.3</b>	<b>1,522.9</b>	<b>8.5%</b>
<b>Operating Expenses:</b>						
Wages and benefits	184.9	198.7	7.5%	524.1	578.7	10.4%
Contracted services	18.9	20.5	8.5%	59.8	60.9	1.8%
Aircraft fuel	70.7	81.6	15.4%	190.1	227.6	19.7%
Aircraft maintenance	31.6	35.2	11.4%	103.3	117.7	13.9%
Aircraft rent	32.1	31.1	-3.1%	95.7	92.8	-3.0%
Food and beverage service	17.8	17.0	-4.5%	47.9	44.8	-6.5%
Commissions	13.2	17.6	33.3%	43.9	38.0	-13.4%
Other selling expenses	26.1	25.8	-1.1%	78.8	71.0	-9.9%
Depreciation and amortization	29.2	29.7	1.7%	85.7	87.8	2.5%
Loss on sale of assets	0.5	0.8	NM	0.7	1.3	NM
Landing fees and other rentals	30.1	33.6	11.6%	82.2	93.5	13.7%
Other	38.5	34.5	-10.4%	111.3	102.9	-7.5%
<b>Total Operating Expenses</b>	<b>493.6</b>	<b>526.1</b>	<b>6.6%</b>	<b>1,423.5</b>	<b>1,517.0</b>	<b>6.6%</b>
<b>Operating Income (Loss)</b>	<b>18.8</b>	<b>59.2</b>	<b>NM</b>	<b>(20.2)</b>	<b>5.9</b>	<b>NM</b>
Interest income	6.4	4.6		17.5	10.3	
Interest expense	(11.3)	(11.2)		(35.0)	(33.9)	
Interest capitalized	0.5	0.2		1.0	1.3	
U.S. government compensation	0.2			0.3	52.8	
Other - net	(1.5)	(2.7)		7.7	2.7	
	(5.7)	(9.1)		(8.5)	33.2	
<b>Income (Loss) Before Income Tax and Accounting Change</b>	<b>\$ 13.1</b>	<b>\$ 50.1</b>	<b>NM</b>	<b>\$ (28.7)</b>	<b>\$ 39.1</b>	<b>NM</b>
<b>Operating Statistics:</b>						
Revenue passengers (000)	3,978	4,280	7.6%	10,787	11,335	5.1%
RPMs (000,000)	3,673	4,126	12.3%	10,022	10,946	9.2%
ASMs (000,000)	5,207	5,693	9.3%	14,602	15,611	6.9%
Passenger load factor	70.5%	72.5%	2.0 pts	68.6%	70.1%	1.5 pts
Breakeven load factor	69.4%	65.9%	-3.5 pts	71.4%	71.6%	0.2 pts
Yield per passenger mile	12.74¢	12.91¢	1.3%	12.73¢	12.61¢	-0.9%
Operating revenue per ASM	9.84¢	10.28¢	4.5%	9.61¢	9.76¢	1.5%
Operating expenses per ASM (a)	9.48¢	9.24¢	-2.5%	9.75¢	9.72¢	-0.3%
Operating expenses per ASM excluding fuel (a)	8.12¢	7.81¢	-3.9%	8.45¢	8.26¢	-2.2%
Fuel cost per gallon	81.6¢	88.7¢	8.7%	77.9¢	89.6¢	15.0%
Fuel gallons (000,000)	86.6	92.0	6.2%	243.9	253.9	4.1%

Edgar Filing: ALASKA AIR GROUP INC - Form 424B3

Average number of employees	10,465	<b>10,114</b>	-3.4%	10,167	<b>10,079</b>	-0.9%
Aircraft utilization (blk hrs/day)	11.2	<b>11.1</b>	-0.9%	10.7	<b>10.6</b>	-0.9%
Operating fleet at period-end	102	<b>109</b>	6.9%	102	<b>109</b>	6.9%

NM = Not Meaningful

(a) See Note 1 on Page 18

**Note:**

Certain reclassifications have been made to the September 30, 2002 statements of operations to conform to the September 30, 2003 presentation.

**Table of Contents**

**Horizon Air Financial and Statistical Data**

Financial Data (in millions):	Three Months Ended September 30			Nine Months Ended September 30		
	2002	2003	% Change	2002	2003	% Change
Operating Revenues:						
Passenger	\$ 110.0	\$				