UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from to

Commission File Number 1-8957

ALASKA AIR GROUP, INC.

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

19300 International Boulevard, Seattle, WA 98188

Telephone: (206) 392-5040

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

Title of each class	Ticker Symbol	Name of each exchange on which registered
Common stock, $0.01 par value	ALK	New York Stock Exchange

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

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

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

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer (Do not check if a smaller reporting company)	☐	Smaller reporting company	☐	Emerging growth company	☐

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The registrant has 126,837,831 common shares, par value $0.01, outstanding at October 31, 2022.

This document is also available on our website at http://investor.alaskaair.com.

ALASKA AIR GROUP, INC.
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2022

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or the Company’s present expectations.

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements are based on the information currently available to us and speak only as of the date on which this report was filed with the SEC. We expressly disclaim any obligation to issue any updates or revisions to our forward-looking statements, even if subsequent events cause our expectations to change regarding the matters discussed in those statements. For a discussion of our risk factors, see Item 1A. "Risk Factors” of the Company’s annual report on Form 10-K for the year ended December 31, 2021. Please consider our forward-looking statements in light of those risks as you read this report.

PART I

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

(in millions)	September 30, 2022	December 31, 2021
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 688**	$ 470
Marketable securities	**2,462**	2,646
Total cash and marketable securities	**3,150**	3,116
Receivables - net	**345**	546
Inventories and supplies - net	**94**	62
Prepaid expenses and other current assets	**221**	196
Total Current Assets	**3,810**	3,920
Property and Equipment		
Aircraft and other flight equipment	**8,811**	8,127
Other property and equipment	**1,589**	1,489
Deposits for future flight equipment	**300**	384
	10,700	10,000
Less accumulated depreciation and amortization	**4,046**	3,862
Total Property and Equipment - Net	**6,654**	6,138
Other Assets		
Operating lease assets	**1,605**	1,453
Goodwill and intangible assets	**2,040**	2,044
Other noncurrent assets	**422**	396
Total Other Assets	**4,067**	3,893
Total Assets	**$ 14,531**	$ 13,951

CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

(in millions, except share amounts)	September 30, 2022	December 31, 2021
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 202**	$ 200
Accrued wages, vacation and payroll taxes	**583**	457
Air traffic liability	**1,467**	1,163
Other accrued liabilities	**805**	625
Deferred revenue	**1,068**	912
Current portion of operating lease liabilities	**263**	268
Current portion of long-term debt	**321**	366
Total Current Liabilities	**4,709**	3,991
Long-Term Debt, Net of Current Portion	**1,889**	2,173
Noncurrent Liabilities		
Long-term operating lease liabilities, net of current portion	**1,482**	1,279
Deferred income taxes	**571**	578
Deferred revenue	**1,413**	1,446
Obligation for pension and post-retirement medical benefits	**296**	305
Other liabilities	**345**	378
Total Noncurrent Liabilities	**4,107**	3,986
Commitments and Contingencies (Note 7)		
Shareholders' Equity		
Preferred stock, $0.01 par value, Authorized: 5,000,000 shares, none issued or outstanding	**—**	—
Common stock, $0.01 par value, Authorized: 400,000,000 shares, Issued: 2022 - 136,184,043 shares; 2021 - 135,255,808 shares, Outstanding: 2022 - 126,834,099 shares; 2021 - 125,905,864 shares	**1**	1
Capital in excess of par value	**549**	494
Treasury stock (common), at cost: 2022 - 9,349,944 shares; 2021 - 9,349,944 shares	**(674)**	(674)
Accumulated other comprehensive loss	**(328)**	(262)
Retained earnings	**4,278**	4,242
	3,826	3,801
Total Liabilities and Shareholders' Equity	**$ 14,531**	$ 13,951

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(unaudited)*

(in millions, except per share amounts)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Operating Revenues				
Passenger revenue	**$ 2,615**	$ 1,774	**$ 6,544**	$ 3,785
Mileage Plan other revenue	**146**	120	**433**	332
Cargo and other	**67**	59	**190**	160
Total Operating Revenues	**2,828**	1,953	**7,167**	4,277
Operating Expenses				
Wages and benefits	**686**	578	**1,931**	1,581
Variable incentive pay	**48**	42	**140**	109
Payroll Support Program grant wage offset	**—**	—	**—**	(914)
Aircraft fuel, including hedging gains and losses	**877**	376	**2,000**	853
Aircraft maintenance	**92**	89	**331**	272
Aircraft rent	**76**	64	**222**	188
Landing fees and other rentals	**161**	141	**435**	414
Contracted services	**83**	62	**243**	167
Selling expenses	**82**	49	**218**	123
Depreciation and amortization	**104**	99	**310**	294
Food and beverage service	**52**	39	**143**	97
Third-party regional carrier expense	**53**	39	**145**	106
Other	**207**	126	**536**	348
Special items - fleet transition	**155**	(9)	**376**	5
Special items - labor ratification bonus	**90**	—	**90**	—
Special items - restructuring	**—**	—	**—**	(12)
Total Operating Expenses	**2,766**	1,695	**7,120**	3,631
Operating Income	**62**	258	**47**	646
Non-operating Income (Expense)				
Interest income	**17**	6	**35**	19
Interest expense	**(31)**	(30)	**(84)**	(101)
Interest capitalized	**3**	3	**8**	9
Other - net	**14**	8	**38**	27
Total Non-operating Income (Expense)	**3**	(13)	**(3)**	(46)
Income Before Income Tax	**65**	245	**44**	600
Income tax expense	**25**	51	**8**	140
Net Income	**$ 40**	$ 194	**$ 36**	$ 460
Basic Earnings Per Share:	**$ 0.32**	$ 1.55	**$ 0.28**	$ 3.69
Diluted Earnings Per Share:	**$ 0.31**	$ 1.53	**$ 0.28**	$ 3.64
Shares used for computation:				
Basic	**126.783**	125.250	**126.440**	124.846
Diluted	**128.370**	127.188	**128.087**	126.325

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS *(unaudited)*

(in millions)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net Income	**$ 40**	$ 194	**$ 36**	$ 460
Other comprehensive income (loss), net of tax				
Marketable securities	**(26)**	(3)	**(86)**	(16)
Employee benefit plans	**1**	6	**2**	19
Interest rate derivative instruments	**5**	2	**18**	9
Total other comprehensive income (loss), net of tax	**$ (20)**	$ 5	**$ (66)**	$ 12
Total comprehensive income (loss), net	**$ 20**	$ 199	**$ (30)**	$ 472

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY *(unaudited)*

(in millions)	*Common Stock Outstanding*	Common Stock	Capital in Excess of Par Value	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balances at December 31, 2021	*125.906*	*$ 1*	*$ 494*	*$ (674)*	*$ (262)*	*$ 4,242*	*$ 3,801*
Net income (loss)	—	—	—	—	—	(143)	(143)
Other comprehensive income (loss)	—	—	—	—	(30)	—	(30)
Stock-based compensation	—	—	13	—	—	—	13
Stock issued under stock plans	*0.182*	—	(4)	—	—	—	(4)
Balances at March 31, 2022	***126.088***	**$ 1**	**$ 503**	**$ (674)**	**$ (292)**	**$ 4,099**	**$ 3,637**
Net income (loss)	—	—	—	—	—	139	139
Other comprehensive income (loss)	—	—	—	—	(16)	—	(16)
Stock-based compensation	*0.017*	—	9	—	—	—	9
Stock issued for employee stock purchase plan	*0.643*	—	30	—	—	—	30
Stock issued under stock plans	*0.012*	—	—	—	—	—	—
Balances at June 30, 2022	***126.760***	**$ 1**	**$ 542**	**$ (674)**	**$ (308)**	**$ 4,238**	**$ 3,799**
Net income (loss)	—	—	—	—	—	40	40
Other comprehensive income (loss)	—	—	—	—	(20)	—	(20)
Stock-based compensation	—	—	8	—	—	—	8
Stock issued under stock plans	*0.074*	—	(1)	—	—	—	(1)
Balances at September 30, 2022	***126.834***	**$ 1**	**$ 549**	**$ (674)**	**$ (328)**	**$ 4,278**	**$ 3,826**

(in millions)	*Common Stock Outstanding*	Common Stock	Capital in Excess of Par Value	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balances at December 31, 2020	*124.217*	*$ 1*	*$ 391*	*$ (674)*	*$ (494)*	*$ 3,764*	*$ 2,988*
Net income (loss)	—	—	—	—	—	(131)	(131)
Other comprehensive income (loss)	—	—	—	—	—	—	—
Stock-based compensation	—	—	12	—	—	—	12
CARES Act warrant issuance	—	—	8	—	—	—	8
Stock issued under stock plans	*0.225*	—	(2)	—	—	—	(2)
Balance at March 31, 2021	***124.442***	**$ 1**	**$ 409**	**$ (674)**	**$ (494)**	**$ 3,633**	**$ 2,875**
Net income (loss)	—	—	—	—	—	397	397
Other comprehensive income (loss)	—	—	—	—	7	—	7
Stock-based compensation	0.009	—	13	—	—	—	13
CARES Act warrant issuance	—	—	8	—	—	—	8
Stock issued for employee stock purchase plan	*0.716*	—	23	—	—	—	23
Stock issued under stock plans	*0.062*	—	1	—	—	—	1
Balances at June 30, 2021	***125.229***	**$ 1**	**$ 454**	**$ (674)**	**$ (487)**	**$ 4,030**	**$ 3,324**
Net income (loss)	—	—	—	—	—	194	194
Other comprehensive income (loss)	—	—	—	—	5	—	5
Stock-based compensation	—	—	10	—	—	—	10
Stock issued under stock plans	*0.076*	—	(2)	—	—	—	(2)
Balances at September 30, 2021	***125.305***	**$ 1**	**$ 462**	**$ (674)**	**$ (482)**	**$ 4,224**	**$ 3,531**

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

(in millions)	Nine Months Ended September 30, 2022	2021
Cash flows from operating activities:		
Net Income	**$ 36**	$ 460
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**310**	294
Stock-based compensation and other	**33**	35
Special items - fleet transition	**376**	5
Special items - restructuring	**—**	(12)
Changes in certain assets and liabilities:		
Changes in deferred tax provision	**—**	95
Increase in accounts receivable	**(59)**	(56)
Increase in air traffic liability	**304**	152
Increase in deferred revenue	**123**	73
Pension contribution	**—**	(100)
Federal income tax refund	**260**	—
Other - net	**26**	(45)
Net cash provided by operating activities	**1,409**	901
Cash flows from investing activities:		
Property and equipment additions:		
Aircraft and aircraft purchase deposits	**(688)**	(52)
Other flight equipment	**(156)**	(78)
Other property and equipment	**(103)**	(60)
Total property and equipment additions, including capitalized interest	**(947)**	(190)
Purchases of marketable securities	**(1,670)**	(3,413)
Sales and maturities of marketable securities	**1,731**	2,669
Other investing activities	**(2)**	(9)
Net cash used in investing activities	**(888)**	(943)
Cash flows from financing activities:		
Proceeds from issuance of debt	**—**	363
Long-term debt payments	**(333)**	(1,222)
Other financing activities	**37**	34
Net cash used in financing activities	**(296)**	(825)
Net increase (decrease) in cash, cash equivalents, and restricted cash	**225**	(867)
Cash, cash equivalents, and restricted cash at beginning of period	**494**	1,386
Cash, cash equivalents, and restricted cash at end of the period	**$ 719**	$ 519

(in millions)	Nine Months Ended September 30, 2022	2021
Cash paid during the period for:		
Interest (net of amount capitalized)	**$ 72**	$ 100
Income taxes	**—**	—
Non-cash transactions:		
Right-of-use assets acquired through operating leases	**419**	126
Reconciliation of cash, cash equivalents, and restricted cash at end of the period		
Cash and cash equivalents	**688**	495
Restricted cash included in Prepaid expenses and other current assets	**31**	24
Total cash, cash equivalents, and restricted cash at end of the period	**$ 719**	$ 519

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

NOTE 1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The condensed consolidated financial statements include the accounts of Air Group, or the Company, and its primary subsidiaries, Alaska and Horizon. The condensed consolidated financial statements also include McGee Air Services (McGee), a ground services subsidiary of Alaska. The Company conducts substantially all of its operations through these subsidiaries. All significant intercompany balances and transactions have been eliminated. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Consistent with these requirements, this Form 10-Q does not include all the information required by GAAP for complete financial statements. It should be read in conjunction with the consolidated financial statements and accompanying notes in the Form 10-K for the year ended December 31, 2021. In the opinion of management, all adjustments have been made that are necessary to fairly present the Company's financial position as of September 30, 2022 and the results of operations for the three and nine months ended September 30, 2022 and 2021. Such adjustments were of a normal recurring nature.

In preparing these statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities, as well as the reported amounts of revenues and expenses, including impairment charges. Due to the impacts of the coronavirus (COVID-19) pandemic on the Company's business, these estimates and assumptions require more judgment than they would otherwise given the uncertainty of the future demand for air travel, among other considerations. Further, due to seasonal variations in the demand for air travel, the volatility of aircraft fuel prices, changes in global economic conditions, changes in the competitive environment, and other factors, operating results for the three and nine months ended September 30, 2022 are not necessarily indicative of operating results for the entire year.

NOTE 2. FLEET TRANSITION

In the first quarter of 2022, the Company announced plans to accelerate the transition of its mainline operations to an all-Boeing 737 fleet. It also announced plans to transition its regional operations to an all-Embraer fleet, retiring the Q400 fleet. Under these plans, Alaska is accelerating the retirement of its Airbus A320 aircraft, with all expected to exit the fleet by January 2023. Alaska also operates Airbus A321neo aircraft, and plans to remove them from its fleet by the end of 2023, subject to agreement with counterparties. The Company operated 23 A320 and ten A321neo aircraft as of September 30, 2022. Horizon plans to retire its Q400 fleet, which includes 19 owned and three leased aircraft in operation as of September 30, 2022, in January 2023.

Valuation of long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes indicate that the total carrying amount of an asset or asset group may not be recoverable. During the first quarter of 2022, the Company recorded an impairment charge of $70 million related to the Q400 fleet, reflecting the amount by which carrying value exceeded fair value of the owned Q400 aircraft as of March 31, 2022. This amount was recorded within the "Special items - fleet transition" line in the consolidated statement of operations. Refer to Note 2 to our consolidated financial statements in our Quarterly Report on Form 10-Q for the three months ended March 31, 2022 for additional details.

In the second quarter, the Company adjusted useful lives and depreciation schedules for Airbus and Q400 capitalized leasehold improvements, spare engines, inventory, and other fixed assets, as well as the amortization schedules for the right of use assets and aircraft rent expenses. These accelerated schedules are based on the dates the aircraft are expected to be removed from operating service. Incremental costs associated with the accelerated schedules are recognized within the "Special items - fleet transition" line item.

The Company has estimated future lease return costs for the leased Airbus aircraft. Costs of returning leased aircraft begin accruing when the costs are probable and reasonably estimable, and are recognized over the remaining operating life of the aircraft. These estimates are based on the time remaining on the lease, planned aircraft usage, and lease terms. These estimates may change as actual amounts due to any lessor upon return may not be known with certainty until lease termination. In the third quarter, all lease return costs were recorded within the "Special items - fleet transition" line in the consolidated statement of operations.

A summary of special charges for fleet transition activities is included below for the three and nine months ended September 30, 2022. The impairment charges are one-time in nature, while the other special charges continue to be recorded consistent with the schedules described above. The majority of remaining charges will be recorded in 2022 with additional charges associated with the Airbus A321neo aircraft to be recorded in 2023. The Company will continue to evaluate the need for further impairment or adjustments for owned and leased long-lived assets as fleet decisions evolve.

	Three Months Ended September 30, 2022			Nine Months Ended September 30, 2022		
(in millions)	Airbus	Q400	Total	Airbus	Q400	Total
Lease return costs and other expenses	$ 75	$ —	**$ 75**	$ 183	$ —	**$ 183**
Accelerated aircraft ownership expenses	62	18	**80**	102	21	**123**
Impairment of long-lived assets	—	—	**—**	—	70	**70**
Total special items - fleet transition	**$ 137**	**$ 18**	**$ 155**	**$ 285**	**$ 91**	**$ 376**

NOTE 3. REVENUE

Ticket revenue is recorded as Passenger revenue, and represents the primary source of the Company's revenue. Also included in Passenger revenue is passenger ancillary revenue such as bag fees, on-board food and beverage, and certain revenue from the frequent flyer program. Mileage Plan other revenue includes brand and marketing revenue from the co-branded credit card and other partners and certain interline frequent flyer revenue, net of commissions. Cargo and other revenue includes freight and mail revenue, and to a lesser extent, other ancillary revenue products such as lounge membership and certain commissions.

In the first quarter of 2022, the Company amended its Mileage Plan co-branded credit card agreement with Bank of America. The amendment extended the term of the agreement into 2030 and resulted in modifications to the separately identifiable performance obligations.

The Company disaggregates revenue by segment in Note 9. The level of detail within the Company’s condensed consolidated statements of operations, segment disclosures, and in this footnote depict the nature, amount, timing and uncertainty of revenue and how cash flows are affected by economic and other factors.

Passenger Ticket and Ancillary Services Revenue

Passenger revenue recognized in the condensed consolidated statements of operations (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Passenger ticket revenue, including ticket breakage, net of taxes and fees	**$ 2,252**	$ 1,483	**$ 5,536**	$ 3,122
Passenger ancillary revenue	**127**	101	**337**	235
Mileage Plan passenger revenue	**236**	190	**671**	428
Total Passenger revenue	**$ 2,615**	$ 1,774	**$ 6,544**	$ 3,785

Mileage Plan Loyalty Program

Mileage Plan revenue included in the condensed consolidated statements of operations (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Passenger revenue	**$ 236**	$ 190	**$ 671**	$ 428
Mileage Plan other revenue	**146**	120	**433**	332
Total Mileage Plan revenue	**$ 382**	$ 310	**$ 1,104**	$ 760

Cargo and Other

Cargo and other revenue included in the condensed consolidated statements of operations (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Cargo revenue	**$ 37**	$ 34	**$ 102**	$ 95
Other revenue	**30**	25	**88**	65
Total Cargo and other revenue	**$ 67**	$ 59	**$ 190**	$ 160

Air Traffic Liability and Deferred Revenue

Passenger ticket and ancillary services liabilities

The Company recognized Passenger revenue of $65 million and $101 million from the prior year-end air traffic liability balance for the three months ended September 30, 2022 and 2021, and $587 million and $276 million for the nine months ended September 30, 2022 and 2021.

Mileage Plan assets and liabilities

The Company records a receivable for amounts due from the affinity card partner and from other partners as mileage credits are sold until the payments are collected. The Company had $80 million of such receivables as of September 30, 2022 and $64 million as of December 31, 2021.

The table below presents a roll forward of the total frequent flyer liability (in millions):

	Nine Months Ended September 30,	
	2022	**2021**
Total Deferred revenue balance at January 1	**$ 2,358**	$ 2,277
Travel miles and companion certificate redemption - Passenger revenue	**(632)**	(428)
Miles redeemed on partner airlines - Other revenue	**(45)**	(30)
Increase in liability for mileage credits issued	**800**	531
Total Deferred revenue balance at September 30	**$ 2,481**	$ 2,350

NOTE 4. FAIR VALUE MEASUREMENTS

In determining fair value, there is a three-level hierarchy based on the reliability of the inputs used. Level 1 refers to fair values based on quoted prices in active markets for identical assets or liabilities. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 refers to fair values estimated using significant unobservable inputs.

Fair Value of Financial Instruments on a Recurring Basis

As of September 30, 2022, total cost basis for all marketable securities was $2.6 billion, compared to a total fair value of $2.5 billion. The decline in value is primarily due to changes in interest rates. Management does not believe any unrealized losses are the result of expected credit losses based on its evaluation of available information as of September 30, 2022.

Fair values of financial instruments on the condensed consolidated balance sheet (in millions):

	September 30, 2022			December 31, 2021		
	Level 1	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Assets						
Marketable securities						
U.S. government and agency securities	**$ 532**	**$ —**	**$ 532**	$ 331	$ —	$ 331
Equity mutual funds	**5**	**—**	**5**	6	—	6
Foreign government bonds	**—**	**25**	**25**	—	38	38
Asset-backed securities	**—**	**260**	**260**	—	311	311
Mortgage-backed securities	**—**	**208**	**208**	—	232	232
Corporate notes and bonds	**—**	**1,384**	**1,384**	—	1,663	1,663
Municipal securities	**—**	**48**	**48**	—	65	65
Total Marketable securities	**537**	**1,925**	**2,462**	337	2,309	2,646
Derivative instruments						
Fuel hedge - call options	**—**	**51**	**51**	—	81	81
Interest rate swap agreements	**—**	**15**	**15**	—	—	—
Total Assets	**$ 537**	**$ 1,991**	**$ 2,528**	$ 337	$ 2,390	$ 2,727
Liabilities						
Derivative instruments						
Interest rate swap agreements	**—**	**—**	**—**	—	(9)	(9)
Total Liabilities	**$ —**	**$ —**	**$ —**	$ —	$ (9)	$ (9)

The Company uses both the market and income approach to determine the fair value of marketable securities. U.S. government securities and equity mutual funds are Level 1 as the fair value is based on quoted prices in active markets. Foreign government bonds, asset-backed securities, mortgage-backed securities, corporate notes and bonds, and municipal securities are Level 2 as the fair value is based on standard valuation models that are calculated based on observable inputs such as quoted interest rates, yield curves, credit ratings of the security and other observable market information.

The Company uses the market approach and the income approach to determine the fair value of derivative instruments. The fair value for fuel hedge call options is determined utilizing an option pricing model based on inputs that are readily available in active markets or can be derived from information available in active markets. In addition, the fair value considers the exposure to credit losses in the event of non-performance by counterparties. Interest rate swap agreements are Level 2 as the fair value of these contracts are determined based on the difference between the fixed interest rate in the agreements and the observable LIBOR-based interest forward rates at period end multiplied by the total notional value.

Activity and Maturities for Marketable Securities

Maturities for marketable securities (in millions):

September 30, 2022	**Cost Basis**	**Fair Value**
Due in one year or less	$ 738	$ 729
Due after one year through five years	1,811	1,704
Due after five years	26	24
Total	$ 2,575	$ 2,457

As of September 30, 2022, $5 million of total marketable securities do not have a maturity date and are therefore excluded from the total fair value of maturities for marketable securities above.

Fair Value of Other Financial Instruments

The Company uses the following methods and assumptions to determine the fair value of financial instruments that are not recognized at fair value as described below.

Cash, Cash Equivalents, and Restricted Cash: Cash equivalents consist of highly liquid investments with original maturities of three months or less, such as money market funds, commercial paper and certificates of deposit. They are carried at cost, which approximates fair value.

The Company's restricted cash balances are primarily used to guarantee various letters of credit, self-insurance programs or other contractual rights. Restricted cash consists of highly liquid securities with original maturities of three months or less. They are carried at cost, which approximates fair value.

Debt: To estimate the fair value of all fixed-rate debt as of September 30, 2022, the Company uses the income approach by discounting cash flows or estimation using quoted market prices, utilizing borrowing rates for comparable debt over the remaining life of the outstanding debt. The estimated fair value of the fixed-rate Enhanced Equipment Trust Certificate (EETC) debt is Level 2, as it is estimated using observable inputs, while the estimated fair value of $708 million of other fixed-rate debt, including PSP notes payable, is classified as Level 3, as it is not actively traded and is valued using discounted cash flows which is an unobservable input.

Fixed-rate debt on the condensed consolidated balance sheet and the estimated fair value of long-term fixed-rate debt is as follows (in millions):

	September 30, 2022	December 31, 2021
Total fixed-rate debt	**$ 1,664**	$ 1,821
Estimated fair value	**$ 1,610**	$ 1,919

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are recognized or disclosed at fair value on a nonrecurring basis, including property, plant and equipment, operating lease assets, goodwill, and intangible assets. These assets are subject to fair valuation when there is evidence of impairment. Refer to Note 2 for discussion regarding impairment charges recorded during the nine months ended September 30, 2022.

NOTE 5. LONG-TERM DEBT

Long-term debt obligations on the condensed consolidated balance sheet (in millions):

	September 30, 2022	December 31, 2021
Fixed-rate notes payable due through 2029	**$ 117**	$ 163
Fixed-rate PSP notes payable due through 2031	**600**	600
Fixed-rate EETC payable due through 2025 & 2027	**947**	1,058
Variable-rate notes payable due through 2029	**562**	738
Less debt issuance costs	**(16)**	(20)
Total debt	**2,210**	2,539
Less current portion	**321**	366
Long-term debt, less current portion	**$ 1,889**	$ 2,173
Weighted-average fixed-interest rate	**3.5 %**	3.7 %
Weighted-average variable-interest rate	**4.2 %**	1.3 %

Approximately $353 million of the Company's total variable-rate notes payable are effectively fixed via interest rate swaps at September 30, 2022, resulting in an effective weighted-average interest rate for the full debt portfolio of 3.5%.

During the nine months ended September 30, 2022, the Company made scheduled debt payments of $316 million and prepayments of $17 million for loans related to Q400 aircraft.

Debt Maturity

At September 30, 2022, long-term debt principal payments for the next five years and thereafter are as follows (in millions):

	Total
Remainder of 2022	$ 52
2023	309
2024	238
2025	273
2026	176
Thereafter	1,178
Total	$ 2,226

Bank Lines of Credit

Alaska has three credit facilities totaling $486 million as of September 30, 2022. One of the credit facilities for $150 million expires in March 2025 and is secured by certain accounts receivable, spare engines, spare parts and ground service equipment. A second credit facility for $250 million expires in June 2024 and is secured by aircraft. Both facilities have variable interest rates based on LIBOR plus a specified margin. A third credit facility for $86 million expires in June 2023 and is secured by aircraft.

Alaska has secured letters of credit against the third facility, but has no plans to borrow using either of the other two facilities. All credit facilities have a requirement to maintain a minimum unrestricted cash and marketable securities balance of $500 million. Alaska was in compliance with this covenant at September 30, 2022.

NOTE 6. EMPLOYEE BENEFIT PLANS

Net periodic benefit costs for qualified defined-benefit plans include the following (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Service cost	**$ 12**	$ 13	**$ 34**	$ 39
Pension expense included in Wages and benefits	**12**	13	**34**	39
Interest cost	**17**	14	**49**	42
Expected return on assets	**(32)**	(30)	**(96)**	(91)
Amortization of prior service cost (credit)	**(1)**	(1)	**(1)**	(1)
Recognized actuarial loss	**2**	9	**6**	27
Pension expense included in Non-operating Income (Expense)	**$ (14)**	$ (8)	**$ (42)**	$ (23)

NOTE 7. COMMITMENTS AND CONTINGENCIES

Future minimum payments for commitments as of September 30, 2022 (in millions):

	Aircraft Commitments[a]	Capacity Purchase Agreements [b]
Remainder of 2022	$ 529	$ 41
2023	2,124	172
2024	512	178
2025	254	186
2026	249	186
Thereafter	738	763
Total	$ 4,406	$ 1,526

(a) Includes contractual commitments for aircraft, engines, and aircraft maintenance. Option deliveries are excluded from minimum commitments until exercise.
(b) Includes all non-aircraft lease costs associated with capacity purchase agreements.

Aircraft Commitments

Aircraft purchase commitments include contractual commitments for aircraft and engines. In the second quarter of 2022, Horizon amended its aircraft purchase agreement with Embraer, adding eight firm E175 deliveries between 2023 and 2026 and 13 options to purchase additional aircraft with deliveries between 2024 and 2025. The aircraft covered by the amendment may be assigned by Horizon to another entity. Horizon intends to take delivery of and operate all firm E175 aircraft.

Details for contractual aircraft commitments as of September 30, 2022 are outlined in the table below.

	Firm Orders	Options	Total
Aircraft Type	**2022-2026**	**2024-2026**	**2022-2026**
Boeing 737-8	10	—	10
Boeing 737-9	40	11	51
Boeing 737-10	6	41	47
Embraer E175	20	13	33
Total	76	65	141

The fleet commitments outlined above represent the contractual commitments as defined in Alaska's existing order with Boeing as of September 30, 2022. Alaska has received information from Boeing indicating that certain 737 deliveries in 2022 and 2023 are expected to be delayed to 2023 and 2024. Alaska will continue to work with Boeing on delivery timelines that reflect Alaska's plans for growth.

Subsequent to quarter end, Alaska executed an agreement with Boeing to exercise options to purchase 52 737 aircraft for delivery between 2024 and 2027. The agreement also secures rights for 105 additional aircraft through 2030. The incremental firm purchase commitments per the agreement are not contractually obligated at September 30, 2022, and are not reflected in the future minimum payments table above.

Aircraft Maintenance

Aircraft maintenance commitments include contractual commitments for engine maintenance agreements requiring monthly payments based upon utilization, such as flight hours, cycles, and age of the aircraft. In turn, these maintenance agreements transfer certain risks to the third-party service provider. Alaska has a contract for maintenance on its Boeing 737-800 aircraft engines through 2033. In the third quarter of 2022, Alaska entered into a contract for maintenance on its Boeing 737-900ER aircraft engines with minimum payments effective 2023 through 2033. Horizon has a contract for maintenance on its Embraer E175 aircraft engines through 2033.

Contingencies

The Company is a party to routine litigation matters incidental to its business and with respect to which no material liability is expected. Liabilities for litigation related contingencies are recorded when a loss is determined to be probable and estimable.

In 2015, three flight attendants filed a class action lawsuit seeking to represent all Virgin America flight attendants for damages based on alleged violations of California and City of San Francisco wage and hour laws. The court certified a class of approximately 1,800 flight attendants in November 2016. The Company pursued numerous appeal paths following a February 2019 federal district court order against Virgin America and Alaska Airlines awarding plaintiffs approximately $78 million, including approximately $25 million in penalties under California’s Private Attorneys General Act (PAGA). An appellate court reversed portions of the lower court decision and significantly reduced the PAGA penalties and total judgment value. In June 2022, the U.S. Supreme Court declined to take the Company’s appeal for a conclusive ruling that the California laws on which the judgment is based are invalid as applied to airlines. The decision leaves open the possibility that other states in the Ninth Circuit judicial district may attempt to apply similar laws to airlines.

The final total judgment amount has not been determined by the lower court as of the date of this filing. Based on the facts and circumstances available, the Company believes the range of potential loss to be between $0 and $22 million, and holds an accrual for $22 million in Other accrued liabilities on the condensed consolidated balance sheets. The Company is analyzing a range of potential options to balance new compliance obligations with operational and labor considerations. Some or all of these solutions may have an adverse impact on the Company’s operations and financial position due in part to the unresolved conflicts between the laws and federal regulations applicable to airlines.

As part of the 2016 acquisition of Virgin America, Alaska assumed responsibility for the Virgin trademark license agreement with the Virgin Group. In 2019, the Virgin Group sued Alaska in England, alleging that the agreement requires Alaska to pay $8 million per year as a minimum annual royalty through 2039, adjusted annually for inflation. Alaska stopped making royalty payments in 2019 after ending all use of the Virgin brand. The Virgin Group asserts that payments are required without regard to actual use of the mark. A trial was held in October 2022, and a decision is expected soon. Further legal proceedings are likely to take place before the matter is resolved. The Company believes the claims in the case are without factual and legal merit, a position supported by Virgin America’s representations during pre-merger due diligence.

NOTE 8. SHAREHOLDERS' EQUITY

Common Stock Repurchase

In August 2015, the Board of Directors authorized a $1 billion share repurchase program. The Company repurchased 7.6 million shares for $544 million under this program. In March 2020, subject to restrictions under the Coronavirus Aid, Relief, and Economic Securities (CARES) Act, the Company suspended the share repurchase program indefinitely. These restrictions ended on October 1, 2022.

CARES Act Warrant Issuances

As additional taxpayer protection required under the Payroll Support Program (PSP) under the CARES Act, the Company granted the Treasury a total of 1,455,437 warrants to purchase ALK common stock in 2020 and 2021. An additional 427,080 warrants were issued in conjunction with a draw on the CARES Act Loan in 2020. These warrants are non-voting, freely transferable, may be settled as net shares or in cash at the Company's option, and have a five-year term.

The value of the warrants was estimated using a Black-Scholes option pricing model. The total fair value of all outstanding warrants was $30 million, recorded in stockholders' equity at issuance.

Total warrants outstanding are as follows as of September 30, 2022:

	Number of warrants outstanding	Strike Price
PSP 1	928,126	31.61
CARES Act loan warrants	427,080	31.61
PSP 2	305,499	52.25
PSP 3	221,812	66.39
Outstanding September 30, 2022	1,882,517	

Accumulated other comprehensive loss

A roll forward of the amounts included in accumulated other comprehensive loss, net of tax (in millions), is shown below for the three and nine months ended September 30, 2022:

	Marketable Securities	Employee Benefit Plan	Interest Rate Derivatives	Total
Balance at June 30, 2022, net of tax effect of $98	$ (64)	$ (251)	$ 7	$ (308)
Reclassifications into earnings, net of tax impact of $0	2	1	—	3
Change in value, net of tax impact of $6	(28)	—	5	(23)
Balance at September 30, 2022, net of tax effect of $104	**$ (90)**	**$ (250)**	**$ 12**	**$ (328)**
Balance at December 31, 2021, net of tax effect of $83	$ (4)	$ (252)	$ (6)	$ (262)
Reclassifications into earnings, net of tax impact of $1	6	2	—	8
Change in value, net of tax impact of $20	(92)	—	18	(74)
Balance at September 30, 2022, net of tax effect of $104	**$ (90)**	**$ (250)**	**$ 12**	**$ (328)**

Earnings Per Share (EPS)

Diluted EPS is calculated by dividing net income by the average number of common shares outstanding plus the number of additional common shares that would have been outstanding assuming the exercise of in-the-money stock options, restricted stock units, and warrants, using the treasury-stock method. For the three and nine months ended September 30, 2022 and September 30, 2021, anti-dilutive shares excluded from the calculation of EPS were not material.

NOTE 9. OPERATING SEGMENT INFORMATION

Alaska Air Group has two operating airlines – Alaska and Horizon. Each is regulated by the U.S. Department of Transportation's Federal Aviation Administration. Alaska has CPAs for regional capacity with Horizon and SkyWest, under which Alaska receives all passenger revenues.

Under U.S. GAAP, operating segments are defined as components of a business for which there is discrete financial information that is regularly assessed by the Chief Operating Decision Maker (CODM) in making resource allocation decisions. Financial performance for the operating airlines and CPAs is managed and reviewed by the Company's CODM as part of three reportable operating segments:

- **Mainline** - includes scheduled air transportation on Alaska's Boeing or Airbus jet aircraft for passengers and cargo throughout the U.S., and in parts of Canada, Mexico, Costa Rica, and Belize.
- **Regional** - includes Horizon's and other third-party carriers' scheduled air transportation for passengers across a shorter distance network within the U.S. and Canada under a CPA. This segment includes the actual revenues and expenses associated with regional flying, as well as an allocation of corporate overhead incurred by Air Group on behalf of the regional operations.
- **Horizon** - includes the capacity sold to Alaska under CPA. Expenses include those typically borne by regional airlines such as crew costs, ownership costs and maintenance costs.

The CODM makes resource allocation decisions for these reporting segments based on flight profitability data, aircraft type, route economics and other financial information.

The "Consolidating and Other" column reflects Air Group parent company activity, McGee Air Services, consolidating entries and other immaterial business units of the company. The “Air Group Adjusted” column represents a non-GAAP measure that is used by the Company's CODM to evaluate performance and allocate resources. Adjustments are further explained below in reconciling to consolidated GAAP results.

Operating segment information is as follows (in millions):

	Three Months Ended September 30, 2022						
	Mainline	**Regional**	**Horizon**	**Consolidating & Other[(a)]**	**Air Group Adjusted[(b)]**	**Special Items[(c)]**	**Consolidated**
Operating Revenues							
Passenger revenues	$ 2,217	$ 398	$ —	$ —	$ 2,615	$ —	$ 2,615
CPA revenues	—	—	93	(93)	—	—	—
Mileage Plan other revenue	133	13	—	—	146	—	146
Cargo and other	65	—	—	2	67	—	67
Total Operating Revenues	2,415	411	93	(91)	2,828	—	2,828
Operating Expenses							
Operating expenses, excluding fuel	1,352	292	94	(94)	1,644	245	1,889
Fuel expense	625	121	—	—	746	131	877
Total Operating Expenses	1,977	413	94	(94)	2,390	376	2,766
Non-operating Income (Expense)	8	—	(5)	—	3	—	3
Income (Loss) Before Income Tax	$ 446	$ (2)	$ (6)	$ 3	$ 441	$ (376)	$ 65
Pretax Margin					15.6 %		2.3 %

	Three Months Ended September 30, 2021						
	Mainline	**Regional**	**Horizon**	**Consolidating & Other[(a)]**	**Air Group Adjusted[(b)]**	**Special Items[(c)]**	**Consolidated**
Operating Revenues							
Passenger revenues	$ 1,425	$ 349	$ —	$ —	$ 1,774	$ —	$ 1,774
CPA revenues	—	—	107	(107)	—	—	—
Mileage Plan other revenue	105	15	—	—	120	—	120
Cargo and other	58	—	—	1	59	—	59
Total Operating Revenues	1,588	364	107	(106)	1,953	—	1,953
Operating Expenses							
Operating expenses, excluding fuel	1,060	288	93	(113)	1,328	(9)	1,319
Fuel expense	299	77	—	—	376	—	376
Total Operating Expenses	1,359	365	93	(113)	1,704	(9)	1,695
Non-operating Income (Expense)	(8)	—	(6)	1	(13)	—	(13)
Income (Loss) Before Income Tax	$ 221	$ (1)	$ 8	$ 8	$ 236	$ 9	$ 245
Pretax Margin					12.1 %		12.5 %

	Nine Months Ended September 30, 2022						
	Mainline	Regional	Horizon	Consolidating & Other[(a)]	Air Group Adjusted[(b)]	Special Items[(c)]	Consolidated
Operating Revenues							
Passenger revenues	$ 5,488	$ 1,056	$ —	$ —	$ 6,544	$ —	$ 6,544
CPA revenues	—	—	288	(288)	—	—	—
Mileage Plan other revenue	392	41	—	—	433	—	433
Cargo and other	186	—	—	4	190	—	190
Total Operating Revenues	6,066	1,097	288	(284)	7,167	—	7,167
Operating Expenses							
Operating expenses, excluding fuel	3,808	843	291	(288)	4,654	466	5,120
Fuel expense	1,623	313	—	—	1,936	64	2,000
Total Operating Expenses	5,431	1,156	291	(288)	6,590	530	7,120
Non-operating Income (Expense)	12	—	(15)	—	(3)	—	(3)
Income (Loss) Before Income Tax	$ 647	$ (59)	$ (18)	$ 4	$ 574	$ (530)	$ 44
Pretax Margin					8.0 %		0.6 %

	Nine Months Ended September 30, 2021						
	Mainline	Regional	Horizon	Consolidating & Other[(a)]	Air Group Adjusted[(b)]	Special Items[(c)]	Consolidated
Operating Revenues							
Passenger revenues	$ 3,003	$ 782	$ —	$ —	$ 3,785	$ —	$ 3,785
CPA revenues	—	—	322	(322)	—	—	—
Mileage Plan other revenue	287	45	—	—	332	—	332
Cargo and other	157	—	—	3	160	—	160
Total Operating Revenues	3,447	827	322	(319)	4,277	—	4,277
Operating Expenses							
Operating expenses, excluding fuel	2,937	839	272	(349)	3,699	(921)	2,778
Fuel expense	726	195	—	—	921	(68)	853
Total Operating Expenses	3,663	1,034	272	(349)	4,620	(989)	3,631
Non-operating Income (Expense)	(31)	—	(16)	1	(46)	—	(46)
Income (Loss) Before Income Tax	$ (247)	$ (207)	$ 34	$ 31	$ (389)	$ 989	$ 600
Pretax Margin					(9.1)%		14.0 %

(a) Includes consolidating entries, Air Group parent company, McGee Air Services, and other immaterial business units.
(b) The Air Group Adjusted column represents the financial information that is reviewed by management to assess performance of operations and determine capital allocation and excludes certain charges.
(c) Includes Payroll Support Program grant wage offsets, special items, and mark-to-market fuel hedge accounting adjustments.

Total assets were as follows (in millions):

	September 30, 2022	December 31, 2021
Mainline	**$ 20,065**	$ 19,258
Horizon	**1,115**	1,212
Consolidating & Other	**(6,649)**	(6,519)
Consolidated	**$ 14,531**	$ 13,951

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand our company, segment operations and the present business environment. MD&A is provided as a supplement to – and should be read in conjunction with – our consolidated financial statements and the accompanying notes. All statements in the following discussion that are not statements of historical information or descriptions of current accounting policy are forward-looking statements. Please consider our forward-looking statements in light of the risks referred to in this report's introductory cautionary note and the risks mentioned in "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2021. This overview summarizes the MD&A, which includes the following sections:

- *Third Quarter Review*—highlights from the third quarter of 2022 outlining some of the major events that occurred during the period and how they affected our financial performance.

- *Results of Operations*—an in-depth analysis of our revenue by segment and our expenses from a consolidated perspective for the three and nine months ended September 30, 2022. To the extent material to the understanding of segment profitability, we more fully describe the segment expenses per financial statement line item. Financial and statistical data is also included here. This section includes forward-looking statements regarding our view of the remainder of 2022.

- *Liquidity and Capital Resources*—an overview of our financial position, analysis of cash flows, and relevant contractual obligations and commitments.

THIRD QUARTER REVIEW

Third Quarter Results

We recorded consolidated pretax income for the third quarter of 2022 under GAAP of $65 million, compared to consolidated pretax income of $245 million in the third quarter of 2021. On an adjusted basis, we reported consolidated pretax income for the quarter of $441 million, compared to consolidated pretax income of $236 million in the same period of 2021. Strong demand for passenger air travel combined with excellent operational performance enabled Air Group to deliver record breaking quarterly revenue in the third quarter.

In the third quarter non-fuel operating expense, excluding special items, increased 24% over the prior year period. The increase was driven by incremental departure related costs on 13% more flown capacity, as well as higher wages and training costs. Costs were also pressured by the impact of new labor agreements, elevated staff levels relative to our level of flying, and a one-time charge of $28 million associated with gifting each of our employees 90,000 Mileage Plan miles. Fuel costs remain elevated, resulting in a 133% increase over the prior year period. Although our hedging program provided a benefit of $29 million for the quarter, total fuel cost exceeded 2021 levels due primarily to a 79% increase in economic price per gallon. We also incurred special charges of $245 million, including $155 million related to our Airbus and Q400 fleet transitions and $90 million in ratification bonuses from the new collective bargaining agreement with Alaska pilots.

See "*Results of Operations*" below for further discussion of changes in revenue and operating expenses as compared to 2021, and our reconciliation of non-GAAP measures to the most directly comparable GAAP measure. A glossary of financial terms can be found at the end of this Item 2.

Labor Update

During the third quarter, we reached three new labor agreements. In August 2022, Alaska's employees represented by the International Association of Machinists and Aerospace Workers ratified a two-year contract extension that includes increased pay with added steps to ensure wage rates remain competitive. In September 2022, Horizon pilots represented by the International Brotherhood of Teamsters ratified an agreement that includes increased pay and improved benefits designed to improve pilot retention. In September 2022, Alaska pilots represented by the Air Line Pilots Association reached a tentative agreement for a new contract with management. The agreement was ratified subsequent to quarter end in October 2022. The new agreement includes increased pay and benefits as well as improvements to job security and scheduling. Also in October 2022, the Company opened negotiations with Alaska's flight attendants, whose contract becomes amendable in December 2022.

As a result of these new agreements, we recorded $35 million in additional costs in the third quarter due to increased wage rates and improvements to a slate of benefits. For the fourth quarter, we expect to record additional costs between $55 million and $60 million.

Environmental, Social and Governance Updates

In order to achieve our long-term target of zero carbon emissions by 2040, the use of sustainable aviation fuel (SAF) will play a crucial role. During the quarter, we signed an agreement with Gevo Inc. to purchase 185 million gallons of SAF to be delivered over the five year term of the agreement beginning in 2026. We also launched a new initiative in partnership with Microsoft, Boeing, and Washington State University to expand the use of SAF in business travel and increase education on sustainable travel topics.

Delivering on our diversity, equity, and inclusion goals is critical to our long-term success. As a reflection of our commitment to these goals, we have tied a portion of long-term executive compensation to achievement of diversity goals. Additionally, we have incorporated a carbon emissions target into our company-wide Performance Based Pay Plan, which is currently tracking to maximum achievement.

Outlook

We remain committed to our transition to a single fleet for both our mainline and regional operations, which will best position our airlines for long-term sustainable growth. In working toward this goal, our capacity for the fourth quarter is expected to be temporarily constrained as we focus on pilot transition training. As a result, we anticipate capacity for the fourth quarter to be down 7% to 10% versus 2019, with full year capacity down 8% to 9%. Lower capacity, coupled with pressures from wages and training costs, has shifted our expectation for fourth quarter CASMex to be up 20% to 23% over 2019. Continued strength in the demand environment is expected to generate revenue 12% to 15% over 2019 levels. For the full year, we continue to anticipate adjusted pretax margins will range between 6% to 9%.

Our plans will continue to be responsive to emerging information and the guidance we have provided above is subject to greater uncertainty than we have historically experienced. As we leverage our network, Mileage Plan program, and fleet for growth, our people are focused on keeping costs low and running a strong operation. These are competitive advantages we have cultivated over many years that will continue to serve us in the remainder of 2022 and beyond.

RESULTS OF OPERATIONS

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

We believe disclosure of earnings excluding the impact of aircraft fuel, the Payroll Support Program grant wage offset and other special items is useful information to investors because:

- By excluding fuel expense and certain other items, such as the Payroll Support Program grant wage offset and other special items, from our unit metrics, we believe that we have better visibility into the results of operations as we focus on cost-reduction initiatives emerging from the COVID-19 pandemic. Our industry is highly competitive and is characterized by high fixed costs, so even a small reduction in non-fuel operating costs can lead to a significant improvement in operating results. In addition, we believe that all domestic carriers are similarly impacted by changes in jet fuel costs over the long run, so it is important for management (and thus investors) to understand the impact of (and trends in) company-specific cost drivers, such as productivity, airport costs, maintenance costs, etc., which are more controllable by management.

- Cost per ASM (CASM) excluding fuel and certain other items, such as the Payroll Support Program grant wage offset and other special items, is one of the most important measures used by management and by our Board of Directors in assessing quarterly and annual cost performance.

- CASM excluding fuel and certain other items is a measure commonly used by industry analysts and we believe it is an important metric by which they have historically compared our airline to others in the industry. The measure is also the subject of frequent questions from investors.

- Adjusted income before income tax (and other items as specified in our plan documents) is an important metric for the employee annual incentive plan, which covers the majority of employees within the Alaska Air Group organization.

- Disclosure of the individual impact of certain noted items provides investors the ability to measure and monitor performance both with and without these special items. We believe that disclosing the impact of these items as noted above is important because it provides information on significant items that are not necessarily indicative of future performance. Industry analysts and investors consistently measure our performance without these items for better comparability between periods and among other airlines.

- Although we disclose our unit revenue, we do not, nor are we able to, evaluate unit revenue excluding the impact that changes in fuel costs have had on ticket prices. Fuel expense represents a large percentage of our total operating expenses. Fluctuations in fuel prices often drive changes in unit revenue in the mid-to-long term. Although we believe it is useful to evaluate non-fuel unit costs for the reasons noted above, we would caution readers of these financial statements not to place undue reliance on unit costs excluding fuel as a measure or predictor of future profitability because of the significant impact of fuel costs on our business.

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

OPERATING STATISTICS SUMMARY (unaudited)

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
Consolidated Operating Statistics:[a]						
Revenue passengers (000)	**11,437**	9,832	16.3%	**31,137**	23,211	34.1%
RPMs (000,000) "traffic"	**14,143**	11,592	22.0%	**38,475**	27,319	40.8%
ASMs (000,000) "capacity"	**16,349**	14,429	13.3%	**45,743**	38,238	19.6%
Load factor	**86.5%**	80.3%	6.2 pts	**84.1%**	71.4%	12.7 pts
Yield	**18.48¢**	15.30¢	20.8%	**17.01¢**	13.85¢	22.8%
RASM	**17.30¢**	13.54¢	27.8%	**15.67¢**	11.19¢	40.0%
CASM excluding fuel and special items[b]	**10.05¢**	9.21¢	9.1%	**10.17¢**	9.67¢	5.2%
Economic fuel cost per gallon[b]	**$3.66**	$2.05	78.5%	**$3.38**	$1.93	75.1%
Fuel gallons (000,000)	**204**	183	11.5%	**573**	477	20.1%
ASMs per fuel gallon	**80.1**	78.8	1.6%	**79.8**	80.2	(0.5)%
Average full-time equivalent employees (FTEs)	**22,878**	20,315	12.6%	**22,354**	18,819	18.8%
Mainline Operating Statistics:						
Revenue passengers (000)	**8,671**	7,065	22.7%	**23,557**	16,367	43.9%
RPMs (000,000) "traffic"	**12,846**	10,122	26.9%	**34,818**	23,677	47.1%
ASMs (000,000) "capacity"	**14,782**	12,540	17.9%	**41,221**	33,004	24.9%
Load factor	**86.9%**	80.7%	6.2 pts	**84.5%**	71.7%	12.8 pts
Yield	**17.26¢**	14.08¢	22.6%	**15.76¢**	12.68¢	24.3%
RASM	**16.34¢**	12.66¢	29.1%	**14.72¢**	10.44¢	41.0%
CASM excluding fuel and special items[b]	**9.15¢**	8.45¢	8.3%	**9.24¢**	8.90¢	3.8%
Economic fuel cost per gallon[b]	**$3.61**	$2.03	77.8%	**$3.35**	$1.91	75.4%
Fuel gallons (000,000)	**173**	147	17.7%	**484**	380	27.4%
ASMs per fuel gallon	**85.4**	85.3	0.1%	**85.2**	86.9	(2.0)%
Average FTEs	**17,453**	15,116	15.5%	**17,035**	13,870	22.8%
Aircraft utilization	**10.5**	10.2	2.9%	**10.4**	9.6	8.3%
Average aircraft stage length	**1,347**	1,313	2.6%	**1,348**	1,313	2.7%
Operating fleet[d]	**232**	210	22 a/c	**232**	210	22 a/c
Regional Operating Statistics:[c]						
Revenue passengers (000)	**2,767**	2,767	—%	**7,579**	6,843	10.8%
RPMs (000,000) "traffic"	**1,297**	1,470	(11.8)%	**3,657**	3,642	0.4%
ASMs (000,000) "capacity"	**1,567**	1,889	(17.0)%	**4,522**	5,235	(13.6)%
Load factor	**82.8%**	77.8%	5.0 pts	**80.9%**	69.6%	11.3 pts
Yield	**30.69¢**	23.72¢	29.4%	**28.88¢**	21.47¢	34.5%
RASM	**26.23¢**	19.26¢	36.2%	**24.26¢**	15.80¢	53.5%
Operating fleet[d]	**94**	94	— a/c	**94**	94	— a/c

(a) Except for FTEs, data includes information related to third-party regional capacity purchase flying arrangements.
(b) See reconciliation of this non-GAAP measure to the most directly related GAAP measure in the accompanying pages.
(c) Data presented includes information related to flights operated by Horizon and third-party carriers.
(d) Reflects all aircraft in operating service at September 30, 2022.

Given the unusual nature of 2021 and 2020, we believe that some analysis of specific financial and operational results compared to 2019 provides meaningful insight. The table below includes comparative results from 2022 to 2019.

FINANCIAL INFORMATION AND OPERATING STATISTICS - 2022 Compared to 2019 (unaudited)
Alaska Air Group, Inc.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	**2019**	**Change**	**2022**	**2019**	**Change**
Passenger revenue	**$ 2,615**	$ 2,211	18%	**$ 6,544**	$ 6,038	8%
Mileage plan other revenue	**146**	118	24%	**433**	346	25%
Cargo and other	**67**	60	12%	**190**	169	12%
Total operating revenue	**$ 2,828**	$ 2,389	18%	**$ 7,167**	$ 6,553	9%
Operating expense, excluding fuel and special items	**$ 1,644**	$ 1,476	11%	**$ 4,654**	$ 4,295	8%
Aircraft fuel, including hedging gains and losses	**877**	486	80%	**2,000**	1,408	42%
Special items	**245**	5	NM	**466**	39	NM
Total operating expenses	**$ 2,766**	$ 1,967	41%	**$ 7,120**	$ 5,742	24%
Total non-operating income (expense)	**3**	(6)	(150)%	**(3)**	(38)	(92)%
Income before income tax	**$ 65**	$ 416	(84)%	**$ 44**	$ 773	(94)%
Consolidated Operating Statistics:						
Revenue passengers (000)	**11,437**	12,574	(9)%	**31,137**	35,018	(11)%
RPMs (000,000) "traffic"	**14,143**	15,026	(6)%	**38,475**	42,113	(9)%
ASMs (000,000) "capacity"	**16,349**	17,519	(7)%	**45,743**	50,006	(9)%
Load Factor	**86.5%**	85.8%	0.7 pts	**84.1%**	84.2%	(0.1) pts
Yield	**18.48¢**	14.71¢	26%	**17.01¢**	14.34¢	19%
RASM	**17.30¢**	13.64¢	27%	**15.67¢**	13.10¢	20%
CASMex	**10.05¢**	8.43¢	19%	**10.17¢**	8.59¢	18%
FTEs	**22,878**	22,247	3%	**22,354**	22,000	2%

COMPARISON OF THREE MONTHS ENDED SEPTEMBER 30, 2022 TO THREE MONTHS ENDED SEPTEMBER 30, 2021

Our consolidated net income for the three months ended September 30, 2022 was $40 million, or $0.31 per share, compared to a consolidated net income of $194 million, or $1.53 per share, for the three months ended September 30, 2021.

Excluding the impact of special items and mark-to-market fuel hedge adjustments, our adjusted net income for the third quarter of 2022 was $325 million, or $2.53 per share, compared to an adjusted net income of $187 million, or $1.47 per share, in the third quarter of 2021. The following table reconciles our adjusted net income per share (EPS) to amounts as reported in accordance with GAAP:

	Three Months Ended September 30,			
	2022		2021	
(in millions, except per share amounts)	Dollars	Diluted EPS	Dollars	Diluted EPS
GAAP net income per share	**$ 40**	**$ 0.31**	$ 194	$ 1.53
Mark-to-market fuel hedge adjustments	**131**	**1.02**	—	—
Special items - fleet transition	**155**	**1.21**	(9)	(0.07)
Special items - labor ratification bonus	**90**	**0.70**	—	—
Income tax effect of reconciling items above	**(91)**	**(0.71)**	2	0.01
Non-GAAP adjusted net income per share	**$ 325**	**$ 2.53**	$ 187	$ 1.47

CASM excluding fuel and special items reconciliation is summarized below:

	Three Months Ended September 30,		
(in cents)	2022	2021	% Change
Consolidated:			
CASM	**16.91 ¢**	11.75 ¢	44 %
Less the following components:			
Aircraft fuel, including hedging gains and losses	**5.36**	2.60	106 %
Special items - fleet transition	**0.95**	(0.06)	NM
Special items - labor ratification bonus	**0.55**	—	NM
CASM excluding fuel and special items	**10.05 ¢**	9.21 ¢	9 %
Mainline:			
CASM	**16.20 ¢**	10.77 ¢	50 %
Less the following components:			
Aircraft fuel, including hedging gains and losses	**5.52**	2.39	131 %
Special items - fleet transition	**0.92**	(0.07)	NM
Special items - labor ratification bonus	**0.61**	—	NM
CASM excluding fuel and special items	**9.15 ¢**	8.45 ¢	8 %

OPERATING REVENUE

Total operating revenue increased $875 million, or 45%, during the third quarter of 2022 compared to the same period in 2021. The changes are summarized in the following table:

	Three Months Ended September 30,		
(in millions)	2022	2021	% Change
Passenger revenue	**$ 2,615**	$ 1,774	47 %
Mileage Plan other revenue	**146**	120	22 %
Cargo and other	**67**	59	14 %
Total operating revenue	**$ 2,828**	$ 1,953	45 %

Passenger revenue

On a consolidated basis, Passenger revenue for the third quarter of 2022 increased by $841 million, or 47%, driven by a 22% increase in passenger traffic and a 21% improvement in ticket yields. Increased demand for air travel and constrained capacity industry wide enabled higher load factors in the third quarter of 2022. Higher revenue on improved Mileage Plan award redemptions and from our alliance partners following the relaxing of international travel restrictions also contributed meaningfully to revenue growth compared to 2021.

Mileage Plan other revenue

On a consolidated basis, Mileage Plan other revenue for the third quarter of 2022 increased by $26 million, or 22%. The change is largely due to an increase in commissions from our bank card partners driven by increased consumer spending and improved economics from our new co-branded credit card agreement.

Cargo and other

On a consolidated basis, Cargo and other revenue for the third quarter of 2022 increased by $8 million, or 14%. Other ancillary revenue was the primary driver of the year-over-year increase, consistent with the return in demand for travel. Incremental freight revenue also contributed due to greater use of belly capacity, which grew on an increase in scheduled departures.

OPERATING EXPENSES

Total operating expenses increased $1.1 billion, or 63%, compared to the third quarter of 2021. We believe it is useful to summarize operating expenses as follows, which is consistent with the way expenses are reported internally and evaluated by management:

	Three Months Ended September 30,		
(in millions)	2022	2021	% Change
Fuel expense	$ 877	$ 376	133 %
Non-fuel operating expenses, excluding special items	1,644	1,328	24 %
Special items - fleet transition	155	(9)	NM
Special items - labor ratification bonus	90	—	NM
Total operating expenses	$ 2,766	$ 1,695	63 %

Fuel expense

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

Aircraft fuel expense increased $501 million, or 133%, compared to the third quarter of 2021. The elements of the change are illustrated in the following table:

	Three Months Ended September 30,			
	2022		2021	
(in millions, except for per gallon amounts)	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	$ 775	$ 3.80	$ 397	$ 2.16
(Gain)/loss on settled hedges	(29)	(0.14)	(21)	(0.11)
Consolidated economic fuel expense	$ 746	$ 3.66	$ 376	$ 2.05
Mark-to-market fuel hedge adjustments	131	0.64	—	—
GAAP fuel expense	$ 877	$ 4.30	$ 376	$ 2.05
Fuel gallons		204		183

Raw fuel expense increased 95% in the third quarter of 2022 compared to the third quarter of 2021, due to significantly higher per gallon costs and increased fuel consumption. Raw fuel expense per gallon increased by approximately 76% due to higher West Coast jet fuel prices. West Coast jet fuel prices are impacted by both the price of crude oil and refining margins associated with the conversion of crude oil to jet fuel. Crude oil prices have risen 30% while refining margins have more than tripled compared to 2021. Fuel gallons consumed increased 11%, consistent with rising capacity.

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

Gains recognized for hedges that settled during the third quarter were $29 million in 2022, compared to gains of $21 million in the same period in 2021. These amounts represent cash received from hedges at settlement, offset by cash paid in prior periods for premium expense.

Non-fuel expenses

The table below provides the reconciliation of the operating expense line items, excluding fuel, the Payroll Support Program grant wage offset, and other special items. Significant operating expense variances from 2021 are more fully described below.

	Three Months Ended September 30,		
(in millions)	**2022**	**2021**	**% Change**
Wages and benefits	**$ 686**	$ 578	19 %
Variable incentive pay	**48**	42	14 %
Aircraft maintenance	**92**	89	3 %
Aircraft rent	**76**	64	19 %
Landing fees and other rentals	**161**	141	14 %
Contracted services	**83**	62	34 %
Selling expenses	**82**	49	67 %
Depreciation and amortization	**104**	99	5 %
Food and beverage service	**52**	39	33 %
Third-party regional carrier expense	**53**	39	36 %
Other	**207**	126	64 %
Total non-fuel operating expenses, excluding special items	**$ 1,644**	$ 1,328	24 %

Wages and benefits

Wages and benefits increased by $108 million, or 19%, in the third quarter of 2022. The primary components of Wages and benefits are shown in the following table:

	Three Months Ended September 30,		
(in millions)	**2022**	**2021**	**% Change**
Wages	**$ 514**	$ 433	19 %
Pension - Defined benefit plans service cost	**11**	13	(15)%
Defined contribution plans	**39**	33	18 %
Medical and other benefits	**85**	68	25 %
Payroll taxes	**37**	31	19 %
Total wages and benefits	**$ 686**	$ 578	19 %

Wages increased $81 million, or 19%, primarily driven by 13% growth in FTEs as Alaska and Horizon hire to support the ramp up in operations. The ratification of three new collective bargaining agreements during the third quarter resulted in significant wage increases for the represented groups. As a result of the new agreements, the Company recorded $35 million in incremental wage expense during the quarter, $16 million of which relates to a one-time adjustment of accrued benefits for new wage rates.

Increased expense for defined contribution plans and payroll taxes are consistent with the change in wages.

Medical and other benefits increased $17 million, or 25%, driven by growth in FTEs and premium costs, coupled with an increase in the obligation for our pilots long-term disability plan.

Variable incentive pay

Variable incentive pay expense increased by $6 million, or 14%, in the third quarter of 2022. The increase is due to the expectation that higher payouts will be achieved under the 2022 Performance Based Pay Plan.

Aircraft rent

Aircraft rent expense increased by $12 million, or 19%, in the third quarter of 2022. Increased expense is due to the delivery of eight leased Boeing 737-9 aircraft and ten leased Embraer E175 aircraft operated by SkyWest since September 30, 2021.

Landing fees and other rentals

Landing fees and other rentals increased by $20 million, or 14%, in the third quarter of 2022. The increase compared to the same period in 2021 is driven primarily by increases in departures as well as rate increases for terminal rents. Rates for both fixed airport rent and landing fees rose significantly at Seattle-Tacoma International Airport, the Company's largest hub, which accounted for 75% of the increase compared to prior year.

Contracted services

Contracted services increased by $21 million, or 34%, in the third quarter of 2022, driven primarily by increased departures and passengers, coupled with higher rates charged by vendor partners.

Selling expenses

Selling expenses increased by $33 million, or 67%, in the third quarter of 2022, driven primarily by an increase in distribution costs and credit card commissions incurred with the overall revenue recovery.

Food and beverage service

Food and beverage service increased by $13 million, or 33%, in the third quarter of 2022, consistent with a 16% increase in revenue passengers. Additional on-board offerings coupled with increased charges for transportation and food service supplies also contributed to the overall increase.

Third-party regional carrier expense

Third-party regional carrier expense, which represents expenses associated with SkyWest under our CPA, increased by $14 million, or 36%, in the third quarter of 2022. The increase in expense is due to incremental departures flown by SkyWest with ten additional aircraft in operating service as compared to the prior-year period.

Other expense

Other expense increased $81 million, or 64%, in the third quarter of 2022. Increased expense as compared to the prior year period is partially due to $28 million incurred for employee recognition related to the 90,000 mile gift granted to all employees. Other items that increased within Other expense include training events and related travel costs, crew hotel stays, and crew per diem. Increases in crew-related costs are consistent with the rise in departures.

Special items - fleet transition

We recorded expenses associated with fleet transition and related charges of $155 million in the third quarter of 2022. Refer to Note 2 to the consolidated financial statements for additional details.

Special items - labor ratification bonus

We recorded a nonrecurring expense of $90 million in the third quarter of 2022 representing a payment to Alaska pilots following the ratification of a new collective bargaining agreement.

ADDITIONAL SEGMENT INFORMATION

Refer to Note 9 to the consolidated financial statements for a detailed description of each segment. Below is a summary of each segment's profitability.

Mainline

Mainline operations reported an adjusted pretax profit of $446 million in the third quarter of 2022, compared to an adjusted pretax profit of $221 million in the third quarter of 2021. The $225 million improvement was primarily driven by a $792 million increase in Passenger revenue, offset by a $326 million increase in economic fuel cost and a $292 million increase in non-fuel operating costs.

As compared to the prior year, higher Mainline revenue is primarily attributable to a 27% increase in traffic and a 23% increase in yield, driven by a historically strong demand environment. Non-fuel operating expenses increased, driven by higher variable costs, largely consistent with the overall growth in capacity and departures. Higher fuel prices, combined with more gallons consumed, drove the increase in Mainline fuel expense.

Regional

Regional operations reported an adjusted pretax loss of $2 million in the third quarter of 2022, compared to an adjusted pretax loss of $1 million in the third quarter of 2021. While operating revenue increased $47 million, the improvement was offset by a $44 million increase in fuel costs and a $4 million increase in non-fuel operating expenses.

Regional passenger revenue increased significantly compared to the third quarter of 2021, primarily driven by an improved load factor and a 29% improvement in yield. Higher fuel prices contributed to the increase in Regional fuel expense.

Horizon

Horizon reported an adjusted pretax loss of $6 million in the third quarter of 2022, compared to an adjusted pretax profit of $8 million in the third quarter of 2021. The shift to adjusted pretax loss is driven by lower CPA revenue on decreased departures.

COMPARISON OF NINE MONTHS ENDED SEPTEMBER 30, 2022 TO NINE MONTHS ENDED SEPTEMBER 30, 2021

Our consolidated net income for the nine months ended September 30, 2022 was $36 million, or $0.28 per share, compared to consolidated net income of $460 million, or $3.64 per share, for the nine months ended September 30, 2021.

Our adjusted net income for the nine months ended September 30, 2022 was $438 million, or $3.42 per share, compared to an adjusted net loss of $287 million, or $2.27 per share, in the nine months ended September 30, 2021. The following table reconciles our adjusted net income and adjusted EPS to amounts as reported in accordance with GAAP:

	Nine Months Ended September 30,			
	2022		2021	
(in millions, except per share amounts)	Dollars	Diluted EPS	Dollars	Diluted EPS
GAAP net income per share	**$ 36**	**$ 0.28**	$ 460	$ 3.64
Payroll Support Program grant wage offset	**—**	**—**	(914)	(7.24)
Mark-to-market fuel hedge adjustments	**64**	**0.50**	(68)	(0.54)
Special items - fleet transition	**376**	**2.94**	5	0.04
Special items - labor ratification bonus	**90**	**0.70**	—	—
Special items - restructuring	**—**	**—**	(12)	(0.09)
Income tax effect of reconciling items above	**(128)**	**(1.00)**	242	1.92
Non-GAAP adjusted net income (loss) per share	**$ 438**	**$ 3.42**	$ (287)	$ (2.27)

CASM excluding fuel and special items reconciliation is summarized below:

	Nine Months Ended September 30,		
(in cents)	2022	2021	% Change
Consolidated:			
CASM	**15.56 ¢**	9.50 ¢	64 %
Less the following components:			
Payroll Support Program grant wage offset	**—**	(2.39)	NM
Aircraft fuel, including hedging gains and losses	**4.37**	2.24	95 %
Special items - fleet transition	**0.82**	0.01	NM
Special items - labor ratification bonus	**0.20**	—	NM
Special items - restructuring	**—**	(0.03)	NM
CASM excluding fuel and special items	**10.17 ¢**	9.67 ¢	5 %
Mainline:			
CASM	**14.59 ¢**	8.26 ¢	77 %
Less the following components:			
Payroll Support Program grant wage offset	**—**	(2.61)	NM
Aircraft fuel, including hedging gains and losses	**4.44**	1.99	123 %
Special items - fleet transition	**0.69**	0.02	NM
Special items - labor ratification bonus	**0.22**	—	NM
Special items - restructuring	**—**	(0.04)	NM
CASM excluding fuel and special items	**9.24 ¢**	8.90 ¢	4 %

OPERATING REVENUE

Total operating revenue increased $2.9 billion, or 68%, during the first nine months of 2022 compared to the same period in 2021. The changes are summarized in the following table:

	Nine Months Ended September 30,		
(in millions)	**2022**	**2021**	**% Change**
Passenger revenue	**$ 6,544**	$ 3,785	73 %
Mileage Plan other revenue	**433**	332	30 %
Cargo and other	**190**	160	19 %
Total operating revenue	**$ 7,167**	$ 4,277	68 %

Passenger revenue

On a consolidated basis, Passenger revenue for the first nine months of 2022 increased by $2.8 billion, or 73%, on a 41% increase in passenger traffic and a 23% improvement in ticket yields. Although our airlines experienced operational disruptions in the first half of 2022 that have since been resolved, demand for both leisure and business travel continued to drive revenue results to historic levels.

For the fourth quarter, we anticipate Passenger revenue will continue to show meaningful improvements over the comparable prior year period on increased capacity offered. Strong demand for passenger air travel has persisted through summer and into the fall, with yields and load factors expected to exceed prior year results.

Mileage Plan other revenue

On a consolidated basis, Mileage Plan other revenue increased $101 million, or 30%, in the first nine months of 2022. The change is largely due to an increase in commissions from our bank card partners driven by increased consumer spending and improved economics from our new co-branded credit card agreement.

We expect continued strength in Mileage Plan other revenue for the fourth quarter of 2022 compared to the prior year, driven by higher commissions resulting from the improved economics of our new co-branded credit card agreement and increased card spend.

Cargo and other

On a consolidated basis, Cargo and other revenue increased $30 million, or 19%, in the first nine months of 2022. Other ancillary revenue was the primary driver of the year-over-year increase, consistent with the return in demand for travel. Incremental freight revenue also contributed due to greater use of belly capacity, which grew on an increase in scheduled departures.

We expect Cargo and other revenue to increase in the fourth quarter of 2022 compared to the prior year, driven by greater ancillary revenue and growth in our cargo business.

OPERATING EXPENSES

Total operating expenses increased $3.5 billion, or 96%, compared to the first nine months of 2021. We believe it is useful to summarize operating expenses as follows, which is consistent with the way expenses are reported internally and evaluated by management:

	Nine Months Ended September 30,		
(in millions)	**2022**	**2021**	**% Change**
Fuel expense	**$ 2,000**	$ 853	134 %
Non-fuel operating expenses, excluding special items	**4,654**	3,699	26 %
Payroll Support Program grant wage offset	**—**	(914)	NM
Special items - fleet transition	**376**	5	NM
Special items - labor ratification bonus	**90**	—	NM
Special items - restructuring	**—**	(12)	NM
Total operating expenses	**$ 7,120**	$ 3,631	96 %

Fuel expense

Aircraft fuel expense increased $1.1 billion, or 134%, compared to the nine months ended September 30, 2021. The elements of the change are illustrated in the table:

	Nine Months Ended September 30,			
	2022		**2021**	
(in millions, except for per gallon amounts)	**Dollars**	**Cost/Gal**	**Dollars**	**Cost/Gal**
Raw or "into-plane" fuel cost	**$ 2,103**	**$ 3.67**	$ 949	$ 1.99
(Gain)/loss on settled hedges	**(167)**	**(0.29)**	(28)	(0.06)
Consolidated economic fuel expense	**$ 1,936**	**$ 3.38**	$ 921	$ 1.93
Mark-to-market fuel hedge adjustments	**64**	**0.11**	(68)	(0.14)
GAAP fuel expense	**$ 2,000**	**$ 3.49**	$ 853	$ 1.79
Fuel gallons		**573**		477

Raw fuel expense increased 122% in the first nine months of 2022 compared to the first nine months of 2021, due to significantly higher per gallon costs and increased fuel consumption. Raw fuel expense per gallon increased by approximately 84% due to higher West Coast jet fuel prices. West Coast jet fuel prices are impacted by both the price of crude oil and refining margins associated with the conversion of crude oil to jet fuel. Crude oil prices have risen 49% while refining margins have more than tripled compared to 2021. Fuel gallons consumed increased 20%, consistent with rising capacity.

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

Gains recognized for hedges that settled in the first nine months of 2022 were $167 million, compared to gains of $28 million in the same period in 2021. These amounts represent cash received from settled hedges, offset by cash paid in prior periods for premium expense.

We expect continued pressure in aircraft fuel expense in the fourth quarter of 2022, driven by both increased raw fuel and refining margins on increased capacity. We expect our economic fuel cost per gallon in the fourth quarter to range between $3.50 to $3.70 per gallon. Based on expected raw fuel prices, we will continue to recognize benefits from our fuel hedge portfolio in the fourth quarter. We expect the magnitude of the hedge benefit to be smaller compared to prior quarters in 2022 as the strike price of the portfolio approaches projected market cost per barrel.

Non-fuel expenses

	Nine Months Ended September 30,		
(in millions)	2022	2021	% Change
Wages and benefits	**$ 1,931**	$ 1,581	22 %
Variable incentive pay	**140**	109	27 %
Aircraft maintenance	**331**	272	22 %
Aircraft rent	**222**	188	18 %
Landing fees and other rentals	**435**	414	5 %
Contracted services	**243**	167	45 %
Selling expenses	**218**	123	76 %
Depreciation and amortization	**310**	294	5 %
Food and beverage service	**143**	97	46 %
Third-party regional carrier expense	**145**	106	37 %
Other	**536**	348	54 %
Total non-fuel operating expenses, excluding special items	**$ 4,654**	$ 3,699	26 %

For the fourth quarter of 2022, we generally anticipate recognizing higher non-fuel operating costs compared to the prior year as we continue to increase our capacity and scheduled departures, and pay a larger employee base higher wage rates following the ratification of new labor agreements.

Wages and benefits

Wages and benefits increased by $350 million, or 22%, in the first nine months of 2022. The primary components of wages and benefits are shown in the following table:

	Nine Months Ended September 30,		
(in millions)	2022	2021	% Change
Wages	**$ 1,467**	$ 1,176	25 %
Pension - Defined benefit plans service cost	**34**	39	(13)%
Defined contribution plans	**116**	91	27 %
Medical and other benefits	**207**	192	8 %
Payroll taxes	**107**	83	29 %
Total wages and benefits	**$ 1,931**	$ 1,581	22 %

Wages increased $291 million, or 25%, in the first nine months of 2022, primarily driven by 19% growth in FTEs as Alaska and Horizon hire to support the ramp up in operations. The ratification of three new collective bargaining agreements during the third quarter resulted in significant wage increases for the represented groups. As a result of the new agreements, the Company recorded $35 million in incremental wage expense during the quarter, $16 million of which relates to a one-time adjustment of accrued benefits for new wage rates.

Increased expense for defined contribution plans and payroll taxes are consistent with the change in wages.

Variable incentive pay

Variable incentive pay expense increased $31 million, or 27%, in the first nine months of 2022. The increase is due to the expectation that higher payouts will be achieved under the 2022 Performance Based Pay Plan.

In the fourth quarter we anticipate variable incentive pay will increase as compared to the prior-year period on an expectation of improved payout under the plan.

Aircraft maintenance

Aircraft maintenance expense increased by $59 million, or 22%, in the first nine months of 2022. Higher maintenance expense is the result of charges recorded for maintenance work to return leased aircraft recorded in the first quarter of 2022 and increased power-by-the-hour charges on covered aircraft, including a new contract for our regional fleet.

Aircraft rent

Aircraft rent expense increased by $34 million, or 18%, in the first nine months of 2022. Increased expense is due to the delivery of eight leased Boeing 737-9 aircraft and ten leased Embraer E175 aircraft operated by SkyWest since September 30, 2021.

Landing fees and other rentals

Landing fees and other rentals in the first nine months of 2022 were generally flat as compared to the same period in 2021. Increases in departures across the system were offset by favorable resolution for certain pandemic period airport accruals.

Contracted services

Contracted services increased by $76 million, or 46%, in the first nine months of 2022, driven primarily by increased departures and passengers in line with increased demand, coupled with increased rates charged by vendor partners.

Selling expenses

Selling expenses increased by $95 million, or 77%, in the first nine months of 2022, primarily driven by an increase in distribution costs and credit card commissions incurred with the overall revenue recovery.

Food and beverage service

Food and beverage service increased by $46 million, or 46%, in the first nine months of 2022. Incremental food and beverage charges are in line with the 34% increase in revenue passengers as well as additional offerings of on-board products as compared to the prior-year period.

Third-party regional carrier expense

Third-party regional carrier expense, which represents payments made to SkyWest under our CPA, increased $39 million, or 37%, in the first nine months of 2022. The increase in expense is due to incremental departures flown by SkyWest with ten additional aircraft in operating service as compared to the prior-year period.

We expect third-party regional carrier expense to grow in the fourth quarter of 2022 compared to the prior year as we continue operating the ten additional Embraer E175 aircraft under the CPA with SkyWest.

Other expense

Other expense increased $188 million, or 54%, in the first nine months of 2022. The most significant drivers of the increased cost were training events and related travel costs, crew hotel stays, and crew per diem. Increases in crew-related costs are consistent with the rise in departures. The increase within Other expense also includes $28 million incurred for employee recognition related to the 90,000 mile gift granted to all employees.

Special items - fleet transition

We recorded expenses associated with fleet transition and related charges of $376 million in the first nine months of 2022. We expect to record additional special charges associated with the fleet transition during 2022, primarily related to accelerated aircraft ownership and lease return expenses. At this time, these costs are estimated to be between $100 million and $125 million for the fourth quarter of 2022, and are subject to change as management continues to negotiate leased aircraft returns. Refer to Note 2 to the consolidated financial statements for additional details.

Special items - labor ratification bonus

We recorded a nonrecurring expense of $90 million in the third quarter of 2022 representing a payment to Alaska pilots following the ratification of a new collective bargaining agreement.

ADDITIONAL SEGMENT INFORMATION

Refer to Note 9 to the consolidated financial statements for a detailed description of each segment. Below is a summary of each segment's profitability.

Mainline

Mainline operations reported an adjusted pretax profit of $647 million in the first nine months of 2022, compared to an adjusted pretax loss of $247 million in the same period in 2021. The $894 million improvement was driven by a $2.6 billion increase in Mainline operating revenue partially offset by a $897 million increase in Mainline fuel expense and a $871 million increase in Mainline non-fuel operating expense.

As compared to the prior year, higher Mainline revenue are primarily attributable to a 47% increase in traffic and a 24% increase in yield, driven by the significant increase in demand. Non-fuel operating expenses increased, driven by higher variable costs, largely consistent with the overall growth in capacity and departures. Higher fuel prices, combined with additional gallons consumed, drove the increase in Mainline fuel expense.

Regional

Regional operations reported an adjusted pretax loss of $59 million in the first nine months of 2022, compared to an adjusted pretax loss of $207 million in the first nine months of 2021. Improved results were attributable to a $270 million increase in operating revenue which was the result of higher demand and yields, partially offset by a $118 million increase in fuel costs on higher fuel prices.

Horizon

Horizon reported an adjusted pretax loss of $18 million in the first nine months of 2022, compared to an adjusted pretax profit of $34 million in the same period in 2021. The shift to adjusted pretax loss is driven by lower CPA revenue on decreased departures, combined with higher wage and benefit costs on incremental FTEs and increased wage rates resulting from the new collective bargaining agreement with Horizon pilots.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are:

- Existing cash and marketable securities balance of $3.2 billion, and cash flows from operations;
- 67 unencumbered aircraft that could be financed, if necessary;
- Combined bank line-of-credit facilities, with no outstanding borrowings, of $400 million.

During the nine months ended September 30, 2022, we took free and clear delivery of 18 owned Boeing 737-9 aircraft. We also made debt payments totaling $333 million, ending the quarter with a debt-to-capitalization ratio of 49%, within our target range of 40% to 50%.

As our business returns to sustained profitability, reducing outstanding debt, normalizing our on-hand liquidity, and maintaining a strong balance sheet remain high priorities.

We believe that our current cash and marketable securities balance, combined with available sources of liquidity, will be sufficient to fund our operations, meet our debt payment obligations, and remain in compliance with the financial debt covenants in existing financing arrangements for the foreseeable future.

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

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

(in millions)	September 30, 2022	December 31, 2021	Change
Cash and marketable securities	**$ 3,150**	$ 3,116	1 %
Cash, marketable securities, and unused lines of credit as a percentage of trailing twelve months' revenue	**39 %**	57 %	(18) pts
Long-term debt, net of current portion	**1,889**	2,173	(13)%
Shareholders’ equity	**$ 3,826**	$ 3,801	1%

Debt-to-capitalization, adjusted for operating leases

(in millions)	September 30, 2022	December 31, 2021	Change
Long-term debt, net of current portion	**$ 1,889**	$ 2,173	(13)%
Capitalized operating leases	**1,745**	1,547	13%
Adjusted debt, net of current portion of long-term debt	**$ 3,634**	$ 3,720	(2)%
Shareholders' equity	**3,826**	3,801	1%
Total invested capital	**$ 7,460**	$ 7,521	(1)%
Debt-to-capitalization, including operating leases	**49 %**	49 %	— pt

Adjusted net debt to earnings before interest, taxes, depreciation, amortization, special items and rent

(in millions)	September 30, 2022	December 31, 2021
Current portion of long-term debt	**$ 321**	$ 366
Current portion of operating lease liabilities	**263**	268
Long-term debt	**1,889**	2,173
Long-term operating lease liabilities, net of current portion	**1,482**	1,279
Total adjusted debt	**3,955**	4,086
Less: Cash and marketable securities	**(3,150)**	(3,116)
Adjusted net debt	**$ 805**	$ 970

(in millions)	Twelve Months Ended September 30, 2022	Twelve Months Ended December 31, 2021
GAAP Operating Income[(a)]	**$ 86**	$ 685
Adjusted for:		
Payroll Support Program grant wage offset and special items	**462**	(925)
Mark-to-market fuel hedge adjustments	**85**	(47)
Depreciation and amortization	**410**	394
Aircraft rent	**288**	254
EBITDAR	**$ 1,331**	$ 361
Adjusted net debt to EBITDAR	**0.6x**	2.7x

(a) Operating Income can be reconciled using the trailing twelve month operating income as filed quarterly with the SEC.

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

ANALYSIS OF OUR CASH FLOWS

Cash Provided by Operating Activities

For the first nine months of 2022, net cash provided by operating activities was $1.4 billion, compared to $901 million during the same period in 2021. The $508 million net increase in our operating cash flows is due to a combination of factors. Increased remuneration from our co-brand credit card provided nearly $300 million in incremental cash as compared to 2021 on improved economics and increased volumes. Additionally, in 2022 we received $260 million in federal income tax refunds and the change in air traffic liability increased by $152 million due to strong passenger demand. The prior year also included a nonrecurring voluntary contribution of $100 million to Alaska pilots' defined benefit plan. These amounts were partially offset by uses of cash on increasing operating expenses as the business returned flying capacity.

Cash Used in Investing Activities

Cash used in investing activities was $888 million during the first nine months of 2022, compared to $943 million during the same period of 2021. Cash used in capital expenditures for aircraft purchase deposits and other property and equipment was $947 million in the first nine months of 2022, compared to $190 million in the first nine months of 2021. This increase in cash used in capital expenditures was offset by purchases and sales of marketable securities, which were $61 million of net sales during the first nine months of 2022, compared to $744 million of net purchases during the first nine months of 2021.

Cash Used in Financing Activities

Cash used in financing activities was $296 million during the first nine months of 2022, compared to $825 million during the same period in 2021. During the first nine months of 2022, we had no new proceeds from issuance of debt and utilized cash on hand to repay $333 million of outstanding long-term debt, compared to debt proceeds of $363 million and payments of $1.2 billion during the same period in 2021.

MATERIAL CASH COMMITMENTS

Aircraft Commitments

As of September 30, 2022, Alaska has firm orders to purchase 56 Boeing 737 aircraft with deliveries in 2022 through 2024 and firm commitments to lease five Boeing 737-9 aircraft with deliveries in 2022 and 2023. Alaska has options to acquire up to 11 additional Boeing 737-9 aircraft and 41 additional Boeing 737-10 aircraft with deliveries between 2024 and 2026. Subsequent to quarter end, Alaska executed an agreement with Boeing to exercise options to purchase 52 737 aircraft for delivery between 2024 and 2027. The agreement also secures rights for 105 additional 737 aircraft through 2030.

Alaska has received information from Boeing indicating that certain 737 deliveries in 2022 and 2023 are expected to be delayed to 2023 and 2024. Alaska will continue to work with Boeing on delivery timelines that reflect Alaska's plans for growth.

Horizon has commitments to purchase 20 Embraer E175 aircraft with deliveries between 2022 and 2026. Horizon has options to acquire 13 Embraer E175 aircraft between 2024 and 2025. Options will be exercised only if we believe return on invested capital targets can be met over the long term.

To best reflect our expectations of future fleet activity, we have incorporated anticipated delivery delays related to 2022 and the October 2022 Boeing agreement described above into the following table, which summarizes our expected fleet count by year, as of November 3, 2022:

	Actual Fleet	Anticipated Fleet Activity[a]						
Aircraft	September 30, 2022	2022 Additions	2022 Removals	Dec 31, 2022	2023 Changes	Dec 31, 2023	2024 Changes	Dec 31, 2024
B737-700 Freighters	3	—	—	3	—	3	—	3
B737-800 Freighters	—	—	—	—	2	2	—	2
B737-700	11	—	—	11	—	11	—	11
B737-800	61	—	—	61	(2)	59	—	59
B737-900	12	—	—	12	—	12	—	12
B737-900ER	79	—	—	79	—	79	—	79
B737-8	—	—	—	—	5	5	5	10
B737-9	33	5	—	38	35	73	10	83
B737-10	—	—	—	—	—	—	6	6
A320	23	—	(10)	13	(13)	—	—	—
A321neo	10	—	—	10	(10)	—	—	—
Total Mainline Fleet	**232**	**5**	**(10)**	**227**	**17**	**244**	**21**	**265**
Q400 operated by Horizon	22	—	(11)	11	(11)	—	—	—
E175 operated by Horizon	30	3	—	33	8	41	3	44
E175 operated by third party	42	—	—	42	—	42	—	42
Total Regional Fleet[b]	**94**	**3**	**(11)**	**86**	**(3)**	**83**	**3**	**86**
Total	**326**	**8**	**(21)**	**313**	**14**	**327**	**24**	**351**

(a) Anticipated fleet activity reflects intended early retirement and extensions or replacement of certain leases, not all of which have been contracted or agreed to by counterparties yet.
(b) Aircraft are either owned or leased by Horizon or operated under capacity purchase agreement with a third party.

We intend to finance future aircraft deliveries and option exercises using cash flow from operations or long-term debt.

Fuel Hedge Positions

All of our future oil positions are call options, which are designed to effectively cap the cost of the crude oil component of our jet fuel purchases. With call options, we are hedged against volatile crude oil price increases. During a period of decline in crude oil prices, we only forfeit cash previously paid for hedge premiums. We typically hedge up to 50% of our expected consumption. Our crude oil positions are as follows:

	Approximate % of Expected Fuel Requirements[a]	Weighted-Average Crude Oil Price per Barrel	Average Premium Cost per Barrel
Fourth Quarter 2022	60 %	$88	$5
Remainder of 2022	**60 %**	**$88**	**$5**
First Quarter of 2023	50 %	$93	$6
Second Quarter of 2023	40 %	$98	$7
Third Quarter of 2023	30 %	$103	$8
Fourth Quarter of 2023	20 %	$102	$8
Full Year 2023	**35 %**	**$98**	**$7**
First Quarter of 2024	10 %	$88	$8
Full Year 2024	**2 %**	**$88**	**$8**

(a) We are hedged at approximately 60% of expected fuel consumption for the remainder of 2022 due to schedule reductions that occurred subsequent to the Company entering these positions.

Contractual Obligations

The following table reflects our contractual obligations as of September 30, 2022, and the agreement executed with Boeing in October 2022. For agreements with variable terms, amounts included reflect our minimum obligations.

(in millions)	Remainder of 2022	2023	2024	2025	2026	Beyond 2026	Total
Debt obligations	$ 52	$ 309	$ 238	$ 273	$ 176	$ 1,178	$ 2,226
Aircraft lease commitments[(a)]	84	282	227	221	219	929	1,962
Facility lease commitments	5	17	9	8	8	86	133
Aircraft-related commitments[(b)]	629	2,024	1,394	1,262	689	941	6,939
Interest obligations[(c)]	9	102	70	55	60	164	460
Other obligations[(d)]	43	183	190	195	190	780	1,581
Total	$ 822	$ 2,917	$ 2,128	$ 2,014	$ 1,342	$ 4,078	$ 13,301

(a) Future minimum lease payments for aircraft includes commitments for aircraft which have been removed from operating service, as we have remaining obligation under existing terms.
(b) Includes contractual commitments for aircraft, engines, and aircraft maintenance. Option deliveries are excluded from minimum commitments until exercise.
(c) For variable-rate debt, future obligations are shown above using interest rates forecast as of September 30, 2022.
(d) Comprised of non-aircraft lease costs associated with capacity purchase agreements and other miscellaneous obligations.

Following the October 2022 agreement with Boeing, we now anticipate capital expenditures for 2022 to range between $1.5 billion and $1.6 billion, which we plan to fund with cash generated by operating activities and cash on hand.

Credit Card Agreements

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

Leased Aircraft Return Costs

For many of our leased aircraft, we are required under the contractual terms to return the aircraft in a specified state. As a result of these contractual terms, we will incur significant costs to return these aircraft at the termination of the lease. Costs of returning leased aircraft are accrued when the costs are probable and reasonably estimable, usually over the twelve months prior to the lease return, unless a determination is made that the leased asset is removed from operation. If the leased aircraft is removed from the operating fleet, the estimated cost of return is accrued at the time of removal. Any accrual is based on the time remaining on the lease, planned aircraft usage and the provisions included in the lease agreement, although the actual amount due to any lessor upon return may not be known with certainty until lease termination. We anticipate recording material expenses and cash outflows to return aircraft in 2022 in conjunction with expected lease terminations and the accelerated exit of Airbus aircraft from Alaska's fleet.

Income Taxes

For federal income tax purposes, the majority of our assets are fully depreciated over a seven-year life using an accelerated depreciation method or bonus depreciation, if available. For financial reporting purposes, the majority of our assets are depreciated over 15 to 25 years to an estimated salvage value using the straight-line basis. This difference has created a significant deferred tax liability. At some point in the future the depreciation basis difference will reverse, including via asset impairment, potentially resulting in an increase in income taxes paid.

While it is possible that we could have material cash obligations for this deferred liability at some point in the future, we cannot estimate the timing of long-term cash flows with reasonable accuracy. Taxable income or loss and cash taxes payable and refundable in the short-term are impacted by many items, including the amount of book income generated (which can be volatile depending on revenue, demand for air travel and fuel prices), usage of net operating losses, whether "bonus depreciation" provisions are available, any future tax reform efforts at the federal level, as well as other legislative changes that are beyond our control.

In August 2022, the Inflation Reduction Act ("IRA") bill was signed into law, effective for tax years beginning after December 31, 2022. The IRA includes a provision to implement a 15% corporate alternative minimum tax on corporations whose average annual adjusted income during the most recently-completed three-year period exceeds $1 billion. We will continue to evaluate the provisions within the IRA, but at this time we do not believe it will have a material impact on our financial statements.

CRITICAL ACCOUNTING ESTIMATES

Except as described below, for information regarding our critical accounting estimates, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2021.

FREQUENT FLYER PROGRAMS

The rate at which we defer sales proceeds related to services sold:

Following the amendment of our agreement with our co-brand bank card partner in the first quarter, the Company updated the standalone selling price for performance obligations in the contract. Updated standalone selling prices became effective as of January 1, 2022.

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

Following its review of significant Mileage Plan assumptions, the Company updated its breakage estimate for the portion of loyalty mileage credits not expected to be redeemed, effective January 1, 2022. This update was made following a study that used a statistical analysis of historical data. At September 30, 2022, the deferred revenue balance associated with the Mileage Plan program was $2.5 billion. A hypothetical 1% change in the amount of outstanding miles estimated to be redeemed would result in an approximately $7 million impact on annual revenue recognized.

GLOSSARY OF AIRLINE TERMS

Adjusted net debt - long-term debt, including current portion, plus capitalized operating leases, less cash and marketable securities

Adjusted net debt to EBITDAR - represents adjusted net debt divided by EBITDAR (trailing twelve months earnings before interest, taxes, depreciation, amortization, special items and rent)

Aircraft Utilization - block hours per day; this represents the average number of hours per day our aircraft are in transit

Aircraft Stage Length - represents the average miles flown per aircraft departure

ASMs - available seat miles, or “capacity”; represents total seats available across the fleet multiplied by the number of miles flown

CASM - operating costs per ASM, or "unit cost"; represents all operating expenses including fuel and special items

CASMex - operating costs excluding fuel and special items per ASM; this metric is used to help track progress toward reduction of non-fuel operating costs since fuel is largely out of our control

Debt-to-capitalization ratio - represents adjusted debt (long-term debt plus capitalized operating leases) divided by total equity plus adjusted debt

Diluted Earnings per Share - represents earnings per share (EPS) using fully diluted shares outstanding

Diluted Shares - represents the total number of shares that would be outstanding if all possible sources of conversion, such as stock options, were exercised

Economic Fuel - best estimate of the cash cost of fuel, net of the impact of settled fuel-hedging contracts in the period

Load Factor - RPMs as a percentage of ASMs; represents the number of available seats that were filled with paying passengers

Mainline - represents flying Boeing 737, Airbus 320 family and Airbus 321neo jets and all associated revenue and costs

Productivity - number of revenue passengers per full-time equivalent employee

RASM - operating revenue per ASMs, or "unit revenue"; operating revenue includes all passenger revenue, freight & mail, Mileage Plan and other ancillary revenue; represents the average total revenue for flying one seat one mile

Regional - represents capacity purchased by Alaska from Horizon and SkyWest. In this segment, Regional records actual on-board passenger revenue, less costs such as fuel, distribution costs, and payments made to Horizon and SkyWest under the respective capacity purchased arrangement (CPA). Additionally, Regional includes an allocation of corporate overhead such as IT, finance, and other administrative costs incurred by Alaska and on behalf of Horizon.

RPMs - revenue passenger miles, or "traffic"; represents the number of seats that were filled with paying passengers; one passenger traveling one mile is one RPM

Yield - passenger revenue per RPM; represents the average revenue for flying one passenger one mile

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There have been no material changes in market risk from the information provided in Item 7A. “Quantitative and Qualitative Disclosure About Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2021.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2022, an evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer (collectively, our “certifying officers”), of the effectiveness of the design and operation of our disclosure controls and procedures. These disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in our periodic reports filed with or submitted to the Securities and Exchange Commission (the SEC) is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and includes, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our certifying officers, as appropriate, to allow timely decisions regarding required disclosure. Our certifying officers concluded, based on their evaluation, that disclosure controls and procedures were effective as of September 30, 2022.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company’s internal controls over financial reporting during the quarter ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Our internal control over financial reporting is based on the 2013 framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework).

PART II

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to routine litigation matters incidental to its business and with respect to which no material liability is expected. Liabilities for litigation related contingencies are recorded when a loss is determined to be probable and estimable.

In 2015, three flight attendants filed a class action lawsuit seeking to represent all Virgin America flight attendants for damages based on alleged violations of California and City of San Francisco wage and hour laws. The court certified a class of approximately 1,800 flight attendants in November 2016. The Company pursued numerous appeal paths following a February 2019 federal district court order against Virgin America and Alaska Airlines awarding plaintiffs approximately $78 million, including approximately $25 million in penalties under California's Private Attorneys General Act (PAGA). An appellate court reversed portions of the lower court decision and significantly reduced the PAGA penalties and total judgment value. In June 2022, the U.S. Supreme Court declined to take the Company's appeal for a conclusive ruling that the California laws on which the judgment is based are invalid as applied to airlines. The decision leaves open the possibility that other states in the Ninth Circuit judicial district may attempt to apply similar laws to airlines.

The final total judgment amount has not been determined by the lower court as of the date of this filing. Based on the facts and circumstances available, the Company believes the range of potential loss to be between $0 and $22 million, and holds an accrual for $22 million in Other accrued liabilities on the condensed consolidated balance sheets. The Company is analyzing a range of potential options to balance new compliance obligations with operational and labor considerations. Some or all of these solutions may have an adverse impact on the Company's operations and financial position due in part to the unresolved conflicts between the laws and federal regulations applicable to airlines.

As part of the 2016 acquisition of Virgin America, Alaska assumed responsibility for the Virgin trademark license agreement with the Virgin Group. In 2019, the Virgin Group sued Alaska in England, alleging that the agreement requires Alaska to pay $8 million per year as a minimum annual royalty through 2039, adjusted annually for inflation. Alaska stopped making royalty payments in 2019 after ending all use of the Virgin brand. The Virgin Group asserts that payments are required without regard to actual use of the mark. A trial was held in October 2022, and a decision is expected soon. Further legal proceedings are likely to take place before the matter is resolved. The Company believes the claims in the case are without factual and legal merit, a position supported by Virgin America's representations during pre-merger due diligence.

ITEM 1A. RISK FACTORS

See Part I, Item 1A. "Risk Factors," in our 2021 Form 10-K for a detailed discussion of risk factors affecting Alaska Air Group.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Historically, the Company purchased shares pursuant to a $1 billion repurchase plan authorized by the Board of Directors in August 2015. In March 2020, subject to restrictions under the CARES Act, the Company suspended the share repurchase program indefinitely; these restrictions ended on October 1, 2022. When the repurchase program is restarted, the plan has remaining authorization to purchase an additional $456 million in shares.

As of September 30, 2022, a total of 1,882,517 shares of the Company's common stock have been issued to Treasury in connection with the Payroll Support Program. Each warrant is exercisable at a strike price of $31.61 (928,126 shares related to PSP1), $52.25 (305,499 shares related to PSP2), and $66.39 (221,812 shares related to PSP3) per share of common stock. An additional 427,080 warrants were issued in conjunction with a draw on the CARES Act Loan in 2020 at a strike price of $31.61. These warrants are non-voting, freely transferable, may be settled as net shares or in cash at the Company's option, and have a five-year term. Such warrants were issued to Treasury in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act").

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following documents are filed as part of this report:

1. *Exhibits:* See Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALASKA AIR GROUP, INC.

/s/ EMILY HALVERSON

Emily Halverson

Vice President Finance and Controller

November 3, 2022

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number
3.1	Amended and Restated Certificate of Incorporation of Registrant	10-Q	August 3, 2017	3.1
10.1#	Purchase Agreement No. 3866 between The Boeing Company and Alaska Airlines, Inc.	10-K	February 14, 2013	10.8
31.1†	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	10-Q		
31.2†	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	10-Q		
32.1†	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	10-Q		
32.2†	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	10-Q		
101.INS†	XBRL Instance Document - The instance document does not appear in the interactive data file because XBRL tags are embedded within the inline XBRL document.			
101.SCH†	XBRL Taxonomy Extension Schema Document			
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document			

†	Filed herewith
*	Indicates management contract or compensatory plan or arrangement.
#	Certain portions of this document that constitute confidential information have been redacted in accordance with Regulation S-K Item 601(b)(10).

[* * *]: THE IDENTIFIED INFORMATION HAS BEEN OMITTED FROM THE AGREEMENT BECAUSE IT IS BOTH (i) NOT MATERIAL AND (ii) IS THE TYPE THAT THE REGISTRANT TREATS AS PRIVATE OR CONFIDENTIAL.

PURCHASE AGREEMENT NUMBER 3866

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Relating to Boeing Models 737-8 and 737-9 Aircraft

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ASA-PA-3866-LA-09444	[* * *]
ASA-PA-3866-LA-09445	Special Matters – [* * *]
ASA-PA-3866-LA-09446	Special Matters – [* * *]
ASA-PA-3866-LA-09447	[* * *] Matters

Purchase Agreement No. 3866

between

The Boeing Company

and

Alaska Airlines, Inc.

This Purchase Agreement No. 3866 between The Boeing Company, a Delaware corporation, (**Boeing**) and Alaska Airlines, Inc., a Alaska corporation, (**Customer**) relating to the purchase and sale of Models 737-8 and 737-9 aircraft together with all tables, exhibits, supplemental exhibits, letter agreements and other attachments thereto, if any, (**Purchase Agreement**) incorporates the terms and conditions (except as specifically set forth below) of the Aircraft General Terms Agreement dated as of June 15, 2005 between the parties, identified as AGTA-ASA (**AGTA**).

1. <u>Quantity, Model and Description</u>.

The aircraft to be delivered to Customer will be designated as Models 737-8 aircraft (**737-8 Aircraft)** and 737-9 aircraft (**737-9 Aircraft**) (collectively referenced as **Aircraft**). Boeing will manufacture and sell to Customer Aircraft conforming to the configuration described in Exhibits A1 and A2 in the quantities listed in Table 1 to the Purchase Agreement.

2. <u>Delivery Schedule.</u>

The scheduled months of delivery of the Aircraft are listed in the attached Table 1. Exhibit B describes certain responsibilities for both Customer and Boeing in order to accomplish the delivery of the Aircraft.

3. <u>Price</u>.

3.1 <u>Aircraft Basic Price</u>. The Aircraft Basic Price is listed in Table 1 and is subject to escalation in accordance with the terms of this Purchase Agreement.

3.2 <u>Advance Payment Base Prices</u>. The Advance Payment Base Prices listed in Table 1 were calculated utilizing the latest escalation factors available to Boeing on the date of this Purchase Agreement projected to the month of scheduled delivery.

4. <u>Payment</u>.

4.1 Boeing acknowledges receipt of a deposit in the amount shown in Table 1 for each Aircraft (**Deposit**).

4.2 The standard advance payment schedule for the Aircraft requires Customer to make certain advance payments, expressed in a percentage of the Advance Payment Base Price of each Aircraft beginning with a payment of [* * *], less the Deposit, on the effective date of the Purchase Agreement for the Aircraft. Additional advance payments for each Aircraft are due as specified in and on the first business day of the months listed in the attached Table 1.

4.3 For any Aircraft whose scheduled month of delivery is less than twenty-four (24) from the date of this Purchase Agreement, the total amount of advance payments due for payment upon signing of this Purchase Agreement will include all advance payments which are past due in accordance with the standard advance payment schedule set forth in paragraph 4.2 above.

4.4 Customer will pay the balance of the Aircraft Price of each Aircraft at delivery.

5. Additional Terms.

5.1 Aircraft Information Table. Table 1 consolidates information contained in Articles 1, 2, 3 and 4 with respect to (i) quantity of Aircraft, (ii) applicable Detail Specification, (iii) month and year of scheduled deliveries, (iv) Aircraft Basic Price, (v) applicable escalation factors and (vi) Advance Payment Base Prices and advance payments and their schedules.

5.2 Escalation Adjustment/Airframe and Optional Features. Supplemental Exhibit AE1 contains the applicable airframe and optional features escalation formula.

5.3 Buyer Furnished Equipment Variables. Supplemental Exhibit BFE1 contains supplier selection dates, on dock dates and other variables applicable to the Aircraft.

5.4 Customer Support Variables. Information, training, services and other things furnished by Boeing in support of introduction of the Aircraft into Customer's fleet are described in Supplemental Exhibit CS1. The level of support to be provided under Supplemental Exhibit CS1 (**Entitlements**) assumes that at the time of delivery of Customer's first Aircraft under the Purchase Agreement, Customer has not taken possession of a 737-8 or 737-9 aircraft whether such 737-8 or 737-9 aircraft was purchased, leased or otherwise obtained by Customer from Boeing or another party. If prior to the delivery of Customer's first Aircraft, Customer has taken possession of a 737-8 or 737-9 aircraft, Boeing will revise the Entitlements to reflect the level of support normally provided by Boeing to operators already operating such aircraft. Under no circumstances under the Purchase Agreement or any other agreement will Boeing provide the Entitlements more than once to support Customer's operation of 737-8 or 737-9 aircraft.

5.5 Engine Escalation Variables. Supplemental Exhibit EE1 describes the applicable engine escalation formula and contains the engine warranty and the engine patent indemnity for the Aircraft.

5.6 Service Life Policy Component Variables. Supplemental Exhibit SLP1 lists the SLP Components covered by the Service Life Policy for the Aircraft.

5.7 Public Announcement. Boeing reserves the right to make a public announcement regarding Customer's purchase of the Aircraft upon approval of Boeing's press release by Customer's public relations department or other authorized representative.

5.8 Negotiated Agreement; Entire Agreement. This Purchase Agreement, including the provisions of Article 8.2 of the AGTA relating to insurance, and Article 11 of Part 2 of Exhibit C of the AGTA relating to DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES, has been the subject of discussion and negotiation and is understood by the parties; the Aircraft Price and other agreements of the parties stated in this Purchase Agreement were arrived at in consideration of such provisions. This Purchase Agreement, including the AGTA, contains the entire agreement between the parties and supersedes all previous proposals, understandings, commitments or representations whatsoever, oral or written, and may be changed only in writing signed by authorized representatives of the parties.

AGREED AND ACCEPTED this

October 10, 2012
Date

THE BOEING COMPANY	ALASKA AIRLINES, INC.
/s/ Lanine Lange	/s/ Mark Eliasen
Signature	Signature
Lanine Lange	Mark Eliasen
Printed name	Printed name
Attorney-in-Fact	VP/Finance & Treasurer
Title	Title

Table 1A To

Purchase Agreement No. PA-03866

Aircraft Delivery, Description, Price and Advance Payments

[* * *]

Table 1B To

Purchase Agreement No. PA-03866

Aircraft Delivery, Description, Price and Advance Payments

[* * *]

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Exhibit A-1 to Purchase Agreement Number 3866

BOEING MODEL 737-8 AIRCRAFT

Exhibit A-1

AIRCRAFT CONFIGURATION

Dated TBD

relating to

BOEING MODEL 737-8 AIRCRAFT

The initial configuration of Customer's Model 737-8 Aircraft has been defined by Boeing 737-8 Airplane Description Document No. D019A007 Rev "B" dated as of May 18, 2012 and is more fully discussed in Letter Agreement ASA-PA-3866-LA-09433 to the Purchase Agreement, entitled "Open Matters".

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Exhibit A-2 to Purchase Agreement Number 3866

BOEING MODEL 737-9 AIRCRAFT

Exhibit A-2

AIRCRAFT CONFIGURATION

Dated TBD

relating to

BOEING MODEL 737-9 AIRCRAFT

The initial configuration of Customer's Model 737-9 Aircraft has been defined by Boeing 737-9 Airplane Description Document No. D019A007 Rev "B" dated as of May 18, 2012 and is more fully discussed in Letter Agreement ASA-PA-3866-LA-09433 to the Purchase Agreement, entitled "Open Matters".

AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Exhibit B to Purchase Agreement Number 3866

Exhibit B

AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

relating to

BOEING MODELS 737-8 and 737-9 AIRCRAFT

Both Boeing and Customer have certain documentation and approval responsibilities at various times during the construction cycle of Customer's Aircraft that are critical to making the delivery of each Aircraft a positive experience for both parties. This Exhibit B documents those responsibilities and indicates recommended completion deadlines for the actions to be accomplished.

1. GOVERNMENT DOCUMENTATION REQUIREMENTS.

Certain actions are required to be taken by Customer in advance of the scheduled delivery month of each Aircraft with respect to obtaining certain government issued documentation.

1.1 Airworthiness and Registration Documents. Not later than **six (6) months prior to delivery** of each Aircraft, Customer will notify Boeing of the registration number to be painted on the side of the Aircraft. In addition, and not later than **three (3) months prior to delivery** of each Aircraft, Customer will, by letter to the regulatory authority having jurisdiction, authorize the temporary use of such registration numbers by Boeing during the pre-delivery testing of the Aircraft.

Customer is responsible for furnishing any Temporary or Permanent Registration Certificates required by any governmental authority having jurisdiction to be displayed aboard the Aircraft after delivery.

1.2 Certificate of Sanitary Construction.

1.2.1 U.S. Registered Aircraft. Boeing will obtain from the United States Public Health Service, a United States Certificate of Sanitary Construction to be displayed aboard each Aircraft after delivery to Customer. The above Boeing obligation only applies to commercial passenger-configured aircraft.

1.2.2 Non-U.S. Registered Aircraft. If Customer requires a United States Certificate of Sanitary Construction at the time of delivery of the Aircraft, Customer will give written notice thereof to Boeing at least **three (3) months prior to delivery**. Boeing will then use commercially reasonable efforts to obtain the Certificate from the United States Public Health Service and present it to Customer at the time of Aircraft delivery. The above Boeing obligation only applies to commercial passenger-configured aircraft.

1.3 Customs Documentation.

1.3.1 Import Documentation. If the Aircraft is intended to be exported from the United States, Customer must notify Boeing not later than **three (3) months prior to delivery** of each Aircraft of any documentation required by the customs authorities or by any other agency of the country of import.

1.3.2 General Declaration - U.S. If the Aircraft is intended to be exported from the United States, Boeing will prepare Customs Form 7507, General Declaration, for execution by U.S. Customs immediately prior to the ferry flight of the Aircraft. For this purpose, Customer will furnish to Boeing not later than **twenty (20) days prior to delivery** all information required by U.S. Customs and Border Protection, including without limitation (i) a complete crew and passenger list identifying the names, birth dates, passport numbers and passport expiration dates of all crew and passengers and (ii) a complete ferry flight itinerary, including point of exit from the United States for the Aircraft.

If Customer intends, during the ferry flight of an Aircraft, to land at a U.S. airport after clearing Customs at delivery, Customer must notify Boeing not later than **twenty (20) days prior to delivery** of such intention. If Boeing receives such notification, Boeing will provide to Customer the documents constituting a Customs permit to proceed, allowing such Aircraft to depart after any such landing. Sufficient copies of completed Form 7507, along with passenger manifest, will be furnished to Customer to cover U.S. stops scheduled for the ferry flight.

1.3.3 Export Declaration - U.S. If the Aircraft is intended to be exported from the United States following delivery, and (i) Customer is a non-U.S. customer, Boeing will file an export declaration electronically with U.S. Customs and Border Protection (**CBP**), or (ii) Customer is a U.S. customer, it is the responsibility of the U.S. customer, as the exporter of record, to file the export declaration with CBP.

2. Insurance Certificates.

Unless provided earlier, Customer will provide to Boeing not later than **thirty (30) days prior to delivery** of the first Aircraft, a copy of the requisite annual insurance certificate in accordance with the requirements of Article 8 of the AGTA.

3. NOTICE OF FLYAWAY CONFIGURATION.

Not later than **twenty (20) days prior to delivery** of the Aircraft, Customer will provide to Boeing a configuration letter stating the requested "flyaway configuration" of the Aircraft for its ferry flight. This configuration letter should include:

(i) the name of the company which is to furnish fuel for the ferry flight and any scheduled post-delivery flight training, the method of payment for such fuel, and fuel load for the ferry flight;

(ii) the cargo to be loaded and where it is to be stowed on board the Aircraft, the address where cargo is to be shipped after flyaway and notification of any hazardous materials requiring special handling;

(iii) any BFE equipment to be removed prior to flyaway and returned to Boeing BFE stores for installation on Customer's subsequent Aircraft;

(iv) a complete list of names and citizenship of each crew member and non-revenue passenger who will be aboard the ferry flight; and

(v) a complete ferry flight itinerary.

4. DELIVERY ACTIONS BY BOEING.

1.1 Schedule of Inspections. All FAA, Boeing, Customer and, if required, U.S. Customs Bureau inspections will be scheduled by Boeing for completion prior to delivery or departure of the Aircraft. Customer will be informed of such schedules.

1.2 Schedule of Demonstration Flights. All FAA and Customer demonstration flights will be scheduled by Boeing for completion prior to delivery of the Aircraft.

1.3 Schedule for Customer's Flight Crew. Boeing will inform Customer of the date that a flight crew is required for acceptance routines associated with delivery of the Aircraft.

1.4 Fuel Provided by Boeing. Boeing will provide to Customer, without charge, the amount of fuel shown in U.S. gallons in the table below for the model of Aircraft being delivered and full capacity of engine oil at the time of delivery or prior to the ferry flight of the Aircraft.

Aircraft Model	**Fuel Provided**
737	[* * *]

1.5 Flight Crew and Passenger Consumables. Boeing will provide reasonable quantities of food, coat hangers, towels, toilet tissue, drinking cups and soap for the first segment of the ferry flight for the Aircraft.

1.6 Delivery Papers, Documents and Data. Boeing will have available at the time of delivery of the Aircraft certain delivery papers, documents and data for execution and delivery. If title for the Aircraft will be transferred to Customer through a Boeing sales subsidiary and if the Aircraft will be registered with the FAA, Boeing will pre-position in Oklahoma City, Oklahoma, for filing with the FAA at the time of delivery of the Aircraft an executed original Form 8050-2, Aircraft Bill of Sale, indicating transfer of title to the Aircraft from Boeing's sales subsidiary to Customer.

1.7 Delegation of Authority. Boeing will present a certified copy of a Resolution of Boeing's Board of Directors, designating and authorizing certain persons to act on its behalf in connection with delivery of the Aircraft.

5. DELIVERY ACTIONS BY CUSTOMER.

1.4 Aircraft Radio Station License. At delivery Customer will provide its Aircraft Radio Station License to be placed on board the Aircraft following delivery.

1.5 Aircraft Flight Log. At delivery Customer will provide the Aircraft Flight Log for the Aircraft.

1.6 Delegation of Authority. Customer will present to Boeing at delivery of the Aircraft an original or certified copy of Customer's Delegation of Authority designating and authorizing certain persons to act on its behalf in connection with delivery of the specified Aircraft.

1.7 TSA Waiver Approval. Customer may be required to have an approved Transportation Security Administration (**TSA**) waiver for the ferry flight depending upon the Customer’s en-route stop(s) and destination unless the Customer already has a TSA approved security program in place. Customer is responsible for application for the TSA waiver and obtaining TSA approval. Customer will provide a copy of the approved TSA waiver to Boeing upon arrival at the Boeing delivery center.

1.8 Electronic Advance Passenger Information System. Should the ferry flight of an Aircraft leave the United States, the Department of Homeland Security office requires Customer to comply with the Electronic Advance Passenger Information System (**eAPIS**). Customer needs to establish their own account with US Customs and Border Protection in order to file for departure. A copy of the eAPIS forms is to be provided by Customer to Boeing upon arrival of Customer’s acceptance team at the Boeing delivery center.

ESCALATION ADJUSTMENT
AIRFRAME AND OPTIONAL FEATURES

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Supplemental Exhibit AE1
to Purchase Agreement Number 3866

ESCALATION ADJUSTMENT
AIRFRAME AND OPTIONAL FEATURES

[* * *]

BUYER FURNISHED EQUIPMENT VARIABLES

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Supplemental Exhibit BFE1
to Purchase Agreement Number 3866

BUYER FURNISHED EQUIPMENT VARIABLES

relating to

BOEING MODELS 737-8 and 737-9 AIRCRAFT

This Supplemental Exhibit BFE1 contains supplier selection dates, on-dock dates and other requirements applicable to the Aircraft.

1. Supplier Selection.

Customer will:

Select and notify Boeing of the suppliers and part numbers of the following BFE items by the following dates:

Galley System	[* * *]
Galley Inserts	[* * *]
Seats (passenger)	[* * *]
Overhead & Audio System	[* * *]
In-Seat Video System	[* * *]
Miscellaneous Emergency Equipment	[* * *]
Cargo Handling Systems* *(Single Aisle Programs only)*	[* * *]

*For a new certification, supplier requires notification ten (10) months prior to Cargo Handling System on-dock date.

**Actual Supplier Selection dates will be provided when monthly delivery positions are available to customer.

Customer will enter into initial agreements with the selected Galley System, Galley Inserts, Seats, and In-Seat Video System suppliers on or before ten (10) calendar days after the above supplier selection dates to actively participate with Customer and Boeing in coordination actions including the Initial Technical Coordination Meeting (**ITCM**).

2. On-dock Dates and Other Information.

On or before nine months prior to each Aircraft delivery, Boeing will provide to Customer the BFE Requirements electronically through My Boeing Fleet (**MBF** in My Boeing Configuration (**MBC**)). These requirements may be periodically revised, setting forth the items, quantities, on-dock dates and shipping instructions and other requirements relating to the in-sequence installation of BFE. For planning purposes, preliminary BFE on-dock dates are set forth below:

[* * *]

3. Additional Delivery Requirements - Import.

Customer will be the “**importer of record**” (as defined by the U.S. Customs and Border Protection) for all BFE imported into the United States, and as such, it has the responsibility to ensure all of Customer’s BFE shipments comply with U.S. Customs Service regulations. In the event Customer requests Boeing, in writing, to act as importer of record for Customer’s BFE, and Boeing agrees to such request, Customer is responsible for ensuring Boeing can comply with all U.S. Customs Import Regulations by making certain that, at the time of shipment, all BFE shipments comply with the requirements in the “International Shipment Routing Instructions”, including the Customs Trade Partnership Against Terrorism (**C-TPAT**), as set out on the Boeing website referenced below. Customer agrees to include the International Shipment Routing Instructions, including C-TPAT requirements, in each contract between Customer and BFE supplier.

http://www.boeing.com/companyoffices/doingbiz/supplier_portal/index_general.html

CUSTOMER SUPPORT VARIABLES

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Supplemental Exhibit CS1
to Purchase Agreement Number 3866

CUSTOMER SUPPORT VARIABLES

relating to

BOEING MODELS 737-8 and 737-9 AIRCRAFT

Customer and Boeing will conduct planning conferences approximately twelve (12) months prior to delivery of the first Aircraft, or as mutually agreed, in order to develop and schedule a customized Customer Support Program to be furnished by Boeing in support of the Aircraft.

The customized Customer Services Program will be based upon and equivalent to the entitlements summarized below.

1. Maintenance Training.

1.8 Mechanical/Power Plant Course; [* * *];

1.9 Electrical Systems Course; [* * *];

1.10 Avionics Systems Course; [* * *];

1.11 Aircraft Rigging Course; [* * *];

1.12 Advanced Composite Repair Course; [* * *].

1.13 Training materials will be provided to each student. In addition, one set of training materials as used in Boeing's training program, including visual aids, Computer Based Training Courseware, instrument panel wall charts, text/graphics, video programs, etc. will be provided for use in Customer's own training program.

2. Flight Training.

1.9 Boeing will provide one classroom course to acquaint up to [* * *] with operational, systems and performance differences between Customer's newly-purchased Aircraft and an aircraft of the same model currently operated by Customer.

1.10 Training materials will be provided to each student. In addition, one set of training materials as used in Boeing's training program, including Computer Based Training Courseware, instrument panel wall charts, Flight Attendant Manuals, etc. will be provided for use in Customer's own training program.

3. Planning Assistance.

1.1 Maintenance Engineering. Notwithstanding anything in Exhibit B to the AGTA seemingly to the contrary, Boeing will provide the following Maintenance Engineering support:

1.1.1 Maintenance Planning Assistance. Upon request, Boeing will provide one (1) on-site visit to Customer’s main base to assist with maintenance program development and to provide consulting related to maintenance planning. Consultation with Customer will be based on ground rules and requirements information provided in advance by Customer.

1.1.2 ETOPS Maintenance Planning Assistance. Upon request, Boeing will provide one (1) on site visit to Customer's main base to assist with the development of their ETOPS maintenance program and to provide consultation related to ETOPS maintenance planning. Consultation with Customer will be based on ground rules and requirements information provided in advance by the Customer.

1.1.3 GSE/Shops/Tooling Consulting. Upon request, Boeing will provide consulting and data for ground support equipment, maintenance tooling and requirements for maintenance shops. Consultation with Customer will be based on ground rules and requirements information provided in advance by Customer.

1.1.4 Maintenance Engineering Evaluation. Upon request, Boeing will provide [* * *] to Customer’s main base to evaluate Customer’s maintenance and engineering organization for conformance with industry best practices. The result of which will be documented by Boeing in a maintenance engineering evaluation presentation. Customer will be provided with a copy of the maintenance engineering evaluation presentation. Consultation with Customer will be based on ground rules and requirements information provided in advance by Customer.

1.11 Spares.

(i) Recommended Spares Parts List (**RSPL**). A customized RSPL, data and documents will be provided to identify spare parts required for Customer's support program.

(ii) Illustrated Parts Catalog (**IPC**). A customized IPC in accordance with ATA 100 will be provided.

(iii) Provisioning Training. Provisioning training will be provided for Customer's personnel at Boeing's facilities, where documentation and technical expertise are available. Training is focused on the initial provisioning process and calculations reflected in the Boeing RSPL.

(iv) Spares Provisioning Conference. A provisioning conference will be conducted, normally at Boeing's facilities where technical data and personnel are available.

4. Technical Data and Documents.

The following will be provided in mutually agreed formats and quantities:

1.14 Flight Operations.

Airplane Flight Manual
Operations Manual
Quick Reference Handbook
Weight and Balance Manual
Dispatch Deviation Procedures Guide
Flight Crew Training Manual
Flight Planning and Performance Manual
Performance Engineer's Manual
Fault Reporting Manual
FMC Supplemental Data Document
Operational Performance Software
ETOPS Guide Vol. III

1.15 Maintenance.

Aircraft Maintenance Manual
Wiring Diagram Manual
Systems Schematics Manual
Fault Isolation Manual
Structural Repair Manual
Overhaul/Component Maintenance Manual
Standard Overhaul Practices Manual
Standard Wiring Practices Manual
Non-Destructive Test Manual
Service Bulletins and Index
Corrosion Prevention Manual
Fuel Measuring Stick Calibration Document
Power Plant Buildup Manual
Combined Index
Significant Service Item Summary
All Operators Letters
Structural Item Interim Advisory and Index
Service Letters and Index
Maintenance Tips
Production Management Data Base (**PMDB**)
Electrical Connectors Options Document

1.16 Maintenance Planning.

Maintenance Planning Data Document
Maintenance Task Cards and Index
Maintenance Inspection Intervals Report

1.17 Spares.

Illustrated Parts Catalog
Standards Books

1.18 Facilities and Equipment Planning.

Facilities and Equipment Planning Document
Special Tool & Ground Handling Equipment Drawings & Index
Supplementary Tooling Documentation
Illustrated Tool and Equipment Manual
Aircraft Recovery Document
Airplane Characteristics for Airport Planning Document
Aircraft Rescue and Firefighting Document
Engine Handling Document
Configuration, Maintenance and Procedures for ETOPS
ETOPS Guide Vols. I & II

1.19 Supplier Technical Data.

Service Bulletins
Ground Support Equipment Data
Provisioning Information
Component Maintenance/Overhaul Manuals and Index
Publications Index
Product Support Supplier Directory

1.20 Fleet Statistical Data and Reporting

Fleet reliability views, charts, and reports

5. Aircraft Information.

5.1 **Aircraft Information** is defined as that data provided by Customer to Boeing which falls into one of the following categories: (i) aircraft operational information (including, but not limited to, flight hours, departures, schedule reliability, engine hours, number of aircraft, aircraft registries, landings, and daily utilization and schedule interruptions for Boeing model aircraft); (ii) summary and detailed shop findings data; (iii) line maintenance data; (iv) airplane message data, (v) scheduled maintenance data; (vi) service bulletin incorporation; and (vii) aircraft data generated or received by equipment installed on Customer's aircraft in analog or digital form including but not limited to information regarding the state, condition, performance, location, setting, or path of the aircraft and associated systems, sub-systems and components.

5.2 License Grant. To the extent Customer has or obtains rights to Aircraft Information and is not bound by a contractual confidentiality provision or other considerations relating to the disclosure of particular Aircraft Information, Customer grants to Boeing a perpetual, world-wide, non-exclusive license to use and disclose Aircraft Information and create derivatives thereof in Boeing data and information and products and services provided Customer identification information as originating from Customer is removed. Customer identification information may be retained as necessary for Boeing to provide products and services Customer has requested from Boeing or for Boeing to inform Customer of additional Boeing products and services. This grant is in addition to any other grants of rights in the agreements governing provision of such information to Boeing regardless of whether that information is identified as Aircraft Information in such agreement including any information submitted under the In Service Data Program (ISDP).

For purposes of this article, Boeing is defined as The Boeing Company and its wholly owned subsidiaries.

5.3 Customer will provide Aircraft Information to Boeing through an automated software feed necessary to support Fleet Statistical Analysis. Boeing will provide assistance to Customer under a separate agreement for mapping services to enable the automated software feed.

ENGINE ESCALATION,
ENGINE WARRANTY AND PATENT INDEMNITY

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Supplemental Exhibit EE1
to Purchase Agreement Number 3866

ENGINE ESCALATION
ENGINE WARRANTY AND PATENT INDEMNITY

relating to

BOEING MODELS 737-8 and 737-9 AIRCRAFT

[* * *]

SERVICE LIFE POLICY COMPONENTS

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Supplemental Exhibit SLP1
to Purchase Agreement Number 3866

SERVICE LIFE POLICY COMPONENTS

relating to

BOEING MODELS 737-8 and 737-9 AIRCRAFT

This is the listing of SLP Components for the Aircraft which relate to Part 3, Boeing Service Life Policy of Exhibit C, Product Assurance Document to the AGTA and is a part of Purchase Agreement No. 3866.

1. Wing.

(i) Upper and lower wing skins and stiffeners between the forward and rear wing spars.

(ii) Wing spar webs, chords and stiffeners.

(iii) Inspar wing ribs.

(iv) Inspar splice plates and fittings.

(v) Main landing gear support structure.

(vi) Wing center section lower beams, spanwise beams and floor beams, but not the seat tracks attached to floor beams.

(vii) Wing-to-body structural attachments.

(viii) Engine strut support fittings attached directly to wing primary structure.

(ix) Support structure in the wing for spoilers and spoiler actuators; for aileron hinges and reaction links; and for leading edge devices and trailing edge flaps.

(x) Trailing edge flap tracks and carriages.

(xi) Aileron leading edge device and trailing edge flap internal, fixed attachment and actuator support structure.

2. Body.

(xii) External surface skins and doublers, longitudinal stiffeners, longerons and circumferential rings and frames between the forward pressure bulkhead and the vertical stabilizer rear spar bulkhead and structural support and enclosure for the APU but excluding all system components and related installation and connecting devices, insulation, lining, and decorative panels and related installation and connecting devices.

(xiii) Window and windshield structure but excluding the windows and windshields.

(xiv) Fixed attachment structure of the passenger doors, cargo doors and emergency exits, excluding door mechanisms and movable hinge components. Sills and frames around the body openings for the passenger doors, cargo doors and emergency exits, excluding scuff plates and pressure seals.

(xv) Nose wheel well structure, including the wheel well walls, pressure deck, bulkheads, and gear support structure.

(xvi) Main gear wheel well structure including pressure deck and landing gear beam support structure.

(xvii) Floor beams and support posts in the control cab and passenger cabin area, but excluding seat tracks.

(xviii) Forward and aft pressure bulkheads.

(xix) Keel structure between the wing front spar bulkhead and the main gear wheel well aft bulkhead including splices.

(xx) Wing front and rear spar support bulkheads, and vertical and horizontal stabilizer front and rear spar support bulkheads including terminal fittings but excluding all system components and related installation and connecting devices, insulation, lining, and decorative panels and related installation and connecting devices.

(xxi) Support structure in the body for the stabilizer pivot and stabilizer screw.

3. Vertical Stabilizer.

(xxii) External skins between front and rear spars.

(xxiii) Front, rear and auxiliary spar chords, webs and stiffeners and attachment fittings.

(xxiv) Inspar ribs.

(xxv) Rudder hinges and supporting ribs, excluding bearings.

(xxvi) Support structure in the vertical stabilizer for rudder hinges, reaction links and actuators.

(xxvii) Rudder internal, fixed attachment and actuator support structure.

4. Horizontal Stabilizer.

(xxviii) External skins between front and rear spars.

(xxix) Front and rear spar chords, webs and stiffeners.

(xxx) Inspar ribs.

(xxxi) Stabilizer center section including hinge and screw support structure.

(xxxii) Support structure in the horizontal stabilizer for the elevator hinges, reaction links and actuators.

(xxxiii) Elevator internal, fixed attachment and actuator support structure.

5. Engine Strut.

(xxxiv) Strut external surface skin and doublers and stiffeners.

(xxxv) Internal strut chords, frames and bulkheads.

(xxxvi) Strut to wing fittings and diagonal brace.

(xxxvii) Engine mount support fittings attached directly to strut structure and including the engine-mounted support fittings.

6. Main Landing Gear.

(xxxviii) Outer cylinder.

(xxxix) Inner cylinder, including axles.

(xl) Upper and lower side struts, including spindles, universals and reaction links.

(xli) Drag strut.

(xlii) Orifice support tube.

(xliii) Downlock links including spindles and universals.

(xliv) Torsion links.

(xlv) Bell crank.

(xlvi) Trunnion link.

(xlvii) Actuator beam, support link and beam arm.

7. Nose Landing Gear.

(xlviii) Outer cylinder.

(xlix) Inner cylinder, including axles.

(l) Orifice support tube.

(li) Upper and lower drag strut, including lock links.

(lii) Steering plates and steering collars.

(liii) Torsion links.

NOTE: The Service Life Policy does not cover any bearings, bolts, bushings, clamps, brackets, actuating mechanisms or latching mechanisms used in or on the SLP Components.

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09433

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Open Matters

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Given the long period of time between Purchase Agreement signing and delivery of the first Aircraft and the continued development of the 737MAX program, certain elements have not yet been defined. In consideration, Boeing and Customer agree to work together as the 737MAX program develops as follows:

1. <u>Aircraft Delivery Schedule</u>.

1.1 The scheduled delivery position of the Aircraft, as of the date of this Letter Agreement is listed in Table 1 of the Purchase Agreement and provides the delivery schedule in three month delivery windows (**Three Month Delivery Window**) consisting of a nominal delivery month (**Nominal Delivery Month**) plus and minus one month. No later than twenty-four (24) months prior to the Nominal Delivery Month of Customer's first Aircraft in each calendar year, Boeing will provide written notice with a revised Table 1 of the scheduled delivery month for each Aircraft with a Nominal Delivery Month in such calendar year.

1.21 Prior to providing such notice described in Article 1.1, Boeing will consider and make reasonable efforts to accommodate Customer requests regarding Aircraft quantities in certain periods. Such notice provided by Boeing will constitute an amendment to the Table 1 of the Purchase Agreement. The amended Table 1 shall be the scheduled delivery positions for the purposes of applying all provisions of the Purchase Agreements, including without limitation the BFE on-dock dates, and the calculation of Escalation Adjustment. Such amended Table 1 may revise or change the Advance Payment Base Price for the Aircraft.

2. <u>Aircraft Configuration.</u>

2.1 The initial configuration of Customer's Aircraft has been defined by Boeing Models 737-8 and 737-9 basic specification as described in Article 1 and Exhibits A-1 and A-2 of the Purchase Agreement (**Initial Configuration**). Final configuration of the Aircraft (**Final Configuration**) will be completed using the then-current Boeing configuration documentation in accordance with the following schedule:

2.1.1 No later than twenty-four (24) months prior to the first Aircraft's scheduled delivery, Boeing and Customer will discuss potential optional features.

(i) Within sixty (60) days after that meeting, Boeing will provide Customer with a proposal for those optional features that can be incorporated into the Aircraft during production.

2.1.2 Customer will then have sixty (60) days to accept or reject the optional features.

(i) Within thirty (30) days following Final Configuration, Boeing and Customer will execute a written amendment to the Purchase Agreement which will reflect the following:

2.1.2.1 Changes applicable to the basic Models 737-8 and 737-9 aircraft which are developed by Boeing between the date of signing of the Purchase Agreement and date of Final Configuration;

1.1.1 Incorporation into Exhibits A-1 and A-2 of the Purchase Agreement, by written amendment, those optional features which have been agreed to by Customer and Boeing (Customer Configuration Changes);

2.1.2.2 Revisions to the Supplemental Exhibit BFE1 to reflect the selection dates and on-dock dates of BFE;

1.1.1 Changes to the Optional Features Prices, Aircraft Basic Price, and Advance Payment Base Price of the Aircraft to adjust for the difference, if any, between the prices estimated in Table 1 of the Purchase Agreement for optional features reflected in the Aircraft Basic Price and the actual prices of the optional features reflected in the Customer Configuration Changes; and

2.1.2.3 Changes to the Advance Payment Base Price of the Aircraft to adjust for the difference between the estimated amount included in Table 1 of the Purchase Agreement for Seller Purchased Equipment (**SPE**) and the price of the SPE reflected in the Customer Configuration Changes**.**.

3. **<u>Customer Support Variables.</u>**

3.1 The initial customer support package contained in Supplemental Exhibit CS1 to the Purchase Agreement is predicated upon the 737NG customer support package. Boeing intends to further refine the post delivery support package for the 737MAX and will provide this revised package to Customer no later than twenty-four (24) months prior to the first month of the scheduled delivery quarter of the first Aircraft. The provision of such revised Supplemental Exhibit CS1 will constitute an amendment to the Purchase Agreement and will provide the Customer in aggregate an overall Boeing post delivery support package for the introduction of the 737MAX to Customer's fleet that is equivalent to, or better than, the Supplemental Exhibit CS1 included in the Purchase Agreement as of the date of this Letter Agreement.

3.2 Additionally, Boeing will engage in discussions with Customer in conjunction with the providing of the updated Supplemental Exhibit CS1 to offer to Customer additional uniquely tailored post delivery support services beyond the scope of the Supplemental Exhibit CS1 that will further enhance the maintainability and operational efficiency of the Aircraft.

4. <u>Other Letter Agreements</u>**.**

Boeing and Customer acknowledge that as they work together to develop the 737MAX program and as Boeing refines the definition of the Aircraft and associated production processes, there may be a need to execute additional letter agreements or amend letter agreements addressing one or more of the following:

4.1 Software. Additional provisions relating to software and software loading.

1.1 Seller Purchased Equipment (**SPE**). Provisions relating to the terms under which Boeing may offer or install SPE in the Aircraft.

4.2 Buyer Furnished Equipment (**BFE**). Provisions relating to the terms under which Boeing may install and certify Customer's BFE in the Aircraft.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09434

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Seller Purchased Equipment

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. General

Seller Purchased Equipment (**SPE**) is BFE that Boeing purchases for Customer and that is identified as SPE in the Detail Specification for the Aircraft.

2. Customer Responsibilities.

2.1 Supplier Selection. Customer will select SPE suppliers from a list provided by Boeing for the commodities identified on such list and notify Boeing of the SPE suppliers in accordance with the supplier selection date(s) as set forth in Attachment A of this Letter Agreement. If Customer selects a seat, galley or galley insert supplier that is not on the Boeing offerable supplier list, such seat, galley or galley insert will, subject to Boeing approval, become BFE and the provisions of Exhibit A, Buyer Furnished Equipment Provisions Document, of the AGTA will apply.

2.2 Supplier Agreements. Customer will enter into initial agreements with the selected suppliers within ten (10) days of the selection date(s) for the supplier to actively participate with Customer and Boeing in coordination actions including the Initial Technical Coordination Meeting (ITCM). Customer will enter into final agreements with selected suppliers that address the following additional provisions within thirty (30) days of the ITCM or as otherwise identified by Boeing:

(i) for emergency/miscellaneous equipment, providing standard supplier pricing, product support, warranty, spares, training and any additional support defined by Customer as a direct pass through to Customer at time of Aircraft delivery; and

(i) for seats, galleys, galley inserts, and in-flight entertainment and cabin communications systems **(IFE/CCS)**, providing pricing that was negotiated directly with the suppliers, product support including spares support, warranty, training and any additional support defined by the Customer. Customer shall provide suppliers' pricing to Boeing and shall obtain suppliers' agreement to accept Boeing's purchase orders reflecting the Customer negotiated pricing.

2.1 Configuration Requirements. Customer is responsible for selecting equipment which is FAA certifiable at time of Aircraft delivery, or for obtaining waivers from the applicable regulatory agency for non-FAA certifiable equipment. Customer will meet with Boeing and the selected SPE suppliers in the ITCM and any other scheduled meetings in order to:

(ii) for emergency/miscellaneous equipment, provide to Boeing the selected part specification/Customer requirements;

(i) for IFE/CCS, participate with Boeing in meetings with such suppliers to ensure that suppliers' functional system specifications meet Customer's and Boeing's respective requirements;

(iii) for galleys, provide to Boeing the definitive galley configuration requirements, including identification of refrigeration requirements and fixed and removable insert equipment by quantity, manufacturer and part number not later than eight (8) weeks prior to galley supplier selection dates in Attachment A.

(iv) for seats, provide to Boeing the definitive seat configuration requirements not later than eight (8) weeks prior to seat supplier selection dates in Attachment A.

3. Boeing Responsibilities.

3.1 Supplier Selection (for seats and galleys only)

3.1.1 Bidder's List. For information purposes, Boeing will submit to Customer a bidder's list of existing suppliers of seats and galleys one hundred twenty (120) days prior to the supplier selection date(s) referred to in paragraph 2.1 above.

1.1.1 Request for Quotation (**RFQ**). Approximately ninety (90) days prior to the supplier selection date(s), Boeing will issue its RFQ inviting potential bidders to submit bids for the galleys and seats within thirty (30) days of the selection date.

1.1.1 Bidders Summary. Not later than fifteen (15) days prior to the supplier selection date(s), Boeing will submit to Customer a summary of the bidders from which to choose a supplier for the galleys and seats. The summary is based on an evaluation of the bids submitted using price, weight, warranty and schedule as the criteria.

3.2 Additional Boeing responsibilities:

(iv) placing and managing the purchase orders with the suppliers;

(ii) coordinating with the suppliers on technical issues;

(v) for seats, galleys, galley inserts and IFE/CCS confirming the agreed to pricing with both the Customer and supplier;

(i) for IFE/CCS providing Aircraft interface requirements to suppliers and assisting suppliers in the development of their IFE/CCS system specifications and approving such specifications;

(vi) ensuring that the delivered SPE complies with the part specification;

(iii) obtaining certification of the Aircraft with the SPE installed;

(vii) for miscellaneous/emergency equipment, obtaining standard supplier pricing, and obtaining for Customer copies of product support, warranty, spares, training, and any additional support documentation defined by the Customer which shall be provided to Customer prior to delivery of the Aircraft.

4. IFE/CCS Software.

IFE/CCS may contain software of the following two types:

4.3 Systems Software. The software required to operate and certify the IFE/CCS systems on the Aircraft is the Systems Software and is part of the IFE/CCS.

1.22 Customer's Software. The software accessible to the Aircraft passengers which controls Customer's specified optional features is Customer's Software and is not part of the IFE/CCS.

4.1.1 Customer is solely responsible for specifying Customer's Software functional and performance requirements and ensuring that Customer's Software meets such requirements. Customer and Customer's Software supplier will have total responsibility for the writing, certification, modification, revision, or correction of any of Customer's Software. Customer shall be responsible for and assumes all liability with respect to Customer's Software.

(i) The omission of any Customer's Software or the lack of any functionality of Customer's Software will not be a valid condition for Customer's rejection of the Aircraft at the time of Aircraft delivery.

4.1.2 Boeing has no obligation to approve any documentation to support Customer's Software certification. Boeing will only review and operate Customer's Software if in Boeing's reasonable opinion such review and operation is necessary to certify the IFE/CCS system on the Aircraft.

(ii) Boeing shall not be responsible for obtaining FAA certification for Customer's Software.

5. Price.

5.1 Advance Payments. An estimated SPE price is included in the Advance Payment Base Prices shown in Table 1 for the purpose of establishing the advance payments for the Aircraft.

1.1 Aircraft Price. The Aircraft Price will be adjusted to reflect the actual costs charged to Boeing by the SPE suppliers and transportation charges, if applicable.

6 Changes.

After Customer's entry into agreements with suppliers pursuant to paragraph 2.2, any changes to SPE may only be made by and between Boeing and the SPE suppliers. Customer requested changes to the SPE after execution of supplier agreements shall be made by Customer in writing directly to Boeing for approval and for coordination by Boeing with the SPE supplier. Any such change to the configuration of the Aircraft shall be subject to price and offerability through Boeing's master change or other process for amendment of the Purchase Agreement.

7 Proprietary Rights.

Boeing's obligation to purchase SPE will not impose upon Boeing any obligation to compensate Customer or any supplier for any proprietary rights Customer may have in the design of the SPE.

8 Remedies.

8.1 If Customer does not perform its obligations as provided in this Letter Agreement or if supplier fails (for any reason other than a default by Boeing under the purchase order terms) to deliver conforming SPE per the schedule set forth in the purchase order, then, in addition to any other remedies which Boeing may have by contract or under law, Boeing may:

8.1.1 revise the schedule delivery month of the Aircraft to accommodate the delay in delivery of the conforming SPE and base the calculation of the Escalation Adjustment on such revised delivery month;

8.1.2 deliver the Aircraft without installing the SPE;

8.1.3 substitute a comparable part and invoice Customer for the cost if the Aircraft cannot be delivered without installing the SPE; and

8.1.4 increase the Aircraft Price by the amount of Boeing's additional costs attributable to such noncompliance, including but not limited to, disruption costs associated with out of sequence work by Boeing, any charges due to a supplier's failure to perform in accordance with an SPE program milestones as established by Boeing and agreed to by the supplier and particularly with respect to late delivery of such SPE.

8.2 Additionally, if delivery of SPE seats does not support the delivery of the Aircraft in its scheduled delivery month, Customer agrees that:

8.2.1 Boeing may elect to deliver the Aircraft and Customer will accept delivery of the Aircraft in the scheduled delivery month in a zero occupancy configuration:

8.2.1.1 if Boeing elects to deliver in a zero occupancy configuration, Boeing will provide Customer with a retrofit offer, including price and schedule, for a service bulletin and remote certification in support of the post delivery installation of the seats; and

8.2.2 Boeing may charge Customer for Boeing's additional costs attributable to, but not limited to, disruption costs associated with out of sequence work by Boeing and any charges due to late delivery of such seats.

9 Title and Risk of Loss.

Title and risk of loss of the SPE will remain with Boeing until the Aircraft is delivered to Customer.

10. Customer's Indemnification of Boeing.

Customer will indemnify and hold harmless Boeing from and against all claims and liabilities, including costs and expenses (including attorneys' fees) incident thereto or incident to successfully establishing the right to indemnification, for injury to or death of any person or persons, including employees of Customer but not employees of Boeing, or for loss of or damage to any property, including Aircraft, arising out of or in any way connected with any nonconformance or defect in any SPE and whether or not arising in tort or occasioned in whole or in part by the negligence of Boeing. This indemnity will not apply with respect to any nonconformance or defect caused solely by Boeing's installation of the SPE.

11. Definition.

For purposes of the above indemnity, the term **Boeing** includes The Boeing Company, its divisions, subsidiaries and affiliates, the assignees of each, and their directors, officers, employees and agents.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

Attachment

Attachment A

12. Supplier Selection.

Customer will:

1.2 Select and notify Boeing of the suppliers and part numbers of the following SPE items by the following dates:

Galley System	[* * *]
Galley Inserts	[* * *]
Seats (passenger)	[* * *]
Overhead & Audio System	[* * *]
In-Seat Video System	[* * *]
Miscellaneous Emergency Equipment	[* * *]
Cargo Handling Systems* *(Single Aisle Programs only)*	[* * *]

*For a new certification, Customer will need to provide Supplier Selections two (2) months earlier than stated above.

******Actual Supplier Selection dates will be provided when monthly delivery positions are available to customer.

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09435

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Spare Parts Initial Provisioning

Reference: a) Purchase Agreement No3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airline, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

b) Customer Services General Terms Agreement No. 90-2 (**CSGTA**) between Boeing and Customer

This letter agreement (**Letter Agreement**) is entered into on the date below and amends and supplements the CSGTA. All capitalized terms used but not defined in this Letter Agreement have the same meaning as in the CSGTA, except for "Aircraft" which will have the meaning as defined in the Purchase Agreement.

In order to define the process by which Boeing and Customer will i) identify those Spare Parts and Standards critical to Customer's successful introduction of the Aircraft into service and its continued operation, ii) place Orders under the provisions of the CSGTA as supplemented by the provisions of this Letter Agreement for those Spare Parts and Standards, and iii) manage the return of certain of those Spare Parts which Customer does not use, the parties agree as follows.

1. Definitions.

1.2 **Provisioning Data** means the documentation provided by Boeing to Customer, including but not limited to the Recommended Spare Parts List (**RSPL**), identifying all Boeing initial provisioning requirements for the Aircraft.

1.3 **Provisioning Items** means the Spare Parts and Standards identified by Boeing as initial provisioning requirements in support of the Aircraft, excluding special tools, ground support equipment (**GSE**), engines and engine parts.

1.4 **Provisioning Products Guide** means the Boeing Manual D6-81834 entitled "**Spares Provisioning Products Guide**".

2. Phased Provisioning.

2.2 Provisioning Products Guide. Prior to the initial provisioning meeting Boeing will furnish to Customer a copy of the Provisioning Products Guide.

2.3 Initial Provisioning Meeting. On or about twelve (12) months prior to delivery of the first Aircraft the parties will conduct an initial provisioning meeting where the procedures, schedules, and requirements for training will be established to accomplish phased provisioning of Spare Parts and Standards for the Aircraft in accordance with the Provisioning Products Guide.

2.4 Provisioning Data. During the initial provisioning meeting Customer will provide to Boeing the operational parameter information described in Chapter 6 of the Provisioning Products Guide. After review and acceptance by Boeing of such Customer information, Boeing will prepare the Provisioning Data. Such Provisioning Data will be furnished to Customer on or about ninety (90) days after Boeing finalizes the engineering drawings for the Aircraft. The Provisioning Data will be as complete as possible and will cover Provisioning Items selected by Boeing for review by Customer for initial provisioning of Spare Parts and Standards for the Aircraft. Boeing will furnish to Customer revisions to the Provisioning Data until approximately ninety (90) days following delivery of the last Aircraft or until the delivery configuration of each of the Aircraft is reflected in the Provisioning Data, whichever is later.

2.5 Buyer Furnished Equipment (**BFE**) Provisioning Data. Unless otherwise advised by Boeing, Customer will provide or insure its BFE suppliers provide to Boeing the BFE data in scope and format acceptable to Boeing, in accordance with the schedule established during the initial provisioning meeting.

3. Purchase from Boeing of Spare Parts and Standards as Initial Provisioning for the Aircraft.

3.1 Schedule. In accordance with schedules established during the initial provisioning meeting, Customer may place Orders for Provisioning Items and any GSE, special tools or engine spare parts which Customer determines it will initially require for maintenance, overhaul and servicing of the Aircraft and/or engines.

3.2 Prices of Initial Provisioning Spare Parts.

3.2.1 Boeing Spare Parts. The Provisioning Data will set forth the prices for those Provisioning Items other than items listed in Article 3.3, below, that are Boeing Spare Parts, and such prices will be firm and remain in effect for ninety (90) days from the date the price is first quoted to Customer in the Provisioning Data.

3.2.2 Supplier Spare Parts. Boeing will provide estimated prices in the Provisioning Data for Provisioning Items other than items listed in Article 3.3, below, that are Supplier Spare Parts. The price to Customer for any Supplier Spare Parts that are Provisioning Items or for any items ordered for initial provisioning of GSE, special tools manufactured by suppliers, or engine spare parts will be [* * *] of the supplier's list price for such items.

3.1 QEC Kits, Standards Kits, Raw Material Kits, Bulk Materials Kits and Service Bulletin Kits. In accordance with schedules established during the initial provisioning meeting, Boeing will furnish to Customer a listing of all components which could be included in the quick engine change (**QEC**) kits, Standards kits, raw material kits, bulk materials kits and service bulletin kits which may be purchased by Customer from Boeing. Customer will select, and provide to Boeing its desired content for the kits. Boeing will furnish to Customer as soon as practicable thereafter a statement setting forth a firm price for such kits. Customer will place Orders with Boeing for the kits in accordance with schedules established during the initial provisioning meeting.

4. Delivery.

For Spare Parts and Standards ordered by Customer in accordance with Article 3 of this Letter Agreement, Boeing will, insofar as reasonably possible, deliver to Customer such Spare Parts and Standards on dates reasonably calculated to conform to Customer's anticipated needs in view of the scheduled deliveries of the Aircraft. Customer and Boeing will agree upon the date to begin delivery of the provisioning Spare Parts and Standards ordered in accordance with this Letter Agreement. Where appropriate, Boeing will arrange for shipment of such Spare Parts and Standards which are manufactured by suppliers directly to Customer from the applicable supplier's facility. The routing and method of shipment for initial deliveries and all subsequent deliveries of such Spare Parts and Standards will be as established at the initial provisioning meeting and thereafter by mutual agreement.

5. Substitution for Obsolete Spare Parts.

5.2 Obligation to Substitute Pre-Delivery. In the event that, prior to delivery of the first Aircraft, any Spare Part purchased by Customer from Boeing in accordance with this Letter Agreement as initial provisioning for the Aircraft is rendered obsolete or unusable due to the redesign of the Aircraft or of any accessory, equipment or part thereof (other than a redesign at Customer's request) Boeing will deliver to Customer at no charge new and usable Spare Parts in substitution for such obsolete or unusable Spare Parts and, upon such delivery, Customer will return the obsolete or unusable Spare Parts to Boeing.

5.3 Delivery of Obsolete Spare Parts and Substitutes. Obsolete or unusable Spare Parts returned by Customer pursuant to this Article 5 will be delivered to Boeing at its Seattle Distribution Center or such other destination as Boeing may reasonably designate. Spare Parts substituted for such returned obsolete or unusable Spare Parts will be delivered to Customer in accordance with the CSGTA. Boeing will pay the freight charges for the shipment from Customer to Boeing of any such obsolete or unusable Spare Part and for the shipment from Boeing to Customer of any such substitute Spare Part.

6. Repurchase of Provisioning Items.

6.1 Obligation to Repurchase. During a period commencing one (1) year after delivery of the first Aircraft , and ending five (5) years after such delivery, Boeing will, upon receipt of Customer's written request and subject to the exceptions in Article 6.2, repurchase unused and undamaged Provisioning Items which (i) were recommended by Boeing in the Provisioning Data as initial provisioning for the Aircraft, (ii) were purchased by Customer from Boeing, and (iii) are surplus to Customer's needs.

6.2 Exceptions. Boeing will not be obligated under Article 6.1 to repurchase any of the following: (i) quantities of Provisioning Items in excess of those quantities recommended by Boeing in the Provisioning Data for the Aircraft, (ii) QEC kits, bulk material kits, raw material kits, service bulletin kits, Standards kits and components thereof (except those components listed separately in the Provisioning Data), (iii) Provisioning Items for which an Order was received by Boeing more than five (5) months after delivery of the last Aircraft, (iv) Provisioning Items which have become obsolete or have been replaced by other Provisioning Items as a result of Customer's modification of the Aircraft, and (v) Provisioning Items which become excess as a result of a change in Customer's operating parameters, as provided to Boeing pursuant to the initial provisioning meeting and which were the basis of Boeing's initial provisioning recommendations for the Aircraft.

6.3 Notification and Format. Customer will notify Boeing, in writing when Customer desires to return Provisioning Items under the provisions of this Article 6. Customer's notification will include a detailed summary, in part number sequence, of the Provisioning Items Customer desires to return. Such summary will be in the form of listings, tapes, diskettes or other media as may be mutually agreed between Boeing and Customer and will include part number, nomenclature, purchase order number, purchase order date and quantity to be returned. Within five (5) business days after receipt of Customer's notification, Boeing will advise Customer in writing when Boeing's review of such summary will be completed.

6.4 Review and Acceptance by Boeing. Upon completion of Boeing's review of any detailed summary submitted by Customer pursuant to Article 6.3, Boeing will issue to Customer a Material Return Authorization (**MRA**) for those Provisioning Items Boeing agrees are eligible for repurchase in accordance with this Article 6. Boeing will advise Customer of the reason that any Provisioning Item included in Customer's detailed summary is not eligible for return. Boeing's MRA will state the date by which Provisioning Items listed in the MRA must be redelivered to Boeing, and Customer will arrange for shipment of such Provisioning Items accordingly.

6.5 Price and Payment. The price of each Provisioning Item repurchased by Boeing pursuant to this Article 6 will be an amount equal to one hundred percent (100%) of the original invoice price thereof except that the repurchase price of Provisioning Items purchased pursuant to Article 3.2.2 will not include Boeing's [* * *] handling charge. Boeing will pay the repurchase price by issuing a credit memorandum in favor of Customer which may be applied against amounts due Boeing for the purchase of Spare Parts or Standards.

6.6 Delivery of Repurchased Provisioning Items. Provisioning Items repurchased by Boeing pursuant to this Article 6 will be delivered to Boeing F.O.B. at its Seattle Distribution Center or such other destination as Boeing may reasonably designate.

7. Title and Risk of Loss.

Title and risk of loss of any Spare Parts or Standards delivered to Customer by Boeing in accordance with this Letter Agreement will pass from Boeing to Customer in accordance with the applicable provisions of the CSGTA. Title to and risk of loss of any Spare Parts or Standards returned to Boeing by Customer in accordance with this Letter Agreement will pass to Boeing upon delivery of such Spare Parts or Standards to Boeing in accordance with the provisions of Article 5.2 or Article 6.6, herein, as appropriate.

8. Termination for Excusable Delay.

In the event of termination of the Purchase Agreement pursuant to Article 7 of the AGTA with respect to any Aircraft, such termination will, if Customer so requests by written notice received by Boeing within fifteen (15) days after such termination, also discharge and terminate all obligations and liabilities of the parties as to any Spare Parts or Standards which Customer had ordered pursuant to the provisions of this Letter Agreement as initial provisioning for such Aircraft and which are undelivered on the date Boeing receives such written notice.

9. Order of Precedence.

In the event of any inconsistency between the terms of this Letter Agreement and the terms of any other provisions of the CSGTA, the terms of this Letter Agreement will control.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09436

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Demonstration Flight Waiver

Reference: Purchase Agreement No. PA-3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Definition of Terms:

Correction Costs: Customer's direct labor costs and the cost of any material required to correct a Flight Discrepancy where direct labor costs are equal to the Warranty Labor Rate in effect between the parties at the time such labor is expended.

Flight Discrepancy: A failure or malfunction of an Aircraft, or the accessories, equipment or parts installed on the Aircraft which results from a defect in the Aircraft, Boeing Product, engine or Supplier Product or a nonconformance to the Detail Specification for the Aircraft.

The AGTA provides that each aircraft will be test flown prior to delivery for the purpose of demonstrating the functioning of such Aircraft and its equipment to Customer; however, Customer may elect to waive this test flight. For each test flight waived, Boeing agrees to provide Customer an amount of jet fuel at delivery that, including the standard fuel entitlement, totals the following amount of fuel:

Aircraft Model	Total Fuel Entitlement (U.S. Gallons)
737	[* * *]

Further, Boeing agrees to reimburse Customer for any Correction Costs incurred as a result of the discovery of a Flight Discrepancy during the first flight of the aircraft by Customer following delivery to the extent such Correction Costs are not covered under a warranty provided by Boeing, the engine manufacturer or any of Boeing’s suppliers.

Should a Flight Discrepancy be detected by Customer which requires the return of the Aircraft to Boeing's facilities at Seattle, Washington, so that Boeing may correct such Flight Discrepancy, Boeing and Customer agree that title to and risk of loss of such Aircraft will remain with Customer. In addition, it is agreed that Boeing will have responsibility for the Aircraft while it is on the ground at Boeing's facilities in Seattle, Washington, as is chargeable by law to a bailee for mutual benefit, but Boeing shall not be liable for loss of use.

To be reimbursed for Correction Costs, Customer shall submit a written itemized statement describing any flight discrepancies and indicating the Correction Cost incurred by Customer for each discrepancy. This request must be submitted to Boeing's Contracts Regional Director at Renton, Washington, within ninety (90) days after the first flight by Customer.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09437

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: AGTA Matters

Reference: a) Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

b) Aircraft General Terms Agreement No. AGTA-ASA (the **AGTA**) between Boeing and Customer dated June 15, 2005

b) Letter Agreement 6-1162-MSA-591(**AGTA Terms Revisions Letter Agreement**) between Boeing and Customer dated June 15, 2005

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement, the AGTA and the AGTA Terms Revisions Letter Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as the Purchase Agreement.

1. AGTA Basic Articles.

1.1.1 Article 2.1.1, "Airframe Price," of the basic articles of the AGTA is revised to read as follows: **Airframe Price** is defined as the price of the airframe for a specific model of aircraft described in a purchase agreement. (For Models 737-600, 737-700, 737-800, 737-900, 737-900ER, 737-7, 737-8, 737-9, 747-8, 777-200LR, and 777-300ER the Airframe Price includes the engine price at its basic thrust level.)

1.1.2 Article 2.1.3, "Engine Price" of the basic articles of the AGTA is revised to read as follows: **Engine Price** is defined as the price set by the engine manufacturer for a specific engine to be installed on the model of aircraft described in a purchase agreement (not applicable to Models 737-600, 737-700, 737-800, 737-900, 737-900ER, 737-7, 737-8, 737-9, 747-8, 777-200LR and 777-300ER).

1.1.3 Article 2.1.5, "Escalation Adjustment" of the basic articles of the AGTA is revised to read as follows: **Escalation Adjustment** is defined as the price adjustment to the Airframe Price (which includes the basic engine price for Models 737-600, 737-700 737-800, 737-900, 737-900ER, 737-7, 737-8, 737-9, 747-8, 777-200LR and 777-300ER) and the Optional Features Prices resulting from the calculation using the economic price formula contained in the Airframe and Optional Features Escalation Adjustment supplemental exhibit to the applicable purchase agreement. The price adjustment to the Engine Price for all other models of aircraft will be calculated using the economic price formula in the Engine Escalation Adjustment supplemental exhibit to the applicable purchase agreement.

2. Appendices to the AGTA.

2.6 Appendix I "SAMPLE Insurance Certificate", under "Combined Single Limit Bodily Injury and Property Damage: U.S.$ any one occurrence each Aircraft (with aggregates as applicable)” the following are added: (a) the 737-900ER in the amount of [* * *] and (b) the 737-7/8/9 in the amount of [* * *].

3. <u>Exhibit C to the AGTA, “Product Assurance Document”</u>.

3.1 Part 2, Article 3.1, subsection (i), of Exhibit C of the AGTA is revised to read as follows: “for Boeing aircraft models 777F, 777-200, -300, 737-600, 737-700, 737-800, 737-900, 737-900ER, 737-7, 737-8, 737-9, 747-8, 787 or new aircraft models designed and manufactured with similar, new technology the warranty period ends forty-eight (48) months after Delivery.”

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09438

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Promotional Support – 737-8 and 737-9

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Boeing and Customer wish to enter into an agreement pursuant to which each party will contribute equally to promotional programs in support of the entry into service of the Aircraft as more specifically provided below.

1. Definitions.

1.5 **Commitment Limit** shall have the meaning set forth in Article 2, below.

1.6 **Covered Aircraft** shall mean those Aircraft identified on Table 1 to the Purchase Agreement as of the date of signing of this Letter Agreement.

1.7 **Performance Period** shall mean the period beginning one (1) year before and ending one (1) year after the scheduled delivery month of the first Covered Aircraft.

1.8 **Promotional Support** shall mean mutually agreed marketing and promotion programs that promote the entry into service of the Covered Aircraft such as marketing research, tourism development, corporate identity, direct marketing, videotape or still photography, planning, design and production of collateral materials, management of promotion programs, advertising campaigns or such other marketing and promotional activities as the parties may mutually agree.

1.9 **Qualifying Third Party Fees** shall mean fees paid by Customer to third party providers for Promotional Support provided to Customer during the Performance Period.

2. Commitment Limit.

As more particularly set forth in this Letter Agreement, Boeing agrees to provide Promotional Support to Customer during the Performance Period in a value of [* * *] for the first Covered Aircraft delivered to Customer and [* * *] per Covered Aircraft for each Covered Aircraft delivered to Customer thereafter.

3. Methods of Performance.

3.1 Subject to the Commitment Limit, Boeing will reimburse [* * *] of Customer's payments of Qualifying Third Party Fees provided that Customer provides Boeing copies of paid invoices for such Qualifying Third Party Fees no later than twenty-four (24) months after the delivery of the first Covered Aircraft.

3.2 Notwithstanding the above, at Customer's request and subject to a mutually agreed project, Boeing will provide certain Promotional Support during the Performance Period directly to Customer. The full value of such Boeing provided Promotional Support will be accounted for as part of the Commitment Limit and will correspondingly reduce the amount of Qualifying Third Party Fees that are subject to reimbursement pursuant to Article 3.1 above.

3.3 In the event Customer does not (i) utilize the full amount of the Commitment Limit within the Performance Period or (ii) submit its paid invoices for Qualifying Third Party Fees within the required time, as set forth in Article 3.1, Boeing shall have no further obligation to Customer for such unused Commitment Limit or to reimburse Customer for such Qualifying Third Party Fees, respectively.

4. Project Approval.

Following the execution of this Letter Agreement, a Boeing Airline Marketing Services representative will meet with Customer's designated representative to review and approve the extent, selection, scheduling, and funds disbursement process for the Promotional Support to be provided pursuant to this Letter Agreement.

5. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

6. Confidential Treatment.

The information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09439

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Special Matters – Models 737-8 and 737-9

Reference: 1) Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 aircraft (**737-8 Aircraft**) and 737-9 aircraft (**737-9 Aircraft**) (collectively the **Aircraft**)

2) Letter Agreement ASA-PA-3866-LA-09441 entitled "Aircraft Model Substitution" (**Substitute Aircraft Letter Agreement**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. Credit Memoranda.

1.10 [* * *] Credit Memorandum. At the time of delivery of each Aircraft, Boeing will issue to Customer a [* * *] Credit Memorandum in an amount determined by multiplying the Airframe Price by a factor of [* * *].

1.11 [* * *] Credit Memorandum. At the time of delivery of each Aircraft, Boeing will issue to Customer a [* * *] Credit Memorandum in an amount determined by multiplying the Airframe Price by a factor of [* * *].

[* * *]

[* * *]

2. Escalation of Credit Memoranda.

Unless otherwise noted, the amounts of the Credit Memoranda stated in Paragraphs 1.1 through 1.7 are in [* * *] set forth in the Purchase Agreement applicable to the Aircraft. The Credit Memoranda may, at the election of Customer, be (i) applied against the Aircraft Price of the respective Aircraft at the time of delivery, or (ii) used for the purchase of other Boeing goods and services (but shall not be applied to advance payments).

3. [* * *] Customer's purchase of the Aircraft [* * *], upon execution of Purchase Agreement for the Aircraft. [* * *]

4. Substitute Aircraft.

4.1 737-8 Substitute Aircraft. Pursuant to the Substitute Aircraft Letter Agreement, Customer may substitute the purchase of 737-8 aircraft in place of 737-9 Aircraft (**737-8 Substitute Aircraft**). [* * *].

4.2 737-9 Substitute Aircraft. Pursuant to the Substitute Aircraft Letter Agreement, Customer may substitute the purchase of 737-9 aircraft in place of 737-8 Aircraft (**737-9 Substitute Aircraft**). [* * *].

5. [* * *].

6. Assignment.

Unless otherwise noted herein, the Credit Memoranda described in this Letter Agreement are [* * *] and in consideration of Customer's taking title to the Aircraft at time of delivery and becoming the operator of the Aircraft. This Letter Agreement cannot be assigned, in whole or in part, without the prior written consent of Boeing.

7. Confidentiality.

Customer understands and agrees that the information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer agrees to limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

Attachment A-1 To
Letter Agreement No. ASA-PA-3866-LA-09440
Option Aircraft Delivery, Description, Price and Advance Payments

[* * *]

Attachment A-2 To
Letter Agreement No. ASA-PA-3866-LA-09440
Option Aircraft Delivery, Description, Price and Advance Payments

[* * *]

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09440

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: [* * *] Aircraft

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. Right to [* * *].

Subject to the terms and conditions contained in this Letter Agreement, [* * *] to the Purchase Agreement as of the date of execution of this Letter Agreement, [* * *].

2. Delivery.

The number of aircraft and delivery months are listed in the Attachments to this Letter Agreement. The schedule delivery position of each [* * *] listed in the Attachments provide the delivery schedule in three month delivery windows consisting of a nominal delivery month (**Nominal Delivery Month**) plus and minus one month. [* * *], Boeing will provide written notice with revised Attachments of the scheduled delivery month (**Scheduled Delivery Month**) for each [* * *] that has a Nominal Delivery Month in such calendar year.

3. Configuration.

3.3 Subject to the provisions of Article 3.2, below, the configuration for the [* * *] will be the Detail Specification for models [* * *] at the revision level in effect at the time of Definitive Agreement (as defined below). Such Detail Specification will be revised to include (i) changes applicable to the Detail Specification that are developed by Boeing between [* * *] (as defined below) and the signing of the Definitive Agreement, (ii) changes required to obtain required regulatory certificates, and (iii) other changes as mutually agreed.

3.4 Boeing reserves the right to configure the [* * *] starting from a different configuration specification, provided that it can achieve the same configuration which would result pursuant to the provisions of Article 3.1.

4. Price.

4.3 The Airframe Price that will be identified in the Definitive Agreement for the [* * *] will equal the sum of [* * *] between the date of execution of the Purchase Agreement for the Aircraft and the date of execution of the Definitive Agreement for the Option Aircraft.

4.4 The Optional Features Price for each of the [* * *] shall be determined in accordance with the provisions of the Definitive Agreement for the [* * *] using Boeing's [* * *] as of the date of execution of the Definitive Agreement.

4.5 The Airframe Price, Optional Features Prices, and Aircraft Basic Price for each of the [* * *] shall be adjusted in accordance with the terms set forth in Article 2.1.5 (**Escalation Adjustment**) of the AGTA.

4.6 The Advance Payment Base Price shall be developed in accordance with the terms of the Purchase Agreement and determined at the time of Definitive Agreement.

5. Payment.

5.1 Customer will pay a [* * *], on the date of execution of this Letter Agreement. If Customer [* * *]. If Customer does not [* * *].

5.2 At Definitive Agreement for the [* * *], advance payments will be payable as specified in the Purchase Agreement. The remainder of the Aircraft Price for the [* * *].

6. Option Exercise.

6.7 Customer may [* * *] by giving written notice to Boeing on or before the date [* * *] months prior to the earlier of the first day of either the Nominal Delivery Month or the Scheduled Delivery Month listed in the Attachments [* * *].

6.8 If Boeing must [* * *], Boeing may [* * *] subject to Customer's agreement. If Boeing and Customer fail to agree to a revised [* * *], if any, received by Boeing with respect to the [* * *].

7. Definitive Agreement.

Following Customer’s [* * *] the parties will sign a definitive agreement for the purchase of such [* * *] (**Definitive Agreement**) within [* * *] calendar days of such [* * *]. The Definitive Agreement will include the provisions of the Purchase Agreement as modified to reflect the provisions of this Letter Agreement. In the event the parties have not entered into a Definitive Agreement within [* * *] following [* * *], either party [* * *] by giving written notice to the other within [* * *]. If Customer and Boeing fail to enter into the Definitive Agreement, Boeing will retain the [* * *].

8. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer’s becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

9. Confidential Treatment.

The information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Lanine Lange

Its VP/Finance & Treasurer

Attachments

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09441

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Aircraft Model Substitution

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Customer may substitute the purchase of Boeing Model 737-8 aircraft (**737-8 Substitute Aircraft**) in place of 737-9 Aircraft and the purchase of Boeing Model 737-9 aircraft (**737-9 Substitute Aircraft**) in place of 737-8 Aircraft (collectively referred to as "**Substitute Aircraft**"), with the scheduled month of delivery twenty-four (24) months after delivery of the first 737-8 aircraft, subject to the following terms and conditions:

1. Customer's Written Notice.

Customer shall provide written notice of its intention to substitute the purchase of an Aircraft with the purchase of a Substitute Aircraft,

(i) no later than the first day of the month that is [* * *] prior to the scheduled month of delivery of the Aircraft for which it will be substituted, provided that a Substitute Aircraft has been previously certified and delivered to Customer, or;

(i) no later than the first day of the month that is [* * *] prior to the scheduled month of delivery of the Aircraft for which it will be substituted, if a Substitute Aircraft has not been previously certified and delivered to Customer; and

(iii) any substitution into a Boeing Model 737-8 or 737-9 may not later be substituted to any other Boeing Model aircraft.

2. Boeing's Production Capability.

2.7 Customer's substitution right is conditioned upon Boeing having production capability, taking into account commitments to other customers, for the Substitute Aircraft in the same scheduled delivery month as the Aircraft for which it will be substituted. Boeing will provide a written response to Customer's notice of intent indicating whether or not Boeing's production capability will support the scheduled delivery month.

2.8 If Boeing is unable to manufacture the Substitute Aircraft in the same scheduled delivery month as the Aircraft for which it will be substituted, then Boeing shall promptly make a written offer of an alternate delivery month for Customer's consideration and written acceptance within thirty (30) days of such offer.

2.9 All of Boeing's quoted delivery positions for Substitute Aircraft shall be considered preliminary until such time as the parties enter into a definitive agreement in accordance with paragraph 4 below.

3. Auxiliary Fuel Tanks (for 737-9 Substitute Aircraft).

The right to substitute Model 737-9 aircraft under the terms of the Purchase Agreement excludes the installation of auxiliary fuel tanks, because such installation may delay delivery of the Aircraft up to three months.

4. Definitive Agreement.

Customer's substitution right and Boeing obligation in this Letter Agreement are further conditioned upon Customer and Boeing's executing a definitive agreement for the purchase of the Substitute Aircraft within thirty (30) days of Customer's substitution notice to Boeing or of Customer's acceptance of an alternate delivery month in accordance with paragraph 2 above.

5. Price and Advance Payments.

5.3 The Airframe Price and Optional Features Price, will be adjusted to Boeing's then-current prices for such elements as of the date of execution of the definitive purchase agreement for the Substitute Aircraft [* * *] aircraft calculated between the date of execution of the Purchase Agreement for the Aircraft and the date of execution of the definitive purchase agreement for the Substitute Aircraft. The resulting Airframe Price and Optional Features Prices for the Substitute Aircraft will escalate in accordance with Supplemental Exhibit AE1. The escalation indices and methodology used to estimate the Advance Payment Base Price (**APBP**) will be adjusted to Boeing's then-current provisions for such elements as of the date of execution of the definitive purchase agreement for the Substitute Aircraft.

5.4 If the APBP for any Substitute Aircraft is higher than the APBP of the Aircraft, Customer will pay to Boeing the amount of the difference in Advance Payments as of the date of execution of the definitive agreement for the Substitute Aircraft. If the APBP of the Substitute Aircraft is lower than the APBP of the Aircraft, Boeing will retain any excess amounts previously paid by Customer until the next payment is due, at which time Customer may reduce the amount of such payment by the amount of the excess. [* * *]

6. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

7. Confidential Treatment.

The information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09442

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Right to [* * *]

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. Right to [* * *].

Subject to the terms and conditions contained herein, in addition to the Aircraft described in Table 1 to the Purchase Agreement as of the date of execution of this Letter Agreement, Customer will have the right to [* * *] Boeing Models 737-8 and/or 737-9 aircraft as [* * *].

2. Delivery.

The [* * *] are offered subject to available position for delivery during the period [* * *] through [* * *] (**Delivery Period**).

3. Configuration.

3.4 Subject to the provisions of Article 3.2, below, the configuration for the [* * *] will be the Detail Specification for Models 737-8 and/or 737-9 aircraft at the revision level in effect at the time of the Notice of Exercise. Such Detail Specification will be revised to include (i) changes applicable to such Detail Specification that are developed by Boeing between the date of the Notice of Exercise (as defined below) and the signing of the Definitive Agreement (as defined below), (ii) changes required to obtain required regulatory certificates, and (iii) other changes as mutually agreed.

3.5 Boeing reserves the right to configure [* * *] starting from a different configuration specification, provided that it can achieve the same configuration which would result pursuant to the provisions of Article 3.1

4. Price.

4.1 The Airframe Price, Optional Features Prices, and Aircraft Basic Price for the [* * *] will be determined in accordance with the provisions of the Purchase Agreement using Boeing's [* * *] as of the date of execution of the Definitive Agreement except the Airframe Price that will be identified in the definitive purchase agreement for the [* * *] will equal the sum of [* * *] between the date of execution of the Purchase Agreement for the Aircraft and the date of execution of the definitive purchase agreement for the [* * *].

4.2 The Airframe Price, Optional Features Prices, and Aircraft Basic Price for each of the [* * *] will be adjusted in accordance with the terms set forth in Article 2.1.5 (**Escalation Adjustment**) of the AGTA.

5. Payment.

At Definitive Agreement, advance payments will be payable as set forth in Table 1 of the Purchase Agreement. The remainder of the Aircraft Price for each [* * *] will be paid at the time of delivery. The Advance Payment Base Price used to determine the advance payment amounts will be developed in accordance with the terms of the Purchase Agreement and determined at the time of Definitive Agreement.

6. Notice of [* * *] and Payment of Deposit.

6.9 Customer [* * *] by giving written notice to Boeing on or before the first day of the month [* * *] prior to the desired delivery month within the Delivery Period, specifying the desired month(s) of delivery within the Delivery Period [* * *]. Such [* * *] shall be accompanied by payment, by electronic transfer to the account specified below, of Boeing's then standard proposal deposit for models 737-8 and 737-9 aircraft (**Deposit**) for each [* * *] subject to the [* * *]. The Deposit will be applied against the first advance payment due for each such [* * *].

[* * *]

At the time of its receipt of each [* * *] and related Deposit(s), Boeing will advise Customer as to the availability of the delivery month(s) requested.

6.2 If Boeing must make production decisions which would affect the delivery of any or all [* * *] during the Delivery Period, Boeing shall provide written notification to Customer and the Delivery Period shall be adjusted accordingly. If the new Delivery Period begins twenty-four (24) months or less from the date of Boeing's notification, Customer shall have thirty (30) days from the date of Boeing's notification in which to submit its [* * *] and Deposit for any eligible delivery month(s) that is twenty-four (24) months or less from Boeing's notification. Upon receipt, Boeing will advise Customer as to the availability of the delivery month(s) requested.

7. Definitive Agreement.

7.1 Following Customer's exercise of a [* * *] in accordance with the terms and conditions stated herein and Boeing's identification of an available delivery position acceptable to Customer, the parties will sign a definitive agreement for the purchase of such [* * *] (**Definitive Agreement**) within thirty (30) calendar days of such exercise [* * *]. The Definitive Agreement will include the provisions then contained in the Purchase Agreement as modified to reflect the provisions of this Letter Agreement and any additional mutually agreed terms and conditions.

8. General Expiration of Rights.

8.1 Each [* * *] shall expire at the time of execution of the Definitive Agreement for the applicable [* * *], or, if no such Definitive Agreement is executed, on [* * *].

9. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

10. Confidential Treatment.

The information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09443

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Agreement for [* * *]

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

The efficiency from [* * *] of the Boeing Model 737-8 aircraft and 737-9 aircraft (**737MAX Aircraft**) over similarly-sized aircraft is a significant factor in determining the 737MAX Aircraft values. [* * *].

Notwithstanding the [* * *], Boeing and Customer agree that the price of each respective Aircraft is based [* * *] compared to the [* * *] contained in Section 2 of Attachments A1 and A2 [* * *]. Boeing will use the method described below [* * *] to determine the actual [* * *] of the Aircraft. In the event that the [* * *], the terms of this Letter Agreement [* * *].

1. [* * *].

[* * *] will be rounded to the nearest one thousandth. [* * *].

2. <u>Rights and Obligations in the Event of a [* * *] Greater Than Zero</u>.

2.10 <u>Aircraft Delivery</u>. In the event of a [* * *] greater than zero for any Aircraft, at the time Boeing tenders that Aircraft for delivery, Boeing will provide the applicable [* * *] set forth in paragraph 2.2. Customer cannot refuse to accept delivery of such Aircraft [* * *].

2.11 [* * *] the same factor as the airframe for the applicable Aircraft.

2.2.1 [* * *]. [* * *] pursuant to this paragraph 2.2 will be [* * *] issued by Boeing and/or the engine manufacturer, provided that [* * *]. [* * *] will be made pursuant to this paragraph 2.2 for any Aircraft not delivered to, or operated by, Customer.

2.2.2 If [* * *], then Boeing and Customer will enter into a good faith discussions. [* * *].

3. <u>Duplication of Benefits</u>.

Boeing and Customer agree it is not the intent of the parties to provide benefits hereunder that duplicate benefits to be provided (a) by Boeing under the Purchase Agreement, or any other agreement between Boeing and Customer, or (b) by engine manufacturer under any agreement between engine manufacturer and Customer, due to the Aircraft not satisfying the stated Committed Block Fuel Improvement, or any performance metric that otherwise impacts fuel burn. Boeing may offset its obligation to provide benefits hereunder against the benefits provided or to be provided to Customer by engine manufacturer or Boeing pursuant to such other guarantee.

4. [* * *].

5. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

6. Confidential Treatment.

Customer understands and agrees that the information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer agrees to limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

Attachment A1 to ASA-PA-3866-LA-09433

[* * *]

Attachment A2 to ASA-PA-3866-LA-09433

[* * *]

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09444

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: [* * *] – Non-Excusable Delay

Reference: Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. Definition of Terms:

Non-Excusable Delay: Delay in delivery of any Aircraft beyond the last day of the delivery month (**Scheduled Delivery Month**) established in the Purchase Agreement by any cause that is not an Excusable Delay pursuant to Article 7 of the AGTA and for which Customer is otherwise entitled to a remedy from Boeing pursuant to applicable law.

[* * *]

Within thirty (30) days of receipt of written notice from Boeing that delivery of an Aircraft will be [* * *].

If neither Party terminates the Purchase Agreement as to such Aircraft within the applicable thirty (30) day period the Purchase Agreement will remain in effect for that Aircraft.

[* * *]

8. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

9. Confidential Treatment.

The information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09445

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Special Matters – [* * *]

Reference: a) Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

b) Letter Agreement ASA-PA-3866-LA-09440 entitled [* * *] of Models 737-8 aircraft [* * *] and 737-9 aircraft [* * *]

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Pursuant to the [* * *] Letter Agreement, Customer may [* * *]. [* * *]:

1. [* * *].

1.12 [* * *]. At the time of delivery of [* * *].

1.13 [* * *]. At the time of delivery of [* * *].

1.14 [* * *]. At the time of delivery of [* * *].

1.15 [* * *]. At the time of delivery of [* * *].

1.16 [* * *]. At the time of delivery of [* * *].

1.17 [* * *]. At the time of delivery of [* * *].

1.18 [* * *]. At the time of delivery of [* * *].

2. [* * *].

Unless otherwise noted, the [* * *] stated in Paragraphs 1.1 through 1.7 [* * *] pursuant to the terms set forth in Article [* * *] of the AGTA. [* * *].

3. Assignment.

Unless otherwise noted herein, the [* * *] described in this Letter Agreement are [* * *] in consideration of Customer's taking title to the Option Aircraft at time of delivery and becoming the operator of the Option Aircraft. This Letter Agreement cannot be assigned, in whole or in part, without the prior written consent of Boeing.

4. Confidentiality.

Customer understands and agrees that the information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer agrees to limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09446

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: Special Matters – [* * *]

Reference: a) Purchase Agreement No. 3866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 aircraft and 737-9 aircraft (**Aircraft**)

b) Letter Agreement ASA-PA-3866-LA-09442 entitled [* * *]

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Pursuant to the [* * *] Letter Agreement, Customer has the [* * *]. In addition to the terms set forth in the [* * *] Letter Agreement, Boeing will provide the following business considerations:

1. [* * *].

1.23 [* * *]. At the time of delivery of [* * *].

1.24 [* * *]. At the time of delivery of [* * *].

1.25 [* * *]. At the time of delivery of [* * *].

1.26 [* * *]. At the time of delivery of [* * *].

1.27 [* * *]. At the time of delivery of [* * *].

1.28 [* * *]. At the time of delivery of [* * *].

1.29 [* * *]. At the time of delivery of [* * *].

2. [* * *].

Unless otherwise noted, the [* * *] stated in Paragraphs 1.1 through 1.7 [* * *] pursuant to the terms set forth in [* * *] of the AGTA. [* * *].

3. Assignment.

Unless otherwise noted herein, [* * *]described in this Letter Agreement are [* * *] in consideration of Customer's taking title to the Aircraft at time of delivery and becoming the operator of the Aircraft. This Letter Agreement cannot be assigned, in whole or in part, without the prior written consent of Boeing.

4. Confidentiality.

Customer understands and agrees that the information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer agrees to limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

ASA-PA-3866-LA-09447

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: [* * *] Matters

Reference: Purchase Agreement No. PA-03866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Customer has communicated to Boeing that a factor in its [* * *]. Boeing understands Customer's desire to pursue airplane operations of twin-engine aircraft [* * *] Operational Standards similar to United States of America Federal Aviation Administration (**FAA**) 14 CFR 121 Operating Rules applicable at the time of Aircraft delivery [* * *].

The design goal of the Boeing Models 737-8 and 737-9 aircraft (**737MAX**) is to [* * *].

Boeing is committed to working diligently with the FAA and Customer in support of [* * *].

1. [* * *] Commitment.

Pursuant to this Letter Agreement, Boeing commits to [* * *] of each of the respective 737-8 and 737-9 model aircraft.

2. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

3. Confidentiality Treatment.

Customer understands and agrees that the information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

ASA-PA-3866-LA-09447

Alaska Airlines, Inc.
PO Box 68900
Seattle, WA 98168-0900

Subject: [* * *] Matters

Reference: Purchase Agreement No. PA-03866 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Alaska Airlines, Inc. (**Customer**) relating to Models 737-8 and 737-9 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Customer has communicated to Boeing that a factor in its [* * *]. Boeing understands Customer's desire to pursue airplane operations of twin-engine aircraft [* * *] Operational Standards similar to United States of America Federal Aviation Administration (**FAA**) 14 CFR 121 Operating Rules applicable at the time of Aircraft delivery [* * *].

The design goal of the Boeing Models 737-8 and 737-9 aircraft (**737MAX**) is to [* * *].

Boeing is committed to working diligently with the FAA and Customer in support of [* * *].

1. [* * *] Commitment.

Pursuant to this Letter Agreement, Boeing commits to [* * *] of each of the respective 737-8 and 737-9 model aircraft.

2. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

3. Confidentiality Treatment.

Customer understands and agrees that the information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer will limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Lanine Lange

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: October 10, 2012

ALASKA AIRLINES, INC.

By /s/ Mark Eliasen

Its VP/Finance & Treasurer

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

October 10, 2012

6-1162-LLL-0021

Alaska Airlines, Inc.
P.O. Box 68900
Seattle, WA 98168-0900

Subject: Proposal Related to [* * *]

References: a) Proposal No. ASA-PBO-1208304R2 dated August 17, 2012 and Proposal No. ASA-PBO-1208417R2 dated August 31, 2012 (collectively referred to as "**Aircraft Proposals"**)

In consideration of Customer's purchase of the aircraft as offered by the Aircraft Proposals, The Boeing Company (**Boeing**) is pleased to offer to Alaska Airlines, Inc. (**Customer**) [* * *]. Boeing will provide proposals for the [* * *] to Customer following execution of the definitive agreements for the aircraft as offered by the Aircraft Proposals which will provide the detailed product descriptions and terms and conditions [* * *]. In addition to the terms and conditions set forth in the [* * *], Boeing is pleased to offer the terms and conditions described herein.

All capitalized terms which are not otherwise defined herein shall have the definitions specified in Customer Services General Terms Agreement No. 90-2 between Boeing and Customer dated April 30, 1997 (**CSGTA)**.

1. [* * *].

1.1 [* * *].

1.1.1 Boeing will offer [* * *] to Customer for [* * *] starting in[* * *] through [* * *].

1.1.2 The [* * *] will be applicable to certain [* * *] and Customer will accrue [* * *] term and the [* * *] will accrue based on achieving the [* * *] described in Attachment A.

1.1.3 Boeing will provide the [* * *] for each 737-8 aircraft and 737-9 aircraft (**737MAX Aircraft**) up to a [* * *]. [* * *].

1.2 <u>Airplane Health Management.</u>

1.1.1 Boeing will offer Customer [* * *] for Customer's 737-700, 737-800, 737-900 and 737-900ER aircraft (**737NG Fleet**) and the 737MAX Aircraft.

(i) [* * *] is conditioned on Customer's aircraft being configured with an [* * *].

1.1.2 The term for [* * *] for 737NG Fleet will be determined by mutual agreement of the parties and the term for 737MAX Aircraft will be for [* * *] starting on the date of Customer's first 737MAX Aircraft delivery.

(i) Boeing offers Customer an [* * *] the 737NG Fleet. Such [* * *] will continue until the date of delivery of Customer's first 737MAX Aircraft. Upon delivery of Customer's first 737MAX Aircraft, such [* * *] of the [* * *] for the 737NG Fleet.

1.1.3 Boeing offers Customer [* * *] for the 737MAX Aircraft [* * *] for the [* * *]. will be at 737NG Fleet list price.

2. Expiration of Offer.

This offer will expire in accordance with the dates set forth below.

1.19 [* * *]. The proposal for the [* * *] will expire if Customer and Boeing do not enter into a definitive agreement for the [* * *] within [* * *] from the date of definitive agreement for the purchase of the aircraft offered in the Aircraft Proposals.

1.20 [* * *]. The proposal for the [* * *] will expire if Customer and Boeing do not enter into a definitive agreement for [* * *] from the date of definitive agreement for the purchase of the aircraft in the Aircraft Proposals.

3. Assignment.

The offer set forth in this letter is provided to Customer for the benefit of Customer and is not assignable, in whole or in part, without the prior written consent of Boeing.

4. Confidential Treatment.

The information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. By receiving this letter, Customer agrees to limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer evaluate or respond to this letter and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing. In addition to any equitable relief that may be available to Boeing in the event of a breach of this clause, Boeing may rescind any business concessions that are the subject of the unauthorized disclosure by Customer.

We would be pleased to discuss any questions you might have or provide any additional information you may require concerning this letter.

Very truly yours,

THE BOEING COMPANY

/s/ Lanine Lange

Lanine L. Lange

Aircraft Contracts
Boeing Commercial Airplanes

Attachment

Attachment A to
Boeing Proposal 6-1162-LLL-0021
[* * *]

EXHIBIT 31.1

CERTIFICATIONS

I, Benito Minicucci, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended September 30, 2022;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/ BENITO MINICUCCI

Benito Minicucci

President and Chief Executive Officer

November 3, 2022

EXHIBIT 31.2

CERTIFICATIONS

I, Shane R. Tackett, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended September 30, 2022;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/ SHANE R. TACKETT

Shane R. Tackett

Executive Vice President/Finance and Chief Financial Officer

November 3, 2022

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Alaska Air Group, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Benito Minicucci, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By /s/ BENITO MINICUCCI

Benito Minicucci

Chief Executive Officer

November 3, 2022

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Alaska Air Group, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Shane R. Tackett, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By /s/ SHANE R. TACKETT

Shane R. Tackett
Executive Vice President/Finance and Chief Financial Officer

November 3, 2022