UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from to

Commission File Number 1-8957

ALASKA AIR GROUP, INC.

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

19300 International Boulevard, Seattle, WA 98188

Telephone: (206) 392-5040

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

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

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

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

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

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

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

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

The registrant has 125,310,668 common shares, par value $0.01, outstanding at October 29, 2021.

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

ALASKA AIR GROUP, INC.
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2021

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Cautionary Note Regarding Forward-Looking Statements

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

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements are based on the information currently available to us and speak only as of the date on which this report was filed with the SEC. We expressly disclaim any obligation to issue any updates or revisions to our forward-looking statements, even if subsequent events cause our expectations to change regarding the matters discussed in those statements. For a discussion of our risk factors, see Item 1A. "Risk Factors" of the Company's annual report on Form 10-K for the year ended December 31, 2020, and Item 1A. "Risk Factors" of Part II of this Form 10-Q. Please consider our forward-looking statements in light of those risks as you read this report.

PART I

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

(in millions)	September 30, 2021	December 31, 2020
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 495**	$ 1,370
Marketable securities	**2,700**	1,976
Total cash and marketable securities	**3,195**	3,346
Receivables - net	**536**	480
Inventories and supplies - net	**62**	57
Prepaid expenses, assets held-for-sale, and other current assets	**208**	123
Total Current Assets	**4,001**	4,006
Property and Equipment		
Aircraft and other flight equipment	**8,076**	7,761
Other property and equipment	**1,446**	1,398
Deposits for future flight equipment	**378**	583
	9,900	9,742
Less accumulated depreciation and amortization	**3,780**	3,531
Total Property and Equipment - Net	**6,120**	6,211
Operating lease assets	**1,370**	1,400
Goodwill	**1,943**	1,943
Intangible assets - net	**102**	107
Other noncurrent assets	**346**	379
Other Assets	**3,761**	3,829
Total Assets	**$ 13,882**	$ 14,046

CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

(in millions, except share amounts)	September 30, 2021	December 31, 2020
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 181**	$ 108
Accrued wages, vacation and payroll taxes	**426**	527
Air traffic liability	**1,225**	1,073
Other accrued liabilities	**603**	424
Deferred revenue	**904**	733
Current portion of operating lease liabilities	**260**	290
Current portion of long-term debt	**425**	1,138
Total Current Liabilities	**4,024**	4,293
Long-Term Debt, Net of Current Portion	**2,225**	2,357
Noncurrent Liabilities		
Long-term operating lease liabilities, net of current portion	**1,206**	1,268
Deferred income taxes	**501**	407
Deferred revenue	**1,446**	1,544
Obligation for pension and postretirement medical benefits	**558**	665
Other liabilities	**391**	524
	4,102	4,408
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $0.01 par value, Authorized: 5,000,000 shares, none issued or outstanding	**—**	—
Common stock, $0.01 par value, Authorized: 400,000,000 shares, Issued: 2021 - 134,655,235 shares; 2020 - 133,567,534 shares, Outstanding: 2021 - 125,305,291 shares; 2020 - 124,217,590 shares	**1**	1
Capital in excess of par value	**462**	391
Treasury stock (common), at cost: 2021 - 9,349,944 shares; 2020 - 9,349,944 shares	**(674)**	(674)
Accumulated other comprehensive loss	**(482)**	(494)
Retained earnings	**4,224**	3,764
	3,531	2,988
Total Liabilities and Shareholders' Equity	**$ 13,882**	$ 14,046

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(unaudited)*

(in millions, except per share amounts)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Operating Revenues				
Passenger revenue	**$ 1,774**	$ 572	**$ 3,785**	$ 2,362
Mileage Plan other revenue	**120**	84	**332**	266
Cargo and other	**59**	45	**160**	130
Total Operating Revenues	**1,953**	701	**4,277**	2,758
Operating Expenses				
Wages and benefits	**578**	495	**1,581**	1,579
Variable incentive pay	**42**	42	**109**	65
Payroll Support Program grant wage offset	**—**	(398)	**(914)**	(760)
Aircraft fuel, including hedging gains and losses	**376**	125	**853**	568
Aircraft maintenance	**89**	84	**272**	244
Aircraft rent	**64**	74	**188**	229
Landing fees and other rentals	**141**	109	**414**	323
Contracted services	**62**	36	**167**	138
Selling expenses	**49**	24	**123**	83
Depreciation and amortization	**99**	105	**294**	320
Food and beverage service	**39**	14	**97**	70
Third-party regional carrier expense	**39**	29	**106**	92
Other	**126**	89	**348**	310
Special items - impairment charges and other	**(9)**	121	**5**	350
Special items - restructuring charges	**—**	322	**(12)**	322
Special items - merger-related costs	**—**	1	**—**	5
Total Operating Expenses	**1,695**	1,272	**3,631**	3,938
Operating Income (Loss)	**258**	(571)	**646**	(1,180)
Nonoperating Income (Expense)				
Interest income	**6**	7	**19**	23
Interest expense	**(30)**	(34)	**(101)**	(64)
Interest capitalized	**3**	4	**9**	8
Other - net	**8**	5	**27**	16
Total Nonoperating Income (Expense)	**(13)**	(18)	**(46)**	(17)
Income (Loss) Before Income Tax	**245**	(589)	**600**	(1,197)
Income tax expense (benefit)	**51**	(158)	**140**	(320)
Net Income (Loss)	**$ 194**	$ (431)	**$ 460**	$ (877)
Basic Income (Loss) Per Share:	**$ 1.55**	$ (3.49)	**$ 3.69**	$ (7.12)
Diluted Income (Loss) Per Share:	**$ 1.53**	$ (3.49)	**$ 3.64**	$ (7.12)
Shares used for computation:				
Basic	**125.250**	123.647	**124.846**	123.255
Diluted	**127.188**	123.647	**126.325**	123.255

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS *(unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2021**	**2020**	**2021**	**2020**
Net Income (Loss)	**$ 194**	$ (431)	**$ 460**	$ (877)
Other Comprehensive Income (Loss):				
Related to marketable securities:				
Unrealized holding gain (loss) arising during the period	**(4)**	2	**(15)**	32
Reclassification of gain into Other - net nonoperating income	**—**	(2)	**(6)**	(11)
Income tax effect	**1**	—	**5**	(5)
Total	**(3)**	—	**(16)**	16
Related to employee benefit plans:				
Reclassification of net pension expense into Wages and benefits and Other - net nonoperating income	**8**	7	**25**	22
Income tax effect	**(2)**	(1)	**(6)**	(5)
Total	**6**	6	**19**	17
Related to interest rate derivative instruments:				
Unrealized holding gain (loss) arising during the period	**2**	2	**11**	(25)
Reclassification of loss into Aircraft rent	**—**	1	**—**	2
Income tax effect	**—**	(1)	**(2)**	5
Total	**2**	2	**9**	(18)
Other Comprehensive Income	**5**	8	**12**	15
Comprehensive Income (Loss)	**$ 199**	$ (423)	**$ 472**	$ (862)

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

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

(in millions)	*Common Stock Outstanding*	Common Stock	Capital in Excess of Par Value	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balances at December 31, 2019	*123.000*	*$ 1*	*$ 305*	*$ (643)*	*$ (465)*	*$ 5,133*	*$ 4,331*
Net loss	—	—	—	—	—	(232)	(232)
Other comprehensive loss	—	—	—	—	(17)	—	(17)
Common stock repurchase	*(0.538)*	—	—	(31)	—	—	(31)
Stock-based compensation	—	—	9	—	—	—	9
Cash dividend declared ($0.375 per share)	—	—		—	—	(45)	(45)
Stock issued under stock plans	*0.123*	—	—	—	—	—	—
Balance at March 31, 2020	*122.585*	**$ 1**	**$ 314**	**$ (674)**	**$ (482)**	**$ 4,856**	**$ 4,015**
Net loss	—	—	—	—	—	(214)	(214)
Other comprehensive income	—	—	—	—	24	—	24
Stock-based compensation	—	—	2	—	—	—	2
CARES Act warrant issuance	—	—	7	—	—	—	7
Stock issued for employee stock purchase plan	*1.000*	—	27	—	—	—	27
Stock issued under stock plans	*0.054*	—	—	—	—	—	—
Balances at June 30, 2020	*123.639*	**$ 1**	**$ 350**	**$ (674)**	**$ (458)**	**$ 4,642**	**$ 3,861**
Net loss	—	—	—	—	—	(431)	(431)
Other comprehensive income	—	—	—	—	8	—	8
CARES Act warrant issuances	—	—	9	—	—	—	9
Stock-based compensation	—	—	7	—	—	—	7
Stock issued under stock plans	*0.022*	—	—	—	—	—	—
Balances at September 30, 2020	*123.661*	**$ 1**	**$ 366**	**$ (674)**	**$ (450)**	**$ 4,211**	**$ 3,454**

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

(in millions)	Nine Months Ended September 30, 2021	2020
Cash flows from operating activities:		
Net Income (Loss)	**$ 460**	$ (877)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	**294**	320
Stock-based compensation and other	**35**	14
Special items - impairment charges and other	**5**	350
Special items - restructuring charges	**(12)**	322
Changes in certain assets and liabilities:		
Changes in deferred tax provision	**95**	(220)
Increase in air traffic liability	**152**	171
Increase in deferred revenue	**73**	193
Pension contribution	**(100)**	—
Other - net	**(101)**	(157)
Net cash provided by operating activities	**901**	116
Cash flows from investing activities:		
Property and equipment additions:		
Aircraft and aircraft purchase deposits	**(52)**	(61)
Other flight equipment	**(78)**	(49)
Other property and equipment	**(60)**	(94)
Total property and equipment additions, including capitalized interest	**(190)**	(204)
Purchases of marketable securities	**(3,413)**	(2,092)
Sales and maturities of marketable securities	**2,669**	1,520
Other investing activities	**(9)**	9
Net cash used in investing activities	**(943)**	(767)
Cash flows from financing activities:		
Proceeds from issuance of debt	**363**	2,581
Common stock repurchases	**—**	(31)
Dividends paid	**—**	(45)
Long-term debt payments	**(1,222)**	(238)
Other financing activities	**34**	19
Net cash provided by (used in) financing activities	**(825)**	2,286
Net increase (decrease) in cash, cash equivalents, and restricted cash	**(867)**	1,635
Cash, cash equivalents, and restricted cash at beginning of period	**1,386**	232
Cash, cash equivalents, and restricted cash at end of the period	**$ 519**	$ 1,867

	Nine Months Ended September 30,	
(in millions)	**2021**	**2020**
Cash paid during the period for:		
Interest (net of amount capitalized)	**$ 100**	$ 38
Income taxes	**—**	—
Non-cash transactions:		
Right-of-use assets acquired through operating leases	**$ 126**	54
Reconciliation of cash, cash equivalents, and restricted cash at end of the period		
Cash and cash equivalents	**$ 495**	$ 1,855
Restricted cash included in Prepaid expenses, assets held-for-sale, and other current assets	**24**	12
Total cash, cash equivalents, and restricted cash at end of the period	**$ 519**	$ 1,867

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

NOTE 1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The condensed consolidated financial statements include the accounts of Air Group, or the Company, and its primary subsidiaries, Alaska and Horizon. The condensed consolidated financial statements also include McGee Air Services (McGee), a ground services subsidiary of Alaska. The Company conducts substantially all of its operations through these subsidiaries. All significant intercompany balances and transactions have been eliminated. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Consistent with these requirements, this Form 10-Q does not include all the information required by GAAP for complete financial statements. It should be read in conjunction with the consolidated financial statements and accompanying notes in the Form 10-K for the year ended December 31, 2020. In the opinion of management, all adjustments have been made that are necessary to fairly present the Company’s financial position as of September 30, 2021 and the results of operations for the three and nine months ended September 30, 2021 and 2020. Such adjustments were of a normal recurring nature.

In preparing these statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities, as well as the reported amounts of revenues and expenses, including impairment charges. Due to the impacts of the coronavirus (COVID-19) pandemic on the Company's business, these estimates and assumptions require more judgment than they would otherwise given the uncertainty of the future demand for air travel, among other considerations. Further, due to seasonal variations in the demand for air travel, the volatility of aircraft fuel prices, changes in global economic conditions, changes in the competitive environment and other factors, operating results for the three and nine months ended September 30, 2021 are not necessarily indicative of operating results for the entire year.

NOTE 2. COVID-19 PANDEMIC

The public health and economic crisis resulting from the outbreak of COVID-19 in the first quarter of 2020 continues to have a significant impact on the Company. Although the relaxation of restrictions by state and local governments and the rollout of vaccination programs have allowed for the return of demand, passenger enplanements remain below pre-pandemic levels. As a result, the Company continues to fly less capacity than it had pre-pandemic.

Beginning in 2020, the Company implemented various cost-saving initiatives, including permanently parking aircraft, restructuring the workforce through early-out and incentive leave programs, and obtaining funding available under programs offered by the U.S. Department of the Treasury (the Treasury). As demand has improved and the business has grown back toward pre-pandemic flying levels, these programs have been adjusted to meet the needs of the airline. The impacts of these programs for the three and nine months ended September 30, 2021 are described below.

Lease Return Costs

Alaska removed 40 leased aircraft from operating service in 2020, and recorded an estimate of the expected future lease return costs for the aircraft. Lease return costs include the write off of associated maintenance deposits, as Alaska no longer expects to perform maintenance events covered by those deposits. The total net charge recorded in 2020 for aircraft that were parked amounted to $209 million. In the first quarter of 2021, the Company recorded an additional $18 million in costs associated with leased aircraft that have been retired and removed from the operating fleet but not yet returned to the lessor, which was classified as Special items - impairment charges and other on the condensed consolidated statements of operations. The Company continues to evaluate estimated costs to return leased aircraft, resulting in reductions to the related accrual of $4 million in the second quarter and $9 million in the third quarter. The lease return cost estimates are based on the Company's best estimate of costs to return aircraft as of the date of this filing.

In the second quarter of 2021, Alaska initiated a plan to reactivate up to 12 previously parked Airbus aircraft to support Alaska's plans for restoring capacity to 100% of pre-pandemic levels by no later than summer 2022. Six of these reactivated aircraft returned to the operating fleet in the third quarter of 2021, with all 12 expected to be reactivated by the second quarter of 2022. The Company currently anticipates all aircraft that are temporarily being returned to service will be removed from operating service by the end of 2023. At this time, the Company does not anticipate that the return to service of these aircraft will materially change estimated lease return costs previously recorded, as leases for aircraft returning to service generally expire within a near term window.

Workforce restructuring

The Company's subsidiaries reduced their operating workforce in 2020 to better align with the expected size of the business. To mitigate the need for involuntary furloughs, various early-out and voluntary leave programs were made available to all frontline work groups, in addition to incentive leave programs made available to Alaska pilots and mechanics. Through these programs, over 600 employees took permanent early-outs and over 3,300 employees took voluntary or incentive leaves. All employees on leave returned to work by October 2021.

In 2020, as a result of these programs, the Company recorded $220 million in wage expense for those pilots and mechanics on incentive leaves, ongoing medical benefit coverage and lump-sum termination payments. Throughout 2021, the Company continued to refine and update capacity expectations and training schedules, which resulted in changes to anticipated leave lengths. As a result, the Company has recorded a net benefit of $12 million during the nine months ended September 30, 2021.

The table below presents a roll forward of the outstanding voluntary leave liability (in millions):

		Nine Months Ended September 30, 2021
Total voluntary leave liability balance at January 1	$	127
Cash payments		(99)
Charges and adjustments		(12)
Total voluntary leave liability balance at September 30	**$**	**16**

The outstanding accrual is for final payments for participants on an incentive leave who will not return to active employment. The Company will make the majority of the remaining cash payments associated with this liability in 2021. The balance is reflected in accrued wages, benefits and payroll taxes on the condensed consolidated balance sheet.

CARES Act Funding

During the first quarter of 2021, Alaska, Horizon, and McGee finalized agreements with the Treasury through an extension of the Payroll Support Program (PSP) under the Coronavirus Aid, Relief and Economic Security (CARES) Act, made available under the Consolidated Appropriations Act, 2021 (PSP 2). Under PSP 2 and the supporting agreements, Alaska, Horizon and McGee received total funds of approximately $539 million in the first quarter of 2021. In April 2021, Alaska, Horizon and McGee received an additional $87 million in funds made available under PSP 2.

Also in April 2021, Alaska, Horizon and McGee finalized additional agreements with the Treasury under a third round of the PSP, made available under the American Rescue Plan Act of 2021 (PSP 3). Under PSP 3 and the supporting agreements, Alaska, Horizon, and McGee received total funds of $585 million in the second quarter of 2021.

Of the amounts received during the nine months ended September 30, 2021, $311 million represented unsecured debt and was recorded at par, and $16 million represented warrants recorded at fair value using the Black-Scholes model. Both were recorded on the condensed consolidated balance sheet. The remaining $892 million was recorded as grant proceeds. These amounts are inclusive of additional funding of $8 million made available to McGee under the first installment of the PSP program (PSP 1). The grant is recorded as an offset to wages, salaries and benefits as eligible expenses are incurred. During the nine months ended September 30, 2021, the Company recognized $914 million of the PSP grant proceeds as a wage offset. Included in this $914 million is approximately $21 million for employee retention credits as provided for in the CARES Act. The Company does not expect to record any additional wage offset in 2021.

Total funds contracted from the Treasury under the three Payroll Support Programs are allocated as follows (in millions):

		Grants		Loans		Warrants		Total Proceeds
PSP 1	$	757	$	293	$	9	$	1,059
PSP 2		457		160		9		626
PSP 3		431		147		7		585
Total	$	1,645	$	600	$	25	$	2,270

Funds were exclusively used for payment of employee salaries, wages and benefits. Upon receipt of the funds issued under PSP 3, certain conditions and restrictions were extended. These conditions include, but are not limited to, refraining from conducting involuntary furloughs or reducing employee pay rates through September 30, 2021 and placing limits on executive compensation and severance through April 1, 2023. The conditions also included suspension of dividends and share repurchases through September 30, 2022.

NOTE 3. REVENUE

Ticket revenue is recorded as Passenger revenue, and represents the primary source of the Company's revenue. Also included in Passenger revenue are passenger ancillary revenues such as bag fees, on-board food and beverage, ticket change fees, and certain revenue from the frequent flyer program. In 2020, the Company eliminated ticket change fees indefinitely from main cabin and first class fares. Mileage Plan other revenue includes brand and marketing revenue from the co-branded credit card and other partners and certain interline frequent flyer revenue, net of commissions. Cargo and other revenue includes freight and mail revenue, and to a lesser extent, other ancillary revenue products such as lounge membership and certain commissions.

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

Passenger Ticket and Ancillary Services Revenue

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Passenger ticket revenue, including ticket breakage, net of taxes and fees	**$ 1,483**	$ 459	**$ 3,122**	$ 1,894
Passenger ancillary revenue	**101**	49	**235**	196
Mileage Plan passenger revenue	**190**	64	**428**	272
Total Passenger revenue	**$ 1,774**	$ 572	**$ 3,785**	$ 2,362

Mileage Plan™ Loyalty Program

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Passenger revenue	**$ 190**	$ 64	**$ 428**	$ 272
Mileage Plan other revenue	**120**	84	**332**	266
Total Mileage Plan revenue	**$ 310**	$ 148	**$ 760**	$ 538

Cargo and Other

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Cargo revenue	**$ 34**	$ 31	**$ 95**	$ 83
Other revenue	**25**	14	**65**	47
Total Cargo and other revenue	**$ 59**	$ 45	**$ 160**	$ 130

Air Traffic Liability and Deferred Revenue

Passenger ticket and ancillary services liabilities

The Company recognized Passenger revenue of $101 million from the prior year-end air traffic liability balance for the three months ended September 30, 2021 , and $276 million and $484 million for the nine months ended September 30, 2021 and 2020.

Included within the air traffic liability is an outstanding liability for travel credits that guests may utilize for future travel. A high volume of credits were issued in 2020 as a result of the COVID-19 pandemic, and issuance levels in 2021 have normalized, though remain above pre-COVID levels. In April 2021, as part of the Company's COVID-19 relief measures, travel credits that were set to expire at any point in 2021 were extended through December 31, 2021 for possible travel through November 30, 2022. As a result of improving demand, the Company has experienced increased credit redemptions in 2021. Total credits, net of breakage, included in the air traffic liability balance as of September 30, 2021 were $324 million, compared to $569 million at December 31, 2020.

Mileage Plan™ assets and liabilities

The Company records a receivable for amounts due from the bank partner and from other partners as mileage credits are sold until the payments are collected. The Company had $57 million of such receivables as of September 30, 2021 and $48 million as of December 31, 2020. As demand for air travel remains unpredictable, the timing of recognition of mileage credits may differ from current assumptions.

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

	Nine Months Ended September 30,	
	2021	**2020**
Total Deferred revenue balance at January 1	**$ 2,277**	$ 1,990
Travel miles and companion certificate redemption - Passenger revenue	**(428)**	(272)
Miles redeemed on partner airlines - Other revenue	**(30)**	(21)
Increase in liability for mileage credits issued	**531**	486
Total Deferred revenue balance at September 30	**$ 2,350**	$ 2,183

NOTE 4. FAIR VALUE MEASUREMENTS

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

Fair Value of Financial Instruments on a Recurring Basis

As of September 30, 2021, total cost basis for all marketable securities was $2.7 billion. There were no significant differences between the cost basis and fair value of any individual class of marketable securities.

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

	September 30, 2021			December 31, 2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets						
Marketable securities						
U.S. government and agency securities	**$ 278**	**$ —**	**$ 278**	$ 407	$ —	$ 407
Equity mutual funds	**6**	**—**	**6**	7	—	7
Foreign government bonds	**—**	**38**	**38**	—	20	20
Asset-backed securities	**—**	**337**	**337**	—	224	224
Mortgage-backed securities	**—**	**239**	**239**	—	290	290
Corporate notes and bonds	**—**	**1,736**	**1,736**	—	978	978
Municipal securities	**—**	**66**	**66**	—	50	50
Total Marketable securities	**284**	**2,416**	**2,700**	414	1,562	1,976
Derivative instruments						
Fuel hedge - call options	**—**	**95**	**95**	—	15	15
Total Assets	**$ 284**	**$ 2,511**	**$ 2,795**	$ 414	$ 1,577	$ 1,991
Liabilities						
Derivative instruments						
Interest rate swap agreements	**—**	**(14)**	**(14)**	—	(25)	(25)
Total Liabilities	**$ —**	**$ (14)**	**$ (14)**	$ —	$ (25)	$ (25)

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

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

Activity and Maturities for Marketable Securities

Unrealized losses from marketable securities are primarily attributable to changes in interest rates. Management does not believe any unrealized losses are the result of expected credit losses based on its evaluation of available information as of September 30, 2021.

Maturities for marketable securities (in millions):

September 30, 2021	Cost Basis	Fair Value
Due in one year or less	$ 1,193	$ 1,194
Due after one year through five years	1,409	1,418
Due after five years through 10 years	81	81
Total	$ 2,683	$ 2,693

Fair Value of Other Financial Instruments

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

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

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

Debt: To estimate the fair value of all fixed-rate debt as of September 30, 2021, the Company uses the income approach by discounting cash flows or estimation using quoted market prices, utilizing borrowing rates for comparable debt over the remaining life of the outstanding debt. The estimated fair value of the fixed-rate Enhanced Equipment Trust Certificate debt is Level 2, as it is estimated using observable inputs, while the estimated fair value of $769 million of other fixed-rate debt, including PSP notes payable, is classified as Level 3, as it is not actively traded and is valued using discounted cash flows which is an unobservable input.

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

	September 30, 2021	December 31, 2020
Total fixed-rate debt	**$ 1,828**	$ 1,662
Estimated fair value	**$ 1,949**	$ 1,778

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are recognized or disclosed at fair value on a nonrecurring basis, including property, plant and equipment, operating lease assets, goodwill, and intangible assets. These assets are subject to fair valuation when there is evidence of impairment. No material impairments were recorded during the three and nine months ended September 30, 2021.

NOTE 5. LONG-TERM DEBT

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

	September 30, 2021	December 31, 2020
Fixed-rate notes payable due through 2029	**$ 169**	$ 198
Fixed-rate PSP notes payable due through 2031	**600**	290
Fixed-rate EETC payable due through 2025 & 2027	**1,058**	1,174
Variable-rate notes payable due through 2029	**843**	1,866
Less debt issuance costs and unamortized debt discount	**(20)**	(33)
Total debt	**2,650**	3,495
Less current portion	**425**	1,138
Long-term debt, less current portion	**$ 2,225**	$ 2,357
Weighted-average fixed-interest rate	**3.6 %**	4.3 %
Weighted-average variable-interest rate	**1.2 %**	1.9 %

Approximately $539 million of the Company's total variable-rate notes payable are effectively fixed via interest rate swaps at September 30, 2021, resulting in an effective weighted-average interest rate for the full debt portfolio of 3.3%.

During the nine months ended September 30, 2021, the Company issued $363 million of debt, comprised of $311 million of unsecured loans from the PSP and $54 million in proceeds from issuance of debt. Debt proceeds were offset by $1.2 billion in debt payments. Included within total debt payments is the full repayment of the $135 million loan from the U.S. Treasury made available under the CARES Act, $363 million outstanding balance on two credit facilities, and prepayment of the $425 million 364-day term loan facility.

The $600 million PSP notes are unsecured senior term loans with a 10-year term, bearing an interest rate of 1% in years 1 through 5, and an interest rate equal to the Secured Overnight Financing Rate (SOFR) plus 2% in years 6 through 10. The PSP notes are prepayable at par without penalty.

CARES Act

In 2020, the Company finalized an agreement with the Treasury to obtain up to $1.9 billion via a secured term loan facility. Obligations under the loan agreement were secured by assets related to, and revenues generated by, Alaska's Mileage Plan™ frequent flyer program, as well as by 30 aircraft and 15 spare engines. In 2020, the Company drew $135 million under the agreement, which was used for general corporate purposes and certain operating expenses in accordance with the terms and conditions of the loan agreement and the applicable provisions of the CARES Act. The full balance was repaid in the second quarter of 2021. In accordance with the related agreement, the facility terminated at the time of payment.

Debt Maturity

At September 30, 2021 long-term debt principal payments for the next five years and thereafter are as follows (in millions):

	Total
Remainder of 2021	$ 112
2022	371
2023	334
2024	240
2025	261
Thereafter	1,352
Total	$ 2,670

Bank Lines of Credit

Alaska has three credit facilities totaling $486 million as of September 30, 2021. One of the credit facilities for $150 million expires in March 2022 and is secured by certain accounts receivable, spare engines, spare parts and ground service equipment. In October 2021, the expiry of this facility was extended to March 2025. The second credit facility for $250 million expires in June 2024 and is secured by aircraft. These two facilities have variable interest rates based on LIBOR plus a specified margin. A third credit facility for $86 million expires in June 2022 and is secured by aircraft.

Alaska has secured letters of credit against the third facility, but has no plans to borrow using either of the other two facilities. All credit facilities have a requirement to maintain a minimum unrestricted cash and marketable securities balance of $500 million. Alaska was in compliance with this covenant at September 30, 2021.

NOTE 6. EMPLOYEE BENEFIT PLANS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Service cost	**$ 13**	$ 11	**$ 39**	$ 37
Pension expense included in Wages and benefits	**13**	11	**39**	37
Interest cost	**14**	19	**42**	57
Expected return on assets	**(30)**	(28)	**(91)**	(83)
Amortization of prior service cost (credit)	**(1)**	(1)	**(1)**	(1)
Recognized actuarial loss	**9**	9	**27**	26
Pension expense included in Nonoperating Income (Expense)	**$ (8)**	$ (1)	**$ (23)**	$ (1)

Alaska made a $100 million voluntary contribution to the defined benefit plan for its pilots during the three months ended September 30, 2021.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Future minimum payments for commitments as of September 30, 2021 (in millions):

	Aircraft Commitments[a]	Capacity Purchase Agreements [b]
Remainder of 2021	$ 60	$ 42
2022	1,476	173
2023	1,681	178
2024	385	183
2025	79	188
Thereafter	13	877
Total	$ 3,694	$ 1,641

(a) Includes non-cancelable contractual commitments for aircraft and engines, aircraft maintenance and parts management.
(b) Includes all non-aircraft lease costs associated with capacity purchase agreements.

Aircraft Commitments

Aircraft purchase commitments include non-cancelable contractual commitments for aircraft and engines. As of September 30, 2021, Alaska had commitments to purchase 74 B737-9 MAX aircraft, with contracted deliveries between 2021 and 2024. Future minimum contractual payments for these aircraft reflect the expected delivery timing, but are also subject to change. Horizon also has commitments to purchase 12 E175 aircraft with deliveries between 2022 and 2025. In addition, Alaska has options to purchase 52 B737-9 MAX aircraft, and Horizon has options to purchase 21 E175 aircraft. Option payments are not reflected in the table above.

Contingencies

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

In 2015, three flight attendants filed a class action lawsuit seeking to represent all Virgin America flight attendants for damages based on alleged violations of California and City of San Francisco wage and hour laws. The court certified a class of approximately 1,800 flight attendants in November 2016. The Company believes the claims in this case are without factual and legal merit.

In July 2018, the Court granted in part Plaintiffs' motion for summary judgment, finding Virgin America, and Alaska Airlines, as a successor-in-interest to Virgin America, responsible for various damages and penalties sought by the class members. On February 4, 2019, the Court entered final judgment against Virgin America and Alaska Airlines in the amount of approximately $78 million. It did not award injunctive relief against Alaska Airlines. In February 2021, an appellate court reversed portions of the lower court decision and significantly reduced the judgment, again without awarding injunctive relief against Alaska. The determination of total judgment has not been completed as of the date of this filing. Based on the facts and circumstances available, the Company believes the range of potential loss to be between $0 and $22 million, and holds an accrual for $22 million in Other accrued liabilities on the condensed consolidated balance sheets.

Alaska is seeking an appellate court ruling that the California laws on which the judgment is based are invalid as applied to airlines pursuant to the U.S. Constitution and provisions of federal law that were enacted to shield inter-state common carriers from a patchwork of state and local wage and hour regulations such as those at issue in this case. If appeal efforts are unsuccessful, compliance with the California laws may have an adverse impact on the Company's operations and financial position.

The Company is involved in other litigation around the application of state and local employment laws, like many air carriers. Our defenses are similar to those identified above, including that the state and local laws are preempted by federal law and are unconstitutional because they impede interstate commerce. None of these additional disputes are material.

NOTE 8. SHAREHOLDERS' EQUITY

Common Stock Repurchase

In August 2015, the Board of Directors authorized a $1 billion share repurchase program. As of September 30, 2021, the Company has repurchased 7.6 million shares for $544 million under this program. In March 2020, the Company suspended the share repurchase program indefinitely.

CARES Act Warrant Issuances

As additional taxpayer protection required under PSP programs, during the nine months ended September 30, 2021 the Company granted the Treasury a total of 539,508 warrants to purchase common stock. The warrants are non-voting, freely transferable, may be settled as net shares or in cash at the Company's option, and have a five-year term.

Additionally, in conjunction with the October 2020 draw on the CARES Act Loan, the Company granted the Treasury 427,080 warrants to purchase ALK common stock. The value of the warrants was estimated using a Black-Scholes option pricing model, and the relative fair value of the warrants of $6 million was recorded in stockholders' equity.

Total warrants outstanding are as follows as of September 30, 2021:

	Number of shares of ALK common stock	Strike Price
PSP 1	928,127	31.61
CARES Act loan warrants	427,080	31.61
PSP 2	305,499	52.25
PSP 3	221,812	66.39
Total	1,882,518	

Accumulated other comprehensive loss

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

	September 30, 2021	December 31, 2020
Related to marketable securities	**$ 7**	$ 23
Related to employee benefit plans	**(479)**	(498)
Related to interest rate derivatives	**(10)**	(19)
Total	**$ (482)**	$ (494)

Earnings (Loss) Per Share (EPS)

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

NOTE 9. OPERATING SEGMENT INFORMATION

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

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

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

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

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

Operating segment information is as follows (in millions):

	Three Months Ended September 30, 2021						
	Mainline	Regional	Horizon	Consolidating & Other[(a)]	Air Group Adjusted[(b)]	Special Items[(c)]	Consolidated
Operating Revenues							
Passenger revenues	$ 1,425	$ 349	$ —	$ —	$ 1,774	$ —	$ 1,774
CPA revenues	—	—	107	(107)	—	—	—
Mileage Plan other revenue	105	15	—	—	120	—	120
Cargo and other	58	—	—	1	59	—	59
Total Operating Revenues	1,588	364	107	(106)	1,953	—	1,953
Operating Expenses							
Operating expenses, excluding fuel	1,060	288	93	(113)	1,328	(9)	1,319
Economic fuel	299	77	—	—	376	—	376
Total Operating Expenses	1,359	365	93	(113)	1,704	(9)	1,695
Nonoperating Income (Expense)							
Interest income	7	—	—	(1)	6	—	6
Interest expense	(25)	—	(6)	1	(30)	—	(30)
Interest capitalized	2	—	—	1	3	—	3
Other - net	8	—	—	—	8	—	8
Total Nonoperating Income (Expense)	(8)	—	(6)	1	(13)	—	(13)
Income (Loss) Before Income Tax	$ 221	$ (1)	$ 8	$ 8	$ 236	$ 9	$ 245

	Three Months Ended September 30, 2020						
	Mainline	Regional	Horizon	Consolidating & Other[(a)]	Air Group Adjusted[(b)]	Special Items[(c)]	Consolidated
Operating Revenues							
Passenger revenues	$ 401	$ 171	$ —	$ —	$ 572	$ —	$ 572
CPA revenues	—	—	95	(95)	—	—	—
Mileage Plan other revenue	65	19	—	—	84	—	84
Cargo and other	45	—	—	—	45	—	45
Total Operating Revenues	511	190	95	(95)	701	—	701
Operating Expenses							
Operating expenses, excluding fuel	872	248	78	(97)	1,101	46	1,147
Economic fuel	90	38	—	—	128	(3)	125
Total Operating Expenses	962	286	78	(97)	1,229	43	1,272
Nonoperating Income (Expense)							
Interest income	8	—	—	(1)	7	—	7
Interest expense	(28)	—	(6)	—	(34)	—	(34)
Interest capitalized	4	—	—	—	4	—	4
Other - net	4	—	—	1	5	—	5
Total Nonoperating Income (Expense)	(12)	—	(6)	—	(18)	—	(18)
Income (Loss) Before Income Tax	$ (463)	$ (96)	$ 11	$ 2	$ (546)	$ (43)	$ (589)

	Nine Months Ended September 30, 2021						
	Mainline	Regional	Horizon	Consolidating & Other[(a)]	Air Group Adjusted[(b)]	Special Items[(c)]	Consolidated
Operating Revenues							
Passenger revenues	$ 3,003	$ 782	$ —	$ —	$ 3,785	$ —	$ 3,785
CPA revenues	—	—	322	(322)	—	—	—
Mileage Plan other revenue	287	45	—	—	332	—	332
Cargo and other	157	—	—	3	160	—	160
Total Operating Revenues	3,447	827	322	(319)	4,277	—	4,277
Operating Expenses							
Operating expenses, excluding fuel	2,937	839	272	(349)	3,699	(921)	2,778
Economic fuel	726	195	—	—	921	(68)	853
Total Operating Expenses	3,663	1,034	272	(349)	4,620	(989)	3,631
Nonoperating Income (Expense)							
Interest income	20	—	—	(1)	19	—	19
Interest expense	(86)	—	(16)	1	(101)	—	(101)
Interest capitalized	8	—	—	1	9	—	9
Other - net	27	—	—	—	27	—	27
Total Nonoperating Income (Expense)	(31)	—	(16)	1	(46)	—	(46)
Income (Loss) Before Income Tax	$ (247)	$ (207)	$ 34	$ 31	$ (389)	$ 989	$ 600

	Nine Months Ended September 30, 2020						
	Mainline	Regional	Horizon	Consolidating & Other[(a)]	Air Group Adjusted[(b)]	Special Items[(c)]	Consolidated
Operating Revenues							
Passenger revenues	$ 1,860	$ 502	$ —	$ —	$ 2,362	$ —	$ 2,362
CPA revenues	—	—	281	(281)	—	—	—
Mileage Plan other revenue	219	47	—	—	266	—	266
Cargo and other	128	—	—	2	130	—	130
Total Operating Revenues	2,207	549	281	(279)	2,758	—	2,758
Operating Expenses							
Operating expenses, excluding fuel	2,777	727	238	(289)	3,453	(83)	3,370
Economic fuel	448	120	—	—	568	—	568
Total Operating Expenses	3,225	847	238	(289)	4,021	(83)	3,938
Nonoperating Income (Expense)							
Interest income	33	—	—	(10)	23	—	23
Interest expense	(58)	—	(16)	10	(64)	—	(64)
Interest capitalized	8	—	—	—	8	—	8
Other - net	16	—	—	—	16	—	16
Total Nonoperating Income (Expense)	(1)	—	(16)	—	(17)	—	(17)
Income (Loss) Before Income Tax	$ (1,019)	$ (298)	$ 27	$ 10	$ (1,280)	$ 83	$ (1,197)

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

Total assets were as follows (in millions):

	September 30, 2021		December 31, 2020	
Mainline	$	**19,161**	$	19,754
Horizon		**1,251**		1,170
Consolidating & Other		**(6,530)**		(6,878)
Consolidated	$	**13,882**	$	14,046

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

OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand our company, segment operations and the present business environment. MD&A is provided as a supplement to – and should be read in conjunction with – our consolidated financial statements and the accompanying notes. All statements in the following discussion that are not statements of historical information or descriptions of current accounting policy are forward-looking statements. Please consider our forward-looking statements in light of the risks referred to in this report's introductory cautionary note and the risks mentioned in "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2020, and in "Item 1A. Risk Factors" of Part II of this Form 10-Q. This overview summarizes the MD&A, which includes the following sections:

- *Third Quarter Review*—highlights from the third quarter of 2021 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 and nine months ended September 30, 2021. 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 2021.

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

THIRD QUARTER REVIEW

Business Recovery and Financial Outlook

In the third quarter of 2021, we reported our first adjusted net income since the onset of the pandemic. The strong return of demand during the summer season, coupled with solid cost control and operational performance at the top of the industry resulted in 12% adjusted pretax margin despite headwinds from the delta variant. In conjunction with these positive results, we took further steps in the third quarter to repair our balance sheet, with $541 million in debt repaid during the quarter, including the prepayment of the $425 million 364-day term loan facility. Efforts taken throughout 2021 have resulted in lowering our debt-to-capitalization ratio to 51%, a 10-point improvement from December 31, 2020.

We remain committed to returning capacity in a prudent manner to match demand as we also work toward our goal of returning flying to 2019 levels by no later than the summer of 2022. However, we anticipate fourth quarter regional capacity will be negatively impacted due to anticipated pilot attrition at Horizon, as industry mainline carriers ramp to 2019 capacity levels and look to hire regional pilots. As a result of these factors, we anticipate flying in the fourth quarter to be 13% to 16% below the same period in 2019. Although we continue to be disciplined in matching the return of capacity with demand, and optimizing the aircraft gauge for flown routes, the delta variant has had a significant negative impact on our fourth quarter expectations and advance bookings. Given this, we anticipate fourth quarter load factors to range between 77% and 80%.

The guidance we have provided and our outlook more broadly are sensitive to health trends, exposure to variants of the COVID-19 virus, and regulations and restrictions imposed by state, local and federal authorities. Our plans will be responsive to emerging information and the guidance we have provided above is subject to greater uncertainty than we have historically experienced. Our people continue to focus on keeping costs low, running a great operation, and welcoming guests back to travel with Next-Level Care to ensure they are safe and comfortable when they fly. These are competitive advantages we have cultivated over many years that will continue to serve us well in 2021 and beyond. We are confident that we are prepared to meet the challenges ahead and that we will emerge from the pandemic a stronger and more resilient airline.

Environmental, Social and Governance Updates

As we move beyond the impacts of the COVID-19 pandemic, we are returning our focus back to our 2025 strategic plan, which was announced in 2019. During the third quarter, we continued to make strides toward our goals of increasing our commitments to diversity, equity, and inclusion, as well as expanding our sustainability efforts. In the third quarter we formed Alaska Star Ventures, a wholly-owned entity with the purpose of identifying and investing in technologies that may accelerate Alaska's path to net zero carbon emissions. During the quarter, Alaska Airlines Foundation also awarded $260,000 in LIFT Grants to 25 nonprofits who are dedicated to providing educational and career-development programs to young people throughout their respective communities. Alaska and Horizon also announced expanded measures to invest in people, including a new internal maintenance technician program, which will provide eligible employees with financial assistance to enhance and develop skills with the goal of becoming a certified maintenance technician.

As a reflection of the importance of the commitments made, we have tied a portion of long-term executive compensation to achievement of diversity goals. Additionally, we have incorporated a carbon emissions target into our company-wide Performance-Based Pay Plan, which we currently expect to meet.

Labor Update

In July 2021, we ratified an amended wage agreement with the International Brotherhood of Teamsters, representing Horizon Air pilots. The amended agreement contains competitive wage increases aimed at attracting and retaining pilots. Additionally, in September 2021, Alaska Airlines engaged the National Mediation Board to assist in negotiations with Alaska's pilots, represented by the Air Line Pilots Association.

Financial Overview

Our consolidated pretax income for the third quarter of 2021 was $245 million, compared to a pretax loss of $589 million in the third quarter of 2020. The $834 million improvement is driven by an increase of $1.3 billion in operating revenue from an exponential increase in demand for air travel, coupled with a decrease of $453 million in special charges recorded for impairment and workforce restructuring. These improvements were offset by $398 million in wage offsets provided by the Payroll Support Program of the CARES Act recorded in the third quarter of 2020 which were not repeated in 2021, a $227 million increase in non-fuel operating costs, excluding special items, and a $251 million increase in fuel expense driven by increased consumption and rising fuel costs.

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. A glossary of financial terms can be found at the end of this Item 2.

RESULTS OF OPERATIONS

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

We believe disclosure of earnings excluding the impact of the Payroll Support Program grant wage offset, special items, mark-to-market gains or losses or other individual special revenues or expenses is useful information to investors because:

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

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

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

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

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

- Although we disclose our unit 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 that these amounts are non-recurring, infrequent, or unusual in nature.

OPERATING STATISTICS SUMMARY (unaudited)

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	**2020**	**Change**	**2021**	**2020**	**Change**
Consolidated Operating Statistics:[(a)]						
Revenue passengers (000)	**9,832**	3,595	173.5%	**23,211**	14,012	65.7%
RPMs (000,000) "traffic"	**11,592**	3,817	203.7%	**27,319**	16,127	69.4%
ASMs (000,000) "capacity"	**14,429**	7,871	83.3%	**38,238**	27,483	39.1%
Load factor	**80.3%**	48.5%	31.8 pts	**71.4%**	58.7%	12.7 pts
Yield	**15.30¢**	14.99¢	2.1%	**13.85¢**	14.65¢	(5.5)%
RASM	**13.54¢**	8.90¢	52.1%	**11.19¢**	10.04¢	11.5%
CASM excluding fuel and special items[(b)]	**9.21¢**	14.00¢	(34.2)%	**9.67¢**	12.57¢	(23.1)%
Economic fuel cost per gallon[(b)]	**$2.05**	$1.32	55.3%	**$1.93**	$1.65	17.0%
Fuel gallons (000,000)	**183**	97	88.7%	**477**	344	38.7%
ASMs per fuel gallon	**78.8**	81.3	(3.1)%	**80.2**	79.9	0.4%
Average full-time equivalent employees (FTEs)	**20,315**	16,027	26.8%	**18,819**	18,112	3.9%
Mainline Operating Statistics:						
Revenue passengers (000)	**7,065**	2,156	227.7%	**16,367**	9,736	68.1%
RPMs (000,000) "traffic"	**10,122**	2,958	242.2%	**23,677**	13,816	71.4%
ASMs (000,000) "capacity"	**12,540**	6,280	99.7%	**33,004**	23,339	41.4%
Load factor	**80.7%**	47.1%	33.6 pts	**71.7%**	59.2%	12.5 pts
Yield	**14.08¢**	13.56¢	3.8%	**12.68¢**	13.46¢	(5.8)%
RASM	**12.66¢**	8.14¢	55.5%	**10.44¢**	9.46¢	10.4%
CASM excluding fuel and special items[(b)]	**8.45¢**	13.88¢	(39.1)%	**8.90¢**	11.90¢	(25.2)%
Economic fuel cost per gallon[(b)]	**$2.03**	$1.31	55.0%	**$1.91**	$1.66	15.1%
Fuel gallons (000,000)	**147**	69	113.0%	**380**	270	40.7%
ASMs per fuel gallon	**85.3**	91.0	(6.3)%	**86.9**	86.4	0.6%
Average FTEs	**15,116**	12,032	25.6%	**13,870**	13,730	1.0%
Aircraft utilization	**10.2**	7.3	39.7%	**9.6**	8.3	15.7%
Average aircraft stage length	**1,313**	1,244	5.5%	**1,313**	1,263	4.0%
Operating fleet[(d)]	**210**	217	(7) a/c	**210**	217	(7) a/c
Regional Operating Statistics:[(c)]						
Revenue passengers (000)	**2,767**	1,439	92.3%	**6,843**	4,276	60.0%
RPMs (000,000) "traffic"	**1,470**	859	71.1%	**3,642**	2,311	57.6%
ASMs (000,000) "capacity"	**1,889**	1,592	18.7%	**5,235**	4,143	26.4%
Load factor	**77.8%**	54.0%	23.8 pts	**69.6%**	55.8%	13.8 pts
Yield	**23.72¢**	19.89¢	19.3%	**21.47¢**	21.72¢	(1.2)%
RASM	**19.26¢**	11.91¢	61.7%	**15.80¢**	13.24¢	19.3%
Operating fleet	**94**	94	— a/c	**94**	94	— a/c

(a) Except for FTEs, data includes information related to third-party regional capacity purchase flying arrangements.
(b) See reconciliation of this non-GAAP measure to the most directly related GAAP measure in the accompanying pages.
(c) Data presented includes information related to flights operated by Horizon and third-party carriers.
(d) Excludes all aircraft removed from operating service. In 2021, six aircraft previously removed reentered the operating fleet, and are reflected above.

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

FINANCIAL INFORMATION AND OPERATING STATISTICS - 2019 RESULTS (unaudited)

Alaska Air Group, Inc.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	**2019**	**Change**	**2021**	**2019**	**Change**
Passenger revenue	**$ 1,774**	$ 2,211	(20) %	**$ 3,785**	$ 6,038	(37) %
Mileage plan other revenue	**120**	118	2 %	**332**	346	(4) %
Cargo and other	**59**	60	(2) %	**160**	169	(5) %
Total operating revenues	**$ 1,953**	$ 2,389	(18) %	**$ 4,277**	$ 6,553	(35) %
Operating expense, excluding fuel and special items	**$ 1,328**	$ 1,476	(10) %	3,699	$ 4,295	(14) %
Economic fuel	**376**	486	(23) %	853	1,408	(39) %
Special items	**(9)**	5	(280) %	(921)	39	NM
Total operating expenses	**$ 1,695**	$ 1,967	(14) %	**$ 3,631**	$ 5,742	(37) %
Total nonoperating expense	**(13)**	(6)	117 %	**(46)**	(38)	21 %
Income (loss) before income tax	**$ 245**	$ 416	(41) %	**$ 600**	$ 773	(22) %
Consolidated Operating Statistics[(a)]:						
Revenue passengers (000)	**9,832**	12,574	(22) %	**23,211**	35,018	(34) %
RPMs (000,000) "traffic"	**11,592**	15,026	(23) %	**27,319**	42,113	(35) %
ASMs (000,000) "capacity"	**14,429**	17,519	(18) %	**38,238**	50,006	(24) %
Load Factor	**80.3%**	85.8%	(5.5) pts	**71.4%**	84.2%	(12.8) pts
Yield	**15.30¢**	14.71¢	4 %	**13.85¢**	14.34¢	(3) %
RASM	**13.54¢**	13.64¢	(1) %	**11.19¢**	13.10¢	(15) %
CASMex	**9.21¢**	8.43¢	9 %	**9.67¢**	8.59¢	13 %
FTEs	**20,315**	22,247	(9) %	**18,819**	22,000	(14) %

(a) 2019 comparative operating statistics have been recalculated using the information presented above, and as filed in our third quarter 2019 Form 10-Q.

COMPARISON OF THREE MONTHS ENDED SEPTEMBER 30, 2021 TO THREE MONTHS ENDED SEPTEMBER 30, 2020

Our consolidated net income for the three months ended September 30, 2021 was $194 million, or $1.53 per diluted share, compared to a net loss of $431 million, or $3.49 per share, for the three months ended September 30, 2020.

Excluding the impact of the Payroll Support Program grant wage offset, special items and mark-to-market fuel hedge adjustments, our adjusted net income for the third quarter of 2021 was $187 million, or $1.47 per share, compared to an adjusted net loss of $399 million, or $3.23 per share, in the third quarter of 2020. The following table reconciles our adjusted net income (loss) per diluted share (EPS) to amounts as reported in accordance with GAAP:

	Three Months Ended September 30,			
	2021		2020	
(in millions, except per share amounts)	Dollars	Diluted EPS	Dollars	Diluted EPS
GAAP net income (loss) per share	**$ 194**	**$ 1.53**	$ (431)	$ (3.49)
Payroll Support Program grant wage offset	—	—	(398)	(3.22)
Mark-to-market fuel hedge adjustments	—	—	(3)	(0.02)
Special items - impairment charges and other	**(9)**	**(0.07)**	121	0.98
Special items - restructuring charges	—	—	322	2.60
Special items - merger-related costs	—	—	1	0.01
Income tax effect of reconciling items above	**2**	**0.01**	(11)	(0.09)
Non-GAAP adjusted net income (loss) per share	**$ 187**	**$ 1.47**	$ (399)	$ (3.23)

CASM reconciliation is summarized below:

	Three Months Ended September 30,		
(in cents)	2021	2020	% Change
Consolidated:			
CASM	**11.75 ¢**	16.16 ¢	(27)%
Less the following components:			
Payroll Support Program grant wage offset	—	(5.06)	(100)%
Aircraft fuel, including hedging gains and losses	**2.60**	1.59	64 %
Special items - impairment charges and other	**(0.06)**	1.53	(104)%
Special items - restructuring charges	—	4.09	(100)%
Special items - merger-related costs	—	0.01	(100)%
CASM excluding fuel and special items	**9.21 ¢**	14.00 ¢	(34)%
Mainline:			
CASM	**10.77 ¢**	16.80 ¢	(36)%
Less the following components:			
Payroll Support Program grant wage offset	—	(5.56)	(100)%
Aircraft fuel, including hedging gains and losses	**2.39**	1.43	67 %
Special items - impairment charges and other	**(0.07)**	1.93	(104)%
Special items - restructuring charges	—	5.10	(100)%
Special items - merger-related costs	—	0.02	(100)%
CASM excluding fuel and special items	**8.45 ¢**	13.88 ¢	(39)%

OPERATING REVENUES

Total operating revenues increased $1.3 billion during the third quarter of 2021 compared to the same period in 2020. The changes are summarized in the following table:

	Three Months Ended September 30,		
(in millions)	**2021**	**2020**	**% Change**
Passenger revenue	**$ 1,774**	$ 572	210 %
Mileage Plan other revenue	**120**	84	43 %
Cargo and other	**59**	45	31 %
Total operating revenues	**$ 1,953**	$ 701	179 %

Passenger Revenue

On a consolidated basis, Passenger revenue for the third quarter of 2021 increased by $1.2 billion, primarily driven by a significant increase in passenger traffic. In the third quarter of 2020, although we began to see rebounding demand during the summer months, traffic remained well below historical levels. This compares to the third quarter of 2021, where pent up demand for leisure travel spurred a significant increase in traffic, particularly in July and August. As we entered September, results were impacted by the rise of the delta variant, slowing demand and increasing refund activity. Despite these headwinds, quarterly load factor increased 32 points over the prior year on an 83% increase in capacity, providing meaningful increases to revenue as compared to the prior year.

Mileage Plan other revenue

On a consolidated basis, Mileage Plan other revenue increased by $36 million, or 43%, as compared to the same prior-year period, largely due to an increase in commissions from our bank card partners driven by increased consumer spending and new card acquisitions. Performance of Mileage Plan other revenues outpaced all other revenue sources, and resulted in the best performance of the program ever in the third quarter of 2021.

Cargo and other

On a consolidated basis, Cargo and other revenue for the third quarter of 2021 increased by $14 million, or 31%, as compared to the same prior-year period. The increase is primarily due to the return of all three freighters back to full capacity in the second quarter of 2021, coupled with increased belly cargo activity as we increase scheduled departures.

OPERATING EXPENSES

Total operating expenses increased $423 million, or 33%, compared to the third quarter of 2020. We believe it is useful to summarize operating expenses as follows, which is consistent with the way expenses are reported internally and evaluated by management:

	Three Months Ended September 30,		
(in millions)	**2021**	**2020**	**% Change**
Fuel expense	**$ 376**	$ 125	201 %
Non-fuel operating expenses, excluding special items	**1,328**	1,101	21 %
Payroll Support Program grant wage offset	**—**	(398)	(100)%
Special items - impairment charges and other	**(9)**	121	(107)%
Special items - restructuring charges	**—**	322	(100)%
Special items - merger-related costs	**—**	1	(100)%
Total operating expenses	**$ 1,695**	$ 1,272	33 %

Fuel Expense

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

Aircraft fuel expense increased $251 million, compared to the third quarter of 2020. The elements of the change are illustrated in the following table:

	Three Months Ended September 30,			
	2021		2020	
(in millions, except for per gallon amounts)	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	**$ 397**	**$ 2.16**	$ 123	$ 1.27
(Gain)/loss on settled hedges	**(21)**	**(0.11)**	5	0.05
Consolidated economic fuel expense	**376**	**2.05**	$ 128	$ 1.32
Mark-to-market fuel hedge adjustments	**—**	**—**	(3)	(0.03)
GAAP fuel expense	**$ 376**	**$ 2.05**	$ 125	$ 1.29
Fuel gallons	**183**		97	

Raw fuel expense per gallon for the three months ended September 30, 2021 increased by approximately 70% due to higher West Coast jet fuel prices. West Coast jet fuel prices are impacted by both the price of crude oil and refining margins associated with the conversion of crude oil to jet fuel. The increase in raw fuel price per gallon during the third quarter of 2021 was primarily driven by a 70% increase in crude oil prices and a 170% increase in refining margins, when compared to the prior year. This is coupled with an increase in consumption of 86 million gallons on an increase in scheduled departures.

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 as it most closely approximates the net cash outflow associated with purchasing fuel for our operations. Accordingly, many industry analysts evaluate our results using this measure, and it is the basis for most internal management reporting and incentive pay plans.

Gains recognized for hedges that settled during the third quarter were $21 million in 2021, compared to losses of $5 million in the same period in 2020. These amounts represent cash received from hedges at settlement, offset by cash paid for premium expense.

Non-fuel Expenses

The table below provides the reconciliation of the operating expense line items, excluding fuel, the Payroll Support Program grant wage offset and special items. Significant operating expense variances from 2020 are more fully described below.

	Three Months Ended September 30,		
(in millions)	2021	2020	% Change
Wages and benefits	**$ 578**	$ 495	17 %
Variable incentive pay	**42**	42	— %
Aircraft maintenance	**89**	84	6 %
Aircraft rent	**64**	74	(14)%
Landing fees and other rentals	**141**	109	29 %
Contracted services	**62**	36	72 %
Selling expenses	**49**	24	104 %
Depreciation and amortization	**99**	105	(6)%
Food and beverage service	**39**	14	179 %
Third-party regional carrier expense	**39**	29	34 %
Other	**126**	89	42 %
Total non-fuel operating expenses, excluding special items	**$ 1,328**	$ 1,101	21 %

Wages and Benefits

Wages and benefits increased during the third quarter of 2021 by $83 million, or 17%, compared to 2020. The primary components of Wages and benefits are shown in the following table:

	Three Months Ended September 30,		
(in millions)	2021	2020	% Change
Wages	**$ 433**	$ 356	22 %
Pension - Defined benefit plans service cost	**13**	11	18 %
Defined contribution plans	**33**	28	18 %
Medical and other benefits	**68**	75	(9)%
Payroll taxes	**31**	25	24 %
Total wages and benefits	**$ 578**	$ 495	17 %

Wages increased $77 million, or 22%, on a 27% increase in FTEs. Increased wages as compared to the prior period are primarily the result of leaves of absence taken and reduction in executive pay and hours for management employees in 2020 which were not repeated in 2021. Increased expense for defined contribution plans and payroll taxes are in line with the related increase to wages.

Aircraft Rent

Aircraft rent expense decreased by $10 million, or 14%, during the third quarter of 2021 compared to the same period in 2020 primarily the result of the full impairment taken on certain leased Airbus aircraft in 2020.

Landing fees and other rentals

Landing fees and other rentals increased by $32 million, or 29%, during the third quarter of 2021 compared to the same period in 2020 primarily due to a significant increase in departures. Increased departure-related costs were coupled by rate increases at many of our hub airports.

Contracted Services

Contracted services increased by $26 million, or 72%, during the third quarter of 2021 compared to the same period in 2020 driven primarily by increased departures and passengers as compared to the prior-year period as a result of the COVID-19 pandemic.

Selling Expense

Selling expense increased by $25 million during the third quarter of 2021 compared to the same period in 2020, primarily driven by a significant increase in distribution costs and credit card commissions incurred with the overall increase in travel.

Food and Beverage Service

Food and beverage service increased by $25 million during the third quarter of 2021 compared to the same period in 2020. This increase is consistent with the overall increase in revenue passengers as compared to the prior-year period, as well as the return and expansion of many of our on-board products in the third quarter of 2021.

Third-party Regional Carrier Expense

Third-party regional carrier expense, which represents payments made to SkyWest under our CPA, increased by $10 million, or 34%, during the third quarter of 2021 compared to the same period in 2020. The increase in expense is primarily due to increases in departures flown by SkyWest as compared to the prior-year period, offset by the final pass through of CARES Act PSP funding for SkyWest pilot and flight attendant wages.

Other expense

Other expense increased $37 million, or 42%, during the third quarter of 2021 compared to the same period in 2020. Increased expense is primarily driven by incremental crew hotel stays and per diem, consistent with the overall increase in departures and capacity, as well as additional expense for professional services.

Special Items - Impairment and other charges

We recorded a benefit associated with impairment and other charges of $9 million in the third quarter of 2021, consisting of updated estimates for costs associated with leased aircraft that have been retired and removed from the operating fleet but not yet returned to the lessor.

ADDITIONAL SEGMENT INFORMATION

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

Mainline

Mainline recorded adjusted pretax profit of $221 million in the third quarter of 2021, compared to a pretax loss of $463 million in the third quarter of 2020. The $684 million improvement was primarily driven by a $1 billion increase in Passenger revenues as a result of increased demand for air travel, offset by a $188 million increase in non-fuel operating costs and a $209 million increase in economic fuel cost.

Non-fuel operating expenses increased significantly, driven by increased variable costs, largely consistent with the overall increase in capacity and departures. Higher economic fuel prices, combined with a significant increase in gallons consumed, drove the increase in Mainline fuel expense.

Regional

Regional operations generated an adjusted pretax loss of $1 million in the third quarter of 2021, compared to an adjusted pretax loss of $96 million in the third quarter of 2020. The improved pretax loss was attributable to a $174 million increase in operating revenues, partially offset by a $40 million increase in non-fuel operating expenses and a $39 million increase in fuel costs.

Regional passenger revenue increased significantly compared to the third quarter of 2020, primarily driven by increased traffic and capacity driven by the resurgence in demand for air travel.

The increase in non-fuel operating expenses is primarily due to increased variable costs and higher CPA rates on an increase in capacity.

Horizon

Horizon achieved adjusted pretax profit of $8 million in the third quarter of 2021 compared to $11 million in the third quarter of 2020. Decreased profit is driven by increased operating expenses, primarily driven by increased maintenance expense on the Q400 fleet as compared to the prior year.

COMPARISON OF NINE MONTHS ENDED SEPTEMBER 30, 2021 TO NINE MONTHS ENDED SEPTEMBER 30, 2020

Our consolidated net income for the nine months ended September 30, 2021 was $460 million, or $3.64 per diluted share, compared to a net loss of $877 million, or $7.12 per share, for the nine months ended September 30, 2020.

Our adjusted net loss for the nine months ended September 30, 2021 was $287 million, or $2.27 per diluted share, compared to an adjusted net loss of $940 million, or $7.63 per diluted share, in the nine months ended September 30, 2020. The following table reconciles our adjusted net loss and adjusted diluted EPS to amounts as reported in accordance with GAAP:

	Nine Months Ended September 30,			
	2021		2020	
(in millions, except per share amounts)	Dollars	Diluted EPS	Dollars	Diluted EPS
Reported GAAP net income (loss) and diluted EPS	**$ 460**	**$ 3.64**	$ (877)	$ (7.12)
Payroll Support Program grant wage offset	**(914)**	**(7.24)**	(760)	(6.16)
Mark-to-market fuel hedge adjustments	**(68)**	**(0.54)**	—	—
Special items - merger-related costs	**—**	**—**	5	0.04
Special items - impairment charges and other	**5**	**0.04**	350	2.84
Special items - restructuring charges	**(12)**	**(0.09)**	322	2.61
Income tax effect of reconciling items above	**242**	**1.92**	20	0.16
Non-GAAP adjusted net loss per share	**$ (287)**	**$ (2.27)**	$ (940)	$ (7.63)

Our operating costs per ASM are summarized below:

	Nine Months Ended September 30,		
(in cents)	**2021**	**2020**	**% Change**
Consolidated:			
CASM	**9.50 ¢**	14.33 ¢	(34)%
Less the following components:			
Payroll Support Program grant wage offset	**(2.39)**	(2.77)	(14)%
Aircraft fuel, including hedging gains and losses	**2.24**	2.07	8 %
Special items - impairment charges and other	**0.01**	1.27	(98)%
Special items - restructuring charges	**(0.03)**	1.17	(103)%
Special items - merger-related costs	**—**	0.02	(100)%
CASM excluding fuel and special items	**9.67 ¢**	12.57 ¢	(23)%
Mainline:			
CASM	**8.26 ¢**	13.56 ¢	(39)%
Less the following components:			
Payroll Support Program grant wage offset	**(2.61)**	(2.89)	(10)%
Aircraft fuel, including hedging gains and losses	**1.99**	1.92	4 %
Special items - impairment charges and other	**0.02**	1.24	(99)%
Special items - restructuring charges and other	**(0.04)**	1.37	(103)%
Special items - merger-related costs	**—**	0.02	(100)%
CASM excluding fuel and special items	**8.90 ¢**	11.90 ¢	(25)%

OPERATING REVENUES

Total operating revenues increased $1.5 billion, or 55%, during the first nine months of 2021 compared to the same period in 2020. The changes are summarized in the following table:

	Nine Months Ended September 30,		
(in millions)	**2021**	**2020**	**% Change**
Passenger revenue	**$ 3,785**	$ 2,362	60 %
Mileage Plan other revenue	**332**	266	25 %
Cargo and other	**160**	130	23 %
Total operating revenues	**$ 4,277**	$ 2,758	55 %

Passenger Revenue

On a consolidated basis, Passenger revenue for the first nine months of 2021 increased by $1.4 billion, or 60%, on a 69% increase in passenger traffic, driven primarily by rebounding demand for leisure travel experienced in the second and third quarters of 2021. As travel restrictions were largely removed in the second quarter of 2021, passenger counts increased dramatically as compared to the prior year, with summer holiday travel approaching pre-COVID levels. These improvements were offset by the impacts of the delta variant, which slowed the return of demand primarily in September 2021.

Although the delta variant is likely to have an acute impact on October results, we expect that overall fourth quarter revenue will continue to show improvement over 2020 driven by leisure passengers traveling for the holiday season, and the gradual return of business travel.

Mileage Plan other revenue

On a consolidated basis, Mileage Plan other revenue increased $66 million, or 25%, in the first nine months of 2021 compared to the first nine months of 2020, due largely to an increase in commission received from our affinity card partner stemming from growing consumer spend and an increase in cardholders.

Cargo and other

On a consolidated basis, Cargo and other revenue increased $30 million, or 23%, in the first nine months of 2021 compared to the first nine months of 2020. The increase is primarily due to the return of all three freighters back to full capacity in the second quarter of 2021, coupled with increased belly cargo activity as we increase scheduled departures.

We expect that our cargo and other revenues will be positively impacted as compared to 2020 due to similar reasons as discussed above.

OPERATING EXPENSES

Total operating expenses decreased $307 million, or 8%, compared to the first nine months of 2020. We believe it is useful to summarize operating expenses as follows, which is consistent with the way expenses are reported internally and evaluated by management:

	Nine Months Ended September 30,		
(in millions)	2021	2020	% Change
Fuel expense	**$ 853**	$ 568	50 %
Non-fuel operating expenses, excluding special items	**3,699**	3,453	7 %
Payroll Support Program grant wage offset	**(914)**	(760)	20 %
Special items - impairment charges and other	**5**	350	(99)%
Special items - restructuring charges	**(12)**	322	(104)%
Special items - merger-related costs	**—**	5	(100)%
Total operating expenses	**$ 3,631**	$ 3,938	(8)%

Fuel Expense

Aircraft fuel expense increased $285 million, or 50%, compared to the nine months ended September 30, 2020. The elements of the change are illustrated in the table:

	Nine Months Ended September 30,			
	2021		2020	
(in millions, except for per gallon amounts)	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	**$ 949**	**$ 1.99**	$ 553	$ 1.61
(Gain)/loss on settled hedges	**(28)**	**(0.06)**	15	0.04
Consolidated economic fuel expense	**921**	**1.93**	$ 568	$ 1.65
Mark-to-market fuel hedge adjustments	**(68)**	**(0.14)**	—	—
GAAP fuel expense	**$ 853**	**$ 1.79**	$ 568	$ 1.65
Fuel gallons	**477**		344	

The raw fuel price per gallon increased 24% due to higher West Coast jet fuel prices. 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 increase in raw fuel price per gallon during the first nine months of 2021 was driven by a 55% increase in crude oil prices, offset by a slight decrease in refining margins.

Gains recognized for hedges that settled in the first nine months of 2021 were $28 million, compared to losses of $15 million in the same period in 2020. These amounts represent cash received from settled hedges, offset by cash paid for premium expense.

We expect our economic fuel cost per gallon in the fourth quarter to range between $2.25 and $2.30 per gallon based on current market West Coast jet fuel prices.

Non-fuel Expense and Non- special items

	Nine Months Ended September 30,		
(in millions)	2021	2020	% Change
Wages and benefits	**$ 1,581**	$ 1,579	— %
Variable incentive pay	**109**	65	68 %
Aircraft maintenance	**272**	244	11 %
Aircraft rent	**188**	229	(18)%
Landing fees and other rentals	**414**	323	28 %
Contracted services	**167**	138	21 %
Selling expenses	**123**	83	48 %
Depreciation and amortization	**294**	320	(8)%
Food and beverage service	**97**	70	39 %
Third-party regional carrier expense	**106**	92	15 %
Other	**348**	310	12 %
Total non-fuel operating expenses, excluding special items	**$ 3,699**	$ 3,453	7 %

Wages and Benefits

Wages and benefits increased during the first nine months of 2021 by $2 million. The primary components of wages and benefits are shown in the following table:

	Nine Months Ended September 30,		
(in millions)	2021	2020	% Change
Wages	**$ 1,176**	$ 1,159	1 %
Pension—Defined benefit plans service cost	**39**	37	5 %
Defined contribution plans	**91**	96	(5)%
Medical and other benefits	**192**	205	(6)%
Payroll taxes	**83**	82	1 %
Total wages and benefits	**$ 1,581**	$ 1,579	— %

Wages increased $17 million, or 1%, on a 4% increase in FTEs. Increased wages as compared to the prior period are primarily the result of pilots and employees returning from leaves of absence and incentive lines accepted in 2020. These increases were coupled with increased wages in the third quarter as we began to rebuild staffing and provide incentives to employees in response to increasing demand.

For the full year, we expect wages and benefits will increase compared to 2020 as we increase scheduled flying and return workers from incentive leaves or other absences to align with our expectation of increased demand. Additionally, as labor shortages continue to impact many of our markets, we expect to see wage pressure as we offer premium and bonus pay to attract and retain employees.

Variable Incentive Pay

Variable incentive pay expense increased $44 million, or 68%, during the first nine months of 2021 as compared to the same period in 2020. The increase is primarily due to the expectation that higher payouts will be achieved under the Performance Based Pay Plan.

Aircraft Maintenance

Aircraft maintenance expense increased by $28 million, or 11%, during the first nine months of 2021 compared to the same period in 2020. The increase is primarily due to increased component repairs which were deferred in 2020, as well as increased power-by-the-hour expense driven by increased utilization of covered aircraft.

We expect full year aircraft maintenance expense to be higher than 2020 on increased aircraft utilization.

Landing fees and other rentals

Landing fees and other rentals increased by $91 million, or 28%, during the first nine months of 2021 compared to the same period in 2020, primarily due to a significant increase in departures, combined with increased rates at certain of our hub airports.

For the full year, we expect landing fees and other rentals to increase as compared to 2020 as we continue to increase capacity and departures on increased rates at many of our hub airports.

Selling Expense

Selling expense increased by $40 million, or 48%, during the first nine months of 2021 compared to the same period in 2020, primarily driven by a significant increase in distribution costs and credit card commissions. Increased marketing spend and sponsorship costs given the return of professional sports and events also contributed to the year-over-year increase.

We expect full year selling expense will increase in-line with the increase to revenue as a result of increased distribution costs on higher bookings, as well as increased sponsorship and marketing costs.

Third-party Regional Carrier Expense

Third-party regional carrier expense, which represents payments made to SkyWest under our CPA, increased $14 million, or 15%, during the first nine months of 2021 compared to the same period in 2020. The increase is primarily due to a 25% increase in SkyWest departures as compared to the prior year.

For the full year, we expect third-party regional carrier expense to be higher than 2020 driven by increased departures.

Special Items - Impairment and other charges

We recorded impairment and other charges of $5 million in the first nine months of 2021, consisting of costs associated with leased aircraft that have been retired and removed from the operating fleet but not yet returned to the lessor. We continue to evaluate total estimated costs to return these permanently parked aircraft, and make updates to total expense where necessary.

Special Items - Restructuring charges

We recorded a restructuring benefit of $12 million in the first nine months of 2021 primarily as a result of issuing recall notices to pilots on incentive lines for periods earlier than were previously anticipated.

ADDITIONAL SEGMENT INFORMATION

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

Mainline

Mainline reported an adjusted pretax loss of $247 million in the first nine months of 2021, compared to an adjusted pretax loss of $1 billion in the same period in 2020. The $772 million improvement to pretax loss was driven by a $1.2 billion increase in Mainline operating revenues offset by a $278 million increase in Mainline fuel expense and a $160 million increase in Mainline non-fuel operating expense.

As compared to the prior year, higher Mainline revenues are primarily attributable to a 71% increase in traffic on a 41-point increase in capacity, driven by the significant increase in demand recovering from the COVID-19 pandemic. Non-fuel operating expenses increased from higher variable costs on increased capacity, as well as rising wages and benefits expense as we expand our workforce to meet growing demand. Higher raw fuel prices, combined with increased consumption drove the growth in Mainline fuel expense.

Regional

Regional operations incurred an adjusted pretax loss of $207 million in the first nine months of 2021, compared to an adjusted pretax loss of $298 million in the first nine months of 2020. The decreased loss was attributable to a $278 million increase in operating revenues, offset by a $112 million increase in non-fuel operating expenses and a $75 million increase in fuel costs.

The increase to regional revenues is driven by a 58% increase in traffic as compared to the prior-year period, also resulting in increased variable non-fuel operating expenses.

Horizon

Horizon achieved an adjusted pretax profit of $34 million in the first nine months of 2021, compared to an adjusted pretax profit of $27 million in the same period in 2020, primarily due to improved operational performance and cost management.

LIQUIDITY AND CAPITAL RESOURCES

As a result of the COVID-19 pandemic, we have taken, and will continue to take action to reduce costs, manage liquidity and preserve the relative strength of our balance sheet. In 2020, we took significant actions to enhance and preserve our liquidity, withstand depressed demand, and prepare for the recovery ahead. In 2021, we have achieved the following, which we believe positions us well for recovery:

- Generated positive operating cash flow of $901 million, bolstered by improved advance bookings for increased demand for air travel, and the receipt of $1.2 billion in payroll support funding from the U.S. Treasury under extensions of CARES Act programs, $892 million of which is included in operating cash flow;
- Repaid $1.2 billion in debt, including the termination of the CARES Act loan, full repayment of two outstanding lines of credit, and prepayment of the $425 million 364-day term loan facility;
- Decreased debt-to-capitalization ratio to 51% at September 30, 2021 from 61% at December 31, 2020;
- Made a $100 million voluntary contribution to the defined benefit plan for Alaska's pilots in the third quarter, boosting estimated combined funded status of all defined benefit plans to 94%;
- Finalized a previously announced amendment to the existing aircraft purchase agreement with Boeing, which significantly reduced our 2021 capital commitments and provides flexibility for timing of future deliveries and capital expenditures, and;
- Maintained low capital expenditures, which are expected to be approximately $250 million in 2021, including renegotiated timing of pre-delivery payments and deferral of non-essential capital projects.

Although we have no plans to access equity markets at this time, we believe our equity would be of high interest to investors.

As the business continues to recover and maintain profitability, reducing outstanding debt, normalizing our on-hand liquidity, and strengthening our balance sheet is a high priority. Based on our fourth quarter expectations including reduced bookings driven by the delta variant and rising fuel prices, we expect to use cash flow from operations of $100 million to zero, excluding any federal income tax refunds or payments.

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

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

(in millions)	September 30, 2021		December 31, 2020		Change
Cash and marketable securities	**$**	**3,195**	$	3,346	(5) %
Cash, marketable securities, and unused lines of credit as a percentage of trailing twelve months' revenue		**71 %**		94 %	(23) pts
Total debt		**2,650**		3,495	(24) %
Shareholders' equity	**$**	**3,531**	$	2,988	18%

Debt-to-capitalization, adjusted for operating leases

(in millions)	September 30, 2021		December 31, 2020		Change
Long-term debt, net of current portion	**$**	**2,225**	$	2,357	(6)%
Capitalized operating leases		**1,466**		1,558	(6)%
COVID-19 related borrowings[a]		**—**		734	(100)%
Adjusted debt, net of current portion of long-term debt	**$**	**3,691**	$	4,649	(21)%
Shareholders' equity		**3,531**		2,988	18%
Total invested capital	**$**	**7,222**	$	7,637	(5)%
Debt-to-capitalization, including operating leases		**51 %**		61 %	(10) pts

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

(in millions)	September 30, 2021		December 31, 2020	
Current portion of long-term debt	**$**	**425**	$	1,138
Current portion of operating lease liabilities		**260**		290
Long-term debt, net of current portion		**2,225**		2,357
Long-term operating lease liabilities, net of current portion		**1,206**		1,268
Total adjusted debt		**4,116**		5,053
Less: Cash and marketable securities		**(3,195)**		(3,346)
Adjusted net debt	**$**	**921**	$	1,707

(in millions)	Twelve Months Ended September 30, 2021		Twelve Months Ended December 31, 2020	
GAAP Operating Income (loss)[a]	**$**	**51**	$	(1,775)
Adjusted for:				
Payroll Support Program grant wage offset and special items		**(767)**		71
Mark-to-market fuel hedge adjustments		**(76)**		(8)
Depreciation and amortization		**394**		420
Aircraft rent		**258**		299
EBITDAR	**$**	**(140)**	$	(993)
Adjusted net debt to EBITDAR		**(6.6x)**		(1.7x)

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

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

ANALYSIS OF OUR CASH FLOWS

Cash Provided by Operating Activities

For the first nine months of 2021, net cash provided by operating activities was $901 million, compared to $116 million during the same period in 2020. The $785 million increase in our operating cash flows is primarily attributable to a $1.3 billion improvement to net income, aided by the receipt and recognition of $892 million in PSP grant funding made available by the U.S. Treasury. Additionally, improvement in our operating cash flows is due to continued increases in advanced bookings and a significant reduction in refund activity when compared to the first nine months of 2020. These improvements were partially offset by a $100 million voluntary contribution to the defined benefit plan for Alaska pilots.

Cash Used in Investing Activities

Cash used in investing activities was $943 million during the first nine months of 2021, compared to $767 million during the same period of 2020. The increase to cash used in investing activities is primarily due to net purchases of marketable securities, which were $744 million in the first nine months of 2021, compared to $572 million in the nine months ended September 30, 2020. Increased net purchases is primarily driven by additional cash on hand from the PSP program and improved operational results, allowing the Company to invest additional funds.

Cash Provided by (Used in) Financing Activities

Cash used in financing activities was $825 million during the first nine months of 2021 compared to cash provided by financing activities of $2.3 billion during the same period in 2020. During the first nine months of 2021, we utilized cash on hand to repay $1.2 billion of outstanding long-term debt, compared to payments of $238 million during the same period in 2020. These payments were offset by proceeds from debt issuances of $363 million, primarily a result of the loan portion of the proceeds from the CARES Act PSP, compared to $2.6 billion issued in 2020 in response to the COVID-19 pandemic.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Aircraft Commitments

As of September 30, 2021, our airlines have firm orders to purchase 86 aircraft, and firm commitments to lease 12 aircraft. Alaska also has an agreement with SkyWest Airlines to expand our long-term capacity purchase agreement by eight aircraft in 2022. Alaska also has options to acquire 52 B737-9 MAX aircraft with deliveries from 2024 through 2026, and Horizon has options to acquire 21 E175 aircraft with deliveries from 2023 through 2025. Options will be exercised only if we believe return on invested capital targets can be met over the long term.

The following table summarizes our anticipated fleet count by year, as of September 30, 2021:

	Actual Fleet	Anticipated Fleet Activity[a]						
Aircraft	**Sept 30, 2021**	**2021 Additions**	**2021 Removals**	**Dec 31, 2021**	**2022 Changes**	**Dec 31, 2022**	**2023 Changes**	**Dec 31, 2023**
B737 Freighters	3	—	—	3	—	3	—	3
B737-700	11	—	—	11	—	11	—	11
B737-800	61	—	—	61	—	61	—	61
B737-900	12	—	—	12	—	12	—	12
B737-900ER	79	—	—	79	—	79	—	79
B737-9 MAX	7	5	—	12	31	43	32	75
A320[b]	27	4		31	(7)	24	(24)	—
A321neo	10	—	—	10	—	10	—	10
Total Mainline Fleet	**210**	**9**	**—**	**219**	**24**	**243**	**8**	**251**
Q400 operated by Horizon[c]	32	—	—	32	—	32	—	32
E175 operated by Horizon[c]	30	—	—	30	5	35	4	39
E175 operated by third party[c]	32	—	—	32	8	40	—	40
Total Regional Fleet	**94**	**—**	**—**	**94**	**13**	**107**	**4**	**111**
Total	**304**	**9**	**—**	**313**	**37**	**350**	**12**	**362**

(a) Anticipated fleet activity reflects intended early retirement and extensions or replacement of certain leases, not all of which have been contracted yet.

(b) Actual fleet at September 30, 2021, excluding Airbus aircraft permanently parked in response to COVID-19 capacity reductions. We have announced plans to return 12 of these aircraft to operating service. Of these aircraft, six were returned in Q3 2021, four are planned for Q4 2021 and two for 2022.

(c) Aircraft are either owned or leased by Horizon or operated under capacity purchase agreement with a third party. Under the terms of our capacity purchase agreement with a third party, in 2023 an additional spare aircraft will be leased to support the operational integrity of the network.

For future firm orders and option exercises, we may finance the aircraft through cash flow from operations or long-term debt.

Fuel Hedge Positions

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

	Approximate % of Expected Fuel Requirements	**Weighted-Average Crude Oil Price per Barrel**	**Average Premium Cost per Barrel**
Fourth Quarter 2021	50 %	$61	$3
Remainder of 2021	**50 %**	**$61**	**$3**
First Quarter 2022	50 %	$69	$3
Second Quarter 2022	40 %	$69	$3
Third Quarter 2022	30 %	$73	$3
Fourth Quarter 2022	20 %	$70	$4
Full Year 2022	**34 %**	**$70**	**$3**
First Quarter of 2023	10 %	$69	$4
Full Year 2023	**2 %**	**$69**	**$4**

Contractual Obligations

The following table provides a summary of our contractual obligations as of September 30, 2021. For agreements with variable terms, amounts included reflect our minimum obligations.

(in millions)	Remainder of 2021	2022	2023	2024	2025	Beyond 2025	Total
Current and long-term debt obligations	$ 112	$ 371	$ 334	$ 240	$ 261	$ 1,352	$ 2,670
Aircraft lease commitments[a]	81	292	229	172	165	656	1,595
Facility lease commitments	3	9	9	9	6	88	124
Aircraft-related commitments[b]	60	1,476	1,681	385	79	13	3,694
Interest obligations [c]	7	85	91	68	51	176	478
Other obligations [d]	47	184	189	195	197	898	1,710
Total	$ 310	$ 2,417	$ 2,533	$ 1,069	$ 759	$ 3,183	$ 10,271

(a) Future minimum lease payments for aircraft includes commitments for aircraft which have been removed from operating service, as we have remaining obligation under existing terms.
(b) Includes non-cancelable contractual commitments for aircraft and engines, buyer furnished equipment, and contractual aircraft maintenance obligations.
(c) For variable-rate debt, future obligations are shown above using interest rates forecast as of September 30, 2021.
(d) Primarily comprised of non-aircraft lease costs associated with capacity purchase agreements.

Credit Card Agreements

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

Leased Aircraft Return Costs

For many of our leased aircraft, we are required under the contractual terms to return the aircraft in a specified state. As a result of these contractual terms, we will incur significant costs to return these aircraft at the termination of the lease. Costs of returning leased aircraft are accrued when the costs are probable and reasonably estimable, usually over the twelve months prior to the lease return, unless a determination is made that the leased asset is removed from operation. If the leased aircraft is removed from the operating fleet, the estimated cost of return is accrued at the time of removal. Any accrual is based on the time remaining on the lease, planned aircraft usage and the provisions included in the lease agreement, although the actual amount due to any lessor upon return may not be known with certainty until lease termination. We anticipate recording material expenses and cash outflows to return aircraft beginning in 2022, as all Airbus A320 aircraft are expected to exit our fleet by 2023.

Deferred Income Taxes

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

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

CRITICAL ACCOUNTING ESTIMATES

There have been no material changes to our critical accounting estimates during the three months ended September 30, 2021. 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, 2020.

GLOSSARY OF AIRLINE TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There have been no material changes in market risk from the information provided in Item 7A. “Quantitative and Qualitative Disclosure About Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2020.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2021, an evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer (collectively, our “certifying officers”), of the effectiveness of the design and operation of our disclosure controls and procedures. These disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in our periodic reports filed with or submitted to the Securities and Exchange Commission (the SEC) is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and includes, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our certifying officers, as appropriate, to allow timely decisions regarding required disclosure. Our certifying officers concluded, based on their evaluation, that disclosure controls and procedures were effective as of September 30, 2021.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company’s internal controls over financial reporting during the quarter ended September 30, 2021, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

PART II

ITEM 1. LEGAL PROCEEDINGS

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

In 2015, three flight attendants filed a class action lawsuit seeking to represent all Virgin America flight attendants for damages based on alleged violations of California and City of San Francisco wage and hour laws. The court certified a class of approximately 1,800 flight attendants in November 2016. The Company believes the claims in this case are without factual and legal merit.

In July 2018, the Court granted in part Plaintiffs' motion for summary judgment, finding Virgin America, and Alaska Airlines, as a successor-in-interest to Virgin America, responsible for various damages and penalties sought by the class members. In February 2019, the Court entered final judgment against Virgin America and Alaska Airlines in the amount of approximately $78 million. It did not award injunctive relief against Alaska Airlines. In February 2021, an appellate court reversed portions of the lower court decision and significantly reduced the judgment. The determination of total judgment has not been completed as of the date of this filing. Based on the facts and circumstances available, the Company believes the range of potential loss to be between $0 and $22 million, and holds an accrual for $22 million in Other accrued liabilities on the condensed consolidated balance sheets.

Alaska is seeking an appellate court ruling that the California laws on which the judgment is based are invalid as applied to airlines pursuant to the U.S. Constitution and provisions of federal law that were enacted to shield inter-state common carriers from a patchwork of state and local wage and hour regulations such as those at issue in this case. If appeal efforts are unsuccessful, compliance with the California laws may have an adverse impact on the Company's operations and financial position.

The Company is involved in other litigation around the application of state and local employment laws, like many air carriers. Our defenses are similar to those identified above, including that the state and local laws are preempted by federal law and are unconstitutional because they impede interstate commerce. None of these additional disputes are material.

ITEM 1A. RISK FACTORS

Except for the additional risk factor below, 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, 2020.

Mandatory vaccination programs could have a material adverse impact on the Company's operations and financial results.

The President's executive order of September 9, 2021 requires employees of government contractors to be fully vaccinated against COVID-19 as soon as December 8, 2021, though final timelines are pending. Alaska Airlines and Horizon Air are government contractors by virtue of their agreements with the U.S. government for the carriage of passengers and mail, among other activities. McGee Air Services is subject to the executive order as a subcontractor of Alaska Airlines. Our operating subsidiaries are working to achieve compliance with the mandate. The executive order allows employers to excuse employees from the vaccination requirement only with a valid medical or religious exemption. Alaska, Horizon and McGee operate in highly competitive job markets in which the pool of available employees is limited. Our companies, contractors and vendor partners whose services we rely on to run our operation, may lose current or prospective employees because individuals decline to be vaccinated. If our companies, contractors and vendor partners cannot fill job vacancies with other qualified workers, operational disruption and associated negative impact to guests and our financial results could result. If we cannot comply with the scope and/or timing of the executive order or similar state mandates, we could lose business and revenues associated with our government contracts.

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

Historically, the Company purchased shares pursuant to a $1 billion repurchase plan authorized by the Board of Directors in August 2015. In March 2020, the Company suspended the share repurchase program indefinitely. When the repurchase program is restarted, the plan has remaining authorization to purchase an additional $456 million in shares.

As of September 30, 2021, a total of 1,455,436 shares of the Company's common stock have been issued to Treasury in connection with the payroll support program. Each warrant is exercisable at a strike price of $52.25 (49,625 shares related to PSP2) and $66.39 (221,812 shares related to PSP3) per share of common stock and will expire on the fifth anniversary of the issue date of the warrant. Such warrants were issued to Treasury in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act").

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

On November 2, 2021, the Company entered into new Change of Control Agreements with Messrs. Minicucci, Tackett and Harrison, as well as other officers of the Company and its subsidiaries. The new Change of Control Agreements replace and supersede the change-in-control agreements that were previously in place for these officers. The new agreements with Messrs. Minicucci, Tackett and Harrison have a term of three years, with automatic one-year extensions on each anniversary of the effective date, unless the Company notifies an executive before the next occurring anniversary that the agreement will not be extended beyond the term then in effect.

Under the new agreements, if a change of control occurs, an "employment period" of three years would go into effect. During the employment period, Messrs. Minicucci, Tackett and Harrison would be entitled to the following benefits, provided that they comply with any restrictive covenants under any agreements to which they remain subject:

- The highest monthly salary the executive received at any time during the 12-month period preceding the change in control;
- An annual incentive payment equal to the higher of the executive's target Performance-Based Pay Plan incentive or the average of the executive's annual incentive payments for the three years preceding the year in which the change in control occurs;
- Continued employer contributions under the Company's DC Supplementary Retirement Plan;
- Continued participation in fringe benefit programs that are at least as favorable as those in which the executive was participating prior to the change of control;
- Travel benefits for the executive and his spouse or domestic partner and eligible family members and dependents under the most favorable plans, policies, programs and practices of the Company as in effect for the executive at any time during the 90-day period immediately preceding the change of control or, if more favorable to the executive, as in effect generally at any time thereafter with respect to other peer executives of the Company; and
- Within 60 days after the later of the change of control or the date on which any restrictions on the executive's compensation pursuant to the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act Restrictions") end, (i) a lump-sum cash payment equal to any cash-based obligations recouped by the Company pursuant to the CARES Act Restrictions, and (ii) with respect to any equity awards forfeited pursuant to the CARES Act Restrictions, a combination of shares of common stock of the Company or its successor, equity awards of the same type and subject to the same vesting schedule as the forfeited awards, and/or a cash payment equal to the fair market value of all or a portion of the shares of common stock covered by the forfeited awards (the amounts described in clauses (i) and (ii) collectively referred to as "CARES Act Restoration Payments").

If the executive's employment is terminated by the Company without cause or by the executive for "good reason" during the employment period (or, in certain circumstances, if such a termination occurs prior to and in connection with a change of control), the executive would be entitled to receive:

- A lump sum payment equal to the value of the payments and benefits identified above that the executive would have received had he continued to be employed for the entire employment period (other than travel benefits and equity awards forfeited pursuant to the Cares Act Restrictions);

- Lifetime unlimited, fee-waived, positive-space travel in any class of service for the executive and his spouse or domestic partner and eligible family members and dependents or, if more favorable to the executive, as in effect generally at any time thereafter with respect to other peer executives of the Company; and
- In the event that the CARES Act Restrictions end and, as of the executive's termination date, CARES Act Restoration Payments have not been paid in full, then any remaining CARES Act Restoration Payments that would otherwise be payable had the executive remained employed.

The amount an executive would be entitled to receive would be reduced on a pro-rata basis for any time the executive worked during the employment period. (The terms "cause," "good reason" and "change in control" are each defined in the new agreements.) In the event that change of control benefits under the new agreements exceed the threshold amount that would trigger an excise tax under Section 280G of the Internal Revenue Code, the executive would receive the larger of the following amounts:

- The "safe harbor amount," which is equal to the level at which excise taxes are triggered; or
- The full change in control benefits if, after receipt of the full change in control benefits and payment of the excise tax, the after-tax amount is greater than the safe harbor amount referenced above.

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
Vice President Finance and Controller

November 4, 2021

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number
3.1	Amended and Restated Certificate of Incorporation of Registrant	10-Q	August 3, 2017	3.1
10.1†	Form of Alaska Air Group, Inc. Change of Control Agreement for named executive officers, as amended August 3, 2021	10-Q		
10.2†*	Amendment No. 16 to Purchase Agreement dated April 11, 2016, between Embraer S.A. and Horizon Air Industries, Inc.	10-Q		
10.3†*	Supplemental Agreement No. 18 to Purchase Agreement No. 3866 between the Boeing Company and Alaska Airlines, Inc.	10-Q		
31.1†	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	10-Q		
31.2†	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	10-Q		
32.1†	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	10-Q		
32.2†	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	10-Q		
101.INS†	XBRL Instance Document - The instance document does not appear in the interactive data file because XBRL tags are embedded within the inline XBRL document.			
101.SCH†	XBRL Taxonomy Extension Schema Document			
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document			
†	Filed herewith			
*	Certain confidential portions have been redacted from this exhibit in accordance with Item 601(b)(10) of Regulation S-K under the Securities Exchange Act of 1934, as amended.			

Change of Control Agreement

THIS CHANGE OF CONTROL AGREEMENT (this "Agreement") by and between Alaska Air Group, Inc., a Delaware corporation ("Air Group"), [**SUBSIDIARY EMPLOYER** (the "Employer")] and **NAME** (the "Executive") is hereby entered into effective as of the **DATE** day of **MONTH**, **YEAR** (the "Effective Date"). This Agreement supersedes and replaces in their entirety any and all prior severance agreements by and between Air Group and the Executive (the "Prior Agreements").

The Board of Directors (the "Board") of Air Group has determined that it is in the best interests of Air Group and its stockholders to ensure that Air Group and its subsidiaries will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined in Section 3). The Board believes that it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive's full attention and dedication to Air Group currently and in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control that ensure that the compensation and benefits expectations of the Executive will be satisfied, are competitive with those of other corporations and align the Executive's interests with those of Air Group's stockholders. Therefore, in order to accomplish these objectives, the Board has caused Air Group to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Term

This Agreement shall be effective as of the Effective Date. This Agreement will continue in effect through the third anniversary of the Effective Date. However, upon the first anniversary of the Effective Date and upon each subsequent anniversary of the Effective Date, the term of this Agreement shall be extended automatically for one additional year (such that upon the first anniversary of the Effective Date the term of this Agreement shall be extended through the fourth anniversary of the Effective Date and so on), unless Air Group delivers written notice prior to such anniversary of the Effective Date to the Executive that this Agreement will not be extended or further extended, as the case may be, and if such notice is given this Agreement will terminate at the end of the term then in progress.

Notwithstanding the foregoing, in the event a Change of Control occurs during the original or any extended term of this Agreement, this Agreement will remain in effect until all obligations of Air Group hereunder have been fulfilled and all benefits required hereunder have been provided to the Executive (*i.e.,* in accordance with Sections 5 and/or 7 hereof). For purposes of clarity, subject to Section 4.1, benefits shall be provided to the Executive under this Agreement only with respect to the first Change of Control of Air Group occurring on or after the Effective Date (the "Initial Change of Control"); provided, however, that Air Group and the Executive may agree that an event or condition that would otherwise constitute a Change of Control shall not be treated as such for purposes of this Agreement, in which case, subject to the foregoing paragraph, the next occurring Change of Control shall constitute the Initial Change of Control for purposes hereof. Accordingly, no Change of Control after the first Change of Control shall be considered for purposes of this Agreement.

2. Certain Definitions

(a) "Accounting Firm" is defined in Section 10(b).

(b) "affiliated company" means any company controlled by, controlling or under common control with Air Group (and Air Group itself, if the context so requires).

(c) "Agreement" means this Change of Control Agreement.

(d) "Air Group" means Alaska Air Group, Inc., a Delaware corporation.

(e) "Annual Base Salary" is defined in Section 5(b)(i).

(f) "Annual Bonus" is defined in Section 5(b)(ii).

(g) "Board" means the Board of Directors of Air Group.

(h) "CARES Act Restrictions" is defined in Section 5(b)(ix).

(i) "Cause" means basis for termination due to:

(i) the Executive's conviction of, or pleading guilty or *nolo contendere* to, a felony (other than traffic related offenses or as a result of vicarious liability);

(ii) the Executive's engagement in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his or her duties to Air Group or the affiliated companies;

(iii) the Executive's willful and repeated failure to perform or uphold his or her duties to Air Group and the affiliated companies; or

(iv) the Executive's willful failure to comply with reasonable directives of the Board which are communicated to him or her in writing;

provided, however, that no act or omission by the Executive shall be deemed "willful" if the Executive reasonably believed in good faith that such acts or omissions were in the best interests of Air Group and the affiliated companies.

(j) "Change of Control" is defined in Section 3.

(k) "Change of Control Date" means the first date (if any) during the term of this Agreement (determined in accordance with Section 1) on which a Change of Control occurs.

(l) "Code" means the Internal Revenue Code of 1986, as amended.

(m) "Date of Termination" is defined in Section 6(b).

(n) "Effective Date" is defined in the introductory paragraph of this Agreement.

(o) "Employer" means the affiliated company that employs the Executive.

(p) "Employment Period" is defined in Section 4.

(q) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(r) "Excise Tax" is defined in Section 10(a).

(s) "Executive" is defined in the introductory paragraph of this Agreement.

(t) "Forfeited Equity Awards" is defined in Section 5(b)(ix).

(u) "Good Reason Separation" means the Executive's voluntary Separation from Service within one year after the occurrence without the Executive's prior written consent of one or more of the following events:

(i) the material reduction in the Executive's annual base salary;

(ii) the material diminution or reduction of the Executive's authority, duties or responsibilities;

(iii) a material change in the geographic location at which the Executive must perform services; or

(iv) any material breach by the Employer or Air Group of any other provision of this Agreement;

provided, however, that an Executive shall not be entitled to a Good Reason Separation unless the Executive shall have furnished written notice to the Employer of the condition claimed to constitute the basis for the Good Reason Separation within 90 days of the initial existence of such condition; and the Employer shall have not remedied such condition within a period of 30 days after its receipt of such notice from the Executive.

(v) "Incumbent Directors" means:

(i) individuals who constitute the Board at the beginning of such period;

(ii) individuals who were nominated or elected by all of, or a committee composed entirely of, the individuals described in clause (i); and

(iii) individuals who were nominated or elected by individuals described in clause (ii).

(w) "Initial Change of Control" is defined in Section 1.

(x) "Limited Benefit Amount" is defined in Section 10(a).

(y) "Notice of Termination" is defined in Section 6(a).

(z) "Other Benefits" is defined in Section 7(d).

(aa) "Parachute Payments" is defined in Section 10(a).

(bb) "Person" means any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d) of the Exchange Act).

(cc) "Prior Agreements" is defined in the introductory paragraph of this Agreement.

(dd) "Recent Average Bonus" is defined in Section 5(b)(ii).

(ee) "Section 409A" is defined in Section 10(h)(i).

(ff) "Separation from Service" (and its derivatives, such as "Separates from Service") means a termination of services provided by the Executive to the Employer, whether such termination of services is voluntary or involuntary, as determined by the Board in accordance with Section 409A of the Code and Treasury Regulation Section 1.409A-1(h).

(gg) "Voting Securities" is defined in Section 3(c).

3. Change of Control

For the purpose of this Agreement, a "Change of Control" means the occurrence of any of the following:

(a) the consummation of:

(i) any consolidation or merger of Air Group in which Air Group is not the continuing or surviving corporation or pursuant to which shares of common stock of Air Group would be converted into cash, securities or other property, other than a merger of Air Group in which the holders of common stock of Air Group immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger;

(ii) the sale or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the then-outstanding securities of the Employer; or

(iii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Executive's Employer (whether in connection with a broader sale, lease, exchange or other transfer of all, or substantially all, of the assets of Air Group and/or one or more affiliated companies, or solely involving the assets of such Employer).

(b) at any time during a period of 24 months, fewer than a majority of the members of the Board are Incumbent Directors.

(c) any Person shall, as a result of a tender or exchange offer, open market purchases, privately-negotiated purchases or otherwise, become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of the then-outstanding securities of Air Group ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of members of the Board ("Voting Securities") to be calculated as provided in paragraph (d) of Rule 13d-3 in the case of rights to acquire common stock of Air Group) representing 20% or more of the combined voting power of the then-outstanding Voting Securities.

(d) approval by the stockholders of Air Group or the Employer of any plan or proposal for the liquidation or dissolution of the Employer.

Notwithstanding the foregoing, unless the Board shall determine otherwise, a Change of Control shall not be deemed to have occurred (i) by reason of any corporate reorganization, merger, consolidation, transfer of assets, liquidating distribution or other transaction entered into solely by and between Air Group or an affiliated company and any other affiliated company, provided such transaction has been approved by at least two-thirds (2/3) of the Incumbent Directors (as defined above) then in office and voting; or (ii) if (A) the Executive is an employee of an Employer other than Air Group or Alaska Airlines, Inc., and (B) upon or within

30 days preceding the occurrence of an event described in Sections 3(a)(ii), 3(a)(iii) or 3(d), the Executive is offered a position with Air Group or an affiliated company that offers an Annual Base Salary and Annual Bonus opportunity comparable to that of the Executive's position with the Employer immediately before the occurrence of such event.

4. Employment Period

Air Group and the Employer hereby agree to keep the Executive in the Employer's employ, and the Executive hereby agrees to remain in the employ of Employer, in accordance with the terms and provisions of this Agreement, for the period commencing on the Change of Control Date and ending on the **third** (AAG/AS CEO/EVP), **second** (AAG/AS SVP/VP and QX President), **first** (QX SVP/VPs, McGee President) anniversary of such date (the "Employment Period"), in an executive capacity, responsible for, among other things, duties associated with such capacity, and, subject to the general supervision of the Board as required by the Delaware General Corporation Law, such other duties and responsibilities as are not inconsistent with the express terms of this Agreement. Such employment may be with Air Group or any of its principal operating subsidiaries, as appropriate to the management structure developed by Air Group. Air Group agrees that it will not take any action, or make any demands on the Executive, that may be deemed to arbitrarily, unreasonably or unnecessarily interfere with the performance of the services to be rendered by the Executive hereunder.

The Executive's employment with the Employer is at will, provided that a termination of the Executive's employment during the Employment Period by the Executive in a Good Reason Separation or by the Employer without Cause shall be subject to the provisions of Section 7 hereof.

5. Terms of Employment during Employment Period

(a) Position and Duties.

(i) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be in accordance with Section 4 and (B) the Executive's services shall be performed within the metropolitan area in which the Executive was situated immediately prior to the Change of Control Date, except for required travel in the Employer business to the extent consistent with the Executive's duties in Section 4.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Employer and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions, or (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Employer in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Change of Control Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Change of Control Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Employer.

(b) Compensation. All payments and benefits due under this Section 5(b) are contingent on the Executive's compliance with any restrictive covenants, including, without limitation, any confidentiality, non-competition, non-solicitation and/or non-disparagement commitments, to which the Executive is or becomes subject as of the Change of Control Date or during the Employment Period, as applicable (whether under this Agreement or otherwise).

(i) Base Salary. During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary"), which shall be paid in equal installments in accordance with the regular payroll schedule applicable to similarly-situated executives, at least equal to 12 times the highest monthly base salary paid or payable to the Executive by the Employer or any affiliated company in respect of the 12month period immediately preceding the month in which the Change of Control Date occurs. For purposes of this Agreement, Annual Base Salary shall not include any payments by the Employer or any affiliated company on the Executive's behalf pursuant to any incentive, savings or retirement plans, any welfare benefit plans or any fringe benefit plans, in each case, of the Employer or any affiliated company, of the type identified in paragraphs (iii), (iv) and (vi) of this Section 5(b), or any reimbursement of expenses by the Employer or any affiliated company in accordance with paragraph (v) of this Section 5(b), but shall include vacation pay in accordance with paragraph (viii) of this Section 5(b). During the Employment Period, the Annual Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as shall be substantially consistent with increases in base salary generally awarded in the ordinary course of business to other peer executives of the Employer and any affiliated companies. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase, and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased.

(ii) Annual Bonus. In addition to Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash at least equal to the greater of (A) the Executive's target annual bonus (annualized if such target bonus is based on a period of less than 12 full months) in effect on the Change of Control Date and (B) the average annualized (for any fiscal year consisting of less than 12 full months or with respect to which the Executive has been employed by the Employer or any affiliated company for less than 12 full months) bonus paid or payable, including by reason of any deferral, to the Executive by the Employer in respect of the three fiscal years immediately preceding the fiscal year in which the Change of Control Date occurs (the "Recent Average Bonus"). Each such Annual Bonus shall be paid between January 1 and March 15 of the year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect, pursuant to the terms of the Air Group Nonqualified Deferred Compensation Plan (or any successor to that plan), to defer the receipt of such Annual Bonus.

(iii) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Employer, but in no event shall:

(A) any payments due under such plans, practices, policies and programs duplicate the Annual Bonus for which the Executive is contractually eligible pursuant to paragraph (ii) of this Section 5(b); or

(B) except as provided in clause (A) of this paragraph, such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, that are less favorable, in the aggregate, than the most favorable of those provided by the Employer for the Executive under such plans, practices, policies and programs as in effect at any time during the 90day period immediately preceding the Change of Control Date or, if more favorable to the Executive, those provided generally at any time after the Change of Control Date to other peer executives of the Employer.

(iv) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Employer (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Employer, but in no event shall such plans, practices, policies and programs provide the Executive with benefits that are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 90day period immediately preceding the Change of Control Date or, if more favorable to the Executive, those provided generally at any time after the Change of Control Date to other peer executives of the Employer.

(v) Expenses. During the Employment Period, the Executive shall be entitled to reimbursement promptly, but in no event later than the end of the calendar year following the year in which the expense is incurred, for all reasonable employment expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Employer in effect for the Executive at any time during the 90day period immediately preceding the Change of Control Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Employer.

(vi) Fringe Benefits. During the Employment Period, the Executive shall be entitled to fringe benefits in accordance with the most favorable plans, practices, programs and policies of the Employer in effect for the Executive at any time during the 90day period immediately preceding the Change of Control Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Employer. To the extent that a plan, practice, program or policy provides for the reimbursement of the Executive's expenses, such reimbursements shall be made promptly, but in no event later than the end of the calendar year following the year in which the expense is incurred.

(vii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Employer as in effect for the Executive at any time during the 90day period immediately preceding the Change of Control Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Employer.

(viii) Travel Benefits. During the Employment Period, the Executive and the Executive's spouse or domestic partner, and eligible family members and dependents shall be entitled to travel benefits in accordance with the most favorable plans, policies, programs and practices of the Employer as in effect for the Executive at any time during the 90day period immediately preceding the Change of Control Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Employer.

(ix) CARES Act Restoration Payments. In the event that (A) any restrictions on the Executive's compensation implemented by the Employer in accordance with the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act Restrictions") end, and (B) the amounts described in this Section 5(b)(ix) are not otherwise issued to the Executive before the Change of Control Date, then, within 60 days after the later of the Change of Control

Date or the date on which such CARES Act Restrictions end, the Employer shall issue to the Executive (I) a lump-sum cash payment equal to any cash-based obligations recouped by the Employer pursuant to the CARES Act Restrictions, and (II) with respect to any equity-based awards forfeited pursuant to the CARES Act Restrictions ("Forfeited Equity Awards"), a combination of (x) shares of common stock of Air Group or successor, as applicable after the Change of Control, equal to the number of shares thereof covered by the Forfeited Equity Awards, (y) equity awards of the same type and subject to the vesting schedule of the Forfeited Equity Awards that would have remained in effect but for the forfeiture thereof, and/or (z) a cash payment equal to the fair market value of all or a portion of the shares covered by the Forfeited Equity Awards, as determined by the Board in its sole discretion.

6. Termination of Employment

(a) Termination. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. The Executive's employment may be terminated at any time during the Employment Period for any reason by either the Executive or by the Employer, communicated by a notice of termination to the other party hereto given in accordance with Section 13(b) (a "Notice of Termination").

(b) Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Employer or by the Executive, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, and (ii) if the Executive's employment is terminated by reason of death, the date of death of the Executive.

7. Obligations of the Employer Upon Certain Terminations; Release

If the Executive's employment is terminated during the Employment Period by the Executive in a Good Reason Separation or by the Employer without Cause, and such termination constitutes a Separation from Service, the Executive shall be entitled to the payments and benefits provided in this Section 7, subject to the conditions set forth herein.

(a) Cash Payment. The Employer shall pay to the Executive in a lump-sum in cash the aggregate of the following amounts:

(i) A lump-sum amount equal to all payments to which the Executive would have been entitled during the Employment Period, but for the Separation from Service, including, without limitation, the aggregate amounts of the Executive's Annual Base Salary (calculated in accordance with Section 5(b)(i) hereof) and the aggregate amounts of the Executive's Annual Bonus (calculated in accordance with Section 5(b)(ii) hereof), payable in each case during the Employment Period, less any amounts comprising any portion of Annual Base Salary or Annual Bonus actually received by the Executive during the period commencing on the Change of Control Date and ending on the date of such Separation from Service; and

(ii) a separate lump-sum supplemental retirement benefit equal to the difference between (A) the actuarial equivalent (utilizing for this purpose the actuarial assumptions utilized with respect to the Employer defined benefit retirement plan during the 90-day period immediately preceding the Change of Control Date) of the benefits payable under the Employer defined benefit retirement plans, the 1995 Elected Officers' Supplementary Retirement Plan (or, if applicable to the Executive, the Defined Contribution OSRP Plan feature of the Air Group Nonqualified Deferred Compensation Plan) and any similar plans (other than the deferred bonus or deferred retention incentive features of the Air Group Nonqualified Deferred Compensation Plan) providing benefits for the Executive that the Executive would have received if the Executive's employment continued at the compensation level provided for in Section 5(b) and for the remainder of the Employment Period (assuming for this purpose that all accrued benefits are fully vested and that benefit accrual formulas are no less advantageous to the Executive than those in effect during the 90-day period immediately preceding the Change of Control Date), and (B) the actuarial equivalent (utilizing for this purpose the same assumptions as outlined above) of the Executive's actual benefit paid (or payable), if any, under the foregoing plans.

(b) Welfare Benefit Continuation. For the remainder of the Employment Period, or such longer period as any plan, program, practice or policy may provide, the Employer shall continue benefits to the Executive and/or the Executive's family at least equal to those that would have been provided to them in accordance with the plans, programs, practices and policies described in Section 5(b)(iv) if the Executive had not incurred a Separation from Service in accordance with the most favorable plans, practices, programs or policies of the Employer as in effect and applicable generally to other executives and their families during the 90day period immediately preceding the Change of Control Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Employer and their families; provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employerprovided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until the end of the Employment Period and to have retired on the last day of such period; provided, however, that the Executive shall be entitled to the more favorable of the retiree benefits in effect on the date of the Executive's Separation from Service or the retiree benefits in effect on the date that would have been the last date of the Employment Period if the Executive had remained employed. Notwithstanding anything in this Section 7(b) to the contrary, in no event shall any health care benefit (whether for medical, dental or vision care) that is subject to Code Section 409A be continued for a period longer than 18 months after the date of the Executive's Separation from Service.

(c) Travel Benefits. During the Executive's lifetime, Executive and the Executive's spouse or domestic partner (but not any former spouse or domestic partner), eligible family members and dependents shall be entitled to unlimited, fee-waived, positive-space travel in any class of service selected by Executive, or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Employer.

(d) Other Benefits. To the extent not theretofore paid or provided, the Employer shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits required to be paid or provided or which the Executive and/or the Executive's family is eligible to receive pursuant to Section 5(b)(v) and (vi) of this Agreement under any plan, program, policy or practice or contract or agreement of the Employer as in effect and applicable generally to other peer executives and their families during the 90day period immediately preceding the Change of Control Date or, if more favorable to the Executive, as in effect generally thereafter with respect to other peer executives of the Employer and their families (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits"). Notwithstanding anything in this Section 7(d) to the contrary, in no event shall any Other Benefit be paid to the extent that such payment would trigger any additional tax, penalty or interest imposed by Code Section 409A.

(e) CARES Act Restoration Payments.

(i) In the event that (A) any restrictions on the Executive's compensation implemented by the Employer in accordance with the CARES Act Restrictions end, and (B) the amounts described in this Section 7(e) are not otherwise issued to the Executive before his or her

Termination Date, then the Employer shall issue to the Executive (I) a lump-sum cash payment equal to any cash-based obligations recouped by the Employer pursuant to the CARES Act Restrictions, and (II) with respect to any Forfeited Equity Awards, a combination of (x) shares of common stock of Air Group or successor, as applicable after the Change of Control, equal to the number of shares thereof covered by the Forfeited Equity Awards, (y) equity awards of the same type and subject to the vesting schedule of the Forfeited Equity Awards that would have remained in effect but for the forfeiture thereof, and/or (z) a cash payment equal to the fair market value of all or a portion of the shares covered by the Forfeited Equity Awards, as determined by the Board in its sole discretion.

(ii) In the event that any payments or benefits otherwise due pursuant to this Section 7 are limited by the CARES Act Restrictions, then as soon as administratively feasible after the CARES Act Restrictions end, the Employer shall issue to the Executive a lump-sum cash payment equal the aggregate value of such payments or benefits that were limited by the CARES Act Restrictions.

(f) Additional Conditions of Payment.

(i) Notwithstanding anything else contained in this Agreement to the contrary, as a condition precedent to any Employer obligation to the Executive pursuant to this Section 7, the Executive shall, within 21 days following Separation from Service with the Employer (or within the period of time provided for in the release), provide the Employer with a valid, executed general release agreement in substantially the form attached hereto as Exhibit A, and such release agreement shall have not been revoked by the Executive pursuant to any revocation rights afforded by applicable law. The Employer shall have no obligation to make any payment to the Executive pursuant to this Section 7, (A) unless and until the release agreement contemplated by this Section 7(f)(i) becomes irrevocable by the Executive in accordance with all applicable laws, rules and regulations, or (B) if the Executive fails to materially comply with such release agreement. Notwithstanding the foregoing, the Employer shall provide the benefits described in Sections 7(b), 7(c), 7(d) or 7(e) above following the Executive’s Separation from Service (or Change of Control if Section 7(g) applies) but, if the Executive does not timely provide the release agreement contemplated by this Section 7(f) or revokes such release agreement, the Employer shall have no further obligation to provide the benefits set forth in Section 7(b) or 7(c) or, except to the extent required under the applicable plan, program or policy, the benefits set forth in Section 7(d).

(ii) All payments and benefits due under this Section 7 are contingent on the Executive’s continued compliance with any restrictive covenants, including, without limitation, any confidentiality, non-competition, non-solicitation and/or non-disparagement commitments, to which the Executive is subject as of the Date of Termination (whether under this Agreement or otherwise).

(g) Timing of Payment. The lump-sum amount specified in Section 7(a) above shall be paid within 60 days after the Separation from Service; provided, however, that if such payment is to be made pursuant to a termination of employment that occurs prior to a Change of Control as contemplated by Section 2(e), and provided that the Executive provides a release agreement as contemplated by Section 7(f) within 21 days or longer if required by applicable law following the Change of Control (and does not revoke such release within any revocation period provided by applicable law), such payment shall be made 60 days after the Change of Control occurs and any benefits to which the Executive may be entitled pursuant to this Section 7 shall commence 60 days after the Change of Control occurs. Any amounts due pursuant to Section 7(e) above shall be paid within 60 days after the later of (i) the Separation from Service or (ii) the date on which the CARES Act Restrictions end, subject to the requirements of Section 7(f).

8. Nonexclusivity of Rights

Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Employer and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Employer. Amounts that are vested benefits or that the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Employer or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

9. Full Settlement; Resolution of Disputes

(a) The Employer obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any setoff, counterclaim, recoupment, defense or other claim, right or action that the Employer may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, and, except as provided in Section 7(b), such amounts shall not be reduced whether or not the Executive obtains other employment. The Employer agrees to pay promptly upon invoice, to the full extent permitted by law, all legal fees and expenses that the Executive may incur as a result of any contest (regardless of the outcome thereof) by the Employer, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement).

(b) If there shall be any dispute between the Employer and the Executive in the event of any termination of the Executive's employment by the Employer, whether such termination was in connection with or in anticipation of a Change of Control so as to trigger the Change of Control Date under the definition of that term in Section 2, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was in connection with or in anticipation of a Change of Control, the Employer shall pay all amounts, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Employer would be required to pay or provide pursuant to Section 7 as though such termination were in connection with or in anticipation of a Change of Control; provided, however, that the Employer shall not be required to pay any disputed amounts pursuant to this Section 9(b) except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled.

10. Certain Adjustments

(a) Notwithstanding anything else contained in this Agreement, in the event that the Executive becomes entitled to the payments or other benefits described in Section 7 hereof and the Executive becomes or would be subject to the tax imposed by Section 4999 of the Code or any successor provision (the "<u>Excise Tax</u>") as a result of such payments and benefits and any other payments or benefits from the Employer or any affiliated company required to be taken into account under Code Section 280G(b)(2) (collectively, "<u>Parachute Payments</u>"), the Parachute Payments shall be reduced (but not below zero) so that the maximum amount of Parachute Payments (after reduction) is one dollar ($1.00) less than the amount that would cause the Parachute Payments to be subject to the Excise Tax; provided that such a reduction shall only be made if and to the extent that a reduction in the Parachute Payments would result in the

Executive retaining a larger amount, on an after-tax basis (taking into account federal, state and local income taxes and the Excise Tax), than if the Executive received all of the Parachute Payments (such reduced amount is referred to hereinafter as the "Limited Benefit Amount"). Unless the Executive shall have given prior written notice specifying a different order to Air Group to effectuate the Limited Benefit Amount, any such notice to be consistent with the requirements of Section 409A of the Code to avoid the imputation of any tax, penalty or interest thereunder, Air Group shall reduce or eliminate the Parachute Payments by first reducing or eliminating any cash severance benefits, then by reducing or eliminating any accelerated vesting of stock options, then by reducing or eliminating any accelerated vesting of other equity-based awards, then by reducing or eliminating any other remaining Parachute Payments. The preceding provisions of this Section 10(a) shall take precedence over the provisions of any other plan, arrangement or agreement governing the Executive's rights and entitlements to any benefits or compensation.

(b) A determination as to whether the Parachute Payments shall be reduced to the Limited Benefit Amount pursuant to this Agreement and the amount of such Limited Benefit Amount shall be made by a certified public accounting or compensation consulting firm of national reputation (the "Accounting Firm") which shall provide detailed supporting calculations to both the Employer and the Executive within 15 business days of the receipt of notice from the Executive that the Executive has received a payment under Section 7, or such earlier time as is requested by the Employer. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Employer. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Employer and Executive.

11. Confidential Information

The Executive shall hold in a fiduciary capacity for the benefit of the Employer all secret or confidential information, knowledge or data relating to the Employer or any of its affiliated companies, and their respective businesses, that shall have been obtained by the Executive during the Executive's employment by the Employer or any of its affiliated companies and that shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Employer, the Executive shall not, without the prior written consent of the Employer or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Employer and those designated by it. Consistent with RCW 49.44.210, nothing in this Agreement shall be interpreted to restrict, prevent or prohibit Executive from disclosing, discussing or reporting concerns about alleged sexual harassment or sexual assault. In no event shall an asserted violation of the provisions of this Section 11 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement. Further, pursuant to the Defend Trade Secrets Act of 2016, Executive acknowledges and understands that Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of trade secret information that is made in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney; and solely for the purpose of reporting or investigating a suspected violation of law; or is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

12. Successors

(a) This Agreement is personal to the Executive and without the prior written consent of the Employer shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding on Air Group, the Employer and their respective successors and assigns.

(c) Air Group and/or the Employer will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all the business and/or assets of the Employer to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Employer would be required to perform it if no such succession had taken place. As used in this Agreement, Employer shall mean the Employer as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law, or otherwise.

13. Miscellaneous

(a) This Agreement shall be governed by and construed in accordance with the laws of the state of Washington, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

____
____
____
____

If to Air Group:
Alaska Air Group, Inc.
19300 International Blvd., SEAZL
Seattle, WA 98188
Attention: Corporate Secretary

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Employer may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Employer's failure to insist on strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Employer may have hereunder, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Employer acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Employer, the employment of the Executive by the Employer is "at will" and, prior to the Change of Control Date, may be terminated by either the Executive or the Employer at any time. Moreover, if prior to the Change of Control Date, the Executive's employment with the Employer terminates, then the Executive shall have no further rights under this Agreement.

(g) This Agreement may be executed in counterparts, each of which counterparts shall be deemed an original, but all of which together shall constitute one and the same instrument.

(h) Section 409A.

(i) It is intended that any amounts payable under this Agreement and the Employer's and the Executive's exercise of authority or discretion hereunder shall either be exempt from or comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) ("Section 409A") so as not to subject the Executive to payment of any interest or additional tax imposed under Section 409A. To the extent that any amount payable under this Agreement would trigger the additional tax, penalty or interest imposed by Section 409A, this Agreement shall be modified to avoid such additional tax, penalty or interest yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Executive.

(ii) Notwithstanding any provision of this Agreement to the contrary, if the Executive is a "specified employee" (within the meaning of Treasury Regulation Section 1.409A-1(i)), the Executive shall not be entitled to any payments upon a termination of the Executive's employment until the earlier of (A) the date which is six months after the Executive's Separation from Service with the Employer for any reason other than death, or (B) the date of the Executive's death. Furthermore, with regard to any benefit to be provided upon a termination of employment, to the extent required by Section 409A, the Executive shall pay the premium for such benefit during the aforesaid period and be reimbursed by the Employer therefor promptly after the end of such period. Any amounts otherwise payable to the Executive following a termination of his employment that are not so paid by reason of this Section 13(h)(ii) shall be paid as soon as practicable after the date that is six months after the Executive's Separation from Service (or, if earlier, the date of the Executive's death). The provisions of this Section 13(h)(ii) shall only apply if, and to the extent, required to comply with Section 409A after all applicable exemptions from the six-month delay rule under Treasury Regulation Section 1.409A-1(c)(3)(v), including, but not limited to, the exclusion of (I) amounts paid no later than March 15 of the calendar year following the Date of Termination, and (II) after application of the exclusion in clause (I), all additional amounts that may be excluded pursuant to Treasury Regulation Section 1.409A-1(b)(9)(iii). Each amount paid or benefit provided pursuant to Section 7 shall be treated as a separate payment for purposes of Section 409A.

(iii) To the extent that any benefits or reimbursements pursuant to this Agreement are taxable to the Executive, any such benefit or reimbursement payment due to the Executive pursuant to any such provision shall be paid to the Executive on or before the last day of the Executive's taxable year following the taxable year in which the related expense was incurred. The benefits and reimbursements pursuant to such provisions are not subject to liquidation or exchange for another benefit and the amount of such benefits and reimbursements that the Executive receives in one taxable year shall not affect the amount of such benefits or reimbursements that the Executive receives in any other taxable year.

(i) This Agreement embodies the entire agreement of the parties hereto respecting the matters within its scope. This Agreement supersedes all prior and contemporaneous understandings, negotiations, and agreements (whether oral or written, express or implied) of the parties hereto that directly or indirectly bears upon the subject matter hereof (including, without limitation, the Prior Agreements).

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to authorization from the Board, Air Group has caused this Agreement to be executed in its name and on its behalf, all as of the day and year first above written.

ALASKA AIR GROUP, INC.

By __
Its Chief Executive Officer

EXECUTIVE

____
NAME
TITLE
COMPANY

AMENDMENT No. 16 TO PURCHASE AGREEMENT COM0041-16

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

This Amendment No.16 [COM0280-21] (the "Amendment No.16") dated as of September 30, 2021 is between **EMBRAER S.A.**, a corporation existing under the laws of Brazil, which address and principal place of business is at Avenida Brigadeiro Faria Lima, 2170, prédio F-100, Putim, in the city of São José dos Campos, State of São Paulo, Brazil ("Embraer"); **YABORÃ INDÚSTRIA AERONÁUTICA S.A.**, a corporation existing under the laws of Brazil, with office at Avenida Brigadeiro Faria Lima, 2170, in the City of São José dos Campos, State of São Paulo, Brazil ("Embraer Commercial") and **HORIZON AIR INDUSTRIES, INC.** ("Buyer"), collectively referred to herein as the "Parties", and constitutes an amendment and modification to Purchase Agreement COM0041-16 dated April 11th, 2016 as amended and assigned from time to time (the "Purchase Agreement").

Embraer and Embraer Commercial are referred collectively as "Seller".

All capitalized terms not otherwise defined herein shall have the same meaning when used herein as provided in the Purchase Agreement and in case of any conflict between this Amendment No. 16 and the Purchase Agreement, this Amendment No. 16 shall control.

WHEREAS, the Parties have agreed to change the Option Aircraft Contractual Delivery Date in accordance with the delivery schedule contained in the Attachment "E" to this Amendment No. 16.

WHEREAS, as a consequence of the change on the Option Aircraft Contractual Delivery Date, Option Aircraft Group **[***]** has subsequently become Group **[***]** and the exercise date changed from **[***]** to **[***]**.

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

1. OPTION AIRCRAFT

As a result of the changes above, Article 21.4 of the Purchase Agreement must be deleted and replaced as follows:

[***]

2. ATTACHMENT CHANGE

As a result of the changes referred to in this Amendment No. 16, Attachment E to the Purchase Agreement is hereby deleted and replaced in its entirety by Attachment E to this Amendment No. 16, which shall be deemed to be Attachment E for all purposes under the Purchase Agreement.

3. REINSTATEMENT OF PURCHASE AGREEMENT

All other provisions and conditions of the referenced Purchase Agreement, as well as its related Attachments and Letter Agreement, which are not specifically modified by this Amendment No. 16 shall remain in full force and effect without any change.

4. COUNTERPARTS

This Amendment No. 16 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 Amendment No. 16 may be signed by facsimile with originals duly signed to follow by an internationally recognized courier.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, Seller and Buyer, by their duly authorized officers, have entered into and executed this Amendment No. 16 to be effective as of the date first written above.

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

By: ________________________ By: _________________________

Name: Name:

Title: Title:

By:_________________________

Name:
Title:

Place: _______________________ Place: ______________________

YABORÃ INDÚSTRIA AERONÁUTICA S.A.

By: ________________________

Name:

Title:

By: ________________________

Name:

Title:

Place: _______________________

ATTACHMENT "E"
AIRCRAFT DELIVERY SCHEDULE

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

[***]

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

[***]

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

Supplemental Agreement No. 18

to

Purchase Agreement No. 3866

between

The Boeing Company

and

Alaska Airlines, Inc.

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

THIS SUPPLEMENTAL AGREEMENT NO. 18 (**Supplemental Agreement No. 18**), entered into as of August 13, 2021, is by and between THE BOEING COMPANY (**Boeing**) and ALASKA AIRLINES, INC. (**Customer**) (Boeing and Customer collectively, **Parties**). All capitalized terms used but not defined herein shall have the same meaning as in the Purchase Agreement.

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

WHEREAS, Customer has elected to exercise twelve (12) Group 1 Option Aircraft, and Boeing and Customer have agreed to a revised delivery schedule for those twelve (12) exercised Group 1 Option Aircraft;

WHEREAS, Boeing and Customer have agreed to a revised delivery schedule for the Group 2 Option Aircraft; and

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

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

1. Table of Contents, Table and Supplemental Exhibit.

1.1 The "Table of Contents" in the Purchase Agreement is hereby deleted in its entirety and replaced with the revised Table of Contents, attached hereto and incorporated into the Purchase Agreement, to reflect the changes made in this Supplemental Agreement No. 18.

1.2 "Table 1-D to Purchase Agreement No. PA-03866" in the Purchase Agreement is hereby deleted in its entirety and replaced with the revised "Table 1-D to Purchase Agreement No. PA-03866," attached hereto and incorporated into the Purchase Agreement, to reflect the exercise of twelve (12) Group 1 Option Aircraft in their revised delivery months as part of this Supplemental Agreement No. 18.

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

2. Letter Agreement.

2.1 Letter Agreement No. ASA-PA-3866-LA-09440R7, entitled "Option Aircraft," is hereby deleted in its entirety and replaced with a revised Letter Agreement ASA-PA-3866-LA-09440R8, attached hereto and incorporated into the Purchase Agreement, to reflect (i) the exercise of twelve (12) Group 1 Option Aircraft and (ii) the revision to the delivery stream for Group 2 Option Aircraft as part of this Supplemental Agreement No. 18.

3. Miscellaneous.

3.1 **[***]**.

3.2 **[***]**.

3.3 **[***]**

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

THE BOEING COMPANY

By ________________________________

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: August 13, 2021

ALASKA AIRLINES, INC.

By ________________________________

Its SVP Fleet, Finance and Alliances & Treasurer

EXHIBIT 31.1

CERTIFICATIONS

I, Benito Minicucci, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended September 30, 2021;

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

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

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

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

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

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

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

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

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

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

By /s/ BENITO MINICUCCI

Benito Minicucci

President and Chief Executive Officer

November 4, 2021

EXHIBIT 31.2

CERTIFICATIONS

I, Shane R. Tackett, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended September 30, 2021;

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

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

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

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

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

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

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

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

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

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

By /s/ SHANE R. TACKETT

Shane R. Tackett

Executive Vice President/Finance and Chief Financial Officer

November 4, 2021

EXHIBIT 32.1

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

In connection with the Annual Report of Alaska Air Group, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Benito Minicucci, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

By /s/ BENITO MINICUCCI

Benito Minicucci

Chief Executive Officer

November 4, 2021

EXHIBIT 32.2

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

In connection with the Annual Report of Alaska Air Group, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Shane R. Tackett, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

By /s/ SHANE R. TACKETT

Shane R. Tackett

Executive Vice President/Finance and Chief Financial Officer

November 4, 2021