UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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, Washington 98188
Telephone: (206) 392-5040

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

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

Large accelerated filer T Accelerated filer £ Non-accelerated filer £ Smaller reporting company £

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

The registrant has 123,252,559 common shares, par value $0.01, outstanding at April 30, 2016.

ALASKA AIR GROUP, INC.
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2016

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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," respectively, 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. You can generally identify forward-looking statements as statements containing the words "believe," "expect," "will," "anticipate," "intend," "estimate," "project," "assume" or other similar expressions, although not all forward-looking statements contain these identifying words. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or the Company’s present expectations. Some of the things that could cause our actual results to differ from our expectations are:

- our pending acquisition and the subsequent integration of Virgin America Inc. (Virgin America);
- the competitive environment in our industry;
- changes in our operating costs, primarily fuel, which can be volatile;
- general economic conditions, including the impact of those conditions on customer travel behavior;
- our ability to meet our cost reduction goals;
- operational disruptions;
- an aircraft accident or incident;
- labor disputes and our ability to attract and retain qualified personnel;
- the concentration of our revenue from a few key markets;
- actual or threatened terrorist attacks, global instability and potential U.S. military actions or activities;
- our reliance on automated systems and the risks associated with changes made to those systems;
- changes in laws and regulations.

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. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such differences might be significant and materially adverse to our shareholders. For a discussion of these and other risk factors, see Item 1A. "Risk Factors” of the Company’s annual report on Form 10-K for the year ended December 31, 2015, and Item 1A. "Risk Factors" included herein. 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)	March 31, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 78**	$ 73
Marketable securities	**1,486**	1,255
Total cash and marketable securities	**1,564**	1,328
Receivables - net	**235**	212
Inventories and supplies - net	**45**	51
Prepaid expenses and other current assets	**79**	72
Total Current Assets	**1,923**	1,663
Property and Equipment		
Aircraft and other flight equipment	**5,945**	5,690
Other property and equipment	**967**	955
Deposits for future flight equipment	**617**	771
	7,529	7,416
Less accumulated depreciation and amortization	**2,699**	2,614
Total Property and Equipment - Net	**4,830**	4,802
Other Assets	**76**	65
Total Assets	**$ 6,829**	$ 6,530

See accompanying notes to condensed consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

(in millions, except share amounts)	March 31, 2016	December 31, 2015
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 63**	$ 63
Accrued wages, vacation and payroll taxes	**213**	298
Air traffic liability	**868**	669
Other accrued liabilities	**809**	661
Current portion of long-term debt	**116**	114
Total Current Liabilities	**2,069**	1,805
Long-Term Debt, Net of Current Portion	**531**	569
Other Liabilities and Credits		
Deferred income taxes	**678**	682
Deferred revenue	**467**	431
Obligation for pension and postretirement medical benefits	**270**	270
Other liabilities	**359**	362
	1,774	1,745
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $0.01 par value, Authorized: 5,000,000 shares, none issued or outstanding	**—**	—
Common stock, $0.01 par value, Authorized: 200,000,000 shares, Issued: 2016 - 128,901,410 shares; 2015 - 128,442,099 shares, Outstanding: 2016 - 123,913,223 shares; 2015 - 125,175,325 shares	**1**	1
Capital in excess of par value	**86**	73
Treasury stock (common), at cost: 2016 - 4,988,187 shares; 2015 - 3,266,774 shares	**(377)**	(250)
Accumulated other comprehensive loss	**(294)**	(303)
Retained earnings	**3,039**	2,890
	2,455	2,411
Total Liabilities and Shareholders' Equity	**$ 6,829**	$ 6,530

See accompanying notes to condensed consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(unaudited)*

	Three Months Ended March 31,	
(in millions, except per share amounts)	**2016**	**2015**
Operating Revenues		
Passenger		
Mainline	**$ 927**	$ 901
Regional	**206**	186
Total passenger revenue	**1,133**	1,087
Freight and mail	**24**	23
Other - net	**190**	159
Total Operating Revenues	**1,347**	1,269
Operating Expenses		
Wages and benefits	**336**	306
Variable incentive pay	**32**	26
Aircraft fuel, including hedging gains and losses	**167**	235
Aircraft maintenance	**68**	63
Aircraft rent	**29**	26
Landing fees and other rentals	**80**	71
Contracted services	**60**	52
Selling expenses	**49**	53
Depreciation and amortization	**88**	76
Food and beverage service	**31**	25
Third-party regional carrier expense	**23**	15
Other	**94**	83
Total Operating Expenses	**1,057**	1,031
Operating Income	**290**	238
Nonoperating Income (Expense)		
Interest income	**6**	5
Interest expense	**(13)**	(11)
Interest capitalized	**8**	8
Other - net	**1**	—
	2	2
Income before income tax	**292**	240
Income tax expense	**108**	91
Net Income	**$ 184**	$ 149
Basic Earnings Per Share:	**$ 1.47**	$ 1.13
Diluted Earnings Per Share:	**$ 1.46**	$ 1.12
Shares used for computation:		
Basic	**124.550**	131.120
Diluted	**125.328**	132.230
Cash dividend declared per share:	**$ 0.275**	$ 0.20

See accompanying notes to condensed consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS *(unaudited)*

	Three Months Ended March 31,	
(in millions)	**2016**	**2015**
Net Income	**$ 184**	$ 149
Other Comprehensive Income (Loss):		
Related to marketable securities:		
Unrealized holding gains (losses) arising during the period	**12**	7
Reclassification of (gains) losses into Other-net nonoperating income (expense)	**—**	—
Income tax effect	**(4)**	(3)
Total	**8**	4
Related to employee benefit plans:		
Reclassification of net pension expense into Wages and benefits	**5**	3
Income tax effect	**(2)**	(1)
Total	**3**	2
Related to interest rate derivative instruments:		
Unrealized holding gains (losses) arising during the period	**(5)**	(4)
Reclassification of (gains) losses into Aircraft rent	**1**	2
Income tax effect	**2**	1
Total	**(2)**	(1)
Other Comprehensive Income	**9**	5
Comprehensive Income	**$ 193**	$ 154

See accompanying notes to condensed consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

	Three Months Ended March 31,	
(in millions)	**2016**	**2015**
Cash flows from operating activities:		
Net income	**$ 184**	$ 149
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**88**	76
Stock-based compensation and other	**9**	9
Changes in certain assets and liabilities:		
Changes in deferred tax provision	**(8)**	(6)
Increase (decrease) in air traffic liability	**199**	183
Increase (decrease) in deferred revenue	**36**	8
Other - net	**17**	95
Net cash provided by operating activities	**525**	514
Cash flows from investing activities:		
Property and equipment additions:		
Aircraft and aircraft purchase deposits	**(91)**	(245)
Other flight equipment	**(15)**	(21)
Other property and equipment	**(13)**	(13)
Total property and equipment additions, including capitalized interest	**(119)**	(279)
Purchases of marketable securities	**(358)**	(403)
Sales and maturities of marketable securities	**140**	259
Proceeds from disposition of assets and changes in restricted deposits	**1**	2
Net cash used in investing activities	**(336)**	(421)
Cash flows from financing activities:		
Long-term debt payments	**(36)**	(35)
Common stock repurchases	**(127)**	(102)
Dividends paid	**(34)**	(26)
Other financing activities	**13**	14
Net cash used in financing activities	**(184)**	(149)
Net increase (decrease) in cash and cash equivalents	**5**	(56)
Cash and cash equivalents at beginning of year	**73**	107
Cash and cash equivalents at end of the period	**$ 78**	$ 51
Supplemental disclosure:		
Cash paid during the period for:		
Interest (net of amount capitalized)	**$ 8**	$ 7
Income taxes paid (received)	**13**	(65)

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

NOTE 1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The interim condensed consolidated financial statements include the accounts of Alaska Air Group, Inc. (Air Group or the Company) and its subsidiaries, Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon), through which the Company conducts substantially all of its operations. All 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. As a result, this Form 10-Q should be read in conjunction with the Consolidated Financial Statements and accompanying Notes in the Form 10-K for the year ended December 31, 2015. In the opinion of management, all adjustments have been made that are necessary to present fairly the Company's financial position as of March 31, 2016, as well as the results of operations for the three months ended March 31, 2016 and 2015. The adjustments made 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. 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 months ended March 31, 2016, are not necessarily indicative of operating results for the entire year.

Certain reclassifications have been made to prior year financial statements to conform with classifications used in the current year.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standard Update 2014-09, "Revenue from Contracts with Customers" (ASU 2014-09), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. At this time, the Company believes the most significant impact to the financial statements will be in Mileage Plan revenues and liabilities. The Company currently uses the incremental cost approach for miles earned through travel. This standard eliminates that option and the Company will be required to increase its liability for earned miles through a relative selling price model. The Company has not evaluated the full impact of the standard, although application is expected to result in a material increase to Deferred Revenue. The Company has not yet selected a transition method.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30), which requires debt issuance costs related to a debt liability be presented as a direct deduction from the carrying value of the debt liability. The amendment was adopted as of January 1, 2016. Prior period debt balances have been adjusted to reflect the adoption of ASU 2015-03. The adoption of the ASU had no impact on the Statements of Operations or retained earnings.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize assets and liabilities for leases currently classified as operating leases. Under the new standard a lessee will recognize a liability on the balance sheet representing the lease payments owed, and a right-of-use-asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. The new standard would be effective for the Company on January 1, 2019. Early adoption of the standard is permitted. The Company is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures. The Company has not yet determined whether it will early adopt the standard.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations. The proposed standard provides guidance when a revenue transaction involves a third party in providing goods or services to a customer in determining whether the Company is considered the principal or the agent in the transaction. When an entity is engaged to provide the underlying good or service, such entity is classified as the principal in the transaction. When an entity is engaged to arrange for a third party to provide the goods or services, such entity is classified as the agent in the transaction. This ASU has the same effective date as the new revenue standard. Entities are required to adopt this ASU using the same transition method they use to adopt the new revenue accounting standard. The Company is evaluating the effect that ASU 2016-08 will have on its consolidated financial statements and related disclosures. The Company has not yet elected a transition method nor has it determined whether it will early adopt.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). The proposed standard simplifies several aspects of accounting for employee share-based payment awards, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Company is evaluating the effect of ASU 2016-09 on the consolidated financial statements and related disclosures. The ASU will be effective for the Company beginning January 1, 2017, however early adoption is permitted. The Company has not yet elected a transition method nor has it determined whether it will early adopt.

NOTE 2. PROPOSED ACQUISITION OF VIRGIN AMERICA INC.

On April 1, 2016 the Company entered into an agreement to acquire Virgin America Inc. (Virgin America). The Company has agreed to pay Virgin America shareholders $57 per share, or approximately $2.6 billion, in cash for the outstanding common stock of Virgin America. In addition, the Company expects to assume Virgin America's debt and lease obligations, other than related party debt, on the date of acquisition. The merger is subject to approval by Virgin America's shareholders and various regulatory bodies, among other customary closing conditions. To date, the financial impacts of the pending acquisition have not been material, and future financial impacts are not yet estimable. The Company currently expects the acquisition will close no later than January 1, 2017.

NOTE 3. CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES

Components for cash, cash equivalents and marketable securities (in millions):

March 31, 2016	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$ 3	$ —	$ —	$ 3
Cash equivalents	75	—	—	75
Cash and cash equivalents	78	—	—	78
U.S. government and agency securities	410	2	—	412
Foreign government bonds	28	—	—	28
Asset-backed securities	154	1	(1)	154
Mortgage-backed securities	120	1	—	121
Corporate notes and bonds	749	6	(1)	754
Municipal securities	17	—	—	17
Marketable securities	1,478	10	(2)	1,486
Total	$ 1,556	$ 10	$ (2)	$ 1,564

December 31, 2015	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$ 4	$ —	$ —	$ 4
Cash equivalents	69	—	—	69
Cash and cash equivalents	73	—	—	73
U.S. government and agency securities	254	—	(1)	253
Foreign government bonds	31	—	—	31
Asset-backed securities	130	—	—	130
Mortgage-backed securities	117	—	(1)	116
Corporate notes and bonds	711	1	(4)	708
Municipal securities	17	—	—	17
Marketable securities	1,260	1	(6)	1,255
Total	$ 1,333	$ 1	$ (6)	$ 1,328

Unrealized losses from fixed-income securities are primarily attributable to changes in interest rates. Management does not believe any remaining unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence as of March 31, 2016.

Activity for marketable securities (in millions):

	Three Months Ended March 31,	
	2016	**2015**
Proceeds from sales and maturities	**$ 140**	$ 259
Gross realized gains	**—**	1
Gross realized losses	**—**	(1)

Maturities for marketable securities (in millions):

March 31, 2016	**Cost Basis**	**Fair Value**
Due in one year or less	$ 258	$ 258
Due after one year through five years	1,218	1,226
Due after five years through 10 years	2	2
Due after 10 years	—	—
Total	$ 1,478	$ 1,486

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

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

March 31, 2016	**Level 1**	**Level 2**	**Total**
Assets			
Marketable securities			
U.S. government and agency securities	$ 412	$ —	$ 412
Foreign government bonds	—	28	28
Asset-backed securities	—	154	154
Mortgage-backed securities	—	121	121
Corporate notes and bonds	—	754	754
Municipal securities	—	17	17
Total Marketable securities	412	1,074	1,486
Derivative instruments			
Fuel hedge call options	—	8	8
Total Assets	412	1,082	1,494
Liabilities			
Derivative instruments			
Interest rate swap agreements	—	(22)	(22)
Total Liabilities	—	(22)	(22)

December 31, 2015	Level 1	Level 2	Total
Assets			
Marketable securities			
U.S. government and agency securities	$ 253	$ —	$ 253
Foreign government bonds	—	31	31
Asset-backed securities	—	130	130
Mortgage-backed securities	—	116	116
Corporate notes and bonds	—	708	708
Municipal securities	—	17	17
Total Marketable securities	253	1,002	1,255
Derivative instruments			
Fuel hedge call options	—	4	4
Total Assets	253	1,006	1,259
Liabilities			
Derivative instruments			
Interest rate swap agreements	—	(18)	(18)
Total Liabilities	—	(18)	(18)

The Company uses the market and income approach to determine the fair value of marketable securities. U.S. government securities 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 is 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.

The Company has no financial assets that are measured at fair value on a nonrecurring basis at March 31, 2016.

Fair Value of Other Financial Instruments

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

Cash and Cash Equivalents: Carried at amortized cost, which approximates fair value.

Debt: The carrying amount of the Company's variable-rate debt approximates fair values. For fixed-rate debt, the Company uses the income approach to determine the estimated fair value, by using discounted cash flows using borrowing rates for comparable debt over the weighted life of the outstanding debt. The estimated fair value of the fixed-rate debt is Level 3 as certain inputs used are unobservable.

Fixed-rate debt that is not carried at fair value on the consolidated balance sheet and the estimated fair value of long-term fixed-rate debt (in millions) is as follows:

	March 31, 2016	December 31, 2015
Carrying amount	**$ 491**	$ 520
Fair value	**529**	557

NOTE 5. MILEAGE PLAN

Alaska's Mileage Plan liabilities and deferrals on the consolidated balance sheets (in millions):

	March 31, 2016	December 31, 2015
Current Liabilities:		
Other accrued liabilities	**$ 388**	$ 368
Other Liabilities and Credits:		
Deferred revenue	**464**	427
Other liabilities	**19**	19
Total	**$ 871**	$ 814

Alaska's Mileage Plan revenue included in the consolidated statements of operations (in millions):

	Three Months Ended March 31,	
	2016	2015
Passenger revenues	**$ 69**	$ 64
Other - net revenues	**103**	76
Total	**$ 172**	$ 140

NOTE 6. LONG-TERM DEBT

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

	March 31, 2016	December 31, 2015
Fixed-rate notes payable due through 2024	**$ 491**	$ 520
Variable-rate notes payable due through 2025	**159**	166
Less debt issuance costs	**(3)**	(3)
Total debt	**647**	683
Less current portion	**116**	114
Long-term debt, less current portion	**$ 531**	$ 569
Weighted-average fixed-interest rate	**5.7%**	5.7%
Weighted-average variable-interest rate	**2.1%**	1.8%

During the three months ended March 31, 2016, the Company made debt payments of $36 million. As discussed in Note 1, the Company adopted ASU 2015-03 which resulted in a reclassification of debt issuance costs as an offset to debt in the consolidated balance sheet.

At March 31, 2016, long-term debt principal payments for the next five years and thereafter are as follows (in millions):

	Total
Remainder of 2016	$ 79
2017	121
2018	151
2019	114
2020	116
Thereafter	69
Total	$ 650

Bank Lines of Credit

The Company has two $100 million credit facilities and one $52 million credit facility. All three facilities have variable interest rates based on LIBOR plus a specified margin. One of the $100 million facilities, which expires in September 2017, is secured by aircraft. The other $100 million facility, which expires in March 2017, is secured by certain accounts receivable, spare engines, spare parts and ground service equipment. The $52 million facility expires in October 2016 with a mechanism for annual renewal and is secured by two 737-800 aircraft. The Company has no immediate plans to borrow using any of these facilities. All three credit facilities have a requirement to maintain a minimum unrestricted cash and marketable securities balance of $500 million. The Company is in compliance with this covenant at March 31, 2016.

NOTE 7. EMPLOYEE BENEFIT PLANS

Net periodic benefit costs recognized included the following components for the three months ended March 31, 2016 (in millions):

	Three Months Ended March 31,	
	Qualified	
	2016	**2015**
Service cost	**$ 9**	$ 10
Interest cost	**18**	21
Expected return on assets	**(27)**	(31)
Recognized actuarial loss (gain)	**6**	7
Total	**$ 6**	$ 7

NOTE 8. COMMITMENTS

Future minimum fixed payments for commitments (in millions):

March 31, 2016	**Aircraft Leases**	**Facility Leases**	**Aircraft Purchase Commitments**	**Capacity Purchase Agreements [a]**
Remainder of 2016	$ 60	$ 70	$ 402	$ 53
2017	104	90	516	90
2018	98	43	472	94
2019	90	42	381	99
2020	81	40	320	106
Thereafter	467	147	392	858
Total	$ 900	$ 432	$ 2,483	$ 1,300

[a] Includes all non-aircraft lease costs associated with CPA arrangements.

Lease Commitments

At March 31, 2016, the Company had lease contracts for 27 B737 aircraft, 15 Q400 aircraft, 6 CRJ-700 aircraft (operated under the CPA with SkyWest) and 8 CRJ-700 aircraft that are subleased and operated by another carrier (i.e., not in the Company's fleet). The Company has 23 E175 lease commitments under the CPA with SkyWest, 7 of which are included in the fleet as of March 31, 2016. All lease contracts have remaining noncancelable lease terms ranging from 2016 to 2029. The Company has the option to increase capacity flown by SkyWest with eight additional E175 aircraft with 2017 and 2018 delivery dates.

The majority of airport and terminal facilities are also leased. Rent expense for aircraft and facility leases was $81 million and $73 million for the three months ended March 31, 2016 and 2015, respectively.

Aircraft Purchase Commitments

As of March 31, 2016, the Company is committed to purchasing 62 B737 aircraft (25 737-900ER aircraft and 37 737 MAX aircraft) and two Q400 aircraft, with deliveries in 2016 through 2022. As of March 31, 2016 we do not intend to take delivery of the two Q400 aircraft that are currently contracted. In addition, the Company has options to purchase 46 B737 aircraft and five Q400 aircraft, which are not reflected in the commitments table above.

Subsequent to March 31, 2016, the Company placed an order for 30 Embraer E175 regional jets with options to purchase an additional 33. The above table does not reflect this purchase. See Note 11 for additional information.

Capacity Purchase Agreements (CPAs)

At March 31, 2016, Alaska had CPAs with three carriers, including the Company's wholly-owned subsidiary, Horizon. Horizon sells 100% of its capacity under a CPA with Alaska. In addition, Alaska has CPAs with SkyWest to fly certain routes and PenAir to fly certain routes in the state of Alaska. Under these agreements, Alaska pays the carriers an amount which is based on a determination of their cost of operating those flights and other factors intended to approximate market rates for those services. Future payments (excluding Horizon) are based on minimum levels of flying by the third-party carriers, which could differ materially due to variable payments based on actual levels of flying and certain costs associated with operating flights such as fuel.

Contingencies

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

NOTE 9. SHAREHOLDERS' EQUITY

Dividends

During the three months ended March 31, 2016, the Company declared and paid cash dividends of $0.275 per share, or $34 million.

Common Stock Repurchase

In May 2014, the Board of Directors authorized a $650 million share repurchase program, which was completed in October 2015. In August 2015, the Board of Directors authorized a $1 billion share repurchase program.

Share repurchase activity (in millions, except share amounts):

	Three Months Ended March 31,			
	2016		2015	
	Shares	Amount	Shares	Amount
2015 Repurchase Program - $1 billion	**1,721,413**	**$ 127**	—	$ —
2014 Repurchase Program - $650 million	—	**$ —**	1,580,747	$ 102
Total	**1,721,413**	**$ 127**	1,580,747	$ 102

Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive income (loss), net of tax (in millions):

	March 31, 2016	December 31, 2015
Marketable securities	**$ 5**	$ (3)
Employee benefit plans	**(285)**	(288)
Interest rate derivatives	**(14)**	(12)
Total	**$ (294)**	$ (303)

Earnings Per Share (EPS)

Diluted EPS is calculated by dividing net income by the average number of common shares outstanding plus the number of additional common shares that would have been outstanding assuming the exercise of in-the-money stock options and restricted stock units, using the treasury-stock method. For the three months ended March 31, 2016 and 2015, anti-dilutive shares excluded from the calculation of EPS were not material.

NOTE 10. OPERATING SEGMENT INFORMATION

Air Group has two operating airlines - Alaska Airlines and Horizon Air. Each is a regulated airline with separate management teams. To manage the two operating airlines and the revenues and expenses associated with the CPAs, management views the business in three operating segments:

Alaska Mainline - The Boeing 737 part of Alaska's business.

Alaska Regional - Alaska's shorter distance network. In this segment, Alaska Regional records actual on board passenger revenue, less costs such as fuel, distribution costs, and payments made to Horizon, SkyWest and PenAir under CPAs. Additionally, Alaska Regional includes a small allocation of corporate overhead such as IT, finance and other administrative costs incurred by Alaska and on behalf of the regional operations.

Horizon - Horizon operates regional aircraft. All of Horizon's capacity is sold to Alaska under a CPA. Expenses include those typically borne by regional airlines such as crew costs, ownership costs, station handling costs, and maintenance costs.

Additionally, the following table reports "Air Group adjusted," which is not a measure determined in accordance with GAAP. The Company's chief operating decision-makers and others in management use this measure to evaluate operational performance and determine resource allocations. Adjustments are further explained below in a reconciliation to consolidated GAAP results.

Operating segment information is as follows (in millions):

	Three Months Ended March 31, 2016						
	Alaska						
	Mainline	Regional	Horizon	Consolidating	Air Group Adjusted[(a)]	Special Items[(b)]	Consolidated
Operating revenues							
Passenger							
Mainline	$ 927	$ —	$ —	$ —	$ 927	$ —	$ 927
Regional	—	206	—	—	206	—	206
Total passenger revenues	927	206	—	—	1,133	—	1,133
CPA revenues	—	—	103	(103)	—	—	—
Freight and mail	23	1	—	—	24	—	24
Other - net	172	17	1	—	190	—	190
Total operating revenues	1,122	224	104	(103)	1,347	—	1,347
Operating expenses							
Operating expenses, excluding fuel	701	186	105	(102)	890	—	890
Economic fuel	144	25	—	—	169	(2)	167
Total operating expenses	845	211	105	(102)	1,059	(2)	1,057
Nonoperating income (expense)							
Interest income	6	—	—	—	6	—	6
Interest expense	(12)	—	(1)	—	(13)	—	(13)
Other	7	—	—	2	9	—	9
	1	—	(1)	2	2	—	2
Income (loss) before income tax	$ 278	$ 13	$ (2)	$ 1	$ 290	$ 2	$ 292

	Three Months Ended March 31, 2015						
	Alaska						
	Mainline	Regional	Horizon	Consolidating	Air Group Adjusted[a]	Special Items[b]	Consolidated
Operating revenues							
Passenger							
Mainline	$ 901	$ —	$ —	$ —	$ 901	$ —	$ 901
Regional	—	186	—	—	186	—	186
Total passenger revenues	901	186	—	—	1,087	—	1,087
CPA revenues	—	—	99	(99)	—	—	—
Freight and mail	22	1	—	—	23	—	23
Other - net	142	16	1	—	159	—	159
Total operating revenues	1,065	203	100	(99)	1,269	—	1,269
Operating expenses							
Operating expenses, excluding fuel	639	164	91	(98)	796	—	796
Economic fuel	203	32	—	—	235	—	235
Total operating expenses	842	196	91	(98)	1,031	—	1,031
Nonoperating income (expense)							
Interest income	5	—	—	—	5	—	5
Interest expense	(7)	—	(4)	—	(11)	—	(11)
Other	7	—	1	—	8	—	8
	5	—	(3)	—	2	—	2
Income (loss) before income tax	$ 228	$ 7	$ 6	$ (1)	$ 240	$ —	$ 240

(a) The adjusted column represents the financial information that is reviewed by management to assess performance of operations and determine capital allocations and does not include certain income and charges.
(b) Includes mark-to-market fuel-hedge accounting charges.

Total assets were as follows (in millions):

	March 31, 2016	December 31, 2015
Alaska[a]	**$ 8,630**	$ 8,127
Horizon	**717**	717
Parent company	**4,929**	4,734
Elimination of inter-company accounts	**(7,447)**	(7,048)
Consolidated	**$ 6,829**	$ 6,530

(a) There are no assets associated with capacity purchase flying at Alaska.

NOTE 11. SUBSEQUENT EVENTS

See discussion of the pending acquisition of Virgin America at Note 2.

On April 11, 2016 Horizon placed an order for 30 Embraer E 175 regional aircraft (E175s), with the option to purchase an additional 33. The E175s will be flown by Horizon exclusively for Alaska beginning in 2017. An estimate of the future financial impacts related to the purchase agreement is included in our forward looking capital expenditures table within Item 2, MD&A.

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 the Company, our segment operations and our 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, the risks mentioned in Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2015, and Item 1A "Risk Factors" included herein. This overview summarizes the MD&A, which includes the following sections:

- *First Quarter Review*—highlights from the first quarter of 2016 outlining some of the major events that happened during the period and how they affected our financial performance.

- *Results of Operations*—an in-depth analysis of our revenues by segment and our expenses from a consolidated perspective for the three months ended March 31, 2016. 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 2016.

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

FIRST QUARTER REVIEW

Our consolidated pretax income was $292 million during the first quarter of 2016, compared to $240 million in the first quarter of 2015. The increase of $52 million was mainly due to increased revenues of $78 million and lower aircraft fuel expense by $68 million, partially offset by an increase in non-fuel expenses of $94 million.

See "*Results of Operations*" below for further discussion of changes in revenues and operating expenses and our reconciliation of non-GAAP measures to the most directly comparable GAAP measure.

Operations Performance

During the first quarter, both Alaska and Horizon continued their strong on-time performance, reporting that 87.5% and 87.9% of their flights arrived on time, respectively. For the twelve months ended February 2016, Alaska maintained its ranking as the top carrier among the six largest U.S. airlines for on-time performance, according to the U.S. Department of Transportation.

New Markets

New routes launched and announced are as follows:

New Non-Stop Routes Launched in Q1	New Non-Stop Routes Announced (Launch Dates)
Reno, Nevada to Orange County, California	San Diego, California to San Jose, California (6/8/16)
Orange County, California to Santa Rosa, California	Orange County, California to San Jose, California (6/8/16)
	Bellingham, Washington to Kona, Hawaii (11/12/16)

Shareholder Return

During the first quarter of 2016, we paid cash dividends of $34 million and we repurchased 1.7 million shares of our common stock for $127 million under the $1 billion repurchase program authorized by our Board of Directors in August 2015. Since 2007, we have repurchased 58 million shares of common stock under such programs for $1.5 billion for an average price of $25.14 per share. During the month of April, we repurchased 682 thousand shares of our common stock for $53 million, resulting in 123.3 million shares outstanding at April 30, 2016. Prior to the announcement of our pending acquisition of Virgin

America, we had planned to return a greater amount to shareholders in 2016 through dividends and stock repurchases than we did in 2015. Given the pending acquisition, we now expect to return approximately $325 million to shareholders in 2016, reflecting a reduction in the number of shares we had previously expected to repurchase under our $1 billion share repurchase program.

Outlook

On April 4, 2016, we announced plans to acquire Virgin America. If approved by Virgin America shareholders and regulators, we believe the combination of Virgin America and Alaska will create the premier airline for travelers on the West Coast, offering a premium product to our customers at the low fares both airlines are known for. The combined airline will provide 1,200 daily departures to our customers, greatly expanding the flight offerings to current Alaska and Virgin America customers, creating increased utility in the the combined network. We will also gain additional access to hard to come by landing slots and constrained gates at destinations such as New York (JFK), Newark, San Francisco, and Los Angeles. We believe that combining our loyalty programs and networks will provide greater benefits for our West Coast customers, and will expand our partner portfolio giving our customers an expansive global reach. The larger platform for growth, and the synergies the combined airline is expected to generate, will allow us to create greater value for our stakeholders. We have agreed to pay $57 per share, or approximately $2.6 billion, in cash for the outstanding common stock of Virgin America. We currently expect the acquisition will close by January 1, 2017, which would significantly impact our financial position and results.

We expect our own organic growth to continue in 2016, adding approximately 8% system-wide capacity in the current year. Over the past few years, we have seen competitive capacity increase significantly in our markets, especially in our hometown of Seattle. We expect to see even more competitive capacity in 2016. Current schedules indicate competitive capacity will be 14% higher in both the second and third quarters of 2016.

Our current expectations for capacity and CASM excluding fuel and special items, and excluding the impact of the pending acquisition of Virgin America, are summarized below:

	Forecast Q2 2016	Change Y-O-Y	Forecast Full Year 2016	Change Y-O-Y
Consolidated:				
ASMs (000,000) "capacity"	11,000 - 11,050	~ 11%	43,100 - 43,200	~ 8%
CASM excluding fuel (cents)	8.00¢ - 8.05¢	~ (1)%	8.25¢ - 8.30¢	~ (0.5)%
Mainline:				
ASMs (000,000) "capacity"	9,825 - 9,875	~ 9.5%	38,250 - 38,350	~ 6.5%
CASM excluding fuel (cents)	7.05¢ - 7.10¢	~ (1.5)%	7.35¢ - 7.40¢	~ (0.5)%

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED MARCH 31, 2016 COMPARED TO THREE MONTHS ENDED MARCH 31, 2015

Our consolidated net income for the first quarter of 2016 was $184 million, or $1.46 per diluted share, compared to net income of $149 million, or $1.12 per diluted share, in the first quarter of 2015.

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

We believe disclosure of earnings, excluding the impact of mark-to-market gains or losses or other individual revenues or expenses, is useful information to investors because:

- By eliminating fuel expense and certain special items from our unit metrics, we believe that we have better visibility into the results of operations and our non-fuel cost-reduction initiatives. Our industry is highly competitive and is characterized by high fixed costs, so even a small reduction in non-fuel operating costs can result in 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 labor rates and productivity, airport costs, maintenance costs, etc., which are more controllable by management.

- Cost per ASM (CASM) excluding fuel and certain special items is one of the most important measures used by management and by the Air Group Board of Directors in assessing quarterly and annual cost performance.

- Adjusted income before income tax and CASM excluding fuel (and other items as specified in our plan documents) are important metrics for the employee incentive plan that covers all Alaska and Horizon employees.

- CASM excluding fuel and certain special items is a measure commonly used by industry analysts, and we believe it is the basis by which they compare our airlines to others in the industry. The measure is also the subject of frequent questions from investors.

- 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 certain items, such as mark-to-market hedging adjustments, 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 passenger unit revenues, we do not (nor are we able to) evaluate unit revenues 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 revenues 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 these amounts are non-recurring, infrequent, or unusual in nature.

Excluding the impact of mark-to-market fuel hedge adjustments, our adjusted consolidated net income for the first quarter of 2016 was $183 million, or $1.45 per diluted share, compared to an adjusted consolidated net income of $149 million, or $1.12 per diluted share, in the first quarter of 2015.

	Three Months Ended March 31,			
	2016		2015	
(in millions, except per share amounts)	**Dollars**	**Diluted EPS**	**Dollars**	**Diluted EPS**
Net income and diluted EPS as reported	**$ 184**	**$ 1.46**	$ 149	$ 1.12
Mark-to-market fuel hedge adjustments, net of tax	**(1)**	**(0.01)**	—	—
Non-GAAP adjusted income and per-share amounts	**$ 183**	**$ 1.45**	$ 149	$ 1.12

Our operating costs per ASM are summarized below:

	Three Months Ended March 31,		
(in cents)	**2016**	**2015**	**% Change**
Consolidated:			
CASM	**10.11¢**	11.14¢	(9.2)%
Less the following components:			
Aircraft fuel, including hedging gains and losses	**1.60**	2.53	(36.8)%
CASM excluding fuel	**8.51¢**	8.61¢	(1.2)%
Mainline:			
CASM	**9.01¢**	10.09¢	(10.7)%
Less the following components:			
Aircraft fuel, including hedging gains and losses	**1.52**	2.43	(37.4)%
CASM excluding fuel	**7.49¢**	7.66¢	(2.2)%

OPERATING STATISTICS SUMMARY (unaudited)

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

	Three Months Ended March 31,		
	2016	**2015**	**Change**
Consolidated Operating Statistics:[a]			
Revenue passengers (000)	**7,835**	7,316	7.1%
Revenue passenger miles (RPM) (000,000) "traffic"	**8,571**	7,723	11.0%
Available seat miles (ASM) (000,000) "capacity"	**10,453**	9,257	12.9%
Load factor	**82.0%**	83.4%	(1.4) pts
Yield	**13.22¢**	14.08¢	(6.1)%
Passenger revenue per ASM (PRASM)	**10.84¢**	11.74¢	(7.7)%
Revenue per ASM (RASM)	**12.88¢**	13.71¢	(6.1)%
Operating expense per ASM (CASM) excluding fuel[b]	**8.51¢**	8.61¢	(1.2)%
Economic fuel cost per gallon[b]	**$1.29**	$1.98	(34.8)%
Fuel gallons (000,000)	**132**	119	10.9%
ASMs per fuel gallon	**79.2**	77.8	1.8%
Average full-time equivalent employees (FTEs)	**14,357**	13,274	8.2%
Mainline Operating Statistics:			
Revenue passengers (000)	**5,642**	5,236	7.8%
RPMs (000,000) "traffic"	**7,716**	6,994	10.3%
ASMs (000,000) "capacity"	**9,354**	8,347	12.1%
Load factor	**82.5%**	83.8%	(1.3) pts
Yield	**12.01¢**	12.88¢	(6.8)%
PRASM	**9.91¢**	10.79¢	(8.2)%
RASM	**11.99¢**	12.75¢	(6.0)%
CASM excluding fuel[b]	**7.49¢**	7.66¢	(2.2)%
Economic fuel cost per gallon[b]	**$1.28**	$1.97	(35.0)%
Fuel gallons (000,000)	**113**	103	9.7%
ASMs per fuel gallon	**82.8**	81.0	2.2%
Average FTEs	**11,123**	10,380	7.2%
Aircraft utilization	**10.6**	10.6	—%
Average aircraft stage length	**1,237**	1,199	3.2%
Operating fleet	**152**	137	15 a/c
Regional Operating Statistics:[c]			
Revenue passengers (000)	**2,192**	2,080	5.4%
RPMs (000,000) "traffic"	**855**	728	17.4%
ASMs (000,000) "capacity"	**1,100**	910	20.9%
Load factor	**77.7%**	80.0%	(2.3 pts)
Yield	**24.09¢**	25.58¢	(5.8)%
PRASM	**18.72¢**	20.46¢	(8.5)%
Operating fleet	**67**	60	7 a/c

(a) Except for FTEs, data includes information related to third-party regional capacity purchase flying arrangements.

(b) See reconciliation of operating expenses excluding fuel, a reconciliation of economic fuel costs in the accompanying pages.

(c) Data presented includes information related to flights operated by Horizon and third-party carriers.

Glossary of Terms

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

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 the present value of future operating lease payments) divided by total equity plus adjusted debt

Economic Fuel - best estimate of the cash cost of fuel, net of the impact of our fuel-hedging program

Free Cash Flow - total operating cash flow generated less cash paid for capital expenditures (shown as Total property and equipment additions on the statement of cash flows).

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 jets and all associated revenues and costs

PRASM - passenger revenue per ASM; commonly called “passenger unit revenue”

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

OPERATING REVENUES

Total operating revenues increased $78 million, or 6%, during the first quarter of 2016 compared to the same period in 2015. The changes are summarized in the following table:

	Three Months Ended March 31,		
(in millions)	**2016**	**2015**	**% Change**
Passenger			
Mainline	**$ 927**	$ 901	3%
Regional	**206**	186	11%
Total passenger revenue	**1,133**	1,087	4%
Freight and mail	**24**	23	4%
Other - net	**190**	159	19%
Total operating revenues	**$ 1,347**	$ 1,269	6%

Passenger Revenue – Mainline

Mainline passenger revenue for the first quarter of 2016 increased by 3% due to a 12.1% increase in capacity, largely offset by a decrease of 8.2% in PRASM compared to the first quarter of 2015. The increase in capacity was driven primarily by new routes and larger aircraft added to our fleet since the first quarter of 2015. The decrease in PRASM was driven by a 6.8% decline in ticket yield and a 1.3-point reduction in load factor compared to the prior-year quarter. The decrease in ticket yield was primarily due to increased competitive capacity in the markets we serve, and our own growth. Furthermore, the significant decline in fuel prices has contributed to lower ticket prices. The decline in load factor was also a result of increased capacity.

Passenger Revenue – Regional

Regional passenger revenue increased 11% compared to the first quarter of 2015 due to a 20.9% increase in capacity, partially offset by a 8.5% decrease in PRASM. The increase in capacity is due to an increase in departures, and average aircraft stage length as well as the annualization of new routes introduced over the past twelve months. The decrease in PRASM is due to a 5.8% decline in ticket yield, as well as a decrease in load factor of 2.3 points. The decrease in yield is due to an increase in competitive capacity in our regional markets and our own growth as we strengthen our network utility in the Pacific Northwest.

Other – Net

Other - net revenue increased $31 million, or 19%, from the first quarter of 2015, primarily due to increases in Mileage Plan revenue. Mileage Plan revenue increased $27 million, or 36%, due to increased miles sold and higher rates paid by our affinity credit card partner beginning January 1, 2016 as a result of a contract extension.

OPERATING EXPENSES

Total operating expenses increased $26 million, or 3%, compared to the first quarter of 2015. 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 March 31,		
(in millions)	**2016**	**2015**	**% Change**
Fuel expense	**$ 167**	$ 235	(29)%
Non-fuel expenses	**890**	796	12 %
Total Operating Expenses	**$ 1,057**	$ 1,031	3 %

Significant operating expense variances from 2015 are more fully described below.

Wages and Benefits

Wages and benefits increased during the first quarter of 2016 by $30 million. The primary components of wages and benefits are shown in the following table:

	Three Months Ended March 31,		
(in millions)	2016	2015	% Change
Wages	**$ 251**	$ 230	9 %
Pension - Defined benefit plans	**6**	7	(14)%
Defined contribution plans	**16**	15	7 %
Medical and other benefits	**44**	38	16 %
Payroll taxes	**19**	16	19 %
Total wages and benefits	**$ 336**	$ 306	10 %

Wages increased 9% with a 8.2% increase in FTEs. The increase in wages is primarily attributable to increased FTEs to support the growth in our business. In addition, we recognized pilot and flight attendant bonuses of approximately $3 million and severance costs of approximately $4 million at Horizon related to organizational restructuring.

Medical and other benefits increased 16% compared to the same period in the prior year. The increase is primarily due to an increase in medical claims with growth in the number of employees and increasing medical costs.

Variable Incentive Pay

Variable incentive pay expense increased $6 million, or 23%, compared to the first quarter of 2015. The increase is attributable in part to a 8.2% increase in FTEs coupled with a higher wage base. Additionally, we amended the participation rates of our Performance Based Pay incentive plan in the current year to increase the potential bonus earned by the vast majority of our supervisors and managers.

Aircraft Fuel

Aircraft fuel expense includes both *raw fuel expense* (as defined below) plus the effect of mark-to-market adjustments to our fuel hedge portfolio included in our consolidated statement of operations 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 decreased $68 million, or 29% compared to 2015. The elements of the change are illustrated in the following table:

	Three Months Ended March 31,			
	2016		2015	
(in millions, except for per gallon amounts)	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	**$ 165**	**$ 1.26**	$ 229	$ 1.93
Losses on settled hedges	**4**	**0.03**	6	0.05
Consolidated economic fuel expense	**169**	**1.29**	235	1.98
Mark-to-market fuel hedge adjustments	**(2)**	**(0.02)**	—	—
GAAP fuel expense	**$ 167**	**$ 1.27**	$ 235	$ 1.98
Fuel gallons	**132**		119	

Fuel expense was lower than in the first quarter of 2015 as the raw fuel price per gallon decreased 35% on an 11% increase in fuel gallons. West Coast jet fuel prices are impacted by both the price of crude oil, as well as refining margins associated with the conversion of crude oil to jet fuel. The decrease in raw fuel price per gallon during the first quarter of 2016 was due to lower crude oil prices of 31% and a decrease in refining margins of 45%, when compared to the prior year.

We also evaluate *economic fuel expense*, which we define as raw fuel expense adjusted for the cash we receive from, or pay to, 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. When we refer to economic fuel expense, we include 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 because 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.

We recognized losses of $4 million for hedges that settled during the first quarter of 2016, compared to losses of $6 million in the first quarter of 2015. These amounts represent the net cash paid including the premium expense recognized for those hedges.

Aircraft Maintenance

Aircraft maintenance expense increased by $5 million, or 8%, compared to the first quarter of 2015. Maintenance costs increased due to heavier airframe checks, and landing gear repairs made during the first quarter of 2016.

Contracted Services

Contracted services expense increased $8 million, or 15%, compared to the first quarter of 2015. The increase is primarily due increased flying at stations where we use vendors to assist us when compared to the first quarter of 2015. Additionally, higher minimum wage rates at stations where we use vendors to assist us with passenger and ramp handling have contributed to the increase in contracted services expense in the first quarter of 2016.

Selling Expenses

Selling expenses decreased $4 million, or 8%, compared to the first quarter of 2015. The decrease is due in large part to the timing of advertisements and promotions related to our brand refresh.

Depreciation and Amortization Expense

Depreciation and amortization expense increased $12 million, or 16%, compared to the first quarter of 2015. The increase is due to 17 additional aircraft in the fleet and capitalization of non-aircraft assets.

Food and Beverage Expense

Food and beverage expense increased $6 million, or 24%, compared to the first quarter of 2015. The increase is due to the increased number of passengers, and upgrades to our onboard menu, offering higher quality food and beverage products.

Third-party regional carrier expense

Third-party regional carrier expense, which represents payments made to SkyWest and PenAir under our CPA agreements, increased $8 million, or 53%, compared to the prior year. The increase is primarily due to more flying by SkyWest in the current quarter when compared to the prior year related to the addition of seven E175 aircraft to our regional operations since the first quarter of 2015.

Other Operating Expenses

Other operating expenses increased $11 million, or 13%, compared to the first quarter of 2015. The increase is primarily due to a loss recognized on the sale of spare parts, personnel costs for our flight crews, IT-related costs, and legal and consulting fees related to the pending acquisition of Virgin America.

Operating Expenses Compared to Capacity Growth

We are presenting our line-item expenses below both in absolute dollars and on an ASM basis to highlight areas in which costs have increased or decreased either more or less than capacity.

	Three Months Ended March 31,						
	2016		2015		2016	2015	Change
(in millions, except CASM)	Amount		Amount		CASM	CASM	CASM
Wages and benefits	**$**	**336**	$	306	**3.21¢**	3.31¢	**(3)%**
Variable incentive pay		**32**		26	**0.31**	0.28	**11 %**
Aircraft maintenance		**68**		63	**0.65**	0.68	**(4)%**
Aircraft rent		**29**		26	**0.28**	0.28	**— %**
Landing fees and other rentals		**80**		71	**0.77**	0.77	**— %**
Contracted services		**60**		52	**0.57**	0.56	**2 %**
Selling expenses		**49**		53	**0.47**	0.57	**(18)%**
Depreciation and amortization		**88**		76	**0.83**	0.83	**— %**
Food and beverage service		**31**		25	**0.30**	0.27	**11 %**
Third-party regional carrier expense		**23**		15	**0.22**	0.16	**38 %**
Other		**94**		83	**0.90**	0.90	**— %**
Non-fuel Expenses	**$**	**890**	$	796	**8.51¢**	8.61¢	**(1)%**

Additional Segment Information

Refer to the Notes of the Condensed Consolidated Financial Statements for a detailed description of each segment. Below is a summary of each segment's profitability.

Alaska Mainline

Pretax profit for Alaska Mainline was $278 million in the first quarter of 2016 compared to $228 million in the first quarter of 2015. Mainline passenger revenue increased $26 million which is described above. Mainline operating expense excluding fuel increased by $62 million to $701 million in 2016 due to higher wages to support our growth, higher ramp and passenger handling associated with increased flying and higher wage rates at stations where we use vendors to assist us, higher depreciation related to our fleet growth, and increased costs associated with landing fees and other rents due to our network expansion. Economic fuel cost decreased due to lower raw fuel costs, partially offset by a 9.7% increase in consumption.

Alaska Regional

Pretax profit for Alaska Regional was $13 million in the first quarter of 2016 compared to $7 million the first quarter of 2015. The $20 million increase in Alaska Regional passenger revenue is described above. The increase in revenue and the decline in fuel costs were partially offset by higher expenses to support additional departures.

Horizon

Pretax loss for Horizon was $2 million in the first quarter of 2016 compared to a pretax profit of $6 million in the first quarter of 2015. CPA Revenues (100% of which are from Alaska and eliminated in consolidation) increased. The $14 million increase in Horizon's non-fuel operating expenses was largely driven by signing bonuses and overhead restructuring costs as well as increased volume of engine overhaul and heavy airframe work.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are:

- Our existing cash and marketable securities balance of $1.6 billion, and our expected cash from operations;
- Our 95 unencumbered aircraft in our operating fleet that could be financed, if necessary;
- Our combined $252 million bank line-of-credit facilities, with no outstanding borrowings.

During the first three months of 2016, we took free and clear delivery of 6 B737-900ER aircraft. We made debt payments totaling $36 million. In addition, we continued to return capital to our shareholders by repurchasing $127 million of our common stock in the first quarter of 2016, and paid dividends totaling $34 million. Because of our strong balance sheet and financial performance, we are one of only three airlines in the U.S. with an investment grade credit rating.

We intend to fund the pending acquisition of Virgin America with cash on hand and secured debt financing. We are still evaluating the impact of the pending merger on the financial statements.

In our cash and marketable securities portfolio, we invest only in securities that meet our overall investment policy of maintaining and securing investment principal. Our investment portfolio is managed by reputable firms that adhere to our investment policy that sets forth certain 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 align with our strategy.

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

(in millions, except per share and debt-to-capital amounts)	**March 31, 2016**	**December 31, 2015**	**Change**
Cash and marketable securities	**$ 1,564**	$ 1,328	17.8 %
Cash, marketable securities, and unused lines of credit as a percentage of trailing twelve months revenue	**32%**	28%	4 pts
Long-term debt, net of current portion	**$ 531**	$ 569	(6.7)%
Shareholders' equity	**$ 2,455**	$ 2,411	1.8 %
Long-term debt-to-capital including net present value of aircraft operating lease payments[a]	**26%:74%**	27%:73%	(1) pts

(a) Calculated using the present value of remaining aircraft lease payments for aircraft in our operating fleet as of the end of the period.

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 three months of 2016, net cash provided by operating activities was $525 million, compared to $514 million during the same period in 2015. Improved operating results, primarily driven from lower jet fuel costs, contributed to the $11 million increase in operating cash flow.

We typically generate positive cash flows from operations and expect to use that cash flow to buy aircraft and capital equipment, make normal debt payments, and to return capital to shareholders through share repurchases and dividends.

Cash Used in Investing Activities

Cash used in investing activities was $336 million during the first three months of 2016, compared to $421 million during the same period of 2015. Our capital expenditures were $119 million in the first three months of 2016, a decrease of $160 million compared to the first quarter of 2015. The decrease in cash used for capital expenditures in the current quarter is due to fewer pre-delivery deposits on aircraft made in the current period when compared to the prior year.

The table below reflects our full-year expectation for capital expenditures and additional expenditures if options are exercised. The amounts below include expenditures associated with the E175 purchase agreement entered into subsequent to March 31, 2016 and discussed in Note 11. Options will be exercised only if we believe return on invested capital targets can be met. The table below excludes any associated capitalized interest.

(in millions)	2016	2017	2018	2019
Aircraft and aircraft purchase deposits - firm	$ 485	$ 745	$ 660	$ 585
Other flight equipment	55	75	55	55
Other property and equipment	145	105	110	110
Total property and equipment additions	$ 685	$ 925	$ 825	$ 750
Option aircraft and aircraft deposits, if exercised[a]	$ 70	$ 140	$ 275	$ 675

(a) Alaska has options to acquire 46 B737 aircraft with deliveries from 2018 through 2024. Horizon has options for 33 E175 aircraft with deliveries from 2019 to 2021. Horizon also has options to acquire five Q400 aircraft with deliveries from 2018 through 2019 which we currently do not expect to exercise and related deposits are excluded from the table above.

Cash Used by Financing Activities

Net cash used by financing activities was $184 million during the first three months of 2016 compared to $149 million during the same period in 2015. During the first three months of 2016 we made debt payments of $36 million, stock repurchases of $127 million, and dividend payments totaling $34 million.

Bank Line-of-Credit Facilities

We have two $100 million credit facilities and a $52 million credit facility. Information about these facilities can be found in Note 6 in the Notes to Consolidated Financial Statements in Item 1 of this Form 10-Q. We have no immediate plans to borrow using any of these facilities.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Aircraft Purchase Commitments

As of March 31, 2016, we have firm orders to purchase 62 737 aircraft and 2 Q400 aircraft. As of March 31, 2016, we do not intend to take delivery of two Q400 aircraft that are currently contracted. We also have options to acquire 46 B737 aircraft with deliveries from 2018 through 2024 and have options to acquire five Q400 aircraft with deliveries from 2018 through 2019. In addition, as of March 31, 2016 we have options to add regional capacity by having SkyWest operate up to 8 more E175 aircraft.

Subsequent to March 31, 2016 Horizon placed a firm order for 30 Embraer E175 aircraft with deliveries from 2017 to 2019. Additionally, we have options to acquire 33 E175 aircraft with deliveries from 2019 to 2021. See discussion of this subsequent event in Note 11.

The following table summarizes expected fleet activity by year, and reflects the purchase agreement signed subsequent to March 31, 2016:

	Actual Fleet	Expected Fleet Activity[a]			
Aircraft	**Dec 31, 2015**	**2016 Changes**	**Dec 31, 2016**	**2017-2018 Changes**	**Dec 31, 2018**
737 Freighters & Combis [b]	6	—	6	(3)	3
737 Passenger Aircraft [b]	141	3	144	12	156
Total Mainline Fleet	**147**	**3**	**150**	**9**	**159**
Q400 [d]	52	—	52	(15)	37
E175 [c]	5	10	15	28	43
CRJ700 [c]	8	(8)	—	—	—
Total Regional Fleet	**65**	**2**	**67**	**13**	**80**
Total	**212**	**5**	**217**	**22**	**239**

(a) The expected fleet counts at December 31, 2016 and beyond are subject to change.

(b) 2016 change in 737 Passenger Aircraft reflects delivery of 19 737-900 aircraft, the retirement of 13 737-400 aircraft and the removal from service of three 737-700 aircraft. The three 737-700 aircraft are being converted to freighters and will return to service in 2017.
(c) Aircraft are operated under capacity purchase agreements with Horizon or other regional airlines.
(d) Excludes deliveries of two Q400 aircraft that are currently contracted. At this time we do not expect to take delivery of those aircraft.

For future firm orders, and if we exercise our options for additional deliveries, we may finance the aircraft through internally generated cash, long-term debt, or lease arrangements.

Fuel Hedge Positions

All of our current 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 benefit from a decline in crude oil prices, as there is no cash outlay other than the premiums we pay to enter into the contracts. Our crude oil positions are as follows:

	Approximate % of Expected Fuel Requirements	Weighted-Average Crude Oil Price per Barrel	Average Premium Cost per Barrel
Second Quarter 2016	50%	$66	$3
Third Quarter 2016	50%	$62	$3
Fourth Quarter 2016	40%	$61	$3
Remainder 2016	**47%**	**$63**	**$3**
First Quarter 2017	30%	$57	$3
Second Quarter 2017	20%	$55	$3
Third Quarter 2017	10%	$54	$4
Full Year 2017	**15%**	**$55**	**$3**

Contractual Obligations

The following table provides a summary of our principal payments under current and long-term debt obligations, operating lease commitments, aircraft purchase commitments and other obligations as of March 31, 2016. Such commitments do not reflect the impacts of the Embraer purchase agreement or the Virgin America merger agreement discussed in Notes 2 and 11, as these agreements were reached subsequent to quarter-end.

(in millions)	Remainder of 2016	2017	2018	2019	2020	Beyond 2020	Total
Current and long-term debt obligations	$ 79	$ 121	$ 151	$ 114	$ 116	$ 69	$ 650
Operating lease commitments[(a)]	130	194	141	132	121	614	1,332
Aircraft purchase commitments [(d)]	402	516	472	381	320	392	2,483
Interest obligations[(b)]	21	27	20	13	7	5	93
Capacity Purchase Agreements[(c)]	53	90	94	99	106	858	1,300
Total	$ 685	$ 948	$ 878	$ 739	$ 670	$ 1,938	$ 5,858

(a) Operating lease commitments generally include aircraft operating leases including those under capacity purchase agreements, airport property and hangar leases, office space, and other equipment leases.
(b) For variable-rate debt, future obligations are shown above using interest rates in effect as of March 31, 2016.
(c) Includes minimum obligations associated with third-party CPAs with SkyWest and PenAir. Refer to the "Commitments" note in the condensed consolidated financial statements for further information.
(d) Includes payments for two Q400 aircraft deliveries in 2018 that are currently contracted. However, at this time we do not expect to take delivery of those aircraft.

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 falls below $500 million. Under another such agreement, we could be required to maintain a reserve if our cash and marketable securities balance falls 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.

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 20 years to an estimated salvage value using the straight-line basis. This difference, along with other deferred liabilities and offset by deferred assets, have created a significant deferred tax liability. At some point in the future the depreciation basis will reverse, potentially resulting in an increase in income taxes paid.

Taxable income and cash taxes payable in the short term are impacted by many items, including the amount of book income generated (which can be volatile depending on revenue and fuel prices), availability of "bonus depreciation", and other legislative changes that are out of our control. We believe that we have the liquidity to make our future tax payments.

CRITICAL ACCOUNTING ESTIMATES

There have been no material changes to our critical accounting estimates for the three months ended March 31, 2016. For information on 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, 2015.

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, 2015.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2016, 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 March 31, 2016.

Changes in Internal Control over Financial Reporting

We made no changes in our internal control over financial reporting during the quarter ended March 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control 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

We are a party to routine litigation matters incidental to our business. Management believes the ultimate disposition of these matters is not likely to materially affect our financial position or results of operations. This forward-looking statement is based on management's current understanding of the relevant law and facts, and it is subject to various contingencies, including the potential costs and risks associated with litigation and the actions of judges and juries.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors affecting our business, financial condition or future results from those set forth in Item 1A."Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 except as noted below. However, you should carefully consider the factors discussed in such section of our Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Subsequent to March 31, 2016, we announced our plans to acquire Virgin America. As a result, we have identified the following risk factors relating to the pending acquisition and the combined company that may affect our business, financial condition or future results.

Risk factors relating to the pending acquisition of Virgin America

The acquisition is subject to a number of conditions to our and Virgin America's obligations, which, if not fulfilled, may result in termination of the merger agreement.

The merger agreement contains a number of customary conditions to complete the acquisition, including that certain representations and warranties be accurate, that certain covenants be fulfilled, that certain regulatory approvals have been obtained, that there are no legal prohibitions against completion of the acquisition, and that Virgin America stockholders have adopted the merger agreement. Many of the conditions to complete the acquisition are not within either Virgin America's or our control and neither of us can predict when or if these conditions will be satisfied. If any of these conditions are not satisfied or waived prior to January 1, 2017, which date may be extended to July 1, 2017 under certain circumstances, it is possible that the acquisition will not be completed in the expected time frame or that the merger agreement may be terminated.

The regulatory approvals required in connection with our pending acquisition of Virgin America may not be obtained or may contain materially burdensome conditions.

Completion of our pending acquisition of Virgin America is conditioned upon the receipt of certain regulatory approvals, and we cannot provide assurance that these approvals will be obtained. If any conditions or changes to the proposed structure of the acquisition are required to obtain these regulatory approvals, they may have the effect of jeopardizing or delaying completion of the pending acquisition or reducing the anticipated benefits of the pending acquisition. If we agree to any material conditions in order to obtain any approvals required to complete the pending acquisition, the business and results of operations of our company following the closing may be adversely affected.

Failure to complete the acquisition could negatively impact our stock price and our future business and financial results.

As described above, our and Virgin America's obligations to consummate our pending acquisition of Virgin America are subject to the satisfaction or waiver of certain customary conditions. We cannot provide assurance that the conditions to the completion of the pending acquisition of Virgin America will be satisfied in a timely manner or at all. If our pending acquisition of Virgin America is not completed, our share price could fall to the extent that our current price reflects an assumption that we will complete the pending acquisition. Furthermore, if the acquisition is not completed, our ongoing business may be adversely affected, and we will be subject to several risks, including the following:

- we will be required to pay certain costs relating to the acquisition, whether or not it is completed, such as legal, accounting, and financial advisers, which could be substantial;
- our management will have focused its attention on negotiating and preparing for the acquisition instead of on pursuing other opportunities that could have been beneficial to us;
- the failure to consummate the acquisition may result in negative publicity and a negative impression of us in the investment community; and

- any disruptions to our business resulting from the announcement of the acquisition, including any adverse changes in our relationships with our customers, partners and employees, may continue or intensify in the event the acquisition is not consummated.

We may be unable to integrate Virgin America's business with ours successfully and realize the anticipated benefits of the acquisition.

Our pending acquisition of Virgin America, if completed, will be our largest acquisition to date. The anticipated benefits we expect from the pending acquisition are, necessarily, based on projections and assumptions about the combined businesses of our company and Virgin America, which may not materialize as expected or which may prove to be inaccurate. The value of our common stock following the completion of the pending acquisition could be adversely affected if we are unable to realize the anticipated benefits from the acquisition on a timely basis or at all. Achieving the benefits of the pending acquisition of Virgin America will depend, in part, on our ability to integrate the business and operations of Virgin America successfully and efficiently with our business. The challenges involved in this integration, which will be complex and time-consuming, include the following:

- successfully managing relationships with our combined customer base and retaining Virgin America's customers;
- the inability to successfully integrate Virgin America's business with ours in a manner that permits us to achieve the synergies and other benefits anticipated to result from the acquisition;
- the challenge of integrating complex systems, operating procedures, regulatory compliance programs, technology, aircraft fleets, networks, and other assets of the two companies in a manner that minimizes any adverse impact on customers, suppliers, employees, and other constituencies;
- diversion of the attention of our and Virgin America's management and other key employees;
- the challenge of integrating the workforces of the two companies while maintaining focus on providing consistent, high quality customer service and running a safe and efficient operation;
- disruption of, or the loss of momentum in, our ongoing business;
- liabilities that are significantly larger than we currently anticipate and unforeseen increased expenses or delays associated with the acquisition, including transition costs to integrate the two businesses that may exceed the costs that we currently anticipate;
- maintaining productive and effective employee relationships and, in particular, successfully and promptly integrating seniority lists and achieving cost-competitive collective bargaining agreements that cover the combined union-represented work groups;
- limitations prior to the completion of the acquisition on the ability of management of our company and of Virgin America to conduct planning regarding the integration of the two companies;
- the increased scale of our operations resulting from the acquisition;
- retaining key employees of our company and Virgin America; and
- obligations that we will have to counterparties of Virgin America that arise as a result of the change in control of Virgin America.

If we do not successfully manage these issues and the other challenges inherent in integrating an acquired business the size of Virgin America, then we may not achieve the anticipated benefits of the acquisition of Virgin America and our revenue, expenses, operating results and financial condition could be materially adversely affected.

Each of our and Virgin America's indebtedness and other obligations are, and our indebtedness and other obligations following the completion of the acquisition will continue to be, substantial and could adversely affect our business and liquidity.

We and Virgin America have, and we expect to continue to have following the completion of the acquisition, significant amounts of indebtedness and other obligations, including pension obligations, obligations to make future payments on aircraft equipment and property leases, and obligations under aircraft purchase agreements. We expect to incur substantial additional debt in the future specifically as it relates to our payment of the approximately $2.6 billion aggregate merger consideration and to our assumption of Virgin America's indebtedness, other than related party debt. Substantial indebtedness and other obligations could have important consequences. For example, they may:

- limit our ability to obtain additional funding for capital expenditures, investments, integration costs, and general corporate purposes, and adversely affect the terms on which such funding can be obtained;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness and other obligations, thereby reducing the funds available for other purposes;

- make us more vulnerable to economic downturns and catastrophic external events;
- contain restrictive covenants that could:
    - limit our ability to merge, consolidate, sell assets, incur additional indebtedness, make investments and pay dividends; and
    - significantly constrain our ability to respond, or respond quickly, to unexpected disruptions in our operations, the U.S. or global economy, or the businesses in which we operate, or to take advantage of opportunities that would improve our business, operations, or competitive position versus other airlines; and
- limit our ability to withstand competitive pressures and reduce its flexibility in responding to changing business and economic conditions.

In addition, increases in the cost of financing could adversely affect our liquidity, business, financial condition, and results of operations.

Revised risk factors from Form 10-K

We are dependent on a limited number of suppliers for aircraft and parts.

Alaska is dependent on Boeing as its sole supplier for aircraft and many aircraft parts. Horizon is similarly dependent on Bombardier and Embraer. Additionally, each carrier is dependent on sole suppliers for aircraft engines. As a result, we are more vulnerable to any problems associated with the supply of those aircraft and parts, including design defects, mechanical problems, contractual performance by the manufacturers, adverse perception by the public that would result in customer avoidance or in actions by the FAA resulting in an inability to operate our aircraft, or instability in the foreign countries in which the aircraft and its parts are manufactured.

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

This table provides certain information with respect to our purchases of shares of our common stock during the first quarter of 2016.

	Total Number of Shares Purchased	Average Price Paid per Share	Maximum remaining dollar value of shares that can be purchased under the plan (in millions)
January 1, 2016 - January 31, 2016	461,388	$ 71.22	
February 1, 2016 - February 29, 2016	586,975	68.52	
March 1, 2016 - March 31, 2016	673,050	79.47	
Total	1,721,413	$ 73.52	$ 754

The shares were purchased pursuant to a $1 billion repurchase plan authorized by the Board of Directors in August 2015.

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/ CHRISTOPHER M. BERRY

Christopher M. Berry
Managing Director, Accounting and Controller
(Principal Accounting Officer)

May 9, 2016

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number
2.1	Agreement and Plan of Merger, dated as of April 1, 2016, by and among Virgin America Inc., Alaska Air Group, Inc. and Alpine Acquisition Corp.	8-K	April 4, 2016	2.1
10.1#†	Purchase Agreement, dated April 11, 2016, between Embraer S.A. and Horizon Air Industries, Inc.	10-Q	May 9, 2016	
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			
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
#	Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

EXHIBIT 31.1

CERTIFICATIONS

I, Bradley D. Tilden, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended March 31, 2016;

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 fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

e) 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.

May 9, 2016

By /s/ BRADLEY D. TILDEN

Bradley D. Tilden

Chairman, President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Brandon S. Pedersen, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended March 31, 2016;

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 fourth 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.

May 9, 2016

By /s/ BRANDON S. PEDERSEN

Brandon S. Pedersen

Executive Vice President/Finance and Chief Financial Officer

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 March 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bradley D. Tilden, 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.

May 9, 2016

By /s/ BRADLEY D. TILDEN

Bradley D. Tilden

Chairman, President and Chief Executive Officer

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 March 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Brandon S. Pedersen, 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.

May 9, 2016

By /s/ BRANDON S. PEDERSEN

Brandon S. Pedersen

Executive Vice President/Finance and Chief Financial Officer

PURCHASE AGREEMENT COM0041-16

between

EMBRAER S.A.

and

HORIZON AIR INDUSTRIES, INC.

INDEX

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

ATTACHMENTS

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

PURCHASE AGREEMENT COM0041-16

THIS AGREEMENT IS ENTERED INTO THIS 11th DAY OF APRIL 2016, BY AND BETWEEN EMBRAER S.A. AND HORIZON AIR INDUSTRIES, INC. FOR THE PURCHASE AND SALE OF CERTAIN EMBRAER AIRCRAFT (AS DEFINED BELOW).

THE SALE COVERED BY THIS AGREEMENT SHALL BE GOVERNED SOLELY BY THE TERMS AND CONDITIONS HEREIN SET FORTH, AS WELL AS BY THE PROVISIONS SET FORTH IN THE ATTACHMENTS HERETO.

1. INTERPRETATION

1.1. Definitions

For the purpose of this Agreement, the following definitions are hereby adopted by the Parties:

1.1.1. "Actual Delivery Date": shall mean, with respect to each Aircraft, the date on which Buyer obtains title to that Aircraft in accordance with Article 7.

1.1.2. "AD's": shall mean effective airworthiness directives issued by either the ANAC or the Airworthiness Authority, in connection with and with respect to the Aircraft.

1.1.3. "Agreement" or "Purchase Agreement": shall mean this purchase agreement and any amendments thereto.

1.1.4. "Aircraft": shall mean the EMBRAER 175 LR (certification designation: ERJ 170-200 LR) aircraft, manufactured by Embraer according to Attachment "A", for sale to Buyer pursuant to this Agreement, equipped with two engines identified therein (or, where there is more than one of such aircraft, each of such aircraft).

1.1.5. "Aircraft Basic Price": shall mean the Aircraft price, as defined in Article 3.1.

1.1.6. "Aircraft Purchase Price": shall mean the Aircraft price, effective on the relevant Aircraft Contractual Delivery Date, resulting from the application of the Escalation Formula to the Aircraft Basic Price as set forth in Article 3.3.

1.1.7. "Airworthiness Authority": shall mean the United States Federal Aviation Administration or FAA or such other entity in the United States from time to time charged with the administration of civil aviation.

1.1.8. "ANAC": shall mean the Brazilian civil aviation authority – Agência Nacional de Aviação Civil.

1.1.9. "Business Day(s)": shall mean a day on which banks are open for business in São José dos Campos and São Paulo in Brazil, Seattle and New York in the United States.

1.1.10. "Buyer": shall mean Horizon Air Industries, Inc., a company organized and existing under the laws of Washington State with its principal place of business at 19521 International Boulevard, Seattle, Washington, 98168, USA.

1.1.11. "Contractual Delivery Date": unless as otherwise provided for herein, the Contractual Delivery Date shall mean the last Working Day in the month for each Aircraft as provided for in Attachment E hereto and as referred to in Article 5.

1.1.12. "Day(s)": shall mean calendar days.

1.1.13. "Embraer": shall mean Embraer S.A., a Brazilian corporation organized and existing under the laws of Brazil with its principal place of business at Av. Brigadeiro Faria Lima, 2170, São José dos Campos, SP, Brazil.

1.1.14. "Escalation Formula": shall mean the escalation formula contained in Attachment "D".

1.1.15. "FAF": shall mean delivery of an Aircraft in fly-away-factory condition (equivalent to Ex-Works condition – Incoterms 2010 - flying from the place designated in Article 5 and cleared for export by Embraer).

1.1.16. "Initial Deposit": shall mean the aggregate initial deposit referred to in Article 4.1.1.

1.1.17. "LIBOR": for purposes of calculating any rate under this Agreement for any period for which the same is to be established, shall mean the applicable rate per annum equal to the US$ Six-Month LIBOR displayed on pages LIBOR01 or LIBOR02 of the Thomson Reuters screen (or any successor or substitute page of such screen, providing rate quotations comparable to those currently provided on such page of such screen) at 11:00 a.m. London time, in the London interbank market on the first day of such period (or if such date is not a London business day, the immediately preceding London business day) and in an amount comparable to the amount for which such rate is to be established and, if any such rate is below zero, LIBOR will be deemed to be zero. For purposes of this definition, "London business day" means any day excluding Saturday, Sunday and any day on which commercial banks in London, England are authorized or required by law to remain closed.

1.1.18. "Major Changes": shall mean the changes to the design of the Aircraft, as defined in Article 11.2.2.

1.1.19. "Mandatory Service Bulletins": shall mean the mandatory service bulletins applicable to the Aircraft, which are issued by Embraer to implement the AD's referred to in Article 11.4.

1.1.20. "Minor Changes": shall mean the changes to the design of the Aircraft defined as per the terms and conditions of Article 11.2.1.

1.1.21. "Option Aircraft" shall be the additional EMBRAER 175 aircraft that Buyer shall have the option to purchase as per the terms of Article 21.

1.1.22. "Parties": shall mean Embraer and Buyer.

1.1.23. "Product Support Package": shall mean the products and Services to be provided by Embraer as per Article 13.

1.1.24. "Scheduled Inspection Date": shall mean the date on which a certain Aircraft is available for inspection, acceptance and subsequent delivery to Buyer, as per the terms and conditions of Article 7.1.

1.1.25. "Services": shall mean the services, as defined in Article 2.3 of Attachment "B".

1.1.26. “Technical Description”: shall mean TD 175 – Rev 21 December 2015 as provided for in Attachment “A”.

1.1.27. “Technical Publications”: shall mean the technical documentation pertaining and related to the Aircraft, as identified in Article 2.2 and Exhibit 1 of Attachment “B”.

1.1.28. “USD” or “US$”: shall mean the legal currency of the United States of America.

1.1.29. “Vendor”: shall mean third party suppliers of equipment, parts, tools, ground support and test equipment to Embraer to use on or in connection with the Aircraft.

1.1.30. “Working Day(s)": shall mean a day, other than Saturday, Sunday or holiday, on which Embraer in São José dos Campos, SP, Brazil is open for business.

1.2 Construction

In this Agreement unless otherwise expressly provided:

1.2.1 words importing the plural shall include the singular and vice versa,

1.2.2 a reference to an Article, Attachment or Exhibit is a reference to an Article, Attachment or Exhibit to this Agreement, and

1.2.3 the headings in this Agreement are to be ignored in construing this Agreement.

2. SUBJECT

Subject to the terms and conditions of this Agreement:

2.1 Embraer shall sell and deliver and Buyer shall purchase and take delivery of thirty (30) Aircraft;

2.2 Embraer 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 thirty (30) Option Aircraft, in accordance with Article 21.

3. PRICE

3.1 The Aircraft Basic Price of each Aircraft is [***], in [***] economic conditions.

3.2 The Services and Technical Publications are to be provided [***]. Additional technical publications as well as other services shall be billed to Buyer (unless such services are to be provided [***] in accordance with Attachment “B”) in accordance with Embraer’s rates prevailing at the time Buyer places a purchase order for such additional technical publications or other services.

3.3 The Aircraft Basic Price shall be escalated according to the Escalation Formula. Such price as escalated shall be the Aircraft Purchase Price and it will be provided by Embraer to Buyer [***] prior to each Aircraft Contractual Delivery Date.

4. PAYMENT

4.1 To secure the Aircraft delivery positions set forth in Article 5 and to ensure delivery of Aircraft in accordance with the delivery schedule set forth in Article 5, Buyer shall pay Embraer for each Aircraft the amounts set forth in Article 3 in accordance with the terms and conditions contained in this Article 4. The Parties acknowledge that each of the Aircraft and the corresponding delivery positions have been reserved for purchase by Buyer and such Aircraft have been removed from the market. The amounts specified in Article 3 shall be paid by Buyer by wire transfer in immediately available USD funds, to a bank account to be timely informed by Embraer.

The Aircraft Purchase Price for each Aircraft shall be paid by Buyer, as follows:

[***]

4.2 In the event Buyer fails to pay any amount payable as set forth in Articles 4.1.2 through 4.1.4 hereunder on the relevant due date and thereafter [***] after receipt by Buyer of notice from Embraer of the failure to pay the required amount (the "Cutoff Date"), Buyer shall pay to Embraer immediately upon demand made from time to time interest on such amount, or any part thereof, not paid from the Cutoff Date until the date on which the same is paid in full at the rate equal to [***]. For the payments referred to under Article 4.1.5, interest shall be calculated as per Article 7.8. Without prejudice to Embraer's rights set forth in Article 4.3, interest accrued will be invoiced by Embraer [***], beginning [***] after the date on which payments should have been made, and payment thereof shall be made by Buyer in accordance with the instructions contained therein.

4.3 Without prejudice to the payment of interest on late payments set forth above, should Buyer fail to make any payment on or before the Cutoff Date referred to in Article 4.2 and if such failure shall not have been cured within [***] following the Cutoff Date, Embraer shall have the right to postpone the relevant Aircraft Contractual Delivery Date (it being understood that such postponement shall be [***]). Notwithstanding the foregoing, Embraer shall have the right to [***] if such failure shall not have been cured within [***] following the Cutoff Date.

4.4 Net payments: all payments to be made by Buyer under this Agreement shall be made without any set off or withholding whatsoever. If Buyer is obliged by law to make any deduction or withholding from any such payment, the amount due from Buyer in respect of such payment shall be increased to the extent necessary to ensure that, after the making of any such deduction or withholding, Embraer receives a net amount equal to the amount Embraer would have received had no such deduction or withholding been required to be made.

4.5 Payment Date: unless otherwise agreed by the Parties in writing, payment of the amounts referred to in Articles 4.1.2, 4.1.3 and 4.1.4, if not due within [***] of the execution of this Agreement, shall be made by Buyer on or before [***] prior to the [***] on which each of such payments is due.

4.6 Non-refundable payments: except as expressly determined otherwise in this Agreement, all payments made by Buyer to Embraer hereunder shall be non-refundable.

5. DELIVERY

Subject to payment in accordance with Article 4 and the provisions of Articles 7 and 9, Embraer shall offer the Aircraft to Buyer for inspection, acceptance and subsequent delivery in FAF condition, at Embraer premises in São José dos Campos, State of São Paulo, Brazil, [***].

6. CERTIFICATION

The EMBRAER 175 aircraft is certified by the Airworthiness Authority pursuant to the US 14CFR PART 25 certification requirements.

6.1 The Aircraft shall be newly manufactured by Embraer in compliance with Airworthiness Authority type certification and the operational requirements of the Airworthiness Authority, except for the items that are under Buyer's regulatory responsibility pursuant to the requirements of the Airworthiness Authority and are not otherwise required to be provided by Embraer under this Agreement. Buyer shall be solely responsible for determining which operational requirements of the Airworthiness Authority are to be incorporated into the Aircraft configuration and for informing Embraer thereof. All such requirements, to the extent not included in Attachment A at the time of execution of this Agreement, shall be treated in accordance with the terms and conditions of Article 11.

6.2 The Aircraft shall be delivered to Buyer with an export certificate of airworthiness issued by the ANAC for export to the United States and complying with the type certificate. The condition of the Aircraft at delivery and the documentation delivered with the Aircraft, including the above mentioned export certificate of airworthiness shall be sufficient to enable Buyer to obtain a certificate of airworthiness from the Airworthiness Authority. Subject to the above, it shall be Buyer's responsibility to obtain such certificate of airworthiness and to register the Aircraft, at Buyer's sole expense. Embraer agrees to reasonably cooperate with Buyer's requests for information and assistance in order to obtain such certificate of airworthiness and registration of the Aircraft.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

7. ACCEPTANCE AND TRANSFER OF OWNERSHIP

7.1 Unless Buyer is notified by Embraer of an Excusable or Non-Excusable Delay (as each are defined herein), the Aircraft shall be delivered to Buyer in accordance with Article 5. Embraer shall initially give Buyer [***] advance notice by e-mail or facsimile of the [***] of the Contractual Delivery Date on which Embraer considers that each Aircraft will be ready for inspection, acceptance and subsequent delivery. Furthermore, Embraer shall give Buyer [***] advance notice by e-mail or facsimile of the Day during the month of the Contractual Delivery Date on which Embraer considers that each Aircraft will be ready for inspection, acceptance and subsequent delivery. The final notification shall be issued by Embraer to Buyer [***] prior to the actual date that the Aircraft will be made available for Buyer's inspection, which date shall be defined as the "Scheduled Inspection Date", on which date Buyer shall promptly start inspecting such Aircraft.

7.2 Buyer shall be allowed a reasonable period of time but in no event greater than [***] for the [***] Aircraft delivered to Buyer and [***] for the remaining Aircraft, to inspect and conduct an acceptance flight of each Aircraft prior to its delivery. Embraer will [***] for the Aircraft acceptance flight in accordance with [***]. Buyer is entitled to have its pilots operate the acceptance flight in addition to Embraer's pilot in command.

7.3 If Buyer finds an Aircraft acceptable, Buyer shall promptly execute and deliver a certificate of acceptance of such Aircraft and pay any and all amounts then due and payable pursuant to this Agreement, including but not limited to all amounts referred to in Articles 4.1, 4.2, 7.8 and 8 as applicable. Simultaneously with receipt of the certificate of acceptance and the payments then due and payable, Embraer shall, on or before the Actual Delivery Date, issue an export certificate of airworthiness and on the Actual Delivery Date, a warranty bill of sale effecting transfer of title and risk of loss in and to the Aircraft to Buyer, free and clear of any liens and encumbrances, at which time Buyer shall promptly remove the Aircraft from the Embraer's facilities.

7.4 Buyer may decline to accept an Aircraft which does not comply with the specification set forth in Attachment "A" or is not in an airworthy condition, is not in FAF condition at Embraer premises in Sao Jose Dos Campos, [***]. For the purposes of this Article 7, an Aircraft shall be deemed not to be compliant when one or more of the Aircraft characteristics identified in Article 11.2.1 (i) through (vi) are adversely affected by such non-compliance vis-à-vis the specification set forth in Attachment "A".

7.5 If Buyer declines to accept an Aircraft, Buyer shall give Embraer written notice of all specific reasons for such refusal within [***] inspection period permitted above and Embraer shall [***] to take all necessary actions in order to resubmit the Aircraft to Buyer for re-inspection, which in any case shall [***] after receipt of such notice from Buyer.

7.6 Buyer shall be allowed [***] to re-inspect the Aircraft, commencing on the first Working Day after receipt of notice from Embraer that all necessary actions were taken. In the event Buyer declines to accept an Aircraft after this procedure is carried out [***], the Parties shall convene immediately following final refusal to accept the Aircraft in order to negotiate possible solutions. If within [***] immediately after the date in which Embraer receives notice of such final refusal to accept the Aircraft, Embraer and Buyer fail to reach an agreement in writing, then either Party may terminate this Agreement with respect to the affected Aircraft without liability to either Party, except that Embraer [***].

7.7 Should Buyer fail to perform the acceptance and transfer of title to the Aircraft or to give Embraer written notice of specific reasons for refusal, within the periods provided for and in accordance with this Article 7, Embraer shall be entitled, at its discretion, to either [***]. Embraer's rights to [***] this Agreement shall only become effective if such default of Buyer has not been cured within [***] counted from the [***], subject to Articles 7.5 and 7.6 above.

7.8 Notwithstanding the provisions of Article 7.7 and in addition to Embraer's rights pursuant to Article 20.3, should Buyer fail to perform the acceptance and transfer of title to the Aircraft within the time period specified in Articles 7.2, 7.3, 7.5 and 7.6, as applicable, and provided Embraer has tendered the Aircraft as contemplated by this Agreement, interest will accrue at the rate equal to [***] calculated over the unpaid balance of the relevant Aircraft Purchase Price, prorated from the date on which Buyer should have completed the inspection or re-inspection of the Aircraft, as the case may be, until the date in which transfer of title occurs or until the date Embraer terminates this Agreement pursuant to Article 7.7, whichever occurs first. Without prejudice to Embraer's rights set forth in Article 7.7, interest accrued will be invoiced by Embraer on a [***], beginning [***] after the date on which the Aircraft acceptance or transfer of title should have been performed, and payment thereof shall be made by Buyer in accordance with the instructions contained therein.

8. STORAGE CHARGE

8.1 A storage charge equal to [***] per Day, subject to [***] for an Aircraft, shall be charged by Embraer to Buyer commencing on:

8.1.1 Buyer's failure to perform inspection or re-inspection (as applicable) of the Aircraft, per the date or time period specified in writing by Embraer, according to Article 7; or

8.1.2 Buyer's acceptance of an Aircraft when Buyer defaults in the fulfillment of any payment due and in taking title to such Aircraft immediately thereafter; or

8.1.3 Buyer's failure to remove an Aircraft from Embraer's facilities after title transfer has occurred.

*	Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

8.2 If however, Buyer notifies Embraer in writing [***] in advance of its expected delay in the performance of its obligations set forth in Articles 8.1.1, 8.1.2 and 8.1.3 above, the storage charge shall commence on the [***] after the occurrence of the events set forth in Articles 8.1.1, 8.1.2 or 8.1.3 above, as applicable.

8.3 In the event that the Aircraft Contractual Delivery Date must be extended by Embraer due to Buyer's failure to perform any action or provide any information contemplated by this Agreement, the storage charge shall commence on the [***] after the original Contractual Delivery Date relative to such Aircraft.

8.4 Subject to [***], Buyer shall pay the storage charge as set forth in Articles 8.1. or 8.3., as applicable, in USD, per each month of delay or prorated for any part thereof, within [***] after the presentation of each invoice by Embraer.

9. DELAYS IN DELIVERY

9.1 Excusable Delays:

9.1.1 Embraer shall not be held liable or be found in default for any delays in the delivery of an Aircraft beyond the Contractual Delivery Date or in the performance of any act to be performed by Embraer under this Agreement, resulting from, but not restricted to, the following events or occurrences (hereinafter referred to as "Excusable Delays"): [***].

9.1.2 Within [***] Excusable Delays which may cause delays in the delivery of an Aircraft beyond the Contractual Delivery Date or in the performance of any act or obligation to be performed by Embraer under this Agreement, Embraer agrees [***].

9.1.3 [***].

9.1.4 If such Excusable Delay lasts longer than [***] or the cause of such Excusable Delay renders the performance of this Agreement impossible with respect of one or more specific undelivered Aircraft, then the Parties shall attempt to renegotiate the terms of this Agreement during the [***] following (i) the expiration of such [***], or (ii) the date it is determined that performance of the Agreement is impossible. In the event that the Parties fail to agree on such terms within [***], Buyer shall have the right to terminate this Agreement with respect to the affected Aircraft without liability to either Party, except as provided for in Article 20.2(i). If such Excusable Delay [***], then either Party shall have the right to terminate this Agreement with respect to the affected Aircraft, without liability to either Party, except as provided for in Article 20.2(i).

9.1.5 If the cause of such Excusable Delay is attributable to Buyer in accordance with [***], Buyer shall not be entitled to terminate this Agreement in accordance with Article 9.1.4 and upon a termination by Embraer the provisions of Article 20.3 shall apply.

*	Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

9.2 Non-Excusable Delays:

9.2.1 If the delivery of an Aircraft is delayed, and such delay does not constitute an Excusable Delay (hereinafter referred to as "Non-Excusable Delays"), by more than [***] after the Contractual Delivery Date for such Aircraft, [***].

9.2.2 Upon the occurrence of any event which could constitutes a Non-Excusable Delay in the delivery of an Aircraft, Embraer agrees to send a written notice to Buyer, within a reasonable period of time which in any case shall not be greater than [***] after Embraer [***] determines that an event has occurred and that event may cause an Non-Excusable Delay, including a description of the event and an estimate of the effects expected upon the timing of delivery of the Aircraft. To the extent that a Non-Excusable Delay for an affected Aircraft lasts longer than [***], Buyer shall have the right to terminate this Agreement with respect to such affected Aircraft with such election to be made within [***]. Termination by Buyer under this Article 9.2.2 shall be without liability to either Party, except as provided for in Article 20.2 (ii).

9.2.3 It is agreed between the Parties that for any Aircraft that is subject to (i) a Non-Excusable Delay, (ii) a Delay Due to Loss or Structural Damage of the Aircraft as set forth in Article 9.3 below, or (ii) an Excusable Delay for which notice of such delay was provided by Embraer to Buyer less than [***] before the Contractual Delivery Date of such Aircraft, the Escalation Formula used to determine the Aircraft Purchase Price of such Affected Aircraft shall be [***] the Actual Delivery Date.

9.2.4 It is further agreed between the Parties that if, with respect to a delayed Aircraft, Embraer does not receive [***], from Buyer, within [***] the Contractual Delivery Date of such Aircraft, Buyer shall be deemed to have [***].

9.3 Delay Due to Loss or Structural Damage of the Aircraft

If, before delivery thereof an Aircraft is lost, destroyed or, in the reasonable opinion of Embraer in consultation with Buyer, is damaged beyond economic repair (“Total Loss”), then Embraer will notify Buyer to this effect [***]. Embraer will specify in its notice, [***], the earliest date that an aircraft to replace the Aircraft may be delivered to Buyer and [***] Embraer, and (ii) the Parties execute an amendment to this Agreement recording the modification in the Contractual Delivery Date.

If this Agreement terminates in relation to an Aircraft in accordance with this Article 9.3, such termination shall discharge the Parties from all obligations and liabilities hereunder with respect to such Aircraft and related Services, except that Embraer shall, at its expense, return to Buyer (i) any moneys paid by Buyer towards the purchase of such Aircraft, no interest accrued and (ii) any Buyer Furnished Equipment (as defined in Attachment “A” hereto) delivered by Buyer to Embraer for such Aircraft.

*	Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

10. [***] DELIVERY INSPECTION

10.1 At any time and from time to time after the date which is [***] the relevant Contractual Delivery Date while an Aircraft [***] the delivery inspection and acceptance of each Aircraft in accordance with Article 7, Buyer may, at Buyer's sole discretion, send up to [***] authorized representatives (the "Authorized Representatives") to the facilities of Embraer [***] Aircraft. Buyer shall communicate to Embraer the names of its Authorized Representatives, by means of written notice, at least [***] prior to each such date that Buyer intends to send Authorized Representatives [***].

10.2 In order to perform the delivery inspection and acceptance of each Aircraft in accordance with Article 7, Buyer shall send up to [***] Authorized Representatives to the facilities of Embraer. Buyer shall communicate to Embraer the names of its Authorized Representatives, by means of written notice, at least [***] prior to each relevant Aircraft Contractual Delivery Date specified in Article 5.

10.3 The Authorized Representatives sent to perform the delivery inspection and acceptance of each Aircraft in accordance with Article 10.2, may be authorized and duly empowered to sign the acceptance and transfer of title and risk documents and accept delivery of the Aircraft pursuant to Article 7. For the sake of clarity, Buyer's representative for purpose of Article 10.3 need not be on site at Embraer's facilities for purposes of delivery, at Buyer's sole discretion.

10.4 For the purposes subject hereof, Embraer shall provide communication facilities (telephone, facsimile and internet connection) and access to a private office in the Embraer delivery center for Buyer's Authorized Representatives, as well as the necessary tools, measuring devices, test equipment and technical assistance as may be necessary to perform acceptance tests. Embraer shall also make available to Authorized Representatives (i) free transportation between Embraer facilities and hotel in Sao Jose dos Campos during normal working hours on the relevant Working Days (with transportation before or after normal working hours to be as mutually agreed), and (ii) free lunch at the canteen at Embraer facilities on Working Days.

10.5 Buyer's Authorized Representatives shall observe Embraer's administrative rules and instructions while at Embraer's facilities. Embraer agrees to provide notice to Buyer of any changes to such administrative rules and instructions.

10.6 Buyer's Authorized Representatives shall be allowed exclusively in those areas of Embraer's facility related to the subject matter hereof. Buyer agrees to hold harmless Embraer from and against all and any kind of liabilities in respect to such Authorized Representatives, for whom Buyer is solely and fully responsible under all circumstances and in any instance, except to the extent they arise from the gross negligence or the willful misconduct of Embraer, its officers, employees and agents.

11. CHANGES

11.1 Each Aircraft will comply with the standards defined in Attachment “A” hereto and shall incorporate all modifications which are classified as AD’s mandatory by ANAC or the Airworthiness Authority as provided in Article 11.4, and those agreed upon by Buyer and Embraer in accordance with this Article.

11.2 The Parties hereby agree that changes can be made by Embraer in the design of the Aircraft, the definition of which and its respective classification shall be in compliance to the Aircraft type specification, as follows:

11.2.1 Minor Changes: defined as those modifications which shall not adversely affect the Aircraft in any of the following characteristics:

[***]

11.2.2 Major Changes: defined as those modifications which affect at least one of the topics mentioned in Article 11.2.1.

11.3 Embraer shall have the right, but not the obligation, to incorporate Minor Changes in the Aircraft still in the production line at its own cost, without the prior consent of Buyer. [***].

11.4 Embraer shall convey those Major Changes that are classified as AD’s by means of service bulletins approved by the Airworthiness Authority and/or ANAC, as appropriate. Service bulletins that implement such AD’s shall be referred to as Mandatory Service Bulletins. Embraer shall incorporate Mandatory Service Bulletins as follows:

11.4.1 Compliance required before Contractual Delivery Date: Embraer shall incorporate Mandatory Service Bulletins in undelivered Aircraft at Embraer’s expense [***] if the compliance time for such Mandatory Service Bulletins is before Contractual Delivery Date of an Aircraft. Embraer shall not be liable for any delays resulting from incorporation of Mandatory Service Bulletins when the Aircraft has already passed the specific production stage affected by the incorporation of said change but Embraer shall [***] incorporate such changes prior the Actual Delivery Date and to minimize any delays in delivery.

11.4.2 Compliance required [***]: For a period of (i) [***], Embraer shall [***]. When flight safety is affected, such changes shall be immediately incorporated. If warranty coverage is not available or applicable pursuant to the terms of Attachment “C”, the provisions of Article 11.5 shall apply.

[***]

11.5 Except for the Major Changes referred to in Article 11.4, any other Major Changes such as (i) any change developed by Embraer as product improvement, (ii) any change required by Buyer in relation to the Aircraft configuration, (iii) any change in the certification regulations presented in the Technical Description, which are required by the Airworthiness Authority as a consequence of alterations, amendments and/or innovations of these applicable regulations, or (iv) any change due to alterations, amendments and/or innovations of legal requirements by other authorities (including without limitation environmental authorities) that have the effect of rendering Aircraft parts obsolete or non-compliant, shall be considered as optional and Embraer shall submit to Buyer a Proposal of Major Change ("PMC") describing the impacts of such change. Should Buyer not approve such PMC, the change shall not be incorporated in the Aircraft.

11.6 Any Major Change to the Aircraft, made in accordance with the foregoing paragraphs, which affect the provisions of Attachment "A" hereto, shall be incorporated in said Attachment by means of an amendment to this Agreement.

11.7 Except as far as it relates to AD's mandatory by ANAC or the Airworthiness Authority and Minor Changes, the Aircraft shall, on the Scheduled Inspection Date, comply with the terms and conditions of Attachment "A" as from time to time amended pursuant to Article 11.6. Determination of such compliance shall [***].

11.8 [***].

11.9 [***].

12. WARRANTY [***]

12.1. Warranty: the materials and workmanship relative to the Aircraft subject of this Agreement will be warranted exclusively in accordance with the terms and conditions specified in Attachment "C".

12.2 [***]: Embraer hereby [***] to Buyer [***] exclusively in accordance with the terms and conditions specified in [***].

13. PRODUCT SUPPORT PACKAGE

Embraer shall supply to Buyer the Product Support Package described in Article 2 of Attachment "B" hereto, which includes Embraer's spare parts policy, the Technical Publications and the Services.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

14. ASSIGNMENT

14.1 Assignment of rights and obligations: Buyer may not assign, novate or transfer any of its rights or obligations hereunder without the prior written consent of Embraer, provided however that Buyer (x) shall have the right to assign [***] under this Agreement with respect to any Aircraft with [***] prior notice to Embraer to an [***] and (y) may assign its [***] that shall acquire such Aircraft for the purpose of [***] with [***] prior notice to Embraer and Buyer shall [***] such Aircraft with [***].

14.2 The Product Support Package, as identified in Article 13, shall not be assigned or transferred to any third party, [***], in connection with the transfer of title, possession or operation of any Aircraft.

14.3 Assignment of warranties [***]: if Buyer wishes to transfer or assign the warranty contained in Attachment “C” [***] to a third party in connection with the transfer of title, possession or operation of any Aircraft, Buyer shall obtain the prior written consent of Embraer, [***]. Notwithstanding the [***], Buyer may upon [***] prior written notice to Embraer assign to [***] that is [***] acquisition of an Aircraft the warranties contained in Attachment “C”, [***].

14.4 [***].

14.5 [***], this Agreement, as well as the warranty [***], shall not be assigned to [***], any person or entity which the Parties may be legally restricted to enter in to an agreement, to a debarred person or entity or in case such assignment would infringe US export control regulations or any other applicable law.

15. RESTRICTIONS AND PATENT INDEMNITY

15.1 Claims against Buyer. Subject to the limitations and conditions set forth herein, including, without limitation Article 15.2, Embraer shall indemnify Buyer with respect to all claims, lawsuits, and liabilities based upon or arising from any suit, action, proceeding, or allegation that:

(a) Any product or service purchased from or supplied by Embraer hereunder or any portion thereof (collectively, for the purposes of this Article 15, "Item") and/or the use or operation thereof constitutes an alleged or actual infringement of any granted or registered United States or foreign patent ("Patent Claim"), provided that from the time of design of such Item and until such Patent Claim is resolved, each of the country in which the relevant patent is held and the flag country of the Aircraft is a party to (1) the Paris Convention for the Protection of Industrial Property as amended and (2) Article 27 of the Chicago Convention on International Civil Aviation of December 7, 1944, or

(b) Aircraft software and accompanying documentation and manuals (collectively, for purposes of this Article 15, “Software”), or any part of such Aircraft Software furnished by Embraer, constitutes an alleged or actual infringement of any United States or foreign copyright rights or misappropriates any third party trade secret right under U.S. law or other foreign law ("Copyright Claim"), provided that from the time of design of such Software and until such Copyright Claim is resolved, each of the country in which the infringement claim is made and the flag country of the Aircraft is a member of the Berne Convention for the Protection of Literary and Artistic Works as amended and both countries recognize Software as a “work” under the Berne Convention.

15.1.1 Embraer’s indemnification provided in this Article 15 shall not apply to Buyer furnished or installed equipment, Items or Software not installed, used or maintained in accordance with all instructions and procedures of Embraer (as may be modified by Embraer from time-to-time), any Buyer-furnished or requested designs or any Buyer modification of any Item or Software.

15.2 Limitations and Conditions. Buyer shall give prompt written notice to Embraer of the receipt of a notice of a suit or action against Buyer alleging a Patent Claim or Copyright Claim covered by this Article 15 or of a written notice alleging a Patent Claim or Copyright Claim covered by this Article 15, whichever occurs earlier. Failure to notify Embraer as provided herein shall relieve Embraer of liability that it may have to Buyer to the extent that the defense of any such Patent Claim or Copyright Claim is prejudiced thereby.

At all times, Embraer shall have the right, at its option and expense, to negotiate with any party alleging a Patent Claim or Copyright Claim, assume or control the defense to any allegation of a Patent Claim or Copyright Claim, including without limitation, the right to bring a declaratory judgment or similar action, intervene in any action involving a Patent Claim or Copyright Claim, and/or attempt to resolve a Patent Claim or Copyright Claim by replacing or modifying an Item or Software.

Buyer shall promptly furnish to Embraer all information, documents, records, and assistance within Buyer’s possession, custody or control as requested by Embraer that Embraer considers potentially relevant or material to any allegation covered by this Article 15. Buyer shall co-operate with Embraer and shall, upon Embraer’s reasonable request and at Embraer’s expense, arrange for the attendance of representatives of Buyer at depositions, hearings, trials, and the like, and assist in effecting settlements, securing and giving evidence, obtaining the attendance of witnesses and in the conduct of any suits or actions covered by this Article 15.

Buyer shall obtain Embraer’s written approval prior to paying, agreeing to pay, assuming any obligation or making any material concession relative to any Patent Claim or Copyright Claim.

Embraer shall assume and pay any and all judgments and all costs assessed against Buyer in a final non-appealable judgment of any suit or action, and Embraer will make all payments in settlement imposed upon or incurred by Buyer with Embraer’s [***].

EMBRAER SHALL HAVE NO OBLIGATION OR LIABILITY UNDER THIS ARTICLE 15 FOR ANY LOSS OF USE, REVENUE OR PROFIT, OR FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES. THE OBLIGATIONS AND REMEDIES OF BUYER SET FORTH IN THIS ARTICLE 15 ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND

BUYER HEREBY WAIVES, RELEASES AND RENOUNCES, ALL OTHER INDEMNITIES, OBLIGATIONS AND LIABILITES OF EMBRAER AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES OF BUYER AGAINST EMBRAER, EITHER EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY ACTUAL OR ALLEGED INFRINGEMENT OF ANY INTELLECTUAL PROPERTY RIGHT BY ANY PRODUCT OR SERVICE PROVIDED UNDER THIS AGREEMENT.

16. MARKETING PROMOTIONAL RIGHTS

Embraer shall have the right [***], to show for marketing purposes, free of any charge, the image of Buyer's Aircraft, painted with Buyer's colors and emblems, affixed in photographs, drawings, films, slides, audiovisual works, models or any other medium of expression (pictorial, graphic, digital, electronic and sculptural works), through all communications media including but not limited to billboards, magazines, newspaper, television, movie, theaters, as well as in posters, catalogues, models and all other kinds of promotional material. In the event that Buyer is no longer operating a fleet of E175 Aircraft, this Article 16 shall cease to be in effect and Embraer will stop using any of Buyer's colors and emblems for any promotional or marketing purposes without the prior written consent of Buyer.

17. TAXES

Embraer shall [***]. All other [***], shall be borne by Buyer.

18. APPLICABLE LAW

This Agreement shall in all respects be governed by the laws of the State of New York, including all matters of construction, validity and performance, without giving effect to principles of conflicts of laws other than sections 5-1401 and 5-1402 of the New York General Obligations law.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

19. JURISDICTION

Each Party hereto hereby irrevocably agrees, accepts and submits to, for itself and in respect of any of its property, generally and unconditionally, the exclusive jurisdiction of the courts of the State of New York in the City and County of New York and of the United States for the Southern District of New York, in connection with any legal action, suit or proceeding with respect to any matter relating to or arising out of or in connection with this Agreement or any other operative agreement and fully waives any objection to the venue of such courts. Furthermore to the fullest extent permitted by applicable law, each Party hereby waives, and agrees not to assert, by way of motion, as a defense, or otherwise, in any such suit, action or proceeding any claim that it is not personally subject to the jurisdiction of the above named courts, that the suit, action or proceeding is brought in an inconvenient forum, or that the venue of the suit, action or proceeding is improper.

EACH PARTY HERETO HEREBY EXPRESSLY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW ANY RIGHT IT MAY HAVE TO A JURY TRIAL IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY.

20. TERMINATION

20.1 Should either Party fail to comply partially or completely with its obligations hereunder, the other Party shall be entitled to give notice of such failure and to require that such failure be remedied within the period specified in that notice, which period shall not be less than [***]. Should such failure not be remedied within the period so specified, then the Party who gave notice of such failure shall be entitled to terminate this Agreement. Should termination occur in accordance with the foregoing, [***]. NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN, NEITHER PARTY SHALL BE LIABLE TO THE OTHER PARTY IN ANY CIRCUMSTANCE HEREUNDER FOR ANY CONSEQUENTIAL DAMAGES, LOSS OF PROFITS, LOSS OF REVENUE, LOSS OF USE AND INCREASED COSTS, OR PUNITIVE DAMAGES OR INDIRECT OR INCIDENTAL DAMAGES WHICH MAY ARISE OUT OF, OR BE CONNECTED TO, ANY BREACH OR DEFAULT UNDER OF ANY TERM, CONDITION, COVENANT, WARRANTY, OR PROVISION OF THIS AGREEMENT, AND WHICH EITHER PARTY WOULD OTHERWISE BE ENTITLED TO UNDER ANY APPLICABLE LAW, INCLUDING BUT NOT LIMITED TO ANY CLAIMS SOUNDING IN CONTRACT, TORT, EQUITY OR STATUTE.

20.2 This Agreement may be terminated in respect of the relevant Aircraft,

a) by Buyer upon the occurrence of any Excusable Delay as provided for in Article 9.1.4;

*	Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

b) by Embraer upon the occurrence of any Excusable Delay as provided for in Article 9.1.4;

c) by Buyer upon the occurrence of any Non-Excusable Delay as provided for in Article 9.2.2;

The above termination rights in regard to Excusable Delay and Non-Excusable Delay shall be exercisable by written notice from the relevant Party to the other to such effect [***] relevant time period as specified in Articles 9.1.4 and 9.2.2, as applicable.

Upon receipt of such notice of termination by Buyer or Embraer, as the case may be, Embraer shall:

(i) in case of Excusable Delay: [***].

(ii) in case of Non-Excusable Delay: [***].

20.3 If Buyer terminates this Agreement before the Actual Delivery Date of an Aircraft [***]. It is hereby agreed by the Parties that upon the receipt by Embraer of the amounts set forth above in full, [***].

20.4 If either Party terminates this Agreement in respect to an Aircraft pursuant to Article 7.6 hereof, [***].

20.5 In the event this Agreement [***].

21. OPTION AIRCRAFT

Subject to the payment of the Option Aircraft initial deposit set forth in Article 21.1, Buyer shall have the option to purchase thirty-three (33) additional Option Aircraft, to be delivered in accordance with the Option Aircraft contractual delivery dates contained in item 2 of Attachment "E" to this Agreement (each an "Option Aircraft Contractual Delivery Date"). The Option Aircraft will be supplied in accordance with the following terms and conditions:

21.1 A [***] Option Aircraft initial deposit of [***] per Option Aircraft, is due and payable [***] of this Agreement (the "Option Aircraft Initial Deposit").

21.2 The unit basic price of each Option Aircraft shall be equal to the unit Aircraft Basic Price, provided that such Option Aircraft be delivered within the delivery period above mentioned and in the same configuration, specification and installations specified in Attachment "A" hereto, as it is written on the date of signature of this Agreement, determining each Option Aircraft basic price (the "Option Aircraft Basic Price").

21.3 The Option Aircraft Basic Price shall be escalated according to the escalation formula subject of Attachment "D" hereto, determining each Option Aircraft purchase price (the "Option Aircraft Purchase Price").

*	Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

21.4 The option to purchase the Option Aircraft shall be exercised in [***] of Option Aircraft as follows: [***] no later than [***] prior to the first Business Day of the first Option Aircraft Contractual Delivery Date in each [***] (with Option Aircraft Contractual Delivery Dates [***]); and no later than [***] prior to the delivery of the first Option Aircraft [***] (with Option Aircraft Contractual Delivery Dates [***]). Exercise of the option to purchase the Option Aircraft shall be accomplished by means of a written notice from Buyer to Embraer, return receipt requested, specifying the Option Aircraft in [***] in respect of which Buyer is exercising its option. Buyer may acquire some or all the Option Aircraft [***] Option Aircraft shall [***]. Any Option Aircraft not exercised by Buyer as per the terms and conditions of this paragraph will be considered relinquished, no damages being due by either Party to the other, [***].

21.5 The payment of the Option Aircraft Purchase Price shall be made according to the following:

[***]

21.6 If the options are confirmed by Buyer as specified above, an amendment to this Agreement shall be executed by and between the Parties within [***] following the Option Aircraft exercise date, setting forth the terms and conditions applicable to, if any, exclusively to the Option Aircraft.

21.7 The product support package to be applied to the Option Aircraft is described in Article 2.4 of Attachment "B".

22. INDEMNITY

To the extent permitted by law, Buyer agrees to indemnify and hold harmless Embraer, its subsidiaries, affiliates, and their respective officers, directors, agents, employees, representatives and assignees (“Indemnified Parties”) from and against all liabilities, damages, losses, judgments, claims and suits, including costs and expenses incident thereto, which may be suffered by, accrued against, be charged to or recoverable from the Indemnified Parties by reason of loss or damage to property, including the Aircraft, or by reason of injury or death of any person resulting from or in any way connected with the performance of Services by the Indemnified Parties for or on behalf of Buyer related to Aircraft delivered by Embraer, performed while on the premises of Embraer or Buyer, while in flight or while performing any such activities, at any place, in conjunction with [***] ("Indemnified Services") but for those liabilities, damages, losses, judgments, claims and suits which are [***].

23. NOTICES

All notices permitted or required hereunder shall be in writing in the English language and sent, by registered mail or facsimile, to the attention of the Vice President, Contracts – Commercial Aviation as to Embraer and of the Treasurer as to Buyer, to the addresses indicated below or to such other address as either Party may, by written notice, designate to the other.

23.1 EMBRAER:

EMBRAER S.A.

Av. Brigadeiro Faria Lima, 2170

12.227-901 São José dos Campos – SP - Brazil

Telephone: [***]

Facsimile: [***]

23.2 BUYER:

HORIZON AIR INDUSTRIES, INC.

19521 International Boulevard

Seattle, Washington - USA

Telephone: [***]

Facsimile: [***]

24. CONFIDENTIALITY

Neither Party has the right to disclose the terms of this Agreement except as required by law. Each of Buyer and Embraer agrees not to disclose any portion of this Agreement or its Attachments, amendments or any other supplement, to any third party without the previous written consent of the other Party. Without limiting the foregoing, in the event either Party is legally required to disclose the terms of this Agreement, that Party shall notify the other Party (where permitted by law) reasonably in advance of such disclosure and exert its best efforts to request and obtain confidential treatment of the articles, terms and conditions of this Agreement relevantly designated by the other Party as confidential. In the event this Agreement is terminated, whether in whole or in part, this Article 24 shall survive such termination. Embraer agrees to cooperate reasonably with Buyer in preparing any redactions to this Agreement for purposes of public filing in accordance with applicable securities laws and regulations.

25. FOREIGN CONTENT

The Aircraft contains commodities, technology and software that were exported from the United States and other countries in accordance with their respective export control regulations. Diversion contrary to U.S. law and/or any other applicable law is prohibited.

Buyer agrees to comply with any export and re-export control laws of the United States and other countries applicable to the Aircraft, its parts, components, technology and software and, upon Embraer's request, to execute and deliver to Embraer the relevant end-user certificates necessary for the export and transfer of the Aircraft to Buyer.

26. COMPLIANCE WITH LAWS

Each Party represents to the other Party that in connection with the negotiation, execution and performance under this Agreement it: (i) has acted in good faith and with business integrity towards the other Party and any third parties, (ii) complies with anti-corruption and anti-money laundering laws applicable to such Party to the extent that they apply to such Party's obligations and activities stated in this Agreement, (iii) such Party has a code of ethics (or equivalent document) and an anti-corruption policy (or equivalent document) (collectively, "Code") consistent with internationally accepted ethical and anti-corruption standards, which guides the conduct of its officers and employees, and (iv) such Party maintains internal procedures reasonably designed and conceived to enforce and promote the compliance with the anti-corruption provisions of its Code. The foregoing representations are made on a continuing basis and shall hold true until termination or expiration of this Agreement.

Each Party represents to the other Party that (i) such Party has not and will not offer, promise or give to any employee, officer, official, agent or representative of the other Party any amount of money, personal services, credit or other thing of value, save where not in violation of any of the following: (a) laws which apply or may apply to this Agreement or to such Party generally, or (b) reasonably accepted standards of conduct and practices; and (ii) such Party has not and will not offer, promise or give to, or request or demand from, any employee, officer, official, agent or representative of the other

Party any payment or thing of value which can potentially impact a business decision of the other Party in the context of this Agreement or the subject matter hereof.

27. SEVERABILITY

If any provision or part of a provision of this Agreement or any of the Attachments shall be, or be found by any authority or court of competent jurisdiction to be, illegal, invalid or unenforceable, such illegality, invalidity or unenforceability shall not affect the other provisions or parts of such provisions of this Agreement, all of which shall remain in full force and effect.

28. NON-WAIVER

Except as otherwise specifically provided to the contrary in this Agreement, any Party's refrain from exercising any claim or remedy provided for herein shall not be deemed a waiver of such claim or remedy, and shall not relieve the other Party from the performance of such obligation at any subsequent time or from the performance of any of its other obligations hereunder.

29. INTEGRATED AGREEMENT

All Attachments referred to in this Agreement and/or attached hereto are, by such reference or attachment, incorporated in this Agreement.

30. NEGOTIATED AGREEMENT

Buyer and Embraer agree that this Agreement, including all of its Attachments, has been the subject of discussion and negotiation and is fully understood by the Parties, and that the rights, obligations and other mutual agreements of the Parties contained in this Agreement are the result of such complete discussion and negotiation between the Parties.

31. COUNTERPARTS

This Agreement 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 Agreement may be signed by facsimile with originals to follow by an internationally recognized courier.

32. ENTIRE AGREEMENT

This Agreement constitutes the entire agreement of the Parties hereto with respect to the subject matter hereof and supersedes all previous and connected negotiations, representations and agreements between the Parties. This Agreement may not be altered, amended or supplemented except by a written instrument executed by the Parties.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers and to be effective as of the day and year first above written.

EMBRAER S.A.   HORIZON AIR INDUSTRIES, INC.

By: ___/s/ Luis Carlos Affonso___________   By: __/s/ Mark Eliasen______

Name: Luis Carlos Affonso   Name: Mark Eliasen

Title: Chief Operating Officer   Title: Treasurer

Commercial Aviation

By: __/s/ Adriana Sarlo_________________

Name: Adriana Sarlo

Title: Vice President, Contracts

Commercial Aviation

Place: Sao Jose dos Campos, Brazil   Place: Seattle, WA, U.S.A.

Witnesses:

___/s/ Fernando Bueno________________   ___/s/ Jennifer C. Thompson____

Name: Fernando Bueno   Name: Jennifer C. Thompson

ID: [***]   ID: Assistant Corporate Secretary

ATTACHMENT "A"

AIRCRAFT CONFIGURATION

1. STANDARD AIRCRAFT

The EMBRAER 175 Aircraft shall be manufactured according to (i) the standard configuration specified in the Technical Description TD 175 – Rev 21 (the “TD”), December 2015, which although not attached hereto, is incorporated herein by reference, and (ii) the characteristics described in the items below.

The Parties agree that this Attachment shall be amended to reflect the then available Technical Description [***].

2. OPTIONAL EQUIPMENT

[***]

[***]

[***]

[***]

[***]

Seats		
Class	Count/Mode	Details
FC	12 First	2 seats @ [***] 1 seat @ {***. 9 seats @ 37" pitch
YC	64 Slim Plus	2 seats @ [***] 2 seats @ [***] 12 seats @ 34" pitch 28 seats @ 31" pitch

** Pitch In Class Divider

NOTES:

[***]

[***]

3. EXTERIOR FINISHING

The fuselage of the Aircraft shall be painted according to Buyer’s colour and paint scheme, which shall be supplied to Embraer by Buyer on or before [***] prior to the first Aircraft contractual delivery date. The wings and the horizontal stabilizer shall be supplied in the standard colours, i.e., grey BAC707.

Once defined, the choices of colour and paint scheme made by Buyer shall apply to all Aircraft. If Buyer requires a colour and paint scheme for any Aircraft that is different from the original one informed to Embraer, Buyer shall provide written notice to Embraer not less than [***] prior to the relevant Aircraft contractual delivery date and Embraer will submit the relevant quotation to the approval of Buyer within [***] from the date such request is received by Embraer, provided that Buyer shall have the right to [***] for the entire Aircraft order of thirty (30) Firm Aircraft [***], subject to the aforementioned conditions. Should Buyer not approve the quotation, the relevant Aircraft shall be painted in according to the original paint and colour scheme.

4. INTERIOR DETAILING

Buyer shall inform Embraer up to the customer check list definition (“CCL”), to be held no later than [***] Aircraft contractual delivery date, of its choice of materials and colours of all and any item of interior furnishing including seat covers, carpet, floor lining and curtain, and trim and finishing, emergency equipment and galley inserts from the choices offered by and available at Embraer. In case Buyer opts to use different part numbers of equipment, inserts, materials and/or patterns, Embraer will submit to Buyer a Proposal of Major Change (“PMC”) describing the impacts of such option, if any. Should Buyer not approve such PMC, the interior shall be built according to the choices offered by and available at Embraer. Once defined, the choices of trim and finishing, emergency equipment and galley inserts made by Buyer shall apply to all Aircraft. If Buyer requires trim and finishing, emergency equipment or galley inserts for any Aircraft that is different from the original one informed to Embraer, Buyer shall present a written request to Embraer not less than [***] prior to the relevant Aircraft contractual delivery date and Embraer will submit the relevant quotation to the approval of Buyer within [***] from the date such request is received by Embraer. Should Buyer not approve the quotation, the interior of relevant Aircraft shall be built according to the original choice of Buyer.

5. BUYER FURNISHED EQUIPMENT (BFE) AND BUYER INSTALLED EQUIPMENT (BIE)

The first Aircraft will have electrical galley inserts, such as ovens, coffee makers, hot jugs and water boilers as BFE for certification purpose. Buyer shall deliver such electrical inserts, in DDP conditions (Incoterms 2010), to C&D Zodiac – 14 Centerpointe Drive, La Palma, CA 90623, USA, or to another place to be timely informed by Embraer.

The trolleys, standard units and the equipment classified as operational requirements shall be BIE items.

Medical kits, defibrillators and wheelchairs, as well as any other equipment classified as medical or pharmaceutical product, shall be acquired by Buyer and installed on the Aircraft by Buyer after delivery thereof.

For the second Aircraft and on, the BFE and BIE items and installations as well as the associated technical and commercial impacts shall be as agreed in the Purchase Agreement.

6. EMBRAER RIGHT TO PERFORM FOR BUYER

If after written notice from Embraer, Buyer fails to, within [***] of such notice, to choose or define the exterior, interior finishing, emergency equipment and/or galley inserts of any Aircraft or fails to inform Embraer of its choice or definition within [***] period, Embraer shall have the right to tender the Aircraft for delivery, as the case may be, with a white overall fuselage colour, fitted with an interior finishing selected by Embraer, and/or with provisions/installation for emergency equipment and galley inserts from the choices available at Embraer, at its reasonable discretion.

In any such cases, no compensation to Buyer or reduction shall be applied in the relevant Aircraft Basic Price. Buyer agrees hereby that any action taken by Embraer pursuant to this Article shall not constitute a waiver or release of any obligation of Buyer under the Purchase Agreement, nor a waiver of any event of default which may arise out of Buyer's non performance of such obligation, nor an election or waiver by Embraer of any remedy or right available to Embraer under the Purchase Agreement. Further, Embraer shall be entitled to charge Buyer for reasonable expenses incurred by Embraer in connection with the performance of or compliance with such agreement, as the case may be, payable by Buyer within [***] from the presentation of the respective invoice by Embraer to Buyer.

7. REGISTRATION MARKS, TRANSPONDER AND ELT CODES:

The Aircraft shall be delivered to Buyer with the registration marks painted on them. The registration marks, the transponder code and ELT protocol coding shall be supplied to Embraer by Buyer no later than [***] before each relevant Aircraft contractual delivery date. Embraer shall be entitled to tender the Aircraft for delivery to Buyer without registration marks, with an inoperative transponder and without setting the ELT protocol coding in case Buyer fails to supply such information to Embraer in due time.

8. EXPORT CONTROL ITEMS

The Aircraft contains IRU (Inertial Reference Unit) manufactured by Honeywell International, which is subject to export control under United States of America law. The Aircraft contains an IESI (Integrated Electronic Standby Instrument System) model manufactured by Thales which is not subject to export control, however in the event this IESI model is replaced by any IESI with the QRS-11 gyroscopic microchip, such component is subject to export control under United States of America law.

Transfer or re-export of such items (whether or not incorporated into the Aircraft), as well as their related technology and software may require prior authorization from the US Government.

IT IS HEREBY AGREED AND UNDERSTOOD BY THE PARTIES THAT IF THERE IS ANY CONFLICT BETWEEN THE TERMS OF THIS ATTACHMENT “A” AND THE TERMS OF THE TECHNICAL DESCRIPTION ABOVE REFERRED, THE TERMS OF THIS ATTACHMENT “A” SHALL PREVAIL.

ATTACHMENT "B"

FERRY FLIGHT ASSISTANCE AND PRODUCT SUPPORT PACKAGE

1. FERRY FLIGHT ASSISTANCE

1.1 Embraer will make available to Buyer, [***], the services of a third party representative at the airport in which the Aircraft will make the last stop in Brazilian territory, to assist Buyer's crew in the interface with Brazilian customs clearances. Such services do not include handling services such as refueling, ground equipment and communications and Buyer shall hire such services from a handling service company. Buyer shall also be responsible for the [***] and overflight permits required for the ferry flight.

If it is necessary that any ferry equipment be installed by Embraer in the Aircraft for the ferry flight between Brazil and final destination, Embraer will make available, upon Buyer's written request, a standard and serviceable ferry equipment to Buyer (hereinafter the "Kit") [***], except as set forth below. In this case, Buyer shall immediately upon the Aircraft arrival at its final destination, remove the Kit from the Aircraft and return it to a freight forwarder agent as determined by Embraer, in FCA (Free Carrier - Incoterms 2015) condition.

In case Embraer provides the Kit to Buyer and irrespective of whether (i) the Kit is utilized, whether totally or not, such decision to be taken in Embraer's reasonable discretion, or (ii) the Kit is not used and is not returned to Embraer freight forwarder agent complete and in the same condition as it was delivered to Buyer within [***] after Aircraft arrival in final destination, Buyer shall pay Embraer the value of a new Kit upon presentation of an invoice by Embraer and then the original Kit shall become the property of Buyer. In addition, the availability of another Kit for the next occurring Aircraft ferry flight after such period shall not be an Embraer obligation.

2. PRODUCT SUPPORT PACKAGE

2.1 MATERIAL SUPPORT

2.1.1. SPARES POLICY

Embraer guarantees the supply of spare parts, ground support equipment and tooling, except engines and their accessories, hereinafter referred to as "Spare(s)", for the Aircraft for a period of [***] after production of the last aircraft of the same [***]. Such Spares shall be supplied according to the prevailing availability, sale conditions, delivery schedule and effective price on the date of acceptance by Embraer of a purchase order placed by Buyer for any of such items. The Spares may be supplied either by Embraer in Brazil or through its subsidiaries or distribution centers located abroad.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

The sale and export of Spares to Buyer may be subject to export controls and other export documentation requirements of the United States and other countries. Buyer agrees that neither Embraer nor any of its subsidiaries, affiliates or Vendors shall be liable for failure to provide Spares and/or services, including without limitation the Services, under this Agreement or otherwise as a result of any ruling, decision, order, license, regulation, or policy of the competent authorities prohibiting the sale, export, re-export, transfer, or release of a Spare or its related technology. Buyer shall comply with any conditions and requirements imposed by the competent authorities and, upon Embraer's request, shall execute and deliver to Embraer any relevant end-user certificates.

Export of (i) IESI (Integrated Electronic Standby Instrument System) manufactured by Thales Avionics with an embedded QRS-11 gyroscopic microchip used for emergency backup and flight safety information and (ii) IRU (Inertial Reference Unit) manufactured by Honeywell International are subject to export control under United States law. Transfer or re-export of such items, as well as their related technology and software, may require prior authorization from the U.S. Government.

2.1.2. RSPL

Upon Buyer's request, Embraer shall present to Buyer a recommended Spare provisioning list (the "RSPL"). The objective of the RSPL is to provide Buyer with a detailed list of Spares that will be necessary to support the initial operation and maintenance of the Aircraft by Buyer. Such recommendation will be based on the experience of Embraer and on the operational parameters established by Buyer.

Embraer will, at its cost and expense, provide a qualified team to attend pre-provisioning conferences as necessary to discuss Buyer requirements and the RSPL as well as any available spare parts support programs offered by Embraer. Such meeting shall be held at a mutually agreed upon place and time, but in no event less than [***] prior to the Contractual Delivery Date of the first Aircraft.

Buyer may acquire the Spares contained in the RSPL directly from Embraer or directly from Vendors. Spares contained in the RSPL for which Buyer places a purchase order with Embraer (the "IP Spares") will be delivered by Embraer to Buyer within [***], at a fill rate of [***], in FCA (Free Carrier - Incoterms 2015) condition, at the port of clearance indicated by Embraer. Embraer shall use [***] to achieve [***] fill rate not less [***] after Buyer places a purchase order with Embraer.

In order to ensure the availability of IP Spares in accordance with the foregoing at the time of entry into service of the first Aircraft, Buyer shall place a purchase order with Embraer for those IP Spares Buyer has decided to acquire from Embraer, as soon as practical and in any event not less than [***] prior to the Contractual Delivery Date of the first Aircraft. At the reasonable request of

Embraer, Buyer shall demonstrate that it has acquired or ordered IP Spares from sources other than Embraer to complement the RSPL in a timely manner.

2.1.3. OTHER SPARES SERVICES

AOG services: Embraer will maintain a call center for the AOG services, twenty four (24) hours a day, seven (7) days a week. All the contacts with the call center can be made through regular direct lines in Brazil (phone and fax), e-mail and also through the FlyEmbraer e-commerce system in case Buyer subscribes to this service. The information concerning regular direct lines and e-mail address shall be obtained through the Customer Account Manager designated to Buyer by Embraer or through Embraer's Customer Service offices.

Embraer will, subject to availability, deliver Spares requested as AOG orders in FCA (Free Carrier – Incoterms 2010) condition, at the Embraer's facility nearest to the Buyer's premises informed in Buyer's shipping instructions.

Routine and/or critical Spares: Embraer will deliver routine and/or critical Spares (other than AOG Spares) in FCA condition, Embraer's facility, from the location were such Spares are available. Routine and/or critical Spares shall be delivered according to their lead times, depending upon the purchase order priority. All Spares will be delivered with the respective authorized release certificate or any similar document issued by a duly authorized person.

2.2 AIRCRAFT TECHNICAL PUBLICATIONS:

2.2.1. EMBRAER PUBLICATIONS [***]

Embraer shall provide [***] a license to access the operational and maintenance publications applicable thereto, through the web-based FlyEmbraer portal or any successor portal ("FlyEmbraer"). Such operational and maintenance publications will be issued under the applicable specification, in the English language (the "Technical Publications").

Embraer shall provide [***]:

[***]

Such access to the Technical Publications [***] is conditioned upon Buyer's full acceptance of the FlyEmbraer on-line terms and conditions (the "FlyEmbraer Agreement"), by a person legally qualified to do so, as appointed in writing (by an email message) by Buyer.

[***]

[***] extra hardcopy of mandatory operational publications will be supplied on board of each Aircraft solely for the purpose of supporting the delivery flight and this copy will not be revised by Embraer at anytime.

2.2.2. VENDOR PUBLICATIONS

The technical publications regarding parts, systems or equipment supplied by Vendors and installed by Embraer in the Aircraft during the manufacturing process, will be supplied to Buyer directly by such Vendors, in their original content and available format/media and/or on-line access, as the case may be, [***]. Vendors are also responsible to keep publications updated through a direct communication system with Buyer. Embraer shall use commercially reasonable efforts to cause Vendors to supply their respective technical publications in a prompt and timely manner.

2.2.3. [***]

2.3 SERVICES

[***], except as set forth below, Embraer shall provide the Services described in this Article 2.3, in accordance with the terms and conditions below:

2.3.1 Familiarization Programs:

a. The familiarization programs specified below are offered [***], except for any travel, board and lodging expenses of Buyer's trainees and except for any operational and incidental expenses related to training requirements of Buyer, whether imposed by the Airworthiness Authority or other authority of Buyer**'s** country having jurisdiction, and which differ from or are supplementary to the familiarization programs described herein.

b. The familiarization programs shall, at Embraer's election, be conducted by Embraer, Flight Safety International or other Embraer designated training provider, in accordance with the scope, syllabi and duration of the training program developed by Embraer, Flight Safety International or other Embraer-designated training provider. Such familiarization programs shall be in accordance with all applicable regulations and requirements of and approved by the Airworthiness Authority. Buyer may choose to use the training programs "as is" or to develop its own training programs. In any case Buyer shall be solely responsible for preparing and submitting its training programs to the Airworthiness Authority for approval.

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c. All familiarization programs shall be provided at the training centers of Embraer, Flight Safety International or other Embraer designated training provider at its respective training center in the United States or in such other location in the United States as Embraer, Flight Safety International or other Embraer designated training provider may reasonably indicate. Buyer shall be responsible for all costs and expenses related to the training services (including but not limited to instructor travel tickets, local transportation, lodging, per diem and non-productive days), in the event Buyer requires that any training services be carried outside such indicated training facilities.

d. Notwithstanding the eventual use of the term “training” in this paragraph 2.3.1, the intent of this program is solely to familiarize Buyer’s pilots, mechanics, employees or representatives with the operation and maintenance of the Aircraft. It is not the intent of Embraer to provide basic training (“ab-initio”) to any representatives of Buyer.

e. Any trainee appointed by Buyer for participation in any of the familiarization programs shall be duly qualified per the governing body in the country of Buyer’s operation and fluent in the English language as all training will be conducted in, and all training material will be presented in, such language. Pilots and mechanics shall also have [***] in the [***], as applicable, of [***] or, [***], of [***]. Neither Embraer, Flight Safety International nor other Embraer designated training provider make any representation or give any guarantee regarding the successful completion of any training program by Buyers trainees, for which Buyer is solely responsible.

f. The familiarization programs shall be carried out prior to the Contractual Delivery Date of the last Aircraft, in accordance with a schedule to be agreed upon by Buyer and Embraer not less than [***] prior to the intended beginning of such training schedule. Buyer shall give [***] advance notice to Embraer of the full name and professional identification data of each trainee. Substitutions of appointed trainees shall be permitted with the reasonable prior approval of Embraer or Flight Safety International or other Embraer designated training provider.

g. Training entitlements regarding each Aircraft that remain unused up to [***] following the Actual Delivery Date of the last Aircraft to Buyer shall expire and Buyer shall be deemed to have fully waived its rights to such service, on refund or compensation being due by Embraer to Buyer in this case.

h. The familiarization programs referred to above covers:

h.1 [***] pilot familiarization program for up to [***] pilots per Aircraft including (i) ground familiarization [***] and, (ii) [***] simulator sessions of [***] each, totalling [***] per trainee, half in the right-hand seat and half in the left-hand seat, which shall be performed in groups of [***] Buyer’s pilot per session. Simulator training includes the services of an instructor and will be carried out on [***]. Buyer shall be solely responsible for selecting experienced training pilots that are fluent in English and duly qualified in multi-engine aircraft operations, navigation and communication.

h.2 [***] maintenance familiarization course for up to [***] qualified mechanics per Aircraft each entitled to one of the following modules to be chosen by Buyer:

[***]

This program shall consist of classroom familiarization with Aircraft systems and structures and shall be in accordance with ATA specification 104, level III.

h.3 [***] qualified flight attendant familiarization program for up to [***] of Buyer’s representatives per Aircraft. This program shall consist of classroom familiarization [***], including a general description of Aircraft safety procedures and flight attendant control panels.

h.4 [***] familiarization program on fault history database (FHDB) analysis for [***] groups up to [***] engineers and/or maintenance personnel each (total of [***] trainees for the entire transaction). This program is conducted on Buyer’s site and shall consist of [***] classroom to enable Buyer’s engineers and maintenance personnel to perform an optimized usage of central maintenance computer and FHDB functionalities and to troubleshoot failures based on best practices.

h.5 Total of [***] mechanics entitled to the engine run-up & taxiing familiarization course with [***] classroom duration plus [***] simulator sessions. The mechanics shall have previously concluded the maintenance familiarization program described above.

h.6 Total of [***] flight dispatchers entitled to the flight dispatcher familiarization course with [***] classroom duration, including familiarization with aircraft systems, flight planning, weight and balance and dispatch publications.

h.7 Aircraft general familiarization for [***] groups up to [***] Buyer’s representatives each (total of [***] trainees for the entire transaction). This course shall be performed at Embraer’s facility in Brazil or any other location designated by Embraer and shall consist of [***] classroom duration, dedicated to operational personnel as well as management staff.

i. The presence of Buyer’s authorized trainees shall be allowed exclusively in those areas of Embraer’s facilities related to the training hereof and Buyer agrees to hold harmless Embraer from and against all and any kind of liabilities in respect of such trainees to the extent permitted by law.

j. In the event that Buyer does not use [***], as described in [***]:

[***]

2.3.2 On site support:

a.Embraer shall provide the following on site support services:

a.1 [***] field support representative (“FSR”) to stay at Buyer’s main maintenance base for a period of [***] beginning on the Actual Delivery Date of the first Aircraft.

Such FSR shall be indicated or substituted by Embraer at its sole discretion. The FSR shall assist Buyer`s technicians and mechanics on the Aircraft maintenance during its initial operation

a.2 [***]

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

b. [***], Buyer shall provide such FSR [***] (hereinafter defined as "Embraer Rep") with communication services (international telephone line, facsimile, internet service and photocopy equipment) as well as suitable secure and private office facilities and related equipment including desk, table, chairs and file cabinet, located at Buyer's main base of operation or other location as may be mutually agreed by the Parties. Buyer shall also (a) arrange all necessary work permits such as support for visa issuance, local pilot's license validation and airport security clearances required for Embraer Rep, to permit the accomplishment of the Services mentioned in this item 2.3.2, in due time; and (b) obtain all necessary custom clearances both to enter and depart from Buyer's country for Embraer's Rep [***].

c. During the stay of the Embraer Rep at Buyer's facilities, Buyer shall permit access to the maintenance and operation facilities as well as to the technical data and technical files of Buyer's Aircraft fleet.

d. Embraer shall [***] of the Embraer Rep, including without limitation transportation, board and lodging, while the Embraer Rep is rendering such on site support at Buyer's main facility. Buyer shall bear all expenses related to the transportation, board & lodging of the Embraer Rep in the event any Embraer Rep is required to render the Services provided for herein in any place other than Buyer's main operation base (for the pilots) or main maintenance base (for the mechanics). [***], Buyer shall provide to the Embraer's pilots transportation from/to Buyer operational base or airport where such pilots will render the Services, so that the pilots can report to Buyer's operation facilities or leave the airport in a timely manner according to the schedule of the flights they are engaged in.

e. The Embraer Rep shall not participate in test flights or flight demonstrations without the previous written authorization from Embraer.

f. Buyer shall include Embraer as additional insured in its Hull and Comprehensive Airline Liability insurance policies in accordance with the clauses contained in Exhibit "1" to this Attachment. Buyer shall supply Embraer with a certificate evidencing such endorsements to the insurance policies prior to the date of which the Services are to begin (provided however that Buyer shall make its commercial reasonable efforts to supply Embraer with such certificate [***] prior to the date of which the Services are to begin (and at each renewal of Buyer Hull and Comprehensive Airline Liability insurance).

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g. The Parties further understand and agree that in the event Buyer elects not to take all or any portion of the on site support provided for herein, no refund or other financial adjustment of the Aircraft Basic Price will be made since such on site support is offered at no charge to Buyer. Any other additional on site support shall depend on mutual agreement between the Parties and shall be charged by Embraer accordingly.

h. The presence of Embraer Rep shall be allowed exclusively in those areas related to the subject matter hereof and Embraer agrees to hold harmless Buyer from and against all and any kind of liabilities in respect of such Embraer Rep to the extent permitted and required by law.

i. Embraer may, at its own cost and without previous notice to Buyer, substitute at its sole discretion the Embraer Reps rendering the Services at any time during the period in which Services are being rendered.

j. The rendering of the Services by Embraer’s Rep shall, at all times, be carried out in compliance with the applicable labor legislation.

k. During the rendering of the Services, while on the premises of Buyer, Embraer Reps shall strictly follow the administrative routines and proceedings of Buyer, which shall have been expressly and clearly informed to Embraer Reps upon their arrival at said premises.

l. Embraer shall have the right to interrupt the rendering of the Services (i) should any situation occur which, at the sole discretion of Embraer, could represent a risk to the safety or health of Embraer Reps or (ii) upon the occurrence of any of the following events: strike, insurrection, labor disruptions or disputes, riots, or military conflicts. Upon the occurrence of such an interruption, Embraer shall resume the rendering of the Services for the remainder period immediately after having been informed by Buyer, in writing, of the cessation thereof. No such interruption in the rendering of the Services shall give reason for the extension of the Services beyond the periods identified above.

2.3.3 Account Manager:

Embraer shall assign [***] Account Manager to support Buyer shortly after execution of the Purchase Agreement and to support the operations of all Aircraft in Buyer's fleet in revenue service for passenger transportation. The Account Manager will be responsible for coordinating all product support related actions of Embraer aiming to assure a smooth Aircraft introduction into service and, thereafter, for concentrating and addressing all issues concerning the operation of the Aircraft by Buyer. A team composed of regional technical representatives, regional spare parts representatives and regional field engineers, as necessary and applicable, shall support the Account Manager.

2.3.4 Remote Technical and Engineering Support

Embraer shall provide remote technical and engineering support services, twenty-four (24) hours a Day and seven (7) Days a week, for airframe and systems. This service may be accessed by phone, fax and e-mail at the main facilities of Embraer and is designed to support daily operations of the Aircraft by Buyer by assisting Buyer with the identification and investigation of the causes of in-services issues and during AOG situations, as required. This service is offered at no charge to Buyer within such scope and is available for as long as Buyer continues to operate the Aircraft type in regular passenger revenue service.

Technical and engineering support is also available to assist Buyer in performing structural repairs on the Aircraft. Such assistance consists of the analysis of damage reports submitted by Buyer, preparation of instructions for repair in accordance with structural repair standard of Embraer. This support shall be provided [***].

2.4 PRODUCT SUPPORT PACKAGE FOR THE OPTION AIRCRAFT

The product support package for the Option Aircraft shall be [***] per Option Aircraft.

EXHIBIT 1 - SPECIAL INSURANCE CLAUSES

Buyer shall include the following clauses in its Hull and Comprehensive Airline Liability insurance policies:

a) Hull All Risks Policy, including War, Hi-jacking and Other Perils.

[***]

b) Comprehensive Airline Liability Policy [***].

[***]

c) Notwithstanding anything to the contrary as specified in the Policy or any endorsement thereof, the coverage stated in paragraphs a) and b) above, shall not be cancelled or modified by the Insurer, without [***] advance written notice to Embraer to such effect.

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ATTACHMENT "C"
WARRANTY - MATERIAL AND WORKMANSHIP

1) Embraer, subject to the conditions and limitations hereby expressed, warrants the Aircraft subject of the Purchase Agreement, as follows:

   a. For a period of [***] from the date of delivery to Buyer, the Aircraft will be free from:

      - Defects in materials, workmanship and manufacturing processes in relation to parts manufactured by Embraer or by its subcontractors holding an Embraer part number;

      - Defects inherent to the design of the Aircraft and its parts designed or manufactured by Embraer or by its subcontractors holding an Embraer part number.

   b. For a period of [***] from the date of delivery to Buyer, the Aircraft will be free from:

      - Defects in operation of parts manufactured by Vendors, excluding the Engines, Auxiliary Power Unit (APU) and their accessories ("Vendor Parts"), as well as failures of Vendor Parts due to incorrect installation or installation not complying with the instructions [***]. For the purpose of this warranty, Engine shall mean the complete power plant system which comprises the engine, the nacelle including thrust reverser, the engine mounting structure, all systems inside the nacelle and their integration with the Aircraft, and the Full Authority Digital Engine Control (FADEC) unit.

      - Defects due to non-conformity of Vendor Parts to the technical specification referred to in the Purchase Agreement.

   Once the above mentioned periods have expired, Embraer will transfer to Buyer the original Warranty issued by the Vendors, if it still exists.

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2) The obligations of Embraer as expressed in this Warranty are limited to replacing or repairing defective parts and related systems if damaged by such defects as determined by Embraer based, upon its own reasonable judgment. The defective parts shall be returned to Embraer or its Representatives (“Representatives”, as used herein, is defined as subsidiaries or affiliates of Embraer in the United States or repair shops in the United States authorized by Embraer to repair parts under warranty) within a period of [***] after the discovery of the defect, adequately packed, provided that such components are actually defective and that the defect has occurred within the periods stipulated in this certificate. Should the defective part not be returned to Embraer within such [***] period, Embraer may have the right, at its sole discretion, to deny the warranty claim.

NOTE: Notification of any defect claimed under this item 2 must be given to Embraer within [***] after such defect is found. Such notification shall be sent by email to the warranty department of Embraer (email: [***]) and shall contain the following information:

. Aircraft serial number and registration number;
. part number;
. serial number;
. date of failure (if unknown, date of discovery);
. short description of the failure and reason for removal.

For the warranty claims which Embraer deems valid, in compliance with the terms and conditions of this Attachment “C”, [***].

Parts supplied to Buyer as replacement for defective parts are warranted for the balance of the warranty period still available from the original warranty of the exchanged parts.

3) Embraer will accept no warranty claims under any of the circumstances listed below:

a. When the Aircraft has been used in an attempt to break records, or subjected to experimental flights, or in any other way not in conformity with the flight manual or the airworthiness certificate, or subjected to any manner of use in contravention of the applicable aerial navigation or other regulations and rules, issued or recommended by government authorities of whatever country in which the aircraft is operated, when accepted and recommended by I.C.A.O.;

b. When the Aircraft or any of its parts have been altered or modified by Buyer, without prior approval from Embraer or from the manufacturer of the parts through a service bulletin;

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c. Whenever the Aircraft or any of its parts have been involved in an accident, or when parts either defective or not complying to manufacturer's design or specification have been used;

d. Whenever parts have had their identification marks, designation, seal or serial number altered or removed;

e. In the event of negligence, misuse or maintenance services done on the Aircraft, or any of its parts not in accordance with the respective maintenance manual;

f. In cases of deterioration, wear, breakage, damage or any other defect resulting from the use of inadequate packing methods when returning items to Embraer or its representatives.

4) This Warranty does not apply to [***].

5) The Warranty hereby expressed is established between Embraer and Buyer, and it cannot be transferred, assigned or novated to any third party, except as provided otherwise pursuant to Article 14 (Assignment) of the Purchase Agreement.

6) TO THE EXTENT PERMITTED BY LAW, THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF EMBRAER AND REMEDIES OF BUYER SET FORTH IN THIS WARRANTY CERTIFICATE ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND BUYER HEREBY WAIVES, RELEASES AND RENOUNCES, ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF EMBRAER AND ANY ASSIGNEE OF EMBRAER AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES OF BUYER AGAINST EMBRAER OR ANY ASSIGNEE OF EMBRAER, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY NON-CONFORMANCE OR DEFECT OR FAILURE OR ANY OTHER REASON IN ANY AIRCRAFT OR OTHER THING DELIVERED UNDER THE PURCHASE AGREEMENT OF WHICH THIS IS AN ATTACHMENT, INCLUDING DATA, DOCUMENT, INFORMATION OR SERVICE, INCLUDING BUT NOT LIMITED TO:

a. ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;

b. ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;

c. ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY IN TORT, WHETHER OR NOT ARISING FROM THE NEGLIGENCE OR OTHER RELATED CAUSES OF EMBRAER OR ANY ASSIGNEE OF EMBRAER, WHETHER ACTIVE, PASSIVE OR IMPUTED; AND

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d. ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OF OR DAMAGE TO ANY AIRCRAFT, FOR LOSS OF USE, REVENUE OR PROFIT WITH RESPECT TO ANY AIRCRAFT OR FOR ANY DIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES.

7) No representative or employee of Embraer is authorized to establish any other warranty than the one hereby expressed, nor to assume any additional obligation, relative to the matter, in the name of Embraer and therefore any such statements eventually made by, or in the name of Embraer, shall be void and without effect.

ATTACHMENT "D"

ESCALATION FORMULA

[***]

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ATTACHMENT "E"

AIRCRAFT DELIVERY SCHEDULE

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

Firm Aircraft	Delivery Date	Firm Aircraft	Delivery Date
01	[***] 2017	16	[***]
02	[***]	17	[***]
03	[***]	18	[***]
04	[***]	19	[***]
05	[***]	20	[***]
06	[***]	21	[***]
07	[***]	22	[***]
08	[***]	23	[***]
09	[***]	24	[***]
10	[***]	25	[***]
11	[***]	26	[***]
12	[***]	27	[***]
13	[***]	28	[***]
14	[***]	29	[***]
15	[***]	30	[***] 2019

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ATTACHMENT "E"

AIRCRAFT DELIVERY SCHEDULE

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

Option Aircraft	Option Aircraft	Option Aircraft Delivery Date	Option Aircraft	Option Aircraft	Option Aircraft Delivery Date
[***]	1	[***] 2019		19	[***]
	2	[***]	[***]	20	[***]
	3	[***]		21	[***]
[***]	4	[***]		22	[***]
	5	[***]		23	[***]
	6	[***]		24	[***]
	7	[***]		25	[***]
	8	[***]	[***]	26	[***]
[***]	9	[***]		27	[***]
	10	[***]		28	[***]
	11	[***]		29	[***]
	12	[***]		30	[***]
	13	[***]		31	[***]
[***]	14	[***]		32	[***]
	15	[***]		33	[***] 2021
	16	[***]			
	17	[***]			
	18	[***]			

[***]

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ATTACHMENT "F"

EMBRAER 175 - [***]

[***]

Fleet Size: After the Aircraft fleet ramp up [***] to be delivered in accordance with the following delivery schedule:

Aircraft Number	Contractual Delivery Date	Aircraft Number	Contractual Delivery Date
01	[***] 2017	16	[***]
02	[***]	17	[***]
03	[***]	18	[***]
04	[***]	19	[***]
05	[***]	20	[***]
06	[***]	21	[***]
07	[***]	22	[***]
08	[***]	23	[***]
09	[***]	24	[***]
10	[***]	25	[***]
11	[***]	26	[***]
12	[***]	27	[***]
13	[***]	28	[***]
14	[***]	29	[***]
15	[***]	30	[***] 2019

[***]

ATTACHMENT "G"

EMBRAER 175 - [***]

[***]

Fleet Size: A [***], to be delivered in accordance with the following delivery schedule:

Aircraft Number	Contractual Delivery Date	Aircraft Number	Contractual Delivery Date
01	[***] 2017	16	[***]
02	[***]	17	[***]
03	[***]	18	[***]
04	[***]	19	[***]
05	[***]	20	[***]
06	[***]	21	[***]
07	[***]	22	[***]
08	[***]	23	[***]
09	[***]	24	[***]
10	[***]	25	[***]
11	[***]	26	[***]
12	[***]	27	[***]
13	[***]	28	[***]
14	[***]	29	[***]
15	[***]	30	[***] 2019

[***]

SCHEDULE 1 TO ATTACHMENT "G"

EMBRAER 175 - [***]

[***]

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ATTACHMENT "H"

[***]

[***]

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ATTACHMENT "I"

[***]

[***]

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LETTER AGREEMENT COM0042-16

INDEX

SCHEDULES:

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LETTER AGREEMENT COM0042-16

This Letter Agreement COM0042-16 (this "Letter Agreement") dated April 11th, 2016 is an agreement by and between Embraer S.A. ("Embraer") with its principal place of business at São José dos Campos, SP, Brazil and Horizon Air Industries, Inc. ("Buyer") with its principal place of business at 19521 International Boulevard, Seattle, Washington, 98188, USA, collectively known as the “Parties”, and relates to Purchase Agreement COM0041-16 entered into by Embraer and Buyer on even date herewith (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 Letter Agreement and the Purchase Agreement, the provisions of this Letter Agreement shall prevail.

WHEREAS:

a) Pursuant and subject to the terms and conditions of the Purchase Agreement, Buyer shall buy and EMBRAER shall sell thirty (30) EMBRAER 175 LR aircraft (the “Firm Aircraft”) and Buyer shall have the right to purchase up to thirty (30) options EMBRAER 175 LR aircraft (the “Option Aircraft”) (collectively, the “Aircraft”).

b) Embraer and Buyer wish to set forth the additional agreements with respect to certain matters related to the purchase of the Aircraft.

NOW, THEREFORE, for good and valuable consideration, the Parties agree as follows:

1. [***]

2. [***]

3. SPARE PARTS [***]

Embraer agrees that Buyer will [***].

4. SPARE PARTS [***]

Embraer agrees that Buyer will [***].

5. [***]

6. [***]

7. [***]

8. [***]

9. [***] SUPPORT

Embraer shall provide the [***] Support to Buyer, as per Schedule “B” to this Letter Agreement.

10. [***]

11. EXPORT CONTROL

Export of parts and services described in the Purchase Agreement or this Letter Agreement may be subject to export controls and other export documentation requirements of the United States and other countries. Buyer agrees that neither Embraer nor any of its subsidiaries or affiliates shall be liable for failure to provide parts and/or services as a result of any ruling, decision, order, license, regulation, or policy of the competent authorities prohibiting the export, re-export, transfer, or release of a part listed in this Letter Agreement or its related technology. Buyer shall comply with any conditions and requirements imposed by the competent authorities and, upon Embraer’s request, shall execute and deliver to Embraer any relevant end-user certificates.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

12. COMPLIANCE WITH LAWS

Each Party represents to the other Party that it has complied, and will continue to comply, with relevant anti-corruption and anti-money laundering laws to the extent that they apply to such Party's obligations and activities stipulated herein. Each Party further represents that, in all matters relating hereto, it has acted, and will continue to act in strict compliance with internationally accepted ethical and business integrity standards. Each Party represents to the other Party that (i) such Party has a code of ethics (or functionally equivalent document) and/or an anti-corruption policy (or functionally equivalent document) ("Code") which guides the conduct of its officers and employees, (ii) such Code contains anti-corruption provisions consistent with internationally accepted ethical and business integrity standards, and (iii) such Party maintains internal procedures reasonably designed and conceived to enforce and promote the compliance with the anti-corruption provisions of the Code, which includes, inter alia, training, monitoring, auditing and disciplining provisions.

13. REINSTATEMENT OF THE PURCHASE AGREEMENT

All other terms and conditions of the Purchase Agreement which have not been expressly amended or modified by this Letter Agreement shall remain valid, in full force and effect as and to the extent provided therein without any change as the result of this Letter Agreement.

14. COUNTERPARTS

This Letter Agreement may be signed 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 Letter Agreement may be signed by facsimile with originals to follow by an internationally recognized courier.

LETTER AGREEMENT COM0042-16

IN WITNESS WHEREOF, Embraer and Buyer, by their duly authorized officers, have entered into and executed this Letter Agreement to be effective as of the date first written above.

EMBRAER S.A.   HORIZON AIR INDUSTRIES, INC.

By: ___/s/ Luis Carlos Affonso___________   By: __/s/ Mark Eliasen______

Name: Luis Carlos Affonso   Name: Mark Eliasen

Title: Chief Operating Officer   Title: Treasurer

Commercial Aviation

By: __/s/ Adriana Sarlo_________________

Name: Adriana Sarlo

Title: Vice President, Contracts

Commercial Aviation

Place: Sao Jose dos Campos, Brazil   Place: Seattle, WA, U.S.A.

Witnesses:

___/s/ Fernando Bueno________________   ___/s/ Jennifer C. Thompson____

Name: Fernando Bueno   Name: Jennifer C. Thompson

SCHEDULE "A"

[***]

[***]

*	Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

SCHEDULE "B"

EMBRAER 175 - [***] SUPPORT

[***]

*	Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.