

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-K

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

For the fiscal year ended December 31, 2020

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
(State of Incorporation)

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

**19300 International Boulevard, Seattle, Washington 98188
Telephone: (206) 392-5040**

Title of each class	Securities registered pursuant to section 12(b) of the Act: Name of exchange on which registered	Ticker symbol
Common Stock, \$0.01 Par Value	New York Stock Exchange	ALK

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging Growth Company

If an emerging growth company, indicate by check mark 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

As of January 31, 2021, shares of common stock outstanding totaled 124,226,396. The aggregate market value of the shares of common stock of Alaska Air Group, Inc. held by nonaffiliates on June 30, 2020, was approximately \$4.5 billion (based on the closing price of \$36.26 per share on the New York Stock Exchange on that date).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Definitive Proxy Statement relating to 2021 Annual Meeting of Shareholders are incorporated by reference in Part III.

ALASKA AIR GROUP, INC.
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2020

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As used in this Form 10-K, 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., Virgin America Inc. (through July 20, 2018, at which point it was legally merged into Alaska Airlines, Inc.), and Horizon Air Industries, Inc. are referred to as “Alaska,” “Virgin America” and “Horizon,” respectively, and together as our “airlines.”

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words “believe,” “expect,” “will,” “anticipate,” “intend,” “estimate,” “project,” “assume” or other similar expressions, although not all forward-looking statements contain these identifying words. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or the Company’s present expectations.

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control.

Our forward-looking statements are based on the information currently available to us and speak only as of the date on which this report was filed with the SEC. We expressly disclaim any obligation to issue any updates or revisions to our forward-looking statements, even if subsequent events cause our expectations to change regarding the matters discussed in those statements. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such differences might be significant and materially adverse to our shareholders. For a discussion of these and other risk factors in this Form 10-K, see “Item 1A: Risk Factors.” Please consider our forward-looking statements in light of those risks as you read this report.

PART I

ITEM 1. OUR BUSINESS

Alaska Air Group is a Delaware corporation incorporated in 1985 that operates two airlines, Alaska and Horizon. Alaska was organized in 1932 and incorporated in 1937 in the state of Alaska. Horizon is a Washington corporation that was incorporated and began service in 1981, and was acquired by Air Group in 1986. Virgin America was a member of Air Group from its acquisition in 2016 through 2018, at which time Alaska and Virgin America combined operating certificates and legally merged into a single entity. The Company also includes McGee Air Services, an aviation services provider that was established as a wholly-owned subsidiary of Alaska in 2016, and other subsidiaries.

Alaska and Horizon operate as separate airlines, with individual business plans, competitive factors and economic risks. We organize the business and review financial operating performance by aggregating our business in three operating segments, which are as follows:

- **Mainline** - includes scheduled air transportation on Alaska's Boeing and Airbus jet aircraft for passengers and cargo throughout the U.S., and in parts of 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. and Canada under capacity purchase agreements (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 a CPA. Expenses include those typically borne by regional airlines such as crew costs, ownership costs and maintenance costs.

Together we are the fifth largest airline in the United States, offering unparalleled guest service, connectivity and schedules from our hub markets along the West Coast. With our regional partners we fly to more than 115 destinations throughout the United States and North America. We have operated in a highly competitive and often challenging industry for over 88 years. Our top priority as an airline is ensuring the safety of our guests and employees, an area that we have continued to invest in during 2020 despite the significant financial challenges we encountered. Our success over many decades and resilience in difficult times is attributable to our people, business model, and commitment to sustainable growth over the long-term.

2020 was a year of uncertainty and challenge. The impact of the pandemic stemming from the outbreak of the novel coronavirus (COVID-19) presented us with the greatest financial challenge in our history. Travel restrictions and stay-at-home orders, coupled with the closure of many popular destinations and the cancellation of major events, drove demand for air travel to historic lows in the spring of 2020. Although we have seen modest improvement since that time, including improved booking activity at the end of 2020 and in early 2021, demand remains well below historical levels.

In response to reduced demand, we acted quickly to preserve cash by reducing flying across our network and removing fixed and discretionary costs to the greatest extent possible. We also prepared for a potentially long recovery period by accessing \$5 billion in liquidity, including private placement offerings, government funding, bank debt and the sale of ten Airbus aircraft. Part of the government funding received was through the Payroll Support Program of the Coronavirus Aid, Relief and Economic Security (CARES) Act, which provided critical support to enable us to preserve jobs and continue to provide an essential service to the communities we serve. Although our debt balances have increased, our cash preservation efforts were effective and our adjusted net debt at the end of 2020 is substantially unchanged from the end of 2019. Protecting the health of our balance sheet has positioned us well for the recovery that is expected in 2021 and beyond.

We took action early in the pandemic to ensure a safe environment for guests and our employees. We launched our Next-Level Care initiative, which includes over 100 safety measures that have been, and will continue to be, vital to restoring guest confidence in travel onboard our aircraft. To provide peace of mind in guests' travel decisions, we also eliminated change fees for first class or main cabin itineraries, and we extended the expiry of outstanding travel credits to December 31, 2021.

Although the pandemic has had a significant negative impact on our business, we have attempted to reduce its effect on our employees where possible. To minimize the need for involuntary furloughs, we instituted early-out and voluntary leave programs, which were accepted by 3,900 employees. Additionally, we aligned the focus of our 22,000 employees on reducing cash burn and delivering a safe travel experience for guests by creating an incentive program designed to supplement our traditional performance-based pay and operational performance programs. Through these programs, our employees earned \$130 million in incentive pay in 2020. We strongly believe that aligning employees under common goals makes our company better,

and expect that Alaska and Horizon will be among the only airlines in the U.S. to provide generous incentive payments for employees in 2020.

In spite of the difficult year, Alaska and Horizon continued to actively support the communities we serve. In 2020, Air Group companies donated \$10 million in cash and in-kind travel to over 900 charitable organizations, and our employees volunteered more than 17,000 hours of community service related to youth and education, medical research and transportation. Our cargo business also provided critical support to communities in need by transporting essential goods and shipments of COVID-19 vaccines throughout the state of Alaska.

As we look forward, we know that our business is dependent on getting guests flying again and getting our people and assets back to work. Now that the initial response to the pandemic is largely behind us, we have shifted our attention toward recovery as we prepare for the return in demand. Over the next several months as the recovery ensues, our focus areas include the following:

Capturing demand for travel

Capturing the demand that exists for travel will be vital to our recovery. In 2020, the rebound in leisure travel was much more robust than business travel, and we expect to see that trend continue in 2021. To capture that leisure demand, we announced 30 new routes in 2020, aimed at connecting our guests to warm-weather and outdoor recreation locations. To further reduce travel friction, we have worked with health partners and local governments to implement processes to meet locally-mandated travel requirements. In December 2020, in partnership with the state of Hawai'i government, Alaska was the first airline to launch a pre-clearance program to Hawai'i, providing our guests with a seamless travel experience and allowing them to bypass screening upon arrival. We expect these pre-clearance programs to mature in 2021 and believe they will aid overall recovery and willingness of travelers to fly.

We believe marketing to guests who may soon return to travel, and ensuring they are familiar with our safety initiatives, is key to capturing demand as it returns. Toward the end of 2020 we launched several campaigns encouraging guests to book future travel. Our Let's Go Campaign emphasized the layers of safety we have put in place, and our friends and family discount program engaged our employees in reaching out to guests. These promotions and others like them stimulated bookings, and the results have served as an encouraging indicator that our guests are eager to return to travel in 2021.

In 2020, we announced the West Coast International Alliance (WCIA) with American Airlines, Inc. (American) which will provide more destinations, greater utility and more value for our guests and loyalty members. The alliance will allow Alaska Mileage Plan members to enjoy benefits across both airlines by early spring 2021. In conjunction with our partnership with American, we accepted a formal invitation to join the **oneworld**® global alliance, with entry expected on March 31, 2021. Alaska Mileage Plan™ members will have significantly expanded benefits in the **oneworld** program, including reciprocal tier status in **oneworld**, as well as the ability to earn and use miles to reach more than 1,000 destinations worldwide. The WCIA and **oneworld** enhances Alaska's presence globally, and will position us to capture an incremental share of global travelers and corporate accounts as recovery begins to take shape.

Reducing our cost structure and strengthening our balance sheet

Maintaining a low cost structure has been critical to our past success, and we believe it will be even more important in the recovery ahead. In 2020 we reduced our adjusted non-fuel operating costs by \$1.3 billion, or 22% from 2019, through reductions in flying and minimizing discretionary expenditures. As we return aircraft to service and build capacity in recovery, we are focused on returning to 2019 unit cost levels, excluding fuel and special items, even if we are a smaller company. To this end, we have identified over \$250 million in structural cost savings initiatives that we began to realize in the fourth quarter of 2020, which will continue to ramp through 2021. Having low costs when demand returns will enable us to return to profitability more quickly, and will lead to positive cash flow generation. This, in turn, will enable us to begin repaying the debt that we have taken on, which is foundational for our future growth. Additionally, exiting 2020 with adjusted net debt that is largely flat as compared to the prior year means that we have cash on hand that can be used to pay down debt when we believe we are in a stable recovery.

In late 2020, Alaska announced an agreement in principle with Boeing to restructure and grow the existing Boeing 737 MAX (MAX) aircraft purchase agreement. As part of this restructuring, Alaska renegotiated the terms of its aircraft order with Boeing, which will expand the total firm aircraft to 55 to be delivered between 2021 and 2024, with options to purchase an additional 52 aircraft with delivery between 2023 and 2026. Alaska also announced an agreement with Air Lease Corporation to obtain an additional 13 leased MAX aircraft with deliveries between 2021 and 2022, bringing total firm deliveries of MAX aircraft to 68 by 2024. This will allow us to replace Airbus A319 and A320 aircraft that will be returned off lease over the next

few years. Further, this agreement provides the flexibility to align our growth with the demand environment. Shifting substantially to a single mainline fleet that is more efficient, profitable and sustainable will help support our overall long-term goals.

We have a long track record of disciplined cost control and balance sheet management, and we will continue to aggressively manage both as we navigate through and exit the COVID-19 pandemic.

AIR GROUP

Our airlines operate different aircraft and missions. Alaska operates a fleet of narrowbody passenger jets on primarily longer stage-length routes. Alaska contracts primarily with Horizon and SkyWest Airlines, Inc. (SkyWest) for shorter-haul capacity, such that Alaska receives all passenger revenue from those flights. Horizon operates Embraer 175 (E175) regional jet aircraft and Bombardier Q400 turboprop aircraft and sells all of its capacity to Alaska pursuant to a CPA. The majority of our revenues are generated by transporting passengers. The percentage of revenues by category is as follows:

	2020	2019	2018	2017	2016 ^(a)
Passenger revenue	85 %	92 %	93 %	93 %	91 %
Mileage Plan other revenue	10 %	5 %	5 %	5 %	6 %
Cargo and other	5 %	3 %	2 %	2 %	3 %
Total	100 %	100 %	100 %	100 %	100 %

(a) Includes information for Virgin America for the period December 14, 2016 through December 31, 2016.

We deploy aircraft in ways that we believe will best optimize our revenues and profitability and reduce the impacts of seasonality.

The percentage of our capacity by region is as follows:

	2020	2019	2018	2017	2016 ^(a)
West Coast ^(b)	32 %	28 %	27 %	28 %	34 %
Transcon/midcon	41 %	44 %	44 %	43 %	29 %
Hawaii and Costa Rica	10 %	14 %	14 %	13 %	17 %
Alaska	11 %	10 %	10 %	10 %	14 %
Mexico	5 %	3 %	4 %	5 %	5 %
Canada	1 %	1 %	1 %	1 %	1 %
Total	100 %	100 %	100 %	100 %	100 %

(a) Includes information for Virgin America for the period December 14, 2016 through December 31, 2016.

(b) Category represents flying within the West Coast. Departures from the West Coast to other regions are captured in other categories.

MAINLINE

Our Mainline operations include Boeing 737 (B737) and Airbus A320 family (A320 and A321neo) jet service offered by Alaska. We offer extensive passenger service from the western U.S. throughout the contiguous United States, Alaska, Hawaii, Canada, Mexico and Costa Rica. Our largest concentrations of departures are in Seattle, Portland, and the Bay Area. We also offer cargo service throughout our network and have three dedicated cargo aircraft that operate primarily to and within the state of Alaska.

In 2020, we carried 12 million revenue passengers in our Mainline operations, down from 36 million in 2019 as travel demand was severely impacted from the COVID-19 pandemic. At December 31, 2020, our Mainline operating fleet consisted of 166 B737 jet aircraft and 31 Airbus A320 family jet aircraft compared to 166 B737 aircraft and 71 Airbus aircraft as of December 31, 2019.

The percentage of Mainline passenger capacity by region and average stage length is presented below:

	2020	2019	2018	2017	2016 ^(a)
West Coast ^(b)	22 %	23 %	23 %	24 %	30 %
Transcon/midcon	47 %	46 %	46 %	45 %	30 %
Hawaii and Costa Rica	12 %	16 %	15 %	15 %	19 %
Alaska	13 %	11 %	11 %	11 %	15 %
Mexico	6 %	4 %	5 %	5 %	6 %
Total	100 %	100 %	100 %	100 %	100 %
Average Stage Length (miles)	1,272	1,299	1,298	1,301	1,225

(a) Includes information for Virgin America for the period December 14, 2016 through December 31, 2016.

(b) Category represents flying within the West Coast. Departures from the West Coast to other regions are captured in other categories.

REGIONAL

Our Regional operations consist primarily of flights operated by Horizon and SkyWest. In 2020, our Regional operations carried approximately 6 million revenue passengers, primarily in the states of Washington, Oregon, Idaho and California. Horizon is the largest regional airline in the Pacific Northwest and carries approximately 67% of Air Group's regional revenue passengers.

Based on 2020 Horizon passenger enplanements on regional aircraft, our most significant concentration of regional activity was in Seattle and Portland. At December 31, 2020, Horizon's operating fleet consisted of 30 E175 jet aircraft and 32 Bombardier Q400 turboprop aircraft. The regional fleet operated by SkyWest consisted of 32 E175 aircraft.

The percentage of regional passenger capacity by region and average stage length is presented below:

	2020	2019	2018	2017	2016
West Coast	75 %	61 %	53 %	59 %	60 %
Pacific Northwest	9 %	10 %	11 %	13 %	16 %
Canada	1 %	3 %	3 %	4 %	5 %
Alaska	1 %	1 %	2 %	3 %	4 %
Midcon	14 %	25 %	30 %	21 %	15 %
Mexico	—	— %	1 %	— %	— %
Total	100 %	100 %	100 %	100 %	100 %
Average Stage Length (miles)	524	490	468	422	381

FREQUENT FLYER PROGRAM

Alaska Airlines Mileage Plan™ provides a comprehensive suite of frequent flyer benefits. Miles can be earned by flying on our airlines or on one of our 17 airline partners, by using an Alaska Airlines credit card, or through other non-airline partners. Alaska's extensive list of airline partners includes carriers associated with each of the three major global alliances, making it easier for our members to earn miles and reach elite status in our frequent flyer program. Through Alaska and our global partners, Mileage Plan™ members have access to a large network of over 800 worldwide travel destinations. Further, members can receive up to 50,000 bonus miles upon signing up for the Alaska Airlines Visa Signature card and meeting a minimum spend threshold, and earn triple miles on Alaska Airlines purchases. Alaska Airlines Visa Signature cardholders and small business cardholders in the U.S., and Platinum and World Elite Mastercard cardholders in Canada, also receive an annual companion ticket that allows members to purchase an additional ticket for \$99 plus taxes, with no restrictions or black-out dates, and a free first checked bag for up to six people traveling on the same itinerary. Earned miles can be redeemed for flights on our airlines, or our partner airlines, for hotel stays via mileageplanhotels.com, or for upgrades to first class on Alaska Airlines. We believe all of these benefits give our Mileage Plan™ members more value than competing programs.

Mileage Plan™ revenues, including those in the Passenger revenue income statement line item, represented approximately 20% of Air Group's total revenues in 2020. Mileage Plan™ helps drive revenue growth by attracting new customers, keeping existing customers actively engaged, and building customer loyalty through the benefits that we provide.

AGREEMENTS WITH OTHER AIRLINES

Our agreements fall into three different categories: frequent flyer, codeshare and interline agreements. Frequent flyer agreements enable our Mileage Plan™ members to earn mileage credits and make redemptions on one of our 17 domestic and international partner airlines.

Codeshare agreements allow one or more marketing carriers to sell seats on a single operating carrier that services passengers under multiple flight numbers. The sale of codeshare seats can vary depending on the sale arrangement. For example, in a free-sale arrangement, the marketing carrier sells the operating carrier's inventory without any restriction; whereas in a block-space arrangement, a fixed amount of seats are sold to the marketing carrier by the operating carrier. The interchangeability of the flight code between carriers provides a greater selection of flights for customers, along with increased flexibility for mileage accrual and redemption.

Interline agreements allow airlines to jointly offer a competitive, single-fare itinerary to customers traveling via multiple carriers to a final destination. An interline itinerary offered by one airline may not necessarily be offered by the other, and the fares collected from passengers are prorated and distributed to interline partners according to preexisting agreements between the carriers. Frequent flyer, codeshare and interline agreements help increase our traffic and revenue by providing a more diverse network and schedule options to our guests.

Alaska has marketing alliances with a number of airlines that provide frequent flyer and codesharing opportunities. On March 31, 2021, Alaska intends to join the **oneworld** Alliance. Upon entry, Mileage Plan elite members will receive **oneworld** status, which enables the benefits of tier status recognition and eligible benefits across all 13 **oneworld** member airlines, providing access to over 1,000 destinations.

Alliances are an important part of our strategy and enhance our revenues by:

- offering our guests more travel destinations and better mileage credit and redemption opportunities, including elite qualifying miles on U.S. and international airline partners;
- providing a consistent and seamless guest experience when you are flying on Alaska or one of our partners;
- giving us access to more connecting traffic from other airlines; and
- providing members of our alliance partners' frequent flyer programs an opportunity to travel on Alaska and our regional partners while earning mileage credit in our partners' programs.

Most of our codeshare relationships are free-sale codeshares, where the marketing carrier sells seats on the operating carrier's flights from the operating carrier's inventory, but takes no inventory risk. Our marketing agreements have various termination dates, and one or more may be in the process of renegotiation at any time. Our codeshare and interline agreements generated 3%, 5%, and 5% of our total marketed revenues as of December 31, 2020, 2019 and 2018.

A comprehensive summary of Alaska's alliances with other airlines is as follows:

Airline	Frequent Flyer Agreement	Codeshare	
		Alaska Flight # on Flights Operated by Other Airline	Other Airline Flight # on Flights Operated by Alaska or CPA Partners
Aer Lingus	Yes	No	No
American Airlines	Yes	Yes	Yes
British Airways	Yes	No	Yes
Cathay Pacific Airways	Yes	No	Yes
Condor Airlines ^(a)	Yes	No	No
EL AL Israel Airlines	Yes	No	Yes
Emirates	Yes	No	Yes
Fiji Airways ^(a)	Yes	No	Yes
Finnair	Yes	No	Yes
Hainan Airlines	Yes	No	No
Icelandair	Yes	No	Yes
Japan Airlines	Yes	No	Yes
Korean Air	Yes	No	Yes
LATAM	Yes	No	Yes
Qantas	Yes	Yes	Yes
Qatar Airways	Yes	No	No
Singapore Airlines	Yes	No	No

(a) These airlines do not have their own frequent flyer program. However, Alaska's Mileage Plan™ members can earn and redeem miles on these airlines' route systems.

CARGO AND OTHER REVENUE

The Company provides freight and mail services (cargo). The majority of cargo services are provided to commercial businesses and the United States Postal Service. The Company satisfies cargo service performance obligations and recognizes revenue when the shipment arrives at its final destination, or is transferred to a third-party carrier for delivery.

The Company also earns other revenue for lounge memberships, hotel and car commissions, and certain other immaterial items not intrinsically tied to providing air travel to passengers. Revenue is recognized when these services are rendered and recorded as Cargo and other revenue.

GENERAL

The airline industry is highly competitive and subject to potentially volatile business cycles, resulting from factors such as a global pandemic, economic conditions, volatile fuel prices, a largely unionized work force, the need to finance large capital expenditures and the related availability of capital, government regulation—including taxes and fees, and potential aircraft incidents. Airlines have high fixed costs, primarily for wages, aircraft fuel, aircraft ownership and facilities rents. Because expenses of a flight do not vary significantly based on the number of passengers carried, a relatively small change in the number of passengers or in pricing has a disproportionate effect on an airline's operating and financial results. In other words, a minor shortfall in expected revenue levels could cause a disproportionately negative impact to our operating and financial results. Passenger demand and ticket prices are, in large measure, influenced by the general state of the economy, current global economic and political events, and total available airline seat capacity.

In 2020, the COVID-19 pandemic presented the airline industry one of the greatest challenges in the history of aviation. In response to the various stay-at-home orders, local restrictions, and general uncertainty regarding air travel, U.S.-based airlines reduced domestic capacity when compared to 2019 by 75%. Although it is uncertain when the impacts of the pandemic will subside, competition to capture existing demand for travel in the interim is expected to be intense.

FUEL

Our business and financial results are highly impacted by the price and the availability of aircraft fuel. Aircraft fuel expense includes raw fuel expense, or the price that we generally pay at the airport, including taxes and fees, plus the effect of mark-to-market adjustments to our fuel hedge portfolio as the value of that portfolio increases and decreases. The cost of aircraft fuel is volatile and outside of our control, and it can have a significant and immediate impact on our operating results. Over the past five years, aircraft fuel expense ranged from 14% to 25% of operating expenses. Fuel prices are impacted by changes in both the price of crude oil and refining costs and can vary by region in the U.S.

The price of crude oil on an average annual basis for the past five years has ranged from a low of \$39 per barrel in 2020 to a high of \$65 in 2018. For us, a \$1 per barrel change in the price of oil equates to approximately \$11 million of fuel cost annually based on 2020 consumption levels. Said another way, a one-cent change in our fuel price per gallon will impact our expected annual fuel cost by approximately \$5 million per year.

Refining margins, which represent the price of refining crude oil into aircraft fuel, are a smaller portion of the overall price of jet fuel, but have also contributed to the price volatility in recent years. Over the last five years, average annual West Coast refining margin prices have fluctuated from a low of \$11 per barrel in 2020 to a high of \$26 per barrel in 2019.

Generally, West Coast jet fuel prices are somewhat higher and more volatile than prices in the Gulf Coast or on the East Coast. Our average raw fuel cost per gallon decreased 29% in 2020, after decreasing 6% in 2019 and increasing 28% in 2018.

The percentages of our aircraft fuel expense by crude oil and refining margins, as well as the percentage of our aircraft fuel expense of operating expenses, are as follows:

	2020	2019	2018	2017	2016 ^(a)
Crude oil	64 %	62 %	68 %	66 %	69 %
Refining margins	16 %	28 %	25 %	23 %	20 %
Other ^(b)	20 %	10 %	7 %	11 %	11 %
Total	100 %	100 %	100 %	100 %	100 %
Aircraft fuel expense	14 %	24 %	25 %	22 %	18 %

(a) Includes information for Virgin America for the period December 14, 2016 through December 31, 2016.

(b) Other includes gains and losses on settled fuel hedges, unrealized mark-to-market fuel hedge gains or losses, taxes and other into-plane costs.

We use crude oil call options as hedges against our exposure to the volatility of jet fuel prices. Call options effectively cap our price for crude oil, limiting our exposure to increasing fuel prices for about half of our planned fuel consumption. With call options, we are hedged against spikes in crude oil prices, and during a period of declines in crude oil prices, we only forfeit cash previously paid for hedge premiums. We begin hedging approximately 18 months in advance of consumption.

We believe that operating fuel-efficient aircraft and executing on operational best practices are the best hedges against high fuel prices. Maintaining a young, fuel-efficient fleet helps to reduce our fuel consumption rate, but also the amount of greenhouse gases and other pollutants that our aircraft emit.

COMPETITION

Competition in the airline industry can be intense and unpredictable. Our competitors consist primarily of other airlines and, to a lesser extent, other forms of transportation. Competition can be direct, in the form of another carrier flying the exact non-stop route, or indirect, where a carrier serves the same two cities non-stop from an alternative airport in that city or via an itinerary requiring a connection at another airport. We compete with other domestic airlines and a limited number of international airlines on nearly all of our scheduled routes. Our largest competitor is Delta Air Lines Inc. (Delta), who has significantly increased its capacity in Seattle since 2013. Approximately 75% of our capacity to and from Seattle competes with Delta. As we have grown in California and have expanded our transcontinental route offerings, United Airlines and Southwest Airlines have also become large competitors and have increased their capacity in markets we serve. Our California and transcontinental routes have a higher concentration of competitors when compared to our historical route structure, which was predominately concentrated in the Pacific Northwest. Although competitive capacity is expected to be down significantly in the first quarter of 2021 as compared to the first quarter of 2020, given the impacts of the COVID-19 pandemic, we expect once demand returns that we will face strong competition in all of our primary markets.

We believe that the following competitive factors matter to guests when making an air travel purchase decision:

- Safety and guest health

Safety is our top priority and is at the core of everything we do. In 2021, Alaska was again ranked by AirlineRatings.com as the safest U.S. airline in the Top 20 safest airlines in the world. In 2020, we also received our 19th Diamond Award of Excellence from the Federal Aviation Administration (FAA), recognizing both Alaska and Horizon aircraft technicians for their commitment to training.

In 2020, our guests were acutely focused on the risk of potential contagion throughout their journey. In response, we partnered with health and safety experts to build our Next-Level Care initiative. In doing so, we have added nearly 100 measures through all stages of travel aimed at educating and helping our guests and employees to stay safe and to build confidence in flying. For our efforts, we received diamond level certification from the Airline Passenger Experience Association in 2020 for the health and safety standards we implemented.

- Fares and ancillary services

Ticket and other fee pricing is a significant competitive factor in the airline industry, and the increased availability of fare information on the internet allows travelers to easily compare fares and identify competitor promotions and discounts. Pricing is driven by a variety of factors including, but not limited to, market-specific capacity, market share per route/geographic area, cost structure, fare vs. ancillary revenue strategies, and demand.

For example, airlines often discount fares to drive traffic in new markets or to stimulate traffic when necessary to improve load factors. In addition, traditional network carriers have been able to reduce their operating costs through bankruptcies and mergers, while low-cost carriers have continued to grow their fleets and expand their networks, potentially enabling them to better control costs per available seat mile (the average cost to fly an aircraft seat one mile), which in turn may enable them to lower their fares. These factors can reduce our pricing power and that of the airline industry as a whole.

Domestic airline capacity is dominated by four large carriers, representing 79% of total seats. One of our advantages is that we offer low fares and a premium value product and experience. However, given the large concentration of industry capacity, some carriers in our markets may discount their fares substantially to develop or increase market share. Fares that are substantially below our cost to operate can be harmful if sustained over a long period of time. We will defend our position in our core markets and, if necessary, adjust capacity to better match supply with demand. Our strong financial position and low cost advantage have historically enabled us to offer competitive fares while still earning returns for our shareholders.

- Customer service and reputation

We compete with other airlines in areas of customer service such as on-time performance and guest amenities - including first class and other premium seating, quality of on-board products, aircraft type and comfort. In the fourth quarter of 2020, Alaska and Horizon were among the top in the industry for on-time performance.

All mainline aircraft in operating service have our refreshed interior configuration, which provides our guests with one consistent experience across the fleet. We also began installing next-generation Gogo inflight satellite-based Wi-Fi on our entire Boeing and Airbus fleets in 2018, which is now planned to be completed in early 2022.

Our employees are a critical element of our reputation. We have a highly engaged workforce that strives to provide genuine and caring service to our guests, both at the airport and onboard. We heavily emphasize our service standards with our employees through training and education programs and monetary incentives related to operational performance and guest satisfaction.

- Routes served, flight schedules, codesharing and interline relationships, and frequent flyer programs

We also compete with other airlines based on markets served, the frequency of service to those markets and frequent flyer opportunities. Some airlines have more extensive route structures than we do, and they offer significantly more international routes. In order to expand opportunities for our guests, we enter into codesharing and interline relationships with other airlines that provide reciprocal frequent flyer mileage credit and redemption privileges. These relationships allow us to offer our guests access to more destinations than we can on our own, gain exposure in markets we do not serve

and allow our guests more opportunities to earn and redeem frequent flyer miles. Our Mileage Plan™ offers some of the most comprehensive benefits in the industry, allowing our members with the ability to earn and redeem miles on 17 partner carriers.

In 2020, we announced an expanded alliance with American, aimed at providing our West Coast guests with greater utility and international options, while providing American's international guests with increased connectivity options covered by the Alaska network. Coupled with the expanded alliance, we also accepted an invitation to join **oneworld**, with entrance expected on March 31, 2021. These new alliances allow our guests increased global network utility and benefits, along with increased opportunity to capture corporate sales when demand returns.

In addition to domestic or foreign airlines that we compete with on most of our routes, we compete with ground transportation in our short-haul markets. Our airlines also compete with technology, such as video conferencing and internet-based meeting tools. We expect that the advancement and increased utilization of these tools will eliminate the need for some business-related travel.

TICKET DISTRIBUTION

Our tickets are distributed through three primary channels:

- *Direct to customer:* Selling direct at alaskaair.com is less expensive than other channels. We believe direct sales through this channel are preferable from a branding and customer relationship standpoint because we can establish ongoing communication with the guest and tailor offers accordingly. As a result, we continue to take steps to drive more business to our website.
- *Traditional and online travel agencies:* Both traditional and online travel agencies typically use Global Distribution Systems (GDS) to obtain their fare and inventory data from airlines. Bookings made through these agencies result in a fee that is charged to the airline. Many of our large corporate customers require us to use these agencies. Some of our competitors do not use this distribution channel, or rely on it to a lesser extent than we do, and, as a result, have lower ticket distribution costs.
- *Reservation call centers:* Our call centers are located in Phoenix, AZ, Seattle, WA, and Boise, ID. We generally charge a \$15 fee for booking reservations through the call centers.

Our sales by channel are as follows:

	2020	2019	2018	2017	2016 ^(a)
Direct to customer	73 %	65 %	63 %	62 %	61 %
Traditional agencies	12 %	20 %	22 %	22 %	23 %
Online travel agencies	9 %	11 %	11 %	11 %	11 %
Reservation call centers	6 %	4 %	4 %	5 %	5 %
Total	100 %	100 %	100 %	100 %	100 %

(a) Includes results for Virgin America for the period December 14, 2016 through December 31, 2016.

SEASONALITY AND OTHER FACTORS

Our results of operations for any interim period are not necessarily indicative of those for the entire year because our business is subject to seasonal fluctuations. In typical years, our profitability is generally lowest during the first and fourth quarters due principally to fewer departures and passengers. Profitability typically increases in the second quarter and then reaches its highest level during the third quarter as a result of vacation travel. This pattern was not followed in 2020 because of the COVID-19 pandemic, and 2021 may also experience abnormal trends as a result of the ongoing recovery. In a typical year, some of the impacts of seasonality are offset by travel from the West Coast to leisure destinations, like Hawai'i and Costa Rica, and expansion to leisure and business destinations in the mid-continental and eastern U.S.

Seasonality and operational fluctuations are not predictable in the current environment, and may permanently impact our typical experience of passenger loads post-pandemic. In a typical year, in addition to passenger loads, factors that could cause our quarterly operating results to vary include:

- pricing initiatives by us or our competitors,

- changes in fuel costs,
- increases in competition at our primary airports,
- general economic conditions and resulting changes in passenger demand,
- increases or decreases in passenger and volume-driven variable costs, and
- air space and Air Traffic Control delays, particularly in Seattle and San Francisco.

Many of the markets we serve experience inclement weather conditions in the winter, causing increased costs associated with deicing aircraft, canceling flights and accommodating displaced passengers. Due to our geographic area of operations, we can be more susceptible to adverse weather conditions, particularly in the state of Alaska and the Pacific Northwest, than some of our competitors who may be better able to spread the impact of weather-related risks over larger route systems.

No material part of our business, or that of our subsidiaries, is dependent upon a single customer, or upon a few high-volume customers.

EMPLOYEES AND HUMAN CAPITAL

Our business is labor intensive. As of December 31, 2020, we employed 21,997 (16,643 at Alaska, 3,511 at Horizon, and 1,843 at McGee Air Services) active employees. Of those employees, 88% are full-time and 12% are part-time. Wages and benefits, including variable incentive pay, represented approximately 47% of our total non-fuel operating expenses in 2020 and 43% in 2019. Approximately 3,300 of our employees were on paid or unpaid leaves as of December 31, 2020 and are included in the totals above.

Most major airlines, including Alaska and Horizon, have employee groups that are covered by collective bargaining agreements. Airlines with unionized work forces generally have higher labor costs than carriers without unionized work forces, and they may not have the ability to adjust labor costs downward quickly enough to respond to new competition or slowing demand.

LABOR ORGANIZATIONS

At December 31, 2020, labor unions represented 86% of Alaska's, 51% of Horizon's, and 87% of McGee Air Services' employees.

Our relations with U.S. labor organizations are governed by the Railway Labor Act (RLA). Under the RLA, collective bargaining agreements do not expire, but instead become amendable as of a stated date. If either party wishes to modify the terms of any such agreement, it must notify the other party in the manner prescribed by the RLA and/or described in the agreement. After receipt of such notice, the parties must meet for direct negotiations, and if no agreement is reached, either party may request the National Mediation Board to initiate a process including mediation, arbitration, and a potential "cooling off" period that must be followed before either party may engage in self-help.

Alaska's union contracts at December 31, 2020 were as follows:

Union	Employee Group	Number of Employees	Contract Status
Air Line Pilots Association, International (ALPA) ^(a)	Pilots	2,974	Amendable 3/31/2020
Association of Flight Attendants (AFA)	Flight attendants	5,730	Amendable 12/17/2021
International Association of Machinists and Aerospace Workers (IAM)	Ramp service and stock clerks	644	Amendable 9/27/2024
IAM	Clerical, office and passenger service	3,971	Amendable 9/27/2024
Aircraft Mechanics Fraternal Association (AMFA)	Mechanics, inspectors and cleaners	855	Amendable 10/17/2023
Mexico Workers Association of Air Transport ^(b)	Mexico airport personnel	91	Amendable 9/29/2019
Transport Workers Union of America (TWU)	Dispatchers	85	Amendable 3/24/2021

(a) Negotiations with ALPA for an updated collective bargaining agreement are ongoing as of the date of this filing.

(b) As a result of amendments to Mexican labor laws, the Company has up to four years to make changes to the existing labor agreements. During that time, the existing contracts remain in place.

Horizon's union contracts at December 31, 2020 were as follows:

Union	Employee Group	Number of Employees	Contract Status
International Brotherhood of Teamsters (IBT)	Pilots	793	Amendable 12/31/2024
AFA	Flight attendants	701	Amendable 4/30/2024
AMFA	Mechanics and related classifications	249	Amendable 12/15/2020
Unifor	Station personnel in Vancouver and Victoria, BC, Canada	40	Expires 2/13/2022
TWU	Dispatchers	25	Amendable 1/29/2026

McGee Air Services union contract at December 31, 2020 was as follows:

Union	Employee Group	Number of Employees	Contract Status
IAM	Fleet and ramp service	1,598	Amendable 7/19/2023

Given the ongoing impacts of the COVID-19 pandemic, which is expected to have lasting impacts on our business into 2021, we have taken action to adjust the size of our workforce. To limit the number of involuntary furloughs, we initiated early-out and voluntary leave programs, as well as offered incentive leaves for Alaska pilots and aircraft mechanics. Approximately 3,900 employees opted in to these programs, including over 600 employees that volunteered for early-out separation from Alaska and Horizon. In addition, we reduced our non-union management positions by approximately 300 positions. As a result of these actions, we were able to reduce the number of involuntary furloughs to approximately 400, the majority of which have returned to work by December 31, 2020.

DIVERSITY AND INCLUSION

At Alaska, we believe that every person deserves respect regardless of race, ethnicity, capability, age, gender or sexual orientation. We are committed to advancing equity in all forms, and have set specific measurable goals to deliver on our commitments to racial equity. In 2020 we joined several other corporate leaders in creating the Washington Employers for Racial Equity which will work to achieve parity in hiring, pay and promotion for Black employees, support Black-owned businesses, and invest a combined \$2 billion over the next five years to support racial equity. We also recently published our 2025 diversity, equity and inclusion goals which will hold us accountable to our commitments to increase racial diversity, increase our employee engagement scores around inclusion related topics, and create career pathways for at least 175,000 young people by supporting programs that empower and enable opportunity through a lens of racial equity.

EXECUTIVE OFFICERS

The executive officers of Alaska Air Group, Inc. and its primary subsidiaries, Alaska Airlines, Inc. and Horizon Air Industries, who have significant decision-making responsibilities, their positions and their respective ages are as follows:

Name	Position	Age	Air Group or Subsidiary Officer Since
Bradley D. Tilden	Chairman and Chief Executive Officer of Alaska Air Group, Inc., Chairman and Chief Executive Officer of Alaska Airlines, Inc., Chairman of Horizon Air Industries, Inc.	60	1994
Shane R. Tackett	Executive Vice President/Finance and Chief Financial Officer of Alaska Air Group, Inc. and Alaska Airlines, Inc.	42	2011
Kyle B. Levine	Senior Vice President Legal, General Counsel and Corporate Secretary of Alaska Air Group, Inc., Alaska Airlines, Inc. and Horizon Air Industries, Inc., and Chief Ethics and Compliance Officer of Alaska Air Group, Inc.	49	2016
Benito Minicucci	President of Alaska Airlines, Inc.	54	2004
Joseph A. Sprague	President of Horizon Air Industries, Inc.	52	2019
Gary L. Beck	Executive Vice President and Chief Operating Officer of Alaska Airlines, Inc.	73	2018
Andrew R. Harrison	Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.	51	2008
Andrea L. Schneider	Senior Vice President People of Alaska Airlines, Inc.	55	1998
Diana Birkett-Rakow	Vice President External Relations of Alaska Airlines, Inc.	43	2017

Mr. Tilden joined Alaska Airlines in 1991, became Controller of Alaska Air Group and Alaska Airlines in 1994 and was named Vice President/Finance at Alaska Airlines in January 1999 and at Alaska Air Group in February 2000. He was elected Alaska Airlines Chief Financial Officer in February 2000, Executive Vice President/Finance and Chief Financial Officer of both companies in January 2002 and Executive Vice President/Finance and Planning of Alaska Airlines in April 2007. Mr. Tilden was named President of Alaska Airlines in December 2008 and, in May 2012, he was elected President and CEO of Alaska Air Group and Alaska Airlines and CEO of Horizon Air. He leads Air Group's Management Executive Committee and was elected to the Air Group Board in 2010 and became Chairman of the Board in January 2014. Mr. Tilden will retire effective March 31, 2021 and Mr. Minicucci will assume the role of Chief Executive Officer. Mr. Tilden will remain as Board Chair.

Mr. Tackett was elected Chief Financial Officer in March 2020 and is a member of Air Group's Management Executive Committee. Mr. Tackett joined Alaska Airlines in 2000 and has served in a number of roles including Managing Director Financial Planning and Analysis (2008-2010), Vice President Labor Relations (2010-2015), Vice President Revenue Management (2016), Senior Vice President Revenue and E-commerce (2017-2018), and Executive Vice President Planning and Strategy (2018-2020).

Mr. Levine was elected Senior Vice President Legal and General Counsel of Alaska Air Group and Alaska Airlines in January 2020 and is a member of Air Group's Management Executive Committee. Mr. Levine was previously Vice President Legal and General Counsel of Alaska Air Group and Alaska Airlines (January 2016 - January 2020). He was elected Corporate Secretary of Alaska Air Group and Alaska Airlines in August 2017 and of Horizon Air in January 2020. Mr. Levine joined Alaska Airlines in February 2006 as a Senior Attorney. He also served as Associate General Counsel and Managing Director Commercial Law and General Litigation from July 2009 to February 2011 and, subsequently, as Deputy General Counsel and Managing Director of Legal at Alaska Airlines from February 2011 to January 2016.

Mr. Minicucci was elected President of Alaska Airlines in May 2016. Prior to that he was Executive Vice President/Operations of Alaska Airlines from December 2008 to May 2016, and was Alaska's Chief Operating Officer from December 2008 until November 2019. He was Chief Executive Officer of Virgin America Inc. from December 2016 to July 2018, when Virgin America was merged into Alaska. He is a member of Air Group's Management Executive Committee, and was elected to the Alaska Air Group Board of Directors in May 2020. Mr. Minicucci will assume the role of Chief Executive Officer concurrent with Mr. Tilden's retirement on March 31, 2021.

Mr. Sprague was elected President of Horizon Air effective November 6, 2019 and is a member of Air Group's Management Executive Committee. Mr. Sprague previously served as Senior Vice President External Relations of Alaska Airlines from May 2014 until his resignation in September 2017. Mr. Sprague also served Alaska Airlines as Vice President of Marketing from March 2010 to April 2014 and Vice President of Alaska Air Cargo from April 2008 to March 2010.

Mr. Harrison was elected Executive Vice President and Chief Commercial Officer in August 2015. He is a member of Air Group's Management Executive Committee. Mr. Harrison joined Alaska Airlines in 2003 as the Managing Director of Internal Audit and was elected Vice President of Planning and Revenue Management in 2008. He was elected Senior Vice President of Planning and Revenue Management in 2014 and Executive Vice President and Chief Revenue Officer in February 2015.

Mr. Beck was elected Executive Vice President and Chief Operating Officer of Alaska Airlines effective November 6, 2019 and is a member of Air Group's Management Executive Committee. Prior to that he served as President and CEO of Horizon Air from January 2018 – November 2019. Mr. Beck previously served as Vice President, Flight Operations at Alaska Airlines, Inc. until retiring in June 2015. Following that date, he provided consulting services to Alaska Airlines, Inc. in connection with the integration to a single operating certificate with Virgin America Inc.

Ms. Schneider was elected Senior Vice President of People at Alaska Airlines in June 2019 and is a member of Air Group's Management Executive Committee. Ms. Schneider was previously Vice President of People at Alaska (August 2017-May 2019) Vice President of Inflight Services at Alaska (2011-2017), later also taking responsibility for Call Centers at Alaska (February 2017). She began her career at Alaska as Manager of Financial Accounting in 1989. Since that time, she has held a number of positions.

Ms. Birkett-Rakow was elected Vice President of External Relations at Alaska Airlines in September 2017 and became a member of Air Group's Management Executive Committee at that time.

REGULATION

GENERAL

The airline industry is highly regulated, most notably by the federal government. The Department of Transportation (DOT), the the Transportation Security Administration (TSA) and the FAA exercise significant regulatory authority over air carriers.

- *DOT*: A domestic airline is required to hold a certificate of public convenience and necessity issued by the DOT in order to provide passenger and cargo air transportation in the U.S. Subject to certain individual airport capacity, noise and other restrictions, this certificate permits an air carrier to operate between any two points in the U.S. Certificates do not expire, but may be revoked for failure to comply with federal aviation statutes, regulations, orders or the terms of the certificates. While airlines are permitted to establish their own fares without government regulation, the DOT has jurisdiction over the approval of international codeshare agreements, marketing alliance agreements between major domestic carriers, international and some domestic route authorities, Essential Air Service market subsidies, carrier liability for personal or property damage, and certain airport rates and charges disputes. International treaties may also contain restrictions or requirements for flying outside of the U.S. and impose different carrier liability limits than those applicable to domestic flights. The DOT has been active in implementing a variety of "consumer protection" regulations, covering subjects such as advertising, passenger communications, denied boarding compensation and tarmac delay response. Airlines are subject to enforcement actions that are brought by the DOT for alleged violations of consumer protection and other economic regulations. We are not aware of any enforcement proceedings that could either materially affect our financial position or impact our authority to operate.
- *FAA*: The FAA, through Federal Aviation Regulations (FARs), generally regulates all aspects of airline operations, including establishing personnel, maintenance and flight operation standards. Domestic airlines are required to hold a valid air carrier operating certificate issued by the FAA. Pursuant to these regulations, we have established, and the FAA has approved, our operations specifications and a maintenance program for each type of aircraft we operate. Each maintenance program provides for the ongoing maintenance of the relevant aircraft type, ranging from frequent routine inspections to

major overhauls. Periodically, the FAA issues airworthiness directives (ADs) that must be incorporated into our aircraft maintenance program and operations. All airlines are subject to enforcement actions that are brought by the FAA from time to time for alleged violations of FARs or ADs. At this time, we are not aware of any enforcement proceedings that could either materially affect our financial position or impact our authority to operate.

- *TSA*: Airlines serving the U.S. must operate a TSA-approved Aircraft Operator Standard Security Program (AOSSP), and comply with TSA Security Directives (SDs) and regulations. Under TSA authority, we are required to collect a September 11 Security Fee of \$5.60 per one-way trip from passengers and remit that sum to the government to fund aviation security measures. Airlines are subject to enforcement actions that are brought by the TSA for alleged violations of the AOSSP, SDs or security regulations. We are not aware of any enforcement proceedings that could either materially affect our financial position or impact our authority to operate.

The Department of Justice and DOT have jurisdiction over airline antitrust matters. The U.S. Postal Service has jurisdiction over certain aspects of the transportation of mail and related services. Labor relations in the air transportation industry are regulated under the RLA. To the extent we continue to fly to foreign countries and pursue alliances with international carriers, we may be subject to certain regulations of foreign agencies and international treaties.

We are also subject to the oversight of the Occupational Safety and Health Administration (OSHA) concerning employee safety and health matters. The OSHA and other federal agencies have been authorized to create and enforce regulations that have an impact on our operations. In addition to these federal activities, various states have been delegated certain authorities under these federal statutes. Many state and local governments have adopted employee safety and health laws and regulations. We maintain our safety and health programs in order to meet or exceed these requirements.

ENVIRONMENTAL

We are also subject to various laws and government regulations concerning environmental matters, both domestically and internationally. Domestic regulations that have an impact to our operations include the Airport Noise and Capacity Act of 1990, the Clean Air Act, Resource Conservation and Recovery Act, Clean Water Act, Safe Drinking Water Act, the Comprehensive Environmental Response and Compensation Liability Act, the National Environmental Policy Act (including Environmental Justice), Emergency Planning and Community Right-to-Know Act and the Toxic Substances Control Act. Many state and local environmental regulations exceed these federal regulations. In the future we expect there to be incremental legislation aimed at further reduction of greenhouse gas emissions, hazardous substances and additional focus on environmental justice.

The Airport Noise and Capacity Act recognizes the rights of airport operators with noise problems to implement local noise abatement programs so long as they do not interfere unreasonably with interstate or foreign commerce or the national air transportation system. Authorities in several cities have established aircraft noise reduction programs, including the imposition of nighttime curfews. We believe we have sufficient scheduling flexibility to accommodate local noise restrictions.

The impacts of carbon dioxide emissions generated by the airline industry and the impact of those emissions on climate change have faced increased scrutiny. Further, we know that attention to climate issues and impact have grown amongst our employees and guests. We recognize that our operations have an impact on the environment, and are responsible for addressing those impacts through our own operations, as well as in partnership with governments, industry, manufacturers, employees and guests to enable new technology for the long-term.

The airline industry committed to carbon neutral growth starting in 2020. Through this commitment we have joined participation in the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), a global, market-based emissions offset program issued by the International Civil Aviation Organization to be carbon neutral for international growth. As a result of the COVID-19 pandemic, the growth baseline year was modified and set to 2019 during the initial phase. This does not have a direct impact on domestic flights, however the EPA finalized a rule in 2020 on aircraft emission standards which aligns with the international agreements. Additional commitments to decarbonize through the Paris Climate Accord and domestic carbon neutrality remain a potential impact to our industry.

Our commitment to sustainability is anchored by our efforts to reduce our carbon emissions from jet fuel. To mitigate emissions and keep with industry commitments towards reductions, we have taken a number of key actions, including transitioning to more fuel-efficient aircraft fleets, such as the Boeing 737 MAX, utilizing fuel-efficient winglets, and flying efficient flight paths. Alaska has joined with others at Seattle Tacoma International Airport and San Francisco International Airport to strengthen the pathway to commercially viable sustainable aviation fuel. Through an offtake agreement with Neste in San Francisco, Alaska has started to use sustainable aviation fuel on an ongoing basis to reduce the lifecycle carbon dioxide emissions of our flights and will help comply with CORSIA obligations. In 2020, we also strengthened our commitment to emissions reduction through a partnership with Microsoft. Alaska Airlines and Microsoft are partnering to use sustainable

aviation fuel to reduce the climate change impact of Microsoft employee travel on the top routes their employees fly. In addition, Alaska and Horizon continue to utilize electric ground equipment at airports when we have the infrastructure to support it.

Overall, the total Alaska mainline greenhouse gas emissions intensity trend has improved significantly since 2009 with our goals to reduce emissions intensity. More broadly, we know that being responsible for our impact is a critical part of delivering value for all those who depend on us – employees, communities, guests, and owners – over the long term. To that end, we are focused on addressing the breadth of our most significant environmental impacts across emissions and waste, as well as important social impacts. Alaska leads the industry in inflight recycling and has reduced waste to landfill by over 60% per passenger over the past decade. In 2018, we were the first U.S. airline to remove plastic straws and stir sticks from our aircraft and in 2019, we launched a campaign called #FillBeforeYouFly to engage our employees and guests in reducing plastic waste. For more details on Alaska's emission reductions programs as well as status on other key environmental initiatives, see Alaska's annual Sustainability Reports and environmental performance metrics on our website,

www.flysustainably.com/reports. The information contained on our sustainability website is not a part of this annual report on Form 10-K.

Although we do not currently anticipate that specific environmental regulation will have a material effect on our financial condition, results of operations or cash flows, new regulations, related to our existing or past operations, or compliance issues could have the impact to harm our financial condition, results of operations or cash flows in future periods.

INSURANCE

We carry insurance of types customary in the airline industry and in amounts deemed adequate to protect our interests and property and to comply both with federal regulations and certain credit and lease agreements. The insurance policies principally provide coverage for Airline Hull, Spares and Comprehensive Legal Liability, War and Allied Perils, and Workers' Compensation. In addition, we currently carry a Cyber Insurance policy in the event of security breaches from malicious parties.

We believe that our emphasis on safety and our state-of-the-art flight deck safety technology help to control the cost of our insurance.

WHERE YOU CAN FIND MORE INFORMATION

Our filings with the Securities and Exchange Commission, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available on our website at www.alaskaair.com, free of charge, as soon as reasonably practicable after the electronic filing of these reports with the Securities and Exchange Commission. The information contained on our website is not a part of this annual report on Form 10-K.

GLOSSARY OF 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 lease liabilities) 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 our fuel-hedging program

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. Financial results in this segment include 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 1A. RISK FACTORS

If any of the following occurs, our business, financial condition and results of operations could be harmed. The trading price of our common stock could also decline. We operate in a continually changing business environment. In this environment, new risks may emerge, and already identified risks may vary significantly in terms of impact and likelihood of occurrence. Management cannot predict such developments, nor can it assess the impact, if any, on our business of such new risk factors or of events described in any forward-looking statements.

We have adopted an enterprise-wide risk analysis and oversight program designed to identify the various risks faced by the organization, assign responsibility for managing those risks to individual executives as well as align these risks with Board oversight. These enterprise-wide risks have been aligned to the risk factors discussed below.

COVID-19

The global pandemic caused by COVID-19, and related measures implemented to combat its spread has had, and is expected to continue to have, a material adverse effect on the Company's operations, financial position and liquidity.

In late 2019, an outbreak of novel coronavirus and its resulting disease (COVID-19) was detected in Wuhan, China. Since that time, COVID-19 has spread rapidly throughout the globe, including within the United States, where millions of cases have been positively diagnosed to date. In March 2020, the President of the United States declared a national emergency in response to the rapid spread, and all markets we serve implemented some measure of travel restriction or stay-at-home order. These orders, combined with a wariness among the public of travel by aircraft due to perceived risk of infection, resulted in an unprecedented decline in business and leisure travel. Cancellations of conventions and conferences, sporting events, concerts and other similar events, as well as the closure of popular tourist destinations, contributed to this decline. This reduction in demand had a material adverse impact on our revenues and results of operations. As there is uncertainty of when these restrictions will be lifted or when demand may return, we expect to continue to see negative impacts from the COVID-19 pandemic on our business. Our operations could be negatively affected further if our employees are quarantined or sickened as a result of exposure to COVID-19, or if they are subject to additional governmental COVID-19 stay-at-home health orders or similar

restrictions. Measures restricting the ability of our airport or inflight employees to come to work may cause further deterioration in our service or operations, all of which could negatively affect our business. Additionally, the availability of COVID-19 vaccines and the timing of inoculation in each state we serve will impact the willingness of the public to travel and our ability to recover from the impacts of the pandemic.

In response to the pandemic, we implemented, and continue to refine and adjust, a comprehensive strategy to mitigate the impacts on our business. This strategy may itself have negative impacts on our business and operations. One such action is the elimination of change fees for first and main cabin fares and the ability to rebook travel for an extended period beyond standard rebooking terms. The loss of change fee revenue, combined with ongoing significant ticket cancellation activity, has adversely impacted our revenues and liquidity.

We have also implemented significant cash preservation and cost reduction strategies in response to the impacts of COVID-19. These strategies include, but are not limited to, capital expenditure reductions, solicitation of voluntary short- and long-term leaves of absence and renegotiation of contractual terms and conditions with vendors. These measures, while helpful in slowing the rate at which we utilize our cash, are not expected to fully offset the loss of cash as a result of decreased ticket sales. Further, should we not be able to recall and provide training to those accepting long-term leaves of absence to provide staffing to match our expectations of capacity, we may not be able to capitalize on the return of demand. This may have a negative impact on our financial results.

At this time, we are unable to predict what impact the pandemic will have on future customer behavior. Future business travel may be impacted by widespread use of video conferencing or the reduction of business travel budgets. Travelers may also be more reluctant in general to travel, and the Company may need to expend significant resources to educate and demonstrate that air travel does not pose a health risk. In addition, the Company has incurred, and will continue to incur COVID-19 related costs for enhanced aircraft cleaning and additional procedures to limit transmission among employees and guests. Although these procedures are elective, the industry may be subject to mandated cleaning and safety measures in the future, which may be costly and take a significant amount of time to implement. Additionally, the availability of COVID-19 vaccines and the timing of inoculation in each state we serve will impact the willingness of the public to travel. These contingencies, individually and in the aggregate, could have a material adverse impact on our business.

We have accepted certain conditions by accepting funding under the Payroll Support Program of the Coronavirus Aid, Relief and Economic Security (CARES) Act.

The CARES Act was signed into law on March 27, 2020, providing U.S. airlines and related businesses the ability to access liquidity in the form of grants, loans, loan guarantees and other investments by the U.S. government.

In 2020, the Company, Alaska, Horizon, and McGee entered agreements with the United States Department of the Treasury (Treasury) to secure approximately \$1.1 billion of funding under the CARES Act Payroll Support Program (PSP), of which \$290 million is in the form of an unsecured senior term loan payable over ten years. On January 15, 2021, Alaska and Horizon finalized agreements with the Treasury and accepted partial disbursement of funds through an extended round of PSP funding, made available under the Consolidated Appropriations Act, 2021. PSP proceeds must be used exclusively for employee payroll and benefits expenses in accordance with the terms and conditions of the PSP agreements and the applicable provisions of the CARES Act.

Also in 2020, the Company and its airline subsidiaries entered agreements with the Treasury to obtain access to term loans of approximately \$1.9 billion under the CARES Act loan program. Funds drawn under the loan program must be secured with assets owned by Alaska or Horizon.

To date, the Company has drawn \$135 million from the loan facility, and may, at its option, borrow additional amounts in up to two subsequent borrowings until May 28, 2021. All proceeds must be used for general corporate purposes and operating expenses in accordance with the terms and conditions of the loan agreements and the applicable provisions of the CARES Act. All borrowings are pre-payable in whole or in part and are ultimately due and payable on September 26, 2025 (or March 28, 2025 with respect to the portion of the loan, if any, secured with certain loyalty program assets).

In addition to repayment commitments, we are subject to the following conditions under our CARES Act PSP and loan agreements:

- Alaska, Horizon and McGee have to refrain from conducting involuntary furloughs or reducing employee rates of pay or benefits for non-officer employees through March 31, 2021;

- Alaska and Horizon may have to maintain DOT-prescribed levels of air service to markets they served as of March 1, 2020, through March 1, 2022;
- The Company may not repurchase its common stock or pay dividends on its common stock until the later of March 31, 2022, or one year after secured loan funds are repaid;
- The Company must meet minimum liquidity and collateral coverage ratio requirements until the secured loan funds are repaid;
- Compensation and severance payments for officers and employees who earned more than \$425,000 in total compensation in 2019 will be subject to maximum limitations through the later of October 1, 2022, or one year after secured loan funds are repaid; and
- The Company must maintain certain internal controls and records, and provide any additional reporting required by the U.S. government, relating to PSP and loan funding.

These conditions may adversely affect the Company's profitability, our ability to negotiate favorable terms with loyalty partners, our attractiveness to investors, and our ability to compensate at market-competitive levels and retain key personnel.

SAFETY, COMPLIANCE AND OPERATIONAL EXCELLENCE

Our reputation and financial results could be harmed in the event of an airline accident or incident.

An accident or incident involving one of our aircraft or an aircraft operated by one of our codeshare partners or CPA carriers could involve loss of life and result in a loss of confidence in our Company by the flying public and/or aviation authorities. We could experience significant claims from injured passengers, bystanders and surviving relatives, as well as costs for the repair or replacement of a damaged aircraft and temporary or permanent loss from service. We maintain liability insurance in amounts and of the type generally consistent with industry practice, as do our codeshare partners and CPA carriers. However, the amount of such coverage may not be adequate to fully cover all claims, and we may be forced to bear substantial economic losses from such an event. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our business and financial results. Moreover, any aircraft accident or incident, even if it is fully insured and does not involve one of our aircraft, could cause a public perception that our airlines or the aircraft we or our partners fly are less safe or reliable than other transportation alternatives. This would harm our business.

We announced plans to replace many of our Airbus aircraft with Boeing 737 MAX aircraft, and in January 2021 we took delivery of our first MAX aircraft, which is expected to enter revenue service in March 2021. Although the grounding of the aircraft was lifted in late 2020 following an extensive recertification process, there is potential the traveling public may not trust the aircraft for safe operation. As a result, we may be required to expend significant resources in restoring guest confidence on the safe operation of the 737 MAX aircraft. Failure to address guest confidence may negatively harm our business, growth plans and results of operations.

Our operations are often affected by factors beyond our control, including delays, cancellations and other conditions, which could harm our business, financial condition and results of operations.

As is the case for all airlines, our operations often are affected by delays, cancellations and other conditions caused by factors largely beyond our control.

Factors that might impact our operations include:

- contagious illness and fear of contagion;
- congestion, construction, and/or space constraints at airports, specifically in our hub locations of Seattle, Los Angeles, and San Francisco;
- air traffic control problems;
- adverse weather conditions;
- lack of operational approval (e.g. new routes, aircraft deliveries, etc.);

- increased security measures or breaches in security;
- changes in international treaties concerning air rights;
- international or domestic conflicts or terrorist activity; and
- other changes in business conditions.

Due to the concentration of our flights in the Pacific Northwest and Alaska, we believe a large portion of our operation is more susceptible to adverse weather conditions than other carriers. A general reduction in airline passenger traffic as a result of any of the above-mentioned factors could harm our business, financial condition and results of operations.

Changes in government regulation imposing additional requirements and restrictions on our operations could increase our operating costs and result in service delays and disruptions.

Airlines are subject to extensive regulatory and legal requirements, both domestically and internationally, that require substantial compliance costs. In the last several years, Congress has passed laws, and the U.S. DOT, the TSA and the FAA have issued regulations that have required significant expenditures relating to maintenance of aircraft, operation of airlines and broadening of consumer protections. As a result of the COVID-19 pandemic, we expect further regulation of on-board health and hygiene matters.

Similarly, there are a number of legislative and regulatory initiatives and reforms at the federal, state and local levels. These initiatives include increasingly stringent laws to protect the environment, minimum wage requirements, mandatory paid sick or family leave, and health care mandates. These laws could affect our relationship with our workforce and the vendors that serve our airlines and cause our expenses to increase without an ability to pass through these costs. New initiatives with employer-funded costs, specifically those impacting Washington State, could disproportionately increase our cost structure as compared to our competitors. In recent years, the airline industry has experienced an increase in litigation over the application of state and local employment laws, particularly in California. Application of these laws may result in operational disruption, increased litigation risk, and impact on negotiated labor agreements. Additionally, compliance with existing and future regulation around environmental laws, including those involving aircraft emissions and environmental investigation and remediation costs, could require significant expenditures or result in significant fines or penalties.

Almost all commercial service airports are owned and/or operated by units of local or state governments. Airlines are largely dependent on these governmental entities to provide adequate airport facilities and capacity at an affordable cost. Many airports have increased their rates and charges to air carriers to reflect higher costs of security, updates to infrastructure and other. Additional laws, regulations, taxes, airport rates and airport charges may be occasionally proposed that could significantly increase the cost of airline operations or reduce the demand for air travel. Although lawmakers may impose these additional fees and view them as “pass-through” costs, we believe that a higher total ticket price will influence consumer purchase and travel decisions and may result in an overall decline in passenger traffic, which would harm our business. Additionally, changes in laws and regulations at the local level may be difficult to track and maintain compliance. Any instances of non-compliance could result in additional fines and fees.

The airline industry continues to face potential security concerns and related costs.

Terrorist attacks, the fear of such attacks or other hostilities involving the U.S. could have a significant negative effect on the airline industry, including us, and could:

- significantly reduce passenger traffic and yields as a result of a dramatic drop in demand for air travel;
- significantly increase security and insurance costs;
- make war risk or other insurance unavailable or extremely expensive;
- increase fuel costs and the volatility of fuel prices;
- increase costs from airport shutdowns, flight cancellations and delays resulting from security breaches and perceived safety threats; and

- result in a grounding of commercial air traffic by the FAA.

The occurrence of any of these events would harm our business, financial condition and results of operations.

We rely on third-party vendors for certain critical activities, which could expose us to disruptions in our operation or unexpected cost increases.

We rely on outside vendors for a variety of services and functions critical to our business, including airframe and engine maintenance, regional flying, ground handling, fueling, computer reservation system hosting, telecommunication systems, information technology infrastructure and services, and deicing, among others.

Even though we strive to formalize agreements with these vendors that define expected service levels, our use of outside vendors increases our exposure to several risks. In the event that one or more vendors go into bankruptcy, ceases operation or fails to perform as promised, replacement services may not be readily available at competitive rates, or at all. If one of our vendors fails to perform adequately, we may experience increased costs, delays, maintenance issues, safety issues or negative public perception of our airline. Vendor bankruptcies, unionization, regulatory compliance issues or significant changes in the competitive marketplace among suppliers could adversely affect vendor services or force us to renegotiate existing agreements on less favorable terms. These events could result in disruptions in our operations or increases in our cost structure.

STRATEGY

The airline industry is highly competitive and susceptible to price discounting and changes in capacity, which could have a material adverse effect on our business. If we cannot successfully compete in the marketplace, our business, financial condition, and operating results will be materially adversely affected.

The U.S. airline industry is characterized by substantial price competition. In recent years, the market share held by low-cost carriers and ultra low-cost carriers has increased significantly and is expected to continue to increase. Airlines also compete for market share by increasing or decreasing their capacity, route systems, and the number of markets served. Several of our competitors have increased their capacity in markets we serve, particularly in our key West Coast markets. This dynamic may be exacerbated by actions from airlines as we compete to attract passengers during the recovery from the COVID-19 pandemic. The resulting increased competition in both domestic and international markets may have a material adverse effect on our results of operations, financial condition, or liquidity.

We strive toward maintaining and improving our competitive cost structure by setting aggressive unit cost-reduction goals. This is an important part of our business strategy of offering the best value to our guests through low fares while achieving acceptable profit margins and return on capital. If we are unable to maintain our cost advantage over the long-term and achieve sustained targeted returns on invested capital, we will likely not be able to grow our business in the future or weather industry downturns. Therefore, our financial results may suffer.

The airline industry may undergo further restructuring, consolidation, or the creation or modification of alliances or joint ventures, any of which could have a material adverse effect on our business, financial condition and results of operations.

We continue to face strong competition from other carriers due to restructuring, consolidation, and the creation and modification of alliances and joint ventures. Since deregulation, both the U.S. and international airline industries have experienced consolidation through a number of mergers and acquisitions. Carriers may also improve their competitive positions through airline alliances, slot swaps/acquisitions and/or joint ventures. Certain airline joint ventures further competition by allowing airlines to coordinate routes, pool revenues and costs, and enjoy other mutual benefits, achieving many of the benefits of consolidation.

Our concentration in certain markets could cause us to be disproportionately impacted by adverse changes in circumstances in those locations.

Our strategy includes being the premier carrier for people living on the West Coast. This results in a high concentration of our business in key West Coast markets. A significant portion of our flights occur to and from our Seattle, Portland, and Bay Area hubs. In 2020, passengers to and from Seattle, Portland, and the Bay Area accounted for 84% of our total guests.

We believe that concentrating our service offerings in this way allows us to maximize our investment in personnel, aircraft and ground facilities, as well as to gain greater advantage from sales and marketing efforts in those regions. As a result, we remain highly dependent on our key markets. Our business could be harmed by any circumstances causing a reduction in demand for

air transportation in our key markets. An increase in competition in our key markets could also cause us to reduce fares or take other competitive measures that, if sustained, could harm our business, financial condition and results of operations.

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

Alaska is dependent on Boeing and Airbus as its sole suppliers for aircraft and many aircraft parts. Horizon is similarly dependent on De Havilland and Embraer. Additionally, each carrier is dependent on sole suppliers for aircraft engines for each aircraft type. As a result, we are more vulnerable to issues associated with the supply of those aircraft and parts including design defects, mechanical problems, contractual performance by the manufacturers, or adverse perception by the public that would result in customer avoidance or in actions by the FAA. Should we be unable to resolve known issues with certain of our aircraft or engine suppliers, it may result in the inability to operate our aircraft for extended periods. Additionally, if COVID-19 causes our limited vendors to have performance problems, reduced or ceased operations, bankruptcies, or other events causing them to be unable to fulfill their commitments to us, our operations and business could be materially adversely affected.

Should these suppliers be unable to manufacture or deliver new aircraft, we may not be able to grow our fleet at our intended rate, which could impact our financial position. Following the recertification of the 737 MAX aircraft, Boeing has a significant production backlog which may impact the timing of deliveries. We have 32 737-9 MAX aircraft on order, with 13 aircraft deliveries currently anticipated in 2021. If we are unable to receive these aircraft and future aircraft in a timely manner, our growth plans could be significantly impacted. Additionally, further consolidation amongst aircraft and aircraft parts manufacturers could further limit the number of suppliers. This could result in an inability to operate our aircraft or instability in the foreign countries in which the aircraft and its parts are manufactured.

We rely on partner airlines for codeshare and frequent flyer marketing arrangements.

Our airlines are parties to marketing agreements with a number of domestic and international air carriers, or "partners," including the West Coast International Alliance (WCIA) with American, which was announced in 2020. These agreements provide that certain flight segments operated by us are held out as partner "codeshare" flights and that certain partner flights are held out for sale as Alaska codeshare flights. In addition, the agreements generally provide that members of Alaska's Mileage Plan™ program can earn credit on or redeem credit for partner flights and vice versa. We receive revenue from flights sold under codeshare and from interline arrangements. In addition, we believe that the frequent flyer arrangements are an important part of our loyalty program. The loss of a significant partner through bankruptcy, consolidation, or otherwise, could have a negative effect on our revenues or the attractiveness of our Mileage Plan™ program, which we believe is a source of competitive advantage.

We routinely engage in analysis and discussions regarding our own strategic position, including alliances, codeshare arrangements, interline arrangements, and frequent flyer program enhancements, and will continue to have future discussions with other airlines regarding similar activities. If other airlines participate in consolidation or reorganization, those airlines may significantly improve their cost structures or revenue generation capabilities, thereby potentially making them stronger competitors of ours and potentially impairing our ability to realize expected benefits from our own strategic relationships.

Our impending entry into the oneworld global alliance is expected to provide us with many benefits, including the ability to seamlessly connect our guests to more points around the globe, as well as better serve corporate partners. Entry into the alliance may cause us to lose existing codeshare agreements with partners who are not oneworld members, and could limit options to bring non-oneworld carrier partners into our Mileage Plan™ program. Further, maintaining the WCIA with another U.S. airline may expose us to additional regulatory scrutiny. Failure to appropriately manage these partnerships and alliances could negatively impact future growth plans and our financial position.

Economic uncertainty, or another recession, would likely impact demand for our product and could harm our financial condition and results of operations.

The airline industry, which is subject to relatively high fixed costs and highly variable and unpredictable demand, is particularly sensitive to changes in economic conditions. We are also highly dependent on U.S. consumer confidence and the health of the U.S. economy. Unfavorable U.S. economic conditions have historically driven changes in travel patterns and have resulted in reduced spending for both leisure and business travel. For some consumers, leisure travel is a discretionary expense, and shorter distance travelers, in particular, have the option to replace air travel with surface travel. Businesses are able to forgo air travel by using communication alternatives such as video conferencing or may be more likely to purchase less expensive tickets to reduce costs, which can result in a decrease in average revenue per seat. Unfavorable economic conditions also hamper the ability of airlines to raise fares to counteract increased fuel, labor and other costs. Unfavorable or even uncertain economic conditions could negatively affect our financial condition and results of operations.

INFORMATION TECHNOLOGY

We rely heavily on automated systems to operate our business, and a failure to invest in new technology or a disruption of our current systems or their operators could harm our business.

We depend on automated systems to operate our business, including our airline reservation system, our telecommunication systems, our website, our maintenance systems, our check-in kiosks, mobile devices, and other systems. Substantially all of our tickets are issued to our guests as electronic tickets, and the majority of our guests check-in using our website, airport kiosks, or our mobile application. We depend on our reservation system to be able to issue, track and accept these electronic tickets. In order for our operations to work efficiently, we must continue to invest in new technology to ensure that our website, reservation system and check-in systems are able to accommodate a high volume of traffic, maintain information security and deliver important flight information. Substantial or repeated website, reservations system or telecommunication systems failures or service disruptions could reduce the attractiveness of our services and cause our guests to do business with another airline. In addition, we rely on other automated systems for crew scheduling, flight dispatch and other operational needs. Disruptions, failed migration, untimely recovery, or a breach of these systems or our data center could result in the loss of important data, an increase of our expenses, an impact on our operational performance, or a possible temporary cessation of our operations.

Failure to appropriately comply with information security rules and regulations or safeguard our employee or guest data could result in damage to our reputation and cause us to incur substantial legal and regulatory cost.

We accept, store and transmit information about our guests, our employees, our business partners, and our business. Many international and U.S. jurisdictions have established or are in the process of establishing their own data security and privacy regulatory framework with which we, our business partners, and our corporate customers must comply. There are also various bills pending at the U.S. state and federal levels that could impose additional privacy and data security obligations. This uncertain and increasingly complex regulatory environment may result in significant expenses associated with increased investment in technology and the development of new operational processes, particularly as we continue to collect and retain large amounts of personal information. If our online activities or our other customer-facing technology systems do not function as designed, we may experience a loss of customer confidence, decreased sales, or be exposed to fraud, any of which could materially and adversely affect our reputation and operations. In addition, we frequently rely on third-party hosting sites and data processors, including cloud providers. To the extent that either we or third parties with whom we share information are found to be out of compliance with applicable laws and regulations, we could be subject to additional litigation, regulatory risks and reputational harm.

Cyber security threats have and will continue to impact our business. Failure to appropriately mitigate these risks could negatively impact our operations, onboard safety, reputation and financial condition.

Our sensitive information is securely transmitted over public and private networks. Our systems are subject to increasing and evolving cyber security risks. Unauthorized parties have attempted and continue to attempt to gain access to our systems and information, including through fraudulent misrepresentation and other means of deception. Methods used by unauthorized parties are continually evolving and may be difficult to identify. Because of these ever-evolving risks and regular attacks, we continue to review policies and educate our people on various methods utilized in attempts to gain unauthorized access to bolster awareness and encourage cautionary practices. However, the nature of these attacks means that proper policies and education may not be enough to prevent all unauthorized access. A compromise of our systems, the security of our infrastructure or those of other business partners that result in our information being accessed or stolen by unauthorized persons could adversely affect our operations and our reputation. A cybersecurity attack impacting our onboard or other operational systems may result in an accident or incident onboard or significant operational disruptions, which could adversely affect our reputation, operation and financial position. Further, a significant portion of our office employees have transitioned to remote work, which could increase our potential exposure to cyberattacks, and could compromise our financial or operational systems.

FINANCIAL CONDITION AND FINANCIAL MARKETS

Our business, financial condition and results of operations are substantially exposed to the volatility of jet fuel prices. Significant increases in jet fuel costs would harm our business.

Fuel costs constitute a significant portion of our total operating expenses. Future increases in the price of jet fuel may harm our business, financial condition and results of operations unless we are able to increase fares and fees or add additional ancillary services to attempt to recover increasing fuel costs.

We have a significant amount of debt and fixed obligations, and have incurred substantial incremental debt in response to the COVID-19 pandemic. These obligations could lead to liquidity restraints and have a material adverse effect on our financial position.

We carry, and will continue to carry for the foreseeable future, a substantial amount of debt and aircraft operating lease commitments. In response to the COVID-19 pandemic, we have incurred and may continue to seek new financing sources to fund our operations while demand remains at an unprecedented low level and for the unknown duration of any economic recovery period. Although we aim to keep our leverage low, due to our high fixed costs, including aircraft lease commitments and debt service, a decrease in revenues would result in a disproportionately greater decrease in earnings.

Our outstanding long-term debt and other fixed obligations could have important consequences. For example, they could limit our ability to obtain additional financing to fund our future capital expenditures, working capital or other purposes; require us to dedicate a material portion of our operating cash flow to fund lease payments and interest payments on indebtedness, thereby reducing funds available for other purposes; or limit our ability to withstand competitive pressures and reduce our flexibility in responding to changing business and economic conditions. Further, as we incur incremental obligations, issuers may require future debt agreements to contain more restrictive covenants or require additional collateral beyond historical market terms which may further restrict our ability to successfully access capital.

Although we have historically been able to generate sufficient cash flow from our operations to pay our debt and other fixed obligations when they become due, we cannot ensure we will be able to do so in the future. If we fail to do so, our business could be harmed.

Our maintenance costs will increase as our fleet ages, and we will periodically incur substantial maintenance costs due to the timing of maintenance events of our aircraft.

As of December 31, 2020, the average age of our NextGen aircraft (B737-700, -800, -900, -900ERs) was approximately 9.9 years, the average age of our operating A320 and A321neo aircraft was approximately 7.2 years, the average age of our owned E175 aircraft was approximately 2.6 years, and the average age of our Q400 aircraft was approximately 12.7 years. Typically, our newer aircraft require less maintenance than they will in the future. Any significant increase in maintenance expenses could have a material adverse effect on our results of operations. In addition, expenses for aircraft coming off lease could result in unplanned maintenance expense as we are required to return leased planes in a contractually specified condition.

The application of the acquisition method of accounting resulted in us recording a significant amount of goodwill, which could result in significant future impairment charges and negatively affect our financial results.

In accordance with acquisition accounting rules, we recorded goodwill on our consolidated balance sheet to the extent the Virgin America acquisition purchase price exceeded the net fair value of Virgin America's tangible and identifiable intangible assets and liabilities as of the acquisition date. Goodwill is not amortized, but is tested for impairment at least annually. We could record impairment charges in our results of operations as a result of, among other items, extreme fuel price volatility, a significant decline in the fair value of certain tangible or intangible assets, unfavorable trends in forecasted results of operations and cash flows, uncertain economic environment and other uncertainties. We can provide no assurance that a significant impairment charge will not occur in one or more future periods. Any such charges may materially affect our financial results.

BRAND AND REPUTATION

As we evolve our brand to appeal to a changing demographic and grow into new markets, we will engage in strategic initiatives that may not be favorably received by all of our guests.

We continue to focus on strategic initiatives designed to increase our brand appeal to a diverse and evolving demographic of airline travelers. These efforts could include significant enhancements to our in-airport and on-board environments, increasing our direct customer relationships through improvements to our purchasing portals (digital and mobile) and optimization of our customer loyalty programs. In pursuit of these efforts we may negatively affect our reputation with some of our existing customer base.

The Company's brand and reputation could be harmed if it is exposed to significant negative publicity distributed through social media.

We operate in a highly visible industry that has significant exposure to social media. Negative publicity, including as a result of misconduct by our guests or employees, or failure to adhere to COVID-19 related health and safety protocols, can spread rapidly through social media. Should the Company not respond in a timely and appropriate manner to address negative publicity, the Company's brand and reputation may be significantly harmed. Such harm could have a negative impact on our financial results.

LABOR RELATIONS AND LABOR STRATEGY

A significant increase in labor costs, unsuccessful attempts to strengthen our relationships with union employees or loss of key personnel could adversely affect our business and results of operations.

Labor costs remain a significant component of our total expenses. In addition to costs associated with represented employee groups, labor costs could also increase for non-unionized employees and via vendor agreements as we work to compete for highly skilled and qualified employees against the major U.S. airlines and other businesses in a thriving job market. Although ample efforts have been dedicated to right-sizing our management structure following the merger with Virgin America, these increased labor costs may adversely affect our financial performance.

Should employees engage in job actions, such as slow-downs, sick-outs, or other actions designed to disrupt normal operations and pressure the employer to acquiesce to bargaining demands during Section 6 negotiations, although unlawful until after lengthy mediation attempts, the operation could be significantly impacted. Although we have a long track record of fostering good communications, negotiating approaches and developing other strategies to enhance workforce engagement in our long-term vision, unsuccessful attempts to strengthen relationships with union employees or loss of key personnel could divert management's attention from other projects and issues, which could adversely affect our business and results of operations.

The inability to attract, retain and train qualified personnel, or maintain our culture, could result in guest impacts and adversely affect our business and results of operations.

We compete against other major U.S. airlines for pilots, aircraft technicians and other skilled labor. As more pilots in the industry approach mandatory retirement age, the U.S. airline industry may be affected by a pilot shortage. Attrition beyond normal levels, the inability to attract new pilots, or our key vendors' inability to attract and retain mechanics or other skilled labor positions could negatively impact our operating results. As a result, our business prospects could be harmed. Additionally, we may be required to increase our wage and benefit packages, or pay increased rates to our vendors, to retain these positions. This would result in increased overall costs and may adversely impact our financial position.

Our success is also dependent on cultivating and maintaining a unified culture with cohesive values and goals. Much of our continued success is tied to our guest loyalty. Failure to maintain and grow the Alaska culture could strain our ability to maintain relationships with guests, suppliers, employees and other constituencies. As part of this process, we may continue to incur substantial costs for employee programs.

REGULATION

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for most legal actions involving actions brought against us by stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

Our certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of our company, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of Section 203 of the General Corporation Law of the State of Delaware, or the DGCL, or as to which the DGCL confers jurisdiction to the Court of Chancery of the State of Delaware, or (iv) any action asserting a claim governed by the internal affairs doctrine. This exclusive forum provision is intended to apply to claims arising under Delaware state law and would not apply to claims brought pursuant to the Exchange Act or the Securities Act, or any other claim for which the federal courts have exclusive jurisdiction. The exclusive forum provision in our certificate of incorporation will not relieve us of our duties to comply with the federal securities laws and the rules and regulations thereunder, and our stockholders will not be deemed to have waived our compliance with these laws, rules and regulations.

This exclusive forum provision may limit a stockholder's ability to bring a claim in a judicial forum of its choosing for disputes with us or our directors, officers or other employees, which may discourage lawsuits against us and our directors, officers and other employees. In addition, stockholders who do bring a claim in the Court of Chancery of the State of Delaware could face additional litigation costs in pursuing any such claim, particularly if they do not reside in or near Delaware. The Court of Chancery of the State of Delaware may also reach different judgments or results than would other courts, including courts where a stockholder would otherwise choose to bring the action, and such judgments or results may be more favorable to our company than to our stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

AIRCRAFT

The following table describes the aircraft we operate and their average age at December 31, 2020:

Aircraft Type ^(a)	Seats	Owned	Leased	Total	Average Age in Years
B737 Freighters	—	3	—	3	19.9
B737 NextGen	124-178	153	10	163	9.9
A320	149	—	21	21	9.3
A321neo	185	—	10	10	2.7
Total Mainline Fleet		156	41	197	9.6
Q400	76	25	7	32	12.7
E175	76	30	32	62	3.3
Total Regional Fleet		55	39	94	6.5
Total		211	80	291	8.6

(a) The table above does not include 10 leased A319, 30 leased A320 and 2 owned Q400 non-operating aircraft.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" discusses future orders and options for additional aircraft. "Liquidity and Capital Resources" provides more information about aircraft that are used to secure long-term debt arrangements or collateralize credit facilities. Note 7 to the Consolidated Financial Statements provides more information regarding leased aircraft as capitalized on our Consolidated Balance Sheets.

Alaska's leased B737 aircraft have lease expiration dates between 2022 and 2028. Alaska's leased A319 and A320 aircraft have lease expiration dates between 2021 and 2025; and A321neo aircraft have lease expiration dates between 2029 and 2031, including those aircraft that have been permanently removed from our operating fleet, but have not been returned to lessors. Horizon's leased Q400 aircraft have lease expiration dates between 2022 and 2023. The leased E175 aircraft support our capacity purchase agreement with SkyWest, which extends through 2030. Alaska has the option to extend some of the leases for additional periods.

GROUND FACILITIES AND SERVICES

In various cities in the state of Alaska, we own terminal buildings and two multi-bay hangars. We also own several buildings located at or near Seattle-Tacoma International Airport (Sea-Tac). These include a multi-bay hangar and shops complex (used primarily for line maintenance), a flight operations and training center, an air cargo facility, an information technology office and data center, and various other commercial office buildings. Additionally, in 2020, we opened our newest corporate office building in Sea-Tac, The Hub.

At the majority of the airports we serve, we lease ticket counters, gates, cargo and baggage space, ground equipment, office space and other support areas. Airport leases contain provisions for periodic adjustments of lease rates. We are typically responsible for maintenance, insurance and other facility-related expenses and services under these agreements. We also lease operations, training, administrative, and data center facilities in Burlingame, CA; Portland, OR; Quincy, WA; and Spokane, WA, line maintenance stations in Boise, ID; San Jose, CA; Redmond, OR; Seattle, WA; Kent, WA; and Spokane, WA, and call center facilities in Phoenix, AZ and Boise, ID, and a multi-bay hangar in Portland, OR.

ITEM 3. 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 \$78 million. The Company has recorded an estimate of the loss within this range in the financial statements for the period ending December 31, 2020 as a recognized subsequent event.

The Company is seeking an appellate court ruling that the California laws on which the judgment is based are invalid as applied to national airlines pursuant to the U.S. Constitution and federal law and for other employment law and improper class certification reasons. The Company remains confident that a higher court will respect the federal preemption principles 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 and agree with the Company's other bases for appeal.

In January 2019, a pilot filed a class action lawsuit seeking to represent all Alaska and Horizon pilots for damages based on alleged violations of the Uniformed Services Employment and Reemployment Rights Act (USERRA). Plaintiff received class certification in August 2020. The case is in discovery. The Company believes the claims in the case are without factual and legal merit and intends to defend the lawsuit.

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.

This forward-looking statement is based on management's current understanding of the relevant laws and facts, and it is subject to various contingencies, including the potential costs and risks associated with litigation and the actions of judges and juries.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

As of December 31, 2020, there were 133,567,534 shares of common stock of Alaska Air Group, Inc. issued, 124,217,590 shares outstanding, and 2,437 shareholders of record. In 2020, we paid a quarterly dividend of \$0.375 per share in March. As a condition for accepting funds under the Coronavirus Aid Relief and Economic Security (CARES) Act, the Company cannot repurchase common stock or pay dividends until March 31, 2022, or one year after repayment of secured loan proceeds. Our common stock is listed on the New York Stock Exchange (symbol: ALK).

SALES OF NON-REGISTERED SECURITIES

None.

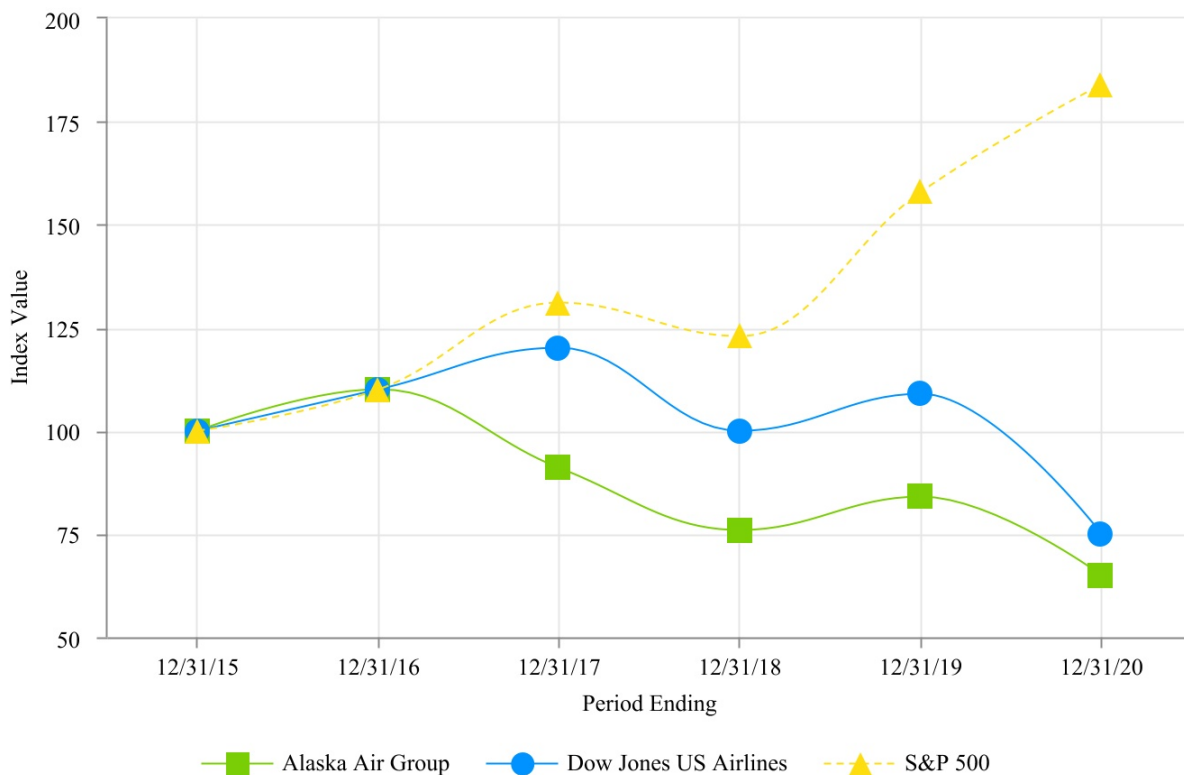
PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

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. The plan has remaining authorization to purchase an additional \$456 million in shares.

PERFORMANCE GRAPH

The following graph compares our cumulative total stockholder return since December 31, 2015 with the S&P 500 Index and the Dow Jones U.S. Airlines Index. The graph assumes that the value of the investment in our common stock and each index (including reinvestment of dividends) was \$100 on December 31, 2015.

Comparison of 5 year Cumulative Total Return



ITEM 7. 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, our operations and our present business environment. MD&A is provided as a supplement to – and should be read in conjunction with – our consolidated financial statements and the accompanying notes. All statements in the following discussion that are not statements of historical information or descriptions of current accounting policy are forward-looking statements. Please consider our forward-looking statements in light of the risks referred to in this report's introductory cautionary note and the risks mentioned in Part I, "Item 1A. Risk Factors." This overview summarizes the MD&A, which includes the following sections:

- *Year in Review*—highlights from 2020 outlining some of the major events that happened during the year 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 most recent two years presented in our consolidated financial statements. 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 also includes forward-looking statements regarding our view of 2021.
- *Liquidity and Capital Resources*—an overview of our financial position, analysis of cash flows, sources and uses of cash, contractual obligations and commitments and off-balance sheet arrangements.
- *Critical Accounting Estimates*—a discussion of our accounting estimates that involve significant judgment and uncertainties.

This section of the Form 10-K covers discussion of 2020 and 2019 results, and comparisons between those years. Discussion of 2018 results and comparisons between 2019 and 2018 have been removed from this Form 10-K, and can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

YEAR IN REVIEW

COVID-19 impact and response

The public health and economic crises resulting from the outbreak of COVID-19 has had and continues to have an unprecedented impact on our business. The adverse impacts from the crises have been material to our business, operating results, and financial condition. The cancellation of large public events, suspension of business travel, closure of popular tourist destinations and implementation of stay-at-home orders throughout the country that began in March 2020 drove demand for air travel to historic lows. Passenger enplanements were lowest in April 2020, and experienced a slow and volatile recovery pattern through the end of the year.

In response to the crises at hand, we took immediate action to reinforce the health and safety standards for our guests. Through our Next-Level Care initiative, we emphasized nearly 100 measures aimed at creating layers of safety aimed and a safe and healthy environment at all stages of travel.

We also moved quickly to reduce flying and associated costs. Compared to the same quarters in the prior year, our flown capacity was down 75% in Q2, down 55% in Q3 and down 42% in Q4, resulting in full year capacity that was 44% below 2019 levels. By reducing flying, we were able to reduce variable costs, which we supplemented with efforts to minimize discretionary and non-essential spend. Our efforts included officer pay reductions, including 100% pay reductions for both the CEO and Alaska President, suspending or cancellation of pay increases for all employees, reducing management hours and offering voluntary leave programs. We also solicited early-outs and provided incentive leaves for certain workgroups, which reduced our need to furlough employees. In October, we did furlough approximately 400 flight attendants, the majority of whom have returned to work, and reduced management positions by approximately 300. As a result, our non-fuel operating expenses, excluding the Payroll Support Program grant wage offset and special items, declined 22% for the year.

To further curb cash outflows, we suspended our cash dividend and share repurchase program, and cut capital expenditures to \$206 million for the year.

In addition to these efforts, we also sought to fortify our liquidity position. We accessed over \$5 billion in new capital, including approximately \$1.2 billion raised in the capital markets through the issuance of EETCs, approximately \$600 million in bank financing, approximately \$280 million from the sale of 10 Airbus aircraft, approximately \$1.1 billion received under the CARES Act Payroll Support Program and approximately \$1.9 billion made available under the CARES Act Loan Program.

Remarkably, we ended the year with adjusted net debt of \$1.7 billion, essentially flat to 2019 levels despite a decline in total operating revenues of \$5.2 billion in 2020. We were able to keep this metric flat to prior year as a result of our immediate actions taken to reduce cash spend, through the reduction of operating expenses and discretionary spend. These actions, coupled with \$753 million in Payroll Support Program grants enabled us to preserve our balance sheet strength, which was a significant achievement in such a challenging year. This strength positions us well to seize opportunities in the recovery expected ahead.

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.

Recovery and 2021 Outlook

The timing and rate of recovery remains difficult to predict. The slow and, at times, volatile return of demand that we experienced in 2020 is likely to continue into 2021. We are cautiously optimistic that there will be a step change in demand once the vaccine has been broadly distributed, and state and local authorities begin to relax restrictions. Leisure travel has led in the recovery thus far, and we believe it will continue to do so. Business travel has remained more severely depressed, and we believe it will be slower to recover in 2021. This is in part due to the expectation that businesses will be addressing duty of care concerns, plans for reopening corporate offices, and potential resizing corporate travel budgets. Our focus is on preparing our company and operation to rebuild capacity to levels that meet demand as it returns.

We believe low-costs are critical to our success, and returning to pre-pandemic CASMex levels is a priority, even if we remain a smaller business for some time. In the first quarter of 2021, we expect to incur unit costs that are approximately 20% over 2019 levels, and expect sequential improvement in the quarters beyond with a goal of reaching 2019 unit costs as we move into 2022. Although there is still significant work to be done to achieve these goals, we believe that our employees are up to the challenge.

Our outlook, and the guidance provided, will be directly impacted by health trends, the vaccine roll-out, and regulations and restrictions imposed by state, local and federal authorities. Our plans for 2021 will be responsive to emerging information from all of these areas, and the guidance we have provided above is subject to greater uncertainty than we have historically experienced. The work we have done in 2020 to keep our balance sheet strong provides a strong foundation for taking advantage of the recovery ahead, whatever course it may take. Our people are focused on keeping our 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 competitive advantages we have cultivated over many years will continue to serve us well in 2021 and beyond, and 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.

RESULTS OF OPERATIONS

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

We believe disclosure of earnings excluding the impact of merger-related costs, 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 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 result in a significant improvement in operating results. In addition, we believe that all domestic carriers are similarly impacted by changes in jet fuel costs over the long run, so it is important for management (and thus investors) to understand the

impact of (and trends in) company-specific cost drivers such as labor rates and productivity, airport costs, maintenance costs, etc., which are more controllable by management.

- Cost per ASM (CASM) excluding fuel and certain special items, such as the payroll support program wage offset, impairment and restructuring charges and merger-related costs, is one of the most important measures used by management and by the Air Group Board of Directors in assessing quarterly and annual cost performance.
- Adjusted income before income tax and CASM excluding fuel (and other items as specified in our plan documents) are important metrics for the employee incentive plan, which covers the majority of Air Group employees.
- 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 compare our airlines to others in the industry. The measure is also the subject of frequent questions from investors.
- Disclosure of the individual impact of certain noted items provides investors the ability to measure and monitor performance both with and without these special items. We believe that disclosing the impact of certain items, such as merger-related costs and mark-to-market hedging adjustments, is important because it provides information on significant items that are not necessarily indicative of future performance. Industry analysts and investors consistently measure our performance without these items for better comparability between periods and among other airlines.
- Although we disclose our passenger unit revenues, we do not (nor are we able to) evaluate unit revenues excluding the impact that changes in fuel costs have had on ticket prices. Fuel expense represents a large percentage of our total operating expenses. Fluctuations in fuel prices often drive changes in unit revenues in the mid-to-long term. Although we believe it is useful to evaluate non-fuel unit costs for the reasons noted above, we would caution readers of these financial statements not to place undue reliance on unit costs excluding fuel as a measure or predictor of future profitability because of the significant impact of fuel costs on our business.

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

2020 COMPARED WITH 2019

Our consolidated net loss for 2020 was \$1.3 billion, or \$10.72 per diluted share, compared to net income of \$769 million, or \$6.19 per diluted share, in 2019.

Excluding the impact of the payroll support program grant wage offset, special items and mark-to-market fuel hedge adjustments, our adjusted consolidated net loss for 2020 was \$1.3 billion, or \$10.17 per diluted share, compared to an adjusted consolidated net income of \$798 million, or \$6.42 per share, in 2019. The following table reconciles our adjusted net income and earnings per diluted share (EPS) during the full year 2020 and 2019 to amounts as reported in accordance with GAAP.

<i>(in millions, except per-share amounts)</i>	Twelve Months Ended December 31,			
	2020		2019	
	Dollars	Diluted EPS	Dollars	Diluted EPS
Reported GAAP net income (loss) and diluted EPS	\$ (1,324)	\$ (10.72)	\$ 769	\$ 6.19
Payroll support program grant wage offset	(782)	(6.33)	—	—
Mark-to-market fuel hedge adjustments	(8)	(0.06)	(6)	(0.05)
Special items - impairment charges and other	627	5.08	—	—
Special items - restructuring charges	220	1.78	—	—
Special items - merger-related costs	6	0.05	44	0.35
Special items - net non-operating	26	0.21	—	—
Income tax effect on special items and fuel hedge adjustments	(21)	(0.18)	(9)	(0.07)
Non-GAAP adjusted net income (loss) and diluted EPS	\$ (1,256)	\$ (10.17)	\$ 798	\$ 6.42

CASMex is reconciled to CASM below:

	Twelve Months Ended December 31,		
	2020	2019	% Change
Consolidated:			
Total CASM	14.39 ¢	11.58 ¢	24%
Less the following components:			
Payroll support program grant wage offset	(2.11)	—	NM
Aircraft fuel, including hedging gains and losses	1.95	2.82	(31)%
Special items - impairment charges and other	1.69	—	NM
Special items - restructuring charges	0.59	—	NM
Special items - merger-related costs	0.02	0.06	(67)%
CASM, excluding fuel and special items	<u>12.25 ¢</u>	<u>8.70 ¢</u>	41%
Mainline:			
Total CASM	13.66 ¢	10.73 ¢	27%
Less the following components:			
Payroll support program grant wage offset	(2.17)	—	NM
Aircraft fuel, including hedging gains and losses	1.79	2.65	(32)%
Special items - impairment charges and other	1.80	—	NM
Special items - restructuring charges	0.65	—	NM
Special items - merger-related costs	0.02	0.08	(75)%
CASM, excluding fuel and special items	<u>11.57 ¢</u>	<u>8.00 ¢</u>	45%

OPERATING STATISTICS SUMMARY (unaudited)
Alaska Air Group, Inc.

Below are operating statistics we use to measure performance.

	Twelve Months Ended December 31,				
	2020	2019	Change	2018	Change
Consolidated Operating Statistics:^(a)					
Revenue passengers (000)	17,927	46,733	(61.6)%	45,802	2.0%
RPMs (000,000) "traffic"	20,493	56,040	(63.4)%	54,673	2.5%
ASMs (000,000) "capacity"	37,114	66,654	(44.3)%	65,335	2.0%
Load factor	55.2%	84.1%	(28.9) pts	83.7%	0.4 pts
Yield	14.73¢	14.45¢	1.9%	13.96¢	3.5%
RASM	9.61¢	13.17¢	(27.0)%	12.65¢	4.2%
CASM excluding fuel and special items ^(b)	12.25¢	8.70¢	40.8%	8.50¢	2.3%
Economic fuel cost per gallon ^(b)	\$1.58	\$2.19	(27.9)%	\$2.28	(3.9)%
Fuel gallons (000,000)	461	862	(46.5)%	839	2.7%
ASM's per gallon	80.5	77.3	4.1%	77.9	(0.8)%
Average number of full-time equivalent employees (FTEs)	17,596	22,126	(20.5)%	21,641	2.2%
Employee productivity (PAX/FTEs/months)	84.9	176.0	(51.8)%	176.4	(0.2)%
Mainline Operating Statistics:					
Revenue passengers (000)	12,280	35,530	(65.4)%	35,603	(0.2)%
RPMs (000,000) "traffic"	17,438	50,413	(65.4)%	49,781	1.3%
ASMs (000,000) "capacity"	31,387	59,711	(47.4)%	59,187	0.9%
Load factor	55.6%	84.4%	(28.8) pts	84.1%	0.3 pts
Yield	13.48¢	13.39¢	0.7%	13.01¢	2.9%
RASM	9.01¢	12.36¢	(27.1)%	11.93¢	3.6%
CASM excluding fuel and special items ^(b)	11.57¢	8.00¢	44.6%	7.73¢	3.5%
Economic fuel cost per gallon ^(b)	\$1.59	\$2.17	(26.7)%	\$2.27	(4.4)%
Fuel gallons (000,000)	358	731	(51.0)%	727	0.6%
ASM's per gallon	87.7	81.7	7.3%	81.4	0.4%
Average number of FTEs	13,214	16,642	(20.6)%	16,353	1.8%
Aircraft utilization	8.3	10.9	(23.9)%	11.2	(2.7)%
Average aircraft stage length	1,272	1,299	(2.1)%	1,298	0.1%
Mainline operating fleet at period-end ^(d)	197 a/c	237 a/c	(40) a/c	233 a/c	4 a/c
Regional Operating Statistics:^(c)					
Revenue passengers (000)	5,647	11,203	(49.6)%	10,199	9.8%
RPMs (000,000) "traffic"	3,055	5,627	(45.7)%	4,892	15.0%
ASMs (000,000) "capacity"	5,727	6,943	(17.5)%	6,148	12.9%
Load factor	53.3%	81.0%	(27.7) pts	79.6%	1.4 pts
Yield	21.90¢	23.90¢	(8.4)%	23.66¢	1.0%

^(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 40 Airbus aircraft permanently parked during 2020.

OPERATING REVENUES

Total operating revenues decreased \$5.2 billion, or 59%, during 2020 compared to the same period in 2019. The changes are summarized in the following table:

<i>(in millions)</i>	Twelve Months Ended December 31,		
	2020	2019	% Change
Passenger revenue	\$ 3,019	\$ 8,095	(63)%
Mileage Plan other revenue	374	465	(20)%
Cargo and other	173	221	(22)%
Total operating revenues	<u>\$ 3,566</u>	<u>\$ 8,781</u>	(59)%

Passenger Revenue

On a consolidated basis, passenger revenue for 2020 decreased by \$5.1 billion, or 63%, on a 44% decrease in capacity, and a 29 point decrease in load factor. Decreased revenue year-over-year is primarily due to the significant loss of demand due to the COVID-19 pandemic. Beginning in March 2020, load factors were severely depressed, and in response we reduced our capacity, which remained well below 2019 levels through the end of 2020. Although we saw modest recovery during summer months and over the holiday periods, primarily led by leisure travelers, resurgence of cases throughout the United States coupled with restrictions imposed by state and local governments stalled further improvements.

Mileage Plan other revenue

On a consolidated basis, Mileage Plan other revenue decreased \$91 million, or 20%, as compared to 2019, largely due to a reduction in purchased miles and decreased commissions received from our affinity card partner, and an overall reduction in consumer spending.

Cargo and Other Revenue

On a consolidated basis, Cargo and other revenue decreased \$48 million, or 22%, from 2019. The decrease is primarily driven by reduced belly cargo activity as a result of schedule reductions for passenger aircraft, as well as capacity limitations on our freighters that resulted from an issue with the barrier walls in the aircraft that was identified in 2020. The barrier walls will eventually be replaced, but the freighters can be operated at reduced capacity until the replacement occurs. These reductions were offset by new cargo routes announced in Alaska, as well as an increase in online shopping activity, leading to increased overall cargo volumes.

We expect that our cargo revenues will increase in 2021 as compared to 2020, as all three freighters return to full capacity and as cargo capacity on passenger aircraft increases.

OPERATING EXPENSES

Total operating expenses decreased \$2.4 billion, or 31%, compared to 2019. We consider it useful to summarize operating expenses as follows, which is consistent with the way expenses are reported internally and evaluated by management:

<i>(in millions)</i>	Twelve Months Ended December 31,		
	2020	2019	% Change
Fuel expense	\$ 723	\$ 1,878	(62)%
Non-fuel expenses	4,547	5,796	(22)%
Payroll support program grant wage offset	(782)	—	NM
Special items - merger-related costs	6	44	(86)%
Special items - impairment charges and other	627	—	NM
Special items - restructuring charges	220	—	NM
Total Operating Expenses	<u>\$ 5,341</u>	<u>\$ 7,718</u>	(31)%

Significant operating expense variances from 2019 are more fully described below.

Aircraft Fuel

Aircraft fuel expense includes both *raw fuel expense* (as defined below) and the effect of mark-to-market adjustments to our fuel hedge portfolio included in our consolidated statement of operations as the value of that portfolio increases and decreases. Aircraft fuel expense can be volatile, even between quarters, because it includes these gains or losses in the value of the underlying instrument as crude oil prices and refining margins increase or decrease.

Raw fuel expense is defined as the price that we generally pay at the airport, or the “into-plane” price, including taxes and fees. Raw fuel prices are impacted by world oil prices and refining costs, which can vary by region in the U.S. *Raw fuel expense* approximates cash paid to suppliers and does not reflect the effect of our fuel hedges.

Aircraft fuel expense decreased \$1.2 billion, or 62%, compared to 2019. The elements of the change are illustrated in the following table:

<i>(in millions, except for per gallon amounts)</i>	Twelve Months Ended December 31,			
	2020		2019	
	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	\$ 713	\$ 1.54	\$ 1,868	\$ 2.17
(Gain)/loss on settled hedges	18	0.04	16	0.02
Consolidated economic fuel expense	\$ 731	\$ 1.58	\$ 1,884	\$ 2.19
Mark-to-market fuel hedge adjustments	(8)	(0.01)	(6)	(0.01)
GAAP fuel expense	\$ 723	\$ 1.57	\$ 1,878	\$ 2.18
Fuel gallons	461		862	

Raw fuel expense per gallon decreased 29% due to lower West Coast jet fuel prices. West Coast jet fuel prices are impacted by both the price of crude oil, as well as the refining costs associated with the conversion of crude oil to jet fuel. The decrease in raw fuel price per gallon during 2020 was driven by a 26% decrease in crude oil prices and a 57% decrease in refining margins, as compared to the prior year. Fuel gallons consumed decreased by 401 million, or 47%, consistent with the decrease in capacity of 44%, and a 42% decrease in block hours.

We also evaluate economic fuel expense, which we define as raw fuel expense adjusted for the cash we receive from hedge counterparties for hedges that settle during the period, and for the premium expense that we paid for those contracts. A key difference between aircraft fuel expense and economic fuel expense is the timing of gain or loss recognition on our hedge portfolio. 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 have on our business because it most closely approximates the net cash outflow associated with purchasing fuel for our operations. Accordingly, many industry analysts evaluate our results using this measure, and it is the basis for most internal management reporting and incentive pay plans.

Losses recognized for hedges that settled during the year were \$18 million in 2020, compared to losses of \$16 million in 2019. These amounts represent cash paid for premium expense, offset by any cash received from those hedges at settlement.

As of the date of this filing, we expect our economic fuel price per gallon to decrease approximately 10% in the first quarter of 2021, as compared to the first quarter of 2020 for similar reasons as noted above. As both oil prices and refining margins are volatile, we are unable to forecast the full-year cost with any certainty.

Wages and Benefits

Wages and benefits decreased during 2020 by \$317 million, or 13%, compared to 2019, excluding the impact of the Payroll support program grant wage offset. The primary components of wages and benefits are shown in the following table:

<i>(in millions)</i>	Twelve Months Ended December 31,		
	2020	2019	% Change
Wages	\$ 1,490	\$ 1,760	(15)%
Pension - Defined benefit plans	46	42	10 %
Defined contribution plans	126	132	(5)%
Medical and other benefits	288	311	(7)%
Payroll taxes	103	125	(18)%
Total wages and benefits	<u>\$ 2,053</u>	<u>\$ 2,370</u>	(13)%

Wages and payroll taxes decreased by a combined \$292 million on a 21% decrease in FTEs. Decreased wages are primarily due to voluntary leaves of absence taken by thousands of our employees throughout 2020, voluntary early-outs accepted by 600 employees, and a reduction in executive pay and hours for management employees.

Medical and other benefits expense decreased \$23 million, or 7%, partially due to an overall reduction in FTEs, coupled with reduced usage of medical benefits as compared to the prior year. Decreases were offset by increased medical rates in 2020.

We expect wages and benefits expense to be higher in 2021 compared to 2020 given our expected growth in overall FTEs needed to support our expected capacity growth. Our guidance does not include the impacts of any future agreements we may reach in 2021, most notably with our mainline pilots whose contract became amendable in April 2020.

Variable Incentive Pay

Variable incentive pay expense decreased to \$130 million in 2020 from \$163 million in 2019 on a decreased overall wage base coupled with reduced achievement of stated goals as compared to the prior year. The decrease was offset by achievement on a supplemental incentive pay plan approved in 2020, and increased achievement from our quarterly operational bonus program as compared to 2019.

Aircraft Maintenance

Aircraft maintenance costs decreased by \$116 million compared to 2019, primarily due to a significant reduction in engine events and heavy checks, as well as reduced power-by-the-hour expense on reduced utilization of covered aircraft. Lower maintenance costs and activity is offset by penalties recorded for failure to meet certain contractual minimum obligations.

We expect aircraft maintenance expense to increase in 2021 as we return temporarily grounded aircraft to flying, which will result in increased heavy maintenance events and additional power-by-the-hour expense on covered aircraft.

Aircraft Rent

Aircraft rent expense decreased \$32 million, or 10%, compared to 2019, primarily the result of full impairment taken on certain leased Airbus aircraft. The decrease was partially offset by the full year of expense for two leased A321neos added to the operating fleet in 2019.

We expect aircraft rent to be lower in 2021 given the permanent parking and impairment of 40 leased Airbus aircraft in 2020.

Landing Fees and Other Rentals

Landing fees and other rental expenses decreased \$114 million, or 21%, compared to 2019, primarily driven by a 44% decrease in capacity on 38% fewer departures.

We expect landing fees and other rental expense to increase in 2021 as we bring capacity back to our network. We also expect rate increases at many airports we serve, specifically our hubs, as significant capital programs are underway and will be included in our lease rates.

Selling Expenses

Selling expenses decreased by \$212 million, or 68%, compared to 2019 primarily driven by a significant reduction in distribution costs and credit card commissions due to lower sales. Reduced marketing spend and sponsorship costs due to the renegotiation of certain agreements with partners also contributed to the year-over-year decline.

We expect selling expense to increase in 2021, due primarily to higher sales as demand for air travel returns.

Depreciation and Amortization

Depreciation and amortization expenses decreased slightly as compared to 2019 due to the impairment in the first quarter of 2020 of our owned Q400 fleet, as well as the write-off of certain leasehold improvements.

We expect depreciation and amortization expense to increase in 2021, primarily due to depreciation taken on the 737 MAX aircraft scheduled for delivery in 2021.

Third-party Regional Carrier Expense

Third-party regional carrier expense, which represents payments made to SkyWest and PenAir under our CPA agreements, decreased \$38 million, or 23%, in 2020 compared to 2019. The decrease is primarily due to a 23% decrease in capacity flown by SkyWest as compared to the prior year and reduced contractual rates incurred for a portion of 2020.

We expect third-party regional carrier expense to be higher in 2021 as regional capacity has largely rebounded to where it was prior to the pandemic.

Special Items - Impairment charges and other

We recorded impairment and other charges of \$627 million in 2020. The charges were largely driven by our decision to permanently remove certain leased Airbus aircraft from operating service. For these aircraft, any remaining operating lease assets and related leasehold improvements, spare inventory and parts were expensed. Additionally, for these aircraft we recorded an accrual for total estimated lease return costs. Charges also include the write-down of the ten owned Airbus A320 aircraft and our Q400 fleet to their respective fair value, an accrued loss on a class action lawsuit judgment received subsequent to December 31, 2020, and the full write-off of gate assets at Dallas-Love Field, plus certain other immaterial items.

Special Items - Restructuring charges

We recorded restructuring charges of \$220 million in 2020 relating to the reduction of our workforce through voluntary early retirement and temporary leaves, incentive leave programs, involuntary furloughs and reductions in force. Charges are primarily comprised of wages for those pilots and mechanics on incentive leave programs, ongoing medical benefit coverage, and lump-sum termination payments. The total charge for the program was revised in the fourth quarter to capture pilot recalls anticipated in 2021 as a result of increased capacity expectations in our network and a change in the mix of aircraft type. Additional changes to this charge could be necessary in the future if the pilot recall schedule changes again.

Special Items - Merger-Related Costs

We recorded \$6 million of merger-related costs in 2020 associated with our ongoing integration of former Virgin America operations compared to \$44 million in 2019. Costs incurred in 2020 are primarily comprised of certain technology integration costs. We do not expect to incur integration related charges in 2021.

Consolidated Non-operating Income (Expense)

During 2020, we recorded net non-operating expense, excluding special items, of \$39 million, compared to \$47 million in 2019. The decrease is primarily due to an increase in income generated by additional cash and marketable securities on hand and reduced expense from our defined-benefit pension plan. Improved non-operating expense was offset by increased interest expense on an increased outstanding debt balance.

We recorded special items in non-operating expense of \$26 million in 2020 for pre-payment penalties and swap-break charges related to the early repayment of debt that was previously collateralized by the A320 aircraft which we sold in 2020.

ADDITIONAL SEGMENT INFORMATION

Refer to Note 14 of the consolidated financial statements for a detailed description of each segment. Below is a summary of each segment's profitability.

Mainline

Mainline pretax loss was \$1.4 billion in 2020 compared to pretax income of \$993 million in 2019. The \$2.4 billion shift to pretax loss was driven by a \$4.6 billion decrease in Mainline operating revenue, offset by a \$1.1 billion decrease in Mainline non-fuel operating expense and a \$1 billion decrease in Mainline fuel expense.

As compared to the prior year, lower Mainline revenues are primarily attributable to a 65% decrease in traffic on a 47% reduction in capacity, driven by the significant reduction in demand as a result of the COVID-19 pandemic. Non-fuel operating expenses declined significantly on cost savings driven by reduced variable costs on lower capacity, as well as decreased wages and benefits expense from voluntary leaves of absence and a reduction in hours for management employees. Lower raw fuel prices, coupled with decreased consumption from the reduction in flying, drove the decrease in Mainline fuel expense.

Regional

Our Regional operations generated a pretax loss of \$421 million in 2020 compared to a pretax profit of \$2 million in 2019. The shift to pretax loss was primarily attributable to a \$660 million decrease in operating revenues, partially offset by a \$104 million decrease in non-fuel operating expense and a \$133 million decrease in fuel costs. Decreased regional revenues is primarily the result of a 50% decrease in revenue passengers on an 18% decrease in capacity flown, stemming from the impacts of the COVID-19 pandemic.

Horizon

Horizon achieved a pretax profit of \$41 million in 2020 compared to \$38 million in 2019, primarily as a result of significant cost reduction efforts implemented in response to the COVID-19 pandemic. As Horizon records revenue based on total capacity sold to Alaska under the terms of the CPA, revenue was impacted to a lesser degree by the overall reduction in demand spurred by the pandemic.

LIQUIDITY AND CAPITAL RESOURCES

As a result of the COVID-19 pandemic, we have taken, and will continue to take, action to reduce costs, increase liquidity and preserve the relative strength of our balance sheet. From the onset of the pandemic, we have taken the following key actions to enhance and preserve our liquidity:

- Obtained approximately \$1.6 billion in Payroll Support Program funding to use towards payments of wages and benefits, including the extension finalized in January 2021;
- Executed an agreement with the U.S. Department of the Treasury to obtain up to \$1.9 billion through the CARES Act loan program. The collateral pool for the agreement includes certain Mileage PlanTM assets and cash flow streams, 34 aircraft and 15 spare engines;
- Obtained \$1.2 billion in financing through the issuance of EETC instruments, collateralized by 42 Boeing 737 aircraft and 19 Embraer E175 aircraft;
- Reached an agreement in principle to restructure our aircraft purchase agreement with Boeing, allowing for greater flexibility and lower cash outflows in 2021;
- Drew \$400 million from existing credit facilities; and
- Suspended our share repurchase program and quarterly dividend indefinitely.

Although we have no plans to access equity markets, we believe our equity would be of high interest to investors. The liquidity raised from these financings, coupled with the availability of additional liquidity and our meaningful cost reductions have provided the Company with confidence in our ability to withstand the depressed demand and prepare for recovery. Because of our successful efforts to reduce spending and preserve cash, our adjusted net debt is nearly flat as compared to December 31, 2019.

As the business recovers and eventually returns to profitability, reducing outstanding debt and strengthening our balance sheet will be a high priority. Based on our expectations about the recovery ahead, we expect to incur cash flow from operations of \$100 million to zero in the first quarter including funds received as part of the CARES Act Payroll Support Program. For the first half of the year we expect cash flows from operations to be positive.

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

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

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

<i>(in millions)</i>	December 31, 2020	December 31, 2019	Change
Cash and marketable securities	\$3,346	\$1,521	\$1,825
Cash, marketable securities, and unused lines of credit as a percentage of trailing twelve months revenue	94%	22%	72 pts
Long-term debt, net of current portion	\$2,357	\$1,264	\$1,093
Shareholders' equity	\$2,988	\$4,331	\$(1,343)

Debt-to-capitalization, adjusted for operating leases

<i>(in millions)</i>	December 31, 2020	December 31, 2019	Change
Long-term debt, net of current portion	\$ 2,357	\$ 1,264	86%
Capitalized operating leases	1,558	1,708	(9)%
COVID-19 related borrowings ^(a)	734	—	NM
Adjusted debt	\$ 4,649	\$ 2,972	
Shareholders' equity	2,988	4,331	(31)%
Total invested capital	7,637	7,303	5%
	61%	41%	

(a) To best reflect our leverage at December 31, 2020, we included the short-term borrowings stemming from the COVID-19 pandemic which are classified as current liabilities in the consolidated balance sheets.

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

<i>(in millions)</i>	December 31, 2020		December 31, 2019	
Current portion of long-term debt	\$	1,138	\$	235
Current portion of operating lease liabilities		290		269
Long-term debt		2,357		1,264
Long-term operating lease liabilities, net of current portion		1,268		1,439
Total adjusted debt		5,053		3,207
Less: Cash and marketable securities		(3,346)		(1,521)
Adjusted net debt	\$	1,707	\$	1,686

<i>(in millions)</i>	Year-ended December 31, 2020		Year-ended December 31, 2019	
GAAP Operating Income (Loss)	\$	(1,775)	\$	1,063
Adjusted for:				
Payroll support program grant wage offset and special items		71		44
Mark-to-market fuel hedge adjustments		(8)		(6)
Depreciation and amortization		420		423
Aircraft rent		299		331
EBITDAR	\$	(993)	\$	1,855

Adjusted net debt to EBITDAR (1.7x) 0.9x

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 Used in Operating Activities*

Net cash used in operating activities was \$234 million in 2020 compared to net cash provided of \$1.7 billion in 2019. Cash provided by ticket sales is the primary source of our operating cash flow. Our primary use of operating cash flow is operating expenses. Changes in demand that resulted from the pandemic and the changes we made to our operations in response had a dramatic impact on our operating cash flows in 2020 .

In 2020, revenues declined \$5.2 billion versus prior year. Through reduced flying levels and removal of fixed costs, we reduced operating expenses by \$2.4 billion versus prior year, which reflects the benefit of the \$753 million cash grant we received under the Payroll Support Program. 2020 operating expenses included \$627 million in special items that were largely non-cash during the period. This included impairment of property, plant and equipment, for which the cash outflow occurred in the past, and accruals that are associated with future cash out flows, such as the expected costs of lease returns and the impairment of leased aircraft.

In 2020, Air Traffic Liability (ATL) increased \$173 million, which included approximately \$1.3 billion in new ticket purchases, offset by approximately \$500 million in tickets that existed in ATL at the end of 2019 which flew and were recognized in revenue in 2020, and approximately \$600 million in cash refunds issued to guests. Although Air Traffic Liability was a source of working capital in 2020, as of December 31, 2020 it includes \$569 million in eWallet credits that were issued to guests as a result of trip cancellations. These credits are expected to be redeemed by guests for travel in future periods and will represent a working capital headwind.

Also in 2020, we recognized a \$516 million tax benefit associated with the net operating losses that were incurred during the period, which will be carried back to prior tax years or used in future tax years. These benefits are expected to result in operating cash inflows in future periods, but none were received in 2020.

Cash Used in Investing Activities

Cash used in investing activities was \$593 million during 2020, compared to \$791 million in 2019. Our capital expenditures were \$206 million, or \$490 million lower than in 2019, primarily driven by the elimination or postponement of capital expenditures and temporary cessation of predelivery deposits as a result of the COVID-19 pandemic. Our net purchases of marketable securities were \$644 million in 2020, compared to net purchases of \$136 million in 2019. Increased net purchases are primarily driven by additional cash on hand from borrowings and the PSP, which allowed the Company to invest additional funds.

Cash Provided by Financing Activities

Cash provided by financing activities was \$2.0 billion during 2020, compared to cash used in financing activities of \$813 million in 2019. During the year, we received funds from new secured debt financing of \$2.6 billion, including \$1.2 billion from the issuance of the EETCs, \$290 million from the loan portion of the proceeds from the PSP, and \$135 million drawn on the CARES Act secured term loan. These proceeds were partially offset by debt payments of \$565 million, dividend payments of \$45 million, and \$31 million in common stock repurchases.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Aircraft Purchase Commitments

As of December 31, 2020, Alaska had commitments to purchase 32 Boeing 737-9 MAX aircraft with deliveries in 2021 through 2023, and cancelable purchase commitments for 30 Airbus A320neo aircraft with deliveries from 2024 through 2026. At this time, we do not expect to take delivery of these 30 Airbus aircraft. Horizon also has commitments to purchase three E175 aircraft with deliveries in 2023. Alaska has options to acquire up to 37 additional 737 MAX aircraft and Horizon has options to acquire 30 E175 aircraft with deliveries from 2022 to 2024. In addition to the 32 E175 aircraft currently operated by SkyWest in our regional fleet, we have options in future periods to add regional capacity by having SkyWest operate up to eight more E175 aircraft.

In December 2020, Alaska announced an agreement in principle with Boeing to restructure the existing aircraft purchase agreement. Upon execution of the agreement, Alaska will have commitments to purchase an additional 23 737-9 MAX aircraft with deliveries between 2023 and 2024. The agreement in principle also provides for an incremental 15 options to purchase aircraft. These options, as well as the 37 available under the existing contractual agreement, are expected to be available for delivery between 2023 and 2026.

To best reflect our expectations of future fleet activity, we have included the firm deliveries from the Boeing agreement in principle in the table below, which summarizes our expected fleet count by year, as of February 26, 2021:

Aircraft	Actual Fleet Count		Anticipated Fleet Activity ^(a)					
	Dec 31, 2019	Dec 31, 2020	2021 Changes	Dec 31, 2021	2022 Changes	Dec 31, 2022	2023 changes	Dec 31, 2023
B737 Freighters	3	3	—	3	—	3	—	3
B737-700	11	11	—	11	—	11	—	11
B737-800	61	61	—	61	—	61	—	61
B737-900	12	12	—	12	—	12	—	12
B737-900ER	79	79	—	79	—	79	—	79
B737-9 MAX	—	—	13	13	30	43	13	56
A319/A320 ^(b)	61	21	—	21	(8)	13	(13)	—
A321 NEO	10	10	—	10	—	10	—	10
Total Mainline Fleet	237	197	13	210	22	232	—	232
Q400 operated by Horizon ^(c)	33	32	—	32	(1)	31	(6)	25
E175 operated by Horizon ^(c)	30	30	—	30	—	30	3	33
E175 operated by third party ^(c)	32	32	—	32	—	32	—	32
Total Regional Fleet	95	94	—	94	(1)	93	(3)	90
Total	332	291	13	304	21	325	(3)	322

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

^(b) At December 31, 2019, Alaska had 10 operating A319 aircraft, all of which were removed from operating service in 2020.

^(c) Aircraft are either owned or leased by Horizon or operated under capacity purchase agreement with a third party.

Firm orders and option exercises beyond 2021 are expected to be financed primarily through long-term debt and operating cash flows.

Future 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; and, during a period of decline in crude oil prices, we only forfeit cash previously paid for hedge premiums. Our crude oil positions are as follows:

	Approximate Gallons Hedged (in millions)	Weighted-Average Crude Oil Price per Barrel	Average Premium Cost per Barrel
First Quarter 2021	60	\$62	\$2
Second Quarter 2021	80	\$59	\$2
Third Quarter 2021	70	\$56	\$2
Fourth Quarter 2021	50	\$51	\$3
Full Year 2021	260	\$58	\$2
First Quarter 2022	25	\$53	\$3
Second Quarter 2022	15	\$54	\$3
Full Year 2022	40	\$53	\$3

Contractual Obligations

The following table provides a summary of our obligations as of December 31, 2020. For agreements with variable terms, amounts included reflect our minimum obligations.

(in millions)	2021	2022	2023	2024	2025	Beyond	Total
Current and long-term debt obligations	\$ 1,145	\$ 371	\$ 334	\$ 240	\$ 396	\$ 1,042	\$ 3,528
Aircraft lease commitments ^(a)	328	279	219	167	160	518	1,671
Facility lease commitments	10	9	9	8	6	87	129
Aircraft-related commitments ^(b)	185	1,325	672	194	16	13	2,405
Interest obligations ^(c)	111	81	68	58	50	103	471
Other obligations ^(d)	181	185	190	197	198	711	1,662
Total	\$ 1,960	\$ 2,250	\$ 1,492	\$ 864	\$ 826	\$ 2,474	\$ 9,866

^(a) Future minimum lease payments for aircraft includes commitments for aircraft which have been removed from operating service, as we have remaining obligations 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 December 31, 2020.

^(d) Primarily comprised of non-aircraft lease costs associated with capacity purchase agreements.

The table above includes changes to our existing purchase agreement with Boeing as outlined in the agreement in principle reached with Boeing in 2020. As of December 31, 2020, Alaska has approximately \$550 million in pre-delivery deposits on hand with Boeing. The revised delivery timeline for our existing firm orders, in connection with the pre-delivery payment schedule we have agreed upon with Boeing, will reduce our 2021 capital commitments significantly from those outlined above. Additionally, in the event that the demand environment does not support the need for deliveries as scheduled, we can utilize slide rights under the agreement to defer as much as \$300 million of these capital commitments from 2022 into later years.

Los Angeles International Airport (LAX) Construction

In May 2019, we executed an amended lease agreement with Los Angeles World Airports, which includes an agreement to renovate and upgrade the fuel system, jet bridges and concourse facilities at Terminal 6 of LAX. Project terms and pre-construction readiness was approved and finalized in 2020. We expect construction will be completed by early 2024. Under the terms of the agreement, we expect to have total reimbursable cash outlays for the project of approximately \$230 million. To date, we have made total cash outlays of \$24 million and have received reimbursement for \$8.7 million of that total.

Defined Benefit Pensions

The table above excludes contributions to our various pension plans, for which there are no minimum required contributions given the funded status of the plans. The unfunded liability for our qualified defined-benefit pension plans was \$446 million at December 31, 2020, compared to a \$363 million unfunded position at December 31, 2019. This results in an 85% funded status on a projected benefit obligation basis compared to 86% funded as of December 31, 2019. There were no contributions to the plans in 2020.

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.

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 will reverse, 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 and cash taxes payable in the short-term are impacted by many items, including the amount of book income generated (which can be volatile depending on revenue and fuel prices), usage of net operating losses, whether bonus depreciation provisions are available, any future tax reform efforts at the federal level, as well as other legislative changes that are beyond our control.

In 2020, we received a net refund of tax payments of \$2 million, and had an effective tax rate of 28.0%. We believe that we will have the liquidity available to make our future tax payments.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of our financial position and results of operations in this MD&A are based upon our consolidated financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect our financial position and results of operations. See Note 1 to the consolidated financial statements for a description of our significant accounting policies.

Critical accounting estimates are defined as those that reflect significant management judgment and uncertainties and that potentially may lead to materially different results under varying assumptions and conditions. Management has identified the following critical accounting estimates and has discussed the development, selection and disclosure of these policies with our audit committee.

FREQUENT FLYER PROGRAMS

Alaska's Mileage Plan™ loyalty program awards mileage credits to members who fly on our airlines and our airline partners, referred to as flown miles. We also sell services, including miles for transportation, Companion Fare™ certificates, bag fee waivers, and access to our brand and customer lists to major banks that offer Alaska co-brand credit cards. To a lesser extent, miles for transportation are also sold to other non-airline partners, such as hotels, and car rental agencies. The outstanding miles may be redeemed for travel on our airlines or eligible airline partners, and for non-airline products such as hotels. As long as the Mileage Plan™ is in existence, we have an obligation to provide future travel.

Mileage credits and the various other services we sell under our loyalty program represent performance obligations that are part of a multiple deliverable revenue arrangement. Accounting guidance requires that we use a relative standalone selling price model to allocate consideration received to the material performance obligations in these contracts. Our relative standalone selling price models are refreshed when contracts originate or are materially modified. We also update our model annually based on observed volumes.

At December 31, 2020, we had approximately 295 billion miles outstanding, resulting in an aggregate deferred revenue balance of \$2.3 billion. The deferred revenue resulting from our relative selling price allocations requires significant management judgment. There are uncertainties inherent in these estimates. Therefore, different assumptions could affect the amount and/or timing of revenue recognition or expenses. The most significant assumptions are described below.

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

We estimate the standalone selling price for each performance obligation, including mileage credits, by considering multiple inputs and methods, including but not limited to, the estimated selling price of comparable travel, discounted cash flows, brand value, published selling prices, number of miles awarded, and the number of miles redeemed. We estimate the selling prices and volumes over the terms of the agreements in order to determine the allocation of proceeds to each of the multiple deliverables.

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

We estimate how many miles will be used per award. For example, our members may redeem mileage credits for award travel to various locations or choose between a highly restricted award and an unrestricted award. Our estimates are based on the current requirements in our Mileage Plan program™ and historical and future award redemption patterns.

We review significant Mileage Plan™ assumptions on an annual basis, or more frequently should circumstances indicate a need, and change our assumptions if facts and circumstances indicate that a change is necessary. Any such change in assumptions could have a significant effect on our financial position and results of operations.

IMPACT OF COVID-19 ON CRITICAL ACCOUNTING ESTIMATES

There is uncertainty about when the impacts of the COVID-19 pandemic and economic consequences may be resolved and when demand may return to pre-pandemic levels. As a result, we have experienced a greater degree of uncertainty than normal in making judgments and estimates relevant to critical accounting matters. Further, as the pandemic and related economic impact continues to develop, information may arise that could result in changes to or refinements of these estimates, which may have a meaningful impact on our financial position and results of operations in future periods. Specific discussion around areas of impact are described below.

Property and Equipment and Capitalized Operating Leases

Given the impact of the crisis, the projected cash flows used to make future fleet decisions and assess our assets for impairment are subject to greater uncertainty than normal. Assumptions that drive such projected cash flows include expectations of future demand, including total passenger revenues and volume-related costs, as well as future capacity requirements. If expectations for these assumptions were to deteriorate, estimated future cash flow projections could be negatively impacted and could result in further impairment of assets.

During the year ended December 31, 2020, we have assessed our property and equipment and capitalized operating leases for impairment, and have recorded \$358 million in impairment charges, primarily related to certain leased aircraft being permanently removed from our operating fleet, as well as the write-down to fair value for certain owned aircraft. Refer to Note 2. to the Consolidated Financial Statements for discussion.

Leased Aircraft Return Costs

As a result of the removal of leased aircraft discussed above, the Company is required to record an estimate for future return costs for these leased aircraft. Given many of the permanently parked aircraft have more than a year before the contractual date of return, there is greater uncertainty around the estimated scope and cost of maintenance work that may be necessary for each aircraft to meet contractual return specifications. Unexpected events, new airworthiness directives or maintenance bulletins, or negotiations with lessors could result in material adjustments to our total accrued lease return costs.

During the year ended December 31, 2020, we recorded \$209 million in lease return costs for aircraft that were permanently removed from the fleet in advance of their contracted lease return date. Refer to Note 2. to the Consolidated Financial Statements for further discussion.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We have interest rate risk on our variable rate debt obligations and our available-for-sale marketable investment portfolio, and commodity-price risk in jet fuel required to operate our aircraft fleet. We purchase the majority of our jet fuel at prevailing market prices and seek to manage market risk through execution of our hedging strategy and other means. We have market-sensitive instruments in the form of fixed rate debt instruments and financial derivative instruments used to hedge our exposure to jet fuel price increases and interest rate increases. We do not purchase or hold any derivative financial instruments for trading purposes.

Aircraft Fuel

Currently, our fuel hedging portfolio consists of crude oil call options. Call options effectively cap our pricing for the crude oil component of jet fuel, limiting our exposure to increasing fuel prices for about half of our planned fuel consumption. With call options, we are hedged against volatile crude oil price increases, and, during a period of decline in crude oil prices, we only forfeit cash paid for hedge premiums. We believe there is risk in not hedging against fuel price increases. We estimate that a hypothetical 10% increase or decrease in the forward curve for crude oil prices as of December 31, 2020 would change the fair value of our crude oil hedge portfolio to approximately \$7 million or \$28 million.

Our portfolio value of fuel hedge contracts was \$15 million at December 31, 2020 compared to a portfolio value of \$11 million at December 31, 2019. We did not have any collateral held by counterparties on these agreements as of December 31, 2020.

We continue to believe that our fuel hedge program is an important part of our strategy to reduce our exposure to volatile fuel prices. We expect to enter into these types of contracts prospectively, although significant changes in market conditions could affect our decisions. For more discussion, see Note 4 to our consolidated financial statements.

Interest Rates

We have exposure to market risk associated with changes in interest rates related primarily to our debt obligations and short-term investment portfolio. Our debt obligations include variable rate instruments, which have exposure to changes in interest rates. In order to mitigate the risk of interest rate fluctuations, we have a number of interest rate swaps that fix the interest rates on certain variable rate debt agreements. A hypothetical 10% change in the average interest rates incurred on average variable rate debt held during 2020 would have correspondingly changed our net earnings and cash flows associated with these items by less than \$4 million. Our variable rate debt represents approximately 53% and 69% of our total long-term debt as of December 31, 2020 and December 31, 2019. Approximately \$614 million of the Company's total variable rate notes payable were effectively fixed via interest rate swaps at December 31, 2020.

Our exposure to interest rate variability is further mitigated through our variable rate investment portfolio. We also have investments in marketable securities, which are exposed to market risk associated with changes in interest rates. If short-term interest rates were to average one point more than they did in 2020, interest income would increase by approximately \$16 million.

Our variable rate instruments, including long-term debt, interest rate swaps, and credit facilities, all make reference to the London Interbank Offered Rate (LIBOR) as the interest rate benchmark. It is expected that after 2021, LIBOR will be discontinued as a reference rate. In the event of the discontinuance of LIBOR, we will need to transition our LIBOR-based contracts to a mutually agreed-upon alternate benchmark rate, which effectively places the Lenders and the Company in the same economic position that existed immediately prior to the discontinuation of LIBOR. At this time, we do not anticipate that the discontinuance of LIBOR will materially impact our liquidity or financial position.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
Alaska Air Group, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Alaska Air Group, Inc. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 7 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Codification Topic 842 – Leases.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Assessment of Mileage Plan™ model

As discussed in Note 3 to the consolidated financial statements, the Company has a Mileage Plan™ loyalty program which provides frequent flyer travel awards to program members based upon accumulated loyalty mileage credits. The Company utilizes a complex model to account for the Mileage Plan™ program, which involves numerous inputs and assumptions. Deferred revenues related to the Mileage Plan™ program were \$2.3 billion as of December 31, 2020. Associated Mileage Plan™ revenues recognized from deferred revenue and recorded in passenger revenue were \$346 million for the year ended December 31, 2020.

We identified the assessment of the Mileage Plan™ model as a critical audit matter. This was due to the high degree of auditor judgment required to assess that sufficient audit evidence was obtained over the model as well as the key inputs and assumptions used to develop the estimates of Mileage Plan™ revenue and deferred revenue due to the complex

design of the model. Key inputs include miles credited and miles redeemed and key assumptions include estimated breakage and the standalone selling price of a mile.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's Mileage Plan™ model. This included controls related to the integrity of the model as well as key inputs and key assumptions utilized in the model. We checked the accuracy of key calculations utilized in the Mileage Plan™ model. We tested the completeness and accuracy of information technology system data used to determine the miles credited and miles redeemed inputs. We inspected that the Company's methodology to develop key assumptions was consistent with historical methods. We assessed the breakage rate assumption by comparing it to historical breakage and breakage rates used by others in the airline industry. We considered changes in the Mileage Plan™ program terms and customer behavior for potential changes in the breakage rate. We evaluated the fluctuation in the standalone selling price of a mile assumption by comparing it to changes in passenger ticket fares. We compared the standalone selling price of a mile assumption to other data points including miles sold on the Company's website and the contractual rates that miles are sold to other airline and bank partners. We evaluated fluctuations in Mileage Plan™ balances in relation to program changes, economic conditions, and observed industry trends and events.

In addition, we evaluated the sufficiency of audit evidence obtained over the Mileage Plan™ model by assessing the results of procedures performed.

Evaluation of leased aircraft return costs for permanently parked aircraft

As discussed in Notes 1 and 2 to the consolidated financial statements, leased aircraft return costs for permanently parked aircraft were \$209 million for the year ended December 31, 2020. The Company records return costs for leased aircraft when a determination is made that the aircraft is permanently parked and removed from operations. Return costs are based upon costs associated with required maintenance events that are necessary for each aircraft to meet contractual return specifications.

We identified the evaluation of leased aircraft return costs for permanently parked aircraft as a critical audit matter. There was a high degree of auditor judgment related to the evaluation of leased aircraft return costs for permanently parked aircraft due to the significant complexity associated with the determination of such costs and the extent of audit effort necessary.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's leased aircraft return costs process. This included controls related to the inputs into the determination of the cost for the required maintenance events at the lease return date. We read the contractual return specifications for a selection of lease agreements and assessed whether those return requirements were included in the Company's determination of leased aircraft return costs. We evaluated the reasonableness of the underlying inputs used by management to determine whether a maintenance event would be required upon return by assessing the maintenance status of permanently parked aircraft and evidence of prior maintenance events. We assessed the reasonableness of required maintenance event costs by comparing them to the cost of historical maintenance events. We involved valuation professionals with specialized skills and knowledge to assist with comparing certain return costs determined by the Company to published original equipment manufacturer maintenance cost data.

/s/ KPMG LLP

We have served as the Company's auditor since 2004.

Seattle, Washington
February 26, 2021

CONSOLIDATED BALANCE SHEETS

As of December 31 <i>(in millions)</i>	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,370	\$ 221
Marketable securities	1,976	1,300
Total cash and marketable securities	3,346	1,521
Receivables - net	480	323
Inventories and supplies - net	57	72
Prepaid expenses and other current assets	123	121
Total Current Assets	4,006	2,037
Property and Equipment		
Aircraft and other flight equipment	7,761	8,549
Other property and equipment	1,398	1,306
Deposits for future flight equipment	583	533
	9,742	10,388
Less accumulated depreciation and amortization	3,531	3,486
Total Property and Equipment - Net	6,211	6,902
Other Assets		
Operating lease assets	1,400	1,711
Goodwill	1,943	1,943
Intangible assets - net	107	122
Other noncurrent assets	379	278
Total Other Assets	3,829	4,054
Total Assets	\$ 14,046	\$ 12,993

CONSOLIDATED BALANCE SHEETS (continued)

As of December 31 (in millions except share amounts)	2020	2019
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 108	\$ 146
Accrued wages, vacation and payroll taxes	527	470
Air traffic liability	1,073	900
Other accrued liabilities	424	431
Deferred revenue	733	750
Current portion of operating lease liabilities	290	269
Current portion of long-term debt	1,138	235
Total Current Liabilities	4,293	3,201
Long-Term Debt, Net of Current Portion	2,357	1,264
Other Liabilities and Credits		
Long-term operating lease liabilities, net of current portion	1,268	1,439
Deferred income taxes	407	715
Deferred revenue	1,544	1,240
Obligation for pension and postretirement medical benefits	665	571
Other liabilities	524	232
Total Other Liabilities and Credits	4,408	4,197
Commitments and Contingencies (Note 10)		
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: 2020 - 133,567,534 shares; 2019 - 131,812,173 shares, Outstanding: 2020 - 124,217,590 shares; 2019 - 123,000,307 shares	1	1
Capital in excess of par value	391	305
Treasury stock (common), at cost: 2020 - 9,349,944 shares; 2019 - 8,811,866 shares	(674)	(643)
Accumulated other comprehensive loss	(494)	(465)
Retained earnings	3,764	5,133
	2,988	4,331
Total Liabilities and Shareholders' Equity	\$ 14,046	\$ 12,993

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended December 31 <i>(in millions, except per-share amounts)</i>	2020	2019	2018
Operating Revenues			
Passenger revenue	\$ 3,019	\$ 8,095	\$ 7,631
Mileage Plan other revenue	374	465	434
Cargo and other	173	221	199
Total Operating Revenues	3,566	8,781	8,264
Operating Expenses			
Wages and benefits	2,053	2,370	2,190
Payroll support program grant wage offset	(782)	—	—
Variable incentive pay	130	163	147
Aircraft fuel, including hedging gains and losses	723	1,878	1,936
Aircraft maintenance	321	437	435
Aircraft rent	299	331	315
Landing fees and other rentals	417	531	499
Contracted services	181	289	306
Selling expense	101	313	326
Depreciation and amortization	420	423	398
Food and beverage service	90	214	211
Third-party regional carrier expense	128	166	154
Other	407	559	572
Special items - merger-related costs	6	44	87
Special items - impairment charges and other	627	—	—
Special items - restructuring charges	220	—	—
Special items - other	—	—	45
Total Operating Expenses	5,341	7,718	7,621
Operating Income (Loss)	(1,775)	1,063	643
Non-operating Income (Expense)			
Interest income	31	42	38
Interest expense	(98)	(78)	(91)
Interest capitalized	11	15	18
Special charges - net non-operating	(26)	—	—
Other - net	17	(26)	(23)
Total Non-operating Expense	(65)	(47)	(58)
Income (Loss) Before Income Tax	(1,840)	1,016	585
Income tax (benefit) expense	(516)	247	148
Net Income (Loss)	\$ (1,324)	\$ 769	\$ 437
Basic Earnings (Loss) Per Share	\$ (10.72)	\$ 6.24	\$ 3.55
Diluted Earnings (Loss) Per Share	\$ (10.72)	\$ 6.19	\$ 3.52
Shares used for computation:			
Basic	123.450	123.279	123.230
Diluted	123.450	124.289	123.975

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS

Year Ended December 31 <i>(in millions)</i>	2020	2019	2018
Net Income (Loss)	\$ (1,324)	\$ 769	\$ 437
Other Comprehensive Income (Loss):			
Related to marketable securities:			
Unrealized holding gains (losses) arising during the period	33	31	(14)
Reclassification of (gains) losses into Other-net non-operating income (expense)	(14)	(5)	8
Income tax benefit (expense)	(5)	(6)	2
Total	<u>14</u>	<u>20</u>	<u>(4)</u>
Related to employee benefit plans:			
Actuarial losses related to pension and other postretirement benefit plans	(69)	(71)	(34)
Reclassification of net pension expense into Wages and benefits and Other-net non-operating income	30	32	28
Income tax benefit (expense)	10	10	2
Total	<u>(29)</u>	<u>(29)</u>	<u>(4)</u>
Related to interest rate derivative instruments:			
Unrealized holding gains (losses) arising during the period	(21)	(13)	—
Reclassification of losses into Aircraft rent	3	3	3
Income tax benefit (expense)	4	2	(1)
Total	<u>(14)</u>	<u>(8)</u>	<u>2</u>
Other Comprehensive Loss	(29)	(17)	(6)
Comprehensive Income (Loss)	<u>\$ (1,353)</u>	<u>\$ 752</u>	<u>\$ 431</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(in millions)</i>	<i>Common Stock Outstanding</i>	<i>Common Stock</i>	<i>Capital in Excess of Par Value</i>	<i>Treasury Stock</i>	<i>Accumulated Other Comprehensive Income (Loss)</i>	<i>Retained Earnings</i>	<i>Total</i>
Balances at December 31, 2017	123.061	\$ 1	\$ 164	\$ (518)	\$ (380)	\$ 4,193	\$ 3,460
Reclassification of tax effects to retained earnings	—	—	—	—	(62)	62	—
2018 net income	—	—	—	—	—	437	437
Other comprehensive income (loss)	—	—	—	—	(6)	—	(6)
Common stock repurchases	(0.776)	—	—	(50)	—	—	(50)
Stock-based compensation	—	—	36	—	—	—	36
Cash dividend declared (\$1.28 per share)	—	—	—	—	—	(158)	(158)
Stock issued for employee stock purchase plan	0.632	—	35	—	—	—	35
Stock issued under stock plans	0.277	—	(3)	—	—	—	(3)
Balances at December 31, 2018	123.194	1	232	(568)	(448)	4,534	3,751
Cumulative effect of accounting changes ^(a)	—	—	—	—	—	3	3
2019 net income	—	—	—	—	—	769	769
Other comprehensive income (loss)	—	—	—	—	(17)	—	(17)
Common stock repurchases	(1.193)	—	—	(75)	—	—	(75)
Stock-based compensation	—	—	36	—	—	—	36
Cash dividend declared (\$1.40 per share)	—	—	—	—	—	(173)	(173)
Stock issued for employee stock purchase plan	0.785	—	40	—	—	—	40
Stock issued under stock plans	0.214	—	(3)	—	—	—	(3)
Balances at December 31, 2019	123.000	1	305	(643)	(465)	5,133	4,331
2020 net loss	—	—	—	—	—	(1,324)	(1,324)
Other comprehensive income (loss)	—	—	—	—	(29)	—	(29)
Common stock repurchases	(0.538)	—	—	(31)	—	—	(31)
Stock-based compensation	—	—	34	—	—	—	34
CARES Act warrant issuance	—	—	14	—	—	—	14
Cash dividend declared (\$0.375 per share)	—	—	—	—	—	(45)	(45)
Stock issued for employee stock purchase plan	1.524	—	41	—	—	—	41
Stock issued under stock plans	0.231	—	(3)	—	—	—	(3)
Balances at December 31, 2020	124.217	\$ 1	\$ 391	\$ (674)	\$ (494)	\$ 3,764	\$ 2,988

(a) Represents the opening balance sheet adjustment recorded as a result of the adoption of the new lease accounting standard.

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 (in millions)	2020	2019	2018
Cash flows from operating activities:			
Net income (loss)	\$ (1,324)	\$ 769	\$ 437
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	420	423	398
Stock-based compensation and other	24	29	47
Special items - impairment charges and other	627	—	—
Special items - restructuring charges	220	—	—
Changes in certain assets and liabilities:			
Changes in deferred tax provision	(300)	209	146
(Increase) decrease in accounts receivable	(160)	43	(25)
Increase (decrease) in air traffic liability	173	112	(18)
Increase in deferred revenue	288	116	149
Pension contribution	—	(65)	—
Other - net	(202)	86	61
Net cash provided by (used in) operating activities	<u>(234)</u>	<u>1,722</u>	<u>1,195</u>
Cash flows from investing activities:			
Property and equipment additions:			
Aircraft and aircraft purchase deposits	(64)	(356)	(686)
Other flight equipment	(55)	(178)	(105)
Other property and equipment	(87)	(162)	(169)
Total property and equipment additions	<u>(206)</u>	<u>(696)</u>	<u>(960)</u>
Purchases of marketable securities	(2,962)	(1,810)	(834)
Sales and maturities of marketable securities	2,318	1,674	1,116
Proceeds from disposition of assets	279	28	16
Other investing activities	(22)	13	31
Net cash used in investing activities	<u>(593)</u>	<u>(791)</u>	<u>(631)</u>
Cash flows from financing activities:			
Proceeds from issuance of long-term debt, net of issuance costs	2,564	450	339
Long-term debt payments	(565)	(1,058)	(807)
Common stock repurchases	(31)	(75)	(50)
Cash dividend paid	(45)	(173)	(158)
Other financing activities	58	43	29
Net cash provided by (used in) financing activities	<u>1,981</u>	<u>(813)</u>	<u>(647)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	1,154	118	(83)
Cash, cash equivalents, and restricted cash at beginning of year	232	114	197
Cash, cash equivalents, and restricted cash at end of year	<u><u>\$ 1,386</u></u>	<u><u>\$ 232</u></u>	<u><u>\$ 114</u></u>
Supplemental disclosure:			
Cash paid during the year for:			
Interest, net of amount capitalized	\$ 50	\$ 60	\$ 72
Income taxes, net of refunds received	—	31	—
Reconciliation of cash, cash equivalents, and restricted cash at end of the period			
Cash and cash equivalents	\$ 1,370	\$ 221	\$ 105
Restricted cash included in Other noncurrent assets	16	11	9
Total cash, cash equivalents, and restricted cash at end of the period	<u><u>\$ 1,386</u></u>	<u><u>\$ 232</u></u>	<u><u>\$ 114</u></u>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The consolidated financial statements include the accounts of Air Group, or the Company, and its primary subsidiaries, Alaska and Horizon. Our consolidated financial statements also include McGee Air Services, 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 conformity with accounting principles generally accepted in the United States of America and their preparation requires the use of management's estimates. Actual results may differ from these estimates.

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

Cash and Cash Equivalents

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 market value. The Company reduces cash balances when funds are disbursed. Due to the time delay in funds clearing the banks, the Company normally maintains a negative balance in its cash disbursement accounts, which is reported as a current liability. The amount of the negative cash balance was \$5 million and \$7 million at December 31, 2020 and 2019, and is included in accounts payable, with the change in the balance during the year included in other financing activities in the consolidated statements of cash flows.

The Company's restricted cash balances are not material and are classified as Other noncurrent assets. Restricted cash balances are primarily used to guarantee various letters of credit, self-insurance programs or other contractual rights. They consist of highly liquid securities with original maturities of three months or less. They are carried at cost, which approximates fair value.

Marketable Securities

Investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. All cash equivalents and short-term investments are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Changes in market value are reflected in accumulated other comprehensive loss (AOCL).

The Company evaluates the investment portfolio on a quarterly basis for expected credit losses. The Company uses a systematic methodology that groups assets by relevant market sector, and considers available quantitative and qualitative evidence in evaluating potential allowances for credit losses. If the cost of an investment exceeds its fair value, management evaluates, among other factors, general market conditions, credit quality of debt instrument issuers, the duration and extent to which the fair value is less than cost, the Company's intent and ability to hold, or plans to sell, the investment. Once a decline in fair value is determined to be the result of an expected credit loss, an allowance is recorded to Other—net in the consolidated statements of operations.

Inventories and Supplies—net

Expendable aircraft parts, materials and supplies are stated at average cost and are included in Inventories and supplies—net. An obsolescence allowance for expendable parts is accrued based on estimated lives of the corresponding fleet type and salvage values. The allowance for expendable inventories was \$46 million and \$41 million at December 31, 2020 and 2019. Removals from the reserve in 2020 were immaterial. Inventory and supplies—net also includes fuel inventory of \$15 million and \$28 million at December 31, 2020 and 2019. Repairable and rotatable aircraft parts inventories are included in flight equipment.

Property, Equipment and Depreciation

Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives less an estimated salvage value, which are as follows:

	Estimated Useful Life	Estimated Salvage Value
Aircraft and other flight equipment:		
Boeing 737 and E175 aircraft	20-25 years	10%
Bombardier Q400 aircraft	15 years	5%
Buildings	25 - 40 years	10%
Minor building and land improvements	10 years	—%
Capitalized leases and leasehold improvements	Generally shorter of lease term or estimated useful life	—%
Computer hardware and software	3-10 years	—%
Other furniture and equipment	5-10 years	—%

Near the end of an asset's estimated useful life, management updates the salvage value estimates based on current market conditions and expected use of the asset. Repairable and rotatable aircraft parts are included in Aircraft and other flight equipment, and are depreciated over the associated fleet life.

Capitalized interest, based on the Company's weighted-average borrowing rate, is added to the cost of the related asset, and is depreciated over the estimated useful life of the asset.

Maintenance and repairs, other than engine maintenance on B737-800 engines, are expensed when incurred. Major modifications that extend the life or improve the usefulness of aircraft are capitalized and depreciated over their estimated period of use. Maintenance on B737-800 engines is covered under a power-by-the-hour agreement with a third party, whereby the Company pays a determinable amount, and transfers risk, to a third party. The Company expenses the contract amounts based on engine usage.

The Company evaluates long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the total carrying amount of an asset or asset group may not be recoverable. The Company groups assets for purposes of such reviews at the lowest level at which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities, which is generally the fleet level. An impairment loss is considered when estimated future undiscounted cash flows expected to result from the use of the asset or asset group and its eventual disposition are less than its carrying amount. If the asset or asset group is not considered recoverable, a write-down equal to the excess of the carrying amount over the fair value will be recorded. For these purposes, the fair value is estimated using a combination of Level 2 inputs, including published market value estimates for the assets being assessed, and Level 3 inputs, including Company-specific and asset-specific indicators. See Note 2 for a discussion of impairments and related charges recorded in 2020.

Goodwill

Goodwill represents the excess of purchase price over the fair value of the related net assets acquired in the Company's acquisition of Virgin America and is not amortized. The total balance of goodwill is associated with the Mainline reporting unit. The Company reviews goodwill for impairment annually in the fourth quarter, or more frequently if events or circumstances indicate that an impairment may exist. The assessment utilizes either a qualitative or quantitative approach. The qualitative approach considers factors such as Alaska Air Group market capitalization and other market trends, and unobservable inputs, including Company specific cash flow and performance information. If it is determined that it is more likely than not that the asset may be impaired, management utilizes a quantitative approach to assess the asset's fair value and the amount of impairment and a charge may be recorded. In 2020, we performed a quantitative analysis using a market approach through which the fair value of the reporting unit was based on quoted market prices and an assumed market participant acquisition premium. The fair value of the reporting unit with goodwill substantially exceeded its carrying value.

Intangible Assets

Intangible assets are comprised primarily of indefinite-lived airport slots and finite-lived customer relationships recorded in conjunction with the acquisition of Virgin America. Finite-lived intangibles were recorded at fair value upon acquisition and are amortized over their estimated useful lives. Indefinite-lived intangibles were recorded at fair value upon acquisition are not amortized, but are tested at least annually for impairment using a similar methodology to goodwill, as described above. See Note 2 for a discussion of intangible asset impairments recorded in 2020.

Aircraft Maintenance Deposits

Certain Airbus leases include contractually required maintenance deposit payments to the lessor, which collateralize the lessor for future maintenance events should the Company not perform required maintenance. Most of the lease agreements provide that maintenance deposits are reimbursable upon completion of the major maintenance event in an amount equal to the lesser of (i) the amount qualified for reimbursement from maintenance deposits held by the lessor associated with the specific major maintenance event or (ii) the qualifying costs related to the specific major maintenance event. The Company establishes accounting maintenance deposits as assets on the balance sheet using estimates of the anticipated timing and cost of the specific major maintenance events, such that the accounting deposits do not exceed the amount qualified for reimbursement. Aircraft maintenance deposits recorded on the consolidated balance sheets were \$242 million and \$143 million as of December 31, 2020 and December 31, 2019.

Leased Aircraft Return Costs

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.

As leased aircraft are returned, payments made reduce the outstanding lease return liability. Of the total outstanding liability, \$54 million is included in Other accrued liabilities and \$246 million is included in Other liabilities on our consolidated balance sheets as of December 31, 2020. The accrual was not material as of December 31, 2019. Expense associated with lease returns in the standard course of operating the aircraft is included in Aircraft maintenance in the consolidated statements of operations. Expense associated with lease returns when aircraft are permanently parked is recorded as a one-time charge at the date the aircraft is permanently parked, regardless of contractual return date, and is classified as Special items - impairment charges and other in the consolidated statements of operations. See Note 2 for further discussion of these special items.

Advertising Expenses

The Company's advertising expenses include advertising, sponsorship and promotional costs. Advertising production costs are expensed as incurred. Advertising expense was \$41 million, \$72 million and \$79 million during the years ended December 31, 2020, 2019 and 2018.

Derivative Financial Instruments

The Company's operations are significantly impacted by changes in aircraft fuel prices and interest rates. In an effort to manage exposure to these risks, the Company periodically enters into fuel and interest rate derivative instruments. These derivative instruments are recognized at fair value on the balance sheet and changes in the fair value are recognized in AOCL or in the consolidated statements of operations, depending on the nature of the instrument.

The Company does not apply hedge accounting to its derivative fuel hedge contracts, nor does it hold or issue them for trading purposes. For cash flow hedges related to interest rate swaps, the effective portion of the derivative represents the change in fair value of the hedge that offsets the change in fair value of the hedged item. To the extent the change in the fair value of the hedge does not perfectly offset the change in the fair value of the hedged item, the ineffective portion of the hedge is immediately recognized in interest expense.

Fair Value Measurements

Accounting standards define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market

participants on the measurement date. The standards also establish a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company has elected not to use the fair value option provided in the accounting standards for non-financial instruments. Accordingly, those assets and liabilities, including property, plant and equipment, goodwill, intangible assets and certain other assets and liabilities are carried at amortized cost. For financial instruments, the assets and liabilities are carried at fair value, which is determined based on the market approach or income approach, depending upon the level of inputs used. The leveling of inputs for financial and non-financial instruments are disclosed in this note, and Note 5.

Income Taxes

The Company uses the asset and liability approach for accounting for and reporting income taxes. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance would be established, if necessary, for the amount of any tax benefits that, based on available evidence, are not expected to be realized. As of December 31, 2020, there is a partial valuation allowance against net deferred tax assets. The Company accounts for unrecognized tax benefits in accordance with the applicable accounting standards.

See Note 8 to the consolidated financial statements for more discussion of income taxes.

Stock-Based Compensation

Accounting standards require companies to recognize expense over the service period based on the fair value of stock options and other equity-based compensation issued to employees estimated as of the grant date. These standards apply to all stock awards that the Company grants to employees as well as the Company's Employee Stock Purchase Plan (ESPP), which features a look-back provision and allows employees to purchase stock at a 15% discount. All stock-based compensation expense is recorded in wages and benefits in the consolidated statements of operations.

Earnings Per Share (EPS)

Diluted EPS is calculated by dividing net income by the average common shares outstanding plus additional common shares that would have been outstanding assuming the exercise of in-the-money stock options and restricted stock units, using the treasury-stock method. In 2019 and 2018, anti-dilutive stock options excluded from the calculation of EPS were not material.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU requires the use of an "expected credit loss model" on certain financial instruments. The ASU also amends the impairment model for available-for-sale debt securities, and requires the estimation of credit losses to be recorded as allowances instead of reductions to amortized cost. The ASU was effective for the Company beginning January 1, 2020, and was adopted prospectively, but it did not have a significant impact on the Company's financial statements and disclosures.

NOTE 2. COVID-19 PANDEMIC

The public health and economic crises resulting from the outbreak of COVID-19 has had an unprecedented impact on the Company. Travel restrictions, event cancellations and social distancing guidelines implemented throughout the country drove significant declines in demand beginning in February, and adversely impacted revenues beginning in March 2020. Although the Company has experienced several months of modest improvement in demand, traffic remains well below 2019 levels. It is uncertain when the impacts of the crisis may resolve and when demand may return to normal levels.

In response to the COVID-19 pandemic, the Company implemented a "Peace-of-Mind" waiver, which allows travelers to book tickets for travel for a specified period of time that can be changed or canceled without incurring change fees, which was extended to cover all ticketed travel purchased through March 31, 2021. Also in 2020 the Company announced all change fees will be eliminated for first class and main cabin fares. Cancellations and postponement of travel exceeded new bookings in March and April 2020, and had a material impact on passenger revenues, air traffic liability, and cash position. Refer to Note 3 for further discussion.

The Company has taken decisive action to reduce costs and preserve cash and liquidity. The Company implemented a company-wide hiring freeze, reduced salaries of senior management and hours for management employees, suspended or canceled annual pay increases and solicited voluntary leaves of absence. In addition to these cost saving measures, the Company has actively negotiated with vendor partners to reduce contractual minimums and spending in line with the reduction in demand. Management also made the difficult decision to reduce the Company's workforce through voluntary and involuntary leaves.

With demand dramatically depressed, the Company has significantly reduced its planned flying capacity. As a result, many aircraft have been parked or removed from service. As of December 31, 2020, 32 mainline aircraft remain temporarily grounded and 40 Airbus aircraft have been permanently removed from the operating fleet. As of December 31, 2020, all operating regional aircraft were in service.

Valuation of long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes indicate that the total carrying amount of an asset or asset group may not be recoverable.

To determine if impairment exists, a recoverability test is performed comparing the sum of estimated undiscounted future cash flows expected to be directly generated by the assets to the asset carrying value. Assets are grouped at the individual fleet level, which is the lowest level for which identifiable cash flows are available. The Company developed estimates of future cash flows utilizing historical results, adjusted for the current operating environment, including the impact of parked aircraft.

Given the temporary and permanent parking of certain aircraft described above, the Company performed impairment tests on certain long-lived assets in each of the quarters of 2020. All individual fleets passed the recoverability test, except for the Q400 fleet and the 40 permanently parked Airbus aircraft. Q400 aircraft, including operating and held-for-sale assets, were written down to their fair value, resulting in an impairment charge of \$61 million. Airbus aircraft, including owned and leased aircraft and associated capital improvements, were written off in full resulting in an impairment charge of \$302 million.

A summary of the impairment charges recorded for aircraft and other flight equipment for the year ended December 31, 2020 is as follows (in millions):

	Airbus Aircraft	Q400 Aircraft	Total Impairment
Aircraft and other flight equipment, net	\$ 146	\$ 58	\$ 204
Operating lease assets	154	—	154
Inventory and supplies - net	2	—	2
Prepaid expenses and other current assets	—	3	3
Total impairment and related charges - Long-lived assets	\$ 302	\$ 61	\$ 363

The Company will continue to evaluate the need for further impairment of long-lived assets as expectations of future demand, market conditions and fleet decisions evolve.

Lease Return Costs

As a result of removing certain leased Airbus aircraft from operating service, an estimate of the expected future lease return costs was recorded. Lease return costs that were recorded for aircraft that were permanently parked were classified as Special items - impairment charges and other in the consolidated statements of operations. Included in the total net charge of \$209 million is the write off of associated maintenance deposits, as the Company no longer expects to perform maintenance events covered by those deposits.

Valuation of intangible assets and goodwill

The Company reviews definite- and indefinite-lived intangible assets and goodwill for impairment on an annual basis in the fourth quarter, or more frequently should events or circumstances indicate that an impairment may exist.

Given the strain in the general economic environment and a significant decline in Alaska Air Group market capitalization, the Company performed impairment tests on all three asset types at the end of each quarter in 2020. As a result of these analyses, indefinite-lived intangible assets and goodwill were deemed recoverable, and no impairment charges were recorded. Of the company's definite-lived intangibles, leased gates at Dallas-Love Field (DAL Gates) were deemed not recoverable and an impairment charge of \$10 million was recorded. No additional impairment charges were identified for definite-lived intangibles.

Workforce restructuring

The Company expects that demand will remain depressed into 2021, but will continue rebuilding towards 2019 capacity levels throughout 2021. Accordingly, the Company reduced its workforce 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. As a result of the participation in these mitigation programs, the involuntary furloughs that became effective October 1, 2020 were limited to approximately 400 employees. As of December 31, 2020, the majority of those involuntarily furloughed have been recalled. In addition to these furloughs, the Company permanently eliminated approximately 300 non-union management positions.

As a result of these programs, the Company recorded expense of \$220 million to Special items - restructuring charges in the consolidated statement of operations for the year ended December 31, 2020. The charge is primarily comprised of wages for those pilots and mechanics on incentive leaves, ongoing medical benefit coverage, and lump-sum termination payments. This accrual is based on the Company's best estimate of capacity expectations and training schedules for 2021 as of the date of this filing. The Company has an outstanding liability of \$127 million for these charges as of December 31, 2020.

Other considerations

The Company evaluated other outstanding assets for recovery. As part of this process, the Company determined \$15 million in existing purchase deposits on-hand with Airbus were not likely to be recoverable. The Company also identified a \$5 million receivable from a vendor that filed for bankruptcy, for which management determined that collectability is not probable. The full balance for each of these assets were reserved and charged to Special items - impairment charges and other in the consolidated statements of operations during the year-ended December 31, 2020.

The total of all the special charges summarized in this note, plus certain other immaterial amounts and the recognized subsequent event discussed in Note 12, comprise the \$627 million in impairment charges and other special items reported on the Consolidated Statements of Operations for the period ending December 31, 2020.

Refer to Note 6. Long-Term Debt for further information regarding liquidity obtained in response to the COVID-19 crisis.

CARES Act Funding

In 2020, Alaska, Horizon, and McGee finalized agreements with the U.S. Department of the Treasury (the Treasury) through the Payroll Support Program (PSP) under the Coronavirus Aid, Relief and Economic Security (CARES) Act. Under the PSP and associated agreements, Alaska, Horizon, and McGee received total funds of approximately \$1.1 billion.

These funds are to be used exclusively toward continuing to pay employee salaries, wages and benefits. The funds received took the form of debt, warrants and a grant. The unsecured debt portion of \$290 million was recorded at par, and warrants of

\$8 million were recorded on the consolidated balance sheet at fair value determined using the Black-Scholes model. The residual amount of \$753 million was recorded as grant proceeds. The grant was recognized into earnings as eligible wages, salaries and benefits were incurred. During the year ended December 31, 2020, the Company recognized \$753 million of the PSP grant proceeds as a wage offset. Also included within the annual total offset is approximately \$29 million in employee retention credits as stipulated in the CARES Act.

Also in 2020, the Company reached an agreement with the Treasury to participate in the CARES Act loan program. The loan agreement provides for a secured term loan facility, which allows Alaska to borrow up to \$1.9 billion. As of December 31, 2020, the Company has borrowed \$135 million under the loan facility. Refer to Note 6. Long-Term Debt and Note 11. Shareholders' Equity for further details regarding terms of the CARES Act loan agreement.

In early 2021, Alaska, Horizon and McGee finalized agreements with the Treasury and accepted partial disbursement of funds through an extension of the PSP, made available under the Consolidated Appropriations Act, 2021.

Under these extension agreements, Alaska, Horizon and McGee will receive a total of \$546 million to be used exclusively toward continuing to pay employee salaries, wages and benefits. Alaska and Horizon received \$266 million on January 15, 2021, with the remainder expected to be received in March 2021. McGee received a disbursement of \$6 million on February 5, 2021. Of the funds received, \$51 million takes the form of a senior term loan with a 10-year term, bearing an interest rate of 1% in years 1–5, and SOFR + 2% in years 6–10. The loan is prepayable at par at any time. As additional taxpayer protection required under the PSP extension, the Company granted the Treasury 101,227 warrants at a strike price of \$52.25, based on the closing price on December 24, 2020. The warrants are non-voting, freely transferable, and may be settled as net shares or in cash at the Company's option.

As a condition to receiving an extension of PSP funds, Alaska, Horizon and McGee agreed to refrain from conducting involuntary furloughs or reducing employee rates of pay or benefits through March 31, 2021, which also includes recalling certain employees involuntarily terminated or furloughed in the fourth quarter of 2020, and to limit executive compensation through October 1, 2022. Alaska Air Group agreed to continue suspension of dividends and share repurchases until March 31, 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 its main cabin and first class fares. Mileage Plan other revenue includes brand and marketing revenue from our 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 14. The level of detail within the Company's 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

The primary performance obligation on a typical passenger ticket is to provide air travel to the passenger. Ticket revenue is collected in advance of travel and recorded as Air Traffic Liability (ATL) on the consolidated balance sheets. The Company satisfies its performance obligation and recognizes ticket revenue for each flight segment when the transportation is provided.

Ancillary passenger revenues relate to items such as checked-bag fees, ticket change fees, and on-board food and beverage sales, all of which are provided at time of flight. As such, the obligation to perform these services is satisfied at the time of travel and is recorded with ticket revenue in Passenger revenue.

Revenue is also recognized for tickets that are expected to expire unused, a concept referred to as "passenger ticket breakage." Passenger ticket breakage is recorded at the flight date using estimates made at the time of sale based on the Company's historical experience of expired tickets, and other facts such as program changes and modifications.

In addition to selling tickets on its own marketed flights, Alaska has interline agreements with partner airlines under which it sells multi-city tickets with one or more segments of the trip flown by a partner airline, or it operates a connecting flight sold by a partner airline. Each segment in a connecting flight represents a separate performance obligation. Revenue on segments sold

and operated by the Company is recognized as Passenger revenue in the gross amount of the allocated ticket price when the travel occurs, while the commission paid to the partner airline is recognized as a selling expense when the related transportation is provided. Revenue on segments operated by a partner airline is deferred for the full amount of the consideration received at the time the ticket is sold and, once the segment has been flown the Company records the net amount, after compensating the partner airline, as Cargo and other revenue.

A portion of revenue from the Mileage Plan™ program is recorded in Passenger revenue. As members are awarded mileage credits on flown tickets, these credits become a distinct performance obligation to the Company. The Company allocates the transaction price to each performance obligation identified in a passenger ticket contract on a relative standalone selling price basis. The standalone selling price for loyalty mileage credits issued is discussed in the *Loyalty Mileage Credits* section of this Note below. The amount allocated to the mileage credits is deferred on the balance sheet. Once a member travels using a travel award redeemed with mileage credits on one of the Company's airline carriers, the revenue associated with those mileage credits is recorded as Passenger revenue.

Taxes collected from passengers, including transportation excise taxes, airport and security fees and other fees, are recorded on a net basis within passenger revenue in the consolidated statements of operations.

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

	Twelve Months Ended December 31,		
	2020	2019	2018
Passenger ticket revenue, including ticket breakage and net of taxes and fees	\$ 2,428	\$ 6,824	\$ 6,482
Passenger ancillary revenue	245	567	530
Mileage Plan passenger revenue	346	704	619
Total passenger revenue	\$ 3,019	\$ 8,095	\$ 7,631

As passenger tickets and related ancillary services are primarily sold via credit cards, certain amounts due from credit card processors are recorded as airline traffic receivables. These credit card receivables and receivables from our affinity credit card partner represent \$83 million and \$212 million of the outstanding receivables balance on the consolidated balance sheets as of December 31, 2020 and 2019.

For performance obligations with performance periods of less than one year, GAAP provides a practical expedient that allows the Company not to disclose the transaction price allocated to remaining performance obligations and the timing of related revenue recognition. As passenger tickets expire one year from ticketing, if unused or not exchanged, the Company elected to apply this practical expedient.

Mileage Plan™ Loyalty Program

Loyalty mileage credits

The Company's Mileage Plan™ loyalty program provides frequent flyer travel awards to program members based upon accumulated loyalty mileage credits. Mileage credits are earned through travel, purchases using the Mileage Plan™ co-branded credit card and purchases from other participating partners. The program has a 24-month expiration period for unused mileage credits from the month of last account activity. In response to the COVID-19 pandemic, the Company suspended expiry of outstanding mileage credits through December 31, 2021. The Company offers redemption of mileage credits through free, discounted or upgraded air travel on flights operated by Alaska and its regional partners or on one of its 17 airline partners, as well as redemption at partner hotels.

The Company uses a relative standalone selling price to allocate consideration to material performance obligations in contracts with customers that include loyalty mileage credits. As directly observable selling prices for mileage credits are not available, the Company determines the standalone selling price of mileage credits primarily using actual ticket purchase prices for similar tickets flown, adjusted for the likelihood of redemption, or breakage. In determining similar tickets flown, the Company considers current market prices, class of service, type of award, and other factors. For mileage credits accumulated through travel on partner airlines, the Company uses actual consideration received from the partners.

Revenue related to air transportation is deferred in the amount of the relative standalone selling price allocated to the loyalty mileage credits as they are issued. The Company satisfies its performance obligation when the mileage credits are redeemed

and the related air transportation is delivered.

The Company estimates breakage for the portion of loyalty mileage credits not expected to be redeemed using a statistical analysis of historical data, including actual mileage credits expiring, slow-moving and low-credit accounts, among other factors. The breakage rate for the twelve months ended December 31, 2020 and 2019 was 17.4%. The Company reviews the breakage rate used on an annual basis.

Co-brand credit card agreements and other

In addition to mileage credits, the co-brand credit card agreements, referred to herein as the Agreements, also include performance obligations for waived bag fees, Companion Fare™ offers to purchase an additional ticket at a discount, marketing, and the use of intellectual property including the brand (unlimited access to the use of the Company's brand and frequent flyer member lists), which is the predominant element in the Agreement. The co-brand card bank partners are the customer for some elements, including the brand and marketing, while the Mileage Plan™ member is the customer for other elements such as mileage credits, bag waivers, and companion fares.

At the inception of the Agreement, management estimated the selling price of each of the performance obligations. The objective was to determine the price at which a sale would be transacted if the product or service was sold on a stand-alone basis. The Company determined its best estimate of selling price for each element by considering multiple inputs and methods including, but not limited to, the estimated selling price of comparable travel, discounted cash flows, brand value, published selling prices, number of miles awarded, and number of miles redeemed. The Company estimated the selling prices and volumes over the term of the Agreement in order to determine the allocation of proceeds to each of the multiple deliverables. The estimates of the standalone selling prices of each element do not change subsequent to the original valuation of the contract unless the contract is materially modified, but the allocation between elements may change based upon the actual and updated projected volumes of each element delivered during the term of the contract.

Consideration received from the banks is variable and is primarily from consumer spend on the card, among other items. The Company allocates consideration to each of the performance obligations, including mileage credits, waived bag fees, companion fares, and brand and marketing, using their relative standalone selling price. Because the performance obligation related to providing use of intellectual property including the brand is satisfied over time, it is recognized in Mileage Plan™ other revenue in the period that those elements are sold. The Company records passenger revenue related to the air transportation and certificates for discounted companion travel when the transportation is delivered.

In contracts with non-bank partners, the Company has identified two performance obligations in most cases - travel and brand. The travel performance obligation is deferred until the transportation is provided in the amount of the estimated standalone selling price of the ticket, less breakage, and the brand performance obligation is recognized using the residual method as commission revenue when the brand element is sold. Mileage credit sales recorded under the residual approach are immaterial to the overall program.

Partner airline loyalty

Alaska has interline arrangements with certain airlines whereby its members may earn and redeem Mileage Plan™ credits on those airlines, and members of a partner airline's loyalty program may earn and redeem frequent flyer program credits on flights operated by Alaska and its regional partners. When a Mileage Plan™ member earns credits on a partner airline, the partner airline remits a contractually-agreed upon fee to the Company which is deferred until credits are redeemed. When a Mileage Plan™ member redeems credits on a partner airline, the Company pays a contractually agreed upon fee to the other airline, which is netted against the revenue recognized associated with the award travel. When a member of a partner airline redeems frequent flyer credits on Alaska, the partner airline remits a contractually-agreed upon amount to the Company, recognized as Passenger revenue upon travel. If the partner airline's member earns frequent flyer program credits on an Alaska flight, the Company remits a contractually-agreed upon fee to the partner airline and records a commission expense.

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

	Twelve Months Ended December 31,		
	2020	2019	2018
Passenger revenue	\$ 346	\$ 704	\$ 619
Mileage Plan other revenue	374	465	434
Total Mileage Plan revenue	\$ 720	\$ 1,169	\$ 1,053

Mileage Plan other revenue is primarily brand and marketing revenue from our affinity card products.

Cargo and Other

The Company provides freight and mail services (cargo). The majority of cargo services are provided to commercial businesses and the United States Postal Service. The Company satisfies cargo service performance obligations and recognizes revenue when the shipment arrives at its final destination, or is transferred to a third-party carrier for delivery.

The Company also earns other revenue for lounge memberships, hotel and car commissions, and certain other immaterial items not intrinsically tied to providing air travel to passengers. Revenue is recognized when these services are rendered and recorded as Cargo and other revenue. The transaction price for Cargo and other revenue is the price paid by the customer.

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

	Twelve Months Ended December 31,		
	2020	2019	2018
Cargo revenue	\$ 112	\$ 133	\$ 129
Other revenue	61	88	70
Total Cargo and other revenue	\$ 173	\$ 221	\$ 199

Air Traffic Liability and Deferred Revenue

Passenger ticket and ancillary services liabilities

Air traffic liability included on the consolidated balance sheets represents the remaining obligation associated with passenger tickets and ancillary services. The air traffic liability balance fluctuates with seasonal travel patterns. The Company recognized Passenger revenue of \$502 million and \$577 million from the 2019 and 2018 year-end air traffic liability balance during the twelve months ended December 31, 2020 and 2019.

Given the reduction in demand for air travel stemming from the COVID-19 pandemic, advance bookings and associated cash receipts have been significantly depressed. The Company also experienced elevated cancellations beginning in March 2020 and again, although at a lesser rate, in November 2020, which led to cash refunds or the issuance of credits for future travel. During the year, the Company issued cash refunds of approximately \$600 million and credits for future travel of approximately \$1 billion. At December 31, 2020, such credits, which are included in the air traffic liability balance, totaled \$569 million, net of breakage. In January 2021, the Company announced updated expiration terms for these credits, extending to December 31, 2021. At this time, the Company is unable to estimate how and when the air traffic liability will be recognized in earnings given ongoing uncertainty around the return in demand for air travel. As a result, the timing of recognition of these travel credits may differ from current assumptions, which may result in increased breakage in future periods.

Mileage Plan[™] liabilities

The total deferred revenue liability included on the consolidated balance sheets represents the remaining transaction price that has been allocated to Mileage Plan[™] performance obligations not yet satisfied by the Company. In general, the current amounts will be recognized as revenue within 12 months and the long-term amounts will be recognized as revenue over a period of approximately three to four years. This period of time represents the average time that members have historically taken to earn and redeem miles.

The Company records a receivable for amounts due from the affinity card partner and from other partners as mileage credits are sold until the payments are collected. The Company had \$48 million and \$105 million of such receivables as of December 31, 2020 and December 31, 2019.

Mileage credits are combined into one homogeneous pool and are not specifically identifiable. As such, loyalty revenues disclosed earlier in this Note are comprised of miles that were part of the deferred revenue and liabilities balances at the beginning of the period and miles that were issued during the period. The table below presents a roll forward of the total frequent flyer liability (in millions):

	Twelve Months Ended December 31,	
	2020	2019
Total Deferred Revenue balance at January 1	\$ 1,990	\$ 1,874
Travel miles and companion certificate redemption - Passenger revenue	(346)	(704)
Miles redeemed on partner airlines - Other revenue	(23)	(111)
Increase in liability for mileage credits issued	656	931
Total Deferred Revenue balance at December 31	\$ 2,277	\$ 1,990

Selling Costs

Certain costs such as credit card fees, travel agency and other commissions paid, as well as Global Distribution Systems (GDS) booking fees, are incurred when the Company sells passenger tickets and ancillary services in advance of the travel date. The Company defers such costs and recognizes them as expenses when the travel occurs. Prepaid expense recorded on the consolidated balance sheets for such costs was \$24 million and \$27 million as of December 31, 2020 and December 31, 2019. The Company recorded related expense on the consolidated statements of operations of \$43 million, \$208 million and \$217 million for the twelve months ended December 31, 2020, 2019 and 2018.

NOTE 4. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

Fuel Hedge Contracts

The Company's operations are inherently dependent upon the price and availability of aircraft fuel. To manage economic risks associated with fluctuations in aircraft fuel prices, the Company periodically enters into call options for crude oil.

As of December 31, 2020, the Company had outstanding fuel hedge contracts covering approximately 300 million gallons of crude oil that will be settled from January 2021 to June 2022.

Interest Rate Swap Agreements

The Company is exposed to market risk from adverse changes in variable interest rates on long-term debt and certain aircraft lease agreements. To manage this risk, the Company periodically enters into interest rate swap agreements. As of December 31, 2020, the Company has an outstanding interest rate swap agreement with a third party designed to hedge the volatility of the underlying variable interest rates on a lease agreement for one B737-800 aircraft, as well as 13 interest rate swap agreements with third parties designed to hedge the volatility of the underlying variable interest rates on \$614 million of debt. All of the interest rate swap agreements stipulate that the Company pay a fixed interest rate and receive a floating interest rate over the term of the underlying contracts. The interest rate swap agreement associated with the lease expires in March 2021, corresponding with the aircraft lease term, and December 2021 through August 2029 to coincide with the debt maturity dates. All significant terms of the swap agreements match the terms of the underlying hedged items and have been designated as qualifying hedging instruments, which are accounted for as cash flow hedges.

As qualifying cash flow hedges, the interest rate swaps are recognized at fair value on the balance sheet, and changes in the fair value are recognized in accumulated other comprehensive loss. The effective portion of the derivative represents the change in fair value of the hedge that offsets the change in fair value of the hedged item. To the extent the change in fair value of the hedge does not perfectly offset the change in the fair value of the hedged item, the ineffective portion of the hedge is recognized in interest expense, if material.

Fair Values of Derivative Instruments

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

	2020	2019
Fuel hedge contracts (not designated as hedges)		
Prepaid expenses and other current assets	\$ 11	\$ 8
Other assets	4	3
Interest rate swaps (designated as hedges)		
Prepaid expenses and other current assets	—	1
Other noncurrent assets	—	2
Other accrued liabilities	(10)	(5)
Other liabilities	(15)	(5)
Losses in accumulated other comprehensive loss (AOCL)	(21)	(13)

The net cash paid for new fuel hedge positions and received from settlements was \$14 million, \$19 million and \$21 million during 2020, 2019, and 2018.

Pretax effect of derivative instruments on earnings and AOCL (in millions):

	2020	2019	2018
Fuel hedge contracts (not designated as hedges)			
Gains (losses) recognized in Aircraft fuel	\$ (10)	\$ (10)	\$ 1
Interest rate swaps (designated as hedges)			
Losses recognized in Aircraft rent	(3)	(3)	(3)
Gains (losses) recognized in other comprehensive income (OCI)	(21)	(13)	—

The amounts shown as recognized in aircraft rent for cash flow hedges (interest rate swaps) represent the realized losses transferred out of AOCL to aircraft rent. Losses related to interest rate swaps on variable rate debt of \$6 million were recognized in interest expense during 2020. The amounts shown as recognized in OCI are prior to the losses recognized in aircraft rent during the period. The Company expects an insignificant amount to be reclassified from OCI to aircraft rent and \$10 million to interest expense within the next twelve months.

NOTE 5. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments on a Recurring Basis

As of December 31, 2020, the total cost basis for marketable securities was \$1.9 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 consolidated balance sheet (in millions):

	December 31, 2020			December 31, 2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets						
Marketable securities						
U.S. government and agency securities	\$ 407	\$ —	\$ 407	\$ 330	\$ —	\$ 330
Equity mutual funds	7	—	7	6	—	6
Foreign government bonds	—	20	20	—	31	31
Asset-backed securities	—	224	224	—	211	211
Mortgage-backed securities	—	290	290	—	176	176
Corporate notes and bonds	—	978	978	—	523	523
Municipal securities	—	50	50	—	23	23
Total Marketable securities	414	1,562	1,976	336	964	1,300
Derivative instruments						
Fuel hedge contracts - call options	—	15	15	—	11	11
Interest rate swap agreements	—	—	—	—	3	3
Total Assets	\$ 414	\$ 1,577	\$ 1,991	\$ 336	\$ 978	\$ 1,314
Liabilities						
Derivative instruments						
Interest rate swap agreements	—	(25)	(25)	—	(10)	(10)
Total Liabilities	\$ —	\$ (25)	\$ (25)	\$ —	\$ (10)	\$ (10)

The Company uses 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. The remaining marketable securities instruments are Level 2 as the fair value is based on standard valuation models that calculate values from observable inputs such as quoted interest rates, yield curves, credit ratings of the security and other observable market information.

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

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 the Company's evaluation of available evidence as of December 31, 2020.

Proceeds from sales of marketable securities were \$2.3 billion, \$1.7 billion and \$1.1 billion in 2020, 2019, and 2018.

Maturities for marketable securities (in millions):

December 31, 2020	Cost Basis	Fair Value
Due in one year or less	\$ 775	\$ 777
Due after one year through five years	1,146	1,175
Due after five years through 10 years	23	24
Total	\$ 1,944	\$ 1,976

Fair Value of Other Financial Instruments

The Company used the following methods and assumptions to determine the fair value of financial instruments that are not recognized at fair value on the consolidated balance sheets.

Cash and Cash Equivalents: These assets are carried at amortized costs which approximate fair value.

Debt: Debt assumed in the acquisition of Virgin America was subject to a non-recurring fair valuation adjustment as part of purchase price accounting. The adjustment was amortized over the life of the associated debt. Following the prepayment of the debt in 2020, this fair valuation adjustment was eliminated. All other fixed-rate debt is carried at cost. To estimate the fair value of all fixed-rate debt as of December 31, 2020, the Company uses the income approach by discounting cash flows utilizing borrowing rates for comparable debt over the remaining life of the outstanding debt, or using quoted market prices. The estimated fair value of the fixed-rate EETC debt is Level 2, as it is estimated using quoted market prices, while the estimated fair value of \$488 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 consolidated balance sheet and the estimated fair value of long-term fixed-rate debt (in millions):

	December 31, 2020	December 31, 2019
Total fixed rate debt	\$ 1,662	\$ 475
Estimated fair value	\$ 1,778	\$ 483

NOTE 6. LONG-TERM DEBT

Long-term debt obligations (in millions):

	2020	2019
Fixed-rate notes payable due through 2029	\$ 198	\$ 475
Fixed-rate PSP note payable due through 2030	290	—
Fixed-rate EETC payable due through 2025 & 2027	1,174	—
Variable-rate notes payable due through 2029	1,866	1,032
Less debt issuance costs and unamortized debt discount	(33)	(8)
Total debt	3,495	1,499
Less current portion	1,138	235
Long-term debt, less current portion	\$ 2,357	\$ 1,264
Weighted-average fixed-interest rate	4.3 %	3.3 %
Weighted-average variable-interest rate	1.9 %	2.9 %

Approximately \$614 million of the Company's total variable-rate notes payable are effectively fixed via interest rate swaps at December 31, 2020, bringing the weighted-average interest rate for the full debt portfolio to 3.3%.

The Company's variable-rate debt bears interest at a floating rate per annum equal to a margin plus the one, three or six-month LIBOR in effect at the commencement of each one, three or six-month period, as applicable. As of December 31, 2020, none of the Company's borrowings were restricted by financial covenants.

Debt Activity

During 2020, the Company's total debt increased \$2.0 billion, the result of issuances of \$2.6 billion, including draws of \$400 million on existing bank lines of credit. These issuances were offset by payments of \$565 million, including the prepayment of \$314 million of debt.

Total issuances include \$1.2 billion in Enhanced Equipment Trust Certificates (EETC). The EETC are collateralized by 42 Boeing 737 aircraft and 19 Embraer E175 aircraft. Principal and interest payments are due semiannually, beginning on February 15, 2021. Also included in total issuances is \$589 million in secured debt financing backed by a total of 32 aircraft.

CARES Act

Under the terms of the PSP program, Alaska, Horizon and McGee recorded a combined \$290 million unsecured senior term loan. The note has a 10-year term, bearing an interest rate of 1% the first five years, and an interest rate equal to the Secured Overnight Financing Rate (SOFR) plus 2% in years 6 through 10. The loan is prepayable at par at any time.

In 2020, the Company also finalized an agreement with the Treasury to obtain up to \$1.9 billion via a secured term loan facility. Obligations of the Company under the loan agreement are secured by assets related to, and revenues generated by, Alaska's Mileage Plan™ frequent flyer program, as well as by 34 aircraft and 15 spare engines.

As of December 31, 2020, the Company has drawn \$135 million available under the agreement, and may, at its option, borrow additional amounts in up to two subsequent borrowings until May 28, 2021. All proceeds drawn must be used for certain general corporate purposes and operating expenses in accordance with the terms and conditions of the loan agreement and the applicable provisions of the CARES Act.

In conjunction with the initial draw, the Company granted the Treasury 427,080 warrants to purchase ALK common stock at a strike price of \$31.61. 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 shareholders' equity, with an offsetting debt discount to the CARES Act Loan issuance.

In early 2021, Alaska, Horizon and McGee finalized agreements with the Treasury and accepted partial disbursement of funds through an extension of the PSP, made available under the Consolidated Appropriations Act, 2021. Under these extension agreements, Alaska and Horizon will receive a total of \$546 million to be used exclusively toward continuing to pay employee salaries, wages and benefits. Of the total funds the Company will receive, approximately \$130 million takes the form of a senior term loan with a 10-year term, bearing an interest rate of 1% in years 1–5, and SOFR + 2% in years 6–10. The loan is prepayable at par at any time.

Debt Maturity

Long-term debt principal payments for the next five years and thereafter (in millions):

	Total
2021	\$ 1,145
2022	371
2023	334
2024	240
2025	396
Thereafter	1,042
Total principal payments	<u>\$ 3,528</u>

Bank Line of Credit

The Company has three credit facilities with capacity totaling \$461 million. All three facilities have variable interest rates based on LIBOR plus a specified margin. One credit facility for \$250 million expires in June 2021 and is secured by aircraft. A second credit facility, which was renegotiated in September 2020, resulting in decreased capacity from \$150 million to \$120 million, expires in March 2022 and is secured by certain accounts receivable, spare engines, spare parts and ground service equipment. A third credit facility for \$91 million expires in June 2021, with a mechanism for annual renewal, and is secured by aircraft.

During the year-ended December 31, 2020, the Company drew \$400 million on the first two existing facilities, of which a total of \$37 million has been repaid. The total outstanding balance is classified as short-term on the consolidated balance sheet. The Company also has secured letters of credit against the \$91 million facility. All three credit facilities have a requirement to maintain a minimum unrestricted cash and marketable securities balance of \$500 million. The Company was in compliance with this covenant at December 31, 2020.

NOTE 7. LEASES

Effective January 1, 2019, the Company adopted ASC 842 - Leases. The Company elected certain practical expedients under the standard, including the practical expedient allowing a policy election to exclude from recognition short-term lease assets and lease liabilities for leases with an initial term of twelve months or less. Such expense was not material for the twelve months ended December 31, 2020 and 2019. Additionally, the Company elected the available package of practical expedients allowing for no reassessment of lease classification for existing leases, no reassessment of expired contracts, and no reassessments of initial direct costs for existing leases.

The Company has five asset classes for operating leases: aircraft, capacity purchase arrangements for aircraft operated by third-party carriers (CPA aircraft), airport and terminal facilities, corporate real estate and other equipment. All capitalized lease assets have been recorded on the consolidated balance sheet as of December 31, 2020 as Operating lease assets, with the corresponding liabilities recorded as Operating lease liabilities. Consistent with past accounting, operating rent expense is recognized on a straight-line basis over the term of the lease.

Operating lease assets balance by asset class was as follows (in millions):

	December 31, 2020		December 31, 2019	
Aircraft	\$	750	\$	1,049
CPA Aircraft		579		596
Airport and terminal facilities		16		18
Corporate real estate and other		55		48
Total Operating lease assets	\$	1,400	\$	1,711

Aircraft

At December 31, 2020, Alaska had operating leases for ten Boeing 737 and 71 Airbus aircraft, and Horizon had operating leases for seven Bombardier Q400 aircraft. Of the total Airbus leases, 40 aircraft are no longer in operating service, and the related assets have been fully impaired. Remaining lease terms for these aircraft extend up to eleven years, some with options to extend, subject to negotiation at the end of the term. As extension is not certain, and rates are highly likely to be renegotiated, the extended term is only capitalized when it is reasonably determinable. While aircraft rent is primarily fixed, certain leases contain rental adjustments throughout the lease term which would be recognized as variable expense as incurred. Variable lease expense for aircraft was not material and \$4 million for the twelve months ended December 31, 2020 and 2019.

Capacity purchase agreements with aircraft (CPA aircraft)

At December 31, 2020, Alaska had CPAs with two carriers, including the Company's wholly-owned subsidiary, Horizon. Horizon sells 100% of its capacity under a CPA with Alaska. Alaska also has a CPA with SkyWest covering 32 E175 aircraft to fly certain routes in the Lower 48 and Canada. Under these agreements, Alaska pays the carriers an amount which is based on a determination of their cost of operating those flights and other factors intended to approximate market rates for those services. As Horizon is a wholly-owned subsidiary, intercompany leases between Alaska and Horizon have not been recognized under the standard.

Remaining lease terms for CPA aircraft range from 6.5 years to 10 years. Financial arrangements of the CPAs include a fixed component, representing the costs to operate each aircraft which is capitalized. CPAs also include variable rent based on actual levels of flying, which is expensed as incurred. Variable lease expense for CPA aircraft for the twelve months ended December 31, 2020 and 2019 was not material.

Airport and terminal facilities

The Company leases ticket counters, gates, cargo and baggage space, ground equipment, office space and other support areas at numerous airports. For this asset class, the Company has elected to combine lease and non-lease components. The majority of airport and terminal facility leases are not capitalized because they do not meet the definition of controlled assets under the standard, or because the lease payments are entirely variable. For airports where leased assets are identified, and where the contract includes fixed lease payments, operating lease assets and lease liabilities have been recorded. The Company is also commonly responsible for maintenance, insurance and other facility-related expenses and services under these agreements. These costs are recognized as variable expense in the period incurred. Airport and terminal facilities variable lease expense for the twelve months ended December 31, 2020 and 2019 was \$286 million and \$322 million.

Starting in 2018, the Company leased twelve airport slots at LaGuardia Airport and eight airport slots at Reagan National Airport to a third party. For these leases, the Company recorded \$14 million and \$13 million of lease income during the twelve months ended December 31, 2020 and 2019.

Corporate real estate and other leases

Leased corporate real estate is primarily for office space in hub cities, data centers, land leases, and reservation centers. For this asset class, the Company has elected to combine lease and non-lease components under the standard. Other leased assets are comprised of other ancillary contracts and items including leased flight simulators and spare engines. Variable lease expense related to corporate real estate and other leases for the twelve months ended December 31, 2020 and 2019 was \$12 million and \$10 million.

Sale-leaseback transaction

In 2020, Alaska entered into a transaction to sell ten owned Airbus A320 aircraft and replace those aircraft with 13 new leased Boeing 737-9 MAX aircraft. Also included in the transaction is the leaseback of all ten Airbus aircraft in the interim period between the sale of those aircraft and delivery of the first ten 737-9 MAX aircraft.

The 13 contracted lease agreements for Boeing 737-9 MAX aircraft are scheduled for delivery between 2021 and 2022. These deliveries are valued at \$453 million, and have non-cancelable lease terms ranging from 2031 to 2034.

Components of Lease Expense

The impact of leases, including variable lease cost, was as follows (in millions):

	Classification	2020	2019
Expense			
Aircraft	Aircraft rent	\$ 215	\$ 246
CPA Aircraft	Aircraft rent	80	79
Airport and terminal facilities	Landing fees and other rentals	288	324
Corporate real estate and other	Landing fees and other rentals	19	19
Total lease expense		\$ 602	\$ 668
Revenue			
Lease income	Cargo and other revenues	(14)	(13)
Net lease impact		\$ 588	\$ 655

As of December 31, 2018, the Company had commitments for aircraft and facility leases. Facility lease commitments primarily included airport and terminal facilities and building leases. Total rent expense for aircraft and facility leases was \$619 million in 2018.

Supplemental Cash Flow Information

During the year ended December 31, 2020, the Company paid \$302 million for capitalized operating leases. The Company also acquired \$81 million of operating lease assets in exchange for assumption of the same total of operating lease liabilities, inclusive of lease extensions.

Lease Term and Discount Rate

As most leases do not provide an implicit interest rate, the Company generally utilizes the incremental borrowing rate (IBR) based on information available at the commencement date of the lease to determine the present value of lease payments. The weighted average IBR and weighted average remaining lease term (in years) for all asset classes were as follows at December 31, 2020.

	Weighted Average IBR	Weighted Average Remaining Lease term
Aircraft	3.9 %	6.4
CPA Aircraft	2.7 %	8.2
Airports and terminal facilities	4.1 %	9.3
Corporate real estate and other	4.1 %	31.6

Maturities of Lease Liabilities

Future minimum lease payments under non-cancellable leases as of December 31, 2020 (in millions):

	Aircraft ^(a)	CPA Aircraft	Airport and Terminal Facilities	Corporate Real Estate and Other
2021	\$ 244	\$ 84	\$ 2	\$ 8
2022	195	84	2	7
2023	135	84	2	7
2024	83	84	2	6
2025	76	84	2	4
Thereafter	257	261	9	78
Total Lease Payments	\$ 990	\$ 681	\$ 19	\$ 110
Less: Imputed interest	(114)	(71)	(3)	(54)
Total	\$ 876	\$ 610	\$ 16	\$ 56

(a) - Future minimum lease payments for aircraft includes commitments for aircraft which have been removed from operating service as the Company remains obligated under existing terms.

NOTE 8. INCOME TAXES

Deferred Income Taxes

Deferred income taxes reflect the impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and such amounts for tax purposes. The Company has a net deferred tax liability, primarily due to differences in depreciation rates for federal income tax purposes and for financial reporting purposes.

Deferred tax (assets) and liabilities comprise the following (in millions):

	2020	2019
Excess of tax over book depreciation	\$ 1,126	\$ 1,233
Intangibles - net	15	16
Operating lease assets	342	416
Other - net	106	58
Deferred tax liabilities	<u>1,589</u>	<u>1,723</u>
Mileage Plan™	(385)	(337)
Inventory obsolescence	(17)	(15)
Employee benefits	(215)	(179)
Net operating losses	(27)	(13)
Operating lease liabilities	(381)	(417)
Leasehold maintenance	(73)	—
Other - net	(103)	(48)
Deferred tax assets	<u>(1,201)</u>	<u>(1,009)</u>
Valuation allowance	19	1
Net deferred tax liabilities	<u>\$ 407</u>	<u>\$ 715</u>

The CARES Act, among other things, permits federal Net Operating Loss (NOL) carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Company also carried back a portion of NOLs incurred in 2018 as allowed by the CARES Act and has received a refund for those losses.

At December 31, 2020, the Company had federal NOLs of approximately \$644 million, the majority of which will be carried back under the CARES Act to be applied against previous years' taxable income. The Company has recorded a receivable of \$225 million associated with the federal carry back. The remaining NOL, which resulted from the 2016 Virgin America merger, must be carried forward and will expire in 2036. The Company also has state NOLs of approximately \$562 million that expire beginning in 2021 and continuing through 2040. Of these state NOLs, approximately \$85 million may be used to offset previous years' state taxable income due to states' conformity to the Internal Revenue Code or state specific carryback provisions.

Virgin America experienced multiple "ownership changes" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), the most recent being its acquisition by the Company. Section 382 of the Code imposes an annual limitation on the utilization of pre-ownership change NOLs. Any unused annual limitation may, subject to certain limits, be carried over to later years. The combined Company's ability to use the NOLs will also depend on the amount of taxable income generated in future periods.

Valuation allowances are provided to reduce the related deferred income tax assets to an amount which will, more likely than not, be realized. The Company has determined it is more likely than not that a portion of the state NOL carryforward will not be realized and, therefore, has provided a valuation allowance of \$19 million for that portion as of December 31, 2020. The Company has likewise concluded it is more likely than not that all of its federal and the remaining state deferred income tax assets will be realized and thus no additional valuation allowance has been recorded. The Company reassesses the need for a valuation allowance each reporting period.

Components of Income Tax Expense (Benefit)

The components of income tax expense (benefit) are as follows (in millions):

	2020	2019	2018
Current income tax expense (benefit):			
Federal	\$ (212)	\$ 26	\$ (5)
State	(11)	13	9
Total current income tax expense (benefit)	(223)	39	4
Deferred income tax expense (benefit):			
Federal	(246)	175	125
State	(47)	33	19
Total deferred income tax expense (benefit)	(293)	208	144
Income tax expense (benefit)	<u>\$ (516)</u>	<u>\$ 247</u>	<u>\$ 148</u>

Income Tax Rate Reconciliation

Income tax expense (benefit) reconciles to the amount computed by applying the 2020 U.S. federal rate of 21% to income (loss) before income tax and for deferred taxes as follows (in millions):

	2020	2019	2018
Income (loss) before income tax	\$ (1,840)	\$ 1,016	\$ 585
Expected tax expense (benefit)	(386)	213	123
Non deductible expenses	9	9	9
State income tax expense (benefit)	(62)	36	21
Tax law changes	(93)	(9)	(7)
Valuation allowance	18	—	—
Other - net	(2)	(2)	2
Actual tax expense (benefit)	<u>\$ (516)</u>	<u>\$ 247</u>	<u>\$ 148</u>
Effective tax rate	<u>28.0 %</u>	<u>24.3 %</u>	<u>25.3 %</u>

As a result of tax changes signed into law during 2017, with final regulations issued in 2019, the Company recorded a current tax benefit of \$9 million in 2019. The Company recorded a current tax benefit of \$93 million in 2020 as a result of provisions outlined in the CARES Act.

Uncertain Tax Positions

The Company has identified its federal tax return and its state tax returns in Alaska, Oregon and California as “major” tax jurisdictions. A summary of the Company's jurisdictions and the periods that are subject to examination are as follows:

Jurisdiction	Period
Federal	2007 to 2019
Alaska	2015 to 2019
California	2007 to 2019
Oregon	2003 to 2019

Certain tax years are open to the extent of net operating loss carryforwards.

Changes in the liability for gross unrecognized tax benefits during 2020, 2019 and 2018 are as follows (in millions):

	2020	2019	2018
Balance at January 1,	\$ 40	\$ 40	\$ 43
Additions related to prior years	1	—	1
Releases related to prior years	(1)	(1)	(4)
Additions related to current year activity	—	2	2
Releases due to settlements	(4)	—	(1)
Releases due to lapse of statute of limitations	(1)	(1)	(1)
Balance at December 31,	<u>\$ 35</u>	<u>\$ 40</u>	<u>\$ 40</u>

As of December 31, 2020, the Company had \$35 million of accrued tax contingencies, of which \$29 million, if fully recognized, would increase the effective tax rate. As of December 31, 2020, 2019 and 2018, the Company has accrued interest and penalties, net of federal income tax benefit, of \$6 million, \$7 million, and \$6 million. In 2020, the Company recognized a benefit of \$1 million, compared to the recognition of expense of \$1 million in 2019, and \$1 million in 2018, for interest and penalties, net of federal income tax benefit. At December 31, 2020, the Company has unrecognized tax benefits recorded as a liability and some reducing deferred tax assets. The Company reduced \$5 million of reserves for uncertain tax positions in 2020, primarily due to settlements on state income taxes and statute lapses on reserved amounts. These uncertain tax positions could change as a result of the Company's ongoing audits, settlement of issues, new audits and status of other taxpayer court cases. The Company cannot predict the timing of these actions. Due to the positions being taken in various jurisdictions, the amounts currently accrued are the Company's best estimate as of December 31, 2020.

NOTE 9. EMPLOYEE BENEFIT PLANS

Four qualified defined-benefit plans, one non-qualified defined-benefit plan, and seven defined-contribution retirement plans cover various employee groups of Alaska, Horizon and McGee Air Services.

The defined-benefit plans provide benefits based on an employee's term of service and average compensation for a specified period of time before retirement. The qualified defined-benefit pension plans are closed to new entrants.

Accounting standards require recognition of the overfunded or underfunded status of an entity's defined-benefit pension and other postretirement plan as an asset or liability in the consolidated financial statements and requires recognition of the funded status in AOCL.

Qualified Defined-Benefit Pension Plans

The Company's four qualified defined-benefit pension plans are funded as required by the Employee Retirement Income Security Act of 1974. The defined-benefit plan assets consist primarily of marketable equity and fixed-income securities. The work groups covered by qualified defined-benefit pension plans include salaried employees, pilots, clerical, office, passenger service employees, mechanics and related craft employees. The Company uses a December 31 measurement date for these plans. All plans are closed to new entrants.

Weighted average assumptions used to determine benefit obligations:

The rates below vary by plan and related work group.

	2020	2019
Discount rates	2.43% to 2.58%	3.33% to 3.47%
Rate of compensation increases	2.02% to 2.43%	2.11% to 5.44%

Weighted average assumptions used to determine net periodic benefit cost:

The rates below vary by plan and related work group.

	2020	2019	2018
Discount rates	3.33% to 3.47%	4.37% to 4.46%	3.69% to 3.78%
Expected return on plan assets	3.25% to 5.50%	4.25% to 5.50%	4.25% to 5.50%
Rate of compensation increases	2.11% to 5.44%	2.11% to 3.50%	2.11% to 16.51%

The discount rates are determined using current interest rates earned on high-quality, long-term bonds with maturities that correspond with the estimated cash distributions from the pension plans. At December 31, 2020, the Company selected discount rates for each of the plans using a pool of higher-yielding bonds estimated to be more reflective of settlement rates, as management has taken steps to ultimately terminate or settle plans that are frozen and move toward freezing benefits in active plans in the future. In determining the expected return on plan assets, the Company assesses the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Plan assets are invested in common commingled trust funds invested in equity and fixed income securities and in certain real estate assets. The target and actual asset allocation of the funds in the qualified defined-benefit plans, by asset category, are as follows:

Asset category:	Salaried Plan ^(a)			All other plans		
	Target	2020	2019	Target	2020	2019
Domestic equity securities	2% - 12%	7 %	7 %	36% - 46%	44 %	41 %
Non-U.S. equity securities	0% - 8%	3 %	3 %	13% - 23%	18 %	18 %
Fixed income securities	85% - 95%	90 %	90 %	31% - 41%	33 %	35 %
Real estate	— %	— %	— %	0% - 10%	5 %	6 %
Plan assets		100 %	100 %		100 %	100 %

(a) As our Salaried Plan is frozen and fully funded, our investment strategies differ significantly from that of our other outstanding plans. Investments are in lower-risk securities, with earnings designed to maintain a fully-funded status.

The Company's investment policy focuses on achieving maximum returns at a reasonable risk for pension assets over a full market cycle. The Company determines the strategic allocation between equities, fixed income and real estate based on current funded status and other characteristics of the plans. As the funded status improves, the Company increases the fixed income allocation of the portfolio and decreases the equity allocation. Actual asset allocations are reviewed regularly and periodically rebalanced as appropriate.

Plan assets invested in common commingled trust funds are fair valued using the net asset values of these funds to determine fair value as allowed using the practical expedient method outlined in the accounting standards. Fair value estimates for real estate are calculated using the present value of expected future cash flows based on independent appraisals, local market conditions and current and projected operating performance.

Plan assets by fund category (in millions):

	2020	2019	Fair Value Hierarchy
Fund type:			
U.S. equity market fund	\$ 914	\$ 773	1
Non-U.S. equity fund	384	344	1
Credit bond index fund	1,088	1,009	1
Plan assets in common commingled trusts	\$ 2,386	\$ 2,126	
Real estate	96	102	(a)
Cash equivalents	6	11	1
Total plan assets	\$ 2,488	\$ 2,239	

(a) In accordance with Subtopic 820-10, certain investments that are measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

The following table sets forth the status of the qualified defined-benefit pension plans (in millions):

	2020	2019
Projected benefit obligation (PBO)		
Beginning of year	\$ 2,602	\$ 2,225
Service cost	52	42
Interest cost	75	89
Actuarial (gain)/loss	339	359
Benefits paid	(134)	(113)
End of year	\$ 2,934	\$ 2,602
Plan assets at fair value		
Beginning of year	\$ 2,239	\$ 1,858
Actual return on plan assets	383	429
Employer contributions	—	65
Benefits paid	(134)	(113)
End of year	\$ 2,488	\$ 2,239
Unfunded status	\$ (446)	\$ (363)
Percent funded	85 %	86 %

The accumulated benefit obligation for the combined qualified defined-benefit pension plans was \$2.8 billion and \$2.4 billion at December 31, 2020 and 2019. During 2020 and 2019 actuarial losses increased the benefit obligation primarily due to the decrease in discount rates.

The amounts recognized in the consolidated balance sheets (in millions):

	2020	2019
Accrued benefit liability-long term	\$ 502	\$ 412
Plan assets-long term (within Other noncurrent assets)	(51)	(49)
Total liability recognized	\$ 451	\$ 363

The amounts not yet reflected in net periodic benefit cost and included in AOCL (in millions):

	2020	2019
Prior service credit	\$ (5)	\$ (6)
Net loss	626	595
Amount recognized in AOCL (pretax)	\$ 621	\$ 589

Defined benefit plans with projected benefit obligations exceeding fair value of plan assets are as follows (in millions):

	2020	2019
Projected benefit obligation	\$ 2,207	\$ 1,957
Fair value of plan assets	1,710	1,545

Defined benefit plans with accumulated benefit obligations exceeding fair value of plan assets are as follows (in millions):

	2020	2019
Projected benefit obligation	\$ 2,207	\$ 1,957
Accumulated benefit obligation	2,057	1,539
Fair value of plan assets	1,710	1,545

Net pension expense for the qualified defined-benefit plans included the following components (in millions):

	2020	2019	2018
Service cost	\$ 46	\$ 42	\$ 48
Interest cost	75	89	79
Restructuring charges ^(a)	11	—	—
Expected return on assets	(110)	(95)	(107)
Amortization of prior service credit	(1)	(1)	(1)
Recognized actuarial loss	35	37	33
Net pension expense	\$ 56	\$ 72	\$ 52

(a) In conjunction with the workforce reductions stemming from the COVID-19 pandemic, the Company recorded additional expense for employees accepting incentive leaves of absence. Such expense is included in Special items - restructuring charges on the consolidated statement of operations for the year-ended December 31, 2020.

There are no current statutory funding requirements for the Company's plans in 2021.

Future benefits expected to be paid over the next ten years under the qualified defined-benefit pension plans from the assets of those plans (in millions):

	Total
2021	\$ 123
2022	142
2023	143
2024	141
2025	157
2026– 2030	829

Nonqualified Defined-Benefit Pension Plan

Alaska also maintains an unfunded, noncontributory defined-benefit plan for certain elected officers. This plan uses a December 31 measurement date. The assumptions used to determine benefit obligations and the net period benefit cost for the nonqualified defined-benefit pension plan are similar to those used to calculate the qualified defined-benefit pension plan. The plan's unfunded status, PBO and accumulated benefit obligation are immaterial. The net pension expense in prior year and expected future expense is also immaterial.

Post-retirement Medical Benefits

The Company allows certain retirees to continue their medical, dental and vision benefits by paying all or a portion of the active employee plan premium until eligible for Medicare, currently age 65. This results in a subsidy to retirees, because the premiums received by the Company are less than the actual cost of the retirees' claims. The accumulated post-retirement benefit obligation for this subsidy is unfunded. The accumulated post-retirement benefit obligation was \$138 million and \$129 million at December 31, 2020 and 2019. The net periodic benefit cost was not material in 2020 or 2019.

Defined-Contribution Plans

The seven defined-contribution plans are deferred compensation plans under section 401(k) of the Internal Revenue Code. All of these plans require Company contributions. Total expense for the defined-contribution plans was \$126 million, \$132 million and \$126 million in 2020, 2019, and 2018.

The Company also has a noncontributory, unfunded defined-contribution plan for certain elected officers of the Company who are ineligible for the nonqualified defined-benefit pension plan. Amounts recorded as liabilities under the plan are not material to the consolidated balance sheets at December 31, 2020 and 2019.

Pilot Long-term Disability Benefits

Alaska maintains a long-term disability plan for its pilots. The long-term disability plan does not have a service requirement. Therefore, the liability is calculated based on estimated future benefit payments associated with pilots that were assumed to be disabled on a long-term basis as of December 31, 2020 and does not include any assumptions for future disability. The liability includes the discounted expected future benefit payments and medical costs. The total liability was \$61 million and \$45 million, which was recorded net of a prefunded trust account of \$7 million and \$6 million, and included in long-term other liabilities on the consolidated balance sheets as of December 31, 2020 and December 31, 2019.

Employee Incentive-Pay Plans

The Company has employee incentive plans that pay employees based on certain financial and operational metrics. These metrics are set and approved annually by the Compensation and Leadership Development Committee of the Board of Directors. The aggregate expense under these plans in 2020, 2019 and 2018 was \$130 million, \$163 million and \$147 million. The incentive plans are summarized below.

- *Performance-Based Pay (PBP)* is a program that rewards the majority of Alaska and Horizon employees. The program is based on various metrics that adjust periodically, including those related to Air Group profitability, achievement of unit-cost goals, safety, and guest preference and opinion of performance measured as brand strength.
- *COVID Business Recovery Incentive Pay Plan (CBRP)* is a supplemental program implemented in the third quarter of 2020, aimed at incentivizing employees as the Company manages recovery through the COVID-19 pandemic. The program was based on metrics related to cash preservation and COVID-related safety metrics.
- The *Operational Performance Rewards Program (OPR)* entitles the majority of Alaska and Horizon employees to quarterly payouts of up to \$450 per person if certain monthly operational and customer service objectives are met.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Future minimum payments for commitments as of December 31, 2020 (in millions):

	Aircraft Commitments ^(a)	Capacity Purchase Agreements ^(b)
2021	\$ 873	\$ 166
2022	372	174
2023	238	179
2024	27	184
2025	16	189
Thereafter	13	690
Total	<u>\$ 1,539</u>	<u>\$ 1,582</u>

(a) Includes non-cancelable contractual commitments for aircraft and engines, buyer furnished equipment, and contractual aircraft maintenance obligations.

(b) Includes all non-aircraft lease costs associated with capacity purchase agreements.

Aircraft Commitments

Aircraft purchase commitments include non-cancelable contractual commitments for aircrafts and engines. As of December 31, 2020, Alaska had commitments to purchase 32 Boeing 737-9 MAX aircraft with deliveries in 2021 through 2023. Horizon also has commitments to purchase three E175 aircraft with deliveries in 2023 and Alaska has cancelable purchase commitments for 30 Airbus A320neo aircraft with deliveries from 2024 through 2026. In addition, Alaska has options to purchase 37 737 MAX aircraft and Horizon has options to purchase 30 E175 aircraft. Alaska has an option to increase capacity flown by Skywest with eight additional E175 aircraft with deliveries in 2022. The cancelable purchase commitments and option payments are not reflected in the table above.

In December 2020, Alaska announced an agreement in principle with Boeing to restructure the existing aircraft purchase agreement. Upon execution of the agreement, Alaska will have commitments to purchase an additional 23 737-9 MAX aircraft with deliveries between 2023 and 2024. The agreement in principle also provides for an incremental 15 options to purchase aircraft, which are expected to be available for delivery between 2023 and 2026. The incremental purchase commitments per the agreement in principle, as well as renegotiated payment streams which will lower 2021 cash outflow requirements, are not contractually obligated at December 31, 2020, and are not reflected in the table above.

Aircraft Maintenance and Parts Management

Through its acquisition of Virgin America, the Company has a separate maintenance-cost-per-hour contract for management and repair of certain rotatable parts to support Airbus airframe and engine maintenance and repair. In 2017, Alaska entered into a similar contract for maintenance on its B737-800 aircraft engines. These agreements require monthly payments based upon utilization, such as flight hours, cycles and age of the aircraft, and, in turn, the agreement transfers certain risks to the third-party service provider. There are minimum payments under both agreements, which are reflected in the table above. Accordingly, payments could differ materially based on actual aircraft utilization.

Aircraft Maintenance Deposits

Certain Airbus leases include contractually required maintenance deposit payments to the lessor, which collateralize the lessor for future maintenance events should the Company not perform required maintenance. Payments of such deposits follow contractual terms and timing, regardless of operating status of the respective aircraft. Most of the lease agreements provide that maintenance deposits are reimbursable upon completion of the major maintenance event in an amount equal to the lesser of (i) the amount qualified for reimbursement from maintenance deposits held by the lessor associated with the specific major maintenance event or (ii) the qualifying costs related to the specific major maintenance event.

Los Angeles International Airport (LAX) Construction

In May 2019, we executed an amended lease agreement with Los Angeles World Airports, which includes an agreement to renovate and upgrade the fuel system, jet bridges and concourse facilities at Terminal 6 of LAX. Project terms and pre-construction readiness was approved and finalized in 2020. We expect construction will be completed by early 2024. Under the terms of the agreement, we expect to have total reimbursable cash outlays for the project of approximately \$230 million. To date, we have made total cash outlays of \$24 million and have received reimbursement for \$8.7 million of that total.

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. 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. The Company accrued its best estimate in the December 31, 2020 financial statements for this recognized subsequent event.

The Company is seeking an appellate court ruling that the California laws on which the judgment is based are invalid as applied to national airlines pursuant to the U.S. Constitution and federal law and for other employment law and improper class certification reasons. The Company remains confident that a higher court will respect the federal preemption principles 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 and agree with the Company's other bases for appeal.

In January 2019, a pilot filed a class action lawsuit seeking to represent all Alaska and Horizon pilots for damages based on alleged violations of the Uniformed Services Employment and Reemployment Rights Act (USERRA). Plaintiff received class certification in August 2020. The case is in discovery. The Company believes the claims in the case are without factual and legal merit and intends to defend the lawsuit.

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 11. SHAREHOLDERS' EQUITY

Dividends

During 2020, the Board of Directors declared dividends of \$0.375 per share. The Company paid dividends of \$45 million, \$173 million and \$158 million to shareholders of record during 2020, 2019 and 2018. In March 2020, the Company suspended dividends indefinitely.

Common Stock Repurchase

In August 2015, the Board of Directors authorized a \$1 billion share repurchase program. As of December 31, 2020, 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.

At December 31, 2020, the Company held 9,349,944 shares in treasury. Management does not anticipate retiring common shares held in treasury for the foreseeable future.

Share repurchase activity (in millions, except shares):

	2020		2019		2018	
	Shares	Amount	Shares	Amount	Shares	Amount
2015 Repurchase Program – \$1 billion	538,078	\$ 31	1,192,820	\$ 75	776,186	\$ 50

CARES Act Warrant Issuance

As taxpayer protection required under the PSP, during 2020 the Company granted the Treasury a total of 915,930 warrants to purchase Alaska Air Group (ALK) common stock at a strike price of \$31.61, based on the closing price on April 9, 2020. The warrants are non-voting, freely transferable, may be settled as net shares or in cash at Alaska's option, and have a five year term.

Additionally, in connection with the execution of the CARES Act loan agreement, the Company agreed to issue warrants to the Treasury to purchase up to an aggregate of 6,099,336 shares of ALK common stock (the Warrant Agreement). Under the Warrant Agreement, warrants will be granted to the Treasury in conjunction with each new borrowing under the Agreement. Warrants to purchase shares shall be equal to 10% of each borrowing, divided by \$31.61, the closing price of Air Group common stock on April 9, 2020. Pursuant to the Warrant Agreement, on the closing date, Air Group granted the Treasury 427,080 warrants to purchase ALK common stock at a strike price of \$31.61.

Accumulated Other Comprehensive Loss (AOCL)

AOCL consisted of the following (in millions, net of tax):

	2020	2019
Related to marketable securities	\$ 23	\$ 9
Related to employee benefit plans	(498)	(469)
Related to interest rate derivatives	(19)	(5)
	<u>\$ (494)</u>	<u>\$ (465)</u>

NOTE 12. SPECIAL ITEMS

In 2020, the Company recognized \$627 million in impairment charges and other special items, and \$220 million in special restructuring costs. These special items are largely described in Note 2, but also include an amount accrued for a judgment in a class action lawsuit issued subsequent to December 31, 2020 that was a recognized subsequent event. Also in 2020 the Company recognized special items of \$6 million for merger-related costs associated with its acquisition of Virgin America. Costs classified as merger-related are directly attributable to merger activities. Additionally, the Company incurred \$26 million in swap-break charges and pre-payment penalties related to the early payment of debt associated with the sale of ten owned Airbus aircraft. These charges are reflected as Special charges - net non-operating in the consolidated statements of operations.

In 2019, the Company recognized \$44 million in merger-related costs, primarily for expenses associated with a one-time true-up of Airbus flight attendant and pilot vacation balances, as well as certain technology integration costs.

In 2018, the Company recognized \$87 million in merger-related costs. The Company incurred a one-time settlement fee of \$20 million for the termination of an existing maintenance services agreement and subsequently entered into a new services agreement that provides more flexibility for the timing and scope of engine work. Additionally, the Company incurred \$25 million for one-time bonuses paid to employees as a result of tax reform. These charges were recognized as special charges and are included in the Special items - other line on our consolidated statements of operations.

The Company has recognized \$370 million in merger-related costs since the acquisition of Virgin America in December 2016. No additional merger-related costs will be incurred subsequent to 2020. Special items recorded as a result of the COVID-19 pandemic are disclosed in Note 2. COVID-19 Pandemic.

The following breaks down merger-related costs incurred in 2020, 2019 and 2018 (in millions):

	2020	2019	2018
Consulting and professional services	\$ 5	\$ 18	\$ 45
Employee-related costs ^(a)	—	15	13
Legal and accounting fees	1	1	1
Other merger-related costs ^(b)	—	10	28
Total Merger-related Costs	\$ 6	\$ 44	\$ 87

(a) Employee-related costs consist primarily of vacation balance true-ups, severance, retention bonuses, and training and skill development.

(b) Other merger-related costs consist primarily of costs for marketing and advertising, IT, employee appreciation and company sponsored events, moving expenses, supplies, and other immaterial expenses.

NOTE 13. STOCK-BASED COMPENSATION PLANS

The Company has various equity incentive plans under which it may grant stock awards to directors, officers and employees. The Company also has an employee stock purchase plan.

The table below summarizes the components of total stock-based compensation (in millions):

	2020	2019	2018
Stock options	\$ 4	\$ 3	\$ 3
Stock awards	14	21	23
Deferred stock awards	1	1	1
Employee stock purchase plan	15	11	9
Stock-based compensation	\$ 34	\$ 36	\$ 36
Tax benefit related to stock-based compensation	\$ 8	\$ 9	\$ 9

Unrecognized stock-based compensation for non-vested options and awards and the weighted-average period the expense will be recognized (dollars in millions):

	Amount	Weighted-Average Period
Stock options	\$ 5	1.0
Stock awards	31	1.8
Unrecognized stock-based compensation	<u>\$ 36</u>	<u>1.7</u>

The Company is authorized to issue 17 million shares of common stock under these plans, of which 5,893,374 shares remain available for future grants of either options or stock awards as of December 31, 2020.

Stock Options

Stock options to purchase common stock are granted at the fair market value of the stock on the date of grant. The stock options granted have terms of up to ten years.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants:

	2020	2019	2018
Expected volatility	34 %	30 %	30 %
Expected term	6 years	6 years	6 years
Risk-free interest rate	1.03 %	2.41 %	2.61 %
Expected dividend yield	1.73 %	2.09 %	1.94 %
Weighted-average grant date fair value per share	\$ 14.11	\$ 16.84	\$ 17.18
Estimated fair value of options granted (millions)	\$ 6	\$ 4	\$ 1

The expected market price volatility and expected term are based on historical results. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected dividend yield is based on the estimated weighted average dividend yield over the expected term. The expected forfeiture rates are based on historical experience.

The tables below summarize stock option activity for the year ended December 31, 2020:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Life (Years)	Aggregate Intrinsic Value (in millions)
Outstanding, December 31, 2019	794,055	\$ 60.98	6.5	\$ 7
Granted	398,780	54.81		
Exercised	(52,674)	18.86		
Canceled	(15,417)	71.63		
Forfeited or expired	(13,874)	66.84		
Outstanding, December 31, 2020	<u>1,110,870</u>	<u>\$ 60.54</u>	<u>6.8</u>	<u>\$ 4</u>
Exercisable, December 31, 2020	419,667	\$ 60.56	4.6	\$ 2
Vested or expected to vest, December 31, 2020	1,109,799	\$ 60.54	6.8	\$ 4

(in millions)	2020	2019	2018
Intrinsic value of option exercises	\$ 2	\$ 1	\$ 1
Cash received from stock option exercises	—	1	1
Fair value of options vested	3	3	2

Stock Awards

Restricted Stock Units (RSUs) are awarded to eligible employees and entitle the grantee to receive shares of common stock at the end of the vesting period. The fair value of the RSUs is based on the stock price on the date of grant. Generally, RSUs “cliff vest” after three years, or the period from the date of grant to the employee’s retirement eligibility, and expense is recognized accordingly. Performance Share Units (PSUs) are awarded to certain executives to receive shares of common stock if specific performance goals and market conditions are achieved. There are several tranches of PSUs which vest when performance goals and market conditions are met.

The following table summarizes information about outstanding stock awards:

	Number of Units	Weighted-Average Grant Date Fair Value	Weighted-Average Contractual Life (Years)	Aggregate Intrinsic Value (in millions)
Non-vested, December 31, 2019	541,613	\$ 71.82	1.4	\$ 37
Granted	926,418	49.22		
Vested	(388,032)	67.83		
Forfeited	(112,955)	54.39		
Non-vested, December 31, 2020	967,044	\$ 51.85	1.7	\$ 50

Deferred Stock Awards

Deferred Stock Units (DSUs) are awarded to members of the Board of Directors as part of their retainers. The underlying common shares are issued upon retirement from the Board, but require no future service period. As a result, the entire intrinsic value of the awards is expensed on the date of grant.

Employee Stock Purchase Plan

The ESPP allows employees to purchase common stock at 85% of the stock price on the first day of the offering period or the specified purchase date, whichever is lower. Employees may contribute up to 10% of their base earnings during the offering period to purchase stock. Employees purchased 1,524,194, 784,786 and 632,145 shares in 2020, 2019 and 2018 under the ESPP.

NOTE 14. OPERATING SEGMENT INFORMATION

Alaska Air Group has two operating airlines—Alaska and Horizon. Each is a regulated airline by the U.S. Department of Transportation’s Federal Aviation Administration. Alaska has CPAs for regional capacity with Horizon, as well as with third-party carrier SkyWest, under which Alaska receives all passenger revenues.

Under U.S. General Accepted Accounting Principles, 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. and Canada under CPAs. 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 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 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):

	Year Ended December 31, 2020						
	Mainline	Regional	Horizon	Consolidating & Other ^(a)	Air Group Adjusted ^(b)	Special Items ^(c)	Consolidated
Operating Revenues							
Passenger revenues	2,350	669	—	—	3,019	—	3,019
CPA revenues	—	—	386	(386)	—	—	—
Mileage Plan other revenue	309	65	—	—	374	—	374
Cargo and other	170	—	—	3	173	—	173
Total Operating Revenues	2,829	734	386	(383)	3,566	—	3,566
Operating Expenses							
Non-fuel operating expenses	3,630	993	323	(399)	4,547	71	4,618
Fuel expense	569	162	—	—	731	(8)	723
Total Operating Expenses	4,199	1,155	323	(399)	5,278	63	5,341
Total Non-operating Income (Expense)	(19)	—	(22)	2	(39)	(26)	(65)
Income (Loss) Before Income Tax	\$ (1,389)	\$ (421)	\$ 41	\$ 18	\$ (1,751)	\$ (89)	\$ (1,840)

	Year Ended December 31, 2019						
	Mainline	Regional	Horizon	Consolidating & Other ^(a)	Air Group Adjusted ^(b)	Special Items ^(c)	Consolidated
Operating Revenues							
Passenger revenues	6,750	1,345	—	—	8,095	—	8,095
CPA revenues	—	—	450	(450)	—	—	—
Mileage Plan other revenue	419	46	—	—	465	—	465
Cargo and other	212	3	1	5	221	—	221
Total Operating Revenues	7,381	1,394	451	(445)	8,781	—	8,781
Operating Expenses							
Non-fuel operating expenses	4,778	1,097	385	(464)	5,796	44	5,840
Fuel expense	1,589	295	—	—	1,884	(6)	1,878
Total Operating Expenses	6,367	1,392	385	(464)	7,680	38	7,718
Total Non-operating Income (Expense)	(21)	—	(28)	2	(47)	—	(47)
Income (Loss) Before Income Tax	\$ 993	\$ 2	\$ 38	\$ 21	\$ 1,054	\$ (38)	\$ 1,016

	Year Ended December 31, 2018						
	Mainline	Regional	Horizon	Consolidating & Other ^(a)	Air Group Adjusted ^(b)	Special Items ^(c)	Consolidated
Operating Revenues							
Passenger revenues	6,474	1,157	—	—	7,631	—	7,631
CPA revenues	—	—	508	(508)	—	—	—
Mileage Plan other revenue	397	37	—	—	434	—	434
Cargo and other	192	3	4	—	199	—	199
Total Operating Revenues	7,063	1,197	512	(508)	8,264	—	8,264
Operating Expenses							
Non-fuel operating expenses	4,577	1,024	465	(513)	5,553	132	5,685
Fuel expense	1,652	262	—	—	1,914	22	1,936
Total Operating Expenses	6,229	1,286	465	(513)	7,467	154	7,621
Total Non-operating Income (Expense)	(25)	(11)	(20)	(2)	(58)	—	(58)
Income (Loss) Before Income Tax	\$ 809	\$ (100)	\$ 27	\$ 3	\$ 739	\$ (154)	\$ 585

(a) Includes consolidating entries, 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 allocations and excludes certain income and charges.

(c) Includes payroll support program grant wage offsets, special items and mark-to-market fuel-hedge accounting adjustments.

	2020	2019	2018
Depreciation and amortization:			
Mainline	\$ 346	\$ 337	\$ 316
Horizon	74	86	82
Consolidated	<u>\$ 420</u>	<u>\$ 423</u>	<u>\$ 398</u>
Capital expenditures:			
Mainline	\$ 194	\$ 605	\$ 571
Horizon	12	91	389
Consolidated	<u>\$ 206</u>	<u>\$ 696</u>	<u>\$ 960</u>
Total assets at end of period:			
Mainline	\$ 19,754	\$ 19,207	
Horizon	1,170	1,266	
Consolidating & Other	(6,878)	(7,480)	
Consolidated	<u>\$ 14,046</u>	<u>\$ 12,993</u>	

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Principal Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the quarter ended December 31, 2020, the Company continued to update its control structure associated with a new revenue accounting system. Other than these updates, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the quarter ended December 31, 2020.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the 2013 framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

We intend to review and evaluate the design and effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis, improve these controls and procedures over time, and correct any deficiencies that we may discover in the future. While we believe the present design of our disclosure controls and procedures and internal control over financial reporting are effective, future events affecting our business may cause us to modify our controls and procedures.

The Company's independent registered public accounting firm has issued an attestation report regarding its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2020.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
Alaska Air Group, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Alaska Air Group, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements), and our report dated February 26, 2021 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Seattle, Washington
February 26, 2021

ITEM 9B. OTHER INFORMATION

Explanatory Note

On November 9, 2020, Alaska Air Group, Inc. (the Company), the parent company of Alaska Airlines, Inc. (Alaska Airlines) and Horizon Air Industries, Inc. (Horizon Air), filed a Current Report on Form 8-K with the Securities and Exchange Commission announcing the transition of Bradley Tilden from the role of Chairman and Chief Executive Officer of the Company to non-executive Chairman of the Company's Board of Directors, and the appointment of Benito Minicucci to the role of Chief Executive Officer (CEO) of the Company and Alaska Airlines, effective March 31, 2021.

Departure of Certain Officers; Election of Directors; Appointment of Certain Officers

Upon reconsideration and in keeping with prior CEO transitions at the Company, the Board agreed that Mr. Tilden would continue to serve as executive Chairman of the Board and the Alaska Airlines and Horizon Air boards of directors following his retirement as CEO.

Compensation Arrangements with Mr. Tilden

On February 25, 2021, the Compensation and Leadership Development Committee of the Board (the "Committee") approved Mr. Tilden's compensation as executive Chairman of the Board. Effective March 31, 2021, Mr. Tilden will receive an annual base salary of \$200,000 and a target long-term incentive ("LTI") award of \$100,000 in the form of restricted stock units ("RSUs"), which is the same value as the independent directors' annual stock retainer. The RSUs vest on the first anniversary of the grant. Mr. Tilden will not participate in the Company's short-term cash incentive programs after he retires as CEO.

Compensation Arrangements with Mr. Minicucci

Also on February 25, 2021, in connection with the expanded responsibilities of Mr. Minicucci upon his transition to the role of CEO, the Committee approved an annual compensation package for Mr. Minicucci with an annual base salary of \$580,000 and a target annual short-term cash incentive program opportunity equal to 130% of his base salary.

Based on this new compensation level, and consistent with its customary practice, the Committee approved and granted Mr. Minicucci an LTI award under the Company's 2016 Performance Incentive Plan at a target value of \$2.75 million. One-half of the LTI award is made up of performance share units ("PSUs"), 25% is in the form of RSUs, and 25% is in the form of incentive stock options. The RSUs cliff vest on the third anniversary of the grant, the PSUs vest based on the results of goals set for a three-year performance period, while the options vest at the rate of 25% per year over a four-year term.

Mr. Minicucci may not realize the full value of his CEO compensation package during any period in which executive compensation limitations under the CARES Act apply. The Company will continue to monitor and administer its executive compensation program in accordance with CARES Act requirements.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

See "Executive Officers" under Item 1, "Our Business," in Part I of this Form 10-K for information on the executive officers of Air Group and its subsidiaries. Except as provided herein, the remainder of the information required by this item is incorporated herein by reference from the definitive Proxy Statement for Air Group's 2021 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year ended December 31, 2020 (hereinafter referred to as our "2021 Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference from our 2021 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND RELATED STOCKHOLDER MATTERS

Securities Authorized for Issuance Under Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	2,590,514 ⁽¹⁾	\$60.54 ⁽²⁾	5,893,374 ⁽³⁾
Equity compensation plans not approved by security holders	—	Not applicable	—
Total	2,590,514	\$60.54	5,893,374

- (1) Of these shares, 209,036 and 901,834 were subject to options then outstanding under the 2008 Plan and 2016 Plan, 1,902 were subject to outstanding restricted, performance and deferred stock unit awards granted under the 2008 Plan and 1,479,644 were subject to outstanding restricted, performance and deferred stock unit awards granted under the 2016 Plan. Outstanding performance awards are reflected in the table assuming that the target level of performance will be achieved.
- (2) This number does not reflect the 1,481,546 shares that were subject to outstanding stock unit awards granted under the 2008 and 2016 Plans.
- (3) Of the aggregate number of shares that remained available for future issuance, no shares were available under the 2008 Plan, 3,035,800 shares were available under the 2016 Plan and 2,857,574 shares were available under the ESPP. Subject to certain express limits of the 2016 Plan, shares available for award purposes under the 2016 Plan generally may be used for any type of award authorized under that plan including options, stock appreciation rights, and other forms of awards granted or denominated in shares of our common stock including, without limitation, stock bonuses, restricted stock, restricted stock units and performance shares. Full-value shares issued under the 2016 Plan are counted against the share limit as 1.7 shares for every one share issued. This table does not give effect to that rule.

Other information required by this item is set forth under the heading “Beneficial Ownership of Securities” in our 2021 Proxy Statement and is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference from our 2021 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference from our 2021 Proxy Statement.

PART IV

ITEM 15. 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.

By: /s/ BRADLEY D. TILDEN Date: February 26, 2021
Bradley D. Tilden
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on February 26, 2021 on behalf of the registrant and in the capacities indicated.

<u>/s/ BRADLEY D. TILDEN</u> Bradley D. Tilden	Chairman and Chief Executive Officer (Principal Executive Officer)
<u>/s/ SHANE R. TACKETT</u> Shane R. Tackett	Executive Vice President/Finance and Chief Financial Officer (Principal Financial Officer)
<u>/s/ CHRISTOPHER M. BERRY</u> Christopher M. Berry	Vice President Finance and Controller (Principal Accounting Officer)
<u>/s/ BENITO MINICUCCI</u> Benito Minicucci	President, Alaska Airlines, Inc. and Director
<u>/s/ PATRICIA M. BEDIENT</u> Patricia M. Bedient	Director
<u>/s/ JAMES A. BEER</u> James A. Beer	Director
<u>/s/ MARION C. BLAKEY</u> Marion C. Blakey	Director
<u>/s/ RAYMOND L. CONNER</u> Raymond L. Conner	Director
<u>/s/ DHIREN R. FONSECA</u> Dhiren R. Fonseca	Director
<u>/s/ KATHLEEN T. HOGAN</u> Kathleen T. Hogan	Director
<u>/s/ JESSE J. KNIGHT, Jr.</u> Jesse J. Knight, Jr.	Director
<u>/s/ SUSAN J. LI</u> Susan J. Li	Director
<u>/s/ HELVI K. SANDVIK</u> Helvi K. Sandvik	Director
<u>/s/ J. KENNETH THOMPSON</u> J. Kenneth Thompson	Director
<u>/s/ ERIC K. YEAMAN</u> Eric K. Yeaman	Director

EXHIBIT INDEX

Certain of the following exhibits have been filed with the Securities and Exchange Commission and are incorporated by reference from the documents below. Certain others are filed with this Form 10-K. The exhibits are numbered in accordance with Item 601 of Regulation S-K.

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number	File Number
3.1	Amended and Restated Certificate of Incorporation of Registrant	10-Q	August 3, 2017	3.1	
4.1*†	Closing Date Warrant to Purchase Common Stock, dated January 15, 2021				
4.2*†	Closing Date Warrant to Purchase Common Stock, dated February 5, 2021				
4.3*†	Closing Date Warrant to Purchase Common Stock, dated February 5, 2021				
4.4*†	Amended and Restated Promissory Note, dated February 5, 2021 by Alaska Airlines, Inc., issuer, and each of Alaska Air Group, Inc. and Horizon Air Industries, Inc., as guarantors				
10.1#†	Aircraft General Terms Agreement, dated June 15, 2005, between the Boeing Company and Alaska Airlines, Inc.				
10.2#	Supplemental Agreement No. 29 to Purchase Agreement No. 2497 between The Boeing Company and Alaska Airlines, Inc.	10-K	February 14, 2013	10.1	
10.3#	Purchase Agreement No. 3866 between The Boeing Company and Alaska Airlines, Inc.	10-K	February 14, 2013	10.2	
10.4#	Supplemental Agreement No. 39 to Purchase Agreement No. 2497 between The Boeing Company and Alaska Airlines, Inc.	10-Q	May 7, 2015	10.1	
10.5#	Purchase Agreement, dated April 11, 2016, between Embraer S.A. and Horizon Air Industries, Inc.	10-Q	May 9, 2016	10.1	
10.6^	A320 Aircraft Purchase Agreement, dated as of December 29, 2010, between Airbus S.A.S. and Virgin America Inc.	S-1/A^	October 7, 2014	10.15	
10.7*	Alaska Air Group, Inc. 2008 Performance Incentive Plan, Form of Nonqualified Stock Option Agreement	10-Q	August 4, 2011	10.3	
10.8*	Alaska Air Group, Inc. 2008 Performance Incentive Plan, Form of Performance Stock Unit Award Agreement	10-Q	August 4, 2011	10.4	
10.9*	Alaska Air Group, Inc. 2008 Performance Incentive Plan, Amended for Stock-Split	10-K	February 11, 2016	10.10	
10.10*	Alaska Air Group, Inc. 2016 Performance Incentive Plan	8-K	May 18, 2016	10.1	
10.11*	Alaska Air Group, Inc. 2010 Employee Stock Purchase Plan, as Amended for the Offering Period Commencing March 1, 2017	10-K	February 28, 2017	10.18	
10.12*	Alaska Air Group, Inc. Stock Deferral Plan for Non-Employee Directors	10-K	February 11, 2016	10.12	
10.13*	Alaska Air Group, Inc. Nonqualified Deferred Compensation Plan, as amended	10-Q	August 4, 2011	10.1	
10.14*	1995 Elected Officers Supplementary Retirement Plan, as amended	10-Q	August 4, 2011	10.2	
10.15*	Form of Alaska Air Group, Inc. Change of Control Agreement for named executive officers, as amended and restated October 16, 2014	10-K	February 11, 2016	10.15	
10.16*	Alaska Air Group Performance Based Pay Plan, Amended and Restated January 16, 2019	10-K	February 14, 2019	10.26	
10.17*	Alaska Air Group, Inc. Non-Employee Director Form of Deferred Stock Unit Agreement	10-K	February 12, 2020	10.24	
10.18*	Alaska Air Group Operational Performance Rewards Plan Description, adopted January 3, 2005; Amended May 7, 2020	10-Q	May 14, 2020	10.6	
10.19*†	Payroll Support Program Extension Agreement, dated January 15, 2021, between Alaska Airlines, Inc. and the United States Department of the Treasury.				
10.20*†	Joinder Agreement to the Payroll Support Program Extension Agreement, dated January 15, 2021, between Horizon Air Industries, Inc. and the United States Department of the Treasury.				
10.21*†	Amended and Restated Warrant Agreement, dated February 5, 2021, between Alaska Air Group, Inc. and the United States Department of the Treasury.				
10.22*†	Alaska Air Group, Inc. 2016 Performance Incentive Plan, Form of Nonqualified Stock Option Agreement				

10.23*†	Alaska Air Group, Inc. 2016 Performance Incentive Plan, Form of Incentive Stock Option Agreement
10.24*†	Alaska Air Group, Inc. 2016 Performance Incentive Plan, Form of Performance Stock Unit Award Agreement
10.25*†	Alaska Air Group, Inc. 2016 Performance Incentive Plan, Form of Stock Unit Award Agreement
21†	Subsidiaries of Registrant
23.1†	Consent of Independent Registered Public Accounting Firm (KPMG LLP)
31.1†	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2†	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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
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
101.INS†	XBRL Instance Document - The instance document does not appear in the interactive data file because XBRL tags are embedded within the inline XBRL document.
101.SCH†	XBRL Taxonomy Extension Schema Document
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document
†	Filed herewith
*	Indicates management contract or compensatory plan or arrangement.
#	Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.
^	Filed by Virgin America Inc., File Number 333-197660

WARRANT TO PURCHASE COMMON STOCK

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS.

WARRANT

to purchase
95,532

Shares of Common Stock

of

ALASKA AIR GROUP, INC.
(NYSE Ticker Symbol: ALK)

Issue Date: January, 2020

1. **Definitions.** Unless the context otherwise requires, when used herein the following terms shall have the meanings indicated.

“*Affiliate*” means, with respect to any person, any person directly or indirectly controlling, controlled by or under common control with, such other person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlled by” and “under common control with”) when used with respect to any person, means the possession, directly or indirectly, of the power to cause the direction of management and/or policies of such person, whether through the ownership of voting securities by contract or otherwise.

“*Aggregate Net Cash Settlement Amount*” has the meaning ascribed thereto in Section 2(i).

“*Aggregate Net Share Settlement Amount*” has the meaning ascribed thereto in Section 2(ii).

“*Appraisal Procedure*” means a procedure whereby two independent appraisers, one chosen by the Company and one by the Original Warrantholder, shall mutually agree upon the determinations then the subject of appraisal. Each party shall deliver a notice to the other appointing its appraiser within 10 days after the Appraisal Procedure is invoked. If within 30 days after appointment of the two appraisers they are unable to agree upon the amount in

question, a third independent appraiser shall be chosen within 10 days thereafter by the mutual consent of such first two appraisers. The decision of the third appraiser so appointed and chosen shall be given within 30 days after the selection of such third appraiser. If three appraisers shall be appointed and the determination of one appraiser is disparate from the middle determination by more than twice the amount by which the other determination is disparate from the middle determination, then the determination of such appraiser shall be excluded, the remaining two determinations shall be averaged and such average shall be binding and conclusive upon the Company and the Original Warrantholder; otherwise, the average of all three determinations shall be binding upon the Company and the Original Warrantholder. The costs of conducting any Appraisal Procedure shall be borne by the Company.

“*Average Market Price*” means, with respect to any security, the arithmetic average of the Market Price of such security for the 15 consecutive trading day period ending on and including the trading day immediately preceding the determination date.

“*Board of Directors*” means the board of directors of the Company, including any duly authorized committee thereof.

“*Business Combination*” means a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Company’s stockholders.

“*Business Day*” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close; *provided* that banks shall be deemed to be generally open for business in the event of a “shelter in place” or similar closure of physical branch locations at the direction of any governmental entity if such banks’ electronic funds transfer system (including wire transfers) are open for use by customers on such day.

“*Capital Stock*” means (A) with respect to any Person that is a corporation or company, any and all shares, interests, participations or other equivalents (however designated) of capital or capital stock of such Person and (B) with respect to any Person that is not a corporation or company, any and all partnership or other equity interests of such Person.

“*Charter*” means, with respect to any Person, its certificate or articles of incorporation, articles of association, or similar organizational document.

“*Common Stock*” means common stock of the Company, par value \$0.01 subject to adjustment as provided in Section 13(E).

“*Company*” means the Person whose name, corporate or other organizational form and jurisdiction of organization is set forth in Item 1 of Schedule A hereto.

“*conversion*” has the meaning set forth in Section 13(B).

“*convertible securities*” has the meaning set forth in Section 13(B).

“*Depository*” means The Depository Trust Company, its nominees and their respective successors.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“*Exercise Date*” means each date a Notice of Exercise substantially in the form annexed hereto is delivered to the Company in accordance with Section 2 hereof.

“*Exercise Price*” means the amount set forth in Item 2 of Schedule A hereto, subject to adjustment as contemplated herein.

“*Fair Market Value*” means, with respect to any security or other property, the fair market value of such security or other property as determined by the Board of Directors, acting in good faith in reliance on an opinion of a nationally recognized independent investment banking firm retained by the Company for this purpose. For so long as the Original Warrantholder holds this Warrant or any portion thereof, it may object in writing to the Board of Director’s calculation of fair market value within 10 days of receipt of written notice thereof. If the Original Warrantholder and the Company are unable to agree on fair market value during the 10-day period following the delivery of the Original Warrantholder’s objection, the Appraisal Procedure may be invoked by either party to determine Fair Market Value by delivering written notification thereof not later than the 30th day after delivery of the Original Warrantholder’s objection.

“*Initial Number*” has the meaning set forth in Section 13(B).

“*Issue Date*” means the date set forth in Item 3 of Schedule A hereto.

“*Market Price*” means, with respect to a particular security, on any given day, the last reported sale price regular way or, in case no such reported sale takes place on such day, the average of the last closing bid and ask prices regular way, in either case on the principal national securities exchange on which the applicable securities are listed or admitted to trading, or if not listed or admitted to trading on any national securities exchange, the average of the closing bid and ask prices as furnished by two members of the Financial Industry Regulatory Authority, Inc. selected from time to time by the Company for that purpose. “Market Price” shall be determined without reference to after hours or extended hours trading. If such security is not listed and traded in a manner that the quotations referred to above are available for the period required hereunder, the Market Price of such security shall be deemed to be (i) in the event that any portion of the Warrant is held by the Original Warrantholder, the fair market value per share of such security as determined in good faith by the Original Warrantholder or (ii) in all other circumstances, the fair market value per share of such security as determined in good faith by the Board of Directors in reliance on an opinion of a nationally recognized independent investment banking corporation retained by the Company for this purpose and certified in a resolution to the Warrantholder.

“*Original Warrantholder*” means the United States Department of the Treasury. Any actions specified to be taken by the Original Warrantholder hereunder may only be taken by such Person and not by any other Warrantholder.

“*Permitted Transactions*” has the meaning set forth in Section 13(B).

“*Per Share Net Cash Settlement Amount*” means the Average Market Price of a share of Common Stock determined as of the relevant Exercise Date less the then applicable Exercise Price.

“*Per Share Net Share Settlement Amount*” means the quotient of (i) the Average Market Price of a share of Common Stock determined as of the relevant Exercise Date less the then applicable Exercise Price *divided by* (ii) the Average Market Price of a share of Common Stock determined as of the relevant Exercise Date.

“*Person*” has the meaning given to it in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act.

“*Per Share Fair Market Value*” has the meaning set forth in Section 13(C).

“*Pro Rata Repurchases*” means any purchase of shares of Common Stock by the Company or any Affiliate thereof pursuant to (A) any tender offer or exchange offer subject to Section 13(e) or 14(e) of the Exchange Act or Regulation 14E promulgated thereunder or (B) any other offer available to substantially all holders of Common Stock, in the case of both (A) or (B), whether for cash, shares of Capital Stock of the Company, other securities of the Company, evidences of indebtedness of the Company or any other Person or any other property (including, without limitation, shares of Capital Stock, other securities or evidences of indebtedness of a subsidiary), or any combination thereof, effected while this Warrant is outstanding. The “*Effective Date*” of a Pro Rata Repurchase shall mean the date of acceptance of shares for purchase or exchange by the Company under any tender or exchange offer which is a Pro Rata Repurchase or the date of purchase with respect to any Pro Rata Repurchase that is not a tender or exchange offer.

“*Regulatory Approvals*” with respect to the Warrantholder, means, to the extent applicable and required to permit the Warrantholder to exercise this Warrant for shares of Common Stock and to own such Common Stock without the Warrantholder being in violation of applicable law, rule or regulation, the receipt of any necessary approvals and authorizations of, filings and registrations with, notifications to, or expiration or termination of any applicable waiting period under, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder.

“*SEC*” means the U.S. Securities and Exchange Commission.

“*Securities Act*” means the Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“*trading day*” means (A) if the shares of Common Stock are not traded on any national or regional securities exchange or association or over-the-counter market, a Business Day or (B) if the shares of Common Stock are traded on any national or regional securities exchange or association or over-the-counter market, a Business Day on which such relevant exchange or quotation system is scheduled to be open for business and on which the shares of Common Stock (i) are not suspended from trading on any national or regional securities exchange or association or over-the-counter market for any period or periods aggregating one half hour or longer; and (ii) have traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of the shares of Common Stock.

“*U.S. GAAP*” means United States generally accepted accounting principles.

“*Warrant*” means this Warrant, issued pursuant to the Warrant Agreement.

“*Warrant Agreement*” means the Warrant Agreement, dated as of the date set forth in Item 4 of Schedule A hereto, as amended from time to time, between the Company and the United States Department of the Treasury.

“*Warrantholder*” has the meaning set forth in Section 2.

“*Warrant Shares*” has the meaning set forth in Section 2.

2. Number of Warrant Shares; Net Exercise. This certifies that, for value received, the United States Department of the Treasury or its permitted assigns (the “*Warrantholder*”) is entitled, upon the terms and subject to the conditions hereinafter set forth, to acquire from the Company, in whole or in part, after the receipt of all applicable Regulatory Approvals, if any, up to an aggregate of the number of fully paid and nonassessable shares of Common Stock set forth in Item 5 of Schedule A hereto. The number of shares of Common Stock (the “*Warrant Shares*”) issuable upon exercise of this Warrant and the Exercise Price are subject to adjustment as provided herein, and all references to “Common Stock,” “Warrant Shares” and “Exercise Price” herein shall be deemed to include any such adjustment or series of adjustments.

Upon exercise of the Warrant in accordance with Section 3 hereof, the Company shall elect to pay or deliver, as the case may be, to the exercising Warrantholder (a) cash (“*Net Cash Settlement*”) or (b) Warrant Shares together with cash, if applicable, in lieu of delivering any fractional shares in accordance with Section 5 of this Warrant (“*Net Share Settlement*”). The Company will notify the exercising Warrantholder of its election of a settlement method within one Business Day after the relevant Exercise Date and if it fails to deliver a timely notice shall be deemed to have elected Net Share Settlement.

(a) *Net Cash Settlement.* If the Company elects Net Cash Settlement, it shall pay to the Warrantholder cash equal to the Per Share Net Cash Settlement Amount multiplied by the number of Warrant Shares as to which the Warrant has been exercised as indicated in the Notice of Exercise (the “*Aggregate Net Cash Settlement Amount*”).

(b) *Net Share Settlement.* If the Company elects Net Share Settlement, it shall deliver to the Warrantholder a number of shares of Common Stock equal to the Per Share Net Share Settlement Amount multiplied by the number of Warrant Shares as to which the Warrant has been exercised as indicated in the Notice of Exercise (the “*Aggregate Net Share Settlement Amount*”).

3. Term; Method of Exercise. Subject to Section 2, to the extent permitted by applicable laws and regulations, this Warrant is exercisable, in whole or in part by the Warrantholder, at any time or from time to time after the execution and delivery of this Warrant by the Company on the date hereof, but in no event later than 5:00 p.m., New York City time on the fifth anniversary of the Issue Date of this Warrant, by the surrender of this Warrant and delivery of the Notice of Exercise annexed hereto, duly completed and executed on behalf of the Warrantholder, at the principal executive office of the Company located at the address set forth in Item 6 of Schedule A hereto (or such other office or agency of the Company in the United States as it may designate by notice in writing to the Warrantholder at the address of the Warrantholder appearing on the books of the Company).

If the Warrantholder does not exercise this Warrant in its entirety, the Warrantholder will be entitled to receive from the Company within a reasonable time after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant, and in any event not exceeding three Business Days after the date thereof, a new warrant in substantially identical form for the purchase of that number of Warrant Shares equal to the difference between the number of Warrant Shares subject to this Warrant and the number of Warrant Shares as to which this Warrant is so exercised. Notwithstanding anything in this Warrant to the contrary, the Warrantholder hereby acknowledges and agrees that its exercise of this Warrant for Warrant Shares is subject to the condition that the Warrantholder will have first received any applicable Regulatory Approvals.

4. Method of Settlement.

(a) *Net Cash Settlement.* If the Company elects Net Cash Settlement, the Company shall, within a reasonable time, not to exceed five Business Days after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant, pay to the exercising Warrantholder the Aggregate Net Cash Settlement Amount.

(b) *Net Share Settlement.* If the Company elects Net Share Settlement, shares of Common Stock equal to the Aggregate Net Share Settlement Amount shall be (x) issued in such name or names as the exercising Warrantholder may designate and (y) delivered by the Company or the Company's transfer agent to such Warrantholder or its nominee or nominees (i) if the shares are then able to be so delivered, via book-entry transfer crediting the account of such Warrantholder (or the relevant agent member for the benefit of such Warrantholder) through the Depository's DWAC system (if the Company's transfer agent participates in such system), or (ii) otherwise in certificated form by physical delivery to the address specified by the Warrantholder in the Notice of Exercise, within a reasonable time, not to exceed three Business Days after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant. The Company hereby represents and warrants that any Warrant Shares issued upon the exercise

of this Warrant in accordance with the provisions of Section 3 will be duly and validly authorized and issued, fully paid and nonassessable and free from all taxes, liens and charges (other than liens or charges created by the Warrantholder, income and franchise taxes incurred in connection with the exercise of the Warrant or taxes in respect of any transfer occurring contemporaneously therewith). The Company agrees that the Warrant Shares so issued will be deemed to have been issued to the Warrantholder as of the close of business on the date on which this Warrant and payment of the Exercise Price are delivered to the Company in accordance with the terms of this Warrant, notwithstanding that the stock transfer books of the Company may then be closed or certificates representing such Warrant Shares may not be actually delivered on such date. The Company will at all times reserve and keep available, out of its authorized but unissued Common Stock, solely for the purpose of providing for the exercise of this Warrant, the aggregate number of shares of Common Stock then issuable upon exercise of this Warrant at any time. The Company will (A) procure, at its sole expense, the listing of the Warrant Shares issuable upon exercise of this Warrant at any time, subject to issuance or notice of issuance, on all principal stock exchanges on which the Common Stock is then listed or traded and (B) maintain such listings of such Warrant Shares at all times after issuance. The Company will use reasonable best efforts to ensure that the Warrant Shares may be issued without violation of any applicable law or regulation or of any requirement of any securities exchange on which the Warrant Shares are listed or traded.

5. No Fractional Warrant Shares or Scrip. No fractional Warrant Shares or scrip representing fractional Warrant Shares shall be issued upon any exercise of this Warrant. In lieu of any fractional Share to which the Warrantholder would otherwise be entitled, the Warrantholder shall be entitled to receive a cash payment equal to the Average Market Price of the Common Stock determined as of the Exercise Date multiplied by such fraction of a share, less the pro-rated Exercise Price for such fractional share.

6. No Rights as Stockholders; Transfer Books. This Warrant does not entitle the Warrantholder to any voting rights or other rights as a stockholder of the Company prior to the date of exercise hereof. The Company will at no time close its transfer books against transfer of this Warrant in any manner which interferes with the timely exercise of this Warrant.

7. Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares to the Warrantholder upon the exercise of this Warrant shall be made without charge to the Warrantholder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company; *provided, however*, that the Company shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate, or any certificates or other securities in a name other than that of the registered holder of the Warrant surrendered upon exercise of the Warrant.

8. Transfer/Assignment.

(i) Subject to compliance with clause (B) of this Section 8, this Warrant and all rights hereunder are transferable, in whole or in part, upon the books of the Company by the registered holder hereof in person or by duly authorized attorney, and a new warrant shall be made and

delivered by the Company, of the same tenor and date as this Warrant but registered in the name of one or more transferees, upon surrender of this Warrant, duly endorsed, to the office or agency of the Company described in Section 3. All expenses (other than stock transfer taxes) and other charges payable in connection with the preparation, execution and delivery of the new warrants pursuant to this Section 8 shall be paid by the Company.

(ii) If and for so long as required by the Warrant Agreement, this Warrant shall contain the legend as set forth in Sections 4.2(a) of the Warrant Agreement.

9. Exchange and Registry of Warrant. This Warrant is exchangeable, upon the surrender hereof by the Warrantholder to the Company, for a new warrant or warrants of like tenor and representing the right to purchase the same aggregate number of Warrant Shares. The Company shall maintain a registry showing the name and address of the Warrantholder as the registered holder of this Warrant. This Warrant may be surrendered for exchange or exercise in accordance with its terms, at the office of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

10. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in the case of any such loss, theft or destruction, upon receipt of a bond, indemnity or security reasonably satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company shall make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same aggregate number of Warrant Shares as provided for in such lost, stolen, destroyed or mutilated Warrant.

11. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding day that is a Business Day.

12. Information. With a view to making available to Warrantholders the benefits of certain rules and regulations of the SEC which may permit the sale of the Warrants and Warrant Shares to the public without registration, the Company agrees to use its reasonable best efforts to:

a. make and keep adequate public information available, as those terms are understood and defined in Rule 144(c) or any similar or analogous rule promulgated under the Securities Act, at all times after the date hereof;

b. (x) file with the SEC, in a timely manner, all reports and other documents required of the Company under the Securities Act and the Exchange Act, and (y) if at any time the Company is not required to file such reports, make available, upon the request of any Warrantholder, such information necessary to permit sales pursuant to Rule 144A (including the information required by Rule 144A(d)(4) under the Securities Act);

c. furnish to any holder of Warrants or Warrant Shares forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of the Exchange Act and Rule 144(c)(1); a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as the Warrantholder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities to the public without registration; and

d. take such further action as any Warrantholder may reasonably request, all to the extent required from time to time to enable such Warrantholder to sell Warrants or Warrant Shares without registration under the Securities Act.

13. Adjustments and Other Rights. The Exercise Price and the number of Warrant Shares issuable upon exercise of the Warrant shall be subject to adjustment from time to time as follows; *provided*, that if more than one subsection of this Section 13 is applicable to a single event, the subsection shall be applied that produces the largest adjustment and no single event shall cause an adjustment under more than one subsection of this Section 13 so as to result in duplication:

i. Stock Splits, Subdivisions, Reclassifications or Combinations. If the Company shall (i) declare and pay a dividend or make a distribution on its Common Stock in shares of Common Stock, (ii) subdivide or reclassify the outstanding shares of Common Stock into a greater number of shares, or (iii) combine or reclassify the outstanding shares of Common Stock into a smaller number of shares, the number of Warrant Shares issuable upon exercise of this Warrant at the time of the record date for such dividend or distribution or the effective date of such subdivision, combination or reclassification shall be proportionately adjusted so that the Warrantholder after such date shall be entitled to acquire the number of shares of Common Stock which such holder would have owned or been entitled to receive in respect of the shares of Common Stock subject to this Warrant after such date had this Warrant been exercised immediately prior to such date. In such event, the Exercise Price in effect at the time of the record date for such dividend or distribution or the effective date of such subdivision, combination or reclassification shall be adjusted to the number obtained by dividing (x) the product of (1) the number of Warrant Shares issuable upon the exercise of this Warrant before such adjustment and (2) the Exercise Price in effect immediately prior to the record or effective date, as the case may be, for the dividend, distribution, subdivision, combination or reclassification giving rise to this adjustment by (y) the new number of Warrant Shares issuable upon exercise of the Warrant determined pursuant to the immediately preceding sentence.

ii. Certain Issuances of Common Stock or Convertible Securities. If the Company shall issue shares of Common Stock (or rights or warrants or other securities exercisable or convertible into or exchangeable (collectively, a “*conversion*”) for shares of Common Stock) (collectively, “*convertible securities*”) (other than in Permitted Transactions (as defined below) or a transaction to which subsection (A) of this Section 13 is applicable) without consideration or at a consideration per share (or having a conversion price per share) that is less than 90% of the Average Market Price determined as of the date of the agreement on pricing such shares (or such convertible securities) then, in such event:

1. the number of Warrant Shares issuable upon the exercise of this Warrant immediately prior to the date of the agreement on pricing of such shares (or of such convertible securities) (the “*Initial Number*”) shall be increased to the number obtained by multiplying the Initial Number by a fraction (A) the numerator of which shall be the sum of (x) the number of shares of Common Stock of the Company outstanding on such date and (y) the number of additional shares of Common Stock issued (or into which convertible securities may be exercised or convert) and (B) the denominator of which shall be the sum of (I) the number of shares of Common Stock outstanding on such date and (II) the number of shares of Common Stock which the aggregate consideration receivable by the Company for the total number of shares of Common Stock so issued (or into which convertible securities may be exercised or convert) would purchase at the Average Market Price determined as of the date of the agreement on pricing such shares (or such convertible securities); and

2. the Exercise Price payable upon exercise of the Warrant shall be adjusted by multiplying such Exercise Price in effect immediately prior to the date of the agreement on pricing of such shares (or of such convertible securities) by a fraction, the numerator of which shall be the number of shares of Common Stock issuable upon exercise of this Warrant prior to such date and the denominator of which shall be the number of shares of Common Stock issuable upon exercise of this Warrant immediately after the adjustment described in clause (A) above.

For purposes of the foregoing, the aggregate consideration receivable by the Company in connection with the issuance of such shares of Common Stock or convertible securities shall be deemed to be equal to the sum of the net offering price (including the Fair Market Value of any non-cash consideration and after deduction of any related expenses payable to third parties) of all such securities plus the minimum aggregate amount, if any, payable upon exercise or conversion of any such convertible securities into shares of Common Stock; and “*Permitted Transactions*” shall mean issuances (i) as consideration for or to fund the acquisition of businesses and/or related assets, (ii) in connection with employee benefit plans and compensation related arrangements in the ordinary course and consistent with past practice approved by the Board of Directors, (iii) in connection with a public or broadly marketed offering and sale of Common Stock or convertible securities for cash conducted by the Company or its affiliates pursuant to registration under the Securities Act or Rule 144A thereunder on a basis consistent with capital raising transactions by comparable institutions and (iv) in connection with the exercise of preemptive rights on terms existing as of the Issue Date. Any adjustment made pursuant to this Section 13(B) shall become effective immediately upon the date of such issuance.

iii. Other Distributions. In case the Company shall fix a record date for the making of a distribution to all holders of shares of its Common Stock of securities, evidences of indebtedness, assets, cash, rights or warrants (excluding dividends of its Common Stock and other dividends or distributions referred to in Section 13(A)), in each such case, the Exercise Price in effect prior to such record date shall be reduced immediately thereafter to the price determined by multiplying the Exercise Price in effect immediately prior to the reduction by the quotient of (x) the Average

Market Price of the Common Stock determined as of the first date on which the Common Stock trades regular way on the principal national securities exchange on which the Common Stock is listed or admitted to trading without the right to receive such distribution, minus the amount of cash and/or the Fair Market Value of the securities, evidences of indebtedness, assets, rights or warrants to be so distributed in respect of one share of Common Stock (such amount and/or Fair Market Value, the “*Per Share Fair Market Value*”) divided by (y) the Average Market Price specified in clause (x); such adjustment shall be made successively whenever such a record date is fixed. In such event, the number of Warrant Shares issuable upon the exercise of this Warrant shall be increased to the number obtained by dividing (x) the product of (1) the number of Warrant Shares issuable upon the exercise of this Warrant before such adjustment, and (2) the Exercise Price in effect immediately prior to the distribution giving rise to this adjustment by (y) the new Exercise Price determined in accordance with the immediately preceding sentence. In the event that such distribution is not so made, the Exercise Price and the number of Warrant Shares issuable upon exercise of this Warrant then in effect shall be readjusted, effective as of the date when the Board of Directors determines not to distribute such shares, evidences of indebtedness, assets, rights, cash or warrants, as the case may be, to the Exercise Price that would then be in effect and the number of Warrant Shares that would then be issuable upon exercise of this Warrant if such record date had not been fixed.

iv. Certain Repurchases of Common Stock. In case the Company effects a Pro Rata Repurchase of Common Stock, then the Exercise Price shall be reduced to the price determined by multiplying the Exercise Price in effect immediately prior to the Effective Date of such Pro Rata Repurchase by a fraction of which the numerator shall be (i) the product of (x) the number of shares of Common Stock outstanding immediately before such Pro Rata Repurchase and (y) the Average Market Price of a share of Common Stock determined as of the date of the first public announcement by the Company or any of its Affiliates of the intent to effect such Pro Rata Repurchase, minus (ii) the aggregate purchase price of the Pro Rata Repurchase, and of which the denominator shall be the product of (i) the number of shares of Common Stock outstanding immediately prior to such Pro Rata Repurchase minus the number of shares of Common Stock so repurchased and (ii) the Average Market Price per share of Common Stock determined as of the date of the first public announcement by the Company or any of its Affiliates of the intent to effect such Pro Rata Repurchase. In such event, the number of shares of Common Stock issuable upon the exercise of this Warrant shall be increased to the number obtained by dividing (x) the product of (1) the number of Warrant Shares issuable upon the exercise of this Warrant before such adjustment, and (2) the Exercise Price in effect immediately prior to the Pro Rata Repurchase giving rise to this adjustment by (y) the new Exercise Price determined in accordance with the immediately preceding sentence. For the avoidance of doubt, no increase to the Exercise Price or decrease in the number of Warrant Shares issuable upon exercise of this Warrant shall be made pursuant to this Section 13(D).

v. Business Combinations. In case of any Business Combination or reclassification of Common Stock (other than a reclassification of Common Stock referred to in Section 13(A)), the Warrantholder’s right to receive Warrant Shares upon exercise of this Warrant shall be converted into the right to exercise this Warrant to acquire the number of shares of stock or other securities or property (including cash) which the Common Stock issuable (at the time of such Business

Combination or reclassification) upon exercise of this Warrant immediately prior to such Business Combination or reclassification would have been entitled to receive upon consummation of such Business Combination or reclassification; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interests thereafter of the Warrantholder shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to the Warrantholder's right to exercise this Warrant in exchange for any shares of stock or other securities or property pursuant to this paragraph. In determining the kind and amount of stock, securities or the property receivable upon exercise of this Warrant following the consummation of such Business Combination, if the holders of Common Stock have the right to elect the kind or amount of consideration receivable upon consummation of such Business Combination, then the consideration that the Warrantholder shall be entitled to receive upon exercise shall be deemed to be the types and amounts of consideration received by the majority of all holders of the shares of common stock that affirmatively make an election (or of all such holders if none make an election).

vi. Rounding of Calculations; Minimum Adjustments. All calculations under this Section 13 shall be made to the nearest one-tenth (1/10th) of a cent or to the nearest one-hundredth (1/100th) of a share, as the case may be. Any provision of this Section 13 to the contrary notwithstanding, no adjustment in the Exercise Price or the number of Warrant Shares shall be made if the amount of such adjustment would be less than \$0.01 or one-tenth (1/10th) of a share of Common Stock, but any such amount shall be carried forward and an adjustment with respect thereto shall be made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate \$0.01 or 1/10th of a share of Common Stock, or more.

vii. Timing of Issuance of Additional Common Stock Upon Certain Adjustments. In any case in which the provisions of this Section 13 shall require that an adjustment shall become effective immediately after a record date for an event, the Company may defer until the occurrence of such event (i) issuing to the Warrantholder of this Warrant exercised after such record date and before the occurrence of such event the additional shares of Common Stock issuable upon such exercise by reason of the adjustment required by such event over and above the shares of Common Stock issuable upon such exercise before giving effect to such adjustment and (ii) paying to such Warrantholder any amount of cash in lieu of a fractional share of Common Stock; *provided, however*, that the Company upon request shall deliver to such Warrantholder a due bill or other appropriate instrument evidencing such Warrantholder's right to receive such additional shares, and such cash, upon the occurrence of the event requiring such adjustment.

viii. Other Events. For so long as the Original Warrantholder holds this Warrant or any portion thereof, if any event occurs as to which the provisions of this Section 13 are not strictly applicable or, if strictly applicable, would not, in the good faith judgment of the Board of Directors of the Company, fairly and adequately protect the purchase rights of the Warrants in accordance with the essential intent and principles of such provisions, then the Board of Directors shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of

the Board of Directors, to protect such purchase rights as aforesaid. The Exercise Price or the number of Warrant Shares shall not be adjusted in the event of a change in the par value of the Common Stock or a change in the jurisdiction of incorporation of the Company.

ix. Statement Regarding Adjustments. Whenever the Exercise Price or the number of Warrant Shares shall be adjusted as provided in Section 13, the Company shall forthwith file at the principal office of the Company a statement showing in reasonable detail the facts requiring such adjustment and the Exercise Price that shall be in effect and the number of Warrant Shares after such adjustment, and the Company shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each Warrantholder at the address appearing in the Company's records.

x. Notice of Adjustment Event. In the event that the Company shall propose to take any action of the type described in this Section 13 (but only if the action of the type described in this Section 13 would result in an adjustment in the Exercise Price or the number of Warrant Shares or a change in the type of securities or property to be delivered upon exercise of this Warrant), the Company shall give notice to the Warrantholder, in the manner set forth in Section 13(J), which notice shall specify the record date, if any, with respect to any such action and the approximate date on which such action is to take place. Such notice shall also set forth the facts with respect thereto as shall be reasonably necessary to indicate the effect on the Exercise Price and the number, kind or class of shares or other securities or property which shall be deliverable upon exercise of this Warrant. In the case of any action which would require the fixing of a record date, such notice shall be given at least 10 days prior to the date so fixed, and in case of all other action, such notice shall be given at least 15 days prior to the taking of such proposed action. Failure to give such notice, or any defect therein, shall not affect the legality or validity of any such action.

xi. Proceedings Prior to Any Action Requiring Adjustment. As a condition precedent to the taking of any action which would require an adjustment pursuant to this Section 13, the Company shall take any action which may be necessary, including obtaining regulatory, New York Stock Exchange, NASDAQ Stock Market or other applicable national securities exchange or stockholder approvals or exemptions, as applicable, in order that the Company may thereafter validly and legally issue as fully paid and nonassessable all shares of Common Stock that the Warrantholder is entitled to receive upon exercise of this Warrant pursuant to this Section 13.

xii. Adjustment Rules. Any adjustments pursuant to this Section 13 shall be made successively whenever an event referred to herein shall occur. If an adjustment in Exercise Price made hereunder would reduce the Exercise Price to an amount below par value of the Common Stock, then such adjustment in Exercise Price made hereunder shall reduce the Exercise Price to the par value of the Common Stock.

14. No Impairment. The Company will not, by amendment of its Charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in

good faith assist in the carrying out of all the provisions of this Warrant and in taking of all such action as may be necessary or appropriate in order to protect the rights of the Warrantholder.

15. **Governing Law.** This Warrant will be governed by and construed in accordance with the federal law of the United States if and to the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State. Each of the Company and the Warrantholder agrees (a) to submit to the exclusive jurisdiction and venue of the United States District Court for the District of Columbia for any civil action, suit or proceeding arising out of or relating to this Warrant or the transactions contemplated hereby, and (b) that notice may be served upon the Company at the address in Section 19 below and upon the Warrantholder at the address for the Warrantholder set forth in the registry maintained by the Company pursuant to Section 9 hereof. To the extent permitted by applicable law, each of the Company and the Warrantholder hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to the Warrant or the transactions contemplated hereby or thereby.

16. **Binding Effect.** This Warrant shall be binding upon any successors or assigns of the Company.

17. **Amendments.** This Warrant may be amended and the observance of any term of this Warrant may be waived only with the written consent of the Company and the Warrantholder.

18. **Prohibited Actions.** The Company agrees that it will not take any action which would entitle the Warrantholder to an adjustment of the Exercise Price if the total number of shares of Common Stock issuable after such action upon exercise of this Warrant, together with all shares of Common Stock then outstanding and all shares of Common Stock then issuable upon the exercise of all outstanding options, warrants, conversion and other rights, would exceed the total number of shares of Common Stock then authorized by its Charter.

19. **Notices.** Any notice, request, instruction or other document to be given hereunder by any party to the other will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally, or by facsimile, upon confirmation of receipt, or (b) on the second Business Day following the date of dispatch if delivered by a recognized next day courier service. All notices hereunder shall be delivered as set forth in Item 7 of Schedule A hereto, or pursuant to such other instructions as may be designated in writing by the party to receive such notice.

20. **Entire Agreement.** This Warrant, the forms attached hereto and Schedule A hereto (the terms of which are incorporated by reference herein), and the Warrant Agreement (including all documents incorporated therein), contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior and contemporaneous arrangements or undertakings with respect thereto.

[Remainder of page intentionally left blank]

[Form of Notice of Exercise]

Date:___

TO: **[Company]**

RE: Exercise of Warrant

The undersigned, pursuant to the provisions set forth in the attached Warrant, hereby notifies the Company of its intention to exercise its option with respect to the number of shares of the Common Stock set forth below covered by such Warrant. Pursuant to Section 4 of the Warrant, the undersigned acknowledges that the Company may settle this exercise in net cash or shares. Cash to be paid pursuant to a Net Cash Settlement or payment of fractional shares in connection with a Net Share Settlement should be deposited to the account of the Warrantholder set forth below. Common Stock to be delivered pursuant to a Net Share Settlement shall be delivered to the Warrantholder as indicated below. A new warrant evidencing the remaining shares of Common Stock covered by such Warrant, but not yet subscribed for and purchased, if any, should be issued in the name set forth below.

Number of Warrant Shares:___

Aggregate Exercise Price: ___

Address for Delivery of Warrant Shares: ___

Wire Instructions:

Proceeds to be delivered: \$

Name of Bank:

City/ State of Bank:

ABA Number of Bank

SWIFT #

Name of Account:

Account Number at Bank:

Securities to be issued to:

If in book-entry form through the Depository:

Depository Account Number:

Name of Agent Member:

If in certificated form:

Social Security Number or Other Identifying Number:

Name:

Street Address:

City, State and Zip Code:

Any unexercised Warrants evidenced by the exercising Warrantholder's interest in the Warrant:

Social Security Number or Other Identifying Number:

Name:

Street Address:

City, State and Zip Code:

Holder: _____

By: _____

Name: _____

Title: _____

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by a duly authorized officer.

Dated: __

COMPANY: ALASKA Air Group, Inc.

By: __

Name: Bradley D. Tilden
Title: President, Chairman, and CEO

Attest:

By: __

Name: Shane R. Tackett
Title: Executive Vice President, Finance
Chief Financial Officer

[Signature Page to Warrant]

Item 1

Name: Alaska Air Group, Inc.
Corporate or other organizational form: Corporation
Jurisdiction of organization: Delaware

Item 2

Exercise Price: \$52.25

Item 3

Issue Date: January __, 2020

Item 4

Date of Warrant Agreement between the Company and the United States Department of the Treasury:

Item 5

Number of shares of Common Stock: 95,532

Item 6

Company's address: 19300 International Blvd., Seattle, WA 98188

Item 7

Notice information:

If to the Company:

Alaska Air Group, Inc.
19300 International Blvd., SEEXP
Seattle, WA 98188
Attention: Chief Financial Officer
Telephone: 206.392.5040

With a copy to

Alaska Air Group, Inc.
19300 International Blvd., SEAZL
Seattle, WA 98188
Attention: General Counsel
Telephone: 206.392.5040
Email: LegalContractNotices@alaskaair.com

If to Treasury:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW, Room 2312
Washington, D.C. 20220
Attention: Assistant General Counsel (Banking and Finance)

WARRANT TO PURCHASE COMMON STOCK

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS.

WARRANT

to purchase
3,252

Shares of Common Stock

of

ALASKA AIR GROUP, INC.
(NYSE Ticker Symbol: ALK)

Issue Date: February 5, 2021

1. **Definitions.** Unless the context otherwise requires, when used herein the following terms shall have the meanings indicated.

“*Affiliate*” means, with respect to any person, any person directly or indirectly controlling, controlled by or under common control with, such other person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlled by” and “under common control with”) when used with respect to any person, means the possession, directly or indirectly, of the power to cause the direction of management and/or policies of such person, whether through the ownership of voting securities by contract or otherwise.

“*Aggregate Net Cash Settlement Amount*” has the meaning ascribed thereto in Section 2(i).

“*Aggregate Net Share Settlement Amount*” has the meaning ascribed thereto in Section 2(ii).

“*Appraisal Procedure*” means a procedure whereby two independent appraisers, one chosen by the Company and one by the Original Warranholder, shall mutually agree upon the determinations then the subject of appraisal. Each party shall deliver a notice to the other appointing its appraiser within 10 days after the Appraisal Procedure is invoked. If within 30 days after appointment of the two appraisers they are unable to agree upon the amount in

question, a third independent appraiser shall be chosen within 10 days thereafter by the mutual consent of such first two appraisers. The decision of the third appraiser so appointed and chosen shall be given within 30 days after the selection of such third appraiser. If three appraisers shall be appointed and the determination of one appraiser is disparate from the middle determination by more than twice the amount by which the other determination is disparate from the middle determination, then the determination of such appraiser shall be excluded, the remaining two determinations shall be averaged and such average shall be binding and conclusive upon the Company and the Original Warrantholder; otherwise, the average of all three determinations shall be binding upon the Company and the Original Warrantholder. The costs of conducting any Appraisal Procedure shall be borne by the Company.

“*Average Market Price*” means, with respect to any security, the arithmetic average of the Market Price of such security for the 15 consecutive trading day period ending on and including the trading day immediately preceding the determination date.

“*Board of Directors*” means the board of directors of the Company, including any duly authorized committee thereof.

“*Business Combination*” means a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Company’s stockholders.

“*Business Day*” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close; *provided* that banks shall be deemed to be generally open for business in the event of a “shelter in place” or similar closure of physical branch locations at the direction of any governmental entity if such banks’ electronic funds transfer system (including wire transfers) are open for use by customers on such day.

“*Capital Stock*” means (A) with respect to any Person that is a corporation or company, any and all shares, interests, participations or other equivalents (however designated) of capital or capital stock of such Person and (B) with respect to any Person that is not a corporation or company, any and all partnership or other equity interests of such Person.

“*Charter*” means, with respect to any Person, its certificate or articles of incorporation, articles of association, or similar organizational document.

“*Common Stock*” means common stock of the Company, par value \$0.01 subject to adjustment as provided in Section 13(E).

“*Company*” means the Person whose name, corporate or other organizational form and jurisdiction of organization is set forth in Item 1 of Schedule A hereto.

“*conversion*” has the meaning set forth in Section 13(B).

“*convertible securities*” has the meaning set forth in Section 13(B).

“*Depository*” means The Depository Trust Company, its nominees and their respective successors.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“*Exercise Date*” means each date a Notice of Exercise substantially in the form annexed hereto is delivered to the Company in accordance with Section 2 hereof.

“*Exercise Price*” means the amount set forth in Item 2 of Schedule A hereto, subject to adjustment as contemplated herein.

“*Fair Market Value*” means, with respect to any security or other property, the fair market value of such security or other property as determined by the Board of Directors, acting in good faith in reliance on an opinion of a nationally recognized independent investment banking firm retained by the Company for this purpose. For so long as the Original Warrantholder holds this Warrant or any portion thereof, it may object in writing to the Board of Director’s calculation of fair market value within 10 days of receipt of written notice thereof. If the Original Warrantholder and the Company are unable to agree on fair market value during the 10-day period following the delivery of the Original Warrantholder’s objection, the Appraisal Procedure may be invoked by either party to determine Fair Market Value by delivering written notification thereof not later than the 30th day after delivery of the Original Warrantholder’s objection.

“*Initial Number*” has the meaning set forth in Section 13(B).

“*Issue Date*” means the date set forth in Item 3 of Schedule A hereto.

“*Market Price*” means, with respect to a particular security, on any given day, the last reported sale price regular way or, in case no such reported sale takes place on such day, the average of the last closing bid and ask prices regular way, in either case on the principal national securities exchange on which the applicable securities are listed or admitted to trading, or if not listed or admitted to trading on any national securities exchange, the average of the closing bid and ask prices as furnished by two members of the Financial Industry Regulatory Authority, Inc. selected from time to time by the Company for that purpose. “Market Price” shall be determined without reference to after hours or extended hours trading. If such security is not listed and traded in a manner that the quotations referred to above are available for the period required hereunder, the Market Price of such security shall be deemed to be (i) in the event that any portion of the Warrant is held by the Original Warrantholder, the fair market value per share of such security as determined in good faith by the Original Warrantholder or (ii) in all other circumstances, the fair market value per share of such security as determined in good faith by the Board of Directors in reliance on an opinion of a nationally recognized independent investment banking corporation retained by the Company for this purpose and certified in a resolution to the Warrantholder.

“*Original Warrantholder*” means the United States Department of the Treasury. Any actions specified to be taken by the Original Warrantholder hereunder may only be taken by such Person and not by any other Warrantholder.

“*Permitted Transactions*” has the meaning set forth in Section 13(B).

“*Per Share Net Cash Settlement Amount*” means the Average Market Price of a share of Common Stock determined as of the relevant Exercise Date less the then applicable Exercise Price.

“*Per Share Net Share Settlement Amount*” means the quotient of (i) the Average Market Price of a share of Common Stock determined as of the relevant Exercise Date less the then applicable Exercise Price *divided by* (ii) the Average Market Price of a share of Common Stock determined as of the relevant Exercise Date.

“*Person*” has the meaning given to it in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act.

“*Per Share Fair Market Value*” has the meaning set forth in Section 13(C).

“*Pro Rata Repurchases*” means any purchase of shares of Common Stock by the Company or any Affiliate thereof pursuant to (A) any tender offer or exchange offer subject to Section 13(e) or 14(e) of the Exchange Act or Regulation 14E promulgated thereunder or (B) any other offer available to substantially all holders of Common Stock, in the case of both (A) or (B), whether for cash, shares of Capital Stock of the Company, other securities of the Company, evidences of indebtedness of the Company or any other Person or any other property (including, without limitation, shares of Capital Stock, other securities or evidences of indebtedness of a subsidiary), or any combination thereof, effected while this Warrant is outstanding. The “*Effective Date*” of a Pro Rata Repurchase shall mean the date of acceptance of shares for purchase or exchange by the Company under any tender or exchange offer which is a Pro Rata Repurchase or the date of purchase with respect to any Pro Rata Repurchase that is not a tender or exchange offer.

“*Regulatory Approvals*” with respect to the Warrantholder, means, to the extent applicable and required to permit the Warrantholder to exercise this Warrant for shares of Common Stock and to own such Common Stock without the Warrantholder being in violation of applicable law, rule or regulation, the receipt of any necessary approvals and authorizations of, filings and registrations with, notifications to, or expiration or termination of any applicable waiting period under, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder.

“*SEC*” means the U.S. Securities and Exchange Commission.

“*Securities Act*” means the Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“*trading day*” means (A) if the shares of Common Stock are not traded on any national or regional securities exchange or association or over-the-counter market, a Business Day or (B) if the shares of Common Stock are traded on any national or regional securities exchange or association or over-the-counter market, a Business Day on which such relevant exchange or quotation system is scheduled to be open for business and on which the shares of Common Stock (i) are not suspended from trading on any national or regional securities exchange or association or over-the-counter market for any period or periods aggregating one half hour or longer; and (ii) have traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of the shares of Common Stock.

“*U.S. GAAP*” means United States generally accepted accounting principles.

“*Warrant*” means this Warrant, issued pursuant to the Warrant Agreement.

“*Warrant Agreement*” means the Amended and Restated Warrant Agreement, dated as of the date set forth in Item 4 of Schedule A hereto, as amended from time to time, between the Company and the United States Department of the Treasury.

“*Warrantholder*” has the meaning set forth in Section 2.

“*Warrant Shares*” has the meaning set forth in Section 2.

2. Number of Warrant Shares; Net Exercise. This certifies that, for value received, the United States Department of the Treasury or its permitted assigns (the “*Warrantholder*”) is entitled, upon the terms and subject to the conditions hereinafter set forth, to acquire from the Company, in whole or in part, after the receipt of all applicable Regulatory Approvals, if any, up to an aggregate of the number of fully paid and nonassessable shares of Common Stock set forth in Item 5 of Schedule A hereto. The number of shares of Common Stock (the “*Warrant Shares*”) issuable upon exercise of this Warrant and the Exercise Price are subject to adjustment as provided herein, and all references to “Common Stock,” “Warrant Shares” and “Exercise Price” herein shall be deemed to include any such adjustment or series of adjustments.

Upon exercise of the Warrant in accordance with Section 3 hereof, the Company shall elect to pay or deliver, as the case may be, to the exercising Warrantholder (a) cash (“*Net Cash Settlement*”) or (b) Warrant Shares together with cash, if applicable, in lieu of delivering any fractional shares in accordance with Section 5 of this Warrant (“*Net Share Settlement*”). The Company will notify the exercising Warrantholder of its election of a settlement method within one Business Day after the relevant Exercise Date and if it fails to deliver a timely notice shall be deemed to have elected Net Share Settlement.

(a) *Net Cash Settlement.* If the Company elects Net Cash Settlement, it shall pay to the Warrantholder cash equal to the Per Share Net Cash Settlement Amount multiplied by the number of Warrant Shares as to which the Warrant has been exercised as indicated in the Notice of Exercise (the “*Aggregate Net Cash Settlement Amount*”).

(b) *Net Share Settlement.* If the Company elects Net Share Settlement, it shall deliver to the Warrantholder a number of shares of Common Stock equal to the Per Share Net Share Settlement Amount multiplied by the number of Warrant Shares as to which the Warrant has been exercised as indicated in the Notice of Exercise (the “*Aggregate Net Share Settlement Amount*”).

3. Term; Method of Exercise. Subject to Section 2, to the extent permitted by applicable laws and regulations, this Warrant is exercisable, in whole or in part by the Warrantholder, at any time or from time to time after the execution and delivery of this Warrant by the Company on the date hereof, but in no event later than 5:00 p.m., New York City time on the fifth anniversary of the Issue Date of this Warrant, by the surrender of this Warrant and delivery of the Notice of Exercise annexed hereto, duly completed and executed on behalf of the Warrantholder, at the principal executive office of the Company located at the address set forth in Item 6 of Schedule A hereto (or such other office or agency of the Company in the United States as it may designate by notice in writing to the Warrantholder at the address of the Warrantholder appearing on the books of the Company).

If the Warrantholder does not exercise this Warrant in its entirety, the Warrantholder will be entitled to receive from the Company within a reasonable time after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant, and in any event not exceeding three Business Days after the date thereof, a new warrant in substantially identical form for the purchase of that number of Warrant Shares equal to the difference between the number of Warrant Shares subject to this Warrant and the number of Warrant Shares as to which this Warrant is so exercised. Notwithstanding anything in this Warrant to the contrary, the Warrantholder hereby acknowledges and agrees that its exercise of this Warrant for Warrant Shares is subject to the condition that the Warrantholder will have first received any applicable Regulatory Approvals.

4. Method of Settlement.

(a) *Net Cash Settlement.* If the Company elects Net Cash Settlement, the Company shall, within a reasonable time, not to exceed five Business Days after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant, pay to the exercising Warrantholder the Aggregate Net Cash Settlement Amount.

(b) *Net Share Settlement.* If the Company elects Net Share Settlement, shares of Common Stock equal to the Aggregate Net Share Settlement Amount shall be (x) issued in such name or names as the exercising Warrantholder may designate and (y) delivered by the Company or the Company's transfer agent to such Warrantholder or its nominee or nominees (i) if the shares are then able to be so delivered, via book-entry transfer crediting the account of such Warrantholder (or the relevant agent member for the benefit of such Warrantholder) through the Depository's DWAC system (if the Company's transfer agent participates in such system), or (ii) otherwise in certificated form by physical delivery to the address specified by the Warrantholder in the Notice of Exercise, within a reasonable time, not to exceed three Business Days after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant. The Company hereby represents and warrants that any Warrant Shares issued upon the exercise

of this Warrant in accordance with the provisions of Section 3 will be duly and validly authorized and issued, fully paid and nonassessable and free from all taxes, liens and charges (other than liens or charges created by the Warrantholder, income and franchise taxes incurred in connection with the exercise of the Warrant or taxes in respect of any transfer occurring contemporaneously therewith). The Company agrees that the Warrant Shares so issued will be deemed to have been issued to the Warrantholder as of the close of business on the date on which this Warrant and payment of the Exercise Price are delivered to the Company in accordance with the terms of this Warrant, notwithstanding that the stock transfer books of the Company may then be closed or certificates representing such Warrant Shares may not be actually delivered on such date. The Company will at all times reserve and keep available, out of its authorized but unissued Common Stock, solely for the purpose of providing for the exercise of this Warrant, the aggregate number of shares of Common Stock then issuable upon exercise of this Warrant at any time. The Company will (A) procure, at its sole expense, the listing of the Warrant Shares issuable upon exercise of this Warrant at any time, subject to issuance or notice of issuance, on all principal stock exchanges on which the Common Stock is then listed or traded and (B) maintain such listings of such Warrant Shares at all times after issuance. The Company will use reasonable best efforts to ensure that the Warrant Shares may be issued without violation of any applicable law or regulation or of any requirement of any securities exchange on which the Warrant Shares are listed or traded.

5. No Fractional Warrant Shares or Scrip. No fractional Warrant Shares or scrip representing fractional Warrant Shares shall be issued upon any exercise of this Warrant. In lieu of any fractional Share to which the Warrantholder would otherwise be entitled, the Warrantholder shall be entitled to receive a cash payment equal to the Average Market Price of the Common Stock determined as of the Exercise Date multiplied by such fraction of a share, less the pro-rated Exercise Price for such fractional share.

6. No Rights as Stockholders; Transfer Books. This Warrant does not entitle the Warrantholder to any voting rights or other rights as a stockholder of the Company prior to the date of exercise hereof. The Company will at no time close its transfer books against transfer of this Warrant in any manner which interferes with the timely exercise of this Warrant.

7. Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares to the Warrantholder upon the exercise of this Warrant shall be made without charge to the Warrantholder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company; *provided, however*, that the Company shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate, or any certificates or other securities in a name other than that of the registered holder of the Warrant surrendered upon exercise of the Warrant.

8. Transfer/Assignment.

(i) Subject to compliance with clause (B) of this Section 8, this Warrant and all rights hereunder are transferable, in whole or in part, upon the books of the Company by the registered holder hereof in person or by duly authorized attorney, and a new warrant shall be made and

delivered by the Company, of the same tenor and date as this Warrant but registered in the name of one or more transferees, upon surrender of this Warrant, duly endorsed, to the office or agency of the Company described in Section 3. All expenses (other than stock transfer taxes) and other charges payable in connection with the preparation, execution and delivery of the new warrants pursuant to this Section 8 shall be paid by the Company.

(ii) If and for so long as required by the Warrant Agreement, this Warrant shall contain the legend as set forth in Sections 4.2(a) of the Warrant Agreement.

9. Exchange and Registry of Warrant. This Warrant is exchangeable, upon the surrender hereof by the Warrantholder to the Company, for a new warrant or warrants of like tenor and representing the right to purchase the same aggregate number of Warrant Shares. The Company shall maintain a registry showing the name and address of the Warrantholder as the registered holder of this Warrant. This Warrant may be surrendered for exchange or exercise in accordance with its terms, at the office of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

10. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in the case of any such loss, theft or destruction, upon receipt of a bond, indemnity or security reasonably satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company shall make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same aggregate number of Warrant Shares as provided for in such lost, stolen, destroyed or mutilated Warrant.

11. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding day that is a Business Day.

12. Information. With a view to making available to Warrantholders the benefits of certain rules and regulations of the SEC which may permit the sale of the Warrants and Warrant Shares to the public without registration, the Company agrees to use its reasonable best efforts to:

a. make and keep adequate public information available, as those terms are understood and defined in Rule 144(c) or any similar or analogous rule promulgated under the Securities Act, at all times after the date hereof;

b. (x) file with the SEC, in a timely manner, all reports and other documents required of the Company under the Securities Act and the Exchange Act, and (y) if at any time the Company is not required to file such reports, make available, upon the request of any Warrantholder, such information necessary to permit sales pursuant to Rule 144A (including the information required by Rule 144A(d)(4) under the Securities Act);

c. furnish to any holder of Warrants or Warrant Shares forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of the Exchange Act and Rule 144(c)(1); a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as the Warrantholder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities to the public without registration; and

d. take such further action as any Warrantholder may reasonably request, all to the extent required from time to time to enable such Warrantholder to sell Warrants or Warrant Shares without registration under the Securities Act.

13. Adjustments and Other Rights. The Exercise Price and the number of Warrant Shares issuable upon exercise of the Warrant shall be subject to adjustment from time to time as follows; *provided*, that if more than one subsection of this Section 13 is applicable to a single event, the subsection shall be applied that produces the largest adjustment and no single event shall cause an adjustment under more than one subsection of this Section 13 so as to result in duplication:

i. Stock Splits, Subdivisions, Reclassifications or Combinations. If the Company shall (i) declare and pay a dividend or make a distribution on its Common Stock in shares of Common Stock, (ii) subdivide or reclassify the outstanding shares of Common Stock into a greater number of shares, or (iii) combine or reclassify the outstanding shares of Common Stock into a smaller number of shares, the number of Warrant Shares issuable upon exercise of this Warrant at the time of the record date for such dividend or distribution or the effective date of such subdivision, combination or reclassification shall be proportionately adjusted so that the Warrantholder after such date shall be entitled to acquire the number of shares of Common Stock which such holder would have owned or been entitled to receive in respect of the shares of Common Stock subject to this Warrant after such date had this Warrant been exercised immediately prior to such date. In such event, the Exercise Price in effect at the time of the record date for such dividend or distribution or the effective date of such subdivision, combination or reclassification shall be adjusted to the number obtained by dividing (x) the product of (1) the number of Warrant Shares issuable upon the exercise of this Warrant before such adjustment and (2) the Exercise Price in effect immediately prior to the record or effective date, as the case may be, for the dividend, distribution, subdivision, combination or reclassification giving rise to this adjustment by (y) the new number of Warrant Shares issuable upon exercise of the Warrant determined pursuant to the immediately preceding sentence.

ii. Certain Issuances of Common Stock or Convertible Securities. If the Company shall issue shares of Common Stock (or rights or warrants or other securities exercisable or convertible into or exchangeable (collectively, a “*conversion*”) for shares of Common Stock) (collectively, “*convertible securities*”) (other than in Permitted Transactions (as defined below) or a transaction to which subsection (A) of this Section 13 is applicable) without consideration or at a consideration per share (or having a conversion price per share) that is less than 90% of the Average Market Price determined as of the date of the agreement on pricing such shares (or such convertible securities) then, in such event:

1. the number of Warrant Shares issuable upon the exercise of this Warrant immediately prior to the date of the agreement on pricing of such shares (or of such convertible securities) (the “*Initial Number*”) shall be increased to the number obtained by multiplying the Initial Number by a fraction (A) the numerator of which shall be the sum of (x) the number of shares of Common Stock of the Company outstanding on such date and (y) the number of additional shares of Common Stock issued (or into which convertible securities may be exercised or convert) and (B) the denominator of which shall be the sum of (I) the number of shares of Common Stock outstanding on such date and (II) the number of shares of Common Stock which the aggregate consideration receivable by the Company for the total number of shares of Common Stock so issued (or into which convertible securities may be exercised or convert) would purchase at the Average Market Price determined as of the date of the agreement on pricing such shares (or such convertible securities); and

2. the Exercise Price payable upon exercise of the Warrant shall be adjusted by multiplying such Exercise Price in effect immediately prior to the date of the agreement on pricing of such shares (or of such convertible securities) by a fraction, the numerator of which shall be the number of shares of Common Stock issuable upon exercise of this Warrant prior to such date and the denominator of which shall be the number of shares of Common Stock issuable upon exercise of this Warrant immediately after the adjustment described in clause (A) above.

For purposes of the foregoing, the aggregate consideration receivable by the Company in connection with the issuance of such shares of Common Stock or convertible securities shall be deemed to be equal to the sum of the net offering price (including the Fair Market Value of any non-cash consideration and after deduction of any related expenses payable to third parties) of all such securities plus the minimum aggregate amount, if any, payable upon exercise or conversion of any such convertible securities into shares of Common Stock; and “*Permitted Transactions*” shall mean issuances (i) as consideration for or to fund the acquisition of businesses and/or related assets, (ii) in connection with employee benefit plans and compensation related arrangements in the ordinary course and consistent with past practice approved by the Board of Directors, (iii) in connection with a public or broadly marketed offering and sale of Common Stock or convertible securities for cash conducted by the Company or its affiliates pursuant to registration under the Securities Act or Rule 144A thereunder on a basis consistent with capital raising transactions by comparable institutions and (iv) in connection with the exercise of preemptive rights on terms existing as of the Issue Date. Any adjustment made pursuant to this Section 13(B) shall become effective immediately upon the date of such issuance.

iii. Other Distributions. In case the Company shall fix a record date for the making of a distribution to all holders of shares of its Common Stock of securities, evidences of indebtedness, assets, cash, rights or warrants (excluding dividends of its Common Stock and other dividends or distributions referred to in Section 13(A)), in each such case, the Exercise Price in effect prior to such record date shall be reduced immediately thereafter to the price determined by multiplying the Exercise Price in effect immediately prior to the reduction by the quotient of (x) the Average

Market Price of the Common Stock determined as of the first date on which the Common Stock trades regular way on the principal national securities exchange on which the Common Stock is listed or admitted to trading without the right to receive such distribution, minus the amount of cash and/or the Fair Market Value of the securities, evidences of indebtedness, assets, rights or warrants to be so distributed in respect of one share of Common Stock (such amount and/or Fair Market Value, the “*Per Share Fair Market Value*”) divided by (y) the Average Market Price specified in clause (x); such adjustment shall be made successively whenever such a record date is fixed. In such event, the number of Warrant Shares issuable upon the exercise of this Warrant shall be increased to the number obtained by dividing (x) the product of (1) the number of Warrant Shares issuable upon the exercise of this Warrant before such adjustment, and (2) the Exercise Price in effect immediately prior to the distribution giving rise to this adjustment by (y) the new Exercise Price determined in accordance with the immediately preceding sentence. In the event that such distribution is not so made, the Exercise Price and the number of Warrant Shares issuable upon exercise of this Warrant then in effect shall be readjusted, effective as of the date when the Board of Directors determines not to distribute such shares, evidences of indebtedness, assets, rights, cash or warrants, as the case may be, to the Exercise Price that would then be in effect and the number of Warrant Shares that would then be issuable upon exercise of this Warrant if such record date had not been fixed.

iv. Certain Repurchases of Common Stock. In case the Company effects a Pro Rata Repurchase of Common Stock, then the Exercise Price shall be reduced to the price determined by multiplying the Exercise Price in effect immediately prior to the Effective Date of such Pro Rata Repurchase by a fraction of which the numerator shall be (i) the product of (x) the number of shares of Common Stock outstanding immediately before such Pro Rata Repurchase and (y) the Average Market Price of a share of Common Stock determined as of the date of the first public announcement by the Company or any of its Affiliates of the intent to effect such Pro Rata Repurchase, minus (ii) the aggregate purchase price of the Pro Rata Repurchase, and of which the denominator shall be the product of (i) the number of shares of Common Stock outstanding immediately prior to such Pro Rata Repurchase minus the number of shares of Common Stock so repurchased and (ii) the Average Market Price per share of Common Stock determined as of the date of the first public announcement by the Company or any of its Affiliates of the intent to effect such Pro Rata Repurchase. In such event, the number of shares of Common Stock issuable upon the exercise of this Warrant shall be increased to the number obtained by dividing (x) the product of (1) the number of Warrant Shares issuable upon the exercise of this Warrant before such adjustment, and (2) the Exercise Price in effect immediately prior to the Pro Rata Repurchase giving rise to this adjustment by (y) the new Exercise Price determined in accordance with the immediately preceding sentence. For the avoidance of doubt, no increase to the Exercise Price or decrease in the number of Warrant Shares issuable upon exercise of this Warrant shall be made pursuant to this Section 13(D).

v. Business Combinations. In case of any Business Combination or reclassification of Common Stock (other than a reclassification of Common Stock referred to in Section 13(A)), the Warrantholder’s right to receive Warrant Shares upon exercise of this Warrant shall be converted into the right to exercise this Warrant to acquire the number of shares of stock or other securities or property (including cash) which the Common Stock issuable (at the time of such Business

Combination or reclassification) upon exercise of this Warrant immediately prior to such Business Combination or reclassification would have been entitled to receive upon consummation of such Business Combination or reclassification; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interests thereafter of the Warrantholder shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to the Warrantholder's right to exercise this Warrant in exchange for any shares of stock or other securities or property pursuant to this paragraph. In determining the kind and amount of stock, securities or the property receivable upon exercise of this Warrant following the consummation of such Business Combination, if the holders of Common Stock have the right to elect the kind or amount of consideration receivable upon consummation of such Business Combination, then the consideration that the Warrantholder shall be entitled to receive upon exercise shall be deemed to be the types and amounts of consideration received by the majority of all holders of the shares of common stock that affirmatively make an election (or of all such holders if none make an election).

vi. Rounding of Calculations; Minimum Adjustments. All calculations under this Section 13 shall be made to the nearest one-tenth (1/10th) of a cent or to the nearest one-hundredth (1/100th) of a share, as the case may be. Any provision of this Section 13 to the contrary notwithstanding, no adjustment in the Exercise Price or the number of Warrant Shares shall be made if the amount of such adjustment would be less than \$0.01 or one-tenth (1/10th) of a share of Common Stock, but any such amount shall be carried forward and an adjustment with respect thereto shall be made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate \$0.01 or 1/10th of a share of Common Stock, or more.

vii. Timing of Issuance of Additional Common Stock Upon Certain Adjustments. In any case in which the provisions of this Section 13 shall require that an adjustment shall become effective immediately after a record date for an event, the Company may defer until the occurrence of such event (i) issuing to the Warrantholder of this Warrant exercised after such record date and before the occurrence of such event the additional shares of Common Stock issuable upon such exercise by reason of the adjustment required by such event over and above the shares of Common Stock issuable upon such exercise before giving effect to such adjustment and (ii) paying to such Warrantholder any amount of cash in lieu of a fractional share of Common Stock; *provided, however*, that the Company upon request shall deliver to such Warrantholder a due bill or other appropriate instrument evidencing such Warrantholder's right to receive such additional shares, and such cash, upon the occurrence of the event requiring such adjustment.

viii. Other Events. For so long as the Original Warrantholder holds this Warrant or any portion thereof, if any event occurs as to which the provisions of this Section 13 are not strictly applicable or, if strictly applicable, would not, in the good faith judgment of the Board of Directors of the Company, fairly and adequately protect the purchase rights of the Warrants in accordance with the essential intent and principles of such provisions, then the Board of Directors shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of

the Board of Directors, to protect such purchase rights as aforesaid. The Exercise Price or the number of Warrant Shares shall not be adjusted in the event of a change in the par value of the Common Stock or a change in the jurisdiction of incorporation of the Company.

ix. Statement Regarding Adjustments. Whenever the Exercise Price or the number of Warrant Shares shall be adjusted as provided in Section 13, the Company shall forthwith file at the principal office of the Company a statement showing in reasonable detail the facts requiring such adjustment and the Exercise Price that shall be in effect and the number of Warrant Shares after such adjustment, and the Company shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each Warrantholder at the address appearing in the Company's records.

x. Notice of Adjustment Event. In the event that the Company shall propose to take any action of the type described in this Section 13 (but only if the action of the type described in this Section 13 would result in an adjustment in the Exercise Price or the number of Warrant Shares or a change in the type of securities or property to be delivered upon exercise of this Warrant), the Company shall give notice to the Warrantholder, in the manner set forth in Section 13(J), which notice shall specify the record date, if any, with respect to any such action and the approximate date on which such action is to take place. Such notice shall also set forth the facts with respect thereto as shall be reasonably necessary to indicate the effect on the Exercise Price and the number, kind or class of shares or other securities or property which shall be deliverable upon exercise of this Warrant. In the case of any action which would require the fixing of a record date, such notice shall be given at least 10 days prior to the date so fixed, and in case of all other action, such notice shall be given at least 15 days prior to the taking of such proposed action. Failure to give such notice, or any defect therein, shall not affect the legality or validity of any such action.

xi. Proceedings Prior to Any Action Requiring Adjustment. As a condition precedent to the taking of any action which would require an adjustment pursuant to this Section 13, the Company shall take any action which may be necessary, including obtaining regulatory, New York Stock Exchange, NASDAQ Stock Market or other applicable national securities exchange or stockholder approvals or exemptions, as applicable, in order that the Company may thereafter validly and legally issue as fully paid and nonassessable all shares of Common Stock that the Warrantholder is entitled to receive upon exercise of this Warrant pursuant to this Section 13.

xii. Adjustment Rules. Any adjustments pursuant to this Section 13 shall be made successively whenever an event referred to herein shall occur. If an adjustment in Exercise Price made hereunder would reduce the Exercise Price to an amount below par value of the Common Stock, then such adjustment in Exercise Price made hereunder shall reduce the Exercise Price to the par value of the Common Stock.

14. No Impairment. The Company will not, by amendment of its Charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in

good faith assist in the carrying out of all the provisions of this Warrant and in taking of all such action as may be necessary or appropriate in order to protect the rights of the Warrantholder.

15. **Governing Law.** This Warrant will be governed by and construed in accordance with the federal law of the United States if and to the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State. Each of the Company and the Warrantholder agrees (a) to submit to the exclusive jurisdiction and venue of the United States District Court for the District of Columbia for any civil action, suit or proceeding arising out of or relating to this Warrant or the transactions contemplated hereby, and (b) that notice may be served upon the Company at the address in Section 19 below and upon the Warrantholder at the address for the Warrantholder set forth in the registry maintained by the Company pursuant to Section 9 hereof. To the extent permitted by applicable law, each of the Company and the Warrantholder hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to the Warrant or the transactions contemplated hereby or thereby.

16. **Binding Effect.** This Warrant shall be binding upon any successors or assigns of the Company.

17. **Amendments.** This Warrant may be amended and the observance of any term of this Warrant may be waived only with the written consent of the Company and the Warrantholder.

18. **Prohibited Actions.** The Company agrees that it will not take any action which would entitle the Warrantholder to an adjustment of the Exercise Price if the total number of shares of Common Stock issuable after such action upon exercise of this Warrant, together with all shares of Common Stock then outstanding and all shares of Common Stock then issuable upon the exercise of all outstanding options, warrants, conversion and other rights, would exceed the total number of shares of Common Stock then authorized by its Charter.

19. **Notices.** Any notice, request, instruction or other document to be given hereunder by any party to the other will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally, or by facsimile, upon confirmation of receipt, or (b) on the second Business Day following the date of dispatch if delivered by a recognized next day courier service. All notices hereunder shall be delivered as set forth in Item 7 of Schedule A hereto, or pursuant to such other instructions as may be designated in writing by the party to receive such notice.

20. **Entire Agreement.** This Warrant, the forms attached hereto and Schedule A hereto (the terms of which are incorporated by reference herein), and the Warrant Agreement (including all documents incorporated therein), contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior and contemporaneous arrangements or undertakings with respect thereto.

[Remainder of page intentionally left blank]

[Form of Notice of Exercise]

Date:___

TO: **[Company]**

RE: Exercise of Warrant

The undersigned, pursuant to the provisions set forth in the attached Warrant, hereby notifies the Company of its intention to exercise its option with respect to the number of shares of the Common Stock set forth below covered by such Warrant. Pursuant to Section 4 of the Warrant, the undersigned acknowledges that the Company may settle this exercise in net cash or shares. Cash to be paid pursuant to a Net Cash Settlement or payment of fractional shares in connection with a Net Share Settlement should be deposited to the account of the Warrantholder set forth below. Common Stock to be delivered pursuant to a Net Share Settlement shall be delivered to the Warrantholder as indicated below. A new warrant evidencing the remaining shares of Common Stock covered by such Warrant, but not yet subscribed for and purchased, if any, should be issued in the name set forth below.

Number of Warrant Shares:___

Aggregate Exercise Price: ___

Address for Delivery of Warrant Shares: ___

Wire Instructions:

Proceeds to be delivered: \$

Name of Bank:

City/ State of Bank:

ABA Number of Bank

SWIFT #

Name of Account:

Account Number at Bank:

Securities to be issued to:

If in book-entry form through the Depository:

Depository Account Number:

Name of Agent Member:

If in certificated form:

Social Security Number or Other Identifying Number:

Name:

Street Address:

City, State and Zip Code:

Any unexercised Warrants evidenced by the exercising Warrantholder's interest in the Warrant:

Social Security Number or Other Identifying Number:

Name:

Street Address:

City, State and Zip Code:

Holder: _____

By: _____

Name: _____

Title: _____

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by a duly authorized officer.

Dated: February 5, 2021

COMPANY: ALASKA Air Group, Inc.

By: __

Name: Shane R. Tackett

Title: Executive Vice President, Finance and Chief Financial Officer

Attest:

By: __

Name: Kyle Levine

Title: Senior Vice President, General
Counsel, and Corporate Secretary

[Signature Page to Warrant]

Item 1

Name: Alaska Air Group, Inc.
Corporate or other organizational form: Corporation
Jurisdiction of organization: Delaware

Item 2

Exercise Price: \$52.25

Item 3

Issue Date: February 5, 2021

Item 4

Date of Amended and Restated Warrant Agreement between the Company and the United States Department of the Treasury:
February 5, 2021

Item 5

Number of shares of Common Stock: 3,252¹

Item 6

Company's address: 19300 International Blvd., Seattle, WA 98188

Item 7

Notice information:

If to the Company:

Alaska Air Group, Inc.
19300 International Blvd., SEEXP
Seattle, WA 98188
Attention: Chief Financial Officer
Telephone: 206.392.5040

With a copy to

Alaska Air Group, Inc.
19300 International Blvd., SEAZL
Seattle, WA 98188
Attention: General Counsel
Telephone: 206.392.5040
Email: LegalContractNotices@alaskaair.com

If to Treasury:

United States Department of the Treasury

¹ For the avoidance of doubt, this warrant to purchase such shares of Common Stock is being issued pursuant to the McGee PSP2 Promissory Note, dated as of February 5, 2021.

1500 Pennsylvania Avenue, NW, Room 2312
Washington, D.C. 20220
Attention: Assistant General Counsel (Banking and Finance)

WARRANT TO PURCHASE COMMON STOCK

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS.

WARRANT

to purchase
2,443

Shares of Common Stock

of

ALASKA AIR GROUP, INC.
(NYSE Ticker Symbol: ALK)

Issue Date: February 5, 2021

1. **Definitions.** Unless the context otherwise requires, when used herein the following terms shall have the meanings indicated.

“*Affiliate*” means, with respect to any person, any person directly or indirectly controlling, controlled by or under common control with, such other person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlled by” and “under common control with”) when used with respect to any person, means the possession, directly or indirectly, of the power to cause the direction of management and/or policies of such person, whether through the ownership of voting securities by contract or otherwise.

“*Aggregate Net Cash Settlement Amount*” has the meaning ascribed thereto in Section 2(i).

“*Aggregate Net Share Settlement Amount*” has the meaning ascribed thereto in Section 2(ii).

“*Appraisal Procedure*” means a procedure whereby two independent appraisers, one chosen by the Company and one by the Original Warrantholder, shall mutually agree upon the determinations then the subject of appraisal. Each party shall deliver a notice to the other appointing its appraiser within 10 days after the Appraisal Procedure is invoked. If within 30 days after appointment of the two appraisers they are unable to agree upon the amount in

question, a third independent appraiser shall be chosen within 10 days thereafter by the mutual consent of such first two appraisers. The decision of the third appraiser so appointed and chosen shall be given within 30 days after the selection of such third appraiser. If three appraisers shall be appointed and the determination of one appraiser is disparate from the middle determination by more than twice the amount by which the other determination is disparate from the middle determination, then the determination of such appraiser shall be excluded, the remaining two determinations shall be averaged and such average shall be binding and conclusive upon the Company and the Original Warrantholder; otherwise, the average of all three determinations shall be binding upon the Company and the Original Warrantholder. The costs of conducting any Appraisal Procedure shall be borne by the Company.

“*Average Market Price*” means, with respect to any security, the arithmetic average of the Market Price of such security for the 15 consecutive trading day period ending on and including the trading day immediately preceding the determination date.

“*Board of Directors*” means the board of directors of the Company, including any duly authorized committee thereof.

“*Business Combination*” means a merger, consolidation, statutory share exchange or similar transaction that requires the approval of the Company’s stockholders.

“*Business Day*” means any day except Saturday, Sunday and any day on which banking institutions in the State of New York generally are authorized or required by law or other governmental actions to close; *provided* that banks shall be deemed to be generally open for business in the event of a “shelter in place” or similar closure of physical branch locations at the direction of any governmental entity if such banks’ electronic funds transfer system (including wire transfers) are open for use by customers on such day.

“*Capital Stock*” means (A) with respect to any Person that is a corporation or company, any and all shares, interests, participations or other equivalents (however designated) of capital or capital stock of such Person and (B) with respect to any Person that is not a corporation or company, any and all partnership or other equity interests of such Person.

“*Charter*” means, with respect to any Person, its certificate or articles of incorporation, articles of association, or similar organizational document.

“*Common Stock*” means common stock of the Company, par value \$0.01 subject to adjustment as provided in Section 13(E).

“*Company*” means the Person whose name, corporate or other organizational form and jurisdiction of organization is set forth in Item 1 of Schedule A hereto.

“*conversion*” has the meaning set forth in Section 13(B).

“*convertible securities*” has the meaning set forth in Section 13(B).

“*Depository*” means The Depository Trust Company, its nominees and their respective successors.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“*Exercise Date*” means each date a Notice of Exercise substantially in the form annexed hereto is delivered to the Company in accordance with Section 2 hereof.

“*Exercise Price*” means the amount set forth in Item 2 of Schedule A hereto, subject to adjustment as contemplated herein.

“*Fair Market Value*” means, with respect to any security or other property, the fair market value of such security or other property as determined by the Board of Directors, acting in good faith in reliance on an opinion of a nationally recognized independent investment banking firm retained by the Company for this purpose. For so long as the Original Warrantholder holds this Warrant or any portion thereof, it may object in writing to the Board of Director’s calculation of fair market value within 10 days of receipt of written notice thereof. If the Original Warrantholder and the Company are unable to agree on fair market value during the 10-day period following the delivery of the Original Warrantholder’s objection, the Appraisal Procedure may be invoked by either party to determine Fair Market Value by delivering written notification thereof not later than the 30th day after delivery of the Original Warrantholder’s objection.

“*Initial Number*” has the meaning set forth in Section 13(B).

“*Issue Date*” means the date set forth in Item 3 of Schedule A hereto.

“*Market Price*” means, with respect to a particular security, on any given day, the last reported sale price regular way or, in case no such reported sale takes place on such day, the average of the last closing bid and ask prices regular way, in either case on the principal national securities exchange on which the applicable securities are listed or admitted to trading, or if not listed or admitted to trading on any national securities exchange, the average of the closing bid and ask prices as furnished by two members of the Financial Industry Regulatory Authority, Inc. selected from time to time by the Company for that purpose. “Market Price” shall be determined without reference to after hours or extended hours trading. If such security is not listed and traded in a manner that the quotations referred to above are available for the period required hereunder, the Market Price of such security shall be deemed to be (i) in the event that any portion of the Warrant is held by the Original Warrantholder, the fair market value per share of such security as determined in good faith by the Original Warrantholder or (ii) in all other circumstances, the fair market value per share of such security as determined in good faith by the Board of Directors in reliance on an opinion of a nationally recognized independent investment banking corporation retained by the Company for this purpose and certified in a resolution to the Warrantholder.

“*Original Warrantholder*” means the United States Department of the Treasury. Any actions specified to be taken by the Original Warrantholder hereunder may only be taken by such Person and not by any other Warrantholder.

“*Permitted Transactions*” has the meaning set forth in Section 13(B).

“*Per Share Net Cash Settlement Amount*” means the Average Market Price of a share of Common Stock determined as of the relevant Exercise Date less the then applicable Exercise Price.

“*Per Share Net Share Settlement Amount*” means the quotient of (i) the Average Market Price of a share of Common Stock determined as of the relevant Exercise Date less the then applicable Exercise Price *divided by* (ii) the Average Market Price of a share of Common Stock determined as of the relevant Exercise Date.

“*Person*” has the meaning given to it in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act.

“*Per Share Fair Market Value*” has the meaning set forth in Section 13(C).

“*Pro Rata Repurchases*” means any purchase of shares of Common Stock by the Company or any Affiliate thereof pursuant to (A) any tender offer or exchange offer subject to Section 13(e) or 14(e) of the Exchange Act or Regulation 14E promulgated thereunder or (B) any other offer available to substantially all holders of Common Stock, in the case of both (A) or (B), whether for cash, shares of Capital Stock of the Company, other securities of the Company, evidences of indebtedness of the Company or any other Person or any other property (including, without limitation, shares of Capital Stock, other securities or evidences of indebtedness of a subsidiary), or any combination thereof, effected while this Warrant is outstanding. The “*Effective Date*” of a Pro Rata Repurchase shall mean the date of acceptance of shares for purchase or exchange by the Company under any tender or exchange offer which is a Pro Rata Repurchase or the date of purchase with respect to any Pro Rata Repurchase that is not a tender or exchange offer.

“*Regulatory Approvals*” with respect to the Warrantholder, means, to the extent applicable and required to permit the Warrantholder to exercise this Warrant for shares of Common Stock and to own such Common Stock without the Warrantholder being in violation of applicable law, rule or regulation, the receipt of any necessary approvals and authorizations of, filings and registrations with, notifications to, or expiration or termination of any applicable waiting period under, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder.

“*SEC*” means the U.S. Securities and Exchange Commission.

“*Securities Act*” means the Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“*trading day*” means (A) if the shares of Common Stock are not traded on any national or regional securities exchange or association or over-the-counter market, a Business Day or (B) if the shares of Common Stock are traded on any national or regional securities exchange or association or over-the-counter market, a Business Day on which such relevant exchange or quotation system is scheduled to be open for business and on which the shares of Common Stock (i) are not suspended from trading on any national or regional securities exchange or association or over-the-counter market for any period or periods aggregating one half hour or longer; and (ii) have traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of the shares of Common Stock.

“*U.S. GAAP*” means United States generally accepted accounting principles.

“*Warrant*” means this Warrant, issued pursuant to the Warrant Agreement.

“*Warrant Agreement*” means the Amended and Restated Warrant Agreement, dated as of the date set forth in Item 4 of Schedule A hereto, as amended from time to time, between the Company and the United States Department of the Treasury.

“*Warrantholder*” has the meaning set forth in Section 2.

“*Warrant Shares*” has the meaning set forth in Section 2.

2. Number of Warrant Shares; Net Exercise. This certifies that, for value received, the United States Department of the Treasury or its permitted assigns (the “*Warrantholder*”) is entitled, upon the terms and subject to the conditions hereinafter set forth, to acquire from the Company, in whole or in part, after the receipt of all applicable Regulatory Approvals, if any, up to an aggregate of the number of fully paid and nonassessable shares of Common Stock set forth in Item 5 of Schedule A hereto. The number of shares of Common Stock (the “*Warrant Shares*”) issuable upon exercise of this Warrant and the Exercise Price are subject to adjustment as provided herein, and all references to “Common Stock,” “Warrant Shares” and “Exercise Price” herein shall be deemed to include any such adjustment or series of adjustments.

Upon exercise of the Warrant in accordance with Section 3 hereof, the Company shall elect to pay or deliver, as the case may be, to the exercising Warrantholder (a) cash (“*Net Cash Settlement*”) or (b) Warrant Shares together with cash, if applicable, in lieu of delivering any fractional shares in accordance with Section 5 of this Warrant (“*Net Share Settlement*”). The Company will notify the exercising Warrantholder of its election of a settlement method within one Business Day after the relevant Exercise Date and if it fails to deliver a timely notice shall be deemed to have elected Net Share Settlement.

(a) *Net Cash Settlement.* If the Company elects Net Cash Settlement, it shall pay to the Warrantholder cash equal to the Per Share Net Cash Settlement Amount multiplied by the number of Warrant Shares as to which the Warrant has been exercised as indicated in the Notice of Exercise (the “*Aggregate Net Cash Settlement Amount*”).

(b) *Net Share Settlement.* If the Company elects Net Share Settlement, it shall deliver to the Warrantholder a number of shares of Common Stock equal to the Per Share Net Share Settlement Amount multiplied by the number of Warrant Shares as to which the Warrant has been exercised as indicated in the Notice of Exercise (the “*Aggregate Net Share Settlement Amount*”).

3. Term; Method of Exercise. Subject to Section 2, to the extent permitted by applicable laws and regulations, this Warrant is exercisable, in whole or in part by the Warrantholder, at any time or from time to time after the execution and delivery of this Warrant by the Company on the date hereof, but in no event later than 5:00 p.m., New York City time on the fifth anniversary of the Issue Date of this Warrant, by the surrender of this Warrant and delivery of the Notice of Exercise annexed hereto, duly completed and executed on behalf of the Warrantholder, at the principal executive office of the Company located at the address set forth in Item 6 of Schedule A hereto (or such other office or agency of the Company in the United States as it may designate by notice in writing to the Warrantholder at the address of the Warrantholder appearing on the books of the Company).

If the Warrantholder does not exercise this Warrant in its entirety, the Warrantholder will be entitled to receive from the Company within a reasonable time after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant, and in any event not exceeding three Business Days after the date thereof, a new warrant in substantially identical form for the purchase of that number of Warrant Shares equal to the difference between the number of Warrant Shares subject to this Warrant and the number of Warrant Shares as to which this Warrant is so exercised. Notwithstanding anything in this Warrant to the contrary, the Warrantholder hereby acknowledges and agrees that its exercise of this Warrant for Warrant Shares is subject to the condition that the Warrantholder will have first received any applicable Regulatory Approvals.

4. Method of Settlement.

(a) *Net Cash Settlement.* If the Company elects Net Cash Settlement, the Company shall, within a reasonable time, not to exceed five Business Days after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant, pay to the exercising Warrantholder the Aggregate Net Cash Settlement Amount.

(b) *Net Share Settlement.* If the Company elects Net Share Settlement, shares of Common Stock equal to the Aggregate Net Share Settlement Amount shall be (x) issued in such name or names as the exercising Warrantholder may designate and (y) delivered by the Company or the Company's transfer agent to such Warrantholder or its nominee or nominees (i) if the shares are then able to be so delivered, via book-entry transfer crediting the account of such Warrantholder (or the relevant agent member for the benefit of such Warrantholder) through the Depository's DWAC system (if the Company's transfer agent participates in such system), or (ii) otherwise in certificated form by physical delivery to the address specified by the Warrantholder in the Notice of Exercise, within a reasonable time, not to exceed three Business Days after the date on which this Warrant has been duly exercised in accordance with the terms of this Warrant. The Company hereby represents and warrants that any Warrant Shares issued upon the exercise

of this Warrant in accordance with the provisions of Section 3 will be duly and validly authorized and issued, fully paid and nonassessable and free from all taxes, liens and charges (other than liens or charges created by the Warrantholder, income and franchise taxes incurred in connection with the exercise of the Warrant or taxes in respect of any transfer occurring contemporaneously therewith). The Company agrees that the Warrant Shares so issued will be deemed to have been issued to the Warrantholder as of the close of business on the date on which this Warrant and payment of the Exercise Price are delivered to the Company in accordance with the terms of this Warrant, notwithstanding that the stock transfer books of the Company may then be closed or certificates representing such Warrant Shares may not be actually delivered on such date. The Company will at all times reserve and keep available, out of its authorized but unissued Common Stock, solely for the purpose of providing for the exercise of this Warrant, the aggregate number of shares of Common Stock then issuable upon exercise of this Warrant at any time. The Company will (A) procure, at its sole expense, the listing of the Warrant Shares issuable upon exercise of this Warrant at any time, subject to issuance or notice of issuance, on all principal stock exchanges on which the Common Stock is then listed or traded and (B) maintain such listings of such Warrant Shares at all times after issuance. The Company will use reasonable best efforts to ensure that the Warrant Shares may be issued without violation of any applicable law or regulation or of any requirement of any securities exchange on which the Warrant Shares are listed or traded.

5. No Fractional Warrant Shares or Scrip. No fractional Warrant Shares or scrip representing fractional Warrant Shares shall be issued upon any exercise of this Warrant. In lieu of any fractional Share to which the Warrantholder would otherwise be entitled, the Warrantholder shall be entitled to receive a cash payment equal to the Average Market Price of the Common Stock determined as of the Exercise Date multiplied by such fraction of a share, less the pro-rated Exercise Price for such fractional share.

6. No Rights as Stockholders; Transfer Books. This Warrant does not entitle the Warrantholder to any voting rights or other rights as a stockholder of the Company prior to the date of exercise hereof. The Company will at no time close its transfer books against transfer of this Warrant in any manner which interferes with the timely exercise of this Warrant.

7. Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares to the Warrantholder upon the exercise of this Warrant shall be made without charge to the Warrantholder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company; *provided, however*, that the Company shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate, or any certificates or other securities in a name other than that of the registered holder of the Warrant surrendered upon exercise of the Warrant.

8. Transfer/Assignment.

(i) Subject to compliance with clause (B) of this Section 8, this Warrant and all rights hereunder are transferable, in whole or in part, upon the books of the Company by the registered holder hereof in person or by duly authorized attorney, and a new warrant shall be made and

delivered by the Company, of the same tenor and date as this Warrant but registered in the name of one or more transferees, upon surrender of this Warrant, duly endorsed, to the office or agency of the Company described in Section 3. All expenses (other than stock transfer taxes) and other charges payable in connection with the preparation, execution and delivery of the new warrants pursuant to this Section 8 shall be paid by the Company.

(ii) If and for so long as required by the Warrant Agreement, this Warrant shall contain the legend as set forth in Sections 4.2(a) of the Warrant Agreement.

9. Exchange and Registry of Warrant. This Warrant is exchangeable, upon the surrender hereof by the Warrantholder to the Company, for a new warrant or warrants of like tenor and representing the right to purchase the same aggregate number of Warrant Shares. The Company shall maintain a registry showing the name and address of the Warrantholder as the registered holder of this Warrant. This Warrant may be surrendered for exchange or exercise in accordance with its terms, at the office of the Company, and the Company shall be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

10. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in the case of any such loss, theft or destruction, upon receipt of a bond, indemnity or security reasonably satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company shall make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same aggregate number of Warrant Shares as provided for in such lost, stolen, destroyed or mutilated Warrant.

11. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding day that is a Business Day.

12. Information. With a view to making available to Warrantholders the benefits of certain rules and regulations of the SEC which may permit the sale of the Warrants and Warrant Shares to the public without registration, the Company agrees to use its reasonable best efforts to:

a. make and keep adequate public information available, as those terms are understood and defined in Rule 144(c) or any similar or analogous rule promulgated under the Securities Act, at all times after the date hereof;

b. (x) file with the SEC, in a timely manner, all reports and other documents required of the Company under the Securities Act and the Exchange Act, and (y) if at any time the Company is not required to file such reports, make available, upon the request of any Warrantholder, such information necessary to permit sales pursuant to Rule 144A (including the information required by Rule 144A(d)(4) under the Securities Act);

c. furnish to any holder of Warrants or Warrant Shares forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of the Exchange Act and Rule 144(c)(1); a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as the Warrantholder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities to the public without registration; and

d. take such further action as any Warrantholder may reasonably request, all to the extent required from time to time to enable such Warrantholder to sell Warrants or Warrant Shares without registration under the Securities Act.

13. Adjustments and Other Rights. The Exercise Price and the number of Warrant Shares issuable upon exercise of the Warrant shall be subject to adjustment from time to time as follows; *provided*, that if more than one subsection of this Section 13 is applicable to a single event, the subsection shall be applied that produces the largest adjustment and no single event shall cause an adjustment under more than one subsection of this Section 13 so as to result in duplication:

i. Stock Splits, Subdivisions, Reclassifications or Combinations. If the Company shall (i) declare and pay a dividend or make a distribution on its Common Stock in shares of Common Stock, (ii) subdivide or reclassify the outstanding shares of Common Stock into a greater number of shares, or (iii) combine or reclassify the outstanding shares of Common Stock into a smaller number of shares, the number of Warrant Shares issuable upon exercise of this Warrant at the time of the record date for such dividend or distribution or the effective date of such subdivision, combination or reclassification shall be proportionately adjusted so that the Warrantholder after such date shall be entitled to acquire the number of shares of Common Stock which such holder would have owned or been entitled to receive in respect of the shares of Common Stock subject to this Warrant after such date had this Warrant been exercised immediately prior to such date. In such event, the Exercise Price in effect at the time of the record date for such dividend or distribution or the effective date of such subdivision, combination or reclassification shall be adjusted to the number obtained by dividing (x) the product of (1) the number of Warrant Shares issuable upon the exercise of this Warrant before such adjustment and (2) the Exercise Price in effect immediately prior to the record or effective date, as the case may be, for the dividend, distribution, subdivision, combination or reclassification giving rise to this adjustment by (y) the new number of Warrant Shares issuable upon exercise of the Warrant determined pursuant to the immediately preceding sentence.

ii. Certain Issuances of Common Stock or Convertible Securities. If the Company shall issue shares of Common Stock (or rights or warrants or other securities exercisable or convertible into or exchangeable (collectively, a “*conversion*”) for shares of Common Stock) (collectively, “*convertible securities*”) (other than in Permitted Transactions (as defined below) or a transaction to which subsection (A) of this Section 13 is applicable) without consideration or at a consideration per share (or having a conversion price per share) that is less than 90% of the Average Market Price determined as of the date of the agreement on pricing such shares (or such convertible securities) then, in such event:

1. the number of Warrant Shares issuable upon the exercise of this Warrant immediately prior to the date of the agreement on pricing of such shares (or of such convertible securities) (the “*Initial Number*”) shall be increased to the number obtained by multiplying the Initial Number by a fraction (A) the numerator of which shall be the sum of (x) the number of shares of Common Stock of the Company outstanding on such date and (y) the number of additional shares of Common Stock issued (or into which convertible securities may be exercised or convert) and (B) the denominator of which shall be the sum of (I) the number of shares of Common Stock outstanding on such date and (II) the number of shares of Common Stock which the aggregate consideration receivable by the Company for the total number of shares of Common Stock so issued (or into which convertible securities may be exercised or convert) would purchase at the Average Market Price determined as of the date of the agreement on pricing such shares (or such convertible securities); and

2. the Exercise Price payable upon exercise of the Warrant shall be adjusted by multiplying such Exercise Price in effect immediately prior to the date of the agreement on pricing of such shares (or of such convertible securities) by a fraction, the numerator of which shall be the number of shares of Common Stock issuable upon exercise of this Warrant prior to such date and the denominator of which shall be the number of shares of Common Stock issuable upon exercise of this Warrant immediately after the adjustment described in clause (A) above.

For purposes of the foregoing, the aggregate consideration receivable by the Company in connection with the issuance of such shares of Common Stock or convertible securities shall be deemed to be equal to the sum of the net offering price (including the Fair Market Value of any non-cash consideration and after deduction of any related expenses payable to third parties) of all such securities plus the minimum aggregate amount, if any, payable upon exercise or conversion of any such convertible securities into shares of Common Stock; and “*Permitted Transactions*” shall mean issuances (i) as consideration for or to fund the acquisition of businesses and/or related assets, (ii) in connection with employee benefit plans and compensation related arrangements in the ordinary course and consistent with past practice approved by the Board of Directors, (iii) in connection with a public or broadly marketed offering and sale of Common Stock or convertible securities for cash conducted by the Company or its affiliates pursuant to registration under the Securities Act or Rule 144A thereunder on a basis consistent with capital raising transactions by comparable institutions and (iv) in connection with the exercise of preemptive rights on terms existing as of the Issue Date. Any adjustment made pursuant to this Section 13(B) shall become effective immediately upon the date of such issuance.

iii. Other Distributions. In case the Company shall fix a record date for the making of a distribution to all holders of shares of its Common Stock of securities, evidences of indebtedness, assets, cash, rights or warrants (excluding dividends of its Common Stock and other dividends or distributions referred to in Section 13(A)), in each such case, the Exercise Price in effect prior to such record date shall be reduced immediately thereafter to the price determined by multiplying the Exercise Price in effect immediately prior to the reduction by the quotient of (x) the Average

Market Price of the Common Stock determined as of the first date on which the Common Stock trades regular way on the principal national securities exchange on which the Common Stock is listed or admitted to trading without the right to receive such distribution, minus the amount of cash and/or the Fair Market Value of the securities, evidences of indebtedness, assets, rights or warrants to be so distributed in respect of one share of Common Stock (such amount and/or Fair Market Value, the “*Per Share Fair Market Value*”) divided by (y) the Average Market Price specified in clause (x); such adjustment shall be made successively whenever such a record date is fixed. In such event, the number of Warrant Shares issuable upon the exercise of this Warrant shall be increased to the number obtained by dividing (x) the product of (1) the number of Warrant Shares issuable upon the exercise of this Warrant before such adjustment, and (2) the Exercise Price in effect immediately prior to the distribution giving rise to this adjustment by (y) the new Exercise Price determined in accordance with the immediately preceding sentence. In the event that such distribution is not so made, the Exercise Price and the number of Warrant Shares issuable upon exercise of this Warrant then in effect shall be readjusted, effective as of the date when the Board of Directors determines not to distribute such shares, evidences of indebtedness, assets, rights, cash or warrants, as the case may be, to the Exercise Price that would then be in effect and the number of Warrant Shares that would then be issuable upon exercise of this Warrant if such record date had not been fixed.

iv. Certain Repurchases of Common Stock. In case the Company effects a Pro Rata Repurchase of Common Stock, then the Exercise Price shall be reduced to the price determined by multiplying the Exercise Price in effect immediately prior to the Effective Date of such Pro Rata Repurchase by a fraction of which the numerator shall be (i) the product of (x) the number of shares of Common Stock outstanding immediately before such Pro Rata Repurchase and (y) the Average Market Price of a share of Common Stock determined as of the date of the first public announcement by the Company or any of its Affiliates of the intent to effect such Pro Rata Repurchase, minus (ii) the aggregate purchase price of the Pro Rata Repurchase, and of which the denominator shall be the product of (i) the number of shares of Common Stock outstanding immediately prior to such Pro Rata Repurchase minus the number of shares of Common Stock so repurchased and (ii) the Average Market Price per share of Common Stock determined as of the date of the first public announcement by the Company or any of its Affiliates of the intent to effect such Pro Rata Repurchase. In such event, the number of shares of Common Stock issuable upon the exercise of this Warrant shall be increased to the number obtained by dividing (x) the product of (1) the number of Warrant Shares issuable upon the exercise of this Warrant before such adjustment, and (2) the Exercise Price in effect immediately prior to the Pro Rata Repurchase giving rise to this adjustment by (y) the new Exercise Price determined in accordance with the immediately preceding sentence. For the avoidance of doubt, no increase to the Exercise Price or decrease in the number of Warrant Shares issuable upon exercise of this Warrant shall be made pursuant to this Section 13(D).

v. Business Combinations. In case of any Business Combination or reclassification of Common Stock (other than a reclassification of Common Stock referred to in Section 13(A)), the Warrantholder’s right to receive Warrant Shares upon exercise of this Warrant shall be converted into the right to exercise this Warrant to acquire the number of shares of stock or other securities or property (including cash) which the Common Stock issuable (at the time of such Business

Combination or reclassification) upon exercise of this Warrant immediately prior to such Business Combination or reclassification would have been entitled to receive upon consummation of such Business Combination or reclassification; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interests thereafter of the Warrantholder shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to the Warrantholder's right to exercise this Warrant in exchange for any shares of stock or other securities or property pursuant to this paragraph. In determining the kind and amount of stock, securities or the property receivable upon exercise of this Warrant following the consummation of such Business Combination, if the holders of Common Stock have the right to elect the kind or amount of consideration receivable upon consummation of such Business Combination, then the consideration that the Warrantholder shall be entitled to receive upon exercise shall be deemed to be the types and amounts of consideration received by the majority of all holders of the shares of common stock that affirmatively make an election (or of all such holders if none make an election).

vi. Rounding of Calculations; Minimum Adjustments. All calculations under this Section 13 shall be made to the nearest one-tenth (1/10th) of a cent or to the nearest one-hundredth (1/100th) of a share, as the case may be. Any provision of this Section 13 to the contrary notwithstanding, no adjustment in the Exercise Price or the number of Warrant Shares shall be made if the amount of such adjustment would be less than \$0.01 or one-tenth (1/10th) of a share of Common Stock, but any such amount shall be carried forward and an adjustment with respect thereto shall be made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate \$0.01 or 1/10th of a share of Common Stock, or more.

vii. Timing of Issuance of Additional Common Stock Upon Certain Adjustments. In any case in which the provisions of this Section 13 shall require that an adjustment shall become effective immediately after a record date for an event, the Company may defer until the occurrence of such event (i) issuing to the Warrantholder of this Warrant exercised after such record date and before the occurrence of such event the additional shares of Common Stock issuable upon such exercise by reason of the adjustment required by such event over and above the shares of Common Stock issuable upon such exercise before giving effect to such adjustment and (ii) paying to such Warrantholder any amount of cash in lieu of a fractional share of Common Stock; *provided, however*, that the Company upon request shall deliver to such Warrantholder a due bill or other appropriate instrument evidencing such Warrantholder's right to receive such additional shares, and such cash, upon the occurrence of the event requiring such adjustment.

viii. Other Events. For so long as the Original Warrantholder holds this Warrant or any portion thereof, if any event occurs as to which the provisions of this Section 13 are not strictly applicable or, if strictly applicable, would not, in the good faith judgment of the Board of Directors of the Company, fairly and adequately protect the purchase rights of the Warrants in accordance with the essential intent and principles of such provisions, then the Board of Directors shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of

the Board of Directors, to protect such purchase rights as aforesaid. The Exercise Price or the number of Warrant Shares shall not be adjusted in the event of a change in the par value of the Common Stock or a change in the jurisdiction of incorporation of the Company.

ix. Statement Regarding Adjustments. Whenever the Exercise Price or the number of Warrant Shares shall be adjusted as provided in Section 13, the Company shall forthwith file at the principal office of the Company a statement showing in reasonable detail the facts requiring such adjustment and the Exercise Price that shall be in effect and the number of Warrant Shares after such adjustment, and the Company shall also cause a copy of such statement to be sent by mail, first class postage prepaid, to each Warrantholder at the address appearing in the Company's records.

x. Notice of Adjustment Event. In the event that the Company shall propose to take any action of the type described in this Section 13 (but only if the action of the type described in this Section 13 would result in an adjustment in the Exercise Price or the number of Warrant Shares or a change in the type of securities or property to be delivered upon exercise of this Warrant), the Company shall give notice to the Warrantholder, in the manner set forth in Section 13(J), which notice shall specify the record date, if any, with respect to any such action and the approximate date on which such action is to take place. Such notice shall also set forth the facts with respect thereto as shall be reasonably necessary to indicate the effect on the Exercise Price and the number, kind or class of shares or other securities or property which shall be deliverable upon exercise of this Warrant. In the case of any action which would require the fixing of a record date, such notice shall be given at least 10 days prior to the date so fixed, and in case of all other action, such notice shall be given at least 15 days prior to the taking of such proposed action. Failure to give such notice, or any defect therein, shall not affect the legality or validity of any such action.

xi. Proceedings Prior to Any Action Requiring Adjustment. As a condition precedent to the taking of any action which would require an adjustment pursuant to this Section 13, the Company shall take any action which may be necessary, including obtaining regulatory, New York Stock Exchange, NASDAQ Stock Market or other applicable national securities exchange or stockholder approvals or exemptions, as applicable, in order that the Company may thereafter validly and legally issue as fully paid and nonassessable all shares of Common Stock that the Warrantholder is entitled to receive upon exercise of this Warrant pursuant to this Section 13.

xii. Adjustment Rules. Any adjustments pursuant to this Section 13 shall be made successively whenever an event referred to herein shall occur. If an adjustment in Exercise Price made hereunder would reduce the Exercise Price to an amount below par value of the Common Stock, then such adjustment in Exercise Price made hereunder shall reduce the Exercise Price to the par value of the Common Stock.

14. No Impairment. The Company will not, by amendment of its Charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in

good faith assist in the carrying out of all the provisions of this Warrant and in taking of all such action as may be necessary or appropriate in order to protect the rights of the Warrantholder.

15. **Governing Law.** This Warrant will be governed by and construed in accordance with the federal law of the United States if and to the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State. Each of the Company and the Warrantholder agrees (a) to submit to the exclusive jurisdiction and venue of the United States District Court for the District of Columbia for any civil action, suit or proceeding arising out of or relating to this Warrant or the transactions contemplated hereby, and (b) that notice may be served upon the Company at the address in Section 19 below and upon the Warrantholder at the address for the Warrantholder set forth in the registry maintained by the Company pursuant to Section 9 hereof. To the extent permitted by applicable law, each of the Company and the Warrantholder hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to the Warrant or the transactions contemplated hereby or thereby.

16. **Binding Effect.** This Warrant shall be binding upon any successors or assigns of the Company.

17. **Amendments.** This Warrant may be amended and the observance of any term of this Warrant may be waived only with the written consent of the Company and the Warrantholder.

18. **Prohibited Actions.** The Company agrees that it will not take any action which would entitle the Warrantholder to an adjustment of the Exercise Price if the total number of shares of Common Stock issuable after such action upon exercise of this Warrant, together with all shares of Common Stock then outstanding and all shares of Common Stock then issuable upon the exercise of all outstanding options, warrants, conversion and other rights, would exceed the total number of shares of Common Stock then authorized by its Charter.

19. **Notices.** Any notice, request, instruction or other document to be given hereunder by any party to the other will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally, or by facsimile, upon confirmation of receipt, or (b) on the second Business Day following the date of dispatch if delivered by a recognized next day courier service. All notices hereunder shall be delivered as set forth in Item 7 of Schedule A hereto, or pursuant to such other instructions as may be designated in writing by the party to receive such notice.

20. **Entire Agreement.** This Warrant, the forms attached hereto and Schedule A hereto (the terms of which are incorporated by reference herein), and the Warrant Agreement (including all documents incorporated therein), contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior and contemporaneous arrangements or undertakings with respect thereto.

[Remainder of page intentionally left blank]

[Form of Notice of Exercise]

Date:___

TO: **[Company]**

RE: Exercise of Warrant

The undersigned, pursuant to the provisions set forth in the attached Warrant, hereby notifies the Company of its intention to exercise its option with respect to the number of shares of the Common Stock set forth below covered by such Warrant. Pursuant to Section 4 of the Warrant, the undersigned acknowledges that the Company may settle this exercise in net cash or shares. Cash to be paid pursuant to a Net Cash Settlement or payment of fractional shares in connection with a Net Share Settlement should be deposited to the account of the Warrantholder set forth below. Common Stock to be delivered pursuant to a Net Share Settlement shall be delivered to the Warrantholder as indicated below. A new warrant evidencing the remaining shares of Common Stock covered by such Warrant, but not yet subscribed for and purchased, if any, should be issued in the name set forth below.

Number of Warrant Shares:___

Aggregate Exercise Price: ___

Address for Delivery of Warrant Shares: ___

Wire Instructions:

Proceeds to be delivered: \$

Name of Bank:

City/ State of Bank:

ABA Number of Bank

SWIFT #

Name of Account:

Account Number at Bank:

Securities to be issued to:

If in book-entry form through the Depository:

Depository Account Number:

Name of Agent Member:

If in certificated form:

Social Security Number or Other Identifying Number:

Name:

Street Address:

City, State and Zip Code:

Any unexercised Warrants evidenced by the exercising Warrantholder's interest in the Warrant:

Social Security Number or Other Identifying Number:

Name:

Street Address:

City, State and Zip Code:

Holder: _____

By: _____

Name: _____

Title: _____

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by a duly authorized officer.

Dated: February 5, 2021

COMPANY: ALASKA Air Group, Inc.

By: __

Name: Shane R. Tackett

Title: Executive Vice President, Finance and Chief Financial Officer

Attest:

By: __

Name: Kyle Levine

Title: Senior Vice President, General
Counsel, and Corporate Secretary

[Signature Page to Warrant]

Item 1

Name: Alaska Air Group, Inc.
Corporate or other organizational form: Corporation
Jurisdiction of organization: Delaware

Item 2

Exercise Price: \$52.25

Item 3

Issue Date: February 5, 2021

Item 4

Date of Amended and Restated Warrant Agreement between the Company and the United States Department of the Treasury:
February 5, 2021

Item 5

Number of shares of Common Stock: 2,443¹

Item 6

Company's address: 19300 International Blvd., Seattle, WA 98188

Item 7

Notice information:

If to the Company:

Alaska Air Group, Inc.
19300 International Blvd., SEEXP
Seattle, WA 98188
Attention: Chief Financial Officer
Telephone: 206.392.5040

With a copy to

Alaska Air Group, Inc.
19300 International Blvd., SEAZL
Seattle, WA 98188
Attention: General Counsel
Telephone: 206.392.5040
Email: LegalContractNotices@alaskaair.com

If to Treasury:

United States Department of the Treasury

¹ For the avoidance of doubt, this warrant to purchase such shares of Common Stock is being issued pursuant to the amount by which the aggregate principal amount of the Alaska PSP2 Promissory Note was increased on February 5, 2021.

1500 Pennsylvania Avenue, NW, Room 2312
Washington, D.C. 20220
Attention: Assistant General Counsel (Banking and Finance)

AMENDED & RESTATED PROMISSORY NOTE

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS.

Reference is made to that certain Payroll Support Program Extension Agreement (“PSP2 Agreement”) dated as of January 15, 2021, by and among Alaska Airlines, Inc., an Alaska corporation (“Issuer”), having an office at 19300 International Blvd., Seattle, WA 98188, and the United States Department of the Treasury (“Treasury”), having an office at 1500 Pennsylvania Avenue, NW, Washington, D.C. 20220, entered into by Issuer and Treasury pursuant to the Consolidated Appropriations Act, 2021 (December 27, 2020) (“PSP Extension Law”).

WHEREAS, Issuer has requested that Treasury provide financial assistance to the Issuer and certain of its Affiliates (as defined below) that are Recipients (as defined in the PSP2 Agreement) that shall be used for the continuation of payment of employee wages, salaries, and benefits as is permissible under Section 402(a) of the PSP Extension Law.

WHEREAS, as appropriate compensation to the Federal Government of the United States of America for the provision of financial assistance under the PSP2 Agreement, Issuer issued a promissory note, originally dated as of January 15, 2021 (“Original Note”) to Treasury.

WHEREAS, in accordance with Section 6.2(b), the Issuer and the Holder (as defined below) have agreed to amend and restate the Original Note as of the date hereof on the terms and conditions set forth herein (as amended, “Note”).

FOR VALUE RECEIVED, Issuer unconditionally promises to pay to the Holder (as defined below) the principal sum of FIFTY-ONE MILLION ONE HUNDRED NINETY-ONE THOUSAND SEVEN HUNDRED SEVENTY-TWO DOLLARS (\$51,191,772), subject to increases and/or decreases made pursuant to Section 2.1, as permissible under the PSP2 Agreement, or Section 2.3, in each case as noted by the Holder in Schedule I (the “Principal Amount”), outstanding hereunder, together with all accrued interest thereon on the Maturity Date (as defined below) as provided in this Note. Notations made by the Holder in Schedule I shall be final and conclusive absent manifest error; provided, however, that any failure by the Holder to make such notations or any error by omission by the Holder in this regard shall not affect the obligation of the Issuer to pay the full amount of the principal of and interest on the Note or any other amount owing hereunder.

• DEFINITIONS

a. Defined Terms

. As used in this Note, capitalized terms have the meanings specified in Annex A.

b. Terms Generally

. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” The word “or” is not exclusive. The word “year” shall refer (i) in the case of a leap year, to a year of three hundred sixty-six (366) days, and (ii) otherwise, to a year of three hundred sixty-five (365) days. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (c) the words “herein,” “hereof” and “hereunder,” and words of similar import, shall be construed to refer to this Note in its entirety and not to any particular provision hereof, (d) all references herein to Sections, Annexes and Schedules shall be construed to refer to Sections of, and Annexes and Schedules to, this Note, (e) any reference to any law or regulation herein shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (f) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

c. Accounting Terms

. All accounting terms not otherwise defined herein shall be construed in conformity with GAAP, as in effect from time to time.

• NOTE

d. Principal Amount

. Upon any disbursement to the Issuer under the PSP2 Agreement after the Closing Date, the Principal Amount of this Note shall be increased in an amount equal to 30.333% of any such disbursement; provided, however, that no increases in the Principal Amount of this Note shall occur pursuant to this Section until the aggregate principal amount of any disbursements to the Issuer under the PSP2 Agreement is greater than \$100,000,000.

e. Maturity Date

. The aggregate unpaid principal amount of the Note, all accrued and unpaid interest, and all other amounts payable under this Note shall be due and payable on the Maturity Date, unless otherwise provided in Section 5.1.

f. Prepayments

i. Optional Prepayments. The Issuer may, upon written notice to the Holder, at any time and from time to time prepay the Note in whole or in part without premium or penalty in a minimum aggregate principal amount equal to the lesser of \$5,000,000 and the Principal Amount outstanding.

ii. Mandatory Prepayments. If a Change of Control occurs, within thirty (30) days following the occurrence of such Change of Control, the Issuer shall prepay the aggregate principal amount outstanding under the Note and any accrued interest or other amounts owing under the Note. The Issuer will not, and will not permit any Subsidiary to, enter into any Contractual Obligation (other than this Note) that, directly or indirectly, restricts the ability of the Issuer or any Subsidiary to make such prepayment hereunder.

g. Interest

i. Interest Rate. Subject to paragraph (b) of this Section, the Note shall bear interest on the Principal Amount outstanding from time to time at a rate per annum equal to 1.00% until the fifth anniversary of the Closing Date, and the Applicable SOFR Rate plus 2.00% thereafter until the Maturity Date. All interest hereunder shall be computed on the basis of the actual number of days in each interest period and a year of 365 or 366 days, as applicable, until the fifth anniversary of the Closing Date and computed in a manner determined by the Holder thereafter, based on prevailing customary market conventions for the use of the Applicable SOFR Rate in floating-rate debt instruments at the time of the announcement of the Applicable SOFR Rate. Each interest period will be from, and including, the Closing Date, or from and including the most recent interest payment date to which interest has been paid or provided for, to, but excluding the next interest payment date.

ii. Default Interest. If any amount payable by the Issuer or any Guarantor under this Note (including principal of the Note, interest, fees or other amount) is not paid when due, whether at stated maturity, upon acceleration or otherwise, such amount shall thereafter bear interest at a rate per annum equal to the applicable Default Rate. While any Event of Default exists, the Issuer or any Guarantor shall pay interest on the principal amount of the Note outstanding hereunder at a rate per annum equal to the applicable Default Rate.

iii. Payment Dates. Accrued interest on the Note shall be payable in arrears on the last Business Day of March and September of each year, beginning with March 31, 2021, and on the Maturity Date and at such other times as may be specified herein; provided that (i) interest accrued pursuant to paragraph (b) of this Section shall be payable on demand and (ii) in the event of any repayment or prepayment of the Note, accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment.

iv. SOFR Fallback. If, at any time, the Holder or its designee determines that a Benchmark Transition Event has occurred with respect to the Applicable SOFR Rate or SOFR, or any successor rate, the Holder or its designee will designate a Benchmark Replacement and, as applicable, make Benchmark Conforming Changes in a manner consistent with the methodology set forth in the ARRC Fallback Provisions. Any determination, decision or election that may be made by the Holder or its designee pursuant to this Section 2.4(d), and any decision to take or refrain from taking any action

or making any determination, decision or election arising out of or relating to this Section 2.4(d), shall be conclusive and binding absent manifest error, may be made by the Holder or its designee in its sole discretion, and, notwithstanding anything to the contrary in this Note, shall become effective without the consent of the Issuer, any Guarantor or any other party. Any terms used in this Section 2.4(d) but not defined in this Note shall be construed in a manner consistent with the ARRC Fallback Provisions.

h. Payments Generally

i. Payments by Issuer. All payments to be made by the Issuer hereunder shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, (i) for so long as Treasury is the Holder of this Note, each payment under this Note shall be paid in immediately available funds by electronic funds transfer to the account of the United States Treasury maintained at the Federal Reserve Bank of New York specified by Treasury in a written notice to the Issuer, or to such other account as may be specified from time to time by Treasury in a written notice to the Issuer, or (ii) in the event that Treasury is not the Holder of this Note, then each payment under this Note shall be made in immediately available funds by electronic funds transfer to such account as shall be specified by the Holder in a written notice to the Issuer, in each case not later than 12:00 noon (Washington, D.C. time) on the date specified herein. All amounts received by the Holder after such time on any date shall be deemed to have been received on the next succeeding Business Day and any applicable interest or fees shall continue to accrue. If any payment to be made by the Issuer shall fall due on a day that is not a Business Day, payment shall be made on the next succeeding Business Day and such extension of time shall be reflected in computing interest or fees, as the case may be; provided that, if such next succeeding Business Day would fall after the Maturity Date, payment shall be made on the immediately preceding Business Day. Except as otherwise expressly provided herein, all payments hereunder shall be made in Dollars.

i. Application of Insufficient Payments. If at any time insufficient funds are received by and available to the Holder to pay fully all amounts of principal, interest, fees and other amounts then due hereunder, such funds shall be applied (i) first, to pay interest, fees and other amounts then due hereunder, and (ii) second, to pay principal then due hereunder.

• **REPRESENTATIONS AND WARRANTIES**

The Issuer and each Guarantor represents and warrants to the Holder on the Closing Date and is deemed to represent and warrant to the Holder on any date on which the amount of the Note is increased pursuant to the terms hereof and in accordance with the PSP2 Agreement that:

i. Existence, Qualification and Power

. The Issuer, each Guarantor and each Subsidiary (a) is duly organized or formed, validly existing and, as applicable, in good standing under the Laws of the jurisdiction of its incorporation or organization, (b) has all requisite power and authority and all requisite governmental licenses, authorizations, consents and approvals to (i) own or lease its assets and carry on its business and (ii) execute, deliver and perform its obligations under the Note, and (c) is duly qualified and is licensed and, as applicable, in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or license, except, in each case referred to in clause (a) (other than with respect to the Issuer and each Guarantor), (b)(i) or (c), to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

j. Authorization; No Contravention

. The execution, delivery and performance by the Issuer and each Guarantor of the Note have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of its Organizational Documents, (b) conflict with or result in any breach or contravention of, or the creation of any Lien under, or require any payment to be made under (i) any material Contractual Obligation to which the Issuer or any Guarantor is a party or affecting the Issuer or any Guarantor or the material properties of the Issuer, any Guarantor or any Subsidiary or (ii) any material order, injunction, writ or decree of any Governmental Authority or any arbitral award to which the Issuer, the Guarantor or any Subsidiary or its property is subject or (c) violate any Law, except to the extent that such violation could not reasonably be expected to have a Material Adverse Effect.

k. Governmental Authorization; Other Consents

. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Issuer or any Guarantor of this Note, except for such approvals, consents, exemptions, authorizations, actions or notices that have been duly obtained, taken or made and in full force and effect.

l. Execution and Delivery; Binding Effect

. This Note has been duly executed and delivered by the Issuer and each Guarantor. This Note constitutes a legal, valid and binding obligation of the Issuer and each Guarantor, enforceable against the Issuer and each Guarantor in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium or other Laws affecting creditors' rights generally and by general principles of equity.

• COVENANTS

Until all Obligations shall have been paid in full or until any later date as provided for in this Note, the Issuer covenants and agrees with the Holder that:

m. Notices

. The Issuer will promptly notify the Holder of the occurrence of any Default.

n. Guarantors

. The Guarantors listed on the signature page to this Note hereby Guarantee the Guaranteed Obligations as set forth in Annex B. If any Subsidiary (other than an Excluded Subsidiary) is formed or acquired after the Closing Date or if any Subsidiary ceases to be an Excluded Subsidiary, then the Issuer will cause such Subsidiary to become a Guarantor of this Note within 30 days of such Subsidiary being formed or acquired or of such Subsidiary ceasing to be an Excluded Subsidiary pursuant to customary documentation reasonably acceptable to the Holder and on the terms and conditions set forth in Annex B.

o. Pari Passu Ranking

. The Obligations of the Issuer and any Guaranteed Obligations of any Guarantor under this Note shall be unsecured obligations of the Issuer and any Guarantor ranking *pari passu* with all existing and future senior unsecured Indebtedness of the Issuer or any Guarantor that is not subordinated in right of payment to the holder or lender of such Indebtedness.

• EVENTS OF DEFAULT

p. Events of Default

. If any of the following events (each, an "Event of Default") shall occur:

- i. the Issuer shall fail to pay any principal of the Note when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;
- ii. the Issuer shall fail to pay any interest on the Note, or any fee or any other amount (other than an amount referred to in clause (a) of this Section) payable under this Note, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of two (2) or more Business Days;
- iii. any representation or warranty made or deemed made by or on behalf of the Issuer or any Guarantor, including those made prior to the Closing Date, in or in connection with this Note or any amendment or modification hereof, or any waiver hereunder, or in the PSP2 Agreement, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Note, the PSP2 Agreement or the PSP2 Application or any amendment or modification hereof or thereof, or any waiver hereunder or thereunder, shall prove to have been incorrect in any material respect (or, in the case of any such representation or warranty under this Note already qualified by materiality, such representation or warranty shall prove to have been incorrect) when made or deemed made;
- iv. the Issuer shall fail to observe or perform any covenant, condition or agreement contained in Section 4.1;

- v. the Issuer or any Guarantor shall fail to observe or perform any covenant, condition or agreement contained in this Note (other than those specified in clause (a), (b) or (d) of this Section) and such failure shall continue unremedied for a period of 30 or more days after notice thereof by the Holder to the Issuer;
- i. (i) the Issuer or any Guarantor shall default in the performance of any obligation relating to any Indebtedness (other than Indebtedness under the Note) having an aggregate principal amount equal to or greater than \$45,000,000 (“Material Indebtedness”) and any applicable grace periods shall have expired and any applicable notice requirements shall have been complied with, and as a result of such default the holder or holders of such Material Indebtedness or any trustee or agent on behalf of such holder or holders shall have caused such Material Indebtedness to become due prior to its scheduled final maturity date or (ii) the Issuer or any Guarantor shall default in the payment of the outstanding principal amount due on the scheduled final maturity date of any Indebtedness outstanding under one or more agreements of the Issuer or any Guarantor, any applicable grace periods shall have expired and any applicable notice requirements shall have been complied with and such failure to make payment when due shall be continuing for a period of more than five (5) consecutive Business Days following the applicable scheduled final maturity date or the applicable grace period thereunder, in an aggregate principal amount at any single time unpaid exceeding \$45,000,000;
- i. an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Issuer, any Guarantor or any Subsidiary or its debts, or of a substantial part of its assets, under any Debtor Relief Law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Issuer or any of its Subsidiaries or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for a period of 60 or more days or an order or decree approving or ordering any of the foregoing shall be entered;
- i. the Issuer, any Guarantor or any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Debtor Relief Law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (g) of this Section, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Issuer, any Guarantor or any Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding or (v) make a general assignment for the benefit of creditors;
- x. the Issuer, any Guarantor or any Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;
- x. there is entered against the Issuer, any Guarantor or any Subsidiary (i) a final judgment or order for the payment of money in an aggregate amount (as to all such judgments and orders) exceeding an amount equal to or greater than \$45,000,000 (to the extent not covered by independent third-party insurance as to which the insurer has been notified of such judgment or order and has not denied or failed to acknowledge coverage), or (ii) a non-monetary final judgment or order that, either individually or in the aggregate, has or could reasonably be expected to have a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of 30 consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect; or
- i. any material provision of the Note, at any time after its execution and delivery and for any reason other than as expressly permitted hereunder or satisfaction in full of all Obligations, ceases to be in full force and effect; or the Issuer, any Guarantor or any other Person contests in writing the validity or enforceability of any provision of the Note; or the Issuer or any Guarantor denies in writing that it has any or further liability or obligation under the Note, or purports in writing to revoke, terminate or rescind the Note;

then, and in every such event (other than an event with respect to the Issuer or any Guarantor described in clause (g) or (h) of this Section), and at any time thereafter during the continuance of such event, the Holder may, by notice to the Issuer, take any or all of the following actions, at the same or different times:

1. declare any amounts then outstanding under the Note to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Note so declared to be due and payable, together with accrued interest thereon and all fees and other Obligations of the Issuer accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Issuer and any Guarantor; and

2. exercise on all rights and remedies available to it under the Note and Applicable Law;

provided that, in case of any event with respect to the Issuer or any Guarantor described in clause (g) or (h) of this Section, the principal of the Note then outstanding, together with accrued interest thereon and all fees and other Obligations accrued hereunder, shall automatically become due and payable, in each case without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Issuer and any Guarantor.

• **MISCELLANEOUS**

q. Notices

i. Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in paragraph (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by email as follows:

1. if to the Issuer or any Guarantor, to Alaska Airlines, Inc., 19300 International Blvd., SEEXP, Seattle, WA 98188, Attention of Chief Financial Officer (Telephone No. 206.392.5040; Email: AS.Treasury.Dept@alaskaair.com); with a copy to Alaska Airlines, Inc., 19300 International Blvd., SEAZL, Seattle, WA 98188, Attn: General Counsel (Telephone No. 206.392.5040; Email: LegalContractNotices@alaskaair.com);

2. if to the Holder, to the Department of the Treasury at 1500 Pennsylvania Avenue, NW, Washington, D.C. 20220, Attention of Assistant General Counsel (Banking and Finance) (Telephone No. 202.622.0283; Email: eric.froman@treasury.gov); and

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received. Notices delivered through electronic communications, to the extent provided in paragraph (b) below, shall be effective as provided in said paragraph (b).

i. Electronic Communications. Notices and other communications to the Holder hereunder may be delivered or furnished by electronic communication (including email, FpML, and Internet or intranet websites) pursuant to procedures approved by the Holder. The Holder, the Issuer or any Guarantor may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

Unless the Holder otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by return e-mail or other written acknowledgement), and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient, at its e-mail address as described in the foregoing clause (i), of notification that such notice or communication is available and identifying the website address therefor; provided that, for both clauses (i) and (ii) above, if such notice, email or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day.

r. Waivers; Amendments

i. No Waiver; Remedies Cumulative; Enforcement. No failure or delay by the Holder in exercising any right, remedy, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, remedy, power or privilege, or any abandonment or discontinuance of steps to enforce such a right remedy, power or privilege, preclude any other or further exercise thereof or the exercise of any other right remedy, power or privilege. The rights, remedies, powers and privileges of the Holder hereunder and under the Note are cumulative and are not exclusive of any rights, remedies, powers or privileges that any such Person would otherwise have.

i. Amendments, Etc. Except as otherwise expressly set forth in this Note, no amendment or waiver of any provision of this Note, and no consent to any departure by the Issuer therefrom, shall be effective unless in writing executed by the Issuer and the Holder, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

s. Expenses; Indemnity; Damage Waiver

i. Costs and Expenses. The Issuer shall pay (i) all reasonable outofpocket expenses incurred by the Holder (including the reasonable fees, charges and disbursements of any counsel for the Holder) in connection with the preparation, negotiation, execution, delivery and administration of this Note and the PSP2 Agreement, any other agreements or documents executed in connection herewith or therewith, or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), and (ii) all outofpocket expenses incurred by the Holder (including the fees, charges and disbursements of any counsel for the Holder), in connection with the enforcement or protection of its rights in connection with this Note and the PSP2 Agreement, any other agreements or documents executed in connection herewith or therewith, or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), including all such outofpocket expenses incurred during any workout, restructuring, negotiations or enforcement in respect of such Note, PSP2 Agreement and other agreements or documents executed in connection herewith or therewith.

i. Indemnification by the Issuer. The Issuer shall indemnify the Holder and each of its Related Parties (each such Person being called an “Indemnitee”) against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities, obligations, penalties, fines, settlements, judgments, disbursements and related costs and expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), and shall indemnify and hold harmless each Indemnitee from all fees and time charges and disbursements for attorneys who may be employees of any Indemnitee, incurred by any Indemnitee or asserted against any Indemnitee by any Person (including the Issuer) arising out of, in connection with, or as a result of (i) the execution or delivery of this Note or any agreement or instrument contemplated hereby, the performance by the Issuer or any Guarantor of its obligations hereunder or the consummation of the transactions contemplated hereby, (ii) the Note or the use or proposed use of the proceeds therefrom, or (iii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Issuer or any Guarantor, and regardless of whether any Indemnitee is a party thereto.

i. Waiver of Consequential Damages, Etc. To the fullest extent permitted by Applicable Law, the Issuer and any Guarantor shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Note or any agreement or instrument contemplated hereby, the transactions contemplated hereby, or the use of the proceeds thereof. No Indemnitee referred to in paragraph (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Note or the transactions contemplated hereby.

v. Payments. All amounts due under this Section shall be payable not later than five (5) days after demand therefor.

v. Survival. Each party’s obligations under this Section shall survive the termination of the Note and payment of the obligations hereunder.

t. Successors and Assigns

. Neither the Issuer nor any Guarantor may assign or transfer this Note or any of its rights or obligations hereunder and any purported assignment or transfer in violation of this Note shall be void. Holder may assign or participate a portion or all of its rights under this Note at any time in compliance with all Applicable Laws. This Note shall inure to the benefit of and be binding upon Issuer, any Guarantor and Holder and their permitted successors and assigns. Any Holder that assigns, or sells participations in, any portion of the Note will take such actions as are necessary for the Note and such portion to be in “registered form” (within the meaning of Treasury Regulations Section 5f.103-1).

u. Counterparts; Integration; Effectiveness

. This Note and any amendments, waivers, consents or supplements hereto may be executed in counterparts, each of which shall constitute an original, but all taken together shall constitute a single contract. This Note constitutes the entire contract between Issuer, any Guarantor and the Holder with respect to the subject matter hereof and supersede all previous agreements and understandings, oral or written, with respect thereto. Notwithstanding anything herein to the contrary, delivery of an executed counterpart of a signature page of this Note by electronic means shall be effective as delivery of a manually executed counterpart of this Note.

v. Severability

. If any term or provision of this Note is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Note or invalidate or render unenforceable such term or provision in any other jurisdiction.

w. Right of Setoff

. If an Event of Default shall have occurred and be continuing, the Holder is hereby authorized at any time and from time to time, to the fullest extent permitted by Applicable Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held, and other obligations (in whatever currency) at any time owing, by the Holder, to or for the credit or the account of the Issuer against any and all of the due and unpaid Obligations of the Issuer now or hereafter existing under this Note to the Holder, irrespective of whether or not the Holder shall have made any demand under this Note. The rights of the Holder under this Section are in addition to other rights and remedies (including other rights of setoff) that the Holder may have. The Holder agrees to notify the Issuer promptly after any such setoff and application; provided that the failure to give such notice shall not affect the validity of such setoff and application.

x. Governing Law; Jurisdiction; Etc

. This Note will be governed by and construed in accordance with the federal law of the United States if and to the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State. Each of the Issuer, any Guarantor and the Holder agrees (a) to submit to the exclusive jurisdiction and venue of the United States District Court for the District of Columbia for any civil action, suit or proceeding arising out of or relating to this Note or the transactions contemplated hereby, and (b) that notice may be served upon the Issuer, any Guarantor or the Holder at the applicable address in Section 6.1 hereof (or upon any Holder that is not Treasury at an address provided by such Holder to Issuer in writing). To the extent permitted by Applicable Law, each of the Issuer, any Guarantor and the Holder hereby unconditionally waives trial by jury in any civil legal action or proceeding relating to the Note or the transactions contemplated hereby.

y. Headings

. Section headings used herein are for convenience of reference only, are not part of this Note and shall not affect the construction of, or be taken into consideration in interpreting, this Note.

IN WITNESS WHEREOF, the Issuer and each Guarantor have executed this Note as of the day and year written below.

Alaska Airlines, Inc.,

as Issuer

By _____

Name: Shane R. Tackett
Title: Exec. Vice President, Finance
and Chief Financial Officer
Date: February 5, 2021

Alaska Air Group, Inc.,

as Guarantor

By _____

Name: Shane R. Tackett
Title: Exec. Vice President, Finance
and Chief Financial Officer
Date: February 5, 2021

Horizon Air Industries, Inc.,

as Guarantor

By _____

Name: Joseph A. Sprague
Title: President
Date: February 5, 2021

ANNEX A

DEFINITIONS

“Affiliate” means any Person that directly or indirectly Controls, is Controlled by, or is under common Control with, the Issuer.

“Applicable Law” means, as to any Person, all applicable Laws binding upon such Person or to which such a Person is subject.

“Applicable SOFR Rate” means a rate of interest based on SOFR that shall be determined by the Holder and publicly announced by the Holder on or prior to the fifth anniversary of the Closing Date and shall, to the extent reasonably practicable, be based on customary market conventions as in effect at the time of such announcement. In no event will the Applicable SOFR Rate be less than 0.00% per annum.

“ARRC Fallback Provisions” means the Fallback Language for New Issuances of LIBOR Floating Rate Notes set forth in the ARRC Recommendations Regarding More Robust Fallback Language for New Issuances of LIBOR Floating Rate Notes, dated April 25, 2019.

“ASU” means the Accounting Standards Update 2016-02, Leases (Topic 842) by the Financial Accounting Standards Board issued on February 25, 2016.

“Beneficial Owner” has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular “person” (as that term is used in Section 13(d)(3) of the Exchange Act), such “person” will be deemed to have beneficial ownership of all securities that such “person” has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms “Beneficially Owns” and “Beneficially Owned” have a corresponding meaning.

“Business Day” means any on which Treasury and the Federal Reserve Bank of New York are both open for business.

“Capitalized Lease Obligations” means, at the time any determination thereof is to be made, the amount of the liability in respect of a Capitalized Lease that would at such time be required to be capitalized and reflected as a liability on a balance sheet (excluding the footnotes thereto) prepared in accordance with GAAP; provided that all leases of such Person that are or would have been treated as operating leases for purposes of GAAP prior to the issuance of the ASU shall continue to be accounted for as operating leases for purposes of all financial definitions and calculations for purposes of this Note (whether or not such operating lease obligations were in effect on such date) notwithstanding the fact that such obligations are required in accordance with the ASU (on a prospective or retroactive basis or otherwise) to be treated as capitalized lease obligations for other purposes.

“Capitalized Leases” means all leases that have been or should be, in accordance with GAAP as in effect on the Closing Date, recorded as capitalized leases; provided that for all purposes hereunder the amount of obligations under any Capitalized Lease shall be the amount thereof accounted for as a liability in accordance with GAAP; provided, further, that all leases of such Person that are or would have been treated as operating leases for purposes of GAAP prior to the issuance of the ASU shall continue to be accounted for as operating leases for purposes of all financial definitions and calculations for purposes of this Note (whether or not such operating lease obligations were in effect on such date) notwithstanding the fact that such obligations are required in accordance with the ASU (on a prospective or retroactive basis or otherwise) to be treated as capitalized lease obligations for other purposes.

“Change of Control” means the occurrence of any of the following: (a) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Issuer and its Subsidiaries, or if the Issuer is a Subsidiary of any Guarantor, such Guarantor (the “Parent Guarantor”) and its Subsidiaries, taken as a whole to any Person (including any “person” (as that term is used in Section 13(d)(3) of the Exchange Act)); or (b) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any Person (including any “person” (as defined above)) becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of the Issuer or Parent Guarantor, as applicable, (measured by voting power rather than number of shares), other than (i) any such transaction where the Voting Stock of the Issuer or Parent Guarantor, as applicable, (measured by voting power rather than number of shares) outstanding immediately prior to such transaction

constitutes or is converted into or exchanged for at least a majority of the outstanding shares of the Voting Stock of such Beneficial Owner (measured by voting power rather than number of shares), or (ii) any merger or consolidation of the Issuer or Parent Guarantor, as applicable, with or into any Person (including any “person” (as defined above)) which owns or operates (directly or indirectly through a contractual arrangement) a Permitted Business (a “Permitted Person”) or a Subsidiary of a Permitted Person, in each case, if immediately after such transaction no Person (including any “person” (as defined above)) is the Beneficial Owner, directly or indirectly, of more than 50% of the total Voting Stock of such Permitted Person (measured by voting power rather than number of shares).

“Closing Date” means the date set forth on the Issuer’s and each Guarantor’s signature page to this Note.

“Contractual Obligation” means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings analogous thereto.

“Debtor Relief Laws” means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect.

“Default” means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“Default Rate” means an interest rate (before as well as after judgment) equal to the interest rate on the Note plus 2.00% per annum.

“Disqualified Equity Interest” means any equity interest that, by its terms (or the terms of any security or other equity interests into which it is convertible or for which it is exchangeable), or upon the happening of any event or condition (a) matures or is mandatorily redeemable (other than solely for equity interests that are not Disqualified Equity Interests), pursuant to a sinking fund obligation or otherwise (except as a result of a change of Control or asset sale so long as any rights of the holders thereof upon the occurrence of a change of Control or asset sale event shall be subject to the prior repayment in full of the Note and all other Obligations that are accrued and payable), (b) is redeemable at the option of the holder thereof, in whole or in part, (c) provides for scheduled payments of dividends in cash, or (d) is or becomes convertible into or exchangeable for Indebtedness or any other equity interests that would constitute Disqualified Equity Interests, in each case, prior to the date that is ninety-one days after the Maturity Date; provided that if such equity interests are issued pursuant to a plan for the benefit of employees of the Issuer or any Subsidiary or by any such plan to such employees, such equity interests shall not constitute Disqualified Equity Interests solely because they may be required to be repurchased by the Issuer or its Subsidiaries in order to satisfy applicable statutory or regulatory obligations or as a result of such employee’s termination, death or disability.

“Dollar” and “\$” mean lawful money of the United States.

“Event of Default” has the meaning specified in Section 5.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

“Excluded Subsidiary” means any Subsidiary of the Issuer that is not an obligor in respect of any Material Indebtedness that is unsecured of the Issuer or any of its Subsidiaries, unless such Subsidiary is required to be an obligor under any agreement, instrument or other document relating to any Material Indebtedness that is unsecured of the Issuer or any of its Subsidiaries.

“GAAP” means United States generally accepted accounting principles as in effect as of the date of determination thereof. Notwithstanding any other provision contained herein, (a) all terms of an accounting or financial nature used herein shall be construed, and all computations of amounts and ratios referred to herein shall be made, without giving effect to any election under FASB Accounting Standards Codification 825-Financial Instruments, or any successor thereto (including pursuant to the FASB Accounting Standards Codification), to value any Indebtedness of any subsidiary at “fair value,” as defined therein and (b) the amount of any Indebtedness under GAAP with respect to Capitalized Lease Obligations shall be determined in accordance with the definition of Capitalized Lease Obligations.

“Governmental Authority” means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

“Guarantee” means, as to any Person, (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part) or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person (or any right, contingent or otherwise, of any holder of such Indebtedness to obtain any such Lien); provided that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term “Guarantee” as a verb has a corresponding meaning.

“Guaranteed Obligations” has the meaning specified in Annex B.

“Guarantor” means each Guarantor listed on the signature page to this Note and any other Person that Guarantees this Note.

“Holder” means the United States Department of the Treasury or its designees or any other Person that shall have rights pursuant to an assignment hereunder.

“Indebtedness” means, as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP: (a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments; (b) all direct or contingent obligations of such Person arising under (i) letters of credit (including standby and commercial), bankers’ acceptances and bank guaranties and (ii) surety bonds, performance bonds and similar instruments issued or created by or for the account of such Person; (c) net obligations of such Person under any swap contract; (d) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business); (e) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse; (f) attributable indebtedness in respect of any Capitalized Lease Obligation and any synthetic lease obligation of any Person; (g) all obligations of such Person in respect of Disqualified Equity Interests; and (h) all Guarantees of such Person in respect of any of the foregoing. For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person. The amount of any net obligation under any swap contract on any date shall be deemed to be the swap termination value thereof as of such date. The amount of any Indebtedness of any Person for purposes of clause (e) that is expressly made non-recourse or limited-recourse (limited solely to the assets securing such Indebtedness) to such Person shall be deemed to be equal to the lesser of (i) the aggregate principal amount of such Indebtedness and (ii) the fair market value of the property encumbered thereby as determined by such Person in good faith.

“Indemnatee” has the meaning specified in Section 6.3(b).

“Issuer” has the meaning specified in the preamble to this Note.

“Laws” means, collectively, all international, foreign, federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

“Lien” means any mortgage, pledge, hypothecation, collateral assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing).

“Material Adverse Effect” means (a) a material adverse change in, or a material adverse effect on, the operations, business, properties, liabilities (actual or contingent), condition (financial or otherwise) or prospects of Alaska Air Group, Inc., a Delaware corporation, and its Subsidiaries taken as a whole; or (b) a material adverse effect on (i) the ability of the Issuer or any Guarantor to perform its Obligations, (ii) the legality, validity, binding effect or enforceability against the Issuer or any Guarantors of the Note or (iii) the rights, remedies and benefits available to, or conferred upon, the Holder under the Note.

“Material Indebtedness” has the meaning specified in Section 5.1(f).

“Maturity Date” means the date that is ten years after the Closing Date (except that, if such date is not a Business Day, the Maturity Date shall be the next preceding Business Day).

“Note” has the meaning specified in the preamble to this Note.

“Obligations” means all advances to, and debts, liabilities, obligations, covenants and duties of, the Issuer arising under or otherwise with respect to the Note, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against the Issuer or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding. Without limiting the foregoing, the Obligations include (a) the obligation to pay principal, interest, charges, expenses, fees, indemnities and other amounts payable by the Issuer under the Note and (b) the obligation of the Issuer to reimburse any amount in respect of any of the foregoing that the Holder, in each case in its sole discretion, may elect to pay or advance on behalf of the Issuer.

“Obligee Guarantor” has the meaning specified in Annex B.

“Organizational Documents” means (a) as to any corporation, the charter or certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction), (b) as to any limited liability company, the certificate or articles of formation or organization and operating or limited liability agreement and (c) as to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

“Original Note” has the meaning specified in the preamble to this Note.

“Permitted Business” means any business that is the same as, or reasonably related, ancillary, supportive or complementary to, the business in which the Issuer and its Subsidiaries are engaged on the date of this Note.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Principal Amount” has the meaning specified in the preamble to this Note.

“PSP Extension Law” has the meaning specified in the preamble to this Note.

“PSP2 Agreement” has the meaning specified in the preamble to this Note.

“PSP2 Application” means the application form and any related materials submitted by the Issuer to Treasury in connection with an application for financial assistance under Division N, Title IV, Subtitle A of the PSP Extension Law.

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the agents, advisors and representatives of such Person and of such Person’s Affiliates.

“SOFR” means the secured overnight financing rate published by the Federal Reserve Bank of New York, as administrator of the benchmark (or a successor administrator) on the Federal Reserve Bank of New York’s (or such successor’s) website.

“Subsidiary” of a Person means a corporation, partnership, limited liability company, association or joint venture or other business entity of which a majority of the equity interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time owned or the management of which is Controlled, directly, or indirectly through one or more intermediaries, by such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of the Issuer.

“Treasury” has the meaning specified in the preamble to this Note.

“United States” and “U.S.” mean the United States of America.

“Voting Stock” of any specified Person as of any date means the equity interests of such Person that is at the time entitled to vote in the election of the board of directors of such Person.

ANNEX B

GUARANTEE

1. Guarantee of the Obligations

. Each Guarantor jointly and severally hereby irrevocably and unconditionally guarantees to the Holder, the due and punctual payment in full of all Obligations (or such lesser amount as agreed by the Holder in its sole discretion) when the same shall become due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. § 362(a)) (collectively, the "Guaranteed Obligations").

2. Payment by a Guarantor

. Each Guarantor hereby jointly and severally agrees, in furtherance of the foregoing and not in limitation of any other right which the Holder may have at law or in equity against any Guarantor by virtue hereof, that upon the failure of the Issuer to pay any of the Guaranteed Obligations when and as the same shall become due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. § 362(a)), such Guarantor will upon demand pay, or cause to be paid, in cash, to the Holder an amount equal to the sum of the unpaid principal amount of all Guaranteed Obligations then due as aforesaid, accrued and unpaid interest on such Guaranteed Obligations (including interest which, but for the Issuer's becoming the subject of a case under the Bankruptcy Code, would have accrued on such Guaranteed Obligations, whether or not a claim is allowed against the Issuer for such interest in the related bankruptcy case) and all other Guaranteed Obligations then owed to the Holder as aforesaid.

3. Liability of Guarantors Absolute

. Each Guarantor agrees that its obligations hereunder are irrevocable, absolute, independent and unconditional and shall not be affected by any circumstance which constitutes a legal or equitable discharge of a guarantor or surety other than payment in full of the Guaranteed Obligations. In furtherance of the foregoing and without limiting the generality thereof, each Guarantor agrees as follows:

- i. this Guarantee is a guarantee of payment when due and not of collectability;
- ii. the Holder may enforce this Guarantee upon the occurrence of an Event of Default notwithstanding the existence of any dispute between the Issuer and the Holder with respect to the existence of such Event of Default;
- iii. a separate action or actions may be brought and prosecuted against such Guarantor whether or not any action is brought against the Issuer or any other Guarantors and whether or not Issuer or such Guarantors are joined in any such action or actions;
- iv. payment by any Guarantor of a portion, but not all, of the Guaranteed Obligations shall in no way limit, affect, modify or abridge any other Guarantor's liability for any portion of the Guaranteed Obligations which has not been paid;
- v. the Holder, upon such terms as it deems appropriate, without notice or demand and without affecting the validity or enforceability hereof or giving rise to any reduction, limitation, impairment, discharge or termination of any Guarantor's liability hereunder, from time to time may (i) renew, extend, accelerate, increase the rate of interest on, or otherwise change the time, place, manner or terms of payment of the Guaranteed Obligations; (ii) settle, compromise, release or discharge, or accept or refuse any offer of performance with respect to, or substitutions for, the Guaranteed Obligations or subordinate the payment of the same to the payment of any other obligations; (iii) release, surrender, exchange, substitute, compromise, settle, rescind, waive, alter, subordinate or modify, with or without consideration, any security for payment of the Guaranteed Obligations, any other guarantees of the Guaranteed Obligations, or any other obligation of any Person (including any other Guarantor) with respect to the Guaranteed Obligations; and (iv) enforce its rights and remedies even though such action may operate to impair or extinguish any right of reimbursement or subrogation or other right or remedy of any Guarantor against the Issuer or any security for the Guaranteed Obligations; and

i. this Guarantee and the obligations of each Guarantor hereunder shall be valid and enforceable and shall not be subject to any reduction, limitation, impairment, discharge or termination for any reason (other than payment in full of the Guaranteed Obligations), including the occurrence of any of the following: (i) any failure, delay or omission to assert or enforce or agreement or election not to assert or enforce, or the stay or enjoining, by order of court, by operation of law or otherwise, of the exercise or enforcement of, any claim or demand or any right, power or remedy with respect to the Guaranteed Obligations, or with respect to any security for the payment of the Guaranteed Obligations; (ii) any rescission, waiver, amendment or modification of, or any consent to departure from, any of the terms or provisions hereof; (iii) the Guaranteed Obligations, or any agreement relating thereto, at any time being found to be illegal, invalid or unenforceable in any respect; (iv) the Holder's consent to the change, reorganization or termination of the corporate structure or existence of the Issuer or any of its Subsidiaries and to any corresponding restructuring of the Guaranteed Obligations; (v) any defenses, setoffs or counterclaims which the Issuer or any Guarantor may allege or assert against the Holder in respect of the Guaranteed Obligations, including failure of consideration, lack of authority, validity or enforceability, breach of warranty, payment, statute of frauds, statute of limitations, accord and satisfaction and usury; and (vi) any other event or circumstance that might in any manner vary the risk of any Guarantor as an obligor in respect of the Guaranteed Obligations.

4. Waivers by Guarantors

. Each Guarantor hereby waives, for the benefit of the Holder: (a) any right to require the Holder, as a condition of payment or performance by such Guarantor, to (i) proceed against Issuer, any Guarantor or any other Person; (ii) proceed against or exhaust any security in favor of the Holder; or (iii) pursue any other remedy in the power of the Holder whatsoever or (b) presentment to, demand for payment from and protest to the Issuer or any Guarantor or notice of acceptance; and (c) any defenses or benefits that may be derived from or afforded by law which limit the liability of or exonerate guarantors or sureties, or which may conflict with the terms hereof.

5. Guarantors' Rights of Subrogation, Contribution, etc.

Until the Guaranteed Obligations shall have been paid in full, each Guarantor hereby waives any claim, right or remedy, direct or indirect, that such Guarantor now has or may hereafter have against the Issuer or any other Guarantor or any of its assets in connection with this Guarantee or the performance by such Guarantor of its obligations hereunder, including without limitation (a) any right of subrogation, reimbursement or indemnification that such Guarantor now has or may hereafter have against the Issuer with respect to the Guaranteed Obligations, (b) any right to enforce, or to participate in, any claim, right or remedy that the Holder now has or may hereafter have against the Issuer, and (c) any benefit of, and any right to participate in, any collateral or security now or hereafter held by the Holder. In addition, until the Guaranteed Obligations shall have been paid in full, each Guarantor shall withhold exercise of any right of contribution such Guarantor may have against any other guarantor (including any other Guarantor) of the Guaranteed Obligations. If any amount shall be paid to any Guarantor on account of any such subrogation, reimbursement, indemnification or contribution rights at any time when all Guaranteed Obligations shall not have been finally and paid in full, such amount shall be held in trust for the Holder and shall forthwith be paid over to the Holder to be credited and applied against the Guaranteed Obligations, whether matured or unmatured, in accordance with the terms hereof.

6. Subordination

. Any Indebtedness of the Issuer or any Guarantor now or hereafter held by any Guarantor (the "Obligee Guarantor") is hereby subordinated in right of payment to the Guaranteed Obligations, and any such indebtedness collected or received by the Obligee Guarantor after an Event of Default has occurred and is continuing shall be held in trust for the Holder and shall forthwith be paid over to the Holder to be credited and applied against the Guaranteed Obligations but without affecting, impairing or limiting in any manner the liability of the Obligee Guarantor under any other provision hereof.

7. Continuing Guarantee

. This Guarantee is a continuing guarantee and shall remain in effect until all of the Guaranteed Obligations shall have been paid in full. Each Guarantor hereby irrevocably waives any right to revoke this Guarantee as to future transactions giving rise to any Guaranteed Obligations.

8. Financial Condition of the Issuer

. The Note may be issued to the Issuer without notice to or authorization from any Guarantor regardless of the financial or other condition of the Issuer at the time of such grant. Each Guarantor has adequate means to obtain information from the Issuer on a continuing basis concerning the financial condition of the Issuer and its ability to perform its obligations under the Note, and each Guarantor assumes the responsibility for being and keeping informed of the financial condition of the Issuer and of all circumstances bearing upon the risk of nonpayment of the Guaranteed Obligations.

9. Reinstatement

. In the event that all or any portion of the Guaranteed Obligations are paid by the Issuer or any Guarantor, the obligations of any other Guarantor hereunder shall continue and remain in full force and effect or be reinstated, as the case may be, in the event that all or any part of such payment(s) are rescinded or recovered directly or indirectly from the Holder as a preference, fraudulent transfer or otherwise, and any such payments which are so rescinded or recovered shall constitute Guaranteed Obligations for all purposes hereunder.

10. Discharge of Guarantee Upon Sale of the Guarantor

. If, in compliance with the terms and provisions of the Note, all of the capital stock of any Guarantor that is a Subsidiary of the Issuer or any of its successors in interest hereunder shall be sold or otherwise disposed of (including by merger or consolidation) to any Person (other than to the Issuer or to any other Guarantor), the Guarantee of such Guarantor or such successor in interest, as the case may be, hereunder shall automatically be discharged and released without any further action by any beneficiary or any other Person effective as of the time of such asset sale.

SCHEDULE I

Date	Current Outstanding Principal Amount	Increase or Decrease in Outstanding Principal Amount	Resulting Outstanding Principal Amount	Notation Made By

Schedule I

[*]: THE IDENTIFIED INFORMATION HAS BEEN OMITTED FROM THE AGREEMENT BECAUSE IT IS BOTH (i) NOT MATERIAL AND (ii) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED

AIRCRAFT GENERAL TERMS AGREEMENT

AGTA-ASA

between

THE BOEING COMPANY

and

Alaska Airlines, Inc.

AGTA-ASA

BOEING PROPRIETARY

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AGTA-ASA 1

6-1162-MSA-591 AGTA Terms Revisions

AGTA-ASA 2

AIRCRAFT GENERAL TERMS AGREEMENT NUMBER AGTA-ASA

between

The Boeing Company

and

Alaska Airlines, Inc.

Relating to

BOEING AIRCRAFT

This Aircraft General Terms Agreement Number AGTA-ASA (**AGTA**) between The Boeing Company, including its wholly-owned subsidiary McDonnell Douglas Corporation, (**Boeing**) and Alaska Airlines, Inc. (**Customer**) will apply to all Boeing aircraft contracted for purchase from Boeing by Customer after the effective date of this AGTA.

Article 1. Subject Matter of Sale.

1.1 Aircraft. Boeing will manufacture and sell to Customer and Customer will purchase from Boeing aircraft under purchase agreements that incorporate the terms and conditions of this AGTA.

1.2 Buyer Furnished Equipment. Exhibit A, Buyer Furnished Equipment Provisions Document to the AGTA, contains the obligations of Customer and Boeing with respect to equipment purchased and provided by Customer, which Boeing will receive, inspect, store, and install in an aircraft before delivery to Customer. This equipment is defined as **Buyer Furnished Equipment (BFE)**.

1.3 Customer Support. Exhibit B, Customer Support Document to the AGTA, contains the obligations of Boeing relating to Materials (as defined in Part 3 thereof), training, services, and other things in support of aircraft.

1.4 Product Assurance. Exhibit C, Product Assurance Document to the AGTA, contains the obligations of Boeing and the suppliers of equipment installed in each aircraft at delivery relating to warranties, patent indemnities, software copyright indemnities, and service life policies.

Article 2. Price, Taxes, and Payment.

2.1 Price.

2.1.1 **Airframe Price** is defined as the price of the airframe for a specific model of aircraft described in a purchase agreement. (For Models 717-200, 737-600, 737-700, 737-800, 737-900, 777-200LR and 777-300ER the Airframe Price includes the engine price at its basic thrust level.)

2.1.2 **Optional Features Prices** are defined as the prices for optional features selected by Customer for a specific model of aircraft described in a purchase agreement.

2.1.3 **Engine Price** is defined as the price set by the engine manufacturer for a specific engine to be installed on the model of aircraft described in a purchase agreement (not applicable to Models 717-200, 737-600, 737-700, 737-800, 737-900, 777-200LR and 777-300ER).

2.1.4 **Aircraft Basic Price** is defined as the sum of the Airframe Price, Optional Features Prices, and the Engine Price, if applicable.

2.1.5 **Escalation Adjustment** is defined as the price adjustment to the Airframe Price (which includes the basic engine price for Models 717-200, 737-600, 737-700, 737-800, 737-900, 777-200LR and 777-300ER) and the Optional Features Prices resulting from the calculation using the economic price formula contained in the Airframe and Optional Features Escalation Adjustment supplemental exhibit to the applicable purchase agreement. The price adjustment to the Engine Price for all other models of aircraft will be calculated using the economic price formula in the Engine Escalation Adjustment supplemental exhibit to the applicable purchase agreement.

2.1.6 **Advance Payment Base Price** is defined as the estimated price of an aircraft rounded to the nearest thousand U. S. dollars, as of the date of signing a purchase agreement, for the scheduled month of delivery of such aircraft using commercial forecasts of the Escalation Adjustment.

2.1.7 **Aircraft Price** is defined as the total amount Customer is to pay for an aircraft at the time of delivery, which is the sum of the Aircraft Basic Price, the Escalation Adjustment, and other price adjustments made pursuant to the purchase agreement.

2.2 Taxes.

2.2.1 **Taxes.** **Taxes** are defined as all taxes, fees, charges, or duties and any interest, penalties, fines, or other additions to tax, including, but not limited to sales, use, value added, gross receipts, stamp, excise, transfer, and similar taxes imposed by any domestic or foreign taxing authority arising out of or in connection with the performance of the applicable purchase agreement or the sale, delivery, transfer, or storage of any aircraft, BFE, or other things furnished under the applicable purchase agreement. Except for U.S. federal or California State income taxes imposed on Boeing or Boeing's assignee, and Washington State business and occupation taxes imposed on Boeing or Boeing's assignee, Customer will be responsible for and

pay all Taxes. Customer is responsible for filing all tax returns, reports, declarations and payment of any taxes related to or imposed on BFE.

2.2.2 Reimbursement of Boeing. Customer will promptly reimburse Boeing on demand, net of additional taxes thereon, for any Taxes that are imposed on and paid by Boeing or that Boeing is responsible for collecting.

2.3 Payment.

2.3.1 Advance Payment Schedule. Customer will make advance payments to Boeing for each aircraft in the amounts and on the dates indicated in the schedule set forth in the applicable purchase agreement.

2.3.2 Payment at Delivery. Customer will pay any unpaid balance of the Aircraft Price at the time of delivery of each aircraft.

2.3.3 Form of Payment. Customer will make all payments to Boeing by unconditional wire transfer of immediately available funds in United States Dollars in a bank account in the United States designated by Boeing.

2.3.4 Monetary and Government Regulations. Customer is responsible for complying with all monetary control regulations and for obtaining necessary governmental authorizations related to payments.

Article 3. Regulatory Requirements and Certificates.

3.1 Certificates. Boeing will manufacture each aircraft to conform to the appropriate Type Certificate issued by the United States Federal Aviation Administration (FAA) for the specific model of aircraft and will obtain from the FAA and furnish to Customer at delivery of each aircraft either a Standard Airworthiness Certificate or an Export Certificate of Airworthiness issued pursuant to Part 21 of the Federal Aviation Regulations.

3.2 FAA or Applicable Regulatory Authority Manufacturer Changes.

3.2.1 A **Manufacturer Change** is defined as any change to an aircraft, data relating to an aircraft, or testing of an aircraft required by the FAA to obtain a Standard Airworthiness Certificate, or by the country of import and/or registration to obtain an Export Certificate of Airworthiness.

3.2.2 Boeing will bear the cost of incorporating all Manufacturer Changes into the aircraft:

- (i) resulting from requirements issued by the FAA prior to the date of the Type Certificate for the applicable aircraft;

(ii) resulting from requirements issued by the FAA prior to the date of the applicable purchase agreement; and

(iii) for any aircraft delivered during the 18 month period immediately following the date of the applicable purchase agreement (regardless of when the requirement for such change was issued by the FAA).

3.2.3 Customer will pay Boeing's charge for incorporating all other Manufacturer Changes into the aircraft, including all changes for validation of an aircraft required by any governmental agency of the country of import and/or registration.

3.3 FAA Operator Changes.

3.3.1 An **Operator Change** is defined as a change in equipment that is required by Federal Aviation Regulations which (i) is generally applicable to transport category aircraft to be used in United States certified air carriage and (ii) the required compliance date is on or before the scheduled delivery month of the aircraft.

3.3.2 Boeing will deliver each aircraft with Operator Changes incorporated or, at Boeing's option, with suitable provisions for the incorporation of such Operator Changes, and Customer will pay Boeing's applicable charges.

3.4 Export License. If an export license is required by United States law or regulation for any aircraft or any other things delivered under the purchase agreement, it is Customer's obligation to obtain such license. If requested, Boeing will assist Customer in applying for any such export license. Customer will furnish any required supporting documents.

Article 4. Detail Specification; Changes.

4.1 Configuration Changes. The **Detail Specification** is defined as the Boeing document that describes the configuration of each aircraft purchased by Customer. The Detail Specification for each aircraft may be amended (i) by Boeing to reflect the incorporation of Manufacturer Changes and Operator Changes or (ii) by the agreement of the parties. In either case the amendment will describe the particular changes to be made and any effect on design, performance, weight, balance, scheduled delivery month, Aircraft Basic Price, Aircraft Price, and/or Advance Payment Base Price.

4.2 Development Changes. **Development Changes** are defined as changes to aircraft that do not affect the Aircraft Price or scheduled delivery month, and do not adversely affect guaranteed weight, guaranteed performance, or compliance with the interchangeability or replaceability requirements set forth in the applicable Detail Specification. Boeing may, at its option, incorporate Development Changes into both the Detail Specification and the aircraft prior to delivery to Customer.

4.3 Notices. Boeing will promptly notify Customer of any amendments to a Detail Specification, including providing the associated Detail Specification updates.

Article 5. Representatives, Inspection, Demonstration Flights, Test Data and Performance Guarantee Compliance.

5.1 Office Space. Twelve months before delivery of the first aircraft purchased, and continuing until the delivery of the last aircraft on firm order, Boeing will furnish, free of charge, suitable office space and equipment for the accommodation of up to three representatives of Customer in or conveniently located near the assembly plant.

5.2 Inspection. Customer's representatives may inspect each aircraft at any reasonable time, provided such inspection does not interfere with Boeing's performance.

5.3 Demonstration Flights. Prior to delivery, Boeing will fly each aircraft up to 4 hours to demonstrate to Customer the function of the aircraft and its equipment using Boeing's production flight test procedures. Customer may designate up to five representatives to participate as observers.

5.4 Test Data; Performance Guarantee Compliance. **Performance Guarantees** are defined as the written guarantees in a purchase agreement regarding the operational performance of an aircraft. Boeing will furnish to Customer flight test data obtained on an aircraft of the same model to evidence compliance with the Performance Guarantees. Performance Guarantees will be met if reasonable engineering interpretations and calculations based on the flight test data establish that the particular aircraft being delivered under the applicable purchase agreement would, if actually flown, comply with the guarantees.

5.5 Special Aircraft Test Requirements. Boeing may use an aircraft for flight and ground tests prior to delivery, without reduction in the Aircraft Price, if the tests are considered necessary by Boeing (i) to obtain or maintain the Type Certificate or Certificate of Airworthiness for the aircraft or (ii) to evaluate potential improvements that may be offered for production or retrofit incorporation.

Article 6. Delivery.

6.1 Notices of Delivery Dates. Boeing will notify Customer of the approximate delivery date of each aircraft at least 30 days before the scheduled month of delivery and again at least 14 days before the scheduled delivery date.

6.2 Place of Delivery. Each aircraft will be delivered at a facility selected by Boeing in the same state as the primary assembly plant for the aircraft.

6.3 Bill of Sale. At delivery of an aircraft, Boeing will provide Customer a bill of sale conveying good title, free of encumbrances.

6.4 Delay. If Customer delays acceptance of an aircraft beyond the scheduled delivery date, Customer will reimburse Boeing for all costs incurred by Boeing as a result of the delay.

Article 7. Excusable Delay.

7.1 General. Boeing will not be liable for any delay in the scheduled delivery month of an aircraft or other performance under a purchase agreement caused by (i) acts of God; (ii) war or armed hostilities; (iii) government acts or priorities; (iv) fires, floods, or earthquakes; (v) strikes or labor troubles causing cessation, slowdown, or interruption of work; (vi) inability, after due and timely diligence, to procure materials, systems, accessories, equipment or parts; (vii) inability, after due and timely diligence, to obtain type certification; or (viii) any other cause to the extent such cause is beyond Boeing's control and not occasioned by Boeing's fault or negligence. A delay resulting from any such cause is defined as an **Excusable Delay**.

7.2 Notice. Boeing will give written notice to Customer (i) of a delay as soon as Boeing concludes that an aircraft will be delayed beyond the scheduled delivery month due to an Excusable Delay and, when known, (ii) of a revised delivery month based on Boeing's appraisal of the facts.

7.3 Delay in Delivery of Twelve Months or Less. If the revised delivery month is 12 months or less after the scheduled delivery month, Customer will accept such aircraft when tendered for delivery, subject to the following:

7.3.1 The calculation of the Escalation Adjustment will be based on the previously scheduled delivery month.

7.3.2 The advance payment schedule will be adjusted to reflect the revised delivery month.

7.3.3 All other provisions of the applicable purchase agreement, including the BFE on-dock dates for the delayed aircraft, are unaffected by an Excusable Delay.

7.4 Delay in Delivery of More Than Twelve Months. If the revised delivery month is more than 12 months after the scheduled delivery month, either party may terminate the applicable purchase agreement with respect to such aircraft within 30 days of the notice. If either party does not terminate the applicable purchase agreement with respect to such aircraft, all terms and conditions of the applicable purchase agreement will remain in effect.

7.5 Aircraft Damaged Beyond Repair. If an aircraft is destroyed or damaged beyond repair for any reason before delivery, Boeing will give written notice to Customer specifying the earliest month possible, consistent with Boeing's other contractual commitments and production capabilities, in which Boeing can deliver a replacement. Customer will have 30 days from receipt of such notice to elect to have Boeing manufacture a replacement aircraft under the same terms and conditions of purchase, except that the calculation of the Escalation

Adjustment will be based upon the scheduled delivery month in effect immediately prior to the date of such notice, or, failing such election, the applicable purchase agreement will terminate with respect to such aircraft. Boeing will not be obligated to manufacture a replacement aircraft if reactivation of the production line for the specific model of aircraft would be required.

7.6 Termination. Termination under this Article will discharge all obligations and liabilities of Boeing and Customer with respect to any aircraft and all related undelivered Materials (as defined in Exhibit B, Customer Support Document), training, services, and other things terminated under the applicable purchase agreement, except that Boeing will return to Customer, without interest, an amount equal to all advance payments paid by Customer for the aircraft. If Customer terminates the applicable purchase agreement as to any aircraft, Boeing may elect, by written notice to Customer within 30 days, to purchase from Customer any BFE related to the aircraft at the invoice prices paid, or contracted to be paid, by Customer.

7.7 Exclusive Rights. The termination rights in this Article are in substitution for all other rights of termination or any claim arising by operation of law due to delays in performance covered by this Article.

Article 8. Risk Allocation/Insurance.

8.1 Title and Risk with Boeing.

8.1.1 Boeing's Indemnification of Customer. Until transfer of title to an aircraft to Customer, Boeing will indemnify and hold harmless Customer and Customer's observers from and against all claims and liabilities, including all expenses and attorneys' fees incident thereto or incident to establishing the right to indemnification, for injury to or death of any person(s), including employees of Boeing but not employees of Customer, or for loss of or damage to any property, including an aircraft, arising out of or in any way related to the operation of an aircraft during all demonstration and test flights conducted under the provisions of the applicable purchase agreement, whether or not arising in tort or occasioned by the negligence of Customer or any of Customer's observers.

8.1.2 Definition of Customer. For the purposes of this Article, "Customer" is defined as Alaska Airlines, Inc., its divisions, subsidiaries, affiliates, the assignees of each, and their respective directors, officers, employees, and agents.

8.2 Insurance.

8.2.1 Insurance Requirements. Customer will purchase and maintain insurance acceptable to Boeing and will provide a certificate of such insurance that names Boeing as an additional insured for any and all claims and liabilities for injury to or death of any person or persons, including employees of Customer but not employees of Boeing, or for loss of or damage to any property, including any aircraft, arising out of or in any way relating to Materials, training, services, or other things provided under Exhibit B of the AGTA, which will be incorporated by reference into the applicable purchase agreement, whether or not arising in

tort or occasioned by the negligence of Boeing, except with respect to legal liability to persons or parties other than Customer or Customer's assignees arising out of an accident caused solely by a product defect in an aircraft. Customer will provide such certificate of insurance at least thirty (30) days prior to the scheduled delivery of the first aircraft under a purchase agreement. The insurance certificate will reference each aircraft delivered to Customer pursuant to each applicable purchase agreement. Annual renewal certificates will be submitted to Boeing before the expiration of the policy periods. The form of the insurance certificate, attached as Appendix I, states the terms, limits, provisions, and coverages required by this Article 8.2.1. The failure of Boeing to demand compliance with this 8.2.1 in any year will not in any way relieve Customer of its obligations hereunder nor constitute a waiver by Boeing of these obligations.

8.2.2 Noncompliance with Insurance Requirements. If Customer fails to comply with any of the insurance requirements of Article 8.2.1 or if any of the insurers fails to pay a claim covered by the insurance or otherwise fails to meet any of insurer's obligations required by Appendix I, Customer will provide the same protection to Boeing as that required by Article 8.2.1 above.

8.2.3 Definition of Boeing. For purposes of this article, "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, assignees of each, and their respective directors, officers, employees, and agents.

Article 9. Assignment, Resale, or Lease.

9.1 Assignment. This AGTA and each applicable purchase agreement are for the benefit of the parties and their respective successors and assigns. No rights or duties of either party may be assigned or delegated, or contracted to be assigned or delegated, without the prior written consent of the other party, except:

9.1.1 Either party may assign its interest to a corporation that (i) results from any merger, reorganization, or acquisition of such party and (ii) acquires substantially all the assets of such party;

9.1.2 Boeing may assign its rights to receive money; and

9.1.3 Boeing may assign any of its rights and duties to any whollyowned subsidiary of Boeing.

9.1.4 Boeing may assign any of its rights and duties with respect to Part 1, Articles 1, 2, 4 and 5 of Exhibit B, Customer Support Document to the AGTA, to Alteon Training L.L.C.

9.2 Transfer by Customer at Delivery. Boeing will take any requested action reasonably required for the purpose of causing an aircraft, at time of delivery, to be subject to an equipment trust, conditional sale, lien, or other arrangement for Customer to finance the aircraft. However, no such action will require Boeing to divest itself of title to or possession of the

aircraft until delivery of and payment for the aircraft. A sample form of assignment acceptable to Boeing is attached as Appendix II.

9.3 Sale or Lease by Customer After Delivery. If, following delivery of an aircraft, Customer sells or leases the aircraft (including any sale and lease-back to seller for financing purposes), Customer may assign some or all of its rights with respect to the aircraft under the applicable purchase agreement to the purchaser or lessee of such aircraft, and all such rights will inure to the benefit of such purchaser or lessee effective upon Boeing's receipt of the written agreement of the purchaser or lessee, in a form satisfactory to Boeing, to comply with all applicable terms and conditions of the applicable purchase agreement. Sample forms of notice to Boeing of such assignments giving examples of language acceptable to Boeing are attached as Appendices III, IV, VIII, IX and X.

9.4 Notice of Sale or Lease After Delivery. Customer will give notice to Boeing as soon as practicable of the sale or lease of an aircraft, including in the notice the name of the entity or entities with title and/or possession of such aircraft.

9.5 Exculpatory Clause in Post-Delivery Sale or Lease. If, following the delivery of an aircraft, Customer sells or leases such aircraft and obtains from the transferee any form of exculpatory clause protecting Customer from liability for loss of or damage to the aircraft, and/or related incidental or consequential damages, including without limitation loss of use, revenue, or profit, Customer shall obtain for Boeing the purchaser's or lessee's written agreement to be bound by terms and conditions substantially as set forth in Appendix V. This Article 9.5 applies only if purchaser or lessee has not provided to Boeing the written agreement described in Article 9.3 above.

9.6 Appointment of Agent - Warranty Claims. If, following delivery of an aircraft, Customer appoints an agent to act directly with Boeing for the administration of claims relating to the warranties under the applicable purchase agreement, Boeing will deal with the agent for that purpose, effective upon Boeing's receipt of the agent's written agreement, in a form satisfactory to Boeing, to comply with all applicable terms and conditions of the applicable purchase agreement. A sample form of agreement acceptable to Boeing is attached as Appendix VI.

9.7 No Increase in Boeing Liability. No action taken by Customer or Boeing relating to the resale or lease of an aircraft or the assignment of Customer's rights under the applicable purchase agreement will subject Boeing to any liability beyond that in the applicable purchase agreement or modify in any way Boeing's obligations under the applicable purchase agreement.

Article 10. Termination of Purchase Agreements for Certain Events.

10.1 Termination. If either party

(i) ceases doing business as a going concern, or suspends all or substantially all its business operations, or makes an assignment for the benefit of creditors, or generally does not pay its debts as they become due, or admits in writing its inability to pay its debts; or

(ii) petitions for or acquiesces in the appointment of any receiver, trustee or similar officer to liquidate or conserve its business or any substantial part of its assets; commences any legal proceeding such as bankruptcy, reorganization, readjustment of debt, dissolution, or liquidation available for the relief of financially distressed debtors; or becomes the object of any such proceeding, unless the proceeding is dismissed or stayed within a reasonable period, not to exceed 60 days,

the other party may terminate any purchase agreement with respect to any undelivered aircraft, Materials, training, services, and other things by giving written notice of termination.

10.2 Repayment of Advance Payments. If Customer terminates the applicable purchase agreement under this Article, Boeing will repay to Customer, without interest, an amount equal to any advance payments received by Boeing from Customer with respect to undelivered aircraft.

Article 11. Notices.

All notices required by this AGTA or by any applicable purchase agreement will be written in English, will be effective on the date of receipt, and will be delivered or transmitted by any customary means to the appropriate address or number listed below:

Customer	Delivery or Courier:	Alaska Airlines, Inc. 19300 International Blvd. South Seattle, Washington 98188
	Mail:	Attention: Vice President - Finance Alaska Airlines, Inc. P.O. Box 68900 Seattle, Washington 98168
	Facsimile:	Attention: Vice President - Finance
	Telephone:	206-392-5007 206-392-5015

Boeing

Delivery or Courier: Boeing Commercial Airplanes
1901 Oakesdale Avenue S.W.
Renton, Washington 98055
U.S.A.
Attention: Vice President - Contracts
Mail Code 21-34

Mail:

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207
U.S.A.
Attention: Vice President - Contracts
Mail Code 21-34

Facsimile:

Telephone:

425 237-1706
206 766-2400

Article 12. Miscellaneous.

12.1 Government Approval. Boeing and Customer will assist each other in obtaining any governmental consents or approvals required to effect certification and sale of aircraft under the applicable purchase agreement.

12.2 Headings. Article and paragraph headings used in this AGTA and in any purchase agreement are for convenient reference only and are not intended to affect the interpretation of this AGTA or any purchase agreement.

12.3 GOVERNING LAW. THIS AGTA AND ANY PURCHASE AGREEMENT WILL BE INTERPRETED UNDER AND GOVERNED BY THE LAWS OF THE STATE OF WASHINGTON, U.S.A., EXCEPT THAT WASHINGTON'S CHOICE OF LAW RULES SHALL NOT BE INVOKED FOR THE PURPOSE OF APPLYING THE LAW OF ANOTHER JURISDICTION.

12.4 Waiver/Severability. Failure by either party to enforce any provision of this AGTA or any purchase agreement will not be construed as a waiver. If any provision of this AGTA or any provision of any purchase agreement are held unlawful or otherwise ineffective by a court of competent jurisdiction, the remainder of the AGTA or the applicable purchase agreement will remain in effect.

12.5 Survival of Obligations. The Articles and Exhibits of this AGTA including but not limited to those relating to insurance, DISCLAIMER AND RELEASE and the EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES will survive termination or cancellation of any purchase agreement or part thereof.

12.6 AGTA Changes. The intent of the AGTA is to simplify the standard contracting process for terms and conditions which are related to the sale and purchase of all Boeing aircraft. This AGTA has been mutually agreed to by the parties as of the date indicated below. From time to time the parties may elect, by mutual agreement to update, or modify the existing articles as written and revise this AGTA. If such changes are made, any existing executed Purchase Agreement(s) will be governed by the terms and conditions in effect on the date of the executed Purchase Agreement.

DATED AS OF June 15, 2005

Alaska Airlines, Inc.

THE BOEING COMPANY

By ___

By ___

Its ___

Its _____

EXHIBIT A
to
AIRCRAFT GENERAL TERMS AGREEMENT
AGTA-ASA
between
THE BOEING COMPANY
and
Alaska Airlines, Inc.

BUYER FURNISHED equipment provisions document

AGTA-ASA A-
AGTA_Exhibit_A

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Rev.: 10/22/04

BOEING PROPRIETARY

BUYER FURNISHED EQUIPMENT PROVISIONS DOCUMENT

1. General.

Certain equipment to be installed in the Aircraft is furnished to Boeing by Customer at Customer's expense. This equipment is designated "Buyer Furnished Equipment" (BFE) and is listed in the Detail Specification. Boeing will provide to Customer a BFE Requirements On-Dock/Inventory Document (BFE Document) or an electronically transmitted BFE Report which may be periodically revised, setting forth the items, quantities, on-dock dates and shipping instructions relating to the in sequence installation of BFE as described in the applicable Supplemental Exhibit to this Exhibit A in a purchase agreement at the time of aircraft purchase.

2. Supplier Selection.

Customer will:

2.1 Select and notify Boeing of the suppliers of BFE items by those dates appearing in Supplemental Exhibit BFE1 to the applicable purchase agreement at the time of aircraft purchase.

2.2 Meet with Boeing and such selected BFE suppliers promptly after such selection to:

2.2.1 complete BFE configuration design requirements for such BFE; and

2.2.2 confirm technical data submittal requirements for BFE certification.

3. Customer's Obligations.

Customer will:

3.1 comply with and cause the supplier to comply with the provisions of the BFE Document or BFE Report; including, without limitation,

3.1.1 deliver technical data (in English) to Boeing as required to support installation and FAA certification in accordance with the schedule provided by Boeing or as mutually agreed upon during the BFE meeting referred to above;

3.1.2 deliver BFE including production and/or flight training spares and BFE Aircraft Software to Boeing in accordance with the quantities, schedule, and other instructions provided therein; and

3.1.3 assure that all BFE Aircraft Software is delivered in compliance with Boeing's then-current Standards for Loadable Systems;

3.1.4 assure that all BFE parts are delivered to Boeing with appropriate quality assurance documentation;

3.2 authorize Boeing to discuss all details of the BFE directly with the BFE suppliers;

3.3 authorize Boeing to conduct or delegate to the supplier quality source inspection and supplier hardware acceptance of BFE at the supplier location;

3.3.1 require supplier's contractual compliance to Boeing defined quality assurance requirements, source inspection programs and supplier delegation programs, including availability of adequate facilities for Boeing resident personnel; and

3.3.2 assure that all BFE supplier's quality systems are approved to Boeing's then current standards for such systems;

3.4 obtain from supplier a non-exclusive, perpetual, royalty-free, irrevocable license for Boeing to copy BFE Aircraft Software. The license is needed to enable Boeing to load the software copies in (i) the aircraft's mass storage device (MSD), (ii) media (e.g., diskettes, CD-ROMs, etc.), (iii) the BFE hardware and/or (iv) an intermediate device or other media to facilitate copying of the BFE Aircraft Software into the aircraft's MSD, BFE hardware and/or media, including media as Boeing may deliver to Customer with the aircraft;

3.5 grant Boeing a license, extending the same rights set forth in paragraph 3.4 above, to copy: a) BFE Aircraft Software and data Customer has modified and/or b) other software and data Customer has added to the BFE Aircraft Software;

3.6 provide necessary field service representation at Boeing's facilities to support Boeing on all issues related to the installation and certification of BFE;

3.7 deal directly with all BFE suppliers to obtain overhaul data, provisioning data, related product support documentation and any warranty provisions applicable to the BFE;

3.8 work closely with Boeing and the BFE suppliers to resolve any difficulties, including defective equipment, that arise;

3.9 be responsible for modifying, adjusting and/or calibrating BFE as required for FAA approval and for all related expenses;

3.10 assure that a proprietary information agreement is in place between Boeing and BFE suppliers prior to Boeing providing any documentation to such suppliers;

3.11 warrant that the BFE will comply with all applicable FARs and the U.S. Food and Drug Administration (FDA) sanitation requirements for installation and use in the Aircraft at the time of delivery. Customer will be responsible for supplying any data and adjusting, calibrating, re-testing or updating such BFE and data to the extent necessary to obtain applicable FAA and FDA approval and shall bear the resulting expenses;

3.12 warrant that the BFE will meet the requirements of the Detail Specification; and

3.13 be responsible for providing equipment which is FAA certifiable at time of Aircraft delivery, or for obtaining waivers from the applicable regulatory agency for non-FAA certifiable equipment.

4. Boeing's Obligations.

Other than as set forth below, Boeing will provide for the installation of and install the BFE and obtain certification of the Aircraft with the BFE installed.

5. Nonperformance by Customer.

If Customer's nonperformance of obligations in this Exhibit or in the BFE Document causes a delay in the delivery of the Aircraft or causes Boeing to perform outofsequence or additional work, Customer will reimburse Boeing for all resulting expenses and be deemed to have agreed to any such delay in Aircraft delivery. In addition Boeing will have the right to:

5.1 provide and install specified equipment or suitable alternate equipment and increase the price of the Aircraft accordingly; and/or

5.2 deliver the Aircraft to Customer without the BFE installed.

6. Return of Equipment.

BFE not installed in the Aircraft will be returned to Customer in accordance with Customer's instructions and at Customer's expense.

7. Title and Risk of Loss.

7.1 With respect to Aircraft manufactured in the State of Washington, title to and risk of loss of BFE provided for such Aircraft will at all times remain with Customer or other owner. Boeing will have only such liability for BFE as a bailee for mutual benefit would have, but will not be liable for loss of use.

7.2 With respect to Aircraft manufactured in the State of California, Customer agrees to sell and Boeing agrees to purchase each item of BFE concurrently with its delivery to Boeing. A reasonable shipset price for the BFE shall be established with Customer. Customer and Boeing agree that the Aircraft Price will be increased by the amount of said shipset price and such amount will be included on Boeing's invoice at time of Aircraft delivery. Boeing's payment for the purchase of each shipset of BFE from Customer will be made at the time of delivery of the Aircraft in which the BFE is installed.

8. Interchange of BFE

To properly maintain Boeing's production flow and to preserve Boeing's delivery commitments, Boeing reserves the right, if necessary, due to equipment shortages or failures, to interchange new items of BFE acquired from or for Customer with new items of the same part numbers and modification status acquired from or for other customers of Boeing. Used BFE acquired from Customer or from other customers of Boeing will not be interchanged.

9. Indemnification of Boeing.

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

10. Patent Indemnity.

Customer hereby indemnifies and holds harmless Boeing from and against all claims, suits, actions, liabilities, damages and costs arising out of any actual or alleged infringement of any patent or other intellectual property rights by BFE or arising out of the installation, sale or use of BFE by Boeing.

11. Definitions.

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

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BOEING PROPRIETARY

EXHIBIT B
to
AIRCRAFT GENERAL TERMS AGREEMENT

AGTA-ASA
between
THE BOEING COMPANY

and
Alaska Airlines, Inc.

CUSTOMER SUPPORT DOCUMENT

This document contains:

- Part 1: Maintenance and Flight Training Programs; Operations
Engineering Support
- Part 2: Field Services and Engineering Support
Services
- Part 3: Technical Information and Materials
- Part 4: Alleviation or Cessation of Performance
- Part 5: Protection of Proprietary Information and
Proprietary Materials

AGTA-ASA B
AGTA_Exhibit_B 1 Rev.: 11/26/03

BOEING PROPRIETARY

CUSTOMER SUPPORT DOCUMENT

PART 1: BOEING MAINTENANCE AND FLIGHT TRAINING PROGRAMS; OPERATIONS ENGINEERING SUPPORT

1. Boeing Training Programs.

1.1 Boeing will provide maintenance training and flight training programs to support the introduction of a specific model of aircraft into service. The training programs will consist of general and specialized courses and will be described in a Supplemental Exhibit to the applicable purchase agreement.

1.2 Boeing will conduct all training at Boeing's primary training facility for the model of aircraft purchased unless otherwise agreed.

1.3 All training will be presented in the English language. If translation is required, Customer will provide interpreters.

1.4 Customer will be responsible for all expenses of Customer's personnel. Boeing will transport Customer's personnel between their local lodging and Boeing's training facility.

2. Training Planning Conferences.

Customer and Boeing will conduct planning conferences approximately 12 months before the scheduled delivery month of the first aircraft of a model to define and schedule the maintenance and flight training programs.

3. Operations Engineering Support.

3.1 As long as an aircraft purchased by Customer from Boeing is operated by Customer in scheduled revenue service, Boeing will provide operations engineering support. Such support will include:

3.1.1 assistance with the analysis and preparation of performance data to be used in establishing operating practices and policies for Customer's operation of aircraft;

3.1.2 assistance with interpretation of the minimum equipment list, the definition of the configuration deviation list and the analysis of individual aircraft performance;

- 3.1.3 assistance with solving operational problems associated with delivery and route proving flights;
- 3.1.4 information regarding significant service items relating to aircraft performance or flight operations; and
- 3.1.5 if requested by Customer, Boeing will provide operations engineering support during an aircraft ferry flight.

4. Training at a Facility Other Than Boeing's.

If requested by Customer, Boeing will conduct the classroom portions of the maintenance and flight training (except for the Performance Engineer training courses) at a mutually acceptable alternate training site, subject to the following conditions:

- 4.1 Customer will provide acceptable classroom space, simulators (as necessary for flight training) and training equipment required to present the courses;
- 4.2 Customer will pay Boeing's then current per diem charge for each Boeing instructor for each day, or fraction thereof, that the instructor is outside King County, Washington, including travel time;
- 4.3 Customer will reimburse Boeing for the actual costs of roundtrip transportation for Boeing's instructors and the shipping costs of training Materials between the primary training facility and the alternate training site outside King County, Washington;
- 4.4 Customer will be responsible for all taxes, fees, duties, licenses, permits and similar expenses incurred by Boeing and its employees as a result of Boeing's providing training at the alternate site outside King County, Washington or incurred as a result of Boeing providing revenue service training; and
- 4.5 Those portions of training that require the use of training devices not available at the alternate site will be conducted at Boeing's facility or at some other alternate site.

5. General Terms and Conditions.

5.1 Boeing flight instructor personnel will not be required to work more than 5 days per week, or more than 8 hours in any one 24 hour period, of which not more than 5 hours per 8 hour workday will be spent in actual flying. These foregoing restrictions will not apply to ferry assistance or revenue service training services, which will be governed by FAA rules and regulations.

5.2 **Normal Line Maintenance** is defined as line maintenance that Boeing might reasonably be expected to furnish for flight crew training at Boeing's facility, and will include ground support and aircraft storage in the open, but will not include provision of spare parts. Boeing will provide Normal Line Maintenance services for any aircraft while the aircraft is used for flight crew training at Boeing's facility in accordance with the Boeing Maintenance Plan (Boeing document D6-82076) and the Repair Station Operation and Inspection Manual (Boeing document D6-25470). Customer will provide such services if flight crew training is conducted elsewhere. Regardless of the location of such training, Customer will be responsible for providing all maintenance items (other than those included in Normal Line Maintenance) required during the training, including, but not limited to, fuel, oil, landing fees and spare parts.

5.3 If the training is based at Boeing's facility, and the aircraft is damaged during such training, Boeing will make all necessary repairs to the aircraft as promptly as possible. Customer will pay Boeing's reasonable charge, including the price of parts and materials, for making the repairs. If Boeing's estimated labor charge for the repair exceeds \$25,000, Boeing and Customer will enter into an agreement for additional services before beginning the repair work.

5.4 If the flight training is based at Boeing's facility, several airports in surrounding states may be used, at Boeing's option. Unless otherwise agreed in the flight training planning conference, it will be Customer's responsibility to make arrangements for the use of such airports.

5.5 If Boeing agrees to make arrangements on behalf of Customer for the use of airports for flight training, Boeing will pay on Customer's behalf any landing fees charged by any airport used in conjunction with the flight training. At least 30 days before flight training, Customer will provide Boeing an open purchase order against which Boeing will invoice Customer for any landing fees Boeing paid on Customer's behalf. The invoice will be submitted to Customer approximately 60 days after flight training is completed, when all landing fee charges have been received and verified. Customer will pay to Boeing within 30 days of the date of the invoice.

5.6 If requested by Boeing, in order to provide the flight training or ferry flight assistance, Customer will make available to Boeing an aircraft after delivery to familiarize Boeing instructor or ferry flight crew personnel with such aircraft. If flight of the aircraft is required for any Boeing instructor or ferry flight crew member to maintain an FAA license for flight proficiency or landing currency, Boeing will be responsible for the costs of fuel, oil, landing fees and spare parts attributable to that portion of the flight.

5.7 If any part of the training described in Article 1.1 of this Exhibit is not used by Customer within 12 months after the delivery of the last aircraft under the relevant purchase agreement, Boeing will not be obligated to provide such training.

CUSTOMER SUPPORT DOCUMENT

PART 2: FIELD AND ENGINEERING SUPPORT SERVICES

1. Field Service Representation.

Boeing will furnish field service representation to advise Customer with respect to the maintenance and operation of an aircraft (**Field Service Representatives**).

1.1 Field Service representation will be available at or near Customer's main maintenance or engineering facility beginning before the scheduled delivery month of the first aircraft and ending 12 months after delivery of the last aircraft covered by a specific purchase agreement.

1.2 Customer will provide, at no charge to Boeing, suitable furnished office space and office equipment at the location where Boeing is providing Field Service Representatives. As required, Customer will assist each Field Service Representative with visas, work permits, customs, mail handling, identification passes and formal introduction to local airport authorities.

1.3 Boeing Field Service Representatives are assigned to various airports around the world. Whenever Customer's aircraft are operating through any such airport, the services of Boeing's Field Service Representatives are available to Customer.

2. Engineering Support Services.

Boeing will, if requested by Customer, provide technical advisory assistance for any aircraft and Boeing Product (as defined in Part I of Exhibit C). Technical advisory assistance, provided from the Seattle area or at a base designated by Customer as appropriate, will include:

2.1 Operational Problem Support. If Customer experiences operational problems with an aircraft, Boeing will analyze the information provided by Customer to determine the probable nature and cause of the problem and to suggest possible solutions.

2.2 Schedule Reliability Support. If Customer is not satisfied with the schedule reliability of a specific model of aircraft, Boeing will analyze information provided by Customer to determine the nature and cause of the problem and to suggest possible solutions.

2.3 Maintenance Cost Reduction Support. If Customer is concerned that actual maintenance costs of a specific model of aircraft are excessive, Boeing will

analyze information provided by Customer to determine the nature and cause of the problem and to suggest possible solutions.

2.4 Aircraft Structural Repair Support. If Customer is designing structural repairs and desires Boeing's support, Boeing will analyze and comment on Customer's engineering releases relating to structural repairs not covered by Boeing's Structural Repair Manual.

2.5 Aircraft Modification Support. If Customer is designing aircraft modifications and requests Boeing's support, Boeing will analyze and comment on Customer's engineering proposals for changes in, or replacement of, systems, parts, accessories or equipment manufactured to Boeing's detailed design. Boeing will not analyze or comment on any major structural change unless Customer's request for such analysis and comment includes complete detailed drawings, substantiating information (including any information required by applicable government agencies), all stress or other appropriate analyses, and a specific statement from Customer of the substance of the review and the response requested.

2.6 Facilities, Ground Equipment and Maintenance Planning Support. Boeing will, at Customer's request, evaluate Customer's technical facilities, tools and equipment for servicing and maintaining aircraft, to recommend changes where necessary and to assist in the formulation of an initial maintenance plan for the introduction of the aircraft into service.

2.7 Post-Delivery Service Support. Boeing will, at Customer's request, perform work on an aircraft after delivery but prior to the initial departure flight or upon the return of the aircraft to Boeing's facility prior to completion of that flight. In that event the following provisions will apply.

2.7.1 Boeing may rely upon the commitment authority of the Customer's personnel requesting the work.

2.7.2 As title and risk of loss has passed to Customer, the insurance provisions of Article 8.2 of the AGTA apply.

2.7.3 The provisions of the Boeing Warranty in Part 2 of Exhibit C of this AGTA apply.

2.7.4 Customer will pay Boeing for requested work not covered by the Boeing Warranty, if any.

2.7.5 The DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions in Article 11 of Part 2 of Exhibit C of this AGTA apply.

2.8 Additional Services. Boeing may, at Customer's request, provide additional services for an aircraft after delivery, which may include, but not be limited to, retrofit kit changes (kits and/or information), training, flight services, maintenance and repair of aircraft. Such additional services will be subject to a mutually acceptable price, schedule, scope of work and other applicable terms and conditions. The DISCLAIMER AND RELEASE and the EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions in Article 11 of Part 2 of Exhibit C of this AGTA and the insurance provisions in Article 8.2 of this AGTA will apply to any such work. Title to and risk of loss of any such aircraft will always remain with Customer.

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BOEING PROPRIETARY

CUSTOMER SUPPORT DOCUMENT

PART 3: TECHNICAL INFORMATION AND MATERIALS

1. General.

Materials are defined as any and all items that are created by Boeing or a third party, which are provided directly or indirectly from Boeing and serve primarily to contain, convey or embody information. Materials may include either tangible embodiments (for example, documents or drawings), or intangible embodiments (for example, software and other electronic forms) of information but excludes Aircraft Software. **Aircraft Software** is defined as software that is installed on and used in the operation of the aircraft.

Boeing will furnish to Customer certain Materials to support the maintenance and operation of the aircraft at no additional charge to Customer, except as otherwise provided herein. Such Materials will, if applicable, be prepared generally in accordance with Air Transport Association of America (ATA) Specification No. 100, entitled "Specification for Manufacturers' Technical Data". Materials will be in English and in the units of measure used by Boeing to manufacture an aircraft.

Digitally-produced Materials will, if applicable, be prepared generally in accordance with ATA Specification No. 2100, dated January 1994, "Digital Data Standards for Aircraft Support."

2. Materials Planning Conferences.

Customer and Boeing will conduct planning conferences approximately 12 months before the scheduled delivery month of the first aircraft of a model in order to mutually determine the proper format and quantity of Materials to be furnished to Customer in support of the aircraft.

When available, Customer may select one Boeing digital format as the delivery medium. Should a Boeing digital format not be chosen, Customer may select a reasonable quantity of printed and 16mm microfilm formats, with the exception of the Illustrated Parts Catalog, which will be provided in one selected format only.

3. Information and Materials Incremental Increase.

Until one year after the month of delivery of the last aircraft covered by a specific purchase agreement, Customer may annually request in writing a reasonable increase in the quantity of Materials with the exception of microfilm master copies, digital formats, and others for which a specified number of copies are provided. Boeing will provide the

additional quantity at no additional charge beginning with the next normal revision cycle. Customer may request a decrease in revision quantities at any time.

4. Advance Representative Copies.

All advance representative copies of Materials will be selected by Boeing from available sources. Such advance copies will be for advance planning purposes only.

5. Customized Materials.

All customized Materials will reflect the configuration of each aircraft as delivered.

6. Revisions.

6.1 Revision Service. Boeing will provide revisions free of charge to certain Materials to be identified in the planning conference conducted for a specific model of aircraft, reflecting changes developed by Boeing, as long as Customer operates an aircraft of that model.

6.2 Revisions Based on Boeing Service Bulletin Incorporation. If Boeing receives written notice that Customer intends to incorporate, or has incorporated, any Boeing service bulletin in an aircraft, Boeing will at no charge issue revisions to Materials with revision service reflecting the effects of such incorporation into such aircraft.

7. Supplier Technical Data.

7.1 For suppliermanufactured programmed airborne avionics components and equipment classified as Seller Furnished Equipment (**SFE**) or Seller Purchased Equipment (**SPE**) or Buyer Designated Equipment (**BDE**) which contain computer software designed and developed in accordance with Radio Technical Commission for Aeronautics Document No. RTCA/DO178 dated January 1982, No. RTCA/DO178A dated March 1985, or later as available, Boeing will request that each supplier of the components and equipment make software documentation available to Customer.

7.2 The provisions of this Article will not be applicable to items of BFE.

7.3 Boeing will furnish to Customer a document identifying the terms and conditions of the product support agreements between Boeing and its suppliers requiring the suppliers to fulfill Customer's requirements for information and services in support of the specific model of aircraft.

8. Buyer Furnished Equipment Data.

Boeing will incorporate BFE information into the customized Materials providing Customer makes the information available to Boeing at least nine months prior to the scheduled delivery month of Customer's first aircraft of a specific model. Customer agrees to furnish the information in Boeing standard digital format if Materials are to be delivered in Boeing standard digital format.

9. Materials Shipping Charges.

Boeing will pay the reasonable transportation costs of the Materials. Customer is responsible for any customs clearance charges, duties, and taxes.

10. Customer's Shipping Address.

The Materials furnished to Customer hereunder are to be sent to a single address to be specified. Customer will promptly notify Boeing of any change to the address.

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BOEING PROPRIETARY

CUSTOMER SUPPORT DOCUMENT

PART 4: ALLEVIATION OR CESSATION OF PERFORMANCE

Boeing will not be required to provide any Materials, services, training or other things at a facility designated by Customer if any of the following conditions exist:

1. a labor stoppage or dispute in progress involving Customer;
2. wars or warlike operations, riots or insurrections in the country where the facility is located;
3. any condition at the facility which, in the opinion of Boeing, is detrimental to the general health, welfare or safety of its personnel or their families;
4. the United States Government refuses permission to Boeing personnel or their families to enter into the country where the facility is located, or recommends that Boeing personnel or their families leave the country; or
5. the United States Government refuses permission to Boeing to deliver Materials, services, training or other things to the country where the facility is located.

After the location of Boeing personnel at the facility, Boeing further reserves the right, upon the occurrence of any of such events, to immediately and without prior notice to Customer relocate its personnel and their families.

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BOEING PROPRIETARY

CUSTOMER SUPPORT DOCUMENT

PART 5: PROTECTION OF PROPRIETARY INFORMATION AND PROPRIETARY MATERIALS

1. General.

All Materials provided by Boeing to Customer and not covered by a Boeing CSGTA or other agreement between Boeing and Customer defining Customer's right to use and disclose the Materials and included information will be covered by, and subject to the terms of this AGTA. Title to all Materials containing, conveying or embodying confidential, proprietary or trade secret information (Proprietary Information) belonging to Boeing or a third party (Proprietary Materials), will at all times remain with Boeing or such third party. Customer will treat all Proprietary Materials and all Proprietary Information in confidence and use and disclose the same only as specifically authorized in this AGTA.

2. License Grant.

Boeing grants to Customer a worldwide, non-exclusive, nontransferable license to use and disclose Proprietary Materials in accordance with the terms and conditions of this AGTA. Customer is authorized to make copies of Materials (except for Materials bearing the copyright legend of a third party), and all copies of Proprietary Materials will belong to Boeing and be treated as Proprietary Materials under this AGTA. Customer will preserve all proprietary legends, and all copyright notices on all Materials and insure the inclusion of those legends and notices on all copies.

3. Use of Proprietary Materials and Proprietary Information.

Customer is authorized to use Proprietary Materials and Proprietary Information for the purpose of: (a) operation, maintenance, repair, or modification of Customer's aircraft for which the Proprietary Materials and Proprietary Information have been specified by Boeing and (b) development and manufacture of training devices and maintenance tools for use by Customer.

4. Providing of Proprietary Materials to Contractors.

Customer is authorized to provide Proprietary Materials to Customer's contractors for the sole purpose of maintenance, repair, or modification of Customer's aircraft for which the Proprietary Materials have been specified by Boeing. In addition, Customer may provide Proprietary Materials to Customer's contractors for the sole purpose of developing and manufacturing training devices and maintenance tools for Customer's use. Before providing Proprietary Materials to its contractor, Customer will first obtain a written agreement from the contractor by which the contractor agrees (a) to use the Proprietary Materials only on behalf of Customer, (b) to be bound by all of the restrictions and limitations of this Part 5, and (c) that

Boeing is a third party beneficiary under the written agreement. Customer agrees to provide copies of all such written agreements to Boeing upon request and be liable to Boeing for any breach of those agreements by a contractor. A sample agreement acceptable to Boeing is attached as Appendix VII.

5. Providing of Proprietary Materials and Proprietary Information to Regulatory Agencies.

When and to the extent required by a government regulatory agency having jurisdiction over Customer or an aircraft, Customer is authorized to provide Proprietary Materials and to disclose Proprietary Information to the agency for use in connection with Customer's operation, maintenance, repair, or modification of such aircraft. Customer agrees to take all reasonable steps to prevent the agency from making any distribution, disclosure, or additional use of the Proprietary Materials and Proprietary Information provided or disclosed. Customer further agrees to notify Boeing immediately upon learning of any (a) distribution, disclosure, or additional use by the agency, (b) request to the agency for distribution, disclosure, or additional use, or (c) intention on the part of the agency to distribute, disclose, or make additional use of Proprietary Materials or Proprietary Information.

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BOEING PROPRIETARY

EXHIBIT C
to
AIRCRAFT GENERAL TERMS AGREEMENT

AGTA-ASA
between
THE BOEING COMPANY
and
Alaska Airlines, Inc.

PRODUCT ASSURANCE DOCUMENT

This document contains:

- Part 1: Exhibit C Definitions
- Part 2: Boeing Warranty
- Part 3 Boeing Service Life Policy
- Part 4: Supplier Warranty Commitment
- Part 5: Boeing Interface Commitment
- Part 6: Boeing Indemnities against Patent and Copyright Infringement

PRODUCT ASSURANCE DOCUMENT

PART 1: EXHIBIT C DEFINITIONS

Approved Maintenance Schedule or AMS shall mean that aircraft maintenance program document approved by Customer's aviation authority as a condition of granting Customer operating approval in the jurisdiction where the aircraft is registered.

Authorized Agent - Agent appointed by Customer to perform corrections and to administer warranties (see Appendix VI to the AGTA for a form acceptable to Boeing).

Average Direct Hourly Labor Rate - the average hourly rate (excluding all fringe benefits, premiumtime allowances, social charges, business taxes and the like) paid by Customer to its Direct Labor employees.

Boeing Product - any system, accessory, equipment, part or Aircraft Software that is manufactured by Boeing or manufactured to Boeing's detailed design with Boeing's authorization.

Correct(s) - to repair, modify, provide modification kits or replace with a new product.

Correction - a repair, a modification, a modification kit or replacement with a new product.

Corrected Boeing Product - a Boeing Product which is free of defect as a result of a Correction.

Direct Labor - Labor spent by Customer's direct labor employees to access, remove, disassemble, modify, repair, inspect and bench test a defective Boeing Product, and to reassemble, reinstall a Corrected Boeing Product and perform final inspection and testing.

Direct Materials - Items such as parts, gaskets, grease, sealant and adhesives, installed or consumed in performing a Correction, excluding allowances for administration, overhead, taxes, customs duties and the like.

Rogue Unit - A Boeing Product, on which an unscheduled removal due to breach of warranty occurs three (3) or more times both (i) within the warranty period and (ii) within either twelve (12) consecutive months or one thousand (1,000) consecutive operating hours.

Specification Control Drawing (SCD) - a Boeing document defining specifications for certain Supplier Products.

Supplier - the manufacturer of a Supplier Product.

Supplier Product - any system, accessory, equipment, part or Aircraft Software that is not manufactured to Boeing's detailed design. This includes but is not limited to parts manufactured to a SCD, all standards, and other parts obtained from nonBoeing sources.

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BOEING PROPRIETARY

PRODUCT ASSURANCE DOCUMENT

PART 2: BOEING WARRANTY

1. Applicability.

This warranty applies to all Boeing Products. Warranties applicable to Supplier Products are in Part 4. Warranties applicable to engines will be provided by Supplemental Exhibits to individual purchase agreements.

2. Warranty.

2.1 Coverage. Boeing warrants that at the time of delivery:

- (i) the aircraft will conform to the Detail Specification except for portions stated to be estimates, approximations or design objectives;
- (ii) all Boeing Products will be free from defects in material, process of manufacture and workmanship, including the workmanship utilized to install Supplier Products, engines and BFE, and;
- (iii) all Boeing Products will be free from defects in design, including selection of materials and the process of manufacture, in view of the state of the art at the time of design.

2.2 Exceptions. The following conditions do not constitute a defect under this warranty:

- (i) conditions resulting from normal wear and tear;
- (ii) conditions resulting from acts or omissions of Customer; and
- (iii) conditions resulting from failure to properly service and maintain a Boeing Product.

3. Warranty Periods.

3.1 Warranty. The warranty period begins on the date of aircraft or Boeing Product delivery (Delivery) and ends at the applicable time specified in subsections 3.1(i) through 3.1(iii) below:

- (i) for Boeing aircraft models 777-200, -300, 737-600, -700, -800, -900, 787 or new aircraft models designed and manufactured with similar, new technology the warranty period ends 48 months after Delivery;

- (ii) in addition, for a Boeing Product installed at the time of delivery in a 787 model aircraft but not inspected during the initial 48 month warranty period, the warranty period continues until the date upon which Customer first inspects such Boeing Product pursuant to its Approved Maintenance Schedule but not later than 10 years after Delivery of such 787 aircraft;
- (iii) for any other Boeing aircraft model the warranty period ends 36 months after Delivery.

3.2 Warranty on Corrected Boeing Products. The warranty period applicable to a Corrected Boeing Product shall begin on the date of delivery of the Corrected Boeing Product or date of delivery of the kit or kits furnished to Correct the Boeing Product and shall be for the period specified immediately below:

(i) For Corrected Boeing Products which have been Corrected because of a defect in material, the applicable warranty period is the remainder of the initial warranty for the defective Boeing Product.

(ii) For Corrected Boeing Products which have been Corrected because of defect in workmanship, the applicable warranty period is the remainder of the initial warranty or 12 months following the date of delivery of the Corrected Boeing Product, whichever is longer.

(iii) For Corrected Boeing Products which have been Corrected because of a defect in design, the applicable warranty period is 18 months or the remainder of the initial warranty period, whichever is longer.

3.3 Survival of Warranties. All warranty periods are stated above. The Performance Guarantees will not survive delivery of the aircraft.

4. Remedies.

4.1 Correction Options. Customer may, at its option, either perform a Correction of a defective Boeing Product or return the Boeing Product to Boeing for Correction. During the warranty period, Boeing will not charge Customer for tests on Boeing Products returned to Boeing for Correction on which Boeing is unable to confirm the failure claimed, provided:

- (i) Boeing's written instructions were followed by the Customer for testing the Boeing Product prior to its return to Boeing, and

- (ii) Customer's claim includes all applicable documentation of such tests with the returned Boeing Product, including but not limited to: Central Maintenance Computer (CMC), Flight Maintenance Computer System, (FMCS), Flight Isolation Manual (FIM), Engine Indicating and Crew Alerting System (EICAS) or Built In Test Equipment (BITE) messages.

4.2 Warranty Inspections. In addition to the remedies to Correct defects in Boeing Products described in Article 7.3, below, Boeing will reimburse Customer for the cost of Direct Labor to perform certain inspections of the aircraft to determine the occurrence of a condition Boeing has identified as a covered defect, provided the inspections are recommended by a service bulletin or service letter issued by Boeing during the warranty period.

Such reimbursement will not apply to any inspections performed after a Correction is available to Customer and Customer has had a reasonable time to incorporate the Correction, given the Customer's fleet size and maintenance schedule.

4.3 Rogue Units.

4.3.1 Upon written request, Boeing will lend Customer at no charge an interchangeable Boeing Product in exchange for a Rogue Unit. Within ten (10) calendar days of its receipt of the loaned Boeing Product, Customer will ship the Rogue Unit to Boeing. Customer will provide with the Rogue Unit verification of the following requirements:

- (i) The removed Boeing Product failed three (3) times within twelve (12) consecutive months or one thousand (1000) consecutive operating hours during the warranty period following initial delivery,
- (ii) Removals were performed in compliance with flight or maintenance manuals approved by the FAA or the comparable regulatory agency for the country in which the aircraft is registered, and
- (iii) Any Corrections or tests to the Boeing Product were performed by Customer according to the latest revision of the Boeing Component Maintenance Manual (CMM), according to written instructions from Boeing, or by Boeing.

4.3.2 Upon receipt of a Rogue Unit and the required verifications, Boeing will, at no-charge to Customer, either replace the Rogue Unit with a new Boeing Product or, if otherwise agreed, allow Customer to retain the loaned, Boeing Product.

5. Discovery and Notice.

5.1 For a claim to be valid:

- (i) the defect must be discovered during the warranty period; and
- (ii) Boeing Warranty must receive written notice of the discovery no later than 90 days after expiration of the warranty period. The notice must include sufficient information to substantiate the claim.
- (iii) For claims pursuant to Article 3.1(ii) of Part 2 of this Exhibit C pertaining to Boeing Products which are first inspected more than 48 months after delivery of the 787 model aircraft in which they are installed, Customer must have provided to Boeing no later than 45 months after delivery of such aircraft Customer's AMS for 787 model aircraft clearly identifying the nomenclature, location on the aircraft and schedule for inspection of all Boeing Products installed on such aircraft and thereafter have provided promptly to Boeing any revisions to such AMS.

5.2 Receipt of Customer's or its Authorized Agent's notice of the discovery of a defect secures Customer's rights to remedies under this Exhibit C, even though a Correction is performed after the expiration of the warranty period.

5.3 Once Customer has given valid notice of the discovery of a defect, a claim will be submitted as soon as practicable after performance of the Correction.

5.4 Boeing may release service bulletins or service letters advising Customer of the availability of certain warranty remedies. When such advice is provided, Customer will be deemed to have fulfilled the requirements for discovery of the defect and submittal of notice under this Exhibit C as of the in-warranty date specified in industry support information in a service bulletin or service letter.

6. Filing a Claim.

6.1 Authority to File. Claims may be filed by Customer or its Authorized Agent. Appointment of an Authorized Agent will only be effective upon Boeing's receipt of the Authorized Agent's express written agreement, in a form satisfactory to Boeing, to be bound by and to comply with all applicable terms and conditions of this Aircraft General Terms Agreement.

6.2 Claim Information.

6.2.1 Claimant is responsible for providing sufficient information to substantiate Customer's rights to remedies under this Exhibit C. Boeing may reject a claim for lack of sufficient information. At a minimum, such information must include:

- (i) identity of claimant;
- (ii) serial or block number of the aircraft on which the defective Boeing Product was delivered;
- (iii) part number and nomenclature of the defective Boeing Product;
- (iv) purchase order number and date of delivery of the defective spare part;
- (v) description and substantiation of the defect;
- (vi) date the defect was discovered;
- (vii) date the Correction was completed;
- (viii) the total flight hours or cycles accrued, if applicable;
- (ix) an itemized account of direct labor hours expended in performing the Correction; and
- (x) an itemized account of any direct materials incorporated in the Correction.
- (xi) for 787 model aircraft the name and revision level of the AMS that documents the required inspection and the specific reference to the inspection requirement contained therein.

6.2.2 Additional information may be required based on the nature of the defect and the remedies requested.

6.3 Boeing Claim Processing.

6.3.1 Any claim for a Boeing Product returned by Customer or its Authorized Agent to Boeing for Correction must accompany the Boeing Product. Any claim not associated with the return of a Boeing Product must be submitted signed and in writing directly by Customer or its Authorized Agent to Boeing Warranty by any of the methods identified in Article 11, "Notice," of the AGTA or through an internet portal and process specified by Boeing.

6.3.2 Boeing will promptly review the claim and will give notification of claim approval or rejection. If the claim is rejected, Boeing will provide a written explanation.

7. Corrections Performed by Customer or Its Authorized Agent.

7.1 Facilities Requirements. Provided Customer, its Authorized Agent or its third party contractor, as appropriate, are certified by the appropriate Civil Aviation Authority or Federal Aviation Authority, Customer or its Authorized Agent may, at its option, Correct defective Boeing Products at its facilities or may subcontract Corrections to a third party contractor.

7.2 Technical Requirements. All Corrections done by Customer, its Authorized Agent or a third party contractor must be performed in accordance with Boeing's applicable service manuals, bulletins or other written instructions, using parts and materials furnished or approved by Boeing.

7.3 Reimbursement.

7.3.1 Boeing will reimburse Customer's reasonable costs of Direct Materials and Direct Labor by credit memorandum (excluding labor hours expended for overhaul) at Customer's Warranty Labor Rate to Correct a defective Boeing Product. Claims for reimbursement must contain sufficient information to substantiate Direct Labor hours expended and Direct Materials consumed. Customer or its Authorized Agent may be required to produce invoices for materials.

7.3.2 Customer's established Warranty Labor Rate will be the greater of the standard labor rate or 150% of Customer's Average Direct Hourly Labor Rate. The standard labor rate paid by Boeing to its customers is established and published annually. Prior to or concurrently with submittal of Customer's first claim for Direct Labor reimbursement, Customer may notify Boeing of Customer's then current Average Direct Hourly Labor Rate and thereafter notify Boeing of any material change in such rate. Boeing will require information from Customer to substantiate such rates.

7.3.3 Reimbursement for Direct Labor hours to perform Corrections stated in a service bulletin will be based on the labor estimates in the service bulletin.

7.3.4 Boeing will provide to Customer a single, lump sum credit memorandum for Customer's Direct Labor hours expended to incorporate the Corrections (other than of random anomalies) identified in service bulletins and service letters in all in-warranty aircraft covered by such service bulletins or service letters after Customer's submission of a warranty claim and verification of the incorporation of such Corrections with respect to the first affected in-warranty aircraft. Such credit memoranda will not be provided in response to any other requests for reimbursement including, without limitation, those arising out of program letters or other special offers provided by Boeing.

7.3.5 Boeing will reimburse Customer's freight charges associated with a Correction of a defect on a Boeing Product performed by its Authorized Agent or a third party contractor.

7.3.6 Maximum Reimbursement. Unless previously agreed in writing, the maximum reimbursement for Direct Labor and Direct materials for repair of a defective Boeing Product will not exceed 65% of Boeing's then-current sales price for a new replacement Boeing Product. Inspection, removal, reinstallation labor, final testing, inspection and transportation costs are separate and are not to be included in the cost elements used to determine the 65% limit. By mutual agreement between Customer and Boeing, Boeing may provide a replacement Product to Customer in lieu of credit reimbursement.

7.4 Disposition of Defective Boeing Products Beyond Economical Repair.

7.4.1 A defective Boeing Product found to be beyond economical repair (see Para. 7.3.6) will be retained for a period of 30 days from the date Boeing receives Customer's claim. During the 30 day period, Boeing may request return of such Boeing Products for inspection and confirmation of a defect.

7.4.2 After the 30 day period, a defective Boeing Product with a value of U.S. \$4,000 or less may be scrapped without notification to Boeing. Boeing will reimburse Customer or its Authorized Agent for the charge for any item determined to be defective under this Aircraft General Terms Agreement. If such Boeing Product has a value greater than U.S. \$4,000, Customer must obtain confirmation of unrepairability by Boeing's on-site Customer Services Representative prior to scrapping. Confirmation may be in the form of the Representative's signature on Customer's claim or through direct communication between the Representative and Boeing Warranty.

8. Corrections Performed by Boeing.

8.1 Freight Charges. Customer or its Authorized Agent will pre-pay freight charges to return a Boeing Product to Boeing. If during the period of the applicable warranty Boeing determines the Boeing Product to be defective, Boeing will pre-pay shipping charges to return the Corrected Boeing Product. Boeing will reimburse Customer or its Authorized Agent for freight charges for Boeing Products returned to Boeing for Correction and determined to be defective.

8.2 Customer Instructions. The documentation shipped with the returned defective Boeing Product may include specific technical instructions for additional work to be performed on the Boeing Product. The absence of such instructions will evidence Customer's authorization for Boeing to perform all necessary Corrections and work required to return the Boeing Product to a serviceable condition.

8.3 Correction Time Objectives.

8.3.1 Boeing's objective for making Corrections is 10 working days for avionics and electronic Boeing Products, 30 working days for Corrections of other Boeing Products performed at Boeing's facilities and 40 working days for Corrections of other Boeing Products performed at a Boeing subcontractor's facilities. The objectives are measured from the date Boeing receives the defective Boeing Product and a valid claim to the date Boeing ships the Corrected Boeing Product.

8.3.2 If Customer has a critical parts shortage because Boeing has exceeded a Correction time objective and Customer has procured spare Boeing Products for the defective Boeing Product in quantities shown in Boeing's Recommended Spare Parts List or, for 717 model aircraft only, in quantities shown in Boeing's Spares Planning and Requirements Evaluation Model, then Boeing will either expedite the Correction or provide an interchangeable Boeing Product, on a no charge loan basis, until the Corrected Boeing Product is returned.

8.4 Title Transfer and Risk of Loss.

8.4.1 Title to and risk of loss of any Boeing Product returned to Boeing will at all times remain with Customer or any other title holder of such Boeing Product. While Boeing has possession of the returned Boeing Product, Boeing will have only such liabilities as a bailee for mutual benefit would have but will not be liable for loss of use.

8.4.2 If a Correction requires shipment of a new Boeing Product, then at the time Boeing ships the new Boeing Product, title to and risk of loss for the returned Boeing Product will pass to Boeing, and title to and risk of loss for the new Boeing Product will pass to Customer.

9. Returning an Aircraft.

9.1 Conditions. An aircraft may be returned to Boeing's facilities for Correction only if:

- (i) Boeing and Customer agree a covered defect exists;
- (ii) Customer lacks access to adequate facilities, equipment or qualified personnel to perform the Correction; and
- (iii) it is not practical, in Boeing's estimation, to dispatch Boeing personnel to perform the Correction at a remote site.

9.2 Correction Costs. Boeing will perform the Correction at no charge to Customer. Subject to the conditions of Article 9.1, Boeing will reimburse Customer for the costs of fuel, oil, other required fluids and landing fees incurred in ferrying the aircraft to Boeing and back to Customer's facilities. Customer will minimize the length of both flights.

9.3 Separate Agreement. Prior to the return of an aircraft to Boeing, Boeing and Customer will enter into a separate agreement covering return of the aircraft and performance of the Correction. Authorization by Customer for Boeing to perform additional work that is not part of the Correction must be received within 24 hours of Boeing's request. If such authorization is not received within 24 hours, Customer will be invoiced for work performed by Boeing that is not part of the Correction.

10. Insurance.

The provisions of Article 8.2 "Insurance", of this AGTA, will apply to any work performed by Boeing in accordance with Customer's specific technical instructions to the extent any legal liability of Boeing is based upon the content of such instructions.

11. Disclaimer and Release; Exclusion of Liabilities.

11.1 DISCLAIMER AND RELEASE. THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF BOEING AND THE REMEDIES OF CUSTOMER IN THIS EXHIBIT C ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND CUSTOMER HEREBY WAIVES, RELEASES AND RENOUNCES, ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF BOEING AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES OF CUSTOMER AGAINST BOEING, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY NONCONFORMANCE OR DEFECT IN ANY AIRCRAFT, MATERIALS, TRAINING, SERVICES OR OTHER THING PROVIDED UNDER THIS AGTA AND

THE APPLICABLE PURCHASE AGREEMENT, INCLUDING, BUT NOT LIMITED TO:

- (A) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;
- (B) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
- (C) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY IN TORT, WHETHER OR NOT ARISING FROM THE NEGLIGENCE OF BOEING; AND
- (D) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OF OR DAMAGE TO ANY AIRCRAFT.

11.2 EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES. BOEING WILL HAVE NO OBLIGATION OR LIABILITY, WHETHER ARISING IN CONTRACT (INCLUDING WARRANTY), TORT, WHETHER OR NOT ARISING FROM THE NEGLIGENCE OF BOEING, OR OTHERWISE, FOR LOSS OF USE, REVENUE OR PROFIT, OR FOR ANY OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY NONCONFORMANCE OR DEFECT IN ANY AIRCRAFT, MATERIALS, TRAINING, SERVICES OR OTHER THING PROVIDED UNDER THIS AGTA AND THE APPLICABLE PURCHASE AGREEMENT.

11.3 Definitions. For the purpose of this Article, "BOEING" or "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each, and their respective directors, officers, employees and agents.

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PRODUCT ASSURANCE DOCUMENT

PART 3: BOEING SERVICE LIFE POLICY

1. Definitions.

Service Life Policy (SLP) Component - any of the primary structural elements (excluding industry standard parts), such as landing gear, wing, fuselage, vertical or horizontal stabilizer, listed in the applicable purchase agreement for a specific model of aircraft, either installed in the aircraft at time of delivery or purchased from Boeing by Customer as a spare part. The detailed SLP Component listing will be in Supplemental Exhibit SLP1 to each Purchase Agreement.

2. Service Life Policy.

2.1 SLP Commitment. If a failure is discovered in a SLP Component within the time periods specified in Article 2.2 below, Boeing will provide Customer a replacement SLP Component at the price calculated pursuant to Article 3.1, below. If requested by Customer as an alternative remedy, Boeing will reimburse Customer in accordance with the provisions of Exhibit C, Part 2, Article 7.3, for Direct Labor and Direct Material for repair of a failed SLP Component an amount not to exceed the difference between Boeing's then current spare parts price for such SLP Component and the price determined pursuant to Article 3, below.

2.2 SLP Policy Periods.

2.2.1 The policy period for SLP Components initially installed on an aircraft is 12 years after the date of delivery of the aircraft except that for SLP Components initially installed on a 787 aircraft the policy period is 15 years after the date of delivery of the aircraft.

2.2.2 The policy period for SLP Components purchased from Boeing by Customer as spare parts is 12 years from delivery of such SLP Component or 12 years from the date of delivery of the last aircraft produced by Boeing of a specific model, whichever first expires, except that for the 787 aircraft such policy period is 15 years from delivery of such SLP Component or 15 years from the date of delivery of the last 787 aircraft produced by Boeing, whichever first expires.

3. Price.

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The price Customer will pay for replacement of a failed SLP Component will be calculated pursuant to the following formulas:

(i) For 787 aircraft only:

$$P = \frac{C(T-48)}{132}$$

where:

P = price to Customer for the replacement part

C = SLP Component sales price at time of replacement

T = total age in months of the failed SLP Component from the date of delivery to Customer to the date of discovery of such condition and is greater than 48 months.

(ii) For all other aircraft models:

$$P = CT$$

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where:

P = price to Customer for the replacement part

C = SLP Component sales price at time of replacement

T = total age in months of the failed SLP Component from the date of delivery to Customer to the date of discovery of such condition.

4. Conditions.

Boeing's obligations under this Part 3 of Exhibit C, "Boeing Service Life Policy," (Policy) are conditioned upon the following:

4.1 Customer must notify Boeing in writing of the failure within three months after it is discovered.

4.2 Customer must provide reasonable evidence that the claimed failure is covered by this Policy and if requested by Boeing, that such failure was not the result of:

(i) a defect or failure in a component not covered by this Policy,

(ii) an extrinsic force,

(iii) an act or omission of Customer, or

(iv) operation or maintenance contrary to applicable governmental regulations or Boeing's instructions.

4.3 If return of a failed SLP Component is practicable and requested by Boeing, Customer will return such SLP Component to Boeing at Boeing's expense.

4.4 Customer's rights and remedies under this Policy are limited to the receipt of a Correction pursuant to Article 2 above.

5. Disclaimer and Release; Exclusion of Liabilities.

This Part 3 and the rights and remedies of Customer and the obligations of Boeing are subject to the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions of Article 11 of Part 2 of this Exhibit C.

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PART 4: SUPPLIER WARRANTY COMMITMENT

1. Supplier Warranties and Supplier Patent and Copyright Indemnities.

Boeing will use diligent efforts to obtain warranties and indemnities against patent and copyright infringement enforceable by Customer from Suppliers of Supplier Products (except for BFE and engines) installed on the aircraft at the time of delivery that were selected and purchased by Boeing, but not manufactured to Boeing's detailed design. Boeing will furnish copies of the warranties and patent and copyright indemnities to Customer contained in Supplier Product Support and Assurance Agreements, prior to the scheduled delivery month of the first aircraft under the initial purchase agreement to the AGTA.

2. Boeing Assistance in Administration of Supplier Warranties.

Customer will be responsible for submitting warranty claims directly to Suppliers; however, if Customer experiences problems enforcing any Supplier warranty obtained by Boeing for Customer, Boeing will conduct an investigation of the problem and assist Customer in the resolution of those claims.

3. Boeing Support in Event of Supplier Default.

3.1 If the Supplier defaults in the performance of a material obligation under its warranty, and Customer provides evidence to Boeing that a default has occurred, then Boeing will furnish the equivalent warranty terms as provided by the defaulting Supplier.

3.2 At Boeing's request, Customer will assign to Boeing, and Boeing will be subrogated to, its rights against the Supplier provided by the Supplier warranty.

PRODUCT ASSURANCE DOCUMENT

PART 5: BOEING INTERFACE COMMITMENT

1. Interface Problems.

An Interface Problem is defined as a technical problem in the operation of an aircraft or its systems experienced by Customer, the cause of which is not readily identifiable by Customer but which Customer believes to be attributable to either the design characteristics of the aircraft or its systems or the workmanship used in the installation of Supplier Products. In the event Customer experiences an Interface Problem, Boeing will, without additional charge to Customer, promptly conduct an investigation and analysis to determine the cause or causes of the Interface Problem. Boeing will promptly advise Customer at the conclusion of its investigation of Boeing's opinion as to the causes of the Interface Problem and Boeing's recommendation as to corrective action.

2. Boeing Responsibility.

If Boeing determines that the Interface Problem is primarily attributable to the design or installation of any Boeing Product, Boeing will Correct the design or workmanship to the extent of any thenexisting obligations of Boeing under the provisions of the applicable Boeing Warranty.

3. Supplier Responsibility.

If Boeing determines that the Interface Problem is primarily attributable to the design or installation of a Supplier Product, Boeing will assist Customer in processing a warranty claim against the Supplier.

4. Joint Responsibility.

If Boeing determines that the Interface Problem is partially attributable to the design or installation of a Boeing Product and partially to the design or installation of a Supplier Product, Boeing will seek a solution to the Interface Problem through the cooperative efforts of Boeing and the Supplier and will promptly advise Customer of the resulting corrective actions and recommendations.

5. General.

Customer will, if requested by Boeing, assign to Boeing any of its rights against any supplier as Boeing may require to fulfill its obligations hereunder.

6. Disclaimer and Release; Exclusion of Liabilities.

This Part 5 and the rights and remedies of Customer and the obligations of Boeing herein are subject to the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions of Article 11 of Part 2 of this Exhibit C.

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PART 6: BOEING INDEMNITIES AGAINST PATENT AND COPYRIGHT INFRINGEMENT

1. Indemnity Against Patent Infringement.

Boeing will defend and indemnify Customer with respect to all claims, suits and liabilities arising out of any actual or alleged patent infringement through Customer's use, lease or resale of any aircraft or any Boeing Product installed on an aircraft at delivery.

2. Indemnity Against Copyright Infringement.

Boeing will defend and indemnify Customer with respect to all claims, suits and liabilities arising out of any actual or alleged copyright infringement through Customer's use, lease or resale of any Boeing created Materials and Aircraft Software installed on an aircraft at delivery.

3. Exceptions, Limitations and Conditions.

3.1 Boeing's obligation to indemnify Customer for patent infringement will extend only to infringements in countries which, at the time of the infringement, were party to and fully bound by either (a) Article 27 of the Chicago Convention on International Civil Aviation of December 7, 1944, or (b) the International Convention for the Protection of Industrial Property (Paris Convention).

3.2 Boeing's obligation to indemnify Customer for copyright infringement is limited to infringements in countries which, at the time of the infringement, are members of The Berne Union and recognize computer software as a "work" under The Berne Convention.

3.3 The indemnities provided under this Part 6 will not apply to any BFE engines, Supplier Product, Boeing Product used other than for its intended purpose, or Aircraft Software not created by Boeing.

3.4 Customer must deliver written notice to Boeing (i) within 10 days after Customer first receives notice of any suit or other formal action against Customer and (ii) within 20 days after Customer first receives any other allegation or written claim of infringement covered by this Part 6.

3.5 At any time, Boeing will have the right at its option and expense to: (i) negotiate with any party claiming infringement, (ii) assume or control the defense of any infringement allegation, claim, suit or formal action, (iii) intervene in any infringement suit or formal action, and/or (iv)

attempt to resolve any claim of infringement by replacing an allegedly infringing Boeing Product or Aircraft Software with a noninfringing equivalent.

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3.6 Customer will promptly furnish to Boeing all information, records and assistance within Customer's possession or control which Boeing considers relevant or material to any alleged infringement covered by this Part 6.

3.7 Except as required by a final judgment entered against Customer by a court of competent jurisdiction from which no appeals can be or have been filed, Customer will obtain Boeing's written approval prior to paying, committing to pay, assuming any obligation or making any material concession relative to any infringement covered by these indemnities.

3.8 Boeing will have no obligation or liability under this Part 6 for loss of use, revenue or profit, or for any other incidental or consequential damages. The obligations of Boeing and remedies of Customer in this Part 6 are exclusive and in substitution for, and Customer hereby waives, releases and renounces all other indemnities, obligations and liabilities of Boeing and all other rights, claims and remedies of Customer against Boeing, express or implied, arising by law or otherwise, with respect to any actual or alleged patent, copyright OR OTHER INTELLECTUAL PROPERTY infringement or the like by any aircraft, AIRCRAFT SOFTWARE, MATERIALS, TRAINING, SERVICES or other thing provided under this AGTA and the applicABLE PURCHASE AGREEMENT.

3.9 For the purposes of this Part 6, "BOEING or Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each and their respective directors, officers, employees and agents.

SAMPLE
Insurance Certificate

BROKER'S LETTERHEAD

[date]

Certificate of Insurance

ISSUED TO: The Boeing Company
Post Office Box 3707
Mail Stop 13-57
Seattle, Washington 98124
Attn: Manager - Aviation Insurance for
Vice President - Employee Benefits,
Insurance and Taxes

CC: Boeing Commercial Airplanes
P.O. Box 3707
Mail Stop 21-34
Seattle, Washington 98124-2207
U.S.A.
Attn: Vice President - Contracts

NAMED INSURED: Alaska Airlines, Inc.

We hereby certify that in our capacity as Brokers to the Named Insured, the following described insurance is in force on this date:

Insurer **Policy No.** **Participation**

POLICY PERIOD: From [date and time of inception of the Policy(ies)] to [date and time of expiration].

GEOGRAPHICAL LIMITS: Worldwide (however, as respects "Aircraft Hull War and Allied Perils" Insurance, as agreed by Boeing).

AIRCRAFT INSURED: All Boeing manufactured aircraft owned or operated by the Named Insured which are the subject of the following purchase

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agreement(s), entered into between The Boeing Company and
_____ (hereinafter "Aircraft"):

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Purchase Agreement No. ____ dated _____

Purchase Agreement No. ____ dated _____

COVERAGES:

1. **Aircraft "all risks" Hull (Ground and Flight)**
2. **Aircraft Hull War and Allied Perils (as per LSW 555, or its successor wording)**
3. **Airline Liability**

Including, but not limited to, Bodily Injury, Property Damage, Aircraft Liability, Liability War Risks, Passenger Legal Liability, Premises/Operations Liability, Completed Operations/Products Liability, Baggage Legal Liability (checked and unchecked), Cargo Legal Liability, Contractual Liability and Personal Injury.

The above-referenced Airline Liability insurance coverage is subject to War and Other Perils Exclusion Clause (AV48B) but all sections, other than section (b) are reinstated as per AV52C, or their successor endorsements.

LIMITS OF LIABILITY:

To the fullest extent of the Policy limits that the Named Insured carries from the time of delivery of the first Aircraft under the first Purchase Agreement listed under "Aircraft Insured" and thereafter at the inception of each policy period, but in any event no less than the following:

Combined Single Limit Bodily Injury and Property Damage: U.S.\$ any one occurrence each Aircraft (with aggregates as applicable).

(717-200)	US\$300,000,000
(737-500/600)	US\$350,000,000
(737-300/700)	US\$400,000,000
(737-400)	US\$450,000,000
(737-800)	US\$500,000,000
(737-900)	US\$500,000,000
(757-200)	US\$525,000,000
(757-300)	US\$550,000,000
(767-200)	US\$550,000,000
(767-300)	US\$700,000,000
(767-400ERX)	US\$750,000,000
(7E7)	US\$700,000,000
(777-200LR)	US\$800,000,000
(MD-11)	US\$800,000,000
(777-200/300)	US\$800,000,000
(777-300ER)	US\$800,000,000
(747-400)	US\$900,000,000

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(In regard to all other models and/or derivatives, to be specified by Boeing).

(In regard to Personal Injury coverage, limits are US\$25,000,000 any one offense/aggregate.)

DEDUCTIBLES / SELF-INSURANCE

Any deductible and/or self-insurance amount (other than standard market deductibles) are to be disclosed and agreed by Boeing.

SPECIAL PROVISIONS APPLICABLE TO BOEING:

It is certified that Insurers are aware of the terms and conditions of AGTA-ASA and the following purchase agreements:

PA _____ dated _____

PA _____ dated _____

PA _____ dated _____

Each Aircraft manufactured by Boeing which is delivered to the Insured pursuant to the applicable purchase agreement during the period of effectivity of the policies represented by this Certificate will be covered to the extent specified herein.

Insurers have agreed to the following:

A. In regard to Aircraft "all risks" Hull Insurance and Aircraft Hull War and Allied Perils Insurance, Insurers agree to waive all rights of subrogation or recourse against Boeing in accordance with AGTA-ASA which was incorporated by reference into the applicable purchase agreement.

B. In regard to Airline Liability Insurance, Insurers agree:

(1) To include Boeing as an additional insured in accordance with Customer's undertaking in Article 8.2.1 of AGTA-ASA which was incorporated by reference into the applicable purchase agreement.

(2) To provide that such insurance will be primary and not contributory nor excess with respect to any other insurance available for the protection of Boeing;

(3) To provide that with respect to the interests of Boeing, such insurance shall not be invalidated or minimized by any action or inaction, omission or misrepresentation by the Insured or any other person or party (other than Boeing) regardless of any breach or violation of any warranty, declaration or condition contained in such policies;

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(4) To provide that all provisions of the insurance coverages referenced above, except the limits of liability, will operate to give each Insured or additional insured the same protection as if there were a separate Policy issued to each.

C. In regard to all of the above referenced policies:

(1) Boeing will not be responsible for payment, set-off, or assessment of any kind or any premiums in connection with the policies, endorsements or coverages described herein;

(2) If a policy is canceled for any reason whatsoever, or any substantial change is made in the coverage which affects the interests of Boeing or if a policy is allowed to lapse for nonpayment of premium, such cancellation, change or lapse shall not be effective as to Boeing for thirty (30) days (in the case of war risk and allied perils coverage seven (7) days after sending, or such other period as may from time to time be customarily obtainable in the industry) after receipt by Boeing of written notice from the Insurers or the authorized representatives or Broker of such cancellation, change or lapse; and

(3) For the purposes of the Certificate, "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each and their respective directors, officers, employees and agents.

Subject to the terms, conditions, limitations and exclusions of the relative policies.

(signature)

(typed name)

(title)

AGTA-ASA App. I
Rev.: 11/23/04

BOEING PROPRIETARY

SAMPLE

Purchase Agreement Assignment (where Customer remains operator of the Aircraft)

THIS PURCHASE AGREEMENT ASSIGNMENT (Assignment) dated as of _____ 20__ between Alaska Airlines, Inc., a company organized under the laws of _____ (Assignor) and _____, a company organized under the laws of _____ (Assignee). Capitalized terms used herein without definition will have the same meaning as in the Boeing Purchase Agreement.

Assignor and The Boeing Company, a Delaware corporation (Boeing), are parties to the Boeing Purchase Agreement, providing, among other things, for the sale by Boeing to Assignor of certain aircraft, engines and related equipment, including the Aircraft.

Assignee wishes to acquire the Aircraft and certain rights and interests under the Boeing Purchase Agreement and Assignor, on the following terms and conditions, is willing to assign to Assignee certain of Assignor's rights and interests under the Boeing Purchase Agreement. Assignee is willing to accept such assignment.

It is agreed as follows:

1. For all purposes of this Assignment, the following terms will have the following meanings:

Aircraft -- one Boeing Model _____ aircraft, bearing manufacturer's serial number _____, together with all engines and parts installed on such aircraft on the Delivery Date.

Boeing -- Boeing shall include any wholly-owned subsidiary of Boeing, and its successors and assigns.

Boeing Purchase Agreement -- Purchase Agreement No. _____ dated as of _____ between Boeing and Assignor, as amended, but excluding _____, providing, among other things, for the sale by Boeing to Assignor of the Aircraft, as said agreement may be further amended to the extent permitted by its terms. The Purchase Agreement incorporated by reference Aircraft General Terms Agreement AGTA/____ (AGTA).

Delivery Date -- the date on which the Aircraft is delivered by Boeing to Assignee pursuant to and subject to the terms and conditions of the Boeing Purchase Agreement and this Assignment.

2. Assignor does hereby assign to Assignee all of its rights and interests in and to the Boeing Purchase Agreement, as and to the extent that the same relate to the Aircraft and the purchase and operation thereof, except as and to the extent expressly reserved below, including, without limitation, in such assignment: **[TO BE COMPLETED BY THE PARTIES.]**

{EXAMPLES}

SAMPLE

Purchase Agreement Assignment (where Customer remains operator of the Aircraft)

- (a) *the right upon valid tender to purchase the Aircraft pursuant to the Boeing Purchase Agreement subject to the terms and conditions thereof and the right to take title to the Aircraft and to be named the "Buyer" in the bill of sale for the Aircraft;*
- (b) *the right to accept delivery of the Aircraft;*
- (c) *all claims for damages arising as a result of any default under the Boeing Purchase Agreement in respect of the Aircraft;*
- (d) *all warranty and indemnity provisions contained in the Boeing Purchase Agreement, and all claims arising thereunder, in respect of the Aircraft; and*
- (e) *any and all rights of Assignor to compel performance of the terms of the Boeing Purchase Agreement in respect of the Aircraft.}*

Reserving exclusively to Assignor, however:

{EXAMPLES

- (i) *all Assignor's rights and interests in and to the Boeing Purchase Agreement as and to the extent the same relates to aircraft other than the Aircraft, or to any other matters not directly pertaining to the Aircraft;*
- (ii) *all Assignor's rights and interests in or arising out of any advance or other payments or deposits made by Assignor in respect of the Aircraft under the Boeing Purchase Agreement and any amounts credited or to be credited or paid or to be paid by Boeing in respect of the Aircraft;*
- (iii) *the right to obtain services, training, information and demonstration and test flights pursuant to the Boeing Purchase Agreement; and*
- (iv) *the right to maintain plant representatives at Boeing's plant pursuant to the Boeing Purchase Agreement.}*

Assignee hereby accepts such assignment.

3. Notwithstanding the foregoing, so long as no event of default or termination under [specify document] has occurred and is continuing, Assignee hereby authorizes Assignor, to the exclusion of Assignee, to exercise in Assignor's name all rights and powers of Customer under the Boeing Purchase Agreement in respect of the Aircraft.

4. For all purposes of this Assignment, Boeing will not be deemed to have knowledge of or need recognize the occurrence, continuance or the discontinuance of any event

SAMPLE

Purchase Agreement Assignment (where Customer remains operator of the Aircraft)

of default or termination under [specify document] unless and until Boeing receives from Assignee written notice thereof, addressed to its Vice President - Contracts, Boeing Commercial Airplanes at P.O. Box 3707, Seattle, Washington 98124, if by mail, or to 32-9430 Answerback BOEINGREN RNTN, if by telex. Until such notice has been given, Boeing will be entitled to deal solely and exclusively with Assignor. Thereafter, until Assignee has provided Boeing written notice that any such events no longer continue, Boeing will be entitled to deal solely and exclusively with Assignee. Boeing may act with acquittance and conclusively rely on any such notice.

5. It is expressly agreed that, anything herein contained to the contrary notwithstanding: (a) prior to the Delivery Date Assignor will perform its obligations with respect to the Aircraft to be performed by it on or before such delivery, (b) Assignor will at all times remain liable to Boeing under the Boeing Purchase Agreement to perform all obligations of Customer thereunder to the same extent as if this Assignment had not been executed, and (c) the exercise by Assignee of any of the assigned rights will not release Assignor from any of its obligations to Boeing under the Boeing Purchase Agreement, except to the extent that such exercise constitutes performance of such obligations.

6. Notwithstanding anything contained in this Assignment to the contrary (but without in any way releasing Assignor from any of its obligations under the Boeing Purchase Agreement), Assignee confirms for the benefit of Boeing that, insofar as the provisions of the Boeing Purchase Agreement relate to the Aircraft, in exercising any rights under the Boeing Purchase Agreement, or in making any claim with respect to the Aircraft or other things (including, without limitation, Material, training and services) delivered or to be delivered, the terms and conditions of the Boeing Purchase Agreement, including, without limitation, the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES in Article 11 of Part 2 of Exhibit C to the Aircraft General Terms Agreement which was incorporated by reference into the Boeing Purchase Agreement and the insurance provisions in Article 8.2 of the Aircraft General Terms Agreement which was incorporated by reference into the Boeing Purchase Agreement therein, will apply to and be binding on Assignee to the same extent as if Assignee had been the original "Customer" thereunder. Assignee further agrees, expressly for the benefit of Boeing, upon the written request of Boeing, Assignee will promptly execute and deliver such further assurances and documents and take such further action as Boeing may reasonably request in order to obtain the full benefits of Assignee's agreements in this paragraph.

7. Nothing contained herein will subject Boeing to any liability to which it would not otherwise be subject under the Boeing Purchase Agreement or modify in any respect the contract rights of Boeing thereunder, or require Boeing to divest itself of title to or possession of the Aircraft or other things until delivery thereof and payment therefor as provided therein.

8. Notwithstanding anything in this Assignment to the contrary, after receipt of notice of any event of default or termination under [specify document], Boeing will continue to owe to Assignor moneys in payment of claims made or obligations arising before such notice, which moneys may be subject to rights of set-off available to Boeing under applicable law.

SAMPLE

Purchase Agreement Assignment (where Customer remains operator of the Aircraft)

Similarly, after receipt of notice that such event of default or termination no longer continues, Boeing will continue to owe to Assignee moneys in payment of claims made or obligations arising before such notice, which moneys may be subject to rights of set-off available to Boeing under applicable law.

9. Effective at any time after an event of default has occurred, and for so long as such event of default is continuing, Assignor does hereby constitute Assignee, Assignor's true and lawful attorney, irrevocably, with full power (in the name of Assignor or otherwise) to ask, require, demand, receive, and give acquittance for any and all moneys and claims for moneys due and to become due under or arising out of the Boeing Purchase Agreement in respect of the Aircraft, to the extent assigned by this Assignment.

10. Assignee agrees, expressly for the benefit of Boeing and Assignor that it will not disclose, directly or indirectly, any terms of the Boeing Purchase Agreement; provided, that Assignee may disclose any such information (a) to its special counsel and public accountants, (b) as required by applicable law to be disclosed or to the extent that Assignee may have received a subpoena or other written demand under color of legal right for such information, but it will first, as soon as practicable upon receipt of such requirement or demand, furnish an explanation of the basis thereof to Boeing, and will afford Boeing reasonable opportunity, to obtain a protective order or other reasonably satisfactory assurance of confidential treatment for the information required to be disclosed, and (c) to any bona fide potential purchaser or lessee of the Aircraft. Any disclosure pursuant to (a) and (c) above will be subject to execution of a confidentiality agreement substantially similar to this paragraph 10.

11. This Assignment may be executed by the parties in separate counterparts, each of which when so executed and delivered will be an original, but all such counterparts will together constitute but one and the same instrument.

12. This Assignment will be governed by, and construed in accordance with, the laws of [_____].

SAMPLE
Purchase Agreement Assignment
(where Customer remains operator of the Aircraft)

_____ as Assignor as Assignee _____

By _____ By _____

Name: Name:

Title: Title:

[If the Assignment is further assigned by Assignee in connection with a financing, the following language needs to be included.]

Attest:

The undersigned, as [Indenture Trustee/Agent for the benefit of the Loan Participants/Mortgagee] and as assignee of, and holder of a security interest in, the estate, right, and interest of the Assignee in and to the foregoing Purchase Agreement Assignment and the Purchase Agreement pursuant to the terms of a certain [Trust Indenture/Mortgage] dated as of _____, agrees to the terms of the foregoing Purchase Agreement Assignment and agrees that its rights and remedies under such [Trust Indenture/Mortgage] shall be subject to the terms and conditions of the foregoing Purchase Agreement Assignment, including, without limitation, paragraph 6.

[Name of Entity],
as Indenture Trustee/Agent

By: _____

Name:

Title:

**CONSENT AND AGREEMENT OF
THE BOEING COMPANY**

THE BOEING COMPANY, a Delaware corporation (Boeing), hereby acknowledges notice of and consents to the foregoing Purchase Agreement Assignment (Assignment) as it relates to Boeing in respect of the Aircraft. Boeing confirms to Assignee that: all representations, warranties, indemnities and agreements of Boeing under the Boeing Purchase Agreement with respect to the Aircraft will, subject to the terms and conditions thereof and of the Assignment, inure to the benefit of Assignee to the same extent as if Assignee were originally named "Customer" therein.

This Consent and Agreement will be governed by, and construed in accordance with, the law of the State of Washington, excluding the conflict of laws principles thereof.

Dated as of _____, 20__.

THE BOEING COMPANY

By _____

Name:

Title: Attorney-in-Fact

Aircraft Manufacturer's Serial Number(s) _____

SAMPLE
Post-Delivery Sale Notice

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention: Vice President - Contracts
Mail Code 21-34

Ladies and Gentlemen:

In connection with the sale by Alaska Airlines, Inc. (Seller) to _____ (Purchaser) of the aircraft identified below, reference is made to Purchase Agreement No. _____ dated as of _____, 20____, between The Boeing Company (Boeing) and Seller (the Purchase Agreement) under which Seller purchased certain Boeing Model _____ aircraft, including the aircraft bearing Manufacturer's Serial No.(s) _____ (the Aircraft). The Purchase Agreement incorporated by reference Aircraft General Terms Agreement AGTA-ASA (AGTA).

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

Seller has sold the Aircraft, including in that sale the assignment to Purchaser of all remaining rights related to the Aircraft under the Purchase Agreement. To accomplish this transfer of rights, as authorized by the provisions of the Purchase Agreement:

- (1) Purchaser acknowledges it has reviewed those provisions of the Purchase Agreement related to those rights assigned and agrees to be bound by and comply with all applicable terms and conditions of the Purchase Agreement, including, without limitation, the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES in Article 11 of Part 2 of Exhibit C to the AGTA and the insurance provisions in Article 8.2 of the AGTA. Purchaser further agrees upon the written request of Boeing, to promptly execute and deliver such further assurances and documents and take such further action as Boeing may reasonably request in order to obtain the full benefits of Purchaser's agreements in this paragraph; and
- (2) Seller will remain responsible for any payments due Boeing as a result of obligations relating to the Aircraft incurred by Seller to Boeing prior to the effective date of this letter.

We request that Boeing acknowledge receipt of this letter and confirm the transfer of rights set

AGTA-ASA
AGTA_Appendix_III

SAMPLE
Post-Delivery Sale Notice

forth above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

AGTA-ASA App. III
AGTA_Appendix_III Rev.: 04/20/04

SAMPLE
Post-Delivery Sale Notice

Very truly yours,

Alaska Airlines, Inc.

Purchaser

By ___

By ___

Its ___

Its ___

Dated ___

Dated ___

Receipt of the above letter is acknowledged and the assignment of rights under the Purchase Agreement with respect to the Aircraft described above is confirmed, effective as of this date.

THE BOEING COMPANY

By ___

Its Attorney-in-Fact

Dated ___

Aircraft Manufacturer's Serial Number _____

AGTA-ASA App. III

AGTA_Appendix_III Rev.: 04/20/04

SAMPLE
Post-Delivery Lease Notice

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention: Vice President - Contracts
Mail Code 21-34

Ladies and Gentlemen:

In connection with the lease by Alaska Airlines, Inc. (Lessor) to _____ (Lessee) of the aircraft identified below, reference is made to Purchase Agreement No. ____ dated as of _____, 20__, between The Boeing Company (Boeing) and Lessor (the Purchase Agreement) under which Lessor purchased certain Boeing Model _____ aircraft, including the aircraft bearing Manufacturer's Serial No.(s) _____ (the Aircraft). The Purchase Agreement incorporated by reference Aircraft General Terms Agreement AGTA-ASA (AGTA).

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

Lessor has leased the Aircraft, including in that lease the transfer to Lessee of all remaining rights related to the Aircraft under the Purchase Agreement. To accomplish this transfer of rights, as authorized by the provisions of the Purchase Agreement:

(1) Lessor authorizes Lessee to exercise, to the exclusion of Lessor, all rights and powers of Lessor with respect to the remaining rights related to the Aircraft under the Purchase Agreement. This authorization will continue until Boeing receives written notice from Lessor to the contrary, addressed to Vice President - Contracts, Mail Code 21-34, Boeing Commercial Airplanes, P.O. Box 3707, Seattle, Washington 98124-2207. Until Boeing receives such notice, Boeing is entitled to deal exclusively with Lessee with respect to the Aircraft under the Purchase Agreement. With respect to the rights and obligations of Lessor under the Purchase Agreement, all actions taken or agreements entered into by Lessee during the period prior to Boeing's receipt of this notice are final and binding on Lessor. Further, any payments made by Boeing as a result of claims made by Lessee prior to receipt of such notice will be made to the credit of Lessee and after such notice will be made to Lessor.

(2) Lessee accepts the authorization above, acknowledges it has reviewed those provisions of the Purchase Agreement related to the authority granted and agrees to be bound by and comply with all applicable terms and conditions of the Purchase Agreement including, without

AGTA-ASA
AGTA_Appendix_IV

SAMPLE
Post-Delivery Lease Notice

limitation, the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES in Article 11 of Part 2 of Exhibit C AGTA and the insurance provisions in Article 8.2 of the AGTA. Lessee further agrees, upon the written request of Boeing, to promptly execute and deliver such further assurances and documents and take such further action as Boeing may reasonably request in order to obtain the full benefits of Lessee's agreements in this paragraph.

(3) Lessor will remain responsible for any payments due Boeing as a result of obligations relating to the Aircraft incurred by Lessor to Boeing prior to the effective date of this letter.

We request that Boeing acknowledges receipt of this letter and confirm the transfer of rights set forth above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

Alaska Airlines, Inc.

Lessee

By ___

By ___

Its ___

Its ___

Dated ___

Dated ___

Receipt of the above letter is acknowledged and transfer of rights under the Purchase Agreement with respect to the Aircraft described above is confirmed, effective as of this date.

THE BOEING COMPANY

By ___

Its ___

Dated ___

Aircraft Manufacturer's Serial Number _____

SAMPLE
Purchaser's/Lessee's Agreement

Boeing Commercial Airplanes
P. O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention Vice President - Contracts
Mail Code 21-34

Ladies and Gentlemen:

In connection with the sale/lease by Alaska Airlines, Inc. (Seller/Lessor) to _____ (Purchaser/Lessee) of the aircraft identified below, reference is made to the following documents:

(i) Purchase Agreement No. _____ dated as of _____, 20__, between The Boeing Company (Boeing) and Seller/Lessor (the Purchase Agreement) under which Seller/Lessor purchased certain Boeing Model _____ aircraft, including the aircraft bearing Manufacturer's Serial No.(s) _____ (the Aircraft); and

(ii) Aircraft Sale/Lease Agreement dated as of _____, 20__, between Seller/Lessor and Purchaser/Lessee (the Aircraft Agreement) under which Seller/Lessor is selling/leasing the Aircraft.

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

1. Seller/Lessor has sold/leased the Aircraft under the Aircraft Agreement, including therein a form of exculpatory clause protecting Seller/Lessor from liability for loss of or damage to the aircraft, and/or related incidental or consequential damages, including without limitation loss of use, revenue or profit.

2. Disclaimer and Release; Exclusion of Consequential and Other Damages

2.1 In accordance with Seller/Lessor's obligation under Article 9.5 of AGTA-ASA which was incorporated by reference into the Purchase Agreement, Purchaser/Lessee hereby agrees that:

2.2 DISCLAIMER AND RELEASE. IN CONSIDERATION OF THE SALE/LEASE OF THE AIRCRAFT, PURCHASER/LESSEE HEREBY WAIVES, RELEASES AND

SAMPLE

Purchaser's/Lessee's Agreement

RENOUNCES ALL WARRANTIES, OBLIGATIONS AND LIABILITIES OF BOEING AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES OF PURCHASER/LESSEE AGAINST BOEING, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY NONCONFORMANCE OR DEFECT IN ANY AIRCRAFT, BOEING PRODUCT, MATERIALS, TRAINING, SERVICES OR OTHER THING PROVIDED UNDER THE AIRCRAFT AGREEMENT, INCLUDING, BUT NOT LIMITED TO:

- (A) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;
- (B) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
- (C) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY IN TORT, WHETHER OR NOT ARISING FROM THE NEGLIGENCE OF BOEING; AND
- (D) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OF OR DAMAGE TO ANY AIRCRAFT.

2.3 EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES. BOEING WILL HAVE NO OBLIGATION OR LIABILITY, WHETHER ARISING IN CONTRACT (INCLUDING WARRANTY), TORT, WHETHER OR NOT ARISING FROM THE NEGLIGENCE OF BOEING, OR OTHERWISE, FOR LOSS OF USE, REVENUE OR PROFIT, OR FOR ANY OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY NONCONFORMANCE OR DEFECT IN ANY AIRCRAFT, MATERIALS, TRAINING, SERVICES OR OTHER THING PROVIDED UNDER THE AIRCRAFT AGREEMENT.

2.4 Definitions. For the purpose of this paragraph 2, "BOEING" or "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each, and their respective directors, officers, employees and agents.

Alaska Airlines, Inc. (Seller/Lessor)

Purchaser/Lessee

By ___

By ___

Its ___

Its ___

Dated ___

Dated ___

SAMPLE

Post-Delivery Owner Appointment of Agent - Warranties

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention: Vice President - Contracts
Mail Code 21-34

Ladies and Gentlemen:

1. Reference is made to Purchase Agreement No. ____ dated as of _____, 20__, between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) (the Purchase Agreement), under which Customer purchased certain Boeing Model _____ aircraft including the aircraft bearing Manufacturer's Serial No.(s) _____ (the Aircraft). The Purchase Agreement incorporated by reference Aircraft General Terms Agreement AGTA-ASA (AGTA).

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

To accomplish the appointment of an agent, Customer confirms:

A. Customer has appointed _____ as agent (Agent) to act directly with Boeing with respect to the remaining warranties under the Purchase Agreement and requests Boeing to treat Agent as Customer for the administration of claims with respect to such warranties; provided however, Customer remains liable to Boeing to perform the obligations of Customer under the Purchase Agreement.

B. Boeing may continue to deal exclusively with Agent concerning the matters described herein unless and until Boeing receives written notice from Customer to the contrary, addressed to Vice President - Contracts, Mail Code 21-34, Boeing Commercial Airplanes, P.O. Box 3707, Seattle, Washington 98124-2207, U.S.A. With respect to the rights and obligations of Customer under the Purchase Agreement, all actions taken by Agent or agreements entered into by Agent during the period prior to Boeing's receipt of such notice are final and binding on Customer. Further, any payments made by Boeing as a result of claims made by Agent will be made to the credit of Agent unless otherwise specified when each claim is submitted.

C. Customer will remain responsible for any payments due Boeing as a result of obligations relating to the Aircraft incurred by Customer to Boeing prior to the effective date of this letter.

AGTA-ASA -1-
AGTA_Appendix_VI

SAMPLE

Post-Delivery Owner Appointment of Agent - Warranties

We request that Boeing acknowledge receipt of this letter and confirm the appointment of Agent as stated above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

Alaska Airlines, Inc.

By ___

AGTA-ASA App. VI

AGTA_Appendix_VI Rev.: 04/20/04

SAMPLE

Post-Delivery Owner Appointment of Agent - Warranties

AGENT'S AGREEMENT

Agent accepts the appointment as stated above, acknowledges it has reviewed the those portions of the Purchase Agreement related to the authority granted it under the Purchase Agreement and agrees that, in exercising any rights or making any claims thereunder, Agent will be bound by and comply with all applicable terms and conditions of the Purchase Agreement including, without limitation, the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES in Article 11 of Part 2 of Exhibit C to the AGTA. Agent further agrees, upon the written request of Boeing, to promptly execute and deliver such further assurances and documents and take such further action as Boeing may reasonably request in order to obtain the full benefits of the warranties under the Purchase Agreement.

Very truly yours,

Agent

By ___

Its ___

Dated ___

Receipt of the above letter is acknowledged and the appointment of Agent with respect to the above-described rights under the Purchase Agreement is confirmed, effective as of this date.

THE BOEING COMPANY

By ___

Its ___

Dated ___

Aircraft Manufacturer's Serial Number _____

AGTA-ASA App. VI

AGTA_Appendix_VI Rev.: 04/20/04

SAMPLE
Contractor Confidentiality Agreement

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207

Attention: Vice President - Contracts
Mail Stop 21-34

Ladies and Gentlemen:

This Agreement is entered into between _____ (Contractor) and Alaska Airlines, Inc. (Customer) and will be effective as of the date stated below.

In connection with Customer's provision to Contractor of certain Materials, Proprietary Materials and Proprietary Information, reference is made to Purchase Agreement No. _____ dated as of _____, 20____ between The Boeing Company (Boeing) and Customer.

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

Boeing has agreed to permit Customer to make certain Materials, Proprietary Materials and Proprietary Information relating to Customer's Boeing Model _____ aircraft, Manufacturer's Serial Number _____, Registration No. _____ (the Aircraft) available to Contractor in connection with Customer's contract with Contractor (the Contract) to maintain/repair/modify the Aircraft. As a condition of receiving the Proprietary Materials and Proprietary Information, Contractor agrees as follows:

1. For purposes of this Agreement:

“**Aircraft Software**” means software that is installed and used in the operation of an Aircraft.

“**Materials**” are defined as any and all items that are created by Boeing or a third party, which are provided directly or indirectly from Boeing and serve primarily to contain, convey or embody information. Materials may include either tangible embodiments (for example, documents or drawings), or intangible embodiments (for example, software and other electronic forms) of information but excludes Aircraft Software.

"**Proprietary Information**" means any and all proprietary, confidential and/or trade secret information owned by Boeing or a Third Party which is contained, conveyed or embodied in Proprietary Materials.

"**Proprietary Materials**" means Materials that contain, convey, or embody Proprietary Information.

AGTA-ASA App. VIII

AGTA_Appendix_VII 1

Rev.: 01/07/04

BOEING PROPRIETARY

SAMPLE

Contractor Confidentiality Agreement

“**Third Party**” means anyone other than Boeing, Customer and Contractor.

2. Boeing has authorized Customer to grant to Contractor a worldwide, non-exclusive, personal and nontransferable license to use Proprietary Materials and Proprietary Information, owned by Boeing, internally in connection with performance of the Contract or as may otherwise be authorized by Boeing in writing. Contractor will keep confidential and protect from disclosure to any person, entity or government agency, including any person or entity affiliated with Contractor, all Proprietary Materials and Proprietary Information. Individual copies of all Materials are provided to Contractor subject to copyrights therein, and all such copyrights are retained by Boeing or, in some cases, by Third Parties. Contractor is authorized to make copies of Materials (except for Materials bearing the copyright legend of a Third Party) provided, however, Contractor preserves the restrictive legends and proprietary notices on all copies. All copies of Proprietary Materials will belong to Boeing and be treated as Proprietary Materials under this Agreement.
3. Contractor specifically agrees not to use Proprietary Materials or Proprietary Information in connection with the manufacture or sale of any part or design. Unless otherwise agreed with Boeing in writing, Proprietary Materials and Proprietary Information may be used by Contractor only for work on the Aircraft for which such Proprietary Materials have been specified by Boeing. Customer and Contractor recognize and agree that they are responsible for ascertaining and ensuring that all Materials are appropriate for the use to which they are put.
4. Contractor will not attempt to gain access to information by reverse engineering, decompiling, or disassembling any portion of any software provided to Contractor pursuant to this Agreement.
5. Upon Boeing's request at any time, Contractor will promptly return to Boeing (or, at Boeing's option, destroy) all Proprietary Materials, together with all copies thereof and will certify to Boeing that all such Proprietary Materials and copies have been so returned or destroyed.
6. To the extent required by a government regulatory agency having jurisdiction over Contractor, Customer or the Aircraft, Contractor is authorized to provide Proprietary Materials and disclose Proprietary Information to the agency for the agency's use in connection with Contractor's, authorized use of such Proprietary Materials and/or Proprietary Information in connection with Contractor's maintenance, repair, or modification of the Aircraft. Contractor agrees to take reasonable steps to prevent such agency from making any distribution or disclosure, or additional use of the Proprietary Materials and Proprietary Information so provided or disclosed. Contractor further agrees to promptly notify Boeing upon learning of any (i) distribution, disclosure, or additional use by such agency, (ii) request to such agency for distribution, disclosure, or additional use, or (iii) intention on the part of such agency to distribute, disclose, or make additional use of the Proprietary Materials or Proprietary Information.

SAMPLE

Contractor Confidentiality Agreement

7. Boeing is a third-party beneficiary under this Agreement, and Boeing may enforce any and all of the provisions of the Agreement directly against Contractor. Contractor hereby submits to the jurisdiction of the Washington state courts and the United States District Court for the Western District of Washington with regard to any claims Boeing may make under this Agreement. It is agreed that Washington law (excluding Washington's conflict-of-law principles) governs this Agreement.

8. No disclosure or physical transfer by Boeing or Customer to Contractor, of any Proprietary Materials or Proprietary Information covered by this Agreement will be construed as granting a license, other than as expressly set forth in this Agreement or any ownership right in any patent, patent application, copyright or proprietary information.

9. The provisions of this Agreement will apply notwithstanding any markings or legends, or the absence thereof, on any Proprietary Materials.

10. This Agreement is the entire agreement of the parties regarding the ownership and treatment of Proprietary Materials and Proprietary Information, and no modification of this Agreement will be effective as against Boeing unless in writing signed by authorized representatives of Contractor, Customer and Boeing.

11. Failure by either party to enforce any of the provisions of this Agreement will not be construed as a waiver of such provisions. If any of the provision of this Agreement is held unlawful or otherwise ineffective by a court of competent jurisdiction, the remainder of the Agreement will remain in full force.

ACCEPTED AND AGREED TO this

Date: _____, 20__

Alaska Airlines, Inc.

Contractor

By ___

By ___

Its ___

Its ___

AGTA-ASA App. VII

AGTA_Appendix_VII 3

Rev.: 01/07/04

BOEING PROPRIETARY

SAMPLE

Post-Delivery Sale with Lease to Seller

[Notice from Owner/Seller and subsequent Buyer regarding post-delivery sale and lease back of an aircraft and transfer of all remaining Purchase Agreement rights.]

, 200_

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 981242207

By Courier
1901 Oakesdale Ave. SW
Renton, WA _____

Attention: Vice President - Contracts
Mail Code 21-34

Ladies and Gentlemen:

In connection with _____'s (Seller's) sale to and lease back from _____ (Buyer) of the aircraft identified below, reference is made to the following documents:

1. Purchase Agreement No. _____ dated as of _____, between The Boeing Company (Boeing) and Seller (the Agreement) under which Seller purchased certain Boeing Model _____ aircraft, including the aircraft bearing Manufacturer's Serial No.(s) _____ (the Aircraft). The Agreement incorporates by reference the terms of AGTA-____ dated _____, _____, between Seller and Boeing.
2. Aircraft Sale Agreement dated as of _____, between Seller and _____ (Buyer).
3. Aircraft Lease Agreement dated as of _____, between Buyer and Seller.

Capitalized terms used herein without definition will have the same meaning as in the Agreement.

Seller confirms for the benefit of Boeing it owns and controls the rights it purports to assign herein.

Seller has sold the Aircraft, including in that sale the transfer to Buyer of all remaining rights related to the Aircraft under the Agreement. To accomplish this transfer of rights, as authorized by the provisions of the Agreement:

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(1) Buyer acknowledges it has reviewed the Agreement and agrees that in exercising any rights under the Agreement or asserting any claims with respect to the Aircraft or other things (including without limitation, Materials, training and services) delivered or to be delivered, it is bound by and will comply with all applicable terms, conditions, and limitations of the Agreement including but not limited to those related to any exclusion or limitation of liabilities or warranties, indemnity and insurance; and

(2) Buyer authorizes Seller to exercise, to the exclusion of Buyer all rights and powers of "Customer" with respect to the remaining rights related to the Aircraft under the Agreement. This authorization will continue until Boeing receives written notice from Buyer to the contrary, addressed to Vice President - Contracts, Mail Code 21-34, Boeing Commercial Airplanes, P.O. Box 3707, Seattle, Washington 981242207 (if by mail) or (425)237-1706 (if by facsimile). Until Boeing receives this notice, Boeing is entitled to deal exclusively with Seller as "Customer" with respect to the Aircraft under the Agreement. With respect to the rights, powers, duties and obligations of "Customer" under the Agreement, all actions taken by Seller or agreements entered into by Seller during the period prior to Boeing's receipt of that notice are final and binding on Buyer. Further, any payments made by Boeing as a result of claims made by Seller prior to receipt of such notice are to be made to the credit of Seller.

(3) Seller accepts the authorization set forth in paragraph (2) above, acknowledges it has reviewed the Agreement and agrees that in exercising any rights under the Agreement or asserting any claims with respect to the Aircraft or other things (including without limitation, Materials, training and services) delivered or to be delivered, it is bound by and will comply with all applicable terms, conditions, and limitations of the Agreement including but not limited to those relating to any exclusion or limitation of liabilities or warranties, indemnity and insurance.

(4) Seller agrees to remain responsible for any payments due Boeing as a result of obligations relating to the Aircraft incurred by Seller to Boeing prior to the effective date of this letter.

We request that Boeing acknowledge receipt of this letter and confirm the transfer of rights set forth above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

Seller Buyer

By _____

By _____

Its _____

Its _____

Dated _____

Dated _____

Receipt of the above letter is acknowledged and the transfers of rights under the Agreement with respect to the Aircraft described above are confirmed, effective as of the date indicated below.

The Boeing Company

By _____

Its _____

Dated _____

SALE WITH LEASE

[Notice from 1st tier Owner/Seller and subsequent Buyer regarding post-delivery sale and lease of an aircraft. Remaining PA rights have been assigned to the new owner; the new owner authorizes a lessee to exercise such rights during the term of a lease.]

[Date]

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 981242207

Attention: Vice President - Contracts
Mail Code 21-34

Ladies and Gentlemen:

In connection with the sale by _____ (Seller) to _____ (Purchaser) and subsequent lease of the aircraft identified below, reference is made to the following documents:

1. Purchase Agreement No. _____ dated as of _____, _____, between The Boeing Company (Boeing) and _____ (Seller)(the Agreement) under which Seller purchased certain Boeing Model _____ aircraft, including the aircraft bearing Manufacturer's Serial No(s). _____ (the Aircraft).
2. Aircraft sale agreement dated as of _____, _____, between Seller and _____ (Purchaser).
3. Aircraft lease agreement dated as of _____, _____, between _____ Purchaser and _____ (Lessee)(Lease).

Capitalized terms used herein without definition will have the same meaning as in the Agreement.

Seller has sold the Aircraft, including in that sale the assignment to Purchaser of all remaining rights related to the Aircraft under the Agreement. To accomplish this transfer of rights, as authorized by the provisions of the Agreement:

- (1) Seller confirms for the benefit of the Manufacturer it owns and controls the rights it purports to have assigned.
- (2) Purchaser agrees that in exercising any rights under the Agreement or asserting any claims with respect to the Aircraft or other things (including without limitation, [data and documents/Materials], training and services) delivered or to be delivered, it is bound by and will comply with all applicable terms, conditions, and limitations of the Agreement including but not limited to those related to any exclusion or limitation of liabilities or warranties, indemnity and insurance; and

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(2) Seller will remain responsible for any payment due Boeing as a result of obligations relating to the Aircraft incurred by Seller to Boeing prior to the effective date of this letter.

(3) Purchaser authorizes Lessee during the term of the Lease to exercise, to the exclusion of Purchaser all rights and powers of ["Buyer"/ "Customer"] with respect to the remaining rights related to the Aircraft under the Agreement . This authorization will continue until Boeing receives written notice from Purchaser to the contrary, addressed to Vice President - Contracts, Mail Code 21-34, Boeing Commercial Airplanes, P.O. Box 3707, Seattle, Washington 981242207 (if by mail) or (425)237-1706 (if by facsimile). Until Boeing receives this notice, Boeing is entitled to deal exclusively with Lessee as ["Buyer"/ "Customer"] with respect to the Aircraft under the Agreement. With respect to the rights, powers, duties and obligations of ["Buyer"/"Customer"] under the Agreement, all actions taken by Lessee or agreements entered into by Lessee during the period prior to Boeing's receipt of that notice are final and binding on Purchaser. Further, any payments made by Boeing as a result of claims made by Lessee prior to receipt of this notice are to be made to the credit of Lessee.

(4) Lessee accepts the authorization set forth in paragraph (3) above, acknowledges it has reviewed the Agreement and agrees that in exercising any rights under the Agreement or asserting any claims with respect to the Aircraft or other things (including without limitation, [data and documents/Materials], training and services) delivered or to be delivered, it is bound by and will comply with all applicable terms, conditions, and limitations of the Agreement including but not limited to those related to any exclusion or limitation of liabilities or warranties, indemnity and insurance.

We request that Boeing acknowledge receipt of this letter and confirm the transfer of rights set forth above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

_____ (Seller) _____ (Purchaser)
By _____ By _____

Its _____ Its _____

Dated _____ Dated _____

_____ (Lessee)

By _____

Its _____

Dated _____

Receipt of the above letter is acknowledged and the transfers of rights under the Agreement with respect to the Aircraft described above are confirmed, effective as of the date indicated below.

The Boeing Company

By _____

Its Attorney-in-Fact

Date _____

MSN _____

SAMPLE

Post-Delivery Security

, 200_

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention: Vice President-Contracts
Mail Code 21-34

Ladies and Gentlemen:

Reference is made to Purchase Agreement No. _____ dated as of _____, (the "Agreement") between The Boeing Company ("Boeing") and _____ ("Borrower") pursuant to which Borrower purchased from Boeing one (1) Boeing model _____ aircraft bearing Manufacturer's Serial Number _____ (the "Aircraft"). The Agreement incorporates by reference the terms of Aircraft General Terms Agreement AGTA - ____, dated _____, _____, between Borrower and Boeing.

Capitalized terms used herein without definition will have the same meanings as in the Agreement.

Borrower confirms for the benefit of Boeing it owns and controls the rights it purports to assign herein.

In connection with Borrower's financing of the Aircraft, Borrower is entering into a [trust indenture/ mortgage], dated as of _____, 2003, between Borrower and [Indenture Trustee/Mortgagee] [(the Trust Indenture/Mortgage)], which grants a security interest in [the warranty rights/ all of its rights] contained in the Agreement related to the Aircraft (Assigned Rights). Borrower is authorized to exercise the Assigned Rights until such time as the [Indenture Trustee/ Mortgagee] notifies Boeing as provided below that an Event of Default under the [Trust Indenture/ Mortgage] has occurred and is continuing. In connection with this assignment for security purposes, as authorized by the provisions of the Agreement:

1. [Indenture Trustee/Mortgagee], as assignee of, and holder of a security interest in, the estate, right, and interest of the Borrower in and to the Agreement pursuant to the terms of a certain [Trust Indenture/Mortgage], acknowledges that it has received copies of the applicable provisions of the Agreement and agrees that in exercising any rights under the Agreement or asserting any claims with respect to the Aircraft or other things (including without limitation, Materials, training and services) delivered or to be delivered, its rights and remedies under the [Trust Indenture/Mortgage] shall be subject to the terms and conditions of the Agreement including but not limited to those related to any exclusion or limitation of liabilities or warranties, indemnity and insurance.

2. Borrower is authorized to exercise, to the exclusion of [Indenture Trustee/Mortgagee] all rights and powers of "Customer" under the Agreement, unless and until Boeing receives a written notice from [Indenture Trustee/Mortgagee], addressed to its Vice President - Contracts, Boeing Commercial Airplanes at P.O. Box 3707, Seattle, Washington 98124, Mail Code 21-34 (if by mail), or (425)237-1706 (if by facsimile) that an event of default under the [Trust Indenture/Mortgage] has occurred and is continuing. Until such notice has been given, Boeing will be entitled to deal solely and exclusively with Borrower. Thereafter, until [Indenture Trustee/Mortgagee] has provided Boeing written notice that any such event no longer continues, Boeing will be entitled to deal solely and exclusively with [Indenture Trustee/Mortgagee]. Boeing may act with acquittance and conclusively rely on any such notice.

Borrower will remain responsible to Boeing for any amounts due Boeing with respect to the Aircraft under the Agreement prior to Boeing's receipt of such notice. We request that Boeing acknowledge receipt of this letter and confirm the transfer of rights set forth above by signing its acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

Indenture Trustee / Mortgagee

By: _____
Its: _____

By: _____

Receipt of the above letter is acknowledged and the transfer of rights under the Agreement with respect to the Aircraft described above is confirmed, effective as of the date indicated below.

THE BOEING COMPANY

By: _____
Its: _____
Date: _____
MSN _____

6-1162-MSA-591

Alaska Airlines, Inc.
19300 International Blvd.
Seattle, Washington 98188

Subject: Aircraft General Terms Agreement Terms Revisions

Reference: Aircraft General Terms Agreement No. AGTA-ASA (the AGTA) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer)

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

This Letter Agreement modifies certain terms and conditions of the AGTA.

1.0 Basic Articles to the AGTA.

1.1 [*]

1.2 Article 3 Regulatory Requirements and Certificates is deleted in its entirety and replaced by the following:

Article 3. Regulatory Requirements and Certificates.

3.1 Certificates. Boeing will manufacture each aircraft to conform to the appropriate Type Certificate issued by the United States Federal Aviation Administration (**FAA**) for the specific model of aircraft and will obtain from the FAA and furnish to Customer at delivery of each aircraft either a Standard Airworthiness Certificate or an Export Certificate of Airworthiness issued pursuant to Part 21 of the Federal Aviation Regulations, as designated by Customer. Boeing will provide a Certificate of Sanitary Construction at the time of delivery of each Aircraft.

3.2 FAA or Applicable Regulatory Authority Manufacturer Changes.

3.2.1 A **Manufacturer Change** is defined as any change to an aircraft, data relating to an aircraft, or testing of an aircraft required by the FAA to obtain a Standard Airworthiness Certificate, or by the country of import and/or registration to obtain an Export Certificate of Airworthiness.

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3.2.2 Boeing will bear the cost of incorporating all Manufacturer Changes into the aircraft:

- (i) resulting from requirements issued by the FAA prior to the date of the Type Certificate for the applicable aircraft;
- (ii) resulting from requirements issued by the FAA prior to the date of the applicable purchase agreement; and
- (iii) for any aircraft delivered during the 18 month period immediately following the date of the applicable purchase agreement (regardless of when the requirement for such change was issued by the FAA). For the avoidance of doubt, "the date of the applicable purchase agreement means the date of execution of a purchase agreement for the initial firm aircraft, and the date of execution of a supplement to such purchase agreement that adds additional aircraft for the aircraft orders added by such supplement.

3.2.3 Customer will pay Boeing's charge for incorporating all other Manufacturer Changes into the aircraft, including all changes for validation of an aircraft required by any governmental agency of the country of import and/or registration. [*]

3.3 FAA Operator Changes.

3.3.1 An **Operator Change** is defined as a change in equipment that is required by Federal Aviation Regulations which (i) is generally applicable to transport category aircraft to be used in United States certified air carriage and (ii) the required compliance date is on or before the scheduled delivery month of the aircraft.

3.3.2 Boeing will deliver each aircraft with Operator Changes incorporated or, at Boeing's option, with suitable provisions for the incorporation of such Operator Changes, and Customer will pay Boeing's applicable charges, [*]

3.4 Export License. If an export license is required by United States law or regulation for any aircraft or any other things delivered under the purchase agreement, it is Customer's obligation to obtain such license. If requested, Boeing will assist Customer in applying for any such export license. Customer will furnish any required supporting documents.

1.3 Article 5.3 Demonstration Flights is deleted in its entirety and replaced by the following:

5.3 Demonstration Flights. Prior to delivery, Boeing will fly each aircraft up to 4 hours to demonstrate to Customer the function of the aircraft and its equipment using Boeing's production flight test procedures. Customer may designate up to five representatives to participate as observers. Boeing will continue its practice of permitting Customer's licensed and qualified pilot observer to participate in flying the Aircraft provided that the flights shall always be under the command of Boeing's pilot.

1.4 Article 5.4 Test Data; Performance Guarantee Compliance is deleted in its entirety and replaced by the following:

5.4 Test Data; Performance Guarantee Compliance. **Performance Guarantees** are defined as the written guarantees in a purchase agreement regarding the operational performance of an aircraft. Boeing will furnish to Customer certified correct, by Boeing as applicable, flight test data obtained on an aircraft of the same model to evidence compliance with the Performance Guarantees. Performance Guarantees will be met if reasonable engineering interpretations and calculations based on the flight test data establish that the particular aircraft being delivered under the applicable purchase agreement would, if actually flown, comply with the guarantees.

1.5 Article 5.5 Special Aircraft Test Requirements is deleted in its entirety and replaced by the following:

5.5 Special Aircraft Test Requirements. Boeing may use an aircraft for flight and ground tests prior to delivery, without reduction in the Aircraft Price, if the tests are considered necessary by Boeing (i) to obtain or maintain the Type Certificate or Certificate of Airworthiness for the aircraft or (ii) to evaluate potential improvements that may be offered for production or retrofit incorporation (provided Customer has given written consent for (ii) items).

1.6 Article 6.3 Bill of Sale is deleted in its entirety and replaced by the following:

6.3 Bill of Sale. At delivery of an aircraft, Boeing will provide Customer a bill of sale conveying good title, free of any and all encumbrances, and such other documents of title as Customer may reasonably request.

1.7 Article 7.3.1 is deleted in its entirety and replaced by the following:

7.3.1 The calculation of the Escalation Adjustment will be based on the originally scheduled delivery month (or the last scheduled delivery month prior to

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the commencement of the delay, if the original schedule had been modified by mutual agreement).

1.8 Article 7.6 Termination is deleted in its entirety and replaced by the following:

7.6 Termination. Termination under this Article will discharge all obligations and liabilities of Boeing and Customer with respect to any aircraft and all related undelivered Materials (as defined in Exhibit B, Customer Support Document), training, services, and other things terminated under the applicable purchase agreement, except that Boeing will return to Customer, without interest, an amount equal to all advance payments paid by Customer for the aircraft. If Customer terminates the applicable purchase agreement as to any aircraft, Boeing may elect, by written notice to Customer within 30 days, to purchase from Customer any BFE related to the aircraft at the invoice prices paid, [*] or contracted to be paid, by Customer.

1.9 [*]

1.10 [*]

1.11 Article 10.1 Termination is deleted in its entirety and replaced by the following:

10.1 Termination. If either party

(i) ceases doing business as a going concern, or suspends all or substantially all its business operations, or makes an assignment for the benefit of creditors, or generally does not pay its debts as they become due, or admits in writing its inability to pay its debts; or

(ii) petitions for or acquiesces in the appointment of any receiver, trustee or similar officer to liquidate or conserve its business or any substantial part of its assets; commences any legal proceeding such as bankruptcy, reorganization, readjustment of debt, dissolution, or liquidation available for the relief of financially distressed debtors; or becomes the object of any such proceeding, unless the proceeding is dismissed or stayed within a reasonable period, not to exceed 60 days,

the other party may terminate any purchase agreement with respect to any undelivered aircraft, Materials, training, services, and other things by giving written notice of termination. Notwithstanding Article 10.1. (i) and (ii) above, if a party has performed all of its obligations under the applicable purchase agreement

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and provides adequate assurance that it will perform its future obligations under such purchase agreement, the other party shall not have the right to terminate such purchase agreement under Article 10.1 (i) or (ii).

1.12 Article 12.7 Government Agency Reference is added:

12.7 Government Agency Reference. The reference to the FAA or other government agencies includes the successor to such agency of the U. S. Government.

2.0 Exhibit A Buyer FURNISHED equipment provisions document to the AGTA.

2.1. Articles 3.4 and 3.5 are deleted in its entirety and replaced by the following.

3.4 obtain from supplier a non-exclusive, perpetual, royalty-free, irrevocable license for Boeing to copy BFE Aircraft Software solely for the benefit of Customer. The license is needed to enable Boeing to load the software copies in (i) the aircraft's mass storage device (MSD), (ii) media (e.g., diskettes, CD-ROMs, etc.), (iii) the BFE hardware and/or (iv) an intermediate device or other media to facilitate copying of the BFE Aircraft Software into the aircraft's MSD, BFE hardware and/or media, including media as Boeing may deliver to Customer with the aircraft (it is understood that Boeing's rights are limited to supporting Customer and Boeing acquires no right under this Agreement to use the software for itself or for any other customer);

3.5 grant Boeing a license, extending the same rights set forth in paragraph 3.4 above (and subject to the same limitations), to copy: a) BFE Aircraft Software and data Customer has modified and/or b) other software and data Customer has added to the BFE Aircraft Software;

2.2. Article 5 Nonperformance by Customer is deleted in its entirety and replaced by the following.

5. Nonperformance by Customer.

If Customer's nonperformance of obligations in this Exhibit or in the BFE Document causes a delay in the delivery of the Aircraft or causes Boeing to perform outofsequence or additional work, Customer will reimburse Boeing for all resulting expenses and be deemed to have agreed to any such delay in Aircraft delivery. In addition Boeing will have the right to:

5.1 provide and install specified equipment or suitable alternate equipment and increase the price of the Aircraft accordingly; and/or

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5.2 deliver the Aircraft to Customer without the BFE installed.

Notwithstanding Article 5.1, in the event of Customer's nonperformance of its obligations under this Exhibit A, Boeing will not substitute alternative equipment for late BFE equipment without Buyer's approval. In addition to those expenses previously outlined in this Article 5, Buyer agrees to reimburse Boeing for any expenses which result from any delay caused by Buyer's failure to promptly approve the substitution.

3.0 Exhibit B CUSTOMER SUPPORT DOCUMENT to the AGTA.

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3.1. Part 5 Article 4 Providing of Proprietary Materials to Contractors is deleted in its entirety and replaced by the following.

4. Providing of Proprietary Materials to Contractors.

Customer is authorized to provide Proprietary Materials to Customer's contractors for the sole purpose of maintenance, repair, or modification of Customer's aircraft for which the Proprietary Materials have been specified by Boeing. In addition, Customer may provide Proprietary Materials to Customer's contractors for the sole purpose of developing and manufacturing training devices and maintenance tools for Customer's use. Before providing Proprietary Materials to its contractor, either (i) Customer's contractor is, at the time of transfer of the Proprietary Materials, bound by a Boeing Customer Services GTA or other appropriate applicable agreement satisfactory to Boeing protecting Boeing's Proprietary Materials, or (ii) Customer will first obtain a written agreement from the contractor by which the contractor agrees (a) to use the Proprietary Materials only on behalf of Customer, (b) to be bound by all of the restrictions and limitations of this Part 5, and (c) that Boeing is a third party beneficiary under the written agreement. Customer agrees to provide copies of all such written agreements to Boeing upon request and be liable to Boeing for any breach of those agreements by a contractor. A sample agreement acceptable to Boeing is attached as Appendix VII.

3.2. [*]

4.0 Exhibit C PRODUCT ASSURANCE DOCUMENT to the AGTA.

4.1. Part 1 term **Correct(s)** is deleted in its entirety and replaced by the following.

Correct(s) - to repair, modify, provide modification kits or replace with a new product having the same part number or being an improved part that is compatible and has the same functionality.

4.2. Part 1 term **Correction** is deleted in its entirety and replaced by the following.

Correction - a repair, a modification, a modification kit or replacement with a new product that has the same or improved functionality, compatibility and interchangeability.

4.3. Part 2 Article 2.1 Coverage item (ii) is deleted in its entirety and replaced by the following.

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(ii) all Boeing Products will be free from defects in material, process of manufacture and workmanship, including the workmanship utilized to install Supplier Products, engines and BFE (including conforming to the installation instructions of the manufacturer so as to not invalidate any applicable warranty from such manufacturer), and;

4.4. [*]

4.5. Part 2 Article 7.3.4 is deleted in its entirety and replaced by the following.

7.3.4 Boeing will provide to Customer a single, lump sum credit memorandum for Customer's Direct Labor hours expended to incorporate the Corrections (other than of random anomalies) identified in service bulletins and service letters in all in-warranty aircraft covered by such service bulletins or service letters after Customer's submission of a warranty claim and verification of the incorporation of such Corrections with respect to the first affected in-warranty aircraft. Other than a request for reimbursement for incorporating the Corrections into aircraft delivered to Customer by Boeing after the reimbursement request was made, such credit memoranda will not be provided in response to any other requests for reimbursement including, without limitation, those arising out of program letters or other special offers provided by Boeing.

4.5. Part 2 Article 8.3.2 is deleted in its entirety and replaced by the following.

8.3.2 If Customer has a critical parts shortage because Boeing has exceeded a Correction time objective and Customer has procured spare Boeing Products for the defective Boeing Product in quantities shown in Boeing's Recommended Spare Parts List or, for 717 model aircraft only, in quantities shown in Boeing's Spares Planning and Requirements Evaluation Model, then Boeing will either expedite the Correction or provide an interchangeable Boeing Product, on a no charge loan basis, until the Corrected Boeing Product is returned. "Recommended Spare Parts List" is defined as that spare parts list produced by the Boeing Spares Organization using operating parameters and ground rules supplied by Customer that is acceptable to Customer.

4.6. [*]

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Alaska Airlines, Inc.

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4.7. [*]

4.8. [*]

5.0 [*]

6.0 Confidential Treatment.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Customer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity.

*

Sincerely,

THE BOEING COMPANY

By_____

Its AttorneyInFact

ACCEPTED AND AGREED TO this

Date: June 15, 2005

Alaska Airlines, Inc.

By_____

Its Vice President Finance & Treasurer

Attachment

AGTA-ASA

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BOEING PROPRIETARY

Attachment A to

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SAMPLE
Insurance Certificate

BROKER'S LETTERHEAD

[date]

Certificate of Insurance

ISSUED TO: The Boeing Company
Post Office Box 3707
Mail Stop 13-57
Seattle, Washington 98124
Attn: Manager - Aviation Insurance for
Vice President - Employee Benefits,
Insurance and Taxes

CC: Boeing Commercial Airplanes
P.O. Box 3707
Mail Stop 21-34
Seattle, Washington 98124-2207
U.S.A.
Attn: Vice President - Contracts

NAMED INSURED: Alaska Airlines, Inc.

We hereby certify that in our capacity as Brokers to the Named Insured, the following described insurance is in force on this date:

Insurer **Policy No.** **Participation**

POLICY PERIOD: From [date and time of inception of the Policy(ies)] to [date and time of expiration].

GEOGRAPHICAL LIMITS: Worldwide (however, as respects "Aircraft Hull War and Allied Perils" Insurance, as carried by the Named Insured).

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BOEING PROPRIETARY
App. I

SAMPLE
Insurance Certificate

AIRCRAFT INSURED: All Boeing manufactured aircraft owned or operated by the Named Insured which are the subject of the following purchase agreement(s), entered into between The Boeing Company and _____ (hereinafter "Aircraft"):

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SAMPLE
Insurance Certificate

Purchase Agreement No. _____ dated _____

Purchase Agreement No. _____ dated _____

COVERAGES:

1. **Aircraft "all risks" Hull (Ground and Flight)**
2. **Aircraft Hull War and Allied Perils (as per LSW 555, or its successor wording and which may be provided by the FAA and not the insurance market)**
3. **Airline Liability**

Including, but not limited to, Bodily Injury, Property Damage, Aircraft Liability, Liability War Risks, Passenger Legal Liability, Premises/Operations Liability, Completed Operations/Products Liability, Baggage Legal Liability (checked and unchecked), Cargo Legal Liability, Contractual Liability and Personal Injury.

The above-referenced Airline Liability insurance coverage is subject to War and Other Perils Exclusion Clause (AVN48B) but all sections, other than section (b) are reinstated as per AVN52D, or their successor endorsements.

LIMITS OF LIABILITY:

To the fullest extent of the Policy limits that the Named Insured carries from the time of delivery of the first Aircraft under the first Purchase Agreement listed under "Aircraft Insured" and thereafter at the inception of each policy period, but in any event no less than the following:

Combined Single Limit Bodily Injury and Property Damage: U.S.\$ any one occurrence each Aircraft (with aggregates as applicable).

(717-200)	US\$300,000,000
(737-500/600)	US\$350,000,000
(737-300/700)	US\$400,000,000
(737-400)	US\$450,000,000
(737-800)	US\$500,000,000
(737-900)	US\$500,000,000
(757-200)	US\$525,000,000
(757-300)	US\$550,000,000
(767-200)	US\$550,000,000
(767-300)	US\$700,000,000
(767-400ERX)	US\$750,000,000
(7E7)	US\$700,000,000
(777-200LR)	US\$800,000,000
(MD-11)	US\$800,000,000
(777-200/300)	US\$800,000,000
(777-300ER)	US\$800,000,000

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SAMPLE
Insurance Certificate

(747-400) US\$900,000,000

(In regard to all other models and/or derivatives, to be specified by Boeing).

(In regard to Personal Injury coverage, limits are US\$25,000,000 any one offense/aggregate.)

DEDUCTIBLES / SELF-INSURANCE

Any deductible and/or self-insurance amount (other than standard market deductibles) are to be disclosed to Boeing.

SPECIAL PROVISIONS APPLICABLE TO BOEING:

It is certified that Insurers are aware of the terms and conditions of AGTA-ASA and the following purchase agreements:

PA _____ dated _____
PA _____ dated _____
PA _____ dated _____

Each Aircraft manufactured by Boeing which is delivered to the Insured pursuant to the applicable purchase agreement during the period of effectivity of the policies represented by this Certificate will be covered to the extent specified herein.

Insurers have agreed to the following:

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BOEING PROPRIETARY

SAMPLE
Insurance Certificate

A. In regard to Aircraft "all risks" Hull Insurance and Aircraft Hull War and Allied Perils Insurance, Insurers agree to waive all rights of subrogation or recourse against Boeing in accordance with AGTA-ASA which was incorporated by reference into the applicable purchase agreement.

B. In regard to Airline Liability Insurance, Insurers agree:

(1) To include Boeing as an additional insured to the extent of Customer's undertaking in Article 8.2.1 of AGTA-ASA which was incorporated by reference into the applicable purchase agreement.

(2) To provide that such insurance will be primary and not contributory nor excess with respect to any other insurance available for the protection of Boeing to the extent of Customer's undertaking in Article 8.2.1 of AGTA-ASA;

(3) To provide that with respect to the interests of Boeing, such insurance shall not be invalidated or minimized by any action or inaction, omission or misrepresentation by the Insured or any other person or party (other than Boeing) regardless of any breach or violation of any warranty, declaration or condition contained in such policies;

(4) To provide that all provisions of the insurance coverages referenced above, except the limits of liability, will operate to give each Insured or additional insured the same protection as if there were a separate Policy issued to each.

C. In regard to all of the above referenced policies:

(1) Boeing will not be responsible for payment, set-off, or assessment of any kind or any premiums in connection with the policies, endorsements or coverages described herein;

(2) If a policy is canceled for any reason whatsoever, or any substantial change is made in the coverage which affects the interests of Boeing or if a policy is allowed to lapse for nonpayment of premium, such cancellation, change or lapse shall not be effective as to Boeing for thirty (30) days (in the case of war risk and allied perils coverage seven (7) days after sending, or such other period as may from time to time be customarily obtainable in the industry) after receipt by Boeing of written notice from the Insurers or the authorized representatives or Broker of such cancellation, change or lapse; and

(3) For the purposes of the Certificate, "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each and their respective directors, officers, employees and agents.

(4) If war risk and allied perils coverage has been obtained by Customer from the FAA and not the commercial market, Broker will so advise Boeing.

AGTA-ASA App. I

AGTA_Appendix_I Rev.: 11/23/04

AGTA_Terms_Revisions

BOEING PROPRIETARY

Attachment A to

6-1162-MSA-591

SAMPLE
Insurance Certificate

Subject to the terms, conditions, limitations and exclusions of the relative policies.

(signature)

(typed name)

(title)

AGTA-ASA App. I

AGTA_Appendix_I Rev.: 11/23/04

AGTA_Terms_Revisions

BOEING PROPRIETARY

Payroll support Program EXTENSION Agreement

Recipient: Alaska Airlines, Inc. 19300 International Blvd. Seattle, WA 98199	PSP Participant Number: PSA-2004031920 Employer Identification Number: 92-0009235 DUNS Number: _____
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Additional Recipients: Horizon Air Industries, Inc.

Amount of Initial Payroll Support Payment: \$266,385,000 of the Prorated Award of \$532,770,000.

The Department of the Treasury (Treasury) hereby provides Payroll Support (as defined herein) under Subtitle A of Title IV of Division N of the Consolidated Appropriations Act, 2021. The Signatory Entity named above, on behalf of itself and its Affiliates (as defined herein), agrees to comply with this Agreement and applicable Federal law as a condition of receiving Payroll Support. The Signatory Entity and its undersigned authorized representatives acknowledge that a materially false, fictitious, or fraudulent statement (or concealment or omission of a material fact) in connection with this Agreement may result in administrative remedies as well as civil and/or criminal penalties.

The undersigned hereby agree to the attached Payroll Support Program Extension Agreement.

Department of the Treasury
Name: Steven Mnuchin
Title: Secretary
Date:

Alaska Airlines, Inc.
First Authorized Representative: Bradley D. Tilden
Title: Chief Executive Officer
Date:

Alaska Airlines, Inc.
Second Authorized Representative: Shane R. Tackett
Title: Exec. Vice President, Finance, and Chief Financial Officer
Date:

PAYROLL SUPPORT PROGRAM EXTENSION AGREEMENT

INTRODUCTION

Subtitle A of Title IV of Division N of the Consolidated Appropriations Act, 2021 (PSP Extension Law) directs the Department of the Treasury (Treasury) to provide Payroll Support (as defined herein) to passenger air carriers and certain contractors that must be exclusively used for the continuation of payment of Employee Salaries, Wages, and Benefits (as defined herein). The PSP Extension Law permits Treasury to provide Payroll Support in such form, and on such terms and conditions, as the Secretary of the Treasury determines appropriate, and requires certain assurances from the Recipient (as defined herein).

This Payroll Support Program Extension Agreement, including the application and all supporting documents submitted by the Recipient and the Payroll Support Program Extension Certification attached hereto (collectively, Agreement), memorializes the binding terms and conditions applicable to the Recipient.

DEFINITIONS

As used in this Agreement, the following terms shall have the following respective meanings, unless the context clearly requires otherwise. In addition, this Agreement shall be construed in a manner consistent with any public guidance Treasury may from time to time issue regarding the implementation of the PSP Extension Law.

Additional Payroll Support Payment means any disbursement of Payroll Support occurring after the first disbursement of Payroll Support under this Agreement.

Affiliate means any Person that directly or indirectly controls, is controlled by, or is under common control with, the Recipient. For purposes of this definition, "control" of a Person shall mean having the power, directly or indirectly, to direct or cause the direction of the management and policies of such Person, whether by ownership of voting equity, by contract, or otherwise.

Benefits means, without duplication of any amounts counted as Salary or Wages, pension expenses in respect of Employees, all expenses for accident, sickness, hospital, and death benefits to Employees, and the cost of insurance to provide such benefits; any Severance Pay or Other Benefits payable to Employees pursuant to a bona fide voluntary early retirement program or voluntary furlough; and any other similar expenses paid by the Recipient for the benefit of Employees, including any other fringe benefit expense described in lines 10 and 11 of Financial Reporting Schedule P-6, Form 41, as published by the Department of Transportation, but excluding any Federal, state, or local payroll taxes paid by the Recipient.

Corporate Officer means, with respect to the Recipient, its president; any vice president in charge of a principal business unit, division, or function (such as sales, administration or finance); any other officer who performs a policy-making function; or any other person who performs similar policy making functions for the Recipient. Executive officers of subsidiaries or

parents of the Recipient may be deemed Corporate Officers of the Recipient if they perform such policy-making functions for the Recipient.

Employee means an individual who is employed by the Recipient and whose principal place of employment is in the United States (including its territories and possessions), including salaried, hourly, full-time, part-time, temporary, and leased employees, but excluding any individual who is a Corporate Officer or independent contractor.

Involuntary Termination or Furlough means the Recipient terminating the employment of one or more Employees or requiring one or more Employees to take a temporary suspension or unpaid leave for any reason, including a shut-down or slow-down of business; provided, however, that an Involuntary Termination or Furlough does not include a Permitted Termination or Furlough.

Maximum Awardable Amount means the amount determined by the Secretary with respect to the Recipient pursuant to section 403(a) of the PSP Extension Law.

Payroll Support means funds disbursed by the Secretary to the Recipient under this Agreement, including the first disbursement of Payroll Support and any Additional Payroll Support Payment.

PSP Extension Law means Subtitle A of Title IV of Division N of the Consolidated Appropriations Act, 2021.

Permitted Termination or Furlough means, with respect to an Employee, (1) a voluntary furlough, voluntary leave of absence, voluntary resignation, or voluntary retirement, (2) termination of employment resulting from such Employee's death or disability, or (3) the Recipient terminating the employment of such Employee for cause or placing such Employee on a temporary suspension or unpaid leave of absence for disciplinary reasons, in either case, as reasonably determined by the Recipient acting in good faith.

Person means any natural person, corporation, limited liability company, partnership, joint venture, trust, business association, governmental entity, or other entity.

PSP1 means the Payroll Support Program established under Division A, Title IV, Subtitle B of the Coronavirus Aid, Relief, and Economic Security Act (Pub. L. No. 116-136).

Recall means the dispatch of a notice by the Recipient, via mail, courier, or electronic mail, to an Employee who was subject to an Involuntary Termination or Furlough notifying the Employee that (1) the Employee must, within a specified period of time that is not less than 14 days or such other period for recall as is specified in an existing collective bargaining agreement entered into before December 27, 2020, elect either (a) to return to employment or bypass return to employment, in accordance with an applicable collective bargaining agreement or, in the absence of a collective bargaining agreement, the Recipient's policy; or (b) to permanently separate from employment with the Recipient; and (2) failure to respond within such time period specified shall be considered an election under clause (1)(b) of this definition.

Recipient means, collectively, the Signatory Entity; its Affiliates that are listed on the signature page hereto as Additional Recipients; and their respective heirs, executors, administrators, successors, and assigns.

Returning Employee means an Employee of the Recipient who was subject to an Involuntary Termination or Furlough and who has elected to return to employment pursuant to a Recall.

Salary means, without duplication of any amounts counted as Benefits, a predetermined regular payment, typically paid on a weekly or less frequent basis but which may be expressed as an hourly, weekly, annual or other rate, as well as cost-of-living differentials, vacation time, paid time off, sick leave, and overtime pay, paid by the Recipient to its Employees, but excluding any Federal, state, or local payroll taxes paid by the Recipient.

Secretary means the Secretary of the Treasury.

Severance Pay or Other Benefits means any severance payment or other similar benefits, including cash payments, health care benefits, perquisites, the enhancement or acceleration of the payment or vesting of any payment or benefit or any other in-kind benefit payable (whether in lump sum or over time, including after October 1, 2022) by the Recipient to a Corporate Officer or Employee in connection with any termination of such Corporate Officer's or Employee's employment (including, without limitation, resignation, severance, retirement, or constructive termination), which shall be determined and calculated in respect of any Employee or Corporate Officer of the Recipient in the manner prescribed in 17 CFR 229.402(j) (without regard to its limitation to the five most highly compensated executives and using the actual date of termination of employment rather than the last business day of the Recipient's last completed fiscal year as the trigger event).

Signatory Entity means the passenger air carrier or contractor that has entered into this Agreement.

Taxpayer Protection Instruments means warrants, options, preferred stock, debt securities, notes, or other financial instruments issued by the Recipient or an Affiliate to Treasury as compensation for the Payroll Support under this Agreement, if applicable.

Total Compensation means compensation including salary, wages, bonuses, awards of stock, and any other financial benefits provided by the Recipient or an Affiliate, as applicable, which shall be determined and calculated for the 2019 calendar year or any applicable 12-month period in respect of any Employee or Corporate Officer of the Recipient in the manner prescribed under paragraph e.5 of the award term in 2 CFR part 170, App. A, but excluding any Severance Pay or Other Benefits in connection with a termination of employment.

Wage means, without duplication of any amounts counted as Benefits, a payment, typically paid on an hourly, daily, or piecework basis, including cost-of-living differentials, vacation, paid time off, sick leave, and overtime pay, paid by the Recipient to its Employees, but excluding any Federal, state, or local payroll taxes paid by the Recipient.

PAYROLL SUPPORT PAYMENTS

1. Upon the execution of this Agreement by Treasury and the Recipient, the Secretary shall approve the Recipient's application for Payroll Support.
2. The Recipient may receive Payroll Support in multiple payments up to the Maximum Awardable Amount, and the amounts (individually and in the aggregate) and timing of such payments will be determined by the Secretary in his sole discretion. The Secretary may, in his sole discretion, increase or reduce the Maximum Awardable Amount (a) consistent with section 403(a) of the PSP Extension Law and (b) on a pro rata basis in order to address any shortfall in available funds, pursuant to section 403(c) of the PSP Extension Law.
3. The Secretary may determine in his sole discretion that any Payroll Support shall be conditioned on, and subject to, compliance by the Recipient with all applicable requirements under PSP1 if the Recipient received financial assistance in PSP1, and such additional terms and conditions (including the receipt of, and any terms regarding, Taxpayer Protection Instruments) to which the parties may agree in writing.

TERMS AND CONDITIONS

Retaining and Paying Employees

4. The Recipient shall use the Payroll Support exclusively for the continuation of payment of Wages, Salaries, and Benefits to the Employees of the Recipient, including the payment of lost Wages, Salaries, and Benefits to Returning Employees.
 - a. *Furloughs and Layoffs*. The Recipient shall not conduct an Involuntary Termination or Furlough of any Employee between the date of this Agreement and March 31, 2021.
 - b. *Employee Salary, Wages, and Benefits*
 - i. *Salary and Wages*. Except in the case of a Permitted Termination or Furlough, the Recipient shall not, between the date of this Agreement and March 31, 2021, reduce, without the Employee's consent, (A) the pay rate of any Employee earning a Salary, or (B) the pay rate of any Employee earning Wages.
 - ii. *Benefits*. Except in the case of a Permitted Termination or Furlough, the Recipient shall not, between the date of this Agreement and March 31, 2021, reduce, without the Employee's consent, the Benefits of any Employee; provided, however, that for purposes of this paragraph, personnel expenses associated with the performance of work duties, including those described in line 10 of Financial Reporting Schedule P-6, Form 41, as published by the Department of Transportation, may be reduced to the extent the associated work duties are not performed.

4.1. If the Recipient received financial assistance in PSP1, the Recipient shall:

- a. Recall, not later than 72 hours after this Agreement has been executed by each party hereto, any Employees who were subject to an Involuntary Termination or Furlough between October 1, 2020, and the effective date of this Agreement, and enable each Returning Employee to return to employment within 30 days after making the election to do so;
- b. compensate, not later than 30 days after a Returning Employee returns to employment, such Returning Employee for lost Salary, Wages, and Benefits (offset by any amounts received by the Returning Employee from the Recipient or an Affiliate as a result of such Returning Employee's Involuntary Termination or Furlough, including any Severance Pay or Other Benefits or furlough pay) between December 1, 2020, and the effective date of this Agreement; and
- c. restore the rights and protections for any Returning Employees as if such Returning Employees had not been subject to an Involuntary Termination or Furlough.

4.2. If the Recipient did not receive financial assistance in PSP1, the Recipient shall:

- a. Recall, not later than 72 hours after this Agreement has been executed by each party hereto, any Employees who were subject to an Involuntary Termination or Furlough between March 27, 2020, and the effective date of this Agreement, and enable each Returning Employee to return to employment within 30 days of making the election to do so;
- b. compensate, not later than 30 days after a Returning Employee returns to employment, such Returning Employee for lost Salary, Wages, and Benefits (offset by any amounts received by the Returning Employee from the Recipient or an Affiliate as a result of such Returning Employee's Involuntary Termination or Furlough, including any Severance Pay or Other Benefits or furlough pay) between December 1, 2020, and the effective date of this Agreement; and
- c. restore the rights and protections for any Returning Employees as if such Returning Employees had not been subject to an Involuntary Termination or Furlough.

Dividends and Buybacks

5. Through March 31, 2022, neither the Recipient nor any Affiliate shall, in any transaction, purchase an equity security of the Recipient or of any direct or indirect parent company of the Recipient that, in either case, is listed on a national securities exchange.

6. Through March 31, 2022, the Recipient shall not pay dividends, or make any other capital distributions, with respect to the common stock (or equivalent equity interest) of the Recipient.

Limitations on Certain Compensation

7. Beginning October 1, 2020, and ending October 1, 2022, the Recipient and its Affiliates shall not pay any of the Recipient's Corporate Officers or Employees whose Total Compensation exceeded \$425,000 in calendar year 2019 (other than an Employee whose compensation is determined through an existing collective bargaining agreement entered into before December 27, 2020):
 - a. Total Compensation which exceeds, during any 12 consecutive months of such two-year period, the Total Compensation the Corporate Officer or Employee received in calendar year 2019; or
 - b. Severance Pay or Other Benefits in connection with a termination of employment with the Recipient which exceed twice the maximum Total Compensation received by such Corporate Officer or Employee in calendar year 2019.
8. Beginning October 1, 2020, and ending October 1, 2022, the Recipient and its Affiliates shall not pay, during any 12 consecutive months of such two-year period, any of the Recipient's Corporate Officers or Employees whose Total Compensation exceeded \$3,000,000 in calendar year 2019 Total Compensation in excess of the sum of:
 - a. \$3,000,000; and
 - b. 50 percent of the excess over \$3,000,000 of the Total Compensation received by such Corporate Officer or Employee in calendar year 2019.
9. For purposes of determining applicable amounts under paragraphs 7 and 8 with respect to any Corporate Officer or Employee who was employed by the Recipient or an Affiliate for less than all of calendar year 2019, the amount of Total Compensation in calendar year 2019 shall mean such Corporate Officer's or Employee's Total Compensation on an annualized basis.

Continuation of Service

10. If the Recipient is an air carrier, until March 1, 2022, the Recipient shall comply with any applicable requirement issued by the Secretary of Transportation under section 407) of the PSP Extension Law to maintain scheduled air transportation service to any point served by the Recipient before March 1, 2020.

Effective Date

11. This Agreement shall be effective as of the date of its execution by both parties.

Reporting and Auditing

12. Until the calendar quarter that begins after the later of October 1, 2022, and the date on which no Taxpayer Protection Instrument is outstanding, not later than 45 days after the end of each of the first three calendar quarters of each calendar year and 90 days after the end of each calendar year, the Signatory Entity, on behalf of itself and each other Recipient, shall certify to Treasury that it is in compliance with the terms and conditions of this Agreement and provide a report containing the following:
 - a. the amount of Payroll Support funds expended during such quarter;
 - b. the Recipient's financial statements (audited by an independent certified public accountant, in the case of annual financial statements);
 - c. a copy of the Recipient's IRS Form 941 filed with respect to such quarter; and
 - d. a detailed summary describing, with respect to the Recipient, (a) any changes in Employee headcount during such quarter and the reasons therefor, including any Involuntary Termination or Furlough, (b) any changes in the amounts spent by the Recipient on Employee Wages, Salary, and Benefits during such quarter, and (c) any changes in Total Compensation for, and any Severance Pay or Other Benefits in connection with the termination of, Corporate Officers and Employees subject to limitation under this Agreement during such quarter; and the reasons for any such changes.
13. If the Recipient or any Affiliate, or any Corporate Officer of the Recipient or any Affiliate, becomes aware of facts, events, or circumstances that may materially affect the Recipient's compliance with the terms and conditions of this Agreement, the Recipient or Affiliate shall promptly provide Treasury with a written description of the events or circumstances and any action taken, or contemplated, to address the issue.
14. In the event the Recipient contemplates any action to commence a bankruptcy or insolvency proceeding in any jurisdiction, the Recipient shall promptly notify Treasury.
15. The Recipient shall:
 - a. Promptly provide to Treasury and the Treasury Inspector General a copy of any Department of Transportation Inspector General report, audit report, or report of any other oversight body, that is received by the Recipient relating to this Agreement.
 - b. Immediately notify Treasury and the Treasury Inspector General of any indication of fraud, waste, abuse, or potentially criminal activity pertaining to the Payroll Support.
 - c. Promptly provide Treasury with any information Treasury may request relating to compliance by the Recipient and its Affiliates with this Agreement.

16. The Recipient and Affiliates will provide Treasury, the Treasury Inspector General, and such other entities as authorized by Treasury timely and unrestricted access to all documents, papers, or other records, including electronic records, of the Recipient related to the Payroll Support, to enable Treasury and the Treasury Inspector General to make audits, examinations, and otherwise evaluate the Recipient's compliance with the terms of this Agreement. This right also includes timely and reasonable access to the Recipient's and its Affiliates' personnel for the purpose of interview and discussion related to such documents. This right of access shall continue as long as records are required to be retained. In addition, the Recipient will provide timely reports as reasonably required by Treasury, the Treasury Inspector General, and such other entities as authorized by Treasury to comply with applicable law and to assess program effectiveness.

Recordkeeping and Internal Controls

17. If the Recipient is a debtor as defined under 11 U.S.C. § 101(13), the Payroll Support funds, any claim or account receivable arising under this Agreement, and any segregated account holding funds received under this Agreement shall not constitute or become property of the estate under 11 U.S.C. § 541.

18. The Recipient shall expend and account for Payroll Support funds in a manner sufficient to:

- a. Permit the preparation of accurate, current, and complete quarterly reports as required under this Agreement.
- b. Permit the tracing of funds to a level of expenditures adequate to establish that such funds have been used as required under this Agreement.

19. The Recipient shall establish and maintain effective internal controls over the Payroll Support; comply with all requirements related to the Payroll Support established under applicable Federal statutes and regulations; monitor compliance with Federal statutes, regulations, and the terms and conditions of this Agreement; and take prompt corrective actions in accordance with audit recommendations. The Recipient shall promptly remedy any identified instances of noncompliance with this Agreement.

20. The Recipient and Affiliates shall retain all records pertinent to the receipt of Payroll Support and compliance with the terms and conditions of this Agreement (including by suspending any automatic deletion functions for electronic records, including e-mails) for a period of three years following the period of performance. Such records shall include all information necessary to substantiate factual representations made in the Recipient's application for Payroll Support, including ledgers and sub-ledgers, and the Recipient's and Affiliates' compliance with this Agreement. While electronic storage of records (backed up as appropriate) is preferable, the Recipient and Affiliates may store records in hardcopy (paper) format. The term "records" includes all relevant financial and accounting records and all supporting documentation for the information reported on the Recipient's quarterly reports.

21. If any litigation, claim, investigation, or audit relating to the Payroll Support is started before the expiration of the three-year period, the Recipient and Affiliates shall retain all records described in paragraph 20 until all such litigation, claims, investigations, or audit findings have been completely resolved and final judgment entered or final action taken.

Remedies

22. If Treasury believes that an instance of noncompliance by the Recipient or an Affiliate with (a) this Agreement, (b) sections 404 or 406 of the PSP Extension Law, or (c) the Internal Revenue Code of 1986 as it applies to the receipt of Payroll Support has occurred, Treasury may notify the Recipient in writing of its proposed determination of noncompliance, provide an explanation of the nature of the noncompliance, and specify a proposed remedy. Upon receipt of such notice, the Recipient shall, within seven days, accept Treasury's proposed remedy, propose an alternative remedy, or provide information and documentation contesting Treasury's proposed determination. Treasury shall consider any such submission by the Recipient and make a final written determination, which will state Treasury's findings regarding noncompliance and the remedy to be imposed.
23. If Treasury makes a final determination under paragraph 22 that an instance of noncompliance has occurred, Treasury may, in its sole discretion, withhold any Additional Payroll Support Payments; require the repayment of the amount of any previously disbursed Payroll Support, with appropriate interest; require additional reporting or monitoring; initiate suspension or debarment proceedings as authorized under 2 CFR Part 180; terminate this Agreement; or take any such other action as Treasury, in its sole discretion, deems appropriate.
24. Treasury may make a final determination regarding noncompliance without regard to paragraph 22 if Treasury determines, in its sole discretion, that such determination is necessary to protect a material interest of the Federal Government. In such event, Treasury shall notify the Recipient of the remedy that Treasury, in its sole discretion, shall impose, after which the Recipient may contest Treasury's final determination or propose an alternative remedy in writing to Treasury. Following the receipt of such a submission by the Recipient, Treasury may, in its sole discretion, maintain or alter its final determination.
25. Any final determination of noncompliance and any final determination to take any remedial action described herein shall not be subject to further review. To the extent permitted by law, the Recipient waives any right to judicial review of any such determinations and further agrees not to assert in any court any claim arising from or relating to any such determination or remedial action.
26. Instead of, or in addition to, the remedies listed above, Treasury may refer any noncompliance or any allegations of fraud, waste, or abuse to the Treasury Inspector General.
27. Treasury, in its sole discretion, may grant any request by the Recipient for termination of this Agreement, which such request shall be in writing and shall include the reasons for such

termination, the proposed effective date of the termination, and the amount of any unused Payroll Support funds the Recipient requests to return to Treasury. Treasury may, in its sole discretion, determine the extent to which the requirements under this Agreement may cease to apply following any such termination.

28. If Treasury determines that any remaining portion of the Payroll Support will not accomplish the purpose of this Agreement, Treasury may terminate this Agreement in its entirety to the extent permitted by law.

Debts

29. Any Payroll Support in excess of the amount which Treasury determines, at any time, the Recipient is authorized to receive or retain under the terms of this Agreement constitutes a debt to the Federal Government.
30. Any debts determined to be owed by the Recipient to the Federal Government shall be paid promptly by the Recipient. A debt is delinquent if it has not been paid by the date specified in Treasury's initial written demand for payment, unless other satisfactory arrangements have been made. Interest, penalties, and administrative charges shall be charged on delinquent debts in accordance with 31 U.S.C. § 3717, 31 CFR 901.9, and paragraphs 31 and 32. Treasury will refer any debt that is more than 180 days delinquent to Treasury's Bureau of the Fiscal Service for debt collection services.
31. Penalties on any debts shall accrue at a rate of not more than 6 percent per year or such other higher rate as authorized by law.
32. Administrative charges relating to the costs of processing and handling a delinquent debt shall be determined by Treasury.
33. The Recipient shall not use funds from other federally sponsored programs to pay a debt to the government arising under this Agreement.

Protections for Whistleblowers

34. In addition to other applicable whistleblower protections, in accordance with 41 U.S.C. § 4712, the Recipient shall not discharge, demote, or otherwise discriminate against an Employee as a reprisal for disclosing information to a Person listed below that the Employee reasonably believes is evidence of gross mismanagement of a Federal contract or grant, a gross waste of Federal funds, an abuse of authority relating to a Federal contract or grant, a substantial and specific danger to public health or safety, or a violation of law, rule, or regulation related to a Federal contract (including the competition for or negotiation of a contract) or grant:
- a. A Member of Congress or a representative of a committee of Congress;
 - b. An Inspector General;

- c. The Government Accountability Office;
- d. A Treasury employee responsible for contract or grant oversight or management;
- e. An authorized official of the Department of Justice or other law enforcement agency;
- f. A court or grand jury; or
- g. A management official or other Employee of the Recipient who has the responsibility to investigate, discover, or address misconduct.

Lobbying

35. The Recipient shall comply with the provisions of 31 U.S.C. § 1352, as amended, and with the regulations at 31 CFR Part 21.

Non-Discrimination

36. The Recipient shall comply with, and hereby assures that it will comply with, all applicable Federal statutes and regulations relating to nondiscrimination including:

- a. Title VI of the Civil Rights Act of 1964 (42 U.S.C. § 2000d *et seq.*), including Treasury's implementing regulations at 31 CFR Part 22;
- b. Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. § 794);
- c. The Age Discrimination Act of 1975, as amended (42 U.S.C. §§ 6101–6107), including Treasury's implementing regulations at 31 CFR Part 23 and the general age discrimination regulations at 45 CFR Part 90; and
- d. The Air Carrier Access Act of 1986 (49 U.S.C. § 41705).

Additional Reporting

37. Within seven days after the date of this Agreement, the Recipient shall register in SAM.gov, and thereafter maintain the currency of the information in SAM.gov until at least October 1, 2022. The Recipient shall review and update such information at least annually after the initial registration, and more frequently if required by changes in the Recipient's information. The Recipient agrees that this Agreement and information related thereto, including the Maximum Awardable Amount and any executive total compensation reported pursuant to paragraph 38, may be made available to the public through a U.S. Government website, including SAM.gov.

38. For purposes of paragraph 37, the Recipient shall report total compensation as defined in paragraph e.5 of the award term in 2 CFR part 170, App. A for each of the Recipient's five most highly compensated executives for the preceding completed fiscal year, if:

- a. the total Payroll Support is \$25,000 or more;
- b. in the preceding fiscal year, the Recipient received:
 - i. 80 percent or more of its annual gross revenues from Federal procurement contracts (and subcontracts) and Federal financial assistance, as defined at 2 CFR 170.320 (and subawards); and
 - ii. \$25,000,000 or more in annual gross revenues from Federal procurement contracts (and subcontracts) and Federal financial assistance, as defined at 2 CFR 170.320 (and subawards); and
- c. the public does not have access to information about the compensation of the executives through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986. To determine if the public has access to the compensation information, the Recipient shall refer to U.S. Securities and Exchange Commission total compensation filings at <http://www.sec.gov/answers/execomp.htm>.

39. The Recipient shall report executive total compensation described in paragraph 38:

- a. as part of its registration profile at <https://www.sam.gov>; and
- b. within five business days after the end of each month following the month in which this Agreement becomes effective, and annually thereafter.

40. The Recipient agrees that, from time to time, it will, at its own expense, promptly upon reasonable request by Treasury, execute and deliver, or cause to be executed and delivered, or use its commercially reasonable efforts to procure, all instruments, documents and information, all in form and substance reasonably satisfactory to Treasury, to enable Treasury to ensure compliance with, or effect the purposes of, this Agreement, which may include, among other documents or information, (a) certain audited financial statements of the Recipient, (b) documentation regarding the Recipient's revenues derived from its business as a passenger air carrier or regarding the passenger air carriers for which the Recipient provides services as a contractor (as the case may be), and (c) the Recipient's most recent quarterly Federal tax returns. The Recipient agrees to provide Treasury with such documents or information promptly.

41. If the total value of the Recipient's currently active grants, cooperative agreements, and procurement contracts from all Federal awarding agencies exceeds \$10,000,000 for any period before termination of this Agreement, then the Recipient shall make such reports as required by 2 CFR part 200, Appendix XII.

Other

42. The Recipient acknowledges that neither Treasury, nor any other actor, department, or agency of the Federal Government, shall condition the provision of Payroll Support on the Recipient's implementation of measures to enter into negotiations with the certified bargaining representative of a craft or class of employees of the Recipient under the Railway Labor Act (45 U.S.C. 151 *et seq.*) or the National Labor Relations Act (29 U.S.C. 151 *et seq.*), regarding pay or other terms and conditions of employment.
43. Notwithstanding any other provision of this Agreement, the Recipient has no right to, and shall not, transfer, pledge, mortgage, encumber, or otherwise assign this Agreement or any Payroll Support provided under this Agreement, or any interest therein, or any claim, account receivable, or funds arising thereunder or accounts holding Payroll Support, to any party, bank, trust company, or other Person without the express written approval of Treasury.
44. The Signatory Entity will cause its Affiliates to comply with all of their obligations under or relating to this Agreement.
45. Unless otherwise provided in guidance issued by Treasury or the Internal Revenue Service, the form of any Taxpayer Protection Instrument held by Treasury and any subsequent holder will be treated as such form for purposes of the Internal Revenue Code of 1986 (for example, a Taxpayer Protection Instrument in the form of a note will be treated as indebtedness for purposes of the Internal Revenue Code of 1986).
46. This Agreement may not be amended or modified except pursuant to an agreement in writing entered into by the Recipient and Treasury, except that Treasury may unilaterally amend this Agreement if required in order to comply with applicable Federal law or regulation.
47. Subject to applicable law, Treasury may, in its sole discretion, waive any term or condition under this Agreement imposing a requirement on the Recipient or any Affiliate.
48. This Agreement shall bind and inure to the benefit of the parties and their respective heirs, executors, administrators, successors, and assigns.
49. The Recipient represents and warrants to Treasury that this Agreement, and the issuance and delivery to Treasury of the Taxpayer Protection Instruments, if applicable, have been duly authorized by all requisite corporate and, if required, stockholder action, and will not result in the violation by the Recipient of any provision of law, statute, or regulation, or of the articles of incorporation or other constitutive documents or bylaws of the Recipient, or breach or constitute an event of default under any material contract to which the Recipient is a party.
50. The Recipient represents and warrants to Treasury that this Agreement has been duly executed and delivered by the Recipient and constitutes a legal, valid, and binding obligation of the Recipient enforceable against the Recipient in accordance with its terms.
51. This Agreement may be executed in counterparts, each of which shall constitute an original, but all of which together shall constitute a single contract.

52. The words “execution,” “signed,” “signature,” and words of like import in any assignment shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act. Notwithstanding anything herein to the contrary, delivery of an executed counterpart of a signature page of this Agreement by electronic means, or confirmation of the execution of this Agreement on behalf of a party by an email from an authorized signatory of such party, shall be effective as delivery of a manually executed counterpart of this Agreement.
53. The captions and paragraph headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.
54. This Agreement is governed by and shall be construed in accordance with Federal law. Insofar as there may be no applicable Federal law, this Agreement shall be construed in accordance with the laws of the State of New York, without regard to any rule of conflicts of law (other than section 5-1401 of the New York General Obligations Law) that would result in the application of the substantive law of any jurisdiction other than the State of New York.
55. Nothing in this Agreement shall require any unlawful action or inaction by either party.
56. The requirement pertaining to trafficking in persons at 2 CFR 175.15(b) is incorporated herein and made applicable to the Recipient.
57. This Agreement, together with the attachments hereto, including the Payroll Support Program Extension Certification and any attached terms regarding Taxpayer Protection Instruments, constitute the entire agreement of the parties relating to the subject matter hereof and supersede any previous agreements and understandings, oral or written, relating to the subject matter hereof. There may exist other agreements between the parties as to other matters, which are not affected by this Agreement and are not included within this integration clause.
58. No failure by either party to insist upon the strict performance of any provision of this Agreement or to exercise any right or remedy hereunder, and no acceptance of full or partial Payroll Support (if applicable) or other performance by either party during the continuance of any such breach, shall constitute a waiver of any such breach of such provision.

ATTACHMENT

Payroll Support Program Extension Certification of Corporate Officer of Recipient

PAYROLL SUPPORT PROGRAM EXTENSION

CERTIFICATION OF CORPORATE OFFICER OF RECIPIENT

In connection with the Payroll Support Program Extension Agreement (Agreement) between Alaska Airlines, Inc. and the Department of the Treasury (Treasury) relating to Payroll Support being provided by Treasury to the Recipient under Subtitle A of Title IV of Division N of the Consolidated Appropriations Act, 2021, I hereby certify under penalty of perjury to the Treasury that all of the following are true and correct. Capitalized terms used but not defined herein have the meanings set forth in the Agreement.

(1) I have the authority to make the following representations on behalf of myself and the Recipient. I understand that these representations will be relied upon as material in the decision by Treasury to provide Payroll Support to the Recipient.

(2) The information and certifications provided by the Recipient in an application for Payroll Support, and in any attachments or other information provided by the Recipient to Treasury related to the application, are true and correct and do not contain any materially false, fictitious, or fraudulent statement, nor any concealment or omission of any material fact.

(3) The Recipient has the legal authority to apply for the Payroll Support, and it has the institutional, managerial, and financial capability to comply with all obligations, terms, and conditions set forth in the Agreement and any attachment thereto.

(4) The Recipient and any Affiliate will give Treasury, Treasury's designee or the Treasury Office of Inspector General (as applicable) access to, and opportunity to examine, all documents, papers, or other records of the Recipient or Affiliate pertinent to the provision of Payroll Support made by Treasury based on the application, in order to make audits, examinations, excerpts, and transcripts.

(5) No Federal appropriated funds, including Payroll Support, have been paid or will be paid, by or on behalf of the Recipient, to any person for influencing or attempting to influence an officer or employee of an agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with the awarding of any Federal contract, the making of any Federal grant, the making of any Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any Federal contract, grant, loan, or cooperative agreement.

(6) If the Payroll Support exceeds \$100,000, the Recipient shall comply with the disclosure requirements in 31 CFR Part 21 regarding any amounts paid for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with the Payroll Support.

I acknowledge that a materially false, fictitious, or fraudulent statement (or concealment or omission of a material fact) in this certification, or in the application that it supports, may be the subject of criminal prosecution and also may subject me and the Recipient to civil penalties and/or administrative remedies for false claims or otherwise.

Corporate Officer of Signatory Entity

Name: Bradley D. Tilden

Title: Chief Executive Officer

Date:

Second Authorized Representative

Name: Shane R. Tackett

Title: Executive Vice President, Finance
and Chief Financial Officer

Date:

JOINDER AGREEMENT

This JOINDER AGREEMENT, dated as of January __, 2021 (this “*Joinder*”), is delivered in connection with the Payroll Support Program Extension Agreement, dated as of January __, 2021 (as amended from time to time, the “*PSP2 Agreement*”) between Alaska Airlines, Inc., an Alaska corporation, and the United States Department of the Treasury (“*Treasury*”). All capitalized terms not defined herein have the meanings set forth in the PSP Agreement.

1. Joinder as a Recipient. The undersigned hereby (a) agrees that it shall be deemed a Recipient under the PSP2 Agreement, (b) agrees to perform all of the obligations of a Recipient thereunder, and (c) agrees to comply with the terms thereof applicable to Recipients as if it were a signatory thereto.

2. Unconditional Joinder. The undersigned acknowledges that its obligations under this Joinder are unconditional.

3. Reliance. The undersigned hereby acknowledges that Treasury executed the PSP2 Agreement in reliance on this Joinder and may reduce the amount of Payroll Support thereunder if the undersigned does not comply with the terms of the PSP2 Agreement.

4. Incorporation by Reference. All terms and conditions of the PSP2 Agreement are hereby incorporated by reference into this Joinder as if set forth in full.

IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Joinder as of the date first written above.

HORIZON AIR INDUSTRIES, INC.

By: ___
Name: Joseph A. Sprague
Title: President

AMENDED AND RESTATED WARRANT AGREEMENT

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AMENDED AND RESTATED WARRANT AGREEMENT dated as of February 5, 2021 (this “Agreement”), between Alaska Air Group, Inc., a corporation organized under the laws of Delaware (the “Company”) and the UNITED STATES DEPARTMENT OF THE TREASURY (“Treasury”).

WHEREAS, the Company has requested that Treasury provide financial assistance to the Recipients (as defined in the PSP2 Agreements) that shall exclusively be used for the continuation of payment of employee wages, salaries, and benefits as is permissible under Section 402(a) of Title IV of Division N of the Consolidated Appropriations Act, 2021 (December 27, 2020), as the same may be amended from time to time, and Treasury is willing to do so on the terms and conditions set forth in (i) that certain Payroll Support Program Extension Agreement dated as of January 15, 2021, between Alaska Airlines, Inc. and Treasury (the “Alaska PSP2 Agreement”) and (ii) that certain Payroll Support Program Extension Agreement dated as of February 5, 2021, between MCGEE AIR SERVICES, INC. and Treasury (the “McGee PSP2 Agreement”) and, together with the Alaska PSP2 Agreement, the “PSP2 Agreements”);

WHEREAS, as appropriate compensation to the Federal Government of the United States of America for the provision of financial assistance under the Alaska PSP2 Agreement, ALASKA AIRLINES, INC. issued a promissory note, originally dated as of January 15, 2021 (the “Original Alaska PSP2 Promissory Note”), in the name of Treasury as the holder and the Company issued private placement warrants to purchase the number of shares of the Company’s Common Stock determined in accordance with Schedule 1 to this Agreement (the “Original PSP2 Warrants”) to Treasury (the “Original PSP2 Warrant Agreement”);

WHEREAS, in accordance with Section 6.2(b) of the Original Alaska PSP2 Promissory Note, ALASKA AIRLINES, INC. and Treasury have agreed to amend and restate the Original Alaska PSP2 Promissory Note as of the date hereof on the terms and conditions set forth therein (as amended and restated, the “Alaska PSP2 Promissory Note”);

WHEREAS, as appropriate compensation to the Federal Government of the United States of America for the provision of financial assistance under the McGee PSP2 Agreement, MCGEE AIR SERVICES, INC. has agreed to issue a promissory note in the name of Treasury as the holder (the “McGee PSP2 Promissory Note”) and, together with the Alaska PSP2 Promissory Note, the “PSP2 Promissory Notes”) and the Company agreed to issue in a private placement warrants to purchase the number of shares of the Company’s Common Stock determined in accordance with Schedule 1 to this Agreement (together with the Original PSP2 Warrants, the “Warrants”) to Treasury;

WHEREAS, in accordance with Section 5.2 hereof, the Company and Treasury have agreed to amend and restate the Original PSP2 Warrant Agreement as of the date hereof on the terms and conditions set forth herein (as amended and restated, the “Agreement”).

NOW, THEREFORE, in consideration of the premises, and of the representations, warranties, covenants and agreements set forth herein, the parties agree as follows:

Article I.

Closing

i. Issuance

8. On the terms and subject to the conditions set forth in this Agreement, the Company agrees to issue to Treasury, on each Warrant Closing Date, Warrants for a number of shares of Common Stock determined by the formula set forth in Schedule 1.

a. Initial Closing; Warrant Closing Date.

8. On the terms and subject to the conditions set forth in this Agreement, the closing of the initial issuance of the Warrants (the “Initial Closing”) will take place on the Closing Date (as defined in the Original Alaska PSP2 Promissory Note) or, if on the Closing Date the principal amount of the PSP2 Promissory Notes is \$0, the first date on which such principal amount is increased. After the Initial Closing, the closing of any subsequent issuance will take place on the date of each increase, if any, of the principal amount of the PSP2 Promissory Notes (each subsequent closing, together with the Initial Closing, a “Closing” and each such date a “Warrant Closing Date”).

8. On each Warrant Closing Date, the Company will issue to Treasury a duly executed Warrant or Warrants for a number of shares of Common Stock determined by the formula set forth in Schedule 1, as evidenced by one or more certificates dated the Warrant Closing Date and bearing appropriate legends as hereinafter provided for and in substantially the form attached hereto as Annex B.

9. On each Warrant Closing Date, the Company shall deliver to Treasury (i) a written opinion from counsel to the Company (which may be internal counsel) addressed to Treasury and dated as of such Warrant Closing Date, in substantially the form attached hereto as Annex A and (ii) a certificate executed by the chief executive officer, president, executive vice president, chief financial officer, principal accounting officer, treasurer or controller confirming that the representations and warranties of the Company in this Agreement are true and correct with the same force and effect as though expressly made at and as of such Warrant Closing Date and the Company has complied with all agreements on its part to be performed or satisfied hereunder at or prior to such Closing.

10. On the initial Warrant Closing Date of the Original Alaska PSP2 Promissory Note and of the McGee PSP2 Promissory Note, the Company shall deliver to Treasury (i) such customary certificates of resolutions or other action, incumbency certificates and/or other certificates of the chief executive officer, president, executive vice president, chief financial officer, principal accounting officer, treasurer or controller as Treasury may require evidencing the identity, authority and capacity of each such officer thereof authorized to act as such officer in connection with this Agreement and (ii) customary resolutions or evidence of corporate authorization, secretary's certificates and such other documents and certificates (including

Organizational Documents and good standing certificates) as Treasury may reasonably request relating to the organization, existence and good standing of the Company and any other legal matters relating to the Company, this Agreement, the Warrants or the transactions contemplated hereby or thereby.

b. Interpretation

8. When a reference is made in this Agreement to “Recitals,” “Articles,” “Sections,” or “Annexes” such reference shall be to a Recital, Article or Section of, or Annex to, this Warrant Agreement, unless otherwise indicated. The terms defined in the singular have a comparable meaning when used in the plural, and vice versa. References to “herein”, “hereof”, “hereunder” and the like refer to this Agreement as a whole and not to any particular section or provision, unless the context requires otherwise. The table of contents and headings contained in this Agreement are for reference purposes only and are not part of this Agreement. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed followed by the words “without limitation.” No rule of construction against the draftsman shall be applied in connection with the interpretation or enforcement of this Agreement, as this Agreement is the product of negotiation between sophisticated parties advised by counsel. All references to “\$” or “dollars” mean the lawful currency of the United States of America. Except as expressly stated in this Agreement, all references to any statute, rule or regulation are to the statute, rule or regulation as amended, modified, supplemented or replaced from time to time (and, in the case of statutes, include any rules and regulations promulgated under the statute) and to any section of any statute, rule or regulation include any successor to the section.

8. Capitalized terms not defined herein have the meanings ascribed thereto in Annex B.

Article II.

Representations and Warranties

c. Representations and Warranties of the Company

. The Company represents and warrants to Treasury that as of the date hereof and each Warrant Closing Date (or such other date specified herein):

8. Existence, Qualification and Power

. The Company is duly organized or formed, validly existing and, if applicable, in good standing under the Laws of the jurisdiction of its incorporation or organization, and the Company and each Subsidiary (a) has all requisite power and authority and all requisite governmental licenses, authorizations, consents and approvals to (i) own or lease its assets and carry on its business and (ii) execute, deliver and perform its obligations under the this Agreement and the Warrants, and (b) is duly qualified and is licensed and, as applicable, in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business

requires such qualification or license, except, in each case referred to in clause (a)(i) or (b), to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

8. Capitalization

a. . The authorized capital stock of the Company, and the outstanding capital stock of the Company (including securities convertible into, or exercisable or exchangeable for, capital stock of the Company) as of the most recent fiscal month-end preceding the date hereof (the "Capitalization Date") is set forth in Schedule 2. The outstanding shares of capital stock of the Company have been duly authorized and are validly issued and outstanding, fully paid and nonassessable, and subject to no preemptive rights (and were not issued in violation of any preemptive rights). Except as provided in the Warrants, as of the date hereof, the Company does not have outstanding any securities or other obligations providing the holder the right to acquire Common Stock that is not reserved for issuance as specified on Schedule 2, and the Company has not made any other commitment to authorize, issue or sell any Common Stock. Since the Capitalization Date, the Company has not issued any shares of Common Stock, other than (i) shares issued upon the exercise of stock options or delivered under other equity-based awards or other convertible securities or warrants which were issued and outstanding on the Capitalization Date and disclosed on Schedule 2 and (ii) shares disclosed on Schedule 2 as it may be updated by written notice from the Company to Treasury in connection with each Warrant Closing Date.

8. Listing. The Common Stock has been registered pursuant to Section 12(b) of the Exchange Act and the shares of the Common Stock outstanding on the date hereof are listed on a national securities exchange. The Company has taken no action designed to, or likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act or the listing of the Common Stock on such national securities exchange, nor has the Company received any notification that the Securities and Exchange Commission (the "SEC") or such exchange is contemplating terminating such registration or listing. The Company is in compliance with applicable continued listing requirements of such exchange in all material respects.

9. Governmental Authorization; Other Consents

. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Company of this Agreement, except for such approvals, consents, exemptions, authorizations, actions or notices that have been duly obtained, taken or made and are in full force and effect.

10. Execution and Delivery; Binding Effect

11. . This Agreement has been duly authorized, executed and delivered by the Company. This Agreement constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may

be limited by bankruptcy, insolvency, reorganization, receivership, moratorium or other Laws affecting creditors' rights generally and by general principles of equity.

8. I

8. he Warrants and Warrant Shares

9. . Each Warrant has been duly authorized and, when executed and delivered as contemplated hereby, will constitute a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium or other Laws affecting creditors' rights generally and by general principles of equity. The Warrant Shares have been duly authorized and reserved for issuance upon exercise of the Warrants and when so issued in accordance with the terms of the Warrants will be validly issued, fully paid and non-assessable, subject, if applicable, to the approvals of its stockholders set forth on Schedule 3.

8. Authorization, Enforceability

i. The Company has the corporate power and authority to execute and deliver this Agreement and the Warrants and, subject, if applicable, to the approvals of its stockholders set forth on Schedule 3, to carry out its obligations hereunder and thereunder (which includes the issuance of the Warrants and Warrant Shares). The execution, delivery and performance by the Company of this Agreement and the Warrants and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate or other organizational action on the part of the Company and its stockholders, and no further approval or authorization is required on the part of the Company, subject, in each case, if applicable, to the approvals of its stockholders set forth on Schedule 3.

ii. The execution, delivery and performance by the Company of this Agreement do not and will not (a) contravene the terms of its Organizational Documents, (b) conflict with or result in any breach or contravention of, or the creation of any Lien (as defined in the PSP2 Promissory Notes) under, or require any payment to be made under (i) any material Contractual Obligation to which the Company is a party or affecting the Company or the properties of the Company or any Subsidiary or (ii) any material order, injunction, writ or decree of any Governmental Authority or any arbitral award to which the Company or any Subsidiary or its property is subject or (c) violate any Law, except to the extent that such violation could not reasonably be expected to have a Material Adverse Effect.

iii. Other than any current report on Form 8-K required to be filed with the SEC (which shall be made on or before the date on which it is required to be filed), such filings and approvals as are required to be made or obtained under any state "blue sky" laws, the filing of any proxy statement contemplated by Section 3.1 and such filings and

approvals as have been made or obtained, no notice to, filing with, exemption or review by, or authorization, consent or approval of, any Governmental Authority is required to be made or obtained by the Company in connection with the execution, delivery and performance by the Company of this Agreement and the consummation by the Company of the issuance of the Warrants except for any such notices, filings, exemptions, reviews, authorizations, consents and approvals the failure of which to make or obtain would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

9. Anti-takeover Provisions and Rights Plan

. The Board of Directors of the Company (the "Board of Directors") has taken all necessary action, and will in the future take any necessary action, to ensure that the transactions contemplated by this Agreement and the Warrants and the consummation of the transactions contemplated hereby and thereby, including the exercise of the Warrants in accordance with their terms, will be exempt from any anti-takeover or similar provisions of the Company's Organizational Documents, and any other provisions of any applicable "moratorium", "control share", "fair price", "interested stockholder" or other anti-takeover laws and regulations of any jurisdiction, whether existing on the date hereof or implemented after the date hereof. The Company has taken all actions necessary, and will in the future take any necessary action, to render any stockholders' rights plan of the Company inapplicable to this Agreement and the Warrants and the consummation of the transactions contemplated hereby and thereby, including the exercise of the Warrants by Treasury in accordance with its terms.

10. Reports

iv. Since December 31, 2017, the Company and each Subsidiary has timely filed all reports, registrations, documents, filings, statements and submissions, together with any amendments thereto, that it was required to file with any Governmental Authority (the foregoing, collectively, the "Company Reports") and has paid all fees and assessments due and payable in connection therewith, except, in each case, as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. As of their respective dates of filing, the Company Reports complied in all material respects with all statutes and applicable rules and regulations of the applicable Governmental Authority. In the case of each such Company Report filed with or furnished to the SEC, such Company Report (A) did not, as of its date or if amended prior to the date hereof, as of the date of such amendment, contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading, and (B) complied as to form in all material respects with the applicable requirements of the Securities Act and the Exchange Act. With respect to all other Company Reports, the Company Reports were complete and accurate in all material respects as of their respective dates. No executive officer of the Company or any Subsidiary has failed in any respect to make the certifications required of him or her under Section 302 or 906 of the Sarbanes-Oxley Act of 2002.

v. The Company (A) has implemented and maintains disclosure controls and procedures (as defined in Rule 13a15(e) of the Exchange Act) to ensure that material information relating to the Company, including its Subsidiaries, is made known to the chief executive officer and the chief financial officer of the Company by others within those entities, and (B) has disclosed, based on its most recent evaluation prior to the date hereof, to the Company's outside auditors and the audit committee of the Board of Directors (x) any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information and (y) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

11. Offering of Securities. Neither the Company nor any person acting on its behalf has taken any action (including any offering of any securities of the Company under circumstances which would require the integration of such offering with the offering of any of the Warrants under the Securities Act, and the rules and regulations of the Securities and Exchange Commission (the "SEC") promulgated thereunder), which might subject the offering, issuance or sale of any of the Warrants to Treasury pursuant to this Agreement to the registration requirements of the Securities Act.

12. Brokers and Finders

No broker, finder or investment banker is entitled to any financial advisory, brokerage, finder's or other fee or commission in connection with this Agreement or the Warrants or the transactions contemplated hereby or thereby based upon arrangements made by or on behalf of the Company or any Subsidiary for which Treasury could have any liability.

Article III.

Covenants

d. Commercially Reasonable Efforts

8. Subject to the terms and conditions of this Agreement, each of the parties will use its commercially reasonable efforts in good faith to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or desirable, or advisable under applicable laws, to enable consummation of the transactions contemplated hereby and shall use commercially reasonable efforts to cooperate with the other party to that end.

8. If the Company is required to obtain any stockholder approvals set forth on Schedule 3, then the Company shall comply with this Section 3.1(b) and Section 3.1(c). The Company shall call a special meeting of its stockholders, as promptly as practicable following the Initial Closing, to vote on proposals (collectively, the "Stockholder Proposals") to (i) approve the exercise of the Warrants for Common Stock for purposes of the rules of the national

securities exchange on which the Common Stock is listed and/or (ii) amend the Company's Organizational Documents to increase the number of authorized shares of Common Stock to at least such number as shall be sufficient to permit the full exercise of the Warrants for Common Stock and comply with the other provisions of this Section 3.1(b) and Section 3.1(c). The Board of Directors shall recommend to the Company's stockholders that such stockholders vote in favor of the Stockholder Proposals. In connection with such meeting, the Company shall prepare (and Treasury will reasonably cooperate with the Company to prepare) and file with the SEC as promptly as practicable (but in no event more than ten Business Days after the Initial Closing) a preliminary proxy statement, shall use its reasonable best efforts to respond to any comments of the SEC or its staff thereon and to cause a definitive proxy statement related to such stockholders' meeting to be mailed to the Company's stockholders not more than five Business Days after clearance thereof by the SEC, and shall use its reasonable best efforts to solicit proxies for such stockholder approval of the Stockholder Proposals. The Company shall notify Treasury promptly of the receipt of any comments from the SEC or its staff with respect to the proxy statement and of any request by the SEC or its staff for amendments or supplements to such proxy statement or for additional information and will supply Treasury with copies of all correspondence between the Company or any of its representatives, on the one hand, and the SEC or its staff, on the other hand, with respect to such proxy statement. If at any time prior to such stockholders' meeting there shall occur any event that is required to be set forth in an amendment or supplement to the proxy statement, the Company shall as promptly as practicable prepare and mail to its stockholders such an amendment or supplement. Each of Treasury and the Company agrees promptly to correct any information provided by it or on its behalf for use in the proxy statement if and to the extent that such information shall have become false or misleading in any material respect, and the Company shall as promptly as practicable prepare and mail to its stockholders an amendment or supplement to correct such information to the extent required by applicable laws and regulations. The Company shall consult with Treasury prior to filing any proxy statement, or any amendment or supplement thereto, and provide Treasury with a reasonable opportunity to comment thereon. In the event that the approval of any of the Stockholder Proposals is not obtained at such special stockholders meeting, the Company shall include a proposal to approve (and the Board of Directors shall recommend approval of) each such proposal at a meeting of its stockholders no less than once in each subsequent sixmonth period beginning on March 31, 2021 until all such approvals are obtained or made.

9. None of the information supplied by the Company or any of the Company Subsidiaries for inclusion in any proxy statement in connection with any such stockholders meeting of the Company will, at the date it is filed with the SEC, when first mailed to the Company's stockholders and at the time of any stockholders meeting, and at the time of any amendment or supplement thereof, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

e. Expenses

. The Company shall pay (i) all reasonable outofpocket expenses incurred by Treasury (including the reasonable fees, charges and disbursements of any counsel for Treasury) in

connection with the preparation, negotiation, execution, delivery and administration of this Agreement and the Warrants, any other agreements or documents executed in connection herewith or therewith, or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), and (ii) all outofpocket expenses incurred by Treasury (including the fees, charges and disbursements of any counsel for Treasury), in connection with the enforcement or protection of its rights in connection with this Agreement and the Warrants, any other agreements or documents executed in connected herewith or therewith, or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), including all such out-of-pocket expenses incurred during any workout, restructuring, negotiations or enforcement in respect of such Warrant Agreement, Warrant and other agreements or documents executed in connection herewith or therewith.

f. Sufficiency of Authorized Common Stock; Exchange Listing

During the period from each Warrant Closing Date (or, if the approval of the Stockholder Proposals is required, the date of such approval) until the date on which no Warrants remain outstanding, the Company shall at all times have reserved for issuance, free of preemptive or similar rights, a sufficient number of authorized and unissued Warrant Shares to effectuate such exercise. Nothing in this Section 3.3 shall preclude the Company from satisfying its obligations in respect of the exercise of the Warrants by delivery of shares of Common Stock which are held in the treasury of the Company. As soon as reasonably practicable following each Warrant Closing Date, the Company shall, at its expense, cause the Warrant Shares to be listed on the same national securities exchange on which the Common Stock is listed, subject to official notice of issuance, and shall maintain such listing for so long as any Common Stock is listed on such exchange. The Company will use commercially reasonable efforts to maintain the listing of Common Stock on such national securities exchange so long as any Warrants or Warrant Shares remain outstanding. Neither the Company nor any of its Subsidiaries shall take any action which would be reasonably expected to result in the delisting or suspension of the Common Stock on such exchange. The foregoing shall not preclude the Company from undertaking any transaction set forth in Section 4.3 subject to compliance with that provision.

Article IV.

Additional Agreements

g. Investment

Purposes. Treasury acknowledges that the Warrants and the Warrant Shares have not been registered under the Securities Act or under any state securities laws. Treasury (a) is acquiring the Warrants pursuant to an exemption from registration under the Securities Act solely for investment without a view to sell and with no present intention to distribute them to any person in violation of the Securities Act or any applicable U.S. state securities laws; (b) will not sell or otherwise dispose of any of the Warrants or the Warrant Shares, except in compliance with the registration requirements or exemption provisions of the Securities Act and any applicable U.S.

state securities laws; and (c) has such knowledge and experience in financial and business matters and in investments of this type that it is capable of evaluating the merits and risks of the Warrants and the Warrant Shares and of making an informed investment decision.

h. Legends

8. Treasury agrees that all certificates or other instruments representing the Warrants and the Warrant Shares will bear a legend substantially to the following effect:

“THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS.”

8. In the event that any Warrants or Warrant Shares (i) become registered under the Securities Act or (ii) are eligible to be transferred without restriction in accordance with Rule 144 or another exemption from registration under the Securities Act (other than Rule 144A), the Company shall issue new certificates or other instruments representing such Warrants or Warrant Shares, which shall not contain the legend in Section 4.2(a) above; *provided* that Treasury surrenders to the Company the previously issued certificates or other instruments.

i. Certain Transactions

The Company will not merge or consolidate with, or sell, transfer or lease all or substantially all of its property or assets to, any other party unless the successor, transferee or lessee party (or its ultimate parent entity), as the case may be (if not the Company), expressly assumes the due and punctual performance and observance of each and every covenant, agreement and condition of this Agreement and the Warrants to be performed and observed by the Company.

j. Transfer of Warrants and Warrant Shares. Subject to compliance with applicable securities laws, Treasury shall be permitted to transfer, sell, assign or otherwise dispose of (“Transfer”) all or a portion of the Warrants or Warrant Shares at any time, and the Company shall take all steps as may be reasonably requested by Treasury to facilitate the Transfer of the Warrants and the Warrant Shares.

k. Registration Rights

8. Registration

vi. Subject to the terms and conditions of this Agreement, the Company covenants and agrees that on or before the earlier of (A) 30 days after the date on which all Warrants that may be issued pursuant to this Agreement have been issued and (B) March 31, 2021 (the end of such period, the “Registration Commencement Date”), the Company shall prepare and file with the SEC a Shelf Registration Statement covering the maximum number of Registrable Securities (or otherwise designate an existing Shelf Registration Statement filed with the SEC to cover the Registrable Securities) that may be issued pursuant to this Agreement and any Warrants outstanding at that time, and, to the extent the Shelf Registration Statement has not theretofore been declared effective or is not automatically effective upon such filing, the Company shall use reasonable best efforts to cause such Shelf Registration Statement to be declared or become effective and to keep such Shelf Registration Statement continuously effective and in compliance with the Securities Act and usable for resale of such Registrable Securities for a period from the date of its initial effectiveness until such time as there are no Registrable Securities remaining (including by refiling such Shelf Registration Statement (or a new Shelf Registration Statement) if the initial Shelf Registration Statement expires). So long as the Company is a well-known seasoned issuer (as defined in Rule 405 under the Securities Act) at the time of filing of the Shelf Registration Statement with the SEC, such Shelf Registration Statement shall be designated by the Company as an automatic Shelf Registration Statement. Notwithstanding the foregoing, if on the date hereof the Company is not eligible to file a registration statement on Form S-3, then the Company shall not be obligated to file a Shelf Registration Statement unless and until it is so eligible and is requested to do so in writing by Treasury.

vii. Any registration pursuant to Section 4.5(a)(i) shall be effected by means of a shelf registration on an appropriate form under Rule 415 under the Securities Act (a “Shelf Registration Statement”). If Treasury or any other Holder intends to distribute any Registrable Securities by means of an underwritten offering it shall promptly so advise the Company and the Company shall take all reasonable steps to facilitate such distribution, including the actions required pursuant to Section 4.5(c); *provided* that the Company shall not be required to facilitate an underwritten offering of Registrable Securities unless the total number of Warrant Shares and Warrants expected to be sold in such offering exceeds, or are exercisable for, at least 20% of the total number of Warrant Shares for which Warrants issued under this Agreement could be exercised (giving effect to the anti-dilution adjustments in Warrants); and *provided, further* that the Company shall not be required to facilitate more than two completed underwritten offerings within any 12-month period. The lead underwriters in any such distribution shall be selected by the Holders of a majority of the Registrable Securities to be distributed.

viii. The Company shall not be required to effect a registration (including a resale of Registrable Securities from an effective Shelf Registration Statement) or an underwritten offering pursuant to Section 4.5(a): (A) prior to the Registration Commencement Date; (B) with respect to securities that are not Registrable Securities; or (C) if the Company has notified Treasury and all other Holders that in the good faith judgment of the Board of Directors, it would be materially detrimental to the Company or its securityholders for

such registration or underwritten offering to be effected at such time, in which event the Company shall have the right to defer such registration or offering for a period of not more than 45 days after receipt of the request of Treasury or any other Holder; *provided* that such right to delay a registration or underwritten offering shall be exercised by the Company (1) only if the Company has generally exercised (or is concurrently exercising) similar black-out rights against holders of similar securities that have registration rights and (2) not more than three times in any 12-month period and not more than 90 days in the aggregate in any 12-month period. The Company shall notify the Holders of the date of any anticipated termination of any such deferral period prior to such date.

ix. If during any period when an effective Shelf Registration Statement is not available, the Company proposes to register any of its equity securities, other than a registration pursuant to Section 4.5(a)(i) or a Special Registration, and the registration form to be filed may be used for the registration or qualification for distribution of Registrable Securities, the Company will give prompt written notice to Treasury and all other Holders of its intention to effect such a registration (but in no event less than ten days prior to the anticipated filing date) and will include in such registration all Registrable Securities with respect to which the Company has received written requests for inclusion therein within ten Business Days after the date of the Company's notice (a "Piggyback Registration"). Any such person that has made such a written request may withdraw its Registrable Securities from such Piggyback Registration by giving written notice to the Company and the managing underwriter, if any, on or before the fifth Business Day prior to the planned effective date of such Piggyback Registration. The Company may terminate or withdraw any registration under this Section 4.5(a)(iv) prior to the effectiveness of such registration, whether or not Treasury or any other Holders have elected to include Registrable Securities in such registration.

x. If the registration referred to in Section 4.5(a)(iv) is proposed to be underwritten, the Company will so advise Treasury and all other Holders as a part of the written notice given pursuant to Section 4.5(a)(iv). In such event, the right of Treasury and all other Holders to registration pursuant to Section 4.5(a) will be conditioned upon such persons' participation in such underwriting and the inclusion of such person's Registrable Securities in the underwriting if such securities are of the same class of securities as the securities to be offered in the underwritten offering, and each such person will (together with the Company and the other persons distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company; *provided* that Treasury (as opposed to other Holders) shall not be required to indemnify any person in connection with any registration. If any participating person disapproves of the terms of the underwriting, such person may elect to withdraw therefrom by written notice to the Company, the managing underwriters and Treasury (if Treasury is participating in the underwriting).

xi. If either (x) the Company grants "piggyback" registration rights to one or more third parties to include their securities in an underwritten offering under the Shelf

Registration Statement pursuant to Section 4.5(a)(ii) or (y) a Piggyback Registration under Section 4.5(a)(iv) relates to an underwritten offering on behalf of the Company, and in either case the managing underwriters advise the Company that in their reasonable opinion the number of securities requested to be included in such offering exceeds the number which can be sold without adversely affecting the marketability of such offering (including an adverse effect on the per share offering price), the Company will include in such offering only such number of securities that in the reasonable opinion of such managing underwriters can be sold without adversely affecting the marketability of the offering (including an adverse effect on the per share offering price), which securities will be so included in the following order of priority: (A) first, in the case of a Piggyback Registration under Section 4.5(a)(iv), the securities the Company proposes to sell, (B) then the Registrable Securities of Treasury and all other Holders who have requested inclusion of Registrable Securities pursuant to Section 4.5(a)(ii) or Section 4.5(a)(iv), as applicable, *pro rata* on the basis of the aggregate number of such securities or shares owned by each such person and (C) lastly, any other securities of the Company that have been requested to be so included, subject to the terms of this Agreement; *provided, however*, that if the Company has, prior to the date hereof, entered into an agreement with respect to its securities that is inconsistent with the order of priority contemplated hereby then it shall apply the order of priority in such conflicting agreement to the extent that this Agreement would otherwise result in a breach under such agreement.

9. Expenses of Registration

. All Registration Expenses incurred in connection with any registration, qualification or compliance hereunder shall be borne by the Company. All Selling Expenses incurred in connection with any registrations hereunder shall be borne by the holders of the securities so registered *pro rata* on the basis of the aggregate offering or sale price of the securities so registered.

10. Obligations of the Company

. The Company shall use its reasonable best efforts, for so long as there are Registrable Securities outstanding, to take such actions as are under its control to not become an ineligible issuer (as defined in Rule 405 under the Securities Act) and to remain a well-known seasoned issuer (as defined in Rule 405 under the Securities Act) if it has such status on the date hereof or becomes eligible for such status in the future. In addition, whenever required to effect the registration of any Registrable Securities or facilitate the distribution of Registrable Securities pursuant to an effective Shelf Registration Statement, the Company shall, as expeditiously as reasonably practicable:

xii. Prepare and file with the SEC a prospectus supplement with respect to a proposed offering of Registrable Securities pursuant to an effective registration statement, subject to Section 4.5(d), keep such registration statement effective and keep such prospectus supplement current until the securities described therein are no longer Registrable Securities. The plan of distribution included in such registration statement, or, as applicable, prospectus supplement thereto, shall include, among other things, an

underwritten offering, ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers, block trades, privately negotiated transactions, the writing or settlement of options or other derivative transactions and any other method permitted pursuant to applicable law, and any combination of any such methods of sale.

xiii. Prepare and file with the SEC such amendments and supplements to the applicable registration statement and the prospectus or prospectus supplement used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

xiv. Furnish to the Holders and any underwriters such number of copies of the applicable registration statement and each such amendment and supplement thereto (including in each case all exhibits) and of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned or to be distributed by them.

xv. Use its reasonable best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders or any managing underwriter(s), to keep such registration or qualification in effect for so long as such registration statement remains in effect, and to take any other action which may be reasonably necessary to enable such seller to consummate the disposition in such jurisdictions of the securities owned by such Holder; *provided* that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

xvi. Notify each Holder of Registrable Securities at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the applicable prospectus, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing.

xvii. Give written notice to the Holders:

a. when any registration statement filed pursuant to Section 4.5(a) or any amendment thereto has been filed with the SEC (except for any amendment effected by the filing of a document with the SEC pursuant to the Exchange Act) and when such registration statement or any post-effective amendment thereto has become effective;

b. of any request by the SEC for amendments or supplements to any registration statement or the prospectus included therein or for additional information;

c. of the issuance by the SEC of any stop order suspending the effectiveness of any registration statement or the initiation of any proceedings for that purpose;

d. of the receipt by the Company or its legal counsel of any notification with respect to the suspension of the qualification of the Common Stock for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose;

e. of the happening of any event that requires the Company to make changes in any effective registration statement or the prospectus related to the registration statement in order to make the statements therein not misleading (which notice shall be accompanied by an instruction to suspend the use of the prospectus until the requisite changes have been made); and

f. if at any time the representations and warranties of the Company contained in any underwriting agreement contemplated by Section 4.5(c)(x) cease to be true and correct.

xviii. Use its reasonable best efforts to prevent the issuance or obtain the withdrawal of any order suspending the effectiveness of any registration statement referred to in Section 4.5(c)(vi)(C) at the earliest practicable time.

xix. Upon the occurrence of any event contemplated by Section 4.5(c)(v), 4.5(c)(vi)(E) or 4.5(d), promptly prepare a post-effective amendment to such registration statement or a supplement to the related prospectus or file any other required document so that, as thereafter delivered to the Holders and any underwriters, the prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. If the Company notifies the Holders in accordance with Section 4.5(c)(vi)(E) to suspend the use of the prospectus until the requisite changes to the prospectus have been made, then the Holders and any underwriters shall suspend use of such prospectus and use their reasonable best efforts to return to the Company all copies of such prospectus (at the Company's expense) other than permanent file copies then in such Holders' or underwriters' possession. The total number of days that any such suspension may be in effect in any 12-month period shall not exceed 90 days. The Company shall notify the Holders of the date of any anticipated termination of any such suspension period prior to such date.

xx. Use reasonable best efforts to procure the cooperation of the Company's transfer agent in settling any offering or sale of Registrable Securities, including with respect to the transfer of physical stock certificates into book-entry form in accordance with any procedures reasonably requested by the Holders or any managing underwriter(s).

xxi. If an underwritten offering is requested pursuant to Section 4.5(a)(ii), enter into an underwriting agreement in customary form, scope and substance and take all such other

actions reasonably requested by the Holders of a majority of the Registrable Securities being sold in connection therewith or by the managing underwriter(s), if any, to expedite or facilitate the underwritten disposition of such Registrable Securities, and in connection therewith in any underwritten offering (including making members of management and executives of the Company available to participate in “road shows”, similar sales events and other marketing activities), (A) make such representations and warranties to the Holders that are selling stockholders and the managing underwriter(s), if any, with respect to the business of the Company and its subsidiaries, and the Shelf Registration Statement, prospectus and documents, if any, incorporated or deemed to be incorporated by reference therein, in each case, in customary form, substance and scope, and, if true, confirm the same if and when requested, (B) use its reasonable best efforts to furnish the underwriters with opinions and “10b-5” letters of counsel to the Company, addressed to the managing underwriter(s), if any, covering the matters customarily covered in such opinions and letters requested in underwritten offerings, (C) use its reasonable best efforts to obtain “cold comfort” letters from the independent certified public accountants of the Company (and, if necessary, any other independent certified public accountants of any business acquired by the Company for which financial statements and financial data are included in the Shelf Registration Statement) who have certified the financial statements included in such Shelf Registration Statement, addressed to each of the managing underwriter(s), if any, such letters to be in customary form and covering matters of the type customarily covered in “cold comfort” letters, (D) if an underwriting agreement is entered into, the same shall contain indemnification provisions and procedures customary in underwritten offerings (provided that Treasury shall not be obligated to provide any indemnity), and (E) deliver such documents and certificates as may be reasonably requested by the Holders of a majority of the Registrable Securities being sold in connection therewith, their counsel and the managing underwriter(s), if any, to evidence the continued validity of the representations and warranties made pursuant to clause (A) above and to evidence compliance with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company.

xxii. Make available for inspection by a representative of Holders that are selling stockholders, the managing underwriter(s), if any, and any attorneys or accountants retained by such Holders or managing underwriter(s), at the offices where normally kept, during reasonable business hours, financial and other records, pertinent corporate documents and properties of the Company, and cause the officers, directors and employees of the Company to supply all information in each case reasonably requested (and of the type customarily provided in connection with due diligence conducted in connection with a registered public offering of securities) by any such representative, managing underwriter(s), attorney or accountant in connection with such Shelf Registration Statement.

xxiii. Use reasonable best efforts to cause all such Registrable Securities to be listed on each national securities exchange on which similar securities issued by the Company are then listed or, if no similar securities issued by the Company are then listed on any

national securities exchange, use its reasonable best efforts to cause all such Registrable Securities to be listed on such securities exchange as Treasury may designate.

xxiv. If requested by Holders of a majority of the Registrable Securities being registered and/or sold in connection therewith, or the managing underwriter(s), if any, promptly include in a prospectus supplement or amendment such information as the Holders of a majority of the Registrable Securities being registered and/or sold in connection therewith or managing underwriter(s), if any, may reasonably request in order to permit the intended method of distribution of such securities and make all required filings of such prospectus supplement or such amendment as soon as practicable after the Company has received such request.

xxv. Timely provide to its security holders earning statements satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder.

11. Suspension of Sales

. Upon receipt of written notice from the Company that a registration statement, prospectus or prospectus supplement contains or may contain an untrue statement of a material fact or omits or may omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that circumstances exist that make inadvisable use of such registration statement, prospectus or prospectus supplement, Treasury and each Holder of Registrable Securities shall forthwith discontinue disposition of Registrable Securities until Treasury and/or Holder has received copies of a supplemented or amended prospectus or prospectus supplement, or until Treasury and/or such Holder is advised in writing by the Company that the use of the prospectus and, if applicable, prospectus supplement may be resumed, and, if so directed by the Company, Treasury and/or such Holder shall deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in Treasury and/or such Holder's possession, of the prospectus and, if applicable, prospectus supplement covering such Registrable Securities current at the time of receipt of such notice. The total number of days that any such suspension may be in effect in any 12-month period shall not exceed 90 days. The Company shall notify Treasury prior to the anticipated termination of any such suspension period of the date of such anticipated termination

12. Termination of Registration Rights

. A Holder's registration rights as to any securities held by such Holder shall not be available unless such securities are Registrable Securities.

13. Furnishing Information

xxvi. Neither Treasury nor any Holder shall use any free writing prospectus (as defined in Rule 405) in connection with the sale of Registrable Securities without the prior written consent of the Company.

xxvii. It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 4.5(c) that Treasury and/or the selling Holders and the underwriters, if any, shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be required to effect the registered offering of their Registrable Securities.

14. Indemnification

xxviii. The Company agrees to indemnify each Holder and, if a Holder is a person other than an individual, such Holder's officers, directors, employees, agents, representatives and Affiliates, and each Person, if any, that controls a Holder within the meaning of the Securities Act (each, an "Indemnitee"), against any and all losses, claims, damages, actions, liabilities, costs and expenses (including reasonable fees, expenses and disbursements of attorneys and other professionals incurred in connection with investigating, defending, settling, compromising or paying any such losses, claims, damages, actions, liabilities, costs and expenses), joint or several, arising out of or based upon any untrue statement or alleged untrue statement of material fact contained in any registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto or any documents incorporated therein by reference or contained in any free writing prospectus (as such term is defined in Rule 405) prepared by the Company or authorized by it in writing for use by such Holder (or any amendment or supplement thereto); or any omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided*, that the Company shall not be liable to such Indemnitee in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon (A) an untrue statement or omission made in such registration statement, including any such preliminary prospectus or final prospectus contained therein or any such amendments or supplements thereto or contained in any free writing prospectus (as such term is defined in Rule 405) prepared by the Company or authorized by it in writing for use by such Holder (or any amendment or supplement thereto), in reliance upon and in conformity with information regarding such Indemnitee or its plan of distribution or ownership interests which was furnished in writing to the Company by such Indemnitee for use in connection with such registration statement, including any such preliminary prospectus or final prospectus contained therein or any such amendments or supplements thereto, or (B) offers or sales effected by or on behalf of such Indemnitee "by means of" (as defined in Rule 159A) a "free writing prospectus" (as defined in Rule 405) that was not authorized in writing by the Company.

xxix. If the indemnification provided for in Section 4.5(g)(i) is unavailable to an Indemnitee with respect to any losses, claims, damages, actions, liabilities, costs or expenses referred to therein or is insufficient to hold the Indemnitee harmless as

contemplated therein, then the Company, in lieu of indemnifying such Indemnitee, shall contribute to the amount paid or payable by such Indemnitee as a result of such losses, claims, damages, actions, liabilities, costs or expenses in such proportion as is appropriate to reflect the relative fault of the Indemnitee, on the one hand, and the Company, on the other hand, in connection with the statements or omissions which resulted in such losses, claims, damages, actions, liabilities, costs or expenses as well as any other relevant equitable considerations. The relative fault of the Company, on the one hand, and of the Indemnitee, on the other hand, shall be determined by reference to, among other factors, whether the untrue statement of a material fact or omission to state a material fact relates to information supplied by the Company or by the Indemnitee and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; the Company and each Holder agree that it would not be just and equitable if contribution pursuant to this Section 4.5(g)(ii) were determined by *pro rata* allocation or by any other method of allocation that does not take account of the equitable considerations referred to in Section 4.5(g)(i). No Indemnitee guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from the Company if the Company was not guilty of such fraudulent misrepresentation.

15. Assignment of Registration Rights

. The rights of Treasury to registration of Registrable Securities pursuant to Section 4.5(a) may be assigned by Treasury to a transferee or assignee of Registrable Securities in connection with a transfer of a total number of Warrant Shares and/or Warrants exercisable for at least 20% of the total number of Warrant Shares for which Warrants issued and to be issued under this Agreement could be exercised (giving effect to the anti-dilution adjustments in Warrants); *provided, however*, the transferor shall, within ten days after such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the number and type of Registrable Securities that are being assigned.

16. Clear Market

. With respect to any underwritten offering of Registrable Securities by Treasury or other Holders pursuant to this Section 4.5, the Company agrees not to effect (other than pursuant to such registration or pursuant to a Special Registration) any public sale or distribution, or to file any Shelf Registration Statement (other than such registration or a Special Registration) covering, in the case of an underwritten offering of Common Stock or Warrants, any of its equity securities, or, in each case, any securities convertible into or exchangeable or exercisable for such securities, during the period not to exceed 30 days following the effective date of such offering. The Company also agrees to cause such of its directors and senior executive officers to execute and deliver customary lock-up agreements in such form and for such time period up to 30 days as may be requested by the managing underwriter. "Special Registration" means the registration of (A) equity securities and/or options or other rights in respect thereof solely registered on Form S-4 or Form S-8 (or successor form) or (B) shares of equity securities and/or options or other rights in respect thereof to be offered to directors, members of management,

employees, consultants, customers, lenders or vendors of the Company or Company Subsidiaries or in connection with dividend reinvestment plans.

17. Rule 144; Rule 144A

. With a view to making available to Treasury and Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use its reasonable best efforts to:

xxx.make and keep adequate public information available, as those terms are understood and defined in Rule 144(c)(1) or any similar or analogous rule promulgated under the Securities Act, at all times after the date hereof;

xxxi.(A) file with the SEC, in a timely manner, all reports and other documents required of the Company under the Exchange Act, and (B) if at any time the Company is not required to file such reports, make available, upon the request of any Holder, such information necessary to permit sales pursuant to Rule 144A (including the information required by Rule 144A(d)(4) under the Securities Act);

xxxii.so long as Treasury or a Holder owns any Registrable Securities, furnish to Treasury or such Holder forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of Rule 144 under the Securities Act, and of the Exchange Act; a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as Treasury or Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities to the public without registration; *provided, however*, that the availability of the foregoing reports on the EDGAR filing system of the SEC will be deemed to satisfy the foregoing delivery requirements; and

xxxiii.take such further action as any Holder may reasonably request, all to the extent required from time to time to enable such Holder to sell Registrable Securities without registration under the Securities Act.

18. As used in this Section 4.5, the following terms shall have the following respective meanings:

xxxiv.“Holder” means Treasury and any other holder of Registrable Securities to whom the registration rights conferred by this Agreement have been transferred in compliance with Section 4.5(h) hereof.

xxxv.“Register,” “registered,” and “registration” shall refer to a registration effected by preparing and (A) filing a registration statement in compliance with the Securities Act and applicable rules and regulations thereunder, and the declaration or ordering of effectiveness of such registration statement or (B) filing a prospectus and/or prospectus supplement in respect of an appropriate effective registration statement on Form S-3.

xxxvi. “Registrable Securities” means (A) the Warrants (subject to Section 4.5(p)) and (B) any equity securities issued or issuable directly or indirectly with respect to the securities referred to in the foregoing clause (A) by way of conversion, exercise or exchange thereof, including the Warrant Shares, or share dividend or share split or in connection with a combination of shares, recapitalization, reclassification, merger, amalgamation, arrangement, consolidation or other reorganization, *provided* that, once issued, such securities will not be Registrable Securities when (1) they are sold pursuant to an effective registration statement under the Securities Act, (2) except as provided below in Section 4.5(o), they may be sold pursuant to Rule 144 without limitation thereunder on volume or manner of sale, (3) they shall have ceased to be outstanding or (4) they have been sold in a private transaction in which the transferor’s rights under this Agreement are not assigned to the transferee of the securities. No Registrable Securities may be registered under more than one registration statement at any one time.

xxxvii. “Registration Expenses” mean all expenses incurred by the Company in effecting any registration pursuant to this Agreement (whether or not any registration or prospectus becomes effective or final) or otherwise complying with its obligations under this Section 4.5, including all registration, filing and listing fees, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and expenses, expenses incurred in connection with any “road show”, the reasonable fees and disbursements of Treasury’s counsel (if Treasury is participating in the registered offering), and expenses of the Company’s independent accountants in connection with any regular or special reviews or audits incident to or required by any such registration, but shall not include Selling Expenses.

xxxviii. “Rule 144”, “Rule 144A”, “Rule 159A”, “Rule 405” and “Rule 415” mean, in each case, such rule promulgated under the Securities Act (or any successor provision), as the same shall be amended from time to time.

xxxix. “Selling Expenses” mean all discounts, selling commissions and stock transfer taxes applicable to the sale of Registrable Securities and fees and disbursements of counsel for any Holder (other than the fees and disbursements of Treasury’s counsel included in Registration Expenses).

19. At any time, any holder of Securities (including any Holder) may elect to forfeit its rights set forth in this Section 4.5 from that date forward; *provided*, that a Holder forfeiting such rights shall nonetheless be entitled to participate under Section 4.5(a)(iv) – (vi) in any Pending Underwritten Offering to the same extent that such Holder would have been entitled to if the holder had not withdrawn; and *provided, further*, that no such forfeiture shall terminate a Holder’s rights or obligations under Section 4.5(f) with respect to any prior registration or Pending Underwritten Offering. “*Pending Underwritten Offering*” means, with respect to any Holder forfeiting its rights pursuant to this Section 4.5(l), any underwritten offering of Registrable Securities in which such Holder has advised the Company of its intent to register its Registrable Securities either pursuant to Section 4.5(a)(ii) or 4.5(a)(iv) prior to the date of such Holder’s forfeiture.

20. Specific Performance

. The parties hereto acknowledge that there would be no adequate remedy at law if the Company fails to perform any of its obligations under this Section 4.5 and that Treasury and the Holders from time to time may be irreparably harmed by any such failure, and accordingly agree that Treasury and such Holders, in addition to any other remedy to which they may be entitled at law or in equity, to the fullest extent permitted and enforceable under applicable law shall be entitled to compel specific performance of the obligations of the Company under this Section 4.5 in accordance with the terms and conditions of this Section 4.5.

21. No Inconsistent Agreements

. The Company shall not, on or after the date hereof, enter into any agreement with respect to its securities that may impair the rights granted to Treasury and the Holders under this Section 4.5 or that otherwise conflicts with the provisions hereof in any manner that may impair the rights granted to Treasury and the Holders under this Section 4.5. In the event the Company has, prior to the date hereof, entered into any agreement with respect to its securities that is inconsistent with the rights granted to Treasury and the Holders under this Section 4.5 (including agreements that are inconsistent with the order of priority contemplated by Section 4.5(a)(vi)) or that may otherwise conflict with the provisions hereof, the Company shall use its reasonable best efforts to amend such agreements to ensure they are consistent with the provisions of this Section 4.5. Any transaction entered into by the Company that would reasonably be expected to require the inclusion in a Shelf Registration Statement or any Company Report filed with the SEC of any separate financial statements pursuant to Rule 3-05 of Regulation S-X or pro forma financial statements pursuant to Article 11 of Regulation S-X shall include provisions requiring the Company's counterparty to provide any information necessary to allow the Company to comply with its obligation hereunder.

22. Certain Offerings by Treasury

. In the case of any securities held by Treasury that cease to be Registrable Securities solely by reason of clause (2) in the definition of "Registrable Securities," the provisions of Sections 4.5(a)(ii), clauses (iv), (ix) and (x)-(xii) of Section 4.5(c), Section 4.5(g) and Section 4.5(i) shall continue to apply until such securities otherwise cease to be Registrable Securities. In any such case, an "underwritten" offering or other disposition shall include any distribution of such securities on behalf of Treasury by one or more broker-dealers, an "underwriting agreement" shall include any purchase agreement entered into by such broker-dealers, and any "registration statement" or "prospectus" shall include any offering document approved by the Company and used in connection with such distribution.

23. Registered Sales of the Warrant

g. The Holders agree to sell the Warrants or any portion thereof under the Shelf Registration Statement only beginning 30 days after notifying the Company of any such sale, during which 30-day period Treasury and all Holders of the Warrants shall take reasonable steps to agree to revisions to the Warrants, at the expense of the Company, to permit a public distribution of the

Warrants, including entering into a revised warrant agreement, appointing a warrant agent, and making the securities eligible for book entry clearing and settlement at the Depository Trust Company.

l. Voting of Warrant Shares

. Notwithstanding anything in this Agreement to the contrary, Treasury shall not exercise any voting rights with respect to the Warrant Shares.

Article V.

Miscellaneous

m. Survival of Representations and Warranties

. The representations and warranties of the Company made herein or in any certificates delivered in connection with the Initial Closing or any subsequent Closing shall survive such Closing without limitation.

n. Amendment

. No amendment of any provision of this Agreement will be effective unless made in writing and signed by an officer or a duly authorized representative of each party; *provided* that Treasury may unilaterally amend any provision of this Agreement to the extent required to comply with any changes after the date hereof in applicable federal statutes. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative of any rights or remedies provided by law.

o. Waiver of Conditions

. No waiver will be effective unless it is in a writing signed by a duly authorized officer of the waiving party that makes express reference to the provision or provisions subject to such waiver.

p. **Governing Law: Submission to Jurisdiction, Etc.**

This Agreement will be governed by and construed in accordance with the federal law of the United States if and to the extent such law is applicable, and otherwise in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State. Each of the parties hereto agrees (a) to submit to the exclusive jurisdiction and venue of the United States District Court for the District of Columbia and the United States Court of Federal Claims for any and all civil actions, suits or proceedings arising out of or relating to this Agreement or the Warrants or the transactions contemplated hereby or thereby, and (b) that notice may be served upon (i) the Company at the address and in the manner set forth for notices to the Company in Section 5.5 and (ii) Treasury in accordance with federal law. To the extent permitted by applicable law, each of the parties hereto hereby unconditionally waives trial by jury in any civil legal action or

proceeding relating to this Agreement or the Warrants or the transactions contemplated hereby or thereby.

q. Notices

. Any notice, request, instruction or other document to be given hereunder by any party to the other will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally, or by facsimile, upon confirmation of receipt, or (b) on the second Business Day following the date of dispatch if delivered by a recognized next day courier service. All notices to the Company shall be delivered as set forth below, or pursuant to such other instruction as may be designated in writing by the Company to Treasury. All notices to Treasury shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by Treasury to the Company.

If to the Company:

Alaska Air Group, Inc.
19300 International Blvd., SEEXP
Seattle, WA 98188
Attention: Chief Financial Officer
Telephone: 206.392.5040

With a copy to

Alaska Air Group, Inc.
19300 International Blvd., SEAZL
Seattle, WA 98188
Attention: General Counsel
Telephone: 206.392.5040
Email: LegalContractNotices@alaskaair.com

If to Treasury:

United States Department of the Treasury

1500 Pennsylvania Avenue, NW, Room 2312
Washington, D.C. 20220
Attention: Assistant General Counsel (Banking and Finance)

r. Definitions

8. The term "Governmental Authority" means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and

any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

8. The term “Laws” has the meaning ascribed thereto in the PSP2 Promissory Notes.

9. The term “Lien” has the meaning ascribed thereto in the PSP2 Promissory Notes.

10. The term “Material Adverse Effect” means (a) a material adverse change in, or a material adverse effect on, the operations, business, properties, liabilities (actual or contingent), condition (financial or otherwise) or prospects of the Company and its Subsidiaries taken as a whole; or (b) a material adverse effect on (i) the ability of the Company to perform its obligations under this Agreement or any Warrant or (ii) the legality, validity, binding effect or enforceability against the Company of this Agreement or any Warrant to which it is a party.

11. The term “Organizational Documents” has the meaning ascribed thereto in the PSP2 Promissory Notes.

12. The term “Subsidiary” has the meaning ascribed thereto in the PSP2 Promissory Notes.

s. Assignment

. Neither this Agreement nor any right, remedy, obligation nor liability arising hereunder or by reason hereof shall be assignable by any party hereto without the prior written consent of the other party, and any attempt to assign any right, remedy, obligation or liability hereunder without such consent shall be void, except (a) an assignment, in the case of a Business Combination where such party is not the surviving entity, or a sale of substantially all of its assets, to the entity which is the survivor of such Business Combination or the purchaser in such sale and (b) as provided in Section 4.5.

t. Severability

. If any provision of this Agreement or the Warrants, or the application thereof to any person or circumstance, is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to persons or circumstances other than those as to which it has been held invalid or unenforceable, will remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination, the parties shall negotiate in good faith in an effort to agree upon a suitable and equitable substitute provision to effect the original intent of the parties.

u. No Third Party Beneficiaries

. Nothing contained in this Agreement, expressed or implied, is intended to confer upon any person or entity other than the Company and Treasury any benefit, right or remedies, except that the provisions of Section 4.5 shall inure to the benefit of the persons referred to in that Section.

* * *

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

THE UNITED STATES DEPARTMENT OF THE
TREASURY

By: ___
Name: David A. Lebryk
Title: Fiscal Assistant Secretary

Alaska Air Group, Inc.

By: ___
Name: Shane R. Tackett
Title: Executive Vice President, Finance

and Chief Financial Officer

FORM OF OPINION

8. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the state of its incorporation.

8. Each of the Warrants has been duly authorized and, when executed and delivered as contemplated by the Agreement, will constitute a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity.

9. The shares of Common Stock issuable upon exercise of the Warrants have been duly authorized and reserved for issuance upon exercise of the Warrants and when so issued in accordance with the terms of the Warrants will be validly issued, fully paid and non-assessable [*insert, if applicable:* , subject to the approvals of the Company's stockholders set forth on Schedule 3].

10. The Company has the corporate power and authority to execute and deliver the Agreement and the Warrants and [*insert, if applicable:* , subject to the approvals of the Company's stockholders set forth on Schedule 3] to carry out its obligations thereunder (which includes the issuance of the Warrants and Warrant Shares).

11. The execution, delivery and performance by the Company of the Agreement and the Warrants and the consummation of the transactions contemplated thereby have been duly authorized by all necessary corporate action on the part of the Company and its stockholders, and no further approval or authorization is required on the part of the Company [*insert, if applicable:* , subject, in each case, to the approvals of the Company's stockholders set forth on Schedule 3].

12. The Agreement is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, regardless of whether such enforceability is considered in a proceeding at law or in equity; *provided, however*, such counsel need express no opinion with respect to Section 4.5(g) or the severability provisions of the Agreement insofar as Section 4.5(g) is concerned.

13. No registration of the Warrant and the Common Stock issuable upon exercise of the Warrant under the U.S. Securities Act of 1933, as amended, is required for the offer and sale of the Warrant or the Common Stock issuable upon exercise of the Warrant by the Company to the Holder pursuant to and in the manner contemplated by this Agreement.

14. The Company is not required to be registered as an investment company under the Investment Company Act of 1940, as amended.

Annex B

FORM OF WARRANT

[SEE ATTACHED]

WARRANT SHARES FORMULA

The number of Warrant Shares for which Warrants issued on each Warrant Closing Date shall be exercisable shall equal:

- (i) On the Closing Date (as defined in the Original Alaska PSP2 Promissory Note), the quotient of (x) the product of the principal amount of the PSP2 Promissory Notes multiplied *by* 0.1 *divided by* (y) the Exercise Price (as defined in Annex B); and
- (ii) On each subsequent Warrant Closing Date, the quotient of (x) the product of the amount by which the aggregate principal amount of the PSP2 Promissory Notes is increased on such Warrant Closing Date multiplied *by* 0.1 *divided by* (y) the Exercise Price.

capitalization

- (1). Authorized Capital Stock of the Company as of the Capitalization Date: Pursuant to Section 4.1 of Article 4 of the Amended and Restated Certificate of Incorporation of Alaska Air Group, Inc. dated May 9, 2017, “Authorized Capital,” the total number of shares of all classes of stock which this corporation shall have authority to issue is 405,000,000 shares, of which 5,000,000 shares shall be preferred stock having a par value of \$0.01 per share and 400,000,000 shares shall be Common Stock.
- (2). Outstanding Capital Stock of the Company as of the Capitalization Date:
- (a) Shares of Common Stock Outstanding as of August 31, 2020: 123,644,873
 - (b) Shares of Common Stock held in treasury as of August 31, 2020: 9,349,944
 - (c) Total Shares Issued as of August 31, 2020 132,994,817
- (3). Securities convertible into, or exercisable in exchange from capital stock include the following obligations to issue common stock under the company’s equity plans (outstanding equity awards) as of the Capitalization Date:
- (a) 269,958 stock options and 61,902 restricted stock units are outstanding under the Company’s 2008 Performance Incentive Plan; no future grants are permitted under this plan.
 - (b) 754,406 stock options, 315,635 performance stock units and 591,735 restricted stock units are outstanding under the Company’s 2016 Performance Incentive Plan; 3,731,586 shares are reserved and available for future issuance under this plan.
 - (c) 2,823,965 shares have been issued under the Company’s Employee Stock Purchase Plan; 3,381,330 shares are reserved and available for future issuance under this plan. The next scheduled purchase is October 31, 2020.
 - (d) Warrants held by Treasury, exercisable for an aggregate of 888,669 shares of Common Stock issued pursuant to that certain Amended and Restated Warrant Agreement, dated as of June 23, 2020, between the Company and Treasury and in connection with (i) the Payroll Support Program Agreement dated as of April 23, 2020, between ALASKA AIRLINES, INC. and Treasury and (ii) the Payroll Support Program Agreement dated as of June 23, 2020, between MCGEE AIR SERVICES, INC. and Treasury, consisting of warrants to purchase 846,748 shares of Common Stock, issued on April 23, 2020, warrants to purchase 13,275 shares of Common Stock, issued on June 23, 2020, warrants to purchase 14,320 shares of Common Stock issued on June 23, 2020, warrants to purchase 7163 shares of Common Stock, issued on July 31, 2020 and warrants to purchase 7,163 shares of Common Stock, issued on August 31, 2020.
- (4). Outstanding securities or other obligations providing the holder with a right for Common Stock that is not reserved for issuance as of the Capitalization Date: None.

(5). Other issuances of shares of Common Stock since the Capitalization Date: The Company has issued 4,570 common shares pursuant to the exercise of stock option awards that were fully vested, which reduces the number of stock options outstanding from the 2008 Performance Incentive Plan, noted in 3(a) above.

required stockholder approvals

None.

ALASKA AIR GROUP, INC.
2016 PERFORMANCE INCENTIVE PLAN
NONQUALIFIED STOCK OPTION AGREEMENT

THIS NONQUALIFIED STOCK OPTION AGREEMENT (this “**Option Agreement**”) dated [AWARD DATE], by and between **ALASKA AIR GROUP, INC.**, a Delaware corporation (the “**Corporation**”), and [participant NAME] (the “**Grantee**”) evidences the nonqualified stock option (the “**Option**”) granted by the Corporation to the Grantee as to the number of shares of the Corporation’s Common Stock first set forth below.

Number of Shares of Common Stock¹:	Award Date:
Exercise Price per Share¹: \$	Expiration Date^{1,2}:

Vesting^{1,2} The Option shall become vested as to 25% of the total number of shares of Common Stock subject to the Option on each of the first, second, third and fourth anniversaries of the Award Date.

The Option is granted under the Alaska Air Group, Inc. 2016 Performance Incentive Plan (the “**Plan**”) and subject to the Terms and Conditions of Nonqualified Stock Option (the “**Terms**”) attached to this Option Agreement (incorporated herein by this reference) and to the Plan. The Option has been granted to the Grantee in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Grantee. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Option set forth herein. The Grantee acknowledges receipt of a copy of the Terms, the Plan and the Prospectus for the Plan.

ALASKA AIR GROUP, INC.
A Delaware corporation

Bradley D. Tilden
Chairman, Chief Executive Officer and
President

¹ Subject to adjustment under Section 7.1 of the Plan

² Subject to early termination under Section 4 of the Terms and Section 7.2 of the Plan

TERMS AND CONDITIONS OF NONQUALIFIED STOCK OPTION

1. **Vesting; Limits on Exercise; Incentive Stock Option Status.**

The Option shall vest and become exercisable in percentage installments of the aggregate number of shares subject to the Option as set forth on the cover page of this Option Agreement. The Option may be exercised only to the extent the Option is vested and exercisable.

- **Cumulative Exercisability.** To the extent that the Option is vested and exercisable, the Grantee has the right to exercise the Option (to the extent not previously exercised), and such right shall continue, until the expiration or earlier termination of the Option.
- **McGee Air Services Not Considered a Subsidiary.** Notwithstanding any other provision of this Option Agreement or the Plan to the contrary, McGee Air Services (and any subsidiary of McGee Air Services) (together, the “**McGee Air Services Affiliates**”) shall not be considered a “Subsidiary” for purposes of the Option. Accordingly, if the Grantee ceases to be employed by or providing services to the Corporation or one of its Subsidiaries, and thereafter continues to be employed by or provide services to a McGee Air Services Affiliate while the Option is outstanding, then, unless the Administrator otherwise provides in the circumstances, the Grantee’s employment by or service to a McGee Air Services Affiliate shall not be considered for purposes of the Option and the termination of employment and service rules set forth in Section 4.2 shall be triggered by, and the Grantee’s Severance Date (as defined below) shall be determined with respect to, the last day that the Grantee was employed by or providing services to the Corporation or one of its Subsidiaries (other than a McGee Air Services Affiliate).
- **No Fractional Shares.** Fractional share interests shall be disregarded, but may be cumulated.
- **Minimum Exercise.** No fewer than 100 shares of Common Stock (subject to adjustment under Section 7.1 of the Plan) may be purchased at any one time, unless the number purchased is the total number at the time exercisable under the Option.
- **Nonqualified Stock Option.** The Option is a nonqualified stock option and is not, and shall not be, an incentive stock option within the meaning of Section 422 of the Code.

2. **Continuance of Employment/Service Required; No Employment/Service Commitment.**

Except as expressly provided in Section 4.2 below, the vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Option and the rights and benefits under this Option Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 4 below or under the Plan.

Nothing contained in this Option Agreement or the Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, affects the Grantee’s status as an employee at will who is subject to termination without cause, confers upon the Grantee any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or services, or affects the right of the Corporation or any Subsidiary to increase or decrease the Grantee’s other compensation or benefits.

Nothing in this paragraph, however, is intended to adversely affect any independent contractual right of the Grantee without his consent thereto.

3. Method of Exercise of Option.

The Option shall be exercisable by the delivery to the Secretary of the Corporation (or such other person as the Administrator may require pursuant to such administrative exercise procedures as the Administrator may implement from time to time) of:

- a written notice stating the number of shares of Common Stock to be purchased pursuant to the Option or by the completion of such other administrative exercise procedures as the Administrator may require from time to time,
- payment in full for the Exercise Price of the shares to be purchased in cash, check or by electronic funds transfer to the Corporation;
- any written statements or agreements required pursuant to Section 8.1 of the Plan; and
- satisfaction of the tax withholding provisions of Section 8.5 of the Plan.

The Administrator also may, but is not required to, authorize a non-cash payment alternative by one or more of the following methods (subject in each case to compliance with all applicable laws, rules, regulations and listing requirements and further subject to such rules as the Administrator may adopt as to any such payment method):

- notice and third party payment in such manner as may be authorized by the Administrator;
- in shares of Common Stock already owned by the Grantee, valued at their fair market value (as determined under the Plan) on the exercise date;
- a reduction in the number of shares of Common Stock otherwise deliverable to the Grantee (valued at their fair market value on the exercise date, as determined under the Plan) pursuant to the exercise of the Option; or
- a “cashless exercise” with a third party who provides simultaneous financing for the purposes of (or who otherwise facilitates) the exercise of the Option.

4. Early Termination of Option.

a. Possible Termination of Option upon Certain Corporate Events. The Option is subject to termination in connection with certain corporate events as provided in Section 7.2 of the Plan.

b. Termination of Option upon a Termination of Grantee’s Employment or Services; Possible Acceleration on Certain Terminations. Subject to earlier termination on the Expiration Date of the Option or pursuant to Section 4.1 above, if the Grantee ceases to be employed by or ceases to provide services to the Corporation or one of its Subsidiaries, the following rules shall apply (the last day that the Grantee is employed by or provides services to the Corporation or a Subsidiary is referred to as the Grantee’s “**Severance Date**”). Certain capitalized terms used in this Section 4.2 have the meanings ascribed to them in Exhibit A attached hereto.

- Other than as expressly provided below in this Section 4.2, the Option (whether vested or not) shall terminate on the Severance Date.
- If the termination of the Grantee's employment or services is the result of the Grantee's Retirement, (a) the Option, to the extent not vested on the Severance Date and scheduled to vest at any time within the three (3)-year period following the Severance Date, shall become fully vested as of the Severance Date, (b) the Grantee will have until the date that is three (3) years after the Grantee's Severance Date to exercise the Option, provided, however, that any portion of the Option that becomes vested pursuant to the foregoing clause (a) shall become exercisable only at such times as such portion would have otherwise vested pursuant to the original vesting schedule as provided herein had the Grantee's employment or service not terminated, (c) the Option, to the extent not vested on the Severance Date (after giving effect to the foregoing clause (a)), shall terminate on the Severance Date, and (d) the Option, to the extent exercisable at any time during the three (3)-year period following the Severance Date and not exercised on or prior to the last day of such period, shall terminate at the close of business on the last day of the three (3)-year period.
- If the termination of the Grantee's employment or services is the result of the Grantee's death or Total Disability, (a) the Option, to the extent not vested on the Severance Date, shall become fully vested as of the Severance Date, (b) the Grantee (or his beneficiary or personal representative, as the case may be) will have until the date that is three (3) years after the Grantee's Severance Date to exercise the Option, and (c) the Option, to the extent exercisable for the three (3)-year period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three (3)-year period.

Notwithstanding any other provision herein or in the Plan, the Option, to the extent outstanding and not then vested, shall become fully vested if (i) the Grantee's employment with the Corporation and its Subsidiaries is terminated by the Corporation or a Subsidiary without Cause or by the Grantee for Good Reason, and (ii) such termination occurs at any time within the period commencing six (6) months before a Change of Control and ending twenty-four (24) months after such Change of Control. In the event that, upon the occurrence of a Change of Control, the Grantee is entitled to accelerated vesting of the Option pursuant to this paragraph in connection with a termination of the Grantee's employment prior to such Change of Control, the Option, to the extent it had not vested and was cancelled or otherwise terminated upon or prior to the date of such Change of Control solely as a result of such termination of employment, shall be reinstated and shall automatically become fully vested, and the Grantee shall be given a reasonable opportunity to exercise such accelerated portion of the Option before it terminates.

In all events the Option is subject to earlier termination on the Expiration Date of the Option or as contemplated by Section 4.1. If the Grantee is rendering services other than as an employee or a director, the Administrator shall be the sole judge of whether the Grantee continues to render services for purposes of this Option Agreement.

5. Non-Transferability.

The Option and any other rights of the Grantee under this Option Agreement or the Plan are nontransferable and exercisable only by the Grantee, except as set forth in Section 5.7 of the Plan.

6. Notices.

Any notice to be given under the terms of this Option Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Grantee at the address last reflected on the Corporation's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Grantee is no longer employed by or providing services to the Corporation or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 6.

7. Plan.

The Option and all rights of the Grantee under this Option Agreement are subject to the terms and conditions of the Plan, incorporated herein by this reference. The Grantee agrees to be bound by the terms of the Plan and this Option Agreement. The Grantee acknowledges having read and understanding the Plan, the Prospectus for the Plan, and this Option Agreement. Unless otherwise expressly provided in other sections of this Option Agreement, provisions of the Plan that confer discretionary authority on the Board or the Administrator do not and shall not be deemed to create any rights in the Grantee unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Administrator so conferred by appropriate action of the Board or the Administrator under the Plan after the date hereof.

8. Entire Agreement.

This Option Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Option Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Grantee hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

9. Governing Law.

This Option Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to conflict of law principles thereunder.

10. Effect of this Agreement.

Subject to the Corporation's right to terminate the Option pursuant to Section 7.2 of the Plan, this Option Agreement shall be assumed by, be binding upon and inure to the benefit of any successor or successors to the Corporation.

11. Counterparts.

This Option Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

12. Section Headings.

The section headings of this Option Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

13. Clawback Policy.

The Option is subject to the terms of the Corporation's recoupment, clawback or similar policy as it may be in effect from time to time, as well as requirements of applicable law, including but not limited to restrictions on executive compensation levels under the Coronavirus Aid, Relief and Economic Security (CARES) Act, any of which could in certain circumstances require forfeiture of the Option and repayment or forfeiture of any shares of Common Stock or other cash or property received with respect to the Option (including any value received from a disposition of the shares acquired upon exercise of the Option).

14. No Advice Regarding Grant.

The Grantee is hereby advised to consult with his or her own tax, legal and/or investment advisors with respect to any advice the Grantee may determine is needed or appropriate with respect to the Option (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Option and any shares that may be acquired upon exercise of the Option). Neither the Corporation nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Option Agreement) or recommendation with respect to the Option. Except for the withholding rights contemplated by Section 3 above and Section 8.5 of the Plan, the Grantee is solely responsible for any and all tax liability that may arise with respect to the Option and any shares that may be acquired upon exercise of the Option.

EXHIBIT A

DEFINITIONS

For purposes of the Option, the following terms shall have the meanings set forth in this Exhibit A.

“**Cause**” means the occurrence of any of the following:

- i. the Grantee is convicted of, or has pled guilty or *nolo contendere* to, a felony (other than traffic related offenses or as a result of vicarious liability); or
- ii. the Grantee has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his duties to the Corporation or any of its Subsidiaries; or
- iii. the Grantee willfully and repeatedly fails to perform or uphold his duties to the Corporation or any of its Subsidiaries; or
- iv. the Grantee willfully fails 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 Grantee shall be deemed to be “willful” if the Grantee reasonably believed in good faith that such acts or omissions were in the best interests of the Corporation.

“**Change of Control**” means the occurrence of any of the following:

- (i) the consummation of:
 - (A) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of common stock of the Corporation would be converted into cash, securities or other property, other than a merger of the Corporation in which the holders of common stock of the Corporation immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; or
 - (B) 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 Corporation.
- (ii) at any time during a period of twenty-four (24) months, fewer than a majority of the members of the Board are Incumbent Directors. “**Incumbent Directors**” means (A) individuals who constitute the Board at the beginning of such period; and (B) individuals who were nominated or elected by all of, or a committee composed entirely of, the individuals described in (A); and (C) individuals who were nominated or elected by individuals described in (B).
- (iii) any Person (meaning any individual, entity or group within the meaning of Section 13(d)(3) or 14(d) of the Exchange Act) 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 the Corporation 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 the Corporation) representing 20% or more of the combined voting power of the then-outstanding Voting Securities.

(iv) approval by the stockholders of the Corporation of any plan or proposal for the liquidation or dissolution of the Corporation.

Unless the Board shall determine otherwise, a Change of Control shall not be deemed to have occurred by reason of any corporate reorganization, merger, consolidation, transfer of assets, liquidating distribution or other transaction entered into solely by and between the Corporation and any affiliate thereof, 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.

Notwithstanding the foregoing, in no event shall a transaction or other event that occurred prior to the date of grant of the Option constitute a Change of Control, and no Change of Control after the first Change of Control to occur after the grant date shall be considered for purposes of the Option.

“**Good Reason**” means, without the Grantee’s express written consent, the occurrence of any one or more of the following:

- i. a material reduction in the Grantee’s annual base salary;
- ii. a material diminution or reduction of the Grantee’s authority, duties, or responsibilities;
- iii. a material change in the geographic location at which the Grantee must perform services; or
- iv. any material breach by the Corporation of any other provision of this Agreement;

provided, however, that any such condition shall not constitute “Good Reason” unless both (x) the Grantee provides written notice to the Corporation of the condition claimed to constitute Good Reason within ninety (90) days of the initial existence of such condition, and (y) the Corporation fails to remedy such condition within thirty (30) days of receiving such written notice thereof; and provided, further, that in all events the termination of the Grantee’s employment with the Corporation shall not be treated as a termination for “Good Reason” unless such termination occurs not more than two (2) years following the initial existence of the condition claimed to constitute “Good Reason.”

“**Retirement**” means that, as of the Grantee’s Severance Date, the Grantee either (i) has attained age 55 with at least five (5) full years of service with the Corporation and its Subsidiaries, or (ii) has attained age 60, or (iii) is a participant in and is entitled to commence a benefit under a defined benefit plan sponsored by the Corporation or any of its Subsidiaries and has at least 10 years of service with the Corporation and its Subsidiaries.

“**Total Disability**” means a “permanent and total disability” (within the meaning of Section 22(e)(3) of the Code or as otherwise determined by the Administrator).

ALASKA AIR GROUP, INC.

2016 PERFORMANCE INCENTIVE PLAN

INCENTIVE STOCK OPTION AGREEMENT

THIS INCENTIVE STOCK OPTION AGREEMENT (this “**Option Agreement**”) dated [AWARD DATE], by and between ALASKA AIR GROUP, INC., a Delaware corporation (the “**Corporation**”), and [PARTICIPANT NAME] (the “**Grantee**”) evidences the incentive stock option (the “**Option**”) granted by the Corporation to the Grantee as to the number of shares of the Corporation’s Common Stock first set forth below.

Number of Shares of Common Stock¹:	Award Date:
Exercise Price per Share¹: \$	Expiration Date^{1,2}:

Vesting^{1,2} The Option shall become vested as to 25% of the total number of shares of Common Stock subject to the Option on each of the first, second, third and fourth anniversaries of the Award Date.

The Option is granted under the Alaska Air Group, Inc. 2016 Performance Incentive Plan (the “**Plan**”) and subject to the Terms and Conditions of Incentive Stock Option (the “**Terms**”) attached to this Option Agreement (incorporated herein by this reference) and to the Plan. The Option has been granted to the Grantee in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Grantee. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Option set forth herein. The Grantee acknowledges receipt of a copy of the Terms, the Plan and the Prospectus for the Plan.

ALASKA AIR GROUP, INC.
A Delaware Corporation

Bradley D. Tilden
Chairman, Chief Executive Officer and
President

¹ Subject to adjustment under Section 7.1 of the Plan

² Subject to early termination under Section 4 of the Terms and Section 7.2 of the Plan

TERMS AND CONDITIONS OF INCENTIVE STOCK OPTION

1. Vesting; Limits on Exercise; Incentive Stock Option Status.

The Option shall vest and become exercisable in percentage installments of the aggregate number of shares subject to the Option as set forth on the cover page of this Option Agreement. The Option may be exercised only to the extent the Option is vested and exercisable.

- **Cumulative Exercisability.** To the extent that the Option is vested and exercisable, the Grantee has the right to exercise the Option (to the extent not previously exercised), and such right shall continue, until the expiration or earlier termination of the Option.
- **McGee Air Services Not Considered a Subsidiary.** Notwithstanding any other provision of this Option Agreement or the Plan to the contrary, McGee Air Services (and any subsidiary of McGee Air Services) (together, the “**McGee Air Services Affiliates**”) shall not be considered a “Subsidiary” for purposes of the Option. Accordingly, if the Grantee ceases to be employed by or providing services to the Corporation or one of its Subsidiaries, and thereafter continues to be employed by or provide services to a McGee Air Services Affiliate while the Option is outstanding, then, unless the Administrator otherwise provides in the circumstances, the Grantee’s employment by or service to a McGee Air Services Affiliate shall not be considered for purposes of the Option and the termination of employment and service rules set forth in Section 4.2 shall be triggered by, and the Grantee’s Severance Date (as defined below) shall be determined with respect to, the last day that the Grantee was employed by or providing services to the Corporation or one of its Subsidiaries (other than a McGee Air Services Affiliate).
- **No Fractional Shares.** Fractional share interests shall be disregarded, but may be cumulated.
- **Minimum Exercise.** No fewer than 100 shares of Common Stock (subject to adjustment under Section 7.1 of the Plan) may be purchased at any one time, unless the number purchased is the total number at the time exercisable under the Option.
- **ISO Status.** The Option is intended as an incentive stock option within the meaning of Section 422 of the Code (an “**ISO**”).
- **ISO Value Limit.** If the aggregate fair market value of the shares with respect to which ISOs (whether granted under the Option or otherwise) first become exercisable by the Grantee in any calendar year exceeds \$100,000, as measured on the applicable Award Dates, the limitations of Section 5.1.2 of the Plan shall apply and to such extent the Option will be rendered a nonqualified stock option.

2. Continuance of Employment/Service Required; No Employment/Service Commitment.

Except as expressly provided in Section 4.2 below, the vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Option and the rights and benefits under this Option Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 4 below or under the Plan.

Nothing contained in this Option Agreement or the Plan constitutes an employment or service commitment by the Corporation or any of its Subsidiaries, affects the Grantee’s status as an employee at will who is subject to termination without cause, confers upon the Grantee any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or services, or affects the right

of the Corporation or any Subsidiary to increase or decrease the Grantee's other compensation or benefits. Nothing in this paragraph, however, is intended to adversely affect any independent contractual right of the Grantee without his consent thereto.

3. Method of Exercise of Option.

The Option shall be exercisable by the delivery to the Secretary of the Corporation (or such other person as the Administrator may require pursuant to such administrative exercise procedures as the Administrator may implement from time to time) of:

- a written notice stating the number of shares of Common Stock to be purchased pursuant to the Option or by the completion of such other administrative exercise procedures as the Administrator may require from time to time,
- payment in full for the Exercise Price of the shares to be purchased in cash, check or by electronic funds transfer to the Corporation;
- any written statements or agreements required pursuant to Section 8.1 of the Plan; and
- satisfaction of the tax withholding provisions of Section 8.5 of the Plan.

The Administrator also may, but is not required to, authorize a non-cash payment alternative by one or more of the following methods (subject in each case to compliance with all applicable laws, rules, regulations and listing requirements and further subject to such rules as the Administrator may adopt as to any such payment method):

- notice and third party payment in such manner as may be authorized by the Administrator;
- in shares of Common Stock already owned by the Grantee, valued at their fair market value (as determined under the Plan) on the exercise date;
- a reduction in the number of shares of Common Stock otherwise deliverable to the Grantee (valued at their fair market value on the exercise date, as determined under the Plan) pursuant to the exercise of the Option; or
- a "cashless exercise" with a third party who provides simultaneous financing for the purposes of (or who otherwise facilitates) the exercise of the Option.

The Option will qualify as an ISO only if it meets all of the applicable requirements of the Code. The Option may be rendered a nonqualified stock option if the Administrator permits the use of one or more of the non-cash payment alternatives referenced above.

4. Early Termination of Option.

a. Possible Termination of Option upon Certain Corporate Events. The Option is subject to termination in connection with certain corporate events as provided in Section 7.2 of the Plan.

b. Termination of Option upon a Termination of Grantee's Employment or Services; Possible Acceleration on Certain Terminations. Subject to earlier termination on the Expiration Date of the Option or pursuant to Section 4.1 above, if the Grantee ceases to be employed by or ceases to provide services to the Corporation or one of its Subsidiaries, the following rules shall apply (the last day

that the Grantee is employed by or provides services to the Corporation or a Subsidiary is referred to as the Grantee's "**Severance Date**"). Certain capitalized terms used in this Section 4.2 have the meanings ascribed to them in Exhibit A attached hereto.

- Other than as expressly provided below in this Section 4.2, the Option (whether vested or not) shall terminate on the Severance Date.
- If the termination of the Grantee's employment or services is the result of the Grantee's Retirement, (a) the Option, to the extent not vested on the Severance Date and scheduled to vest at any time within the three (3)-year period following the Severance Date, shall become fully vested as of the Severance Date, (b) the Grantee will have until the date that is three (3) years after the Grantee's Severance Date to exercise the Option, provided, however, that any portion of the Option that becomes vested pursuant to the foregoing clause (a) shall become exercisable only at such times as such portion would have otherwise vested pursuant to the original vesting schedule as provided herein had the Grantee's employment or service not terminated, (c) the Option, to the extent not vested on the Severance Date (after giving effect to the foregoing clause (a)), shall terminate on the Severance Date, and (d) the Option, to the extent exercisable at any time during the three (3)-year period following the Severance Date and not exercised on or prior to the last day of such period, shall terminate at the close of business on the last day of the three (3)-year period.
- If the termination of the Grantee's employment or services is the result of the Grantee's death or Total Disability, (a) the Option, to the extent not vested on the Severance Date, shall become fully vested as of the Severance Date, (b) the Grantee (or his beneficiary or personal representative, as the case may be) will have until the date that is three (3) years after the Grantee's Severance Date to exercise the Option, and (c) the Option, to the extent exercisable for the three (3)-year period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three (3)-year period.

Notwithstanding any other provision herein or in the Plan, the Option, to the extent outstanding and not then vested, shall become fully vested if (i) the Grantee's employment with the Corporation and its Subsidiaries is terminated by the Corporation or a Subsidiary without Cause or by the Grantee for Good Reason, and (ii) such termination occurs at any time within the period commencing six (6) months before a Change of Control and ending twenty-four (24) months after such Change of Control. In the event that, upon the occurrence of a Change of Control, the Grantee is entitled to accelerated vesting of the Option pursuant to this paragraph in connection with a termination of the Grantee's employment prior to such Change of Control, the Option, to the extent it had not vested and was cancelled or otherwise terminated upon or prior to the date of such Change of Control solely as a result of such termination of employment, shall be reinstated and shall automatically become fully vested, and the Grantee shall be given a reasonable opportunity to exercise such accelerated portion of the Option before it terminates.

In all events the Option is subject to earlier termination on the Expiration Date of the Option or as contemplated by Section 4.1. If the Grantee is rendering services other than as an employee or a director, the Administrator shall be the sole judge of whether the Grantee continues to render services for purposes of this Option Agreement.

Notwithstanding any post-termination exercise period provided for herein or in the Plan, the Option will qualify as an ISO only if it is exercised within the applicable exercise periods for ISOs under, and meets all of the other requirements of, the Code. If the Option is not exercised within the applicable exercise periods for ISOs or does not meet such other requirements, the Option will be rendered a nonqualified stock option.

5. Non-Transferability.

The Option and any other rights of the Grantee under this Option Agreement or the Plan are nontransferable and exercisable only by the Grantee, except as set forth in Section 5.7 of the Plan.

6. Notices.

Any notice to be given under the terms of this Option Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Grantee at the address last reflected on the Corporation's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Grantee is no longer employed by or providing services to the Corporation or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 6.

7. Plan.

The Option and all rights of the Grantee under this Option Agreement are subject to the terms and conditions of the Plan, incorporated herein by this reference. The Grantee agrees to be bound by the terms of the Plan and this Option Agreement. The Grantee acknowledges having read and understanding the Plan, the Prospectus for the Plan, and this Option Agreement. Unless otherwise expressly provided in other sections of this Option Agreement, provisions of the Plan that confer discretionary authority on the Board or the Administrator do not and shall not be deemed to create any rights in the Grantee unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Administrator so conferred by appropriate action of the Board or the Administrator under the Plan after the date hereof.

8. Entire Agreement.

This Option Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Option Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Grantee hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

9. Governing Law.

This Option Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to conflict of law principles thereunder.

10. Effect of this Agreement.

Subject to the Corporation's right to terminate the Option pursuant to Section 7.2 of the Plan, this Option Agreement shall be assumed by, be binding upon and inure to the benefit of any successor or successors to the Corporation.

11. Counterparts.

This Option Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

12. Section Headings.

The section headings of this Option Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

13. Clawback Policy.

The Option is subject to the terms of the Corporation's recoupment, clawback or similar policy as it may be in effect from time to time, requirements of applicable law, including but not limited to restrictions on executive compensation levels under the Coronavirus Aid, Relief and Economic Security (CARES) Act, any of which could in certain circumstances require forfeiture of the Option and repayment or forfeiture of any shares of Common Stock or other cash or property received with respect to the Option (including any value received from a disposition of the shares acquired upon exercise of the Option).

14. No Advice Regarding Grant.

The Grantee is hereby advised to consult with his or her own tax, legal and/or investment advisors with respect to any advice the Grantee may determine is needed or appropriate with respect to the Option (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Option and any shares that may be acquired upon exercise of the Option). Neither the Corporation nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Option Agreement) or recommendation with respect to the Option. Except for the withholding rights contemplated by Section 3 above and Section 8.5 of the Plan, the Grantee is solely responsible for any and all tax liability that may arise with respect to the Option and any shares that may be acquired upon exercise of the Option.

EXHIBIT A

DEFINITIONS

For purposes of the Option, the following terms shall have the meanings set forth in this Exhibit A.

“**Cause**” means the occurrence of any of the following:

- i. the Grantee is convicted of, or has pled guilty or *nolo contendere* to, a felony (other than traffic related offenses or as a result of vicarious liability); or
- ii. the Grantee has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his duties to the Corporation or any of its Subsidiaries; or
- iii. the Grantee willfully and repeatedly fails to perform or uphold his duties to the Corporation or any of its Subsidiaries; or
- iv. the Grantee willfully fails 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 Grantee shall be deemed to be “willful” if the Grantee reasonably believed in good faith that such acts or omissions were in the best interests of the Corporation.

“**Change of Control**” means the occurrence of any of the following:

- (i) the consummation of:
 - (A) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of common stock of the Corporation would be converted into cash, securities or other property, other than a merger of the Corporation in which the holders of common stock of the Corporation immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; or
 - (B) 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 Corporation.
- (ii) at any time during a period of twenty-four (24) months, fewer than a majority of the members of the Board are Incumbent Directors. “**Incumbent Directors**” means (A) individuals who constitute the Board at the beginning of such period; and (B) individuals who were nominated or elected by all of, or a committee composed entirely of, the individuals described in (A); and (C) individuals who were nominated or elected by individuals described in (B).
- (iii) any Person (meaning any individual, entity or group within the meaning of Section 13(d)(3) or 14(d) of the Exchange Act) 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 the Corporation 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 the Corporation) representing 20% or more of the combined voting power of the then-outstanding Voting Securities.

(iv) approval by the stockholders of the Corporation of any plan or proposal for the liquidation or dissolution of the Corporation.

Unless the Board shall determine otherwise, a Change of Control shall not be deemed to have occurred by reason of any corporate reorganization, merger, consolidation, transfer of assets, liquidating distribution or other transaction entered into solely by and between the Corporation and any affiliate thereof, 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.

Notwithstanding the foregoing, in no event shall a transaction or other event that occurred prior to the date of grant of the Option constitute a Change of Control, and no Change of Control after the first Change of Control to occur after the grant date shall be considered for purposes of the Option.

“**Good Reason**” means, without the Grantee’s express written consent, the occurrence of any one or more of the following:

- i. a material reduction in the Grantee’s annual base salary;
- ii. a material diminution or reduction of the Grantee’s authority, duties, or responsibilities;
- iii. a material change in the geographic location at which the Grantee must perform services; or
- iv. any material breach by the Corporation of any other provision of this Agreement;

provided, however, that any such condition shall not constitute “Good Reason” unless both (x) the Grantee provides written notice to the Corporation of the condition claimed to constitute Good Reason within ninety (90) days of the initial existence of such condition, and (y) the Corporation fails to remedy such condition within thirty (30) days of receiving such written notice thereof; and provided, further, that in all events the termination of the Grantee’s employment with the Corporation shall not be treated as a termination for “Good Reason” unless such termination occurs not more than two (2) years following the initial existence of the condition claimed to constitute “Good Reason.”

“**Retirement**” means that, as of the Grantee’s Severance Date, the Grantee either (i) has attained age 55 with at least five (5) full years of service with the Corporation and its Subsidiaries, or (ii) has attained age 60, or (iii) is a participant in and is entitled to commence a benefit under a defined benefit plan sponsored by the Corporation or any of its Subsidiaries and has at least 10 years of service with the Corporation and its Subsidiaries.

“**Total Disability**” means a “permanent and total disability” (within the meaning of Section 22(e)(3) of the Code or as otherwise determined by the Administrator).

ALASKA AIR GROUP, INC.
2016 PERFORMANCE INCENTIVE PLAN
PERFORMANCE STOCK UNIT AWARD AGREEMENT

THIS PERFORMANCE STOCK UNIT AWARD AGREEMENT (this “**Agreement**”) dated [AWARD DATE] by and between **ALASKA AIR GROUP, INC.**, a Delaware corporation (the “**Corporation**”), and [participant name] (the “**Participant**”) evidences the award of stock units (the “**Award**”) granted by the Corporation to the Participant as to the number of stock units (the “**Stock Units**”) first set forth below.

Number of Stock Units¹:	Award Date:
Performance Period:	

Vesting¹ The Award shall vest and become nonforfeitable as provided in Section 2 of the attached Terms and Conditions of Performance Stock Unit Award (the “**Terms**”).

The Award is granted under the Alaska Air Group, Inc. 2016 Performance Incentive Plan (the “**Plan**”) and subject to the Terms attached to this Agreement (incorporated herein by this reference) and to the Plan. The Award has been granted to the Participant in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Participant. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Award set forth herein. The Participant acknowledges receipt of a copy of the Terms, the Plan and the Prospectus for the Plan.

ALASKA AIR GROUP, INC.
A Delaware Corporation

Bradley D. Tilden
Chairman, Chief Executive Officer and
President

¹ Subject to adjustment under Section 7.1 of the Plan.

TERMS AND CONDITIONS OF PERFORMANCE STOCK UNIT AWARD

1. **Stock Units.** As used herein, the term “stock unit” shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of the Corporation’s Common Stock (subject to adjustment as provided in Section 7.1 of the Plan) solely for purposes of the Plan and this Agreement. The Stock Units shall be used solely as a device for the determination of the payment to eventually be made to the Participant if such Stock Units vest pursuant to this Agreement. The Stock Units shall not be treated as property or as a trust fund of any kind.

2. **Performance-Based and Time-Based Vesting.** Subject to Section 7 below, the Award shall vest and become nonforfeitable based on the achievement of the performance goals established by the Administrator and set forth on Exhibit A attached hereto for the Performance Period identified on the cover page of this Agreement. The number of Stock Units that shall be eligible to vest under this Agreement shall be determined based on the level of results or achievement of targets during the Performance Period for each of the performance goals as set forth in Exhibit A. Except as otherwise expressly provided in Section 7(c), any Stock Units subject to the Award that do not vest on or before the last day of the Performance Period pursuant to the provisions hereof (and have not previously terminated) shall terminate as of the last day of the Performance Period.

3. **Continuance of Employment/Service Required; No Employment/Service Commitment.** Except as expressly provided in Section 7, the Participant is required to remain in employment or service with the Corporation or one of its Subsidiaries through the applicable vesting date as a condition to the vesting of any portion of the Award and the rights and benefits under this Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 7 below or under the Plan.

Nothing contained in this Agreement or the Plan constitutes an employment or service commitment by the Corporation, affects the Participant’s status as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Corporation, interferes in any way with the right of the Corporation at any time to terminate such employment or services, or affects the right of the Corporation to increase or decrease the Participant’s other compensation or benefits. Nothing in this paragraph, however, is intended to adversely affect any independent contractual right of the Participant without his or her consent thereto.

4. **Limitations on Rights Associated with Units.** The Participant shall have no rights as a stockholder of the Corporation, no dividend rights and no voting rights, with respect to the Stock Units and any shares of Common Stock underlying or issuable in respect of such Stock Units until such shares of Common Stock are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

5. **Restrictions on Transfer.** Neither the Award, nor any interest therein or amount or shares payable in respect thereof may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) transfers by will or the laws of descent and distribution.

6. **Timing and Manner of Payment of Stock Units.** On or as soon as administratively practical following the date on which any Stock Units subject to this Award vest pursuant to Section 2 or Section 7(b) (and in all events within two and one-half months after such vesting event), the Corporation shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its discretion) equal to the number of Stock Units subject to this Award that vest on such date. The Corporation’s obligation to deliver shares of Common Stock or otherwise make payment with respect to vested Stock Units is subject to the condition precedent that the Participant or other person entitled under the Plan to receive any shares with respect to the vested Stock Units deliver to the Corporation any representations or other documents or assurances that the Administrator may deem necessary or desirable to assure compliance with all applicable legal and accounting

requirements. The Participant shall have no further rights with respect to any Stock Units that are paid or that terminate pursuant to Section 7.

7. Effect of Termination of Employment or Service.

(a) General. Except as expressly provided in Sections 7(b) and 7(c), if the Participant's employment or service with the Corporation or one of its Subsidiaries terminates for any reason prior to the last day of the Performance Period (the last day that the Participant is employed by or provides services to the Corporation or a Subsidiary is referred to as the Participant's "**Severance Date**"), the Participant's Stock Units shall terminate on the Participant's Severance Date. If any unvested Stock Units are terminated hereunder (whether pursuant to this Section 7 or otherwise), such Stock Units shall automatically terminate and be cancelled as of the applicable termination date without payment of any consideration by the Corporation and without any other action by the Participant, or the Participant's beneficiary or personal representative, as the case may be, and the Participant shall have no right with respect thereto or in respect thereof. If the Participant is rendering services other than as an employee or a director, the Administrator shall be the sole judge of whether the Participant continues to render services for purposes of this Agreement.

(b) Death, Disability, Retirement. Notwithstanding Section 7(a), if the Participant's Severance Date occurs during the Performance Period as a result of the Participant's death, Total Disability or Retirement, (i) the Participant's Stock Units shall be subject to pro-rata vesting such that the number of Stock Units subject to the Award (if any) that shall become vested as of the conclusion of the Performance Period shall equal (A) the number of Stock Units subject to the Award that would have vested as of the conclusion of the Performance Period in accordance with Section 2 above (assuming no termination of the Participant's employment or service had occurred), multiplied by (B) a fraction, the numerator of which shall be the number of whole months that elapsed during the Performance Period through the Participant's Severance Date, and the denominator of which shall be the number of whole months in the Performance Period; and (ii) any Stock Units subject to the Award that do not vest in accordance with the foregoing clause (i) shall terminate as of the last day of the Performance Period. If a Participant's employment or service is terminated in the circumstances described in Section 7(c) and in the circumstances described in this Section 7(b), the provisions of Section 7(c) shall control.

(c) Certain Terminations in Connection with Change of Control. Notwithstanding Section 7(a), the Award, to the extent then outstanding and not vested, shall become fully vested with respect to the number of Stock Units set forth on the cover page of this Agreement (subject to adjustment under Section 7.1 of the Plan) if (i) the Participant's Severance Date occurs as a result of a termination of the Participant's employment by the Corporation or one of its Subsidiaries without Cause or by the Participant for Good Reason, and (ii) the Participant's Severance Date occurs both during the Performance Period and during the period commencing six (6) months before a Change of Control and ending twenty-four (24) months after such Change of Control. In the event that the Participant's Severance Date occurred before the Change of Control and the Participant is entitled to accelerated vesting of the Award pursuant to this Section 7(c) in connection with such Change of Control, the Award, to the extent it had not vested and was purported to have terminated on the Participant's Severance Date pursuant to Section 7(a), shall be reinstated (as though no such termination of employment had occurred) and shall automatically become fully vested as of the date of the Change of Control (even if after the Performance Period but only if the termination of employment occurred during the Performance Period). For avoidance of doubt, if the Award is accelerated under this Section 7(c), the performance-based vesting provisions of Section 2 shall be disregarded.

(d) Defined Terms. For purposes of the Award, the terms "**Cause**," "**Change of Control**," "**Disability**," "**Good Reason**" and "**Retirement**" have the meanings ascribed to such terms on Exhibit B hereto.

(e) McGee Air Services Not Considered a Subsidiary. Notwithstanding any other provision of this Agreement or the Plan to the contrary, McGee Air Services (and any subsidiary of McGee Air Services) (together, the "**McGee Air Services Affiliates**") shall not be considered a "Subsidiary" for purposes of the Award. Accordingly, if the Participant ceases to be employed by or providing services to the Corporation or one of its Subsidiaries at any time during the Performance Period, and thereafter continues to be employed by or provide services to a McGee Air Services Affiliate, then, unless the Administrator otherwise provides in the

circumstances, the Participant's employment by or service to a McGee Air Services Affiliate shall not be considered for purposes of the Award and the termination of employment and service rules set forth in this Section 7 shall be triggered by, and the Participant's Severance Date shall be determined with respect to, the last day that the Participant was employed by or providing services to the Corporation or one of its Subsidiaries (other than a McGee Air Services Affiliate).

8. Adjustments Upon Specified Events. Upon the occurrence of certain events relating to the Corporation's stock contemplated by Section 7.1 of the Plan (including, without limitation, an extraordinary cash dividend on such stock), the Administrator shall make adjustments in accordance with such section in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend paid on the Common Stock. For purposes of clarity, the provisions of Exhibit A control as to any adjustment of the performance goals, criteria or metrics.

9. Tax Withholding. Subject to Section 8.1 of the Plan, upon any distribution of shares of Common Stock in respect of the Stock Units, the Corporation shall automatically reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then fair market value (determined in accordance with the applicable provisions of the Plan), to satisfy any withholding obligations of the Corporation with respect to such distribution of shares at the minimum applicable withholding rates. In the event that the Corporation cannot legally satisfy such withholding obligations by such reduction of shares, or in the event of a cash payment or any other withholding event in respect of the Stock Units, the Corporation shall be entitled to require a cash payment by or on behalf of the Participant and/or to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to such distribution or payment.

10. Notices. Any notice to be given under the terms of this Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the Participant's last address reflected on the Corporation's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be given only when received, but if the Participant is no longer employed by or providing services to the Corporation or a Subsidiary, shall be deemed to have been duly given by the Corporation when enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government.

11. Plan. The Award and all rights of the Participant under this Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Participant agrees to be bound by the terms of the Plan and this Agreement. The Participant acknowledges having read and understanding the Plan, the Prospectus for the Plan, and this Agreement. Unless otherwise expressly provided in other sections of this Agreement, provisions of the Plan that confer discretionary authority on the Board or the Administrator do not (and shall not be deemed to) create any rights in the Participant unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Administrator so conferred by appropriate action of the Board or the Administrator under the Plan after the date hereof.

12. Entire Agreement. This Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

13. Limitation on Participant's Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Corporation as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of the

Corporation with respect to amounts credited and benefits payable, if any, with respect to the Stock Units, and rights no greater than the right to receive the Common Stock as a general unsecured creditor with respect to Stock Units, as and when payable hereunder.

14. Counterparts. This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

15. Section Headings. The section headings of this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

16. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to conflict of law principles thereunder.

17. Section 409A.

(a) It is intended that the terms of the Award shall either be exempt from or comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) (“**Code Section 409A**”) so as not to subject the Participant to payment of any additional tax, penalty or interest imposed under Code Section 409A. The provisions of this Agreement shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Code Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Participant.

(b) Notwithstanding any provision of this Agreement to the contrary, if the Participant is a “specified employee” within the meaning of Treasury Regulation Section 1.409A-1(i) as of the date of the Participant’s Separation from Service, the Participant shall not be entitled to any payment or benefit pursuant to Section 7(b) or Section 7(c) hereof until the earlier of (i) the date which is six (6) months after the Participant’s Separation from Service for any reason other than death, or (ii) the date of the Participant’s death. Any amounts otherwise payable to the Participant upon or in the six (6) month period following the Participant’s Separation from Service that are not so paid by reason of this Section 17(c) shall be paid (without interest) as soon as practicable (and in all events within thirty (30) days) after the date that is six (6) months after the Participant’s Separation from Service (or, if earlier, as soon as practicable, and in all events within thirty (30) days, after the date of the Participant’s death). The provisions of this Section 17(b) shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Code Section 409A. For purposes hereof, “**Separation from Service**” means a “separation from service” within the meaning of Treasury Regulation Section 1.409A-1(h)(1), without regard to the optional alternative definitions available thereunder (i.e. generally a termination of the Participant’s employment with the Corporation or a Subsidiary).

18. Clawback Policy. The Stock Units are subject to the terms of the Corporation’s recoupment, clawback or similar policy as it may be in effect from time to time, as well as requirements of applicable law, including but not limited to restrictions on executive compensation levels under the Coronavirus Aid, Relief and Economic Security (CARES) Act, any of which could in certain circumstances require repayment or forfeiture of the Stock Units or any shares of Common Stock or other cash or property received with respect to the Stock Units (including any value received from a disposition of the shares acquired upon payment of the Stock Units).

19. No Advice Regarding Grant. The Participant is hereby advised to consult with his or her own tax, legal and/or investment advisors with respect to any advice the Participant may determine is needed or appropriate with respect to the Stock Units (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Award). Neither the Corporation nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Agreement) or recommendation with respect to the Award. Except for the withholding rights set forth in Section 9 above, the Participant is solely responsible for any and all tax liability that may arise with respect to the Award.

EXHIBIT A TO _____ AWARD

OMM_US:74986150.3 11052020 PSU

PERFORMANCE GOALS

Performance Period

EXHIBIT B

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DEFINITIONS

For purposes of the Award, the following terms shall have the meanings set forth in this Exhibit B.

“**Cause**” means the occurrence of any of the following:

- i. the Participant is convicted of, or has pled guilty or *nolo contendere* to, a felony (other than traffic related offenses or as a result of vicarious liability); or
- ii. the Participant has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his or her duties to the Corporation; or
- iii. the Participant willfully and repeatedly fails to perform or uphold his or her duties to the Corporation; or
- iv. the Participant willfully fails 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 Participant shall be deemed to be “willful” if the Participant reasonably believed in good faith that such acts or omissions were in the best interests of the Corporation.

“**Change of Control**” means the occurrence of any of the following:

- (i) the consummation of:
 - (A) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of common stock of the Corporation would be converted into cash, securities or other property, other than a merger of the Corporation in which the holders of common stock of the Corporation immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; or
 - (B) 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 Corporation;
- (ii) at any time during a period of twenty-four (24) months, fewer than a majority of the members of the Board are Incumbent Directors. “**Incumbent Directors**” means (A) individuals who constitute the Board at the beginning of such period; and (B) individuals who were nominated or elected by all of, or a committee composed entirely of, the individuals described in (A); and (C) individuals who were nominated or elected by individuals described in (B);
- (iii) any Person (meaning any individual, entity or group within the meaning of Section 13(d)(3) or 14(d) of the Exchange Act) 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 the Corporation 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 the Corporation) representing 20% or more of the combined voting power of the then-outstanding Voting Securities; or

(iv) approval by the stockholders of the Corporation of any plan or proposal for the liquidation or dissolution of the Corporation.

Unless the Board shall determine otherwise, a Change of Control shall not be deemed to have occurred by reason of any corporate reorganization, merger, consolidation, transfer of assets, liquidating distribution or other transaction entered into solely by and between the Corporation and any affiliate thereof, 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.

Notwithstanding the foregoing, in no event shall a transaction or other event that occurred prior to the date of grant of the Award constitute a Change of Control, and no Change of Control after the first Change of Control to occur after the grant date shall be considered for purposes of the Award.

“**Disability**” means a “permanent and total disability” (within the meaning of Section 22(e)(3) of the Code or as otherwise determined by the Administrator).

“**Good Reason**” means, without the Participant’s express written consent, the occurrence of any one or more of the following:

- a material reduction in the Participant’s annual base salary;
- a material diminution or reduction of the Participant’s authority, duties, or responsibilities;
- a material change in the geographic location at which the Participant must perform services; or
- any material breach by the Corporation of any other provision of this Agreement;

provided, however, that any such condition shall not constitute “Good Reason” unless both (x) the Participant provides written notice to the Corporation of the condition claimed to constitute Good Reason within ninety (90) days of the initial existence of such condition, and (y) the Corporation fails to remedy such condition within thirty (30) days of receiving such written notice thereof; and provided, further, that in all events the termination of the Participant’s employment with the Corporation shall not be treated as a termination for “Good Reason” unless such termination occurs not more than two (2) years following the initial existence of the condition claimed to constitute “Good Reason.”

“**Retirement**” means that, as of the Participant’s Severance Date, the Participant either (i) has attained age 55 with at least five (5) full years of service with the Corporation and its Subsidiaries, or (ii) has attained age 60, or (iii) is a participant in and is entitled to commence a benefit under a defined benefit plan sponsored by the Corporation or any of its Subsidiaries and has at least 10 years of service with the Corporation and its Subsidiaries.

“**Separation from Service**” means a “separation from service” within the meaning of Treasury Regulation Section 1.409A-1(h)(1), without regard to the optional alternative definitions available thereunder (i.e. generally a termination of the Participant’s employment with the Corporation or a Subsidiary).

ALASKA AIR GROUP, INC.

2016 PERFORMANCE INCENTIVE PLAN

STOCK UNIT AWARD AGREEMENT

THIS STOCK UNIT AWARD AGREEMENT (this “**Agreement**”) dated [AWARD DATE], by and between **ALASKA AIR GROUP, INC.**, a Delaware corporation (the “**Corporation**”), and [PARTICIPANT NAME] (the “**Participant**”) evidences the award of restricted stock units (the “**Award**”) granted by the Corporation to the Participant as to the number of stock units (the “**Stock Units**”) first set forth below.

Number of Stock Units¹:	Award Date:
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Vesting¹ [The Award shall vest and become nonforfeitable with respect to 100% of the total number of Stock Units subject to the Award on the third anniversary of the Award Date (the “**Vesting Date**”).]

The Award is granted under the Alaska Air Group, Inc. 2016 Performance Incentive Plan (the “**Plan**”) and subject to the Terms and Conditions of Stock Unit Award (the “**Terms**”) attached to this Agreement (incorporated herein by this reference) and to the Plan. The Award has been granted to the Participant in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Participant. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Award set forth herein. The Participant acknowledges receipt of a copy of the Terms, the Plan and the Prospectus for the Plan.

ALASKA AIR GROUP, INC.
A Delaware Corporation

Bradley D. Tilden
Chairman, Chief Executive Officer and
President

¹ Subject to adjustment under Section 7.1 of the Plan.

TERMS AND CONDITIONS OF STOCK UNIT AWARD

1. **Stock Units**. As used herein, the term “stock unit” shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of the Corporation’s Common Stock (subject to adjustment as provided in Section 7.1 of the Plan) solely for purposes of the Plan and this Agreement. The Stock Units shall be used solely as a device for the determination of the payment to eventually be made to the Participant if such Stock Units vest pursuant to this Agreement. The Stock Units shall not be treated as property or as a trust fund of any kind.

2. **Vesting**. Subject to Section 7 below, the Award shall vest and become nonforfeitable as set forth on the cover page of this Agreement.

3. **Continuance of Employment/Service Required; No Employment/Service Commitment**. Except as expressly provided in Section 7 below, the Participant is required to remain in employment or service with the Corporation or one of its Subsidiaries through the applicable Vesting Date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 7 below or under the Plan.

Nothing contained in this Agreement or the Plan constitutes an employment or service commitment by the Corporation, affects the Participant’s status as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or services, or affects the right of the Corporation or any Subsidiary to increase or decrease the Participant’s other compensation or benefits. Nothing in this paragraph, however, is intended to adversely affect any independent contractual right of the Participant without his or her consent thereto.

4. **Limitations on Rights Associated with Units**. The Participant shall have no rights as a stockholder of the Corporation, no dividend rights and no voting rights, with respect to the Stock Units and any shares of Common Stock underlying or issuable in respect of such Stock Units until such shares of Common Stock are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

5. **Restrictions on Transfer**. Neither the Award, nor any interest therein or amount or shares payable in respect thereof may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) transfers by will or the laws of descent and distribution.

6. **Timing and Manner of Payment of Stock Units**. As soon as administratively practicable after the applicable Vesting Date (and in no event later than two and one-half (2 ½) months after such Vesting Date), the Corporation shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its discretion) equal to the number of Stock Units subject to this Award that vest on the Vesting Date; provided, however, that if any Stock Units vest pursuant to Section 7 of this Agreement in connection with the Participant’s Separation from Service (as defined in

Exhibit A attached hereto), the payment of such vested Stock Units shall be made within thirty (30) days after the date that is six (6) months after such Separation from Service. The Corporation's obligation to deliver shares of Common Stock or otherwise make payment with respect to vested Stock Units is subject to the condition precedent that the Participant or other person entitled under the Plan to receive any shares with respect to the vested Stock Units deliver to the Corporation any representations or other documents or assurances that the Administrator may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements. The Participant shall have no further rights with respect to any Stock Units that are paid or that terminate pursuant to Section 7.

7. Effect of Termination of Employment or Service.

(a) General; Death, Disability, Retirement. The Participant's Stock Units shall terminate to the extent such units have not become vested prior to the first date the Participant is no longer employed by or providing services to the Corporation or one of its Subsidiaries, regardless of the reason for the termination of the Participant's employment or service with the Corporation or a Subsidiary (the last day that the Participant is employed by or provides services to the Corporation or a Subsidiary is referred to as the Participant's "**Severance Date**"); provided, however, that if the Participant's Severance Date is the result of the Participant's death, Disability or Retirement, the Participant's Stock Units, to the extent such units are outstanding and not then vested, shall become fully vested as of the Participant's Severance Date and shall be paid in accordance with Section 6 following the Participant's Separation from Service; provided, further, that if the Participant's Severance Date is the result of the Participant's Retirement and such Retirement is not a Separation from Service (for example, as to a Participant who ceases employment or service with the Corporation or a Subsidiary when the Participant is eligible for Retirement and thereafter continues in employment or service with a McGee Air Services Affiliate as contemplated by Section 7(d)), the Stock Units that vest upon such Retirement will be paid after the applicable Vesting Date as provided in the first sentence of Section 6 or, if earlier, the date that is six months after the Participant's Separation from Service. If any unvested Stock Units are terminated hereunder, such Stock Units shall automatically terminate and be cancelled as of the applicable termination date without payment of any consideration by the Corporation and without any other action by the Participant, or the Participant's beneficiary or personal representative, as the case may be. If the Participant is rendering services other than as an employee or a director, the Administrator shall be the sole judge of whether the Participant continues to render services for purposes of this Agreement.

(b) Certain Terminations in Connection with Change of Control. Notwithstanding Section 7(a), the Participant's Stock Units, to the extent such units are outstanding and not then vested, shall become fully vested on the Participant's Severance Date and shall be paid in accordance with Section 6 if (i) the Participant's Severance Date is the result of a termination of the Participant's employment by the Corporation or one of its Subsidiaries without Cause or by the Participant for Good Reason, and (ii) such termination of employment occurs at any time within the period commencing six (6) months before a Change of Control and ending twenty-four (24) months after such Change of Control. In the event that the Participant's Severance Date occurred before the Change of Control and the Participant is entitled to accelerated vesting of the Award pursuant to this Section 7(b) in connection with such Change of Control, the Award, to the extent it had not vested and was purported to have terminated on the Participant's Severance Date pursuant to Section 7(a), shall be reinstated (as though no such termination of employment had occurred) and shall automatically become fully vested as of the date of the Change of Control.

(c) Defined Terms. For purposes of the Award, the terms “Cause,” “Change of Control,” “Disability,” “Good Reason” and “Retirement” have the meanings ascribed to such terms on Exhibit A hereto.

(d) McGee Air Services Not Considered a Subsidiary. Notwithstanding any other provision of this Agreement or the Plan to the contrary, McGee Air Services (and any subsidiary of McGee Air Services) (together, the “McGee Air Services Affiliates”) shall not be considered a “Subsidiary” for purposes of the Award (including, without limitation, in determining whether a Severance Date has occurred) except as required under Code Section 409A in determining the date of the Participant’s Separation from Service. Accordingly, if the Participant ceases to be employed by or providing services to the Corporation or one of its Subsidiaries at any time while the Award is outstanding, and thereafter continues to be employed by or provide services to a McGee Air Services Affiliate, then, unless the Administrator otherwise provides in the circumstances, the Participant’s employment by or service to a McGee Air Services Affiliate shall not be considered for purposes of the Award and the termination of employment and service rules set forth in this Section 7 shall be triggered by, and the Participant’s Severance Date shall be determined with respect to, the last day that the Participant was employed by or providing services to the Corporation or one of its Subsidiaries (other than a McGee Air Services Affiliate). However, in such circumstances, service with the McGee Air Services Affiliate shall continue to be taken into account to the extent required under Code Section 409A for purposes of determining the date of the Participant’s Separation from Service.

8. Adjustments Upon Specified Events; Change of Control

(a) Upon the occurrence of certain events relating to the Corporation’s stock contemplated by Section 7.1 of the Plan (including, without limitation, an extraordinary cash dividend on such stock), the Administrator shall make adjustments in accordance with such section in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend paid on the Common Stock.

(b) Notwithstanding anything in Section 7.2 of the Plan to the contrary but subject to the next sentence, to the extent the Award constitutes “nonqualified deferred compensation” within the meaning of Section 409A of the Code, no change in the timing of payment of the Award may be made pursuant to Section 7.2 of the Plan. In connection with a Change of Control that constitutes a “change in the ownership or effective control” of the Corporation or a “change in the ownership of a substantial portion of the assets” of the Corporation (in each case within the meaning of Section 409A of the Code), the Administrator may terminate and liquidate the Award and distribute all vested benefits hereunder in accordance with the requirements of Treasury Regulation 1.409A-3(j)(4)(ix)(A), (B) or (C) promulgated under Section 409A of the Code (or any similar successor provision), which regulation generally provides that a deferred compensation arrangement may be terminated within twelve (12) months following a dissolution or change in control of the Corporation or may be terminated if the Corporation also terminates all other similar deferred compensation arrangements and distributes all benefits under the Award not less than twelve (12) months and not more than twenty-four (24) months following such termination. For clarity, in the event of any such change in ownership referred to in the preceding sentence in connection with which the Administrator has so provided for the termination and liquidation of the Award, any Stock Units subject to the Award that are outstanding and otherwise unvested immediately prior to such change in ownership shall be deemed fully vested upon (or, as necessary to give effect to such acceleration, immediately prior to, such change in ownership).

9. **Tax Withholding.** Subject to Section 8.1 of the Plan, upon any distribution of shares of Common Stock in respect of the Stock Units, the Corporation shall automatically reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then fair market value (determined in accordance with the applicable provisions of the Plan), to satisfy any withholding obligations of the Corporation or its Subsidiaries with respect to such distribution of shares at the minimum applicable withholding rates. In the event that the Corporation cannot legally satisfy such withholding obligations by such reduction of shares, or in the event of a cash payment or any other withholding event in respect of the Stock Units, the Corporation (or a Subsidiary) shall be entitled to require a cash payment by or on behalf of the Participant and/or to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to such distribution or payment.

10. **Notices.** Any notice to be given under the terms of this Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the Participant's last address reflected on the Corporation's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be given only when received, but if the Participant is no longer employed by or providing services to the Corporation or a Subsidiary, shall be deemed to have been duly given by the Corporation when enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government.

11. **Plan.** The Award and all rights of the Participant under this Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Participant agrees to be bound by the terms of the Plan and this Agreement. The Participant acknowledges having read and understanding the Plan, the Prospectus for the Plan, and this Agreement. Unless otherwise expressly provided in other sections of this Agreement, provisions of the Plan that confer discretionary authority on the Board or the Administrator do not (and shall not be deemed to) create any rights in the Participant unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Administrator so conferred by appropriate action of the Board or the Administrator under the Plan after the date hereof.

12. **Entire Agreement.** This Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

13. **Limitation on Participant's Rights.** Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Corporation as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of the Corporation with respect to amounts credited and benefits payable, if any, with respect to the Stock Units, and rights no greater than the right to receive the Common Stock as a general unsecured creditor with respect to Stock Units, as and when payable hereunder.

14. **Counterparts**. This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

15. **Section Headings**. The section headings of this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

16. **Governing Law**. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to conflict of law principles thereunder.

17. **Construction**. It is intended that the terms of the Award shall either be exempt from or comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) (“**Code Section 409A**”) so as not to subject the Participant to payment of any additional tax, penalty or interest imposed under Code Section 409A. The provisions of this Agreement shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Code Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Participant.

18. **Clawback Policy**. The Stock Units are subject to the terms of the Corporation’s recoupment, clawback or similar policy as it may be in effect from time to time, requirements of applicable law, including but not limited to restrictions on executive compensation levels under the Coronavirus Aid, Relief and Economic Security (CARES) Act, any of which could in certain circumstances require repayment or forfeiture of the Stock Units or any shares of Common Stock or other cash or property received with respect to the Stock Units (including any value received from a disposition of the shares acquired upon payment of the Stock Units).

19. **No Advice Regarding Grant**. The Participant is hereby advised to consult with his or her own tax, legal and/or investment advisors with respect to any advice the Participant may determine is needed or appropriate with respect to the Stock Units (including, without limitation, to determine the foreign, state, local, estate and/or gift tax consequences with respect to the Award). Neither the Corporation nor any of its officers, directors, affiliates or advisors makes any representation (except for the terms and conditions expressly set forth in this Agreement) or recommendation with respect to the Award. Except for the withholding rights set forth in Section 9 above, the Participant is solely responsible for any and all tax liability that may arise with respect to the Award.

EXHIBIT A

DEFINITIONS

For purposes of the Award, the following terms shall have the meanings set forth in this Exhibit A.

“**Cause**” means the occurrence of any of the following:

- i. the Participant is convicted of, or has pled guilty or *nolo contendere* to, a felony (other than traffic related offenses or as a result of vicarious liability); or
- ii. the Participant has engaged in acts of fraud, material dishonesty or other acts of willful misconduct in the course of his or her duties to the Corporation or any of its Subsidiaries; or
- iii. the Participant willfully and repeatedly fails to perform or uphold his or her duties to the Corporation or any of its Subsidiaries; or
- iv. the Participant willfully fails 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 Participant shall be deemed to be “willful” if the Participant reasonably believed in good faith that such acts or omissions were in the best interests of the Corporation.

“**Change of Control**” means the occurrence of any of the following:

- (i) the consummation of:
 - (A) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of common stock of the Corporation would be converted into cash, securities or other property, other than a merger of the Corporation in which the holders of common stock of the Corporation immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; or
 - (B) 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 Corporation;
- (ii) at any time during a period of twenty-four (24) months, fewer than a majority of the members of the Board are Incumbent Directors. “**Incumbent Directors**” means (A) individuals who constitute the Board at the beginning of such period; and (B) individuals who were nominated or elected by all of, or a committee composed entirely of, the individuals described in (A); and (C) individuals who were nominated or elected by individuals described in (B);
- (iii) any Person (meaning any individual, entity or group within the meaning of Section 13(d)(3) or 14(d) of the Exchange Act) 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 the Corporation 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 the Corporation) representing 20% or more of the combined voting power of the then-outstanding Voting Securities; or
- (iv) approval by the stockholders of the Corporation of any plan or proposal for the liquidation or dissolution of the Corporation.

Unless the Board shall determine otherwise, a Change of Control shall not be deemed to have occurred by reason of any corporate reorganization, merger, consolidation, transfer of assets, liquidating distribution or other transaction entered into solely by and between the Corporation and any affiliate thereof, 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.

Notwithstanding the foregoing, in no event shall a transaction or other event that occurred prior to the date of grant of the Award constitute a Change of Control, and no Change of Control after the first Change of Control to occur after the grant date shall be considered for purposes of the Award.

“Disability” means a “permanent and total disability” (within the meaning of Section 22(e)(3) of the Code or as otherwise determined by the Administrator).

“Good Reason” means, without the Participant’s express written consent, the occurrence of any one or more of the following:

- i. a material reduction in the Participant’s annual base salary;
- ii. a material diminution or reduction of the Participant’s authority, duties, or responsibilities;
- iii. a material change in the geographic location at which the Participant must perform services; or
- iv. any material breach by the Corporation of any other provision of this Agreement;

provided, however, that any such condition shall not constitute “Good Reason” unless both (x) the Participant provides written notice to the Corporation of the condition claimed to constitute Good Reason within ninety (90) days of the initial existence of such condition, and (y) the Corporation fails to remedy such condition within thirty (30) days of receiving such written notice thereof; and provided, further, that in all events the termination of the Participant’s employment with the Corporation shall not be treated as a termination for “Good Reason” unless such termination occurs not more than two (2) years following the initial existence of the condition claimed to constitute “Good Reason.”

“Retirement” means that, as of the Participant’s Severance Date, the Participant either (i) has attained age 55 with at least five (5) full years of service with the Corporation and its Subsidiaries, or (ii) has attained age 60, or (iii) is a participant in and is entitled to commence a benefit under a defined benefit plan sponsored by the Corporation or any of its Subsidiaries and has at least 10 years of service with the Corporation and its Subsidiaries.

“Separation from Service” means a “separation from service” within the meaning of Treasury Regulation Section 1.409A-1(h)(1), without regard to the optional alternative definitions available thereunder (i.e. generally a termination of the Participant’s employment with the Corporation or a Subsidiary).

EXHIBIT 21**SUBSIDIARIES OF ALASKA AIR GROUP, INC.**

Name	State of Incorporation
Alaska Airlines, Inc.	Alaska
Horizon Air Industries, Inc.	Washington
McGee Air Services, Inc. ^(a)	Delaware
ASA Assurance, Inc.	Hawaii
AAG Leasing, Inc.	Delaware
ASA Beverages, LLC. ^(a)	Delaware
AAG Real Property, LLC. ^(a)	Delaware

(a) McGee Air Services, Inc., ASA Beverages, LLC. and AAG Real Property, LLC. are subsidiaries of Alaska Airlines, Inc.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

Alaska Air Group, Inc.:

We consent to the incorporation by reference in the registration statements (Nos 333-212657, 333-176051, 333-168293, and 333-151743) on Form S-8 and the registration statement (No. 333-249054) on Form S-3 of Alaska Air Group, Inc. of our reports dated February 26, 2021, with respect to the consolidated balance sheets of Alaska Air Group, Inc. and subsidiaries as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes, and the effectiveness of internal control over financial reporting as of December 31, 2020, which reports appear in the December 31, 2020 annual report on Form 10-K of Alaska Air Group, Inc.

Our report on the consolidated financial statements refers to a change in the method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Codification Topic 842 - *Leases*.

/s/ KPMG LLP

Seattle, Washington
February 26, 2021

EXHIBIT 31.1

CERTIFICATIONS

I, Bradley D. Tilden, certify that:

1. I have reviewed this annual report on Form 10-K of Alaska Air Group, Inc. for the period ended December 31, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- e) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 26, 2021

By: /s/ BRADLEY D. TILDEN

Bradley D. Tilden

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Shane R. Tackett, certify that:

1. I have reviewed this annual report on Form 10-K of Alaska Air Group, Inc. for the period ended December 31, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 26, 2021

By: /s/ SHANE R. TACKETT

Shane R. Tackett

Executive Vice President/Finance and Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Annual Report of Alaska Air Group, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Bradley D. Tilden, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 26, 2021

By: /s/ BRADLEY D. TILDEN

Bradley D. Tilden

Chief Executive Officer

EXHIBIT 32.2

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

In connection with the Annual Report of Alaska Air Group, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Brandon S. Pedersen, Executive Vice President/Finance and 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.

February 26, 2021

By: /s/ SHANE R. TACKETT

Shane R. Tackett

Executive Vice President/Finance and Chief Financial Officer