# 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 June 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 126,764,811 common shares, par value $0.01, outstanding at July 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 JUNE 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)* | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **$ 778** | $ 470 |
| Marketable securities | **2,647** | 2,646 |
| Total cash and marketable securities | **3,425** | 3,116 |
| Receivables - net | **401** | 546 |
| Inventories and supplies - net | **93** | 62 |
| Prepaid expenses and other current assets | **313** | 196 |
| **Total Current Assets** | **4,232** | 3,920 |
| | | |
| **Property and Equipment** | | |
| Aircraft and other flight equipment | **8,569** | 8,127 |
| Other property and equipment | **1,532** | 1,489 |
| Deposits for future flight equipment | **292** | 384 |
| | **10,393** | 10,000 |
| Less accumulated depreciation and amortization | **3,922** | 3,862 |
| **Total Property and Equipment - Net** | **6,471** | 6,138 |
| | | |
| **Other Assets** | | |
| Operating lease assets | **1,669** | 1,453 |
| Goodwill and intangible assets | **2,041** | 2,044 |
| Other noncurrent assets | **387** | 396 |
| **Total Other Assets** | **4,097** | 3,893 |
| | | |
| **Total Assets** | **$ 14,800** | $ 13,951 |

## CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

| *(in millions, except share amounts)* | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable | **$ 286** | $ 200 |
| Accrued wages, vacation and payroll taxes | **416** | 457 |
| Air traffic liability | **1,778** | 1,163 |
| Other accrued liabilities | **794** | 625 |
| Deferred revenue | **1,012** | 912 |
| Current portion of operating lease liabilities | **274** | 268 |
| Current portion of long-term debt | **342** | 366 |
| **Total Current Liabilities** | **4,902** | 3,991 |
| | | |
| **Long-Term Debt, Net of Current Portion** | **1,961** | 2,173 |
| | | |
| **Noncurrent Liabilities** | | |
| Long-term operating lease liabilities, net of current portion | **1,505** | 1,279 |
| Deferred income taxes | **552** | 578 |
| Deferred revenue | **1,429** | 1,446 |
| Obligation for pension and post-retirement medical benefits | **299** | 305 |
| Other liabilities | **353** | 378 |
| **Total Noncurrent Liabilities** | **4,138** | 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, $0.01 par value, Authorized: 400,000,000 shares, Issued: 2022 - 136,109,649 shares; 2021 - 135,255,808 shares, Outstanding: 2022 - 126,759,705 shares; 2021 - 125,905,864 shares | **1** | 1 |
| Capital in excess of par value | **542** | 494 |
| Treasury stock (common), at cost: 2022 - 9,349,944 shares; 2021 - 9,349,944 shares | **(674)** | (674) |
| Accumulated other comprehensive loss | **(308)** | (262) |
| Retained earnings | **4,238** | 4,242 |
| | **3,799** | 3,801 |
| **Total Liabilities and Shareholders' Equity** | **$ 14,800** | $ 13,951 |

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(unaudited)*

| *(in millions, except per share amounts)* | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| Passenger revenue | **$ 2,418** | $ 1,352 | **$ 3,929** | $ 2,011 |
| Mileage Plan other revenue | **175** | 118 | **287** | 212 |
| Cargo and other | **65** | 57 | **123** | 101 |
| **Total Operating Revenues** | **2,658** | 1,527 | **4,339** | 2,324 |
| **Operating Expenses** | | | | |
| Wages and benefits | **639** | 510 | **1,245** | 1,003 |
| Variable incentive pay | **56** | 34 | **92** | 67 |
| Payroll Support Program grant wage offset | **—** | (503) | **—** | (914) |
| Aircraft fuel, including hedging gains and losses | **776** | 274 | **1,123** | 477 |
| Aircraft maintenance | **104** | 102 | **239** | 183 |
| Aircraft rent | **73** | 62 | **146** | 124 |
| Landing fees and other rentals | **136** | 144 | **274** | 273 |
| Contracted services | **82** | 54 | **160** | 105 |
| Selling expenses | **78** | 41 | **136** | 74 |
| Depreciation and amortization | **104** | 98 | **206** | 195 |
| Food and beverage service | **50** | 35 | **91** | 58 |
| Third-party regional carrier expense | **50** | 37 | **92** | 67 |
| Other | **177** | 117 | **329** | 222 |
| Special items - fleet transition and related charges | **146** | (4) | **221** | 14 |
| Special items - restructuring charges | **—** | (23) | **—** | (12) |
| **Total Operating Expenses** | **2,471** | 978 | **4,354** | 1,936 |
| **Operating Income (Loss)** | **187** | 549 | **(15)** | 388 |
| | | | | |
| **Non-operating Income (Expense)** | | | | |
| Interest income | **11** | 6 | **18** | 13 |
| Interest expense | **(26)** | (39) | **(53)** | (71) |
| Interest capitalized | **3** | 3 | **5** | 6 |
| Other - net | **10** | 9 | **24** | 19 |
| **Total Non-operating Income (Expense)** | **(2)** | (21) | **(6)** | (33) |
| **Income (Loss) Before Income Tax** | **185** | 528 | **(21)** | 355 |
| Income tax expense (benefit) | **46** | 131 | **(17)** | 89 |
| **Net Income (Loss)** | **$ 139** | 397 | **$ (4)** | $ 266 |
| | | | | |
| **Basic Earnings (Loss) Per Share:** | **$ 1.10** | $ 3.18 | **$ (0.03)** | $ 2.13 |
| **Diluted Earnings (Loss) Per Share:** | **$ 1.09** | $ 3.13 | **$ (0.03)** | $ 2.10 |
| Shares used for computation: | | | | |
| Basic | **126.543** | 124.977 | **126.265** | 124.640 |
| Diluted | **127.795** | 126.825 | **126.265** | 126.388 |

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS *(unaudited)*

| *(in millions)* | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|---|---|
| **Net Income (Loss)** | **$ 139** | $ 397 | **$ (4)** | $ 266 |
| Other comprehensive income (loss), net of tax | | | | |
| Marketable securities | **(20)** | (1) | **(60)** | (13) |
| Employee benefit plans | **—** | 7 | **1** | 13 |
| Interest rate derivative instruments | **4** | 1 | **13** | 7 |
| Total other comprehensive income (loss), net of tax | **$ (16)** | $ 7 | **$ (46)** | $ 7 |
| **Total comprehensive income (loss), net** | **$ 123** | $ 404 | **$ (50)** | $ 273 |

## 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** |

| *(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** |

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

| *(in millions)* | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net Income (Loss) | **$ (4)** | $ 266 |
| Adjustments to reconcile net gain (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | **206** | 195 |
| Stock-based compensation and other | **20** | 24 |
| Special items - fleet transition and related charges | **221** | 14 |
| Special items - restructuring charges | **—** | (12) |
| Changes in certain assets and liabilities: | | |
| Changes in deferred tax provision | **(14)** | 33 |
| Increase in accounts receivable | **(115)** | (86) |
| Increase in air traffic liability | **615** | 460 |
| Increase in deferred revenue | **83** | 69 |
| Federal income tax refund | **260** | — |
| Other - net | **(37)** | 44 |
| **Net cash provided by operating activities** | **1,235** | 1,007 |
| **Cash flows from investing activities:** | | |
| Property and equipment additions: | | |
| Aircraft and aircraft purchase deposits | **(509)** | (30) |
| Other flight equipment | **(69)** | (38) |
| Other property and equipment | **(54)** | (34) |
| Total property and equipment additions, including capitalized interest | **(632)** | (102) |
| Purchases of marketable securities | **(1,410)** | (2,524) |
| Sales and maturities of marketable securities | **1,323** | 1,561 |
| Other investing activities | **(2)** | (5) |
| **Net cash used in investing activities** | **(721)** | (1,070) |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of debt | **—** | 363 |
| Long-term debt payments | **(239)** | (681) |
| Other financing activities | **33** | 37 |
| **Net cash used in financing activities** | **(206)** | (281) |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | **308** | (344) |
| Cash, cash equivalents, and restricted cash at beginning of period | **494** | 1,386 |
| **Cash, cash equivalents, and restricted cash at end of the period** | **$ 802** | $ 1,042 |

| (in millions) | Six Months Ended June 30, 2022 | | 2021 | |
|---|---|---|---|---|
| Cash paid during the period for: | | | | |
| Interest (net of amount capitalized) | **$** | **35** | $ | 61 |
| Income taxes | | **—** | | — |
| | | | | |
| Non-cash transactions: | | | | |
| Right-of-use assets acquired through operating leases | | **378** | | 77 |
| | | | | |
| Reconciliation of cash, cash equivalents, and restricted cash at end of the period | | | | |
| Cash and cash equivalents | | **778** | | 1,025 |
| Restricted cash included in Prepaid expenses and other current assets | | **24** | | 17 |
| Total cash, cash equivalents, and restricted cash at end of the period | **$** | **802** | $ | 1,042 |

## 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 June 30, 2022 and the results of operations for the three and six months ended June 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 six months ended June 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 mainline operations to an all-Boeing 737 fleet. It also announced new plans to transition its regional operations to an all-Embraer fleet, retiring the Q400 fleet. Under these plans, Alaska will accelerate the retirement of its Airbus A320 aircraft, with all expected to exit the fleet by early 2023. Alaska also operates A321neo aircraft, and is evaluating options to remove them from its fleet by the end of 2023, subject to agreement with counterparties. The Company operated 29 A320 and ten A321neo aircraft as of June 30, 2022. Horizon plans to retire its Q400 fleet, which includes 25 owned and seven leased aircraft in operation at June 30, 2022, in early 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 and related charges" 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 and were effective beginning this quarter. Incremental costs associated with the accelerated schedules are recognized within the "Special items - fleet transition and related charges" 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 second quarter, all lease return costs were recorded within the "Special items - fleet transition and related charges" line in the consolidated statement of operations.

A summary of special charges for fleet transition activities is included below for the three and six months ended June 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 special charges associated with the fleet transition will be recorded in 2022, with additional amounts 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 June 30, 2022 | | | Six Months Ended June 30, 2022 | | |
|---|---|---|---|---|---|---|
| *(in millions)* | Airbus | Q400 | Total | Airbus | Q400 | Total |
| Impairment of long-lived assets | $ — | $ — | **$ —** | $ — | $ 70 | **$ 70** |
| Accelerated aircraft ownership expenses | 40 | 3 | **43** | 40 | 3 | **43** |
| Lease return costs and other expenses | 103 | — | **103** | 108 | — | **108** |
| **Total special items - fleet transition and related charges** | **$ 143** | **$ 3** | **$ 146** | **$ 148** | **$ 73** | **$ 221** |

## 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Passenger ticket revenue, including ticket breakage, net of taxes and fees | **$ 2,052** | $ 1,114 | **$ 3,284** | $ 1,639 |
| Passenger ancillary revenue | **119** | 84 | **210** | 134 |
| Mileage Plan passenger revenue | **247** | 154 | **435** | 238 |
| **Total Passenger revenue** | **$ 2,418** | $ 1,352 | **$ 3,929** | $ 2,011 |

### Mileage Plan Loyalty Program

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Passenger revenue | **$ 247** | $ 154 | **$ 435** | $ 238 |
| Mileage Plan other revenue | **175** | 118 | **287** | 212 |
| **Total Mileage Plan revenue** | **$ 422** | $ 272 | **$ 722** | $ 450 |

**Cargo and Other**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Cargo revenue | **$ 36** | $ 34 | **$ 65** | $ 61 |
| Other revenue | **29** | 23 | **58** | 40 |
| **Total Cargo and other revenue** | **$ 65** | $ 57 | **$ 123** | $ 101 |

**Air Traffic Liability and Deferred Revenue**

***Passenger ticket and ancillary services liabilities***

The Company recognized Passenger revenue of $132 million and $36 million from the prior year-end air traffic liability balance for the three months ended June 30, 2022 and 2021, and $522 million and $175 million for the six months ended June 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 $76 million of such receivables as of June 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):

| | Six Months Ended June 30, | |
|---|---|---|
| | 2022 | 2021 |
| **Total Deferred revenue balance at January 1** | **$ 2,358** | $ 2,277 |
| Travel miles and companion certificate redemption - Passenger revenue | **(409)** | (238) |
| Miles redeemed on partner airlines - Other revenue | **(26)** | (17) |
| Increase in liability for mileage credits issued | **518** | 324 |
| **Total Deferred revenue balance at June 30** | **$ 2,441** | $ 2,346 |

**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 June 30, 2022, total cost basis for all marketable securities was $2.7 billion, compared to a total fair value of $2.6 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 June 30, 2022.

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

| | June 30, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| **Assets** | | | | | | |
| Marketable securities | | | | | | |
| U.S. government and agency securities | **$ 522** | **$ —** | **$ 522** | $ 331 | $ — | $ 331 |
| Equity mutual funds | **5** | **—** | **5** | 6 | — | 6 |
| Foreign government bonds | **—** | **28** | **28** | — | 38 | 38 |
| Asset-backed securities | **—** | **278** | **278** | — | 311 | 311 |
| Mortgage-backed securities | **—** | **218** | **218** | — | 232 | 232 |
| Corporate notes and bonds | **—** | **1,549** | **1,549** | — | 1,663 | 1,663 |
| Municipal securities | **—** | **47** | **47** | — | 65 | 65 |
| Total Marketable securities | **527** | **2,120** | **2,647** | 337 | 2,309 | 2,646 |
| Derivative instruments | | | | | | |
| Fuel hedge - call options | **—** | **175** | **175** | — | 81 | 81 |
| Interest rate swap agreements | **—** | **9** | **9** | — | — | — |
| **Total Assets** | **$ 527** | **$ 2,304** | **$ 2,831** | $ 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):

| June 30, 2022 | Cost Basis | Fair Value |
|---|---|---|
| Due in one year or less | $ 803 | $ 799 |
| Due after one year through five years | 1,895 | 1,818 |
| Due after five years | 27 | 24 |
| **Total** | $ 2,725 | $ 2,641 |

As of June 30, 2022, $6 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 June 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 $721 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):

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Total fixed-rate debt | **$ 1,731** | $ 1,821 |
| | | |
| Estimated fair value | **$ 1,711** | $ 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 six months ended June 30, 2022.

## NOTE 5. LONG-TERM DEBT

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Fixed-rate notes payable due through 2029 | **$ 129** | $ 163 |
| Fixed-rate PSP notes payable due through 2031 | **600** | 600 |
| Fixed-rate EETC payable due through 2025 & 2027 | **1,002** | 1,058 |
| Variable-rate notes payable due through 2029 | **589** | 738 |
| Less debt issuance costs | **(17)** | (20) |
| **Total debt** | **2,303** | 2,539 |
| Less current portion | **342** | 366 |
| **Long-term debt, less current portion** | **$ 1,961** | $ 2,173 |
| | | |
| Weighted-average fixed-interest rate | **3.6 %** | 3.7 % |
| Weighted-average variable-interest rate | **2.8 %** | 1.3 % |

Approximately $372 million of the Company's total variable-rate notes payable are effectively fixed via interest rate swaps at June 30, 2022, resulting in an effective weighted-average interest rate for the full debt portfolio of 3.4%.

During the six months ended June 30, 2022, the Company made scheduled debt payments of $222 million and prepayments of $17 million for loans related to Q400 aircraft.

### *Debt Maturity*

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

| | Total |
|---|---|
| Remainder of 2022 | $ 146 |
| 2023 | 329 |
| 2024 | 235 |
| 2025 | 256 |
| 2026 | 176 |
| Thereafter | 1,178 |
| **Total** | $ 2,320 |

### *Bank Lines of Credit*

Alaska has three credit facilities totaling $486 million as of June 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 June 30, 2022.

## NOTE 6. EMPLOYEE BENEFIT PLANS

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| Service cost | **$ 11** | $ 13 | **$ 22** | $ 26 |
| **Pension expense included in Wages and benefits** | **11** | 13 | **22** | 26 |
| | | | | |
| Interest cost | **16** | 14 | **32** | 28 |
| Expected return on assets | **(32)** | (30) | **(64)** | (61) |
| Recognized actuarial loss | **2** | 9 | **4** | 18 |
| **Pension expense included in Nonoperating Income (Expense)** | **$ (14)** | $ (7) | **$ (28)** | $ (15) |

## NOTE 7. COMMITMENTS AND CONTINGENCIES

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

| | Aircraft Commitments[a] | Capacity Purchase Agreements [b] |
|---|---|---|
| Remainder of 2022 | $ 834 | $ 92 |
| 2023 | 1,932 | 188 |
| 2024 | 388 | 194 |
| 2025 | 124 | 201 |
| 2026 | 113 | 203 |
| Thereafter | 275 | 815 |
| **Total** | $ 3,666 | $ 1,693 |

(a) Includes non-cancelable contractual commitments for aircraft and engines, aircraft maintenance and parts management. 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 non-cancelable 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 second quarter amendment may be assigned by Horizon to another entity. Horizon intends to take delivery of and operate all eight firm E175 aircraft.

Details are outlined in the table below. Future minimum contractual payments for these aircraft reflect the expected delivery timing, but are also subject to change.

| | Firm Orders | Options | Total |
|---|---|---|---|
| **Aircraft Type** | **2022-2026** | **2024-2026** | **2022 - 2026** |
| Boeing 737-8 | 10 | — | 10 |
| Boeing 737-9 | 44 | 11 | 55 |
| Boeing 737-10 | 6 | 41 | 47 |
| Embraer E175 | 20 | 13 | 33 |
| **Total** | 80 | 65 | 145 |

### *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.

## 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.

### *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 1,455,438 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 June 30, 2022:

| | Number of warrants outstanding | Strike Price |
|---|---|---|
| PSP 1 | 928,127 | 31.61 |
| CARES Act loan warrants | 427,080 | 31.61 |
| PSP 2 | 305,499 | 52.25 |
| PSP 3 | 221,812 | 66.39 |
| **Outstanding June 30, 2022** | 1,882,518 | |

### *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 six months ended June 30, 2022:

| | Marketable Securities | Employee Benefit Plan | Interest Rate Derivatives | Total |
|---|---|---|---|---|
| **Balance at March 31, 2022, net of tax effect of $93** | $ (44) | $ (251) | $ 3 | $ (292) |
| Reclassifications into earnings, net of tax impact of $1 | 2 | — | — | 2 |
| Change in value, net of tax impact of $4 | (22) | — | 4 | (18) |
| **Balance at June 30, 2022, net of tax effect of $98** | **$ (64)** | **$ (251)** | **$ 7** | **$ (308)** |
| | | | | |
| **Balance at December 31, 2021, net of tax effect of $83** | $ (4) | $ (252) | $ (6) | $ (262) |
| Reclassifications into earnings, net of tax impact of $1 | 4 | 1 | — | 5 |
| Change in value, net of tax impact of $14 | (64) | — | 13 | (51) |
| **Balance at June 30, 2022, net of tax effect of $98** | **$ (64)** | **$ (251)** | **$ 7** | **$ (308)** |

### *Earnings (Loss) Per Share (EPS)*

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. Loss per share is calculated by dividing net loss by the average number of basic shares outstanding. For the three and six months ended June 30, 2022 and June 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 June 30, 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Mainline | Regional | Horizon | Consolidating & Other[(a)] | Air Group Adjusted[(b)] | Special Items[(c)] | Consolidated |
| **Operating Revenues** | | | | | | | |
| Passenger revenues | $ 2,028 | $ 390 | $ — | $ — | $ 2,418 | $ — | $ 2,418 |
| CPA revenues | — | — | 101 | (101) | — | — | — |
| Mileage Plan other revenue | 159 | 16 | — | — | 175 | — | 175 |
| Cargo and other | 64 | — | — | 1 | 65 | — | 65 |
| **Total Operating Revenues** | 2,251 | 406 | 101 | (100) | 2,658 | — | 2,658 |
| **Operating Expenses** | | | | | | | |
| Operating expenses, excluding fuel | 1,262 | 289 | 98 | (100) | 1,549 | 146 | 1,695 |
| Fuel expense | 617 | 119 | — | — | 736 | 40 | 776 |
| **Total Operating Expenses** | 1,879 | 408 | 98 | (100) | 2,285 | 186 | 2,471 |
| **Non-operating Income (Expense)** | 3 | — | (5) | — | (2) | — | (2) |
| **Income (Loss) Before Income Tax** | $ 375 | $ (2) | $ (2) | $ — | $ 371 | $ (186) | $ 185 |
| **Pretax Margin** | | | | | 14.0 % | | 7.0 % |

| | Three Months Ended June 30, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Mainline | Regional | Horizon | Consolidating & Other[(a)] | Air Group Adjusted[(b)] | Special Items[(c)] | Consolidated |
| **Operating Revenues** | | | | | | | |
| Passenger revenues | $ 1,072 | $ 280 | $ — | $ — | $ 1,352 | $ — | $ 1,352 |
| CPA revenues | — | — | 111 | (111) | — | — | — |
| Mileage Plan other revenue | 102 | 16 | — | — | 118 | — | 118 |
| Cargo and other | 55 | — | — | 2 | 57 | — | 57 |
| **Total Operating Revenues** | 1,229 | 296 | 111 | (109) | 1,527 | — | 1,527 |
| **Operating Expenses** | | | | | | | |
| Operating expenses, excluding fuel | 984 | 286 | 91 | (127) | 1,234 | (530) | 704 |
| Fuel expense | 253 | 66 | — | 1 | 320 | (46) | 274 |
| **Total Operating Expenses** | 1,237 | 352 | 91 | (126) | 1,554 | (576) | 978 |
| **Non-operating Income (Expense)** | (16) | — | (5) | — | (21) | — | (21) |
| **Income (Loss) Before Income Tax** | $ (24) | $ (56) | $ 15 | $ 17 | $ (48) | $ 576 | $ 528 |
| **Pretax Margin** | | | | | (3.1)% | | 34.6 % |

| | Six Months Ended June 30, 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Mainline | Regional | Horizon | Consolidating & Other[(a)] | Air Group Adjusted[(b)] | Special Items[(c)] | Consolidated |
| **Operating Revenues** | | | | | | | |
| Passenger revenues | $ 3,271 | $ 658 | $ — | $ — | $ 3,929 | $ — | $ 3,929 |
| CPA revenues | — | — | 195 | (195) | — | — | — |
| Mileage Plan other revenue | 259 | 28 | — | — | 287 | — | 287 |
| Cargo and other | 121 | — | — | 2 | 123 | — | 123 |
| **Total Operating Revenues** | 3,651 | 686 | 195 | (193) | 4,339 | — | 4,339 |
| **Operating Expenses** | | | | | | | |
| Operating expenses, excluding fuel | 2,456 | 551 | 197 | (194) | 3,010 | 221 | 3,231 |
| Fuel expense | 998 | 192 | — | — | 1,190 | (67) | 1,123 |
| **Total Operating Expenses** | 3,454 | 743 | 197 | (194) | 4,200 | 154 | 4,354 |
| **Non-operating Income (Expense)** | 4 | — | (10) | — | (6) | — | (6) |
| **Income (Loss) Before Income Tax** | $ 201 | $ (57) | $ (12) | $ 1 | $ 133 | $ (154) | $ (21) |
| **Pretax Margin** | | | | | 3.1 % | | (0.5)% |

| | Six Months Ended June 30, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Mainline | Regional | Horizon | Consolidating & Other[(a)] | Air Group Adjusted[(b)] | Special Items[(c)] | Consolidated |
| **Operating Revenues** | | | | | | | |
| Passenger revenues | $ 1,578 | $ 433 | $ — | $ — | $ 2,011 | $ — | $ 2,011 |
| CPA revenues | — | — | 215 | (215) | — | — | — |
| Mileage Plan other revenue | 182 | 30 | — | — | 212 | — | 212 |
| Cargo and other | 99 | — | — | 2 | 101 | — | 101 |
| **Total Operating Revenues** | 1,859 | 463 | 215 | (213) | 2,324 | — | 2,324 |
| **Operating Expenses** | | | | | | | |
| Operating expenses, excluding fuel | 1,877 | 551 | 179 | (236) | 2,371 | (912) | 1,459 |
| Fuel expense | 427 | 118 | — | — | 545 | (68) | 477 |
| **Total Operating Expenses** | 2,304 | 669 | 179 | (236) | 2,916 | (980) | 1,936 |
| **Non-operating Income (Expense)** | (23) | — | (10) | — | (33) | — | (33) |
| **Income (Loss) Before Income Tax** | $ (468) | $ (206) | $ 26 | $ 23 | $ (625) | $ 980 | $ 355 |
| **Pretax Margin** | | | | | (26.9)% | | 15.3 % |

(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. See Note A in the accompanying pages for further information.
(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):

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Mainline | **$ 20,312** | $ 19,258 |
| Horizon | **1,125** | 1,212 |
| Consolidating & Other | **(6,637)** | (6,519) |
| **Consolidated** | **$ 14,800** | $ 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:

- *Second Quarter Review*—highlights from the second 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 six months ended June 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.

### SECOND QUARTER REVIEW

#### *Business Recovery and Second Quarter Results*

We recorded consolidated pretax income for the second quarter of 2022 under GAAP of $185 million, compared to consolidated pretax income of $528 million in the second quarter of 2021. On an adjusted basis, we reported consolidated pretax income for the quarter of $371 million, compared to consolidated pretax loss of $48 million in the same period of 2021. Our airlines faced challenges early in the second quarter as we ramped staffing to meet historic levels of demand. By June, we stabilized the operation and returned reliability to our standard, resulting in industry-leading on-time performance for the month. Despite these operational difficulties, we generated record quarterly revenue of $2.7 billion, driven by yield strength and record load factors for each month of the quarter, as well as strong revenue growth from our Mileage Plan program.

As we ramp capacity back to 2019 levels, we have experienced increases to non-fuel operating expenses. Costs have also been impacted by inflationary pressures and supply chain constraints. Non-fuel operating expense, excluding special items, rose 26% over the prior year period, driven by a combination of increased departure-related costs on 16% more capacity flown and higher wages and training costs as we hire new employees. Second quarter fuel prices were at historically high levels. Although our hedging program provided a benefit of $88 million for the quarter, total fuel cost exceeded 2021 levels due primarily to a 98% increase in economic price per gallon. We also incurred special charges of $146 million in the second quarter of 2022 related to our fleet transition, compared to a special benefit of $503 million recorded in the second quarter of 2021 primarily from Payroll Support Program grant wage offsets.

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.

#### *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 Aemetis to purchase 13 million gallons of SAF to be delivered over the seven year term of the agreement. Subsequent to quarter end, we announced a partnership with Microsoft and Twelve, a carbon transformation company, to advance the use of SAF within the commercial airline industry.

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 target achievement.

***Labor Update***

In April 2022, Alaska's dispatchers represented by the Transport Workers Union ratified an agreement that includes increased pay with added steps to ensure wage rates remain competitive, enhanced benefits, and streamlined training. In May 2022, Horizon's mechanics represented by the Aircraft Mechanics Fraternal Association ratified an agreement that includes increased pay and license premiums. In June 2022, Alaska reached a tentative agreement with employees represented by the International Association of Machinists and Aerospace workers; voting will be completed in the third quarter.

Alaska is actively negotiating for a new contract with its mainline pilots represented by the Air Line Pilots Association, whose contract became amendable in April 2020.

***Outlook***

For the third quarter and remainder of the year, we remain committed to best positioning our airlines for long-term sustainable growth. We have moderated our capacity plans for the remainder of the year to stabilize our operation, improve our training throughput and execute on our fleet transition plans. As a result, we now anticipate our capacity for the third quarter to be down 5% to 8% 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 third quarter CASMex to be up 16% to 19% over 2019. Continued strength in the demand environment is expected to generate revenue 16% to 19% over 2019 levels. For the full year, we continue to anticipate adjusted pretax margins will range between 6% and 9%.

Although our operations have stabilized, ongoing industry-wide labor shortages and supply chain delays could have a material impact on our results moving forward. 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 well in 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 non-recurring, 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 June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2022** | **2021** | **Change** | **2022** | **2021** | **Change** |
| **Consolidated Operating Statistics:[(a)]** | | | | | | |
| Revenue passengers (000) | **11,005** | 8,712 | 26.3% | **19,700** | 13,379 | 47.2% |
| RPMs (000,000) "traffic" | **13,746** | 10,334 | 33.0% | **24,332** | 15,727 | 54.7% |
| ASMs (000,000) "capacity" | **15,611** | 13,413 | 16.4% | **29,394** | 23,810 | 23.5% |
| Load factor | **88.1%** | 77.0% | 11.1 pts | **82.8%** | 66.1% | 16.7 pts |
| Yield | **17.59¢** | 13.09¢ | 34.4% | **16.15¢** | 12.79¢ | 26.3% |
| RASM | **17.03¢** | 11.38¢ | 49.6% | **14.76¢** | 9.76¢ | 51.2% |
| CASM excluding fuel and special items[(b)] | **9.92¢** | 9.20¢ | 7.8% | **10.24¢** | 9.95¢ | 2.9% |
| Economic fuel cost per gallon[(b)] | **$3.76** | $1.90 | 97.9% | **$3.23** | $1.85 | 74.6% |
| Fuel gallons (000,000) | **196** | 168 | 16.7% | **368** | 294 | 25.2% |
| ASMs per fuel gallon | **79.6** | 79.8 | (0.3)% | **79.9** | 81.0 | (1.4)% |
| Average full-time equivalent employees (FTEs) | **22,603** | 19,001 | 19.0% | **22,092** | 18,071 | 22.3% |
| **Mainline Operating Statistics:** | | | | | | |
| Revenue passengers (000) | **8,321** | 6,151 | 35.3% | **14,887** | 9,302 | 60.0% |
| RPMs (000,000) "traffic" | **12,460** | 8,966 | 39.0% | **21,972** | 13,555 | 62.1% |
| ASMs (000,000) "capacity" | **14,052** | 11,611 | 21.0% | **26,439** | 20,464 | 29.2% |
| Load factor | **88.7%** | 77.2% | 11.5 pts | **83.1%** | 66.2% | 16.9 pts |
| Yield | **16.28¢** | 11.96¢ | 36.1% | **14.89¢** | 11.64¢ | 27.9% |
| RASM | **16.02¢** | 10.59¢ | 51.3% | **13.81¢** | 9.09¢ | 51.9% |
| CASM excluding fuel and special items[(b)] | **8.98¢** | 8.48¢ | 5.9% | **9.29¢** | 9.17¢ | 1.3% |
| Economic fuel cost per gallon[(b)] | **$3.74** | $1.88 | 98.9% | **$3.21** | $1.84 | 74.4% |
| Fuel gallons (000,000) | **165** | 135 | 22.2% | **311** | 233 | 33.5% |
| ASMs per fuel gallon | **85.2** | 86.0 | (0.9)% | **85.0** | 87.8 | (3.2)% |
| Average FTEs | **17,315** | 14,021 | 23.5% | **16,825** | 13,247 | 27.0% |
| Aircraft utilization | **10.1** | 9.9 | 2.0% | **9.8** | 9.2 | 6.5% |
| Average aircraft stage length | **1,363** | 1,320 | 3.3% | **1,349** | 1,313 | 2.7% |
| Operating fleet[(d)] | **233** | 202 | 31 a/c | **233** | 202 | 31 a/c |
| **Regional Operating Statistics:[(c)]** | | | | | | |
| Revenue passengers (000) | **2,685** | 2,562 | 4.8% | **4,813** | 4,077 | 18.1% |
| RPMs (000,000) "traffic" | **1,285** | 1,367 | (6.0)% | **2,360** | 2,172 | 8.7% |
| ASMs (000,000) "capacity" | **1,559** | 1,802 | (13.5)% | **2,955** | 3,346 | (11.7)% |
| Load factor | **82.4%** | 75.9% | 6.5 pts | **79.9%** | 64.9% | 15.0 pts |
| Yield | **30.35¢** | 20.48¢ | 48.2% | **27.88¢** | 19.95¢ | 39.7% |
| RASM | **26.04¢** | 16.41¢ | 58.7% | **23.21¢** | 13.84¢ | 67.7% |
| Operating fleet[(d)] | **104** | 94 | 10 a/c | **104** | 94 | 10 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) Excludes all aircraft removed from operating service, as well as new aircraft which have not yet entered operating service.

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 June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | **2022** | **2019** | **Change** | **2022** | **2019** | **Change** |
| Passenger revenue | **$ 2,418** | $ 2,111 | 15% | **$ 3,929** | $ 3,827 | 3% |
| Mileage plan other revenue | **175** | 118 | 48% | **287** | 228 | 26% |
| Cargo and other | **65** | 59 | 10% | **123** | 109 | 13% |
| **Total operating revenue** | **$ 2,658** | $ 2,288 | 16% | **$ 4,339** | $ 4,164 | 4% |
| | | | | | | |
| Operating expense, excluding fuel and special items | **$ 1,549** | $ 1,414 | 10% | **$ 3,010** | $ 2,819 | 7% |
| Aircraft fuel, including hedging gains and losses | **776** | 502 | 55% | **1,123** | 922 | 22% |
| Special items | **146** | 8 | NM | **221** | 34 | NM |
| **Total operating expenses** | **$ 2,471** | $ 1,924 | 28% | **$ 4,354** | $ 3,775 | 15% |
| | | | | | | |
| **Total non-operating expense** | **(2)** | (13) | (85)% | **(6)** | (32) | (81)% |
| **Income (loss) before income tax** | **$ 185** | $ 351 | (47)% | **$ (21)** | $ 357 | (106)% |
| | | | | | | |
| **Consolidated Operating Statistics:** | | | | | | |
| Revenue passengers (000) | **11,005** | 12,026 | (8)% | **19,700** | 22,442 | (12)% |
| RPMs (000,000) "traffic" | **13,746** | 14,638 | (6)% | **24,332** | 27,087 | (10)% |
| ASMs (000,000) "capacity" | **15,611** | 16,980 | (8)% | **29,394** | 32,487 | (10)% |
| Load Factor | **88.1%** | 86.2% | 1.9 pts | **82.8%** | 83.4% | (0.6) pts |
| Yield | **17.59¢** | 14.43¢ | 22% | **16.15¢** | 14.13¢ | 14% |
| RASM | **17.03¢** | 13.48¢ | 26% | **14.76¢** | 12.82¢ | 15% |
| CASMex | **9.92¢** | 8.33¢ | 19% | **10.24¢** | 8.68¢ | 18% |
| FTEs | **22,603** | 21,921 | 3% | **22,092** | 21,876 | 1% |

## COMPARISON OF THREE MONTHS ENDED JUNE 30, 2022 TO THREE MONTHS ENDED JUNE 30, 2021

Our consolidated net income for the three months ended June 30, 2022 was $139 million, or $1.09 per share, compared to a consolidated net income of $397 million, or $3.13 per share, for the three months ended June 30, 2021.

Excluding the impact of special items and mark-to-market fuel hedge adjustments, our adjusted net income for the second quarter of 2022 was $280 million, or $2.19 per share, compared to an adjusted net loss of $38 million, or $0.30 per share, in the second 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 June 30, | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| *(in millions, except per share amounts)* | Dollars | Diluted EPS | Dollars | Diluted EPS |
| GAAP net income per share | **$ 139** | **$ 1.09** | $ 397 | $ 3.13 |
| Payroll Support Program grant wage offset | **—** | **—** | (503) | (3.97) |
| Mark-to-market fuel hedge adjustments | **40** | **0.31** | (46) | (0.36) |
| Special items - fleet transition and related charges | **146** | **1.14** | (4) | (0.03) |
| Special items - restructuring charges | **—** | **—** | (23) | (0.18) |
| Income tax effect of reconciling items above | **(45)** | **(0.35)** | 141 | 1.11 |
| **Non-GAAP adjusted net income (loss) per share** | **$ 280** | **$ 2.19** | $ (38) | $ (0.30) |

CASM excluding fuel and special items reconciliation is summarized below:

| | Three Months Ended June 30, | | |
|---|---|---|---|
| *(in cents)* | 2022 | 2021 | % Change |
| **Consolidated:** | | | |
| CASM | **15.84 ¢** | 7.29 ¢ | 117 % |
| Less the following components: | | | |
| Payroll Support Program grant wage offset | **—** | (3.75) | NM |
| Aircraft fuel, including hedging gains and losses | **4.98** | 2.04 | 144 % |
| Special items - fleet transition and related charges | **0.94** | (0.03) | NM |
| Special items - restructuring charges | **—** | (0.17) | NM |
| **CASM excluding fuel and special items** | **9.92 ¢** | 9.20 ¢ | 8 % |
| | | | |
| **Mainline:** | | | |
| CASM | **15.06 ¢** | 6.24 ¢ | 141 % |
| Less the following components: | | | |
| Payroll Support Program grant wage offset | **—** | (3.79) | NM |
| Aircraft fuel, including hedging gains and losses | **5.06** | 1.78 | 184 % |
| Special items - fleet transition and related charges | **1.02** | (0.03) | NM |
| Special items - restructuring charges | **—** | (0.20) | NM |
| **CASM excluding fuel and special items** | **8.98 ¢** | 8.48 ¢ | 6 % |

*OPERATING REVENUE*

Total operating revenue increased $1.1 billion, or 74%, during the second quarter of 2022 compared to the same period in 2021. The changes are summarized in the following table:

| | Three Months Ended June 30, | | |
|---|---|---|---|
| *(in millions)* | 2022 | 2021 | % Change |
| Passenger revenue | $ 2,418 | $ 1,352 | 79 % |
| Mileage Plan other revenue | 175 | 118 | 48 % |
| Cargo and other | 65 | 57 | 14 % |
| **Total operating revenue** | $ 2,658 | $ 1,527 | 74 % |

*Passenger revenue*

On a consolidated basis, Passenger revenue for the second quarter of 2022 increased by $1.1 billion, or 79%, driven by a 33% increase in passenger traffic and a 34% improvement in ticket yields. Record setting demand for air travel and constrained capacity industry wide enabled record load factors in each month of the second 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 as compared to 2021.

*Mileage Plan other revenue*

On a consolidated basis, Mileage Plan other revenue for the second quarter of 2022 increased by $57 million, or 48%. 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. Second quarter Mileage Plan other revenue includes a one-time $20 million adjustment recorded as a result of finalizing accounting conclusions for the new agreement.

*Cargo and other*

On a consolidated basis, Cargo and other revenue for the second 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 $1.5 billion, or 153%, compared to the second 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 June 30, | | |
|---|---|---|---|
| *(in millions)* | 2022 | 2021 | % Change |
| Fuel expense | $ 776 | $ 274 | 183 % |
| Non-fuel operating expenses, excluding special items | 1,549 | 1,234 | 26 % |
| Payroll Support Program grant wage offset | — | (503) | NM |
| Special items - fleet transition and related charges | 146 | (4) | NM |
| Special items - restructuring charges | — | (23) | NM |
| **Total operating expenses** | $ 2,471 | $ 978 | 153 % |

*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 $502 million, or 183%, compared to the second quarter of 2021. The elements of the change are illustrated in the following table:

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| *(in millions, except for per gallon amounts)* | Dollars | Cost/Gal | Dollars | Cost/Gal |
| Raw or "into-plane" fuel cost | **$ 824** | **$ 4.20** | $ 330 | $ 1.96 |
| (Gain)/loss on settled hedges | **(88)** | **(0.44)** | (10) | (0.06) |
| **Consolidated economic fuel expense** | **$ 736** | **$ 3.76** | $ 320 | $ 1.90 |
| Mark-to-market fuel hedge adjustments | **40** | **0.20** | (46) | (0.27) |
| **GAAP fuel expense** | **$ 776** | **$ 3.96** | $ 274 | $ 1.63 |
| **Fuel gallons** | | **196** | | 168 |

*Raw fuel expense* increased 150% in the second quarter of 2022 compared to the second quarter of 2021, due to significantly higher per gallon costs and increased fuel consumption. Raw fuel expense per gallon increased by approximately 114% 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 62% while refining margins have risen exponentially compared to 2021. Fuel gallons consumed increased 17%, 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 second quarter were $88 million in 2022, compared to gains of $10 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 June 30, | | |
|---|---|---|---|
| *(in millions)* | 2022 | 2021 | % Change |
| Wages and benefits | **$ 639** | $ 510 | 25 % |
| Variable incentive pay | **56** | 34 | 65 % |
| Aircraft maintenance | **104** | 102 | 2 % |
| Aircraft rent | **73** | 62 | 18 % |
| Landing fees and other rentals | **136** | 144 | (6)% |
| Contracted services | **82** | 54 | 52 % |
| Selling expenses | **78** | 41 | 90 % |
| Depreciation and amortization | **104** | 98 | 6 % |
| Food and beverage service | **50** | 35 | 43 % |
| Third-party regional carrier expense | **50** | 37 | 35 % |
| Other | **177** | 117 | 51 % |
| **Total non-fuel operating expenses, excluding special items** | **$ 1,549** | $ 1,234 | 26 % |

*Wages and benefits*

Wages and benefits increased by $129 million, or 25%, in the second quarter of 2022. The primary components of Wages and benefits are shown in the following table:

| | Three Months Ended June 30, | | |
|---|---|---|---|
| ***(in millions)*** | **2022** | **2021** | **% Change** |
| Wages | **$ 486** | $ 386 | 26 % |
| Pension - Defined benefit plans service cost | **12** | 13 | (8)% |
| Defined contribution plans | **39** | 26 | 50 % |
| Medical and other benefits | **66** | 59 | 12 % |
| Payroll taxes | **36** | 26 | 38 % |
| **Total wages and benefits** | **$ 639** | $ 510 | 25 % |

Wages increased $100 million, or 26%, primarily driven by 19% growth in FTEs as Alaska and Horizon hire to support the ramp up in operations, as well as higher wage rates. Increased expense for defined contribution plans, payroll taxes, and medical and other benefits are consistent with the change in wages.

*Variable incentive pay*

Variable incentive pay expense increased by $22 million, or 65%, in the second quarter of 2022. The increase is primarily due to the expectation that higher payouts will be achieved under the 2022 Performance Based Pay Plan.

*Aircraft rent*

Aircraft rent expense increased by $11 million, or 18%, in the second quarter of 2022. Increased expense is due to the delivery of eight leased Boeing 737-9 aircraft and ten leased E175 aircraft operated by SkyWest since June 30, 2021.

*Landing fees and other rentals*

Landing fees and other rentals decreased by $8 million, or 6%, in the second quarter of 2022. The decrease compared to the same period in 2021 is due to favorable resolution for certain pandemic period airport accruals, coupled with decreased airport rates as compared to the prior year.

*Contracted services*

Contracted services increased by $28 million, or 52%, in the second quarter of 2022, driven primarily by increased departures and passengers, coupled with higher rates charged by vendor partners.

*Selling expense*

Selling expense increased by $37 million, or 90%, in the second 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 $15 million, or 43%, in the second quarter of 2022, consistent with a 26% increase in revenue passengers. Additional on-board offerings coupled with increased charges for transportation 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 35%, in the second 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 $60 million, or 51%, in the second quarter of 2022. Training events, including travel costs, were a significant driver of the increased cost. Incremental crew hotel stays and per diem, consistent with the overall increase in departures and capacity, also contributed to the year-over-year increase.

*Special items - fleet transition and related charges*

We recorded non-recurring expenses associated with fleet transition and related charges of $146 million in the second quarter of 2022. Refer to Note 2 to the consolidated financial statements for additional details.

### *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 $375 million in the second quarter of 2022, compared to an adjusted pretax loss of $24 million in the second quarter of 2021. The $399 million improvement was primarily driven by a $956 million increase in Passenger revenue, offset by a $364 million increase in economic fuel cost and a $278 million increase in non-fuel operating costs.

As compared to the prior year, higher Mainline revenue is primarily attributable to a 39% increase in traffic and a 36% 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 second quarter of 2022, compared to an adjusted pretax loss of $56 million in the second quarter of 2021. Improved results were attributable to a $110 million increase in operating revenue, partially offset by a $53 million increase in fuel costs.

Regional passenger revenue increased significantly compared to the second quarter of 2021, primarily driven by an improved load factor and a 48% improvement in yield. Higher fuel prices contributed to the increase in Regional fuel expense.

*Horizon*

Horizon reported an adjusted pretax loss of $2 million in the second quarter of 2022, compared to an adjusted pretax profit of $15 million in the second quarter of 2021. The shift to adjusted pretax loss is driven by lower CPA revenue on decreased departures, combined with incremental maintenance expense on E175 aircraft and higher wage and benefit costs on incremental FTEs.

## COMPARISON OF SIX MONTHS ENDED JUNE 30, 2022 TO SIX MONTHS ENDED JUNE 30, 2021

Our consolidated net loss for the six months ended June 30, 2022 was $4 million, or $0.03 per share, compared to consolidated net income of $266 million, or $2.10 per share, for the six months ended June 30, 2021.

Our adjusted net income for the six months ended June 30, 2022 was $113 million, or $0.89 per share, compared to an adjusted net loss of $474 million, or $3.75 per share, in the six months ended June 30, 2021. The following table reconciles our adjusted net income and adjusted EPS to amounts as reported in accordance with GAAP:

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| *(in millions, except per share amounts)* | **Dollars** | **Diluted EPS** | **Dollars** | **Diluted EPS** |
| GAAP net income (loss) per share | **$ (4)** | **$ (0.03)** | $ 266 | $ 2.10 |
| Payroll Support Program grant wage offset | **—** | **—** | (914) | (7.23) |
| Mark-to-market fuel hedge adjustments | **(67)** | **(0.53)** | (68) | (0.54) |
| Special items - impairment charges and other | **221** | **1.75** | 14 | 0.11 |
| Special items - restructuring charges | **—** | **—** | (12) | (0.09) |
| Income tax effect of reconciling items above | **(37)** | **(0.30)** | 240 | 1.90 |
| **Non-GAAP adjusted net income (loss) per share** | **$ 113** | **$ 0.89** | $ (474) | $ (3.75) |

CASM excluding fuel and special items reconciliation is summarized below:

| | Six Months Ended June 30, | | |
|---|---|---|---|
| *(in cents)* | **2022** | **2021** | **% Change** |
| **Consolidated:** | | | |
| CASM | **14.81 ¢** | 8.13 ¢ | 82 % |
| Less the following components: | | | |
| Payroll Support Program grant wage offset | **—** | (3.84) | NM |
| Aircraft fuel, including hedging gains and losses | **3.82** | 2.00 | 91 % |
| Special items - fleet transition and related charges | **0.75** | 0.07 | NM |
| Special items - restructuring charges | **—** | (0.05) | NM |
| **CASM excluding fuel and special items** | **10.24 ¢** | 9.95 ¢ | 3 % |
| | | | |
| **Mainline:** | | | |
| CASM | **13.69 ¢** | 6.72 ¢ | 104 % |
| Less the following components: | | | |
| Payroll Support Program grant wage offset | **—** | (4.21) | NM |
| Aircraft fuel, including hedging gains and losses | **3.84** | 1.75 | 119 % |
| Special items - fleet transition and related charges | **0.56** | 0.07 | NM |
| Special items - restructuring charges and other | **—** | (0.06) | NM |
| **CASM excluding fuel and special items** | **9.29 ¢** | 9.17 ¢ | 1 % |

***OPERATING REVENUE***

Total operating revenue increased $2.0 billion, or 87%, during the first six months of 2022 compared to the same period in 2021. The changes are summarized in the following table:

| | Six Months Ended June 30, | | |
|---|---|---|---|
| *(in millions)* | 2022 | 2021 | % Change |
| Passenger revenue | $ **3,929** | $ 2,011 | 95 % |
| Mileage Plan other revenue | **287** | 212 | 35 % |
| Cargo and other | **123** | 101 | 22 % |
| **Total operating revenue** | $ **4,339** | $ 2,324 | 87 % |

***Passenger revenue***

On a consolidated basis, Passenger revenue for the first six months of 2022 increased by $1.9 billion, or 95%, on a 55% increase in passenger traffic and a 26% improvement in ticket yields. Although our airlines experienced operational disruptions in the first half of 2022, demand for both leisure and business travel continues to drive meaningful improvements to revenue results.

We expect Passenger revenue to continue to grow compared to 2021 results as we are flying more capacity, and also due to the relative strength in the demand environment, coupled with incremental revenue from Mileage Plan award redemptions and alliance partners as global travel restrictions have eased.

***Mileage Plan other revenue***

On a consolidated basis, Mileage Plan other revenue increased $75 million, or 35%, in the first six 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 remainder of 2022 relative to the prior year, driven by higher commissions from the new co-branded credit card agreement.

***Cargo and other***

On a consolidated basis, Cargo and other revenue increased $22 million, or 22%, in the first six 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 continue to increase compared to 2021 driven by greater ancillary revenue and growth in our cargo business.

***OPERATING EXPENSES***

Total operating expenses increased $2.4 billion, or 125%, compared to the first six 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:

| | Six Months Ended June 30, | | |
|---|---|---|---|
| *(in millions)* | 2022 | 2021 | % Change |
| Fuel expense | $ **1,123** | $ 477 | 135 % |
| Non-fuel operating expenses, excluding special items | **3,010** | 2,371 | 27 % |
| Payroll Support Program grant wage offset | **—** | (914) | NM |
| Special items - impairment charges and other | **221** | 14 | NM |
| Special items - restructuring charges | **—** | (12) | NM |
| **Total operating expenses** | $ **4,354** | $ 1,936 | 125 % |

***Fuel expense***

Aircraft fuel expense increased $646 million, or 135%, compared to the six months ended June 30, 2021. The elements of the change are illustrated in the table:

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| ***(in millions, except for per gallon amounts)*** | **Dollars** | **Cost/Gal** | **Dollars** | **Cost/Gal** |
| Raw or "into-plane" fuel cost | **$ 1,328** | **$ 3.61** | $ 552 | $ 1.87 |
| (Gain)/loss on settled hedges | **(138)** | **(0.38)** | (7) | (0.02) |
| **Consolidated economic fuel expense** | **1,190** | **3.23** | $ 545 | $ 1.85 |
| Mark-to-market fuel hedge adjustments | **(67)** | **(0.18)** | (68) | (0.23) |
| **GAAP fuel expense** | **$ 1,123** | **$ 3.05** | $ 477 | $ 1.62 |
| **Fuel gallons** | | **368** | | 294 |

*Raw fuel expense* increased 141% in the first six months of 2022 compared to the first six months of 2021, due to significantly higher per gallon costs and increased fuel consumption. Raw fuel expense per gallon increased by approximately 93% 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 48% while refining margins have more than doubled. Fuel gallons consumed increased 25%, 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 six months of 2022 were $138 million, compared to gains of $7 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 as we progress through 2022, driven by both increased raw fuel and refining margins on increased capacity. We expect our economic fuel cost per gallon in the third quarter to range between $3.79 and $3.89 per gallon. Based on expected raw fuel prices, we will continue to recognize benefits from our fuel hedge portfolio during 2022. We expect the magnitude of the hedge benefit to be lesser in the second half of the year as the strike price of the portfolio approaches projected market cost per barrel.

*Non-fuel expenses*

| *(in millions)* | Six Months Ended June 30, 2022 | 2021 | % Change |
|---|---|---|---|
| Wages and benefits | **$ 1,245** | $ 1,003 | 24 % |
| Variable incentive pay | **92** | 67 | 37 % |
| Aircraft maintenance | **239** | 183 | 31 % |
| Aircraft rent | **146** | 124 | 18 % |
| Landing fees and other rentals | **274** | 273 | — % |
| Contracted services | **160** | 105 | 52 % |
| Selling expenses | **136** | 74 | 84 % |
| Depreciation and amortization | **206** | 195 | 6 % |
| Food and beverage service | **91** | 58 | 57 % |
| Third-party regional carrier expense | **92** | 67 | 37 % |
| Other | **329** | 222 | 48 % |
| **Total non-fuel operating expenses, excluding special items** | **$ 3,010** | $ 2,371 | 27 % |

For the remainder of the year, we generally anticipate recognizing incremental costs as compared to 2021 as we continue to increase our capacity and scheduled departures, and hire additional employees at higher wage rates to staff our operation.

*Wages and benefits*

Wages and benefits increased by $242 million, or 24%, in the first six months of 2022. The primary components of wages and benefits are shown in the following table:

| *(in millions)* | Six Months Ended June 30, 2022 | 2021 | % Change |
|---|---|---|---|
| Wages | **$ 953** | $ 743 | 28 % |
| Pension - Defined benefit plans service cost | **23** | 26 | (12)% |
| Defined contribution plans | **77** | 58 | 33 % |
| Medical and other benefits | **122** | 124 | (2)% |
| Payroll taxes | **70** | 52 | 35 % |
| **Total wages and benefits** | **$ 1,245** | $ 1,003 | 24 % |

Wages increased $210 million, or 28%, in the first six months of 2022, primarily driven by 22% growth in FTEs as Alaska and Horizon hire to support the ramp up in operations, as well as higher 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 $25 million, or 37%, in the first six months of 2022. The increase is primarily due to the expectation that higher payouts will be achieved under the 2022 Performance Based Pay Plan.

*Aircraft maintenance*

Aircraft maintenance expense increased by $56 million, or 31%, in the first six 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 $22 million, or 18%, in the first six months of 2022. Increased expense is due to the delivery of eight leased Boeing 737-9 aircraft and ten leased E175 aircraft operated by SkyWest since June 30, 2021.

### *Landing fees and other rentals*

Landing fees and other rentals in the first six months of 2022 were flat as compared to the same period in 2021, despite an increase in departures and passengers. Flat expense is due to favorable resolution for certain pandemic period airport accruals, coupled with a reduction in airport rates as traffic returns fees per landing are reduced from 2021 levels.

### *Contracted services*

Contracted services increased by $55 million, or 52%, in the first six months of 2022, driven primarily by increased departures and passengers in line with increased demand, coupled with increased rates charged by vendor partners.

### *Selling expense*

Selling expense increased by $62 million, or 84%, in the first six 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 $33 million, or 57%, in the first six months of 2022. Incremental food and beverage charges are in line with the 47% 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 $25 million, or 37%, in the first six 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 2022 as compared to 2021 as we operate incremental E175 aircraft into the CPA with SkyWest through the year.

### *Other expense*

Other expense increased $107 million, or 48%, in the first six months of 2022. Training events, including travel costs, were a significant driver of the increased cost. Incremental crew hotel stays and per diem, consistent with the overall increase in departures and capacity, also contributed to the year-over-year increase.

### *Special items - fleet transition and related charges*

We recorded non-recurring expenses associated with fleet transition and related charges of $221 million in the first six 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 $200 million and $250 million for the remainder of 2022, and are subject to change as management continues to evaluate its leased aircraft returns. Refer to Note 2 to the consolidated financial statements for additional details.

## *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 $201 million in the first six months of 2022, compared to an adjusted pretax loss of $468 million in the same period in 2021. The $669 million improvement was driven by a $1.8 billion increase in Mainline operating revenue offset by a $571 million increase in Mainline fuel expense and a $579 million increase in Mainline non-fuel operating expense.

As compared to the prior year, higher Mainline revenue are primarily attributable to a 62% increase in traffic and a 28% 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 $57 million in the first six months of 2022, compared to an adjusted pretax loss of $206 million in the first six months of 2021. Improved results were attributable to a $223 million increase in operating revenue which was the result of higher demand and yields, partially offset by a $74 million increase in fuel costs on higher fuel prices.

### *Horizon*

Horizon reported an adjusted pretax loss of $12 million in the first six months of 2022, compared to an adjusted pretax profit of $26 million in the same period in 2021. The shift to adjusted pretax loss is driven by lower CPA revenue on decreased departures, combined with incremental maintenance expense on E175 aircraft and higher wage and benefit costs on incremental FTEs.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are:

- Existing cash and marketable securities balance of $3.4 billion, and cash flows from operations;
- 63 unencumbered aircraft that could be financed, if necessary;
- Combined bank line-of-credit facilities, with no outstanding borrowings, of $400 million.

During the three months ended June 30, 2022, we took free and clear delivery of seven Boeing 737-9 aircraft. We also made debt payments totaling $69 million, ending the quarter with a debt-to-capitalization ratio of 50%, within our target range of 40% to 50%. During the second quarter, we received $260 million in federal income tax refunds as a result of filing amended returns to utilize carry back losses from the 2020 tax year.

As our business returns to sustained profitability, reducing outstanding debt, normalizing our on-hand liquidity, and maintaining a strong balance sheet remain high priorities. Our capital expenditures for 2022 are expected to be approximately $1.6 billion, which we plan to fund with cash generated by operating activities and cash on hand.

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)* | | June 30, 2022 | | December 31, 2021 | Change |
|---|---|---|---|---|---|
| Cash and marketable securities | **$** | **3,425** | $ | 3,116 | 10 % |
| Cash, marketable securities, and unused lines of credit as a percentage of trailing twelve months' revenue | | **47 %** | | 57 % | (10) pts |
| Long-term debt, net of current portion | | **1,961** | | 2,173 | (10)% |
| Shareholders’ equity | **$** | **3,799** | $ | 3,801 | —% |

**Debt-to-capitalization, adjusted for operating leases**

| *(in millions)* | | June 30, 2022 | | December 31, 2021 | Change |
|---|---|---|---|---|---|
| Long-term debt, net of current portion | **$** | **1,961** | $ | 2,173 | (10)% |
| Capitalized operating leases | | **1,779** | | 1,547 | 15% |
| Adjusted debt, net of current portion of long-term debt | **$** | **3,740** | $ | 3,720 | 1% |
| Shareholders' equity | | **3,799** | | 3,801 | —% |
| Total invested capital | **$** | **7,539** | $ | 7,521 | —% |
| | | | | | |
| **Debt-to-capitalization, including operating leases** | | **50 %** | | 49 % | 1 pt |

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

| *(in millions)* | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Current portion of long-term debt | **$** | **342** | $ | 366 |
| Current portion of operating lease liabilities | | **274** | | 268 |
| Long-term debt | | **1,961** | | 2,173 |
| Long-term operating lease liabilities, net of current portion | | **1,505** | | 1,279 |
| **Total adjusted debt** | | **4,082** | | 4,086 |
| Less: Cash and marketable securities | | **(3,425)** | | (3,116) |
| **Adjusted net debt** | **$** | **657** | $ | 970 |

| *(in millions)* | | Twelve Months Ended June 30, 2022 | | Twelve Months Ended December 31, 2021 |
|---|---|---|---|---|
| GAAP Operating Income[(a)] | **$** | **282** | $ | 685 |
| Adjusted for: | | | | |
| Payroll Support Program grant wage offset and special items | | **208** | | (925) |
| Mark-to-market fuel hedge adjustments | | **(46)** | | (47) |
| Depreciation and amortization | | **405** | | 394 |
| Aircraft rent | | **276** | | 254 |
| **EBITDAR** | **$** | **1,125** | $ | 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 six months of 2022, net cash provided by operating activities was $1.2 billion, compared to $1.0 billion during the same period in 2021. The $228 million net increase in our operating cash flows is due to a combination of factors. First, we received $260 million in federal income tax refunds during the first six months of 2022. Additionally, growth in our air traffic liability resulting from historic levels of demand led to an increase in operating cash flows of $155 million compared to the same period in the prior year. These amounts were partially offset by uses of cash on increasing operating expenses as the business returned capacity back to the network.

### *Cash Used in Investing Activities*

Cash used in investing activities was $721 million during the first six months of 2022, compared to $1.1 billion during the same period of 2021. Cash used in capital expenditures for aircraft purchase deposits and other property and equipment was $632 million in the first six months of 2022, compared to $102 million in the first six months of 2021. This increase in cash used in capital expenditures was offset by a decrease in net purchases of marketable securities, which were $87 million in the first six months of 2022, compared to $963 million in the first six months of 2021.

### *Cash Used in Financing Activities*

Cash used in financing activities was $206 million during the first six months of 2022, compared to $281 million during the same period in 2021. During the first six months of 2022, we had no new proceeds from issuance of debt and utilized cash on hand to repay $239 million of outstanding long-term debt, compared to debt proceeds of $363 million and payments of $681 million during the same period in 2021.

## MATERIAL CASH COMMITMENTS

### *Aircraft Commitments*

As of June 30, 2022, Alaska has firm orders to purchase 60 Boeing 737 aircraft with deliveries in 2022 through 2024 and firm commitments to lease six 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. 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.

The following table summarizes our anticipated fleet count by year, as of June 30, 2022:

| | Actual Fleet | Anticipated Fleet Activity[a] | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Aircraft** | **June 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 | 28 | 14 | — | 42 | 31 | 73 | 5 | 78 |
| B737-10 | — | — | — | — | — | — | 6 | 6 |
| A320[c] | 29 | — | (16) | 13 | (13) | — | — | — |
| A321neo | 10 | — | — | 10 | (10) | — | — | — |
| **Total Mainline Fleet** | **233** | **14** | **(16)** | **231** | **13** | **244** | **16** | **260** |
| Q400 operated by Horizon[c] | 32 | — | (11) | 21 | (21) | — | — | — |
| E175 operated by Horizon | 30 | 3 | — | 33 | 8 | 41 | 3 | 44 |
| E175 operated by third party[d] | 42 | — | — | 42 | — | 42 | — | 42 |
| **Total Regional Fleet[b]** | **104** | **3** | **(11)** | **96** | **(13)** | **83** | **3** | **86** |
| **Total** | **337** | **17** | **(27)** | **327** | **—** | **327** | **19** | **346** |

(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, which are not yet contracted.

(c) In the first quarter of 2022, management announced its intention to accelerate the retirement of the A320 and Q400 aircraft and remove them from the operating fleet by early 2023. Management continues to refine anticipated removal dates for individual aircraft, and as such, timing of removals may shift between 2022 and 2023.

(d) Alaska intends to expand its long-term capacity purchase agreement with SkyWest Airlines by one Embraer E175 aircraft, with expected delivery in 2025.

For future firm orders and option exercises, we intend to finance the aircraft through 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 |
|---|---|---|---|
| Third Quarter 2022 | 60 % | $80 | $3 |
| Fourth Quarter 2022 | 60 % | $88 | $5 |
| **Remainder of 2022** | **60 %** | **$84** | **$4** |
| First Quarter of 2023 | 40 % | $91 | $7 |
| Second Quarter of 2023 | 30 % | $97 | $7 |
| Third Quarter of 2023 | 20 % | $106 | $8 |
| Fourth Quarter of 2023 | 10 % | $108 | $9 |
| **Full Year 2023** | **25 %** | **$98** | **$7** |

(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 provides a summary of our contractual obligations as of June 30, 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 | $ 146 | $ 329 | $ 235 | $ 256 | $ 176 | $ 1,178 | $ 2,320 |
| Aircraft lease commitments[a] | 167 | 279 | 222 | 217 | 213 | 896 | 1,994 |
| Facility lease commitments | 9 | 16 | 9 | 8 | 8 | 86 | 136 |
| Aircraft-related commitments[b] | 834 | 1,932 | 388 | 124 | 113 | 275 | 3,666 |
| Interest obligations [c] | 44 | 97 | 68 | 53 | 56 | 151 | 469 |
| Other obligations [d] | 100 | 199 | 206 | 210 | 207 | 832 | 1,754 |
| Total | $ 1,300 | $ 2,852 | $ 1,128 | $ 868 | $ 773 | $ 3,418 | $ 10,339 |

(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 non-cancelable contractual commitments for aircraft and engines, buyer furnished equipment, and contractual aircraft maintenance obligations. Contractual commitments do not reflect the impact of the impending fleet transition.
(c) For variable-rate debt, future obligations are shown above using interest rates forecast as of June 30, 2022.
(d) Comprised of non-aircraft lease costs associated with capacity purchase agreements and other miscellaneous obligations.

### *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.

### *Deferred 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.

## 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 June 30, 2022, the deferred revenue balance associated with the Mileage Plan program was $2.4 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 June 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 June 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 June 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.

## 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 are effective until October 1, 2022. When the repurchase program is restarted, the plan has remaining authorization to purchase an additional $456 million in shares.

As of June 30, 2022, a total of 1,455,438 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 (928,127 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 and will expire on the fifth anniversary of the issue date of the warrant. 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

August 2, 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#† | Supplement Agreement No. 20 to Purchase Agreement No. 3866 between the Boeing Company and Alaska Airlines, Inc. | 10-Q | | |
| 10.2#† | Amendment No. 19 to Purchase Agreement COM0041-16 between Embraer S.A. and Horizon Air Industries, Inc. | 10-Q | | |
| 10.3*† | Alaska Air Group, Inc. Employee Stock Purchase Plan, as Amended for the Offering Period Commencing November 1, 2022 | 10-Q | | |
| 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 confidential portions have been redacted from this exhibit in accordance with Item 601(b)(10) of Regulation S-K under the Securities Exchange Act of 1934, as amended. | | | |

**CERTAIN CONFIDENTIAL PORTIONS HAVE BEEN REDACTED FROM THIS EXHIBIT BECAUSE THEY ARE BOTH (i) NOT MATERIAL AND (ii) IS THE TYPE THAT THE COMPANY TREATS AS PRIVATE OR CONFIDENTIAL. INFORMATION THAT HAS BEEN OMITTED HAD BEEN IDENTIFIED IN THIS DOCUMENT WITH A PLACEHOLDER IDENTIFIED BY THE MARK "[***]".**

Supplemental Agreement No. 20

to

Purchase Agreement No. 3866

between

The Boeing Company

and

Alaska Airlines, Inc.

Relating to Boeing Models 737-8, 737-9, and 737-10 Aircraft

THIS SUPPLEMENTAL AGREEMENT NO. 20 (**Supplemental Agreement No. 20**), entered into as of May 13, 2022, is by and between THE BOEING COMPANY (**Boeing**) and ALASKA AIRLINES, INC. (**Customer**) (Boeing and Customer collectively, **Parties**). All capitalized terms used but not defined herein shall have the same meaning as in the Purchase Agreement.

WHEREAS, the Parties hereto entered into Purchase Agreement No. 3866 dated October 10, 2012 (as amended and supplemented, **Purchase Agreement**) relating to, among other things, Boeing model 737-9 aircraft (**737-9 Aircraft**) (collectively **Aircraft**);

WHEREAS, Customer has requested and Boeing agrees to accelerate the delivery month for two (2) 737-9 Aircraft from [***] and [***] into [***]; and

WHEREAS, the Parties desire to amend the Purchase Agreement as set forth hereinafter to reflect the agreement of the Parties.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the Parties agree to amend the Purchase Agreement as follows:

1. Table of Contents, Table and Supplemental Exhibit.

1.1 The “Table of Contents” in the Purchase Agreement is hereby deleted in its entirety and replaced with the revised Table of Contents, attached hereto and incorporated into the Purchase Agreement, to reflect the changes made in this Supplemental Agreement No. 20.

1.2 “Table 1-B-1 to Purchase Agreement No. PA-03866” in the Purchase Agreement is hereby deleted in its entirety and replaced with the revised “Table 1-B-1 to

Purchase Agreement No. PA-03866," attached hereto and incorporated into the Purchase Agreement.

1.3 Supplemental Exhibit BFE1 in the Purchase Agreement, entitled "Buyer Furnished Equipment Variables," is hereby deleted in its entirety and replaced with the revised Supplemental Exhibit BFE1, attached hereto and incorporated into the Purchase Agreement.

2. Miscellaneous.

2.1 **[***]**.

2.2 **[***]**.

EXECUTED IN DUPLICATE as of the day and year first written above and below.

THE BOEING COMPANY

By ______________________________

Its ______________________________

ACCEPTED AND AGREED TO this

Date: ______________________________

ALASKA AIRLINES, INC.

By ______________________________

Its ______________________________

**CERTAIN CONFIDENTIAL PORTIONS HAVE BEEN REDACTED FROM THIS EXHIBIT BECAUSE THEY ARE BOTH (i) NOT MATERIAL AND (ii) IS THE TYPE THAT THE COMPANY TREATS AS PRIVATE OR CONFIDENTIAL. INFORMATION THAT HAS BEEN OMITTED HAD BEEN IDENTIFIED IN THIS DOCUMENT WITH A PLACEHOLDER IDENTIFIED BY THE MARK "[***]".**

# AMENDMENT No. 19 TO PURCHASE AGREEMENT COM0041-16

This Amendment No.19 [COM0128-22] (the "Amendment No.19") dated as of May 31, 2022 is between **EMBRAER S.A.**, a corporation existing under the laws of Brazil, which address and principal place of business is at Avenida Brigadeiro Faria Lima, 2170, prédio F-100, Putim, in the city of São José dos Campos, State of São Paulo, Brazil ("Seller") and **HORIZON AIR INDUSTRIES, INC.** ("Buyer"), collectively referred to herein as the "Parties", and constitutes an amendment and modification to Purchase Agreement COM0041-16 dated April 11th, 2016 as amended and assigned from time to time (the "Purchase Agreement").

All capitalized terms not otherwise defined herein shall have the same meaning when used herein as provided in the Purchase Agreement and in case of any conflict between this Amendment No. 19 and the Purchase Agreement, this Amendment No. 19 shall control.

**WHEREAS**, [***] Buyer wishes to include an additional thirteen (13) Option Aircraft to the Purchase Agreement (the "Additional Option Aircraft") and to include the right to purchase up to sixteen (16) Aircraft (the "Purchase Right Aircraft"),

**WHEREAS**, Buyer has asked and Seller has agreed to include eight (8) additional Firm Aircraft ("Additional Firm Aircraft") under the Purchase Agreement;

**WHEREAS**, as a result of the described above, the purpose of this Amendment No. 19 is to amend and restate the related attachments and provisions.

NOW, THEREFORE, for good and valuable consideration, which is hereby acknowledged by the Parties, Seller and Buyer agree as follows:

## 1. SUBJECT

Article 2 of the Purchase Agreement shall be deleted and replaced as follows:

> "Subject to the terms and conditions of this Agreement:
>
> 2.1 Seller shall sell and deliver, and Buyer shall purchase and take delivery of thirty (30) Firm Aircraft, twelve (12) Confirmed Option Aircraft and (8) Additional Firm Aircraft;
>
> 2.2 Seller shall provide to Buyer the Services and the Technical Publications as described in Attachment "B" to this Agreement; and
>
> 2.3 Buyer shall have the option to purchase up to thirteen (13) Additional Option Aircraft, in accordance with Article 21.
>
> 2.4 Buyer shall have the right to purchase up to sixteen (16) Purchase Right Aircraft, in accordance with Article 22"

**2. PRICE**

Article 3 of the Purchase Agreement COM0041-16 is hereby deleted and replaced as follows:

[***]

**3. PAYMENT**

In relation to the Additional Firm Aircraft, Article 4 of the Purchase Agreement COM0041-16 shall be amended and restated as follows:

[***]

**4. OPTION AIRCRAFT**

As a result of the inclusion of thirteen (13) Additional Option Aircraft, Article 21 of the Purchase Agreement must be deleted and replaced as follows:

[***]

**5. PURCHASE RIGHT AIRCRAFT**

As a result of the inclusion of sixteen (16) Purchase Right Aircraft, Article 22 of the Purchase Agreement is hereby included to the Purchase Agreement, as follows:

[***]

**6. ATTACHMENT CHANGE**

As a result of the changes referred to in this Amendment No. 19, Attachment E to the Purchase Agreement is hereby deleted and replaced in its entirety by Attachment E to this Amendment No. 19, which shall be deemed to be Attachment E for all purposes under the Purchase Agreement.

**7. REINSTATEMENT OF PURCHASE AGREEMENT**

All other provisions and conditions of the referenced Purchase Agreement, as well as its related Attachments and Letter Agreement, which are not specifically modified by this Amendment No. 19 shall remain in full force and effect without any change.

## 8. COUNTERPARTS

This Amendment No. 19 may be executed by the Parties hereto in any number of separate counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument and all of which when taken together shall constitute one and the same instrument. This Amendment No. 19 may be signed and exchanged by e-mail attaching a copy of the signed Amendment No. 19 in portable document format with originals to follow by an internationally recognized courier, as applicable.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, Seller and Buyer, by their duly authorized officers, have entered into and executed this Amendment No. 19 to be effective as of the date first written above.

**EMBRAER S.A.** **HORIZON AIR INDUSTRIES, INC.**

By: ________________________ By: ________________________

Name: Name:

Title: Title:

By:_________________________

Name:
Title:

Place: _______________________ Place: ______________________

1. **Firm and Confirmed Option Aircraft Delivery Schedule (ref. Purchase Agreement, Article 5)**

**[***]**

2. **Option Aircraft Delivery Schedule (ref. Purchase Agreement, Article 21)**

**[***]**

**ALASKA AIR GROUP, INC. EMPLOYEE STOCK PURCHASE PLAN**

(As amended by the Board on February 7, 2022
for Offering Periods commencing on or after November 1, 2022)

## 1. PURPOSE

The purpose of this Plan is to assist Eligible Employees in acquiring a stock ownership interest in the Company, at a favorable price and upon favorable terms, pursuant to a plan which is intended to qualify as an "employee stock purchase plan" under Section 423 of the Code. This Plan is also intended to encourage Eligible Employees to remain in the employ of the Company or a Participating Subsidiary and to provide them with an additional incentive to advance the best interests of the Company.

## 2. DEFINITIONS

Capitalized terms used herein which are not otherwise defined shall have the following meanings.

(a) "**Account**" means the bookkeeping account maintained by the Company, or by a record keeper on behalf of the Company, for a Participant pursuant to Section 7(a).

(b) "**Board**" means the Board of Directors of the Company, as defined below.

(c) "**Code**" means the U.S. Internal Revenue Code of 1986, as amended from time to time.

(d) "**Commission**" means the U.S. Securities and Exchange Commission.

(e) "**Committee**" means the committee appointed by the Board to administer the Plan pursuant to Section 12.

(f) "**Common Stock**" means the common stock, par value $0.01 per share, of the Company, and such other securities or property as may become the subject of Options pursuant to an adjustment made under Section 17.

(a) "**Company**" means Alaska Air Group, Inc., a Delaware corporation, and its successors.

(b) "**Compensation**" means an Eligible Employee's base pay, inclusive of overtime and any employer paid leave. Compensation also includes any amounts contributed as salary reduction contributions to a plan qualifying under Section 401(k), 125, or 129 of the Code. Any other form of remuneration is excluded from Compensation, including (but not limited to) the following: cash bonuses, severance pay, hiring bonuses, prizes, awards, relocation or housing allowances, stock option exercises, stock appreciation right payments, the vesting or grant of restricted stock, the payment of stock units, performance awards, auto allowances, tuition reimbursement, perquisites, non-cash compensation and other forms of imputed income. Notwithstanding the foregoing, Compensation shall not include any amounts deferred under or paid from any nonqualified deferred compensation plan maintained by the Company or any Subsidiary (including, without limitation, the Company's Nonqualified Deferred Compensation Plan).

(c) "**Contributions**" means the bookkeeping amounts credited to the Account of the Participant pursuant to this Plan, equal in amount to the amount of Compensation that the Participant has elected to contribute for the purchase of Common Stock under and in accordance with this Plan.

(g) "**Effective Date**" means March 11, 2010, the date on which this Plan was initially adopted by the Board.

(h) "**Eligible Employee**" means, subject to Section 3, any person employed by the Company or any Subsidiary which has been designated in writing by the Committee as a "Participating Subsidiary"; provided, however, that "Eligible Employee" shall not include any employee

whose customary employment is for less than five (5) months in a calendar year.

(i) "**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended from time to time.

(j) "**Exercise Date**" means, with respect to an Offering Period, the last day of that Offering Period.

(k) "**Fair Market Value**" on any date means:

(1) if the Common Stock is listed or admitted to trade on a national securities exchange, the closing price of a share of Common Stock on such date on the principal national securities exchange on which the Common Stock is so listed or admitted to trade, or, if there is no trading of the Common Stock on such date, then the closing price of a share of Common Stock on such exchange on the next preceding date on which there was trading in the shares of Common Stock; or

(2) in the absence of exchange data required to determine Fair Market Value pursuant to the foregoing, the value as established by the Committee as of the relevant time for purposes of this Plan.

(l) "**Grant Date**" means, with respect to an Offering Period, the first day of that Offering Period.

(m) "**Individual Limit**" has the meaning given to such term in Section 4(b).

(n) "**Offering Period**" means the six (6) month period commencing on each Grant Date; provided, however, the Committee may declare, as it deems appropriate and in advance of the applicable Offering Period, a shorter (not to be less than three months) Offering Period or a longer (not to exceed 27 months) Offering Period. Unless otherwise expressly provided by the Committee in advance of a particular Offering Period, the Grant Date for that Offering Period may not occur on or before the Exercise Date for the immediately preceding Offering Period.

(o) "**Option**" means the option to acquire shares of Common Stock granted to a Participant pursuant to Section 8.

(p) "**Option Price**" means the per share exercise price of an Option as determined in accordance with Section 8(b).

(q) "**Parent**" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company in which each corporation (other than the Company) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one or more of the other corporations in the chain.

(r) "**Participant**" means an Eligible Employee who has elected to participate in this Plan and who has filed a valid and effective Subscription Agreement to make Contributions pursuant to Section 6.

(s) "**Participating Subsidiary**" shall have the meaning given to such term in Section 19(c).

(t) "**Plan**" means this Alaska Air Group, Inc. Employee Stock Purchase Plan, as it may be amended or restated from time to time.

(u) "**Subscription Agreement**" means the written agreement or applicable electronic form of agreement filed by an Eligible Employee with the Company pursuant to Section 6 to participate in this Plan.

(v) "**Subsidiary**" means any corporation (other than the Company) in an unbroken chain of corporations (beginning with the Company) in which each corporation (other than the last corporation) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one or more of the other corporations in the chain.

## 3. ELIGIBILITY

Any person employed as an Eligible Employee as of a Grant Date may participate in this Plan during the Offering Period in which such Grant Date occurs, subject to the Eligible Employee satisfying the requirements of Section 6; provided, however, that the Committee may impose a requirement, prior to the start of an Offering Period, that an individual be employed with the Company or a Participating Subsidiary for a specified period of time (which shall be less than two years) prior to the applicable Grant Date to be eligible to participate in that Offering Period.

## 4. STOCK SUBJECT TO THIS PLAN; SHARE LIMITATIONS

(w) ***Aggregate Share Limit***. Subject to the provisions of Section 17, the capital stock that may be delivered under this Plan will be shares of the Company's authorized but unissued Common Stock. The maximum number of shares of Common Stock that may be delivered pursuant to Options granted under this Plan is 14,500,000 shares, subject to adjustments pursuant to Section 17.

(x) ***Individual Share Limit***. The maximum number of shares of Common Stock that any one individual may acquire upon exercise of his or her Option with respect to any one Offering Period is 8,000, subject to adjustments pursuant to Section 17 (the "**Individual Limit**"). The Committee may amend the Individual Limit, effective no earlier than the first Offering Period commencing after the adoption of such amendment, without stockholder approval.

(y) ***Shares Not Actually Delivered***. Shares that are subject to or underlie Options, which for any reason are cancelled, terminated, forfeited, fail to vest, or for any other reason are not paid or delivered under this Plan shall again, except to the extent prohibited by law, be available for subsequent Options under this Plan.

## 5. OFFERING PERIODS

During the term of this Plan, the Company will grant Options to purchase shares of Common Stock in each Offering Period to all Participants in that Offering Period. Unless otherwise specified by the Committee in advance of the Offering Period, Offering Periods will be of approximately six (6) months duration and will commence on November 1 and May 1 each year and will end on the following April 30 and October 31, respectively; provided that there will be an Offering Period of approximately eight (8) months commencing on September 1, 2019 and ending on April 30, 2020. Each Option shall become effective on the Grant Date of the Offering Period with respect to which the Option is granted. The term of each Option shall be the duration of the related Offering Period and shall end on the Exercise Date of that Offering Period. The first Offering Period shall commence as of a date determined by the Board or Committee, but no earlier than the Effective Date. Offering Periods shall continue until this Plan is terminated in accordance with Section 18 or 19, or, if earlier, until no shares of Common Stock remain available for Options pursuant to Section 4.

**6. PARTICIPATION**

(z) ***Enrollment***. An Eligible Employee may become a Participant in this Plan by completing a Subscription Agreement on a form approved by and in a manner prescribed by the Committee (or its delegate). To become effective, a Subscription Agreement must be signed by the Eligible Employee and be filed with the Company at the time specified by the Committee, but in all cases prior to the start of the Offering Period with respect to which it is to become effective, and must set forth a whole percentage (or, if the Committee so requires, a stated amount) of the Eligible Employee's Compensation to be credited to the Participant's Account as Contributions each pay period.

(aa) ***Contribution Limits***. Notwithstanding the foregoing, a Participant may not elect to contribute less than one percent (1%) nor more than ten percent (10%) (or such other limit as the Committee may establish prior to the start of the applicable Offering Period) of his or her Compensation during any one pay period as Plan Contributions. The Committee also may prescribe other limits, rules or procedures for Contributions.

(ab) ***Content and Duration of Subscription Agreements***. Subscription Agreements shall contain the Eligible Employee's authorization and consent to the Company's withholding from his or her Compensation the amount of his or her Contributions. An Eligible Employee's Subscription Agreement, and his or her participation election and withholding consent thereon, shall remain valid for all Offering Periods until (1) the Eligible Employee's participation terminates pursuant to the terms hereof, (2) the Eligible Employee files a new Subscription Agreement that becomes effective, or (3) the Committee requires that a new Subscription Agreement be executed and filed with the Company.

**7. METHOD OF PAYMENT OF CONTRIBUTIONS**

(ac) ***Participation Accounts***. The Company shall maintain on its books, or cause to be maintained by a record keeper, an Account in the name of each Participant. The percentage of Compensation elected to be applied as Contributions by a Participant shall be deducted from such Participant's Compensation on each payday during the period for payroll deductions set forth below and such payroll deductions shall be credited to that Participant's Account as soon as administratively practicable after such date. A Participant may not make any additional payments to his or her Account. A Participant's Account shall be reduced by any amounts used to pay the Option Price of shares acquired, or by any other amounts distributed pursuant to the terms hereof.

(ad) ***Payroll Deductions***. Subject to such other rules as the Committee may adopt, payroll deductions with respect to an Offering Period shall commence as of the first day of the payroll period which coincides with or immediately follows the applicable Grant Date and shall end on the last date of the payroll period which coincides with or immediately proceeds the applicable Exercise Date, unless sooner terminated by the Participant as provided in Section 7(d) or until his or her participation terminates pursuant to Section 11.

(ae) ***Changes in Contribution Elections for Next Offering Period; One-Time Reduction Permitted During an Offering Period***. A Participant may discontinue, increase, or decrease the level of his or her Contributions (within the Plan limits) by completing and filing with the Company, on such terms as the Committee (or its delegate) may prescribe, a new Subscription Agreement which indicates such election. Subject to any other timing requirements that the Committee may impose, an election pursuant to this Section 7(c) shall be effective with the first Offering Period that commences after the Company's receipt of such election , provided that a Participant may, on one occasion only during an Offering Period, elect to decrease (but not increase) the level of his or her Contributions (subject to Section 6(b)) by filing a new Subscription Agreement with the Company indicating such election, which election shall be effective as soon as administratively practicable following its receipt by the Company. Except as contemplated by the foregoing proviso and Section 7(d) and 7(e), changes in Contribution levels may not take effect during an Offering Period. Other modifications or suspensions of Subscription Agreements are not permitted.

(af) ***Withdrawal During an Offering Period***. A Participant may terminate his or her Contributions during an Offering Period (and receive a distribution of the balance of his or her Account in accordance with Section 11) by completing and filing with the Company, in such form and on such terms as the Committee (or its delegate) may prescribe, a written withdrawal form or applicable electronic withdrawal form which shall be signed by the Participant. Such termination shall be effective as soon as administratively practicable after its receipt by the Company. A withdrawal election pursuant to this Section 7(d) with respect to an Offering Period shall only be effective, however, if it is received by the Company prior to the Exercise Date of the Offering Period (or such earlier deadline that the Committee may reasonably require to process the withdrawal prior to the applicable Exercise Date). Partial withdrawals of Accounts are not permitted.

(ag) ***Discontinuance of Contributions During an Offering Period***. A Participant may discontinue his or her Contributions at any time during an Offering Period by completing and filing with the Company, on such terms as the Committee (or its delegate) may prescribe, a new Subscription Agreement which indicates such election. If a Participant elects to discontinue his or her Contributions pursuant to this Section 7(e), the Contributions previously credited to the Participant's Account for that Offering Period shall be used to exercise the Participant's Option as of the applicable Exercise Date in accordance with Section 9 (unless the Participant makes a timely withdrawal election in accordance with Section 7(d), in which case such Participant's Account shall be paid to him or her in cash in accordance with Section 11(a)).

**8. GRANT OF OPTION**

(ah) ***Grant Date; Number of Shares*****.** On each Grant Date, each Eligible Employee who is a Participant during that Offering Period shall be granted an Option to purchase a number of shares of Common Stock. The Option shall be exercised on the Exercise Date. The number of shares of Common Stock subject to the Option shall be determined by dividing the Participant's Account balance as of the applicable Exercise Date by the Option Price, subject to the limits of Section 8(c).

(ai) ***Option Price.*** The Option Price per share of the shares subject to an Option for an Offering Period shall be the lesser of: (i) 85% of the Fair Market Value of a Share on the Grant Date of that Offering Period; or (ii) 85% of the Fair Market Value of a Share on the Exercise Date of that Offering Period; provided, however, that the Committee may provide prior to the start of any Offering Period that the Option Price for that Offering Period shall be determined by applying a discount amount (not to exceed 15%) to either (1) the Fair Market Value of a share of Common Stock on that Grant Date of that Offering Period, or (2) the Fair Market Value of a share of Common Stock on the Exercise Date of that Offering Period, or (3) the lesser of the Fair Market Value of a share of Common Stock on the Grant Date of that Offering Period or the Fair Market Value of a share of Common Stock on the Exercise Date of that Offering Period. Notwithstanding anything to the contrary in the preceding provisions of this Section 8(b), in no event shall the Option Price per share be less than the par value of a share of Common Stock.

(aj) ***Limits on Share Purchases.*** Notwithstanding anything else contained herein, the maximum number of shares subject to an Option for an Offering Period shall be subject to the Individual Limit in effect on the Grant Date of that Offering Period (subject to adjustment pursuant to Section 17) and any person who is otherwise an Eligible Employee shall not be granted any Option (or any Option granted shall be subject to compliance with the following limitations) or other right to purchase shares under this Plan to the extent:

(1) it would, if exercised, cause the person to own stock (within the meaning of Section 423(b)(3) of the Code) possessing 5% or more of the total combined voting power or value of all classes of stock of the Company, or of any Parent, or of any Subsidiary; or

(2) such Option causes such individual to have rights to purchase stock under this Plan and any other plan of the Company, any Parent, or any Subsidiary which is qualified under Section 423 of the Code which accrue at a rate which exceeds $25,000 of the Fair Market Value of the stock of the Company, of any Parent, or of any Subsidiary (determined at the time the right to purchase such stock is granted, before giving effect to any discounted purchase price under any such plan) for each calendar year in which such right is outstanding at any time.

For purposes of the foregoing, a right to purchase stock accrues when it first becomes exercisable during the calendar year. In determining whether the stock ownership of an Eligible Employee equals or exceeds the 5% limit set forth above, the rules of Section 424(d) of the Code (relating to attribution of stock ownership) shall apply, and stock which the Eligible Employee may purchase under outstanding options shall be treated as stock owned by the Eligible Employee.

**9. EXERCISE OF OPTION**

(a) ***Purchase of Shares***. Unless a Participant withdraws pursuant to Section 7(d) or the Participant's Plan participation is terminated as provided in Section 11, his or her Option for the purchase of shares shall be exercised automatically on the Exercise Date for that Offering Period, without any further action on the Participant's part, and the maximum number of whole shares of Common

Stock subject to such Option (subject to the limits of Section 8(c)) shall be purchased at the Option Price with the balance of such Participant's Account.

(b) ***Account Balance Remaining After Purchase***. If any amount which is not sufficient to purchase a whole share remains in a Participant's Account after the exercise of his or her Option on the Exercise Date: (1) such amount shall be credited to such Participant's Account for the next Offering Period, if he or she is then a Participant; or (2) if such Participant is not a Participant in the next Offering Period, or if the Committee so elects, such amount shall be refunded to such Participant as soon as administratively practicable after such date. If the share limit of Section 4(a) is reached, any amount that remains in a Participant's Account after the exercise of his or her Option on the Exercise Date to purchase the number of shares that he or she is allocated shall be refunded to the Participant as soon as administratively practicable after such date. If any amount which exceeds the limits of Section 8(c) remains in a Participant's Account after the exercise of his or her Option on the Exercise Date, such amount shall be refunded to the Participant as soon as administratively practicable after such date.

## 10. DELIVERY OF SHARES

As soon as administratively practicable after the Exercise Date, the Company shall, provide for the crediting of the shares of Common Stock purchased upon exercise of a Participant's Option in book entry form in the name of the Participant, or provide for an alternative arrangement for the delivery of such shares to a broker or record keeping service for the benefit of the Participant. In the event the Company is required to obtain from any commission or agency authority to deliver such shares, the Company will seek to obtain such authority. If the Company is unable to obtain from any such commission or agency authority which counsel for the Company deems necessary for the lawful issuance of any such certificate or other delivery of such shares, or if for any reason the Company cannot issue or deliver shares of Common Stock and satisfy Section 21, the Company shall be relieved from liability to any Participant except that the Company shall return to each Participant to whom such shares cannot be issued or delivered the amount of the balanced credited to his or her Account that would have otherwise been used for the purchase of such shares. Without limiting the generality of Section 12(b)(3), if shares are delivered to a broker for the benefit of a Participant as described above, the Committee may adopt such policies and procedures as it determines appropriate regarding the Participant's ability to transfer such shares from such broker account before the expiration of two years from the Grant Date of the Offering Period for which those shares were acquired and one year from the Exercise Date of the Offering Period for which those shares were acquired (provided, that nothing in this Section 10 shall prohibit a sale of such shares by the Participant on the open market or a transfer of such shares upon the death of the Participant).

## 11. TERMINATION OF EMPLOYMENT; CHANGE IN ELIGIBLE STATUS

(a) ***General***. Except as provided in Section 11(b) below, if a Participant ceases to be an Eligible Employee for any reason (including, without limitation, due to the Participant's death, disability, resignation or retirement, or due to a layoff or other termination of employment with or without cause), or if the Participant elects to withdraw from the Plan pursuant to Section 7(d), at any time prior to the Exercise Date for the Offering Period in which he or she participates, such Participant shall not be eligible to exercise the Option for that Offering Period and Participant's Account shall be paid to him or her (or, in the event of the Participant's death, to the person or persons entitled thereto under Section 13) in cash, and such Participant's Option and participation in the Plan shall automatically terminate as of the time that the Participant ceased to be an Eligible Employee.

(b) ***Change in Eligible Status; Leave***. If a Participant (1) ceases to be an Eligible Employee during an Offering Period but remains an employee of the Company or a Subsidiary through the Exercise Date (for example, and without limitation, due to a change in the Participant's employer from the Company or a Participating Subsidiary to a non-Participating Subsidiary, if the Participant's employer ceases to maintain the Plan as a Participating Subsidiary but otherwise continues as a Subsidiary, or if the Participant's customary level of employment no longer satisfies the requirements set forth in the definition of Eligible Employee), or (2) during an Offering Period commences a sick leave, military leave, or other leave of absence approved by the Company or a Participating Subsidiary, and the leave meets the requirements of Treasury Regulation Section 1.421-1(h)(2) and the Participant is an employee of the Company or a Subsidiary or on such leave as of the applicable Exercise Date, such Participant's Contributions shall cease (subject to Section 7(d)), and the Contributions previously credited to the Participant's Account for that Offering Period shall be used to exercise the Participant's Option as of the applicable Exercise Date in accordance with Section 9 (unless the Participant makes a timely withdrawal election in accordance with Section 7(d), in which case such Participant's Account shall be paid to him or her in cash in accordance with Section 11(a)).

(c) ***Re-Enrollment***. A Participant's termination from Plan participation precludes the Participant from again participating in this Plan during that Offering Period. However, such termination shall not have any effect upon his or her ability to participate in any succeeding Offering Period, provided that the applicable eligibility and participation requirements are again then met. A Participant's termination from Plan participation shall be deemed to be a revocation of that Participant's Subscription Agreement and such Participant must file a new Subscription Agreement to resume Plan participation in any succeeding Offering Period.

(d) ***Change in Subsidiary Status.*** For purposes of this Plan, if a Subsidiary ceases to be a Subsidiary, each person employed by that Subsidiary will be deemed to have terminated employment for purposes of this Plan, unless the person continues as an employee of the Company or another Subsidiary.

## 12. ADMINISTRATION

(c) ***The Committee***. The Board shall appoint the Committee, which shall be composed of not less than two members of the Board. The Board may, at any time, increase or decrease the number of members of the Committee, may remove from membership on the Committee all or any portion of its members, and may appoint such person or persons as it desires to fill any vacancy existing on the Committee, whether caused by removal, resignation, or otherwise. The Board may also, at any time, assume the administration of all or a part of this Plan, in which case references (or relevant references in the event the Board assumes the administration of only certain aspects of this Plan) to the "Committee" shall be deemed to be references to the Board. Action of the Committee with respect to this Plan shall be taken pursuant to a majority vote or by the unanimous written consent of its members. No member of the Committee shall be entitled to act on or decide any matters relating solely to himself or herself or solely to any of his or her rights or benefits under this Plan.

(d) ***Powers and Duties of the Committee***. Subject to the express provisions of this Plan, the Committee shall supervise and administer this Plan and shall have the full authority and discretion: (1) to construe and interpret this Plan and any agreements defining the rights and obligations of the Company, any Subsidiary, and Participants under this Plan; (2) to further define the terms used in this Plan; (3) to prescribe, amend and rescind rules and regulations relating to the administration of this Plan (including, without limitation, deadlines for making elections or for providing any notices contemplated by this Plan, which deadlines may be more restrictive than any deadlines otherwise contemplated by this Plan); and (4) to make all other determinations and take such other action as contemplated by this Plan or as may be necessary or advisable for the administration of this Plan or the effectuation of its purposes. Notwithstanding anything else contained in this Plan to the contrary, the Committee may also adopt rules, procedures or sub-plans applicable to particular Subsidiaries or locations, which sub-plans may be designed to be outside the scope of Section 423 of the Code and need not comply with the otherwise applicable provisions of this Plan.

(e) ***Decisions of the Committee are Binding***. Any action taken by, or inaction of, the Company, any Subsidiary, the Board or the Committee relating or pursuant to this Plan and within its authority hereunder or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons.

(f) ***Indemnification***. Neither the Board nor any Committee, nor any member thereof or person acting at the direction thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with this Plan, and all such persons shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage that may be in effect from time to time.

(g) ***Reliance on Experts***. In making any determination or in taking or not taking any action under this Plan, the Committee or the Board, as the case may be, may obtain and may rely upon the advice of experts, including professional advisors to the Company. No director, officer or agent of the Company or any Participating Subsidiary shall be liable for any such action or determination taken or made or omitted in good faith.

(h) ***Delegation***. The Committee may delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Company or a Subsidiary.

## 13. DEATH BENEFITS

If a Participant dies, the Company shall deliver all shares and/or cash payable pursuant to the terms hereof to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed, the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

## 14. TRANSFERABILITY

Neither Contributions credited to a Participant's Account nor any Options or rights with respect to the exercise of Options or the right to receive shares under this Plan may be anticipated, alienated, encumbered, assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution, or as provided in Section 13) by the Participant. Any such attempt at anticipation, alienation, encumbrance, assignment, transfer, pledge or other disposition shall be without effect and all amounts shall be paid and all shares shall be delivered in accordance with the provisions of this Plan. Amounts payable or shares deliverable pursuant to this Plan shall be paid or delivered only to (or credited in the name of, as the case may be) the Participant or, in the event of the Participant's death, the Participant's beneficiary pursuant to Section 13.

## 15. USE OF FUNDS; INTEREST

All Contributions received or held by the Company under this Plan will be included in the general assets of the Company and may be used for any corporate purpose. Notwithstanding anything else contained herein to the contrary, no interest will be paid to any Participant or credited to his or her Account under this Plan (in respect of Account balances, refunds of Account balances, or otherwise). Amounts payable under this Plan shall be payable in shares of Common Stock or from the general assets of the Company and, except for any shares that may be reserved on the books of the Company for issuance with respect to this Plan, no special or separate reserve, fund or deposit shall be made to assure payment of amounts that may be due with respect to this Plan.

## 16. REPORTS

Statements shall be provided (either electronically or in written form, as the Committee may provide from time to time) to Participants as soon as administratively practicable following each Exercise Date. Each Participant's statement shall set forth, as of such Exercise Date, that Participant's Account balance immediately prior to the exercise of his or her Option, the Option Price, the number of whole shares purchased and his or her remaining Account balance, if any.

## 17. ADJUSTMENTS OF AND CHANGES IN THE STOCK

Upon or in contemplation of any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend), or reverse stock split; any merger, combination, consolidation, or other reorganization; split-up, spin-off, or any similar extraordinary dividend distribution in respect of the Common Stock (whether in the form of securities or property); any exchange of Common Stock or other securities of the Company, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; or a sale of substantially all of the assets of the Company as an entirety occurs; then the Committee shall equitably and proportionately adjust (1) the number and type of shares or the number and type of other securities that thereafter may be made the subject of Options (including the specific maxima and numbers of shares set forth elsewhere in this Plan), (2) the number, amount and type of shares (or other securities or property) subject to any or all outstanding Options, (3) the Option Price of any or all outstanding Options, and/or (4) the securities, cash or other property deliverable upon exercise of any outstanding Options, in each case to the extent necessary to preserve (but not increase) the level of incentives intended by this Plan and the then-outstanding Options.

Upon the occurrence of any event described in the preceding paragraph, or any other event in which the Company does not survive (or does not survive as a public company in respect of its Common Stock); then the Committee may make provision for a cash payment or for the substitution or exchange of any or all outstanding Options for cash, securities or property to be delivered to the holders of any or all outstanding Options based upon the distribution or consideration payable to holders of the Common Stock upon or in respect of such event.

The Committee may adopt such valuation methodologies for outstanding Options as it deems reasonable in the event of a cash or property settlement and, without limitation on other methodologies, may base such settlement solely upon the excess (if any) of the amount payable upon or in respect of such event over the Option Price of the Option.

In any of such events, the Committee may take such action sufficiently prior to such event to the extent that the Committee deems the action necessary to permit the Participant to realize the benefits intended to be conveyed with respect to the underlying shares in the same manner as is or will be available to stockholders generally.

## 18. POSSIBLE EARLY TERMINATION OF PLAN AND OPTIONS

Upon a dissolution or liquidation of the Company, or any other event described in Section 17 that the Company does not survive or does not survive as a publicly-traded company in respect of its Common Stock, as the case may be, the Plan and, if prior to the last day of an Offering Period, any outstanding Option granted with respect to that Offering Period shall terminate, subject to any provision that has been expressly made by the Board for the survival, substitution, assumption, exchange or other settlement of the Plan and Options. In the event a Participant's Option is terminated pursuant to this Section 18 without a provision having been made by the Board for a substitution, exchange or other settlement of the Option, such Participant's Account shall be paid to him or her in cash without interest.

## 19. TERM OF PLAN; AMENDMENT OR TERMINATION

(a) ***Effective Date; Termination***. This Plan became effective as of the Effective Date. No new Offering Periods shall commence on or after February 14, 2029 and this Plan shall terminate as of the Exercise Date on or immediately following such date unless sooner terminated pursuant to Section 18 or this Section 19. In the event that all of the shares of Common Stock made available under this Plan are subscribed prior to the expiration of this Plan, this Plan shall terminate at the end of that Offering Period and the shares available shall be allocated for purchase by Participants in that Offering Period on a pro- rata basis determined with respect to Participants' Account balances.

(b) ***Board Amendment Authority***. The Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part and without notice. Stockholder approval for any amendment or modification shall not be required, except to the extent required by law or applicable stock exchange rules or required under Section 423 of the Code in order to preserve the intended tax consequences of this Plan. No Options may be granted during any suspension of this Plan or after the termination of this Plan, but the Committee will retain jurisdiction as to Options then outstanding in accordance with the terms of this Plan. No amendment, modification, or termination pursuant to this Section 19(b) shall, without written consent of the Participant, affect in any manner materially adverse to the Participant any rights or benefits of such Participant or obligations of the Company under any Option granted under this Plan prior to the effective date of such change. Changes contemplated by Section 17 or Section 18 shall not be deemed to constitute changes or amendments requiring Participant consent.

(c) ***Certain Additional Committee Authority***. Notwithstanding the amendment provisions of Section 19(b) and without limiting the Board's authority thereunder and without limiting the Committee's authority pursuant to any other provision of this Plan, the Committee shall have the right (1) to designate from time to time the Subsidiaries whose employees may be eligible to participate in this Plan (including, without limitation, any Subsidiary that may first become such after the date stockholders first approve this Plan) (each a "**Participating Subsidiary**"), and (2) to change the service and other qualification requirements sets forth under the definition of Eligible Employee in Section 2 (subject to the requirements of Section 423(b) of the Code and applicable rules and regulations thereunder). Any such change shall not take effect earlier than the first Offering Period that starts on or after the effective date of such change. Any such change shall not require stockholder approval.

## 20. NOTICES

All notices or other communications by a Participant to the Company contemplated by this Plan shall be deemed to have been duly given when received in the form and manner specified by the Committee (or its delegate) at the location, or by the person, designated by the Committee (or its delegate) for that purpose.

## 21. CONDITIONS UPON ISSUANCE OF SHARES

This Plan, the granting of Options under this Plan and the offer, issuance and delivery of shares of Common Stock are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities laws) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. The person acquiring any securities under this Plan will, if requested by the Company and as a condition precedent to the exercise of his or her Option, provide such assurances and representations to the Company as the Committee may deem necessary or desirable to assure compliance with all applicable legal requirements.

## 22. PLAN CONSTRUCTION

(d) ***Section 16***. It is the intent of the Company that transactions involving Options under this Plan (other than "**Discretionary Transactions**" as that term is defined in Rule 16b-3(b)(1) promulgated by the Commission under Section 16 of the Exchange Act, to the extent there are any Discretionary Transactions under the Plan), in the case of Participants who are or may be subject to the prohibitions of Section 16 of the Exchange Act, satisfy the requirements for exemption under Rule 16b-3(c) promulgated by the Commission under Section 16 of the Exchange Act to the maximum extent possible. Notwithstanding the foregoing, the Company shall have no liability to any Participant for Section 16 consequences of Options or other events with respect to this Plan.

(e) ***Section 423***. Except as the Committee may expressly provide in the case of one or more sub-plans adopted pursuant to Section 12(b), this Plan and Options are intended to qualify under Section 423 of the Code. Accordingly, all Participants are to have the same rights and privileges (within the meaning of Section 423(b)(5) of the Code and except as not required thereunder to qualify this Plan under Section 423) under this Plan, subject to differences in Compensation among Participants and subject to the Contribution and share limits of this Plan.

(f) ***Interpretation***. If any provision of this Plan or of any Option would otherwise frustrate or conflict with the intents expressed above, that provision to the extent possible shall be interpreted so as to avoid such conflict. If the conflict remains irreconcilable, the Committee may disregard the provision if it concludes that to do so furthers the interest of the Company and is consistent with the purposes of this Plan as to such persons in the circumstances.

## 23. EMPLOYEES' RIGHTS

(g) ***No Employment Rights***. Nothing in this Plan (or in any Subscription Agreement or other document related to this Plan) will confer upon any Eligible Employee or Participant any right to continue in the employ or other service of the Company or any Subsidiary, constitute any contract or agreement of employment or other service or effect an employee's status as an employee at will, nor shall interfere in any way with the right of the Company or any Subsidiary to change such person's compensation or other benefits or to terminate his or her employment or other service, with or without cause. Nothing contained in this Section 23(a), however, is intended to adversely affect any express independent right of any such person under a separate employment or service contract other than a Subscription Agreement.

(h) ***No Rights to Assets of the Company***. No Participant or other person will have any right, title or interest in any fund or in any specific asset (including shares of Common Stock) of the Company or any Subsidiary by reason of any Option hereunder. Neither the provisions of this Plan (or of any Subscription Agreement or other document related to this Plan), nor the creation or adoption of this Plan, nor any action taken pursuant to the provisions of this Plan will create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company or any Subsidiary and any Participant, Beneficiary or other person. To the extent that a Participant, Beneficiary or other person acquires a right to receive payment pursuant to this Plan, such right will be no greater than the right of any unsecured general creditor of the Company.

(i) ***No Stockholder Rights***. A Participant will not be entitled to any privilege of stock ownership as to any shares of Common Stock not actually delivered to and held of record by the Participant. No adjustment will be made for dividends or other rights as a stockholder for which a record date is prior to such date of delivery.

**24. MISCELLANEOUS**

(j) ***Governing Law***. This Plan, the Options, Subscription Agreements and other documents related to this Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware.

(k) ***Severability***. If any provision shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of this Plan shall continue in effect.

(l) ***Captions and Headings***. Captions and headings are given to the sections of this Plan solely as a convenience to facilitate reference. Such captions and headings shall not be deemed in any way material or relevant to the construction of interpretation of this Plan or any provision hereof.

(m) ***No Effect on Other Plans or Corporate Authority***. The adoption of this Plan shall not affect any other Company or Subsidiary compensation or incentive plans in effect. Nothing in this Plan will limit or be deemed to limit the authority of the Board or Committee (1) to establish any other forms of incentives or compensation for employees of the Company or any Subsidiary (with or without reference to the Common Stock), or (2) to grant or assume options (outside the scope of and in addition to those contemplated by this Plan) in connection with any proper corporate purpose; to the extent consistent with any other plan or authority. Benefits received by a Participant under an Option granted pursuant to this Plan shall not be deemed a part of the Participant's compensation for purposes of the determination of benefits under any other employee welfare or benefit plans or arrangements, if any, provided by the Company or any Subsidiary, except where the Committee or the Board (or the Board of Directors of the Subsidiary that sponsors such plan or arrangement, as applicable) expressly otherwise provides or authorizes in writing.

**25. TAX WITHHOLDING**

Notwithstanding anything else contained in this Plan herein to the contrary, the Company may deduct from a Participant's Account balance as of an Exercise Date, before the exercise of the Participant's Option is given effect on such date, the amount of taxes (if any) which the Company reasonably determines it or any Subsidiary may be required to withhold with respect to such exercise. In such event, the maximum number of whole shares subject to such Option (subject to the other limits set forth in this Plan) shall be purchased at the Option Price with the balance of the Participant's Account (after reduction for tax withholding amount).

Should the Company for any reason be unable, or elect not to, satisfy its or any Subsidiary's tax withholding obligations in the manner described in the preceding paragraph with respect to a Participant's exercise of an Option, or should the Company or any Subsidiary reasonably determine that it or an affiliated entity has a tax withholding obligation with respect to a disposition of shares acquired pursuant to the exercise of an Option prior to satisfaction of the holding period requirements of Section 423 of the Code, the Company or Subsidiary, as the case may be, shall have the right at its option to (1) require the Participant to pay or provide for payment of the amount of any taxes which the Company or Subsidiary reasonably determines that it or any affiliate is required to withhold with respect to such event or (2) deduct from any amount otherwise payable to or for the account of the Participant the amount of any taxes which the Company or Subsidiary reasonably determines that it or an affiliate is required to withhold with respect to such event.

## 26. NOTICE OF SALE

Any person who has acquired shares under this Plan shall give prompt written notice to the Company of any sale or other transfer of the shares if such sale or transfer occurs(1) within the two-year period after the Grant Date of the Offering Period with respect to which such shares were acquired, or (2) within the twelve-month period after the Exercise Date of the Offering Period with respect to which such shares were acquired.

**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 June 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*

August 2, 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 June 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*

August 2, 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 June 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*

August 2, 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 June 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*

August 2, 2022