

REFINITIV

DELTA REPORT

10-Q

ALK - ALASKA AIR GROUP, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1020
CHANGES	182
DELETIONS	492
ADDITIONS	346

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2023 March 31, 2024

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, WA 98188

Telephone: (206) 392-5040

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

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

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

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

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

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

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

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

The registrant has 128,053,077 126,891,838 common shares, par value \$0.01, outstanding at October 31, 2023 April 30, 2024.

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

ALASKA AIR GROUP, INC.
FORM 10-Q FOR THE QUARTER ENDED ~~SEPTEMBER 30, 2023~~ MARCH 31, 2024

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Cautionary Note Regarding Forward-Looking Statements

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

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements are based on the information currently available to us and speak only as of the date on which this report was filed with the SEC. We expressly disclaim any obligation to issue any updates or revisions to our forward-looking statements, even if subsequent events cause our expectations to change regarding the matters discussed in those statements. For a discussion of our risk factors, see Item 1A. "Risk Factors" of the Company's annual report on Form 10-K for the year ended ~~December 31, 2022~~ December 31, 2023. Some of these risks include competition, labor costs, relations and availability, general economic conditions including those associated with pandemic recovery, increases in operating costs including fuel, inability to meet cost reduction, ESG and other strategic goals, seasonal fluctuations in demand and financial results, supply chain risks, events that negatively impact aviation safety and security, and changes in laws and regulations that impact our business. Please consider our forward-looking statements in light of those risks as you read this report.

PART I

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

		September 30, 2023	December 31, 2022		March 31, 2024	December 31, 2023
<i>(in millions)</i>	<i>(in millions)</i>			<i>(in millions)</i>		
ASSETS	ASSETS			ASSETS		
Current Assets	Current Assets			Current Assets		
Cash and cash equivalents	Cash and cash equivalents	\$ 647	\$ 338			
Marketable securities	Marketable securities	1,804	2,079			

Total cash and marketable securities	Total cash and marketable securities	2,451	2,417
Receivables - net	Receivables - net	341	296
Inventories and supplies - net	Inventories and supplies - net	122	104
Prepaid expenses	Prepaid expenses	187	163
Assets held for sale		385	3

Other current assets

Other current assets

Other current assets	Other current assets	158	57
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Total Current Assets	Total Current Assets	3,644	3,040
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Property and Equipment

Property and Equipment

Property and Equipment	Property and Equipment		
Aircraft and other flight equipment	Aircraft and other flight equipment	10,015	9,053
Other property and equipment	Other property and equipment	1,756	1,661
Deposits for future flight equipment	Deposits for future flight equipment	538	670
		12,309	11,384

Less accumulated depreciation and amortization	Less accumulated depreciation and amortization	4,283	4,127
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Total Property and Equipment - Net	Total Property and Equipment - Net	8,026	7,257
Other Assets	Other Assets		

Other Assets

Other Assets

Operating lease assets

Operating lease assets

Operating lease assets	Operating lease assets	1,171	1,471
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Goodwill and intangible assets	Goodwill and intangible assets	2,034	2,038
Other noncurrent assets	Other noncurrent assets	290	380
Total Other Assets	Total Other Assets	3,495	3,889
Total Assets	Total Assets	\$ 15,165	\$ 14,186

Total Assets

Total Assets

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in millions, except share amounts)	(in millions, except share amounts)	September 30, 2023	December 31, 2022	(in millions, except share amounts)	March 31, 2024	December 31, 2023
LIABILITIES AND SHAREHOLDERS' EQUITY	LIABILITIES AND SHAREHOLDERS' EQUITY			LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities	Current Liabilities			Current Liabilities		
Accounts payable	Accounts payable	\$ 229	\$ 221			
Accrued wages, vacation and payroll taxes	Accrued wages, vacation and payroll taxes	561	619			
Air traffic liability	Air traffic liability	1,359	1,180			
Other accrued liabilities	Other accrued liabilities	806	846			
Deferred revenue	Deferred revenue	1,233	1,123			
Current portion of operating lease liabilities	Current portion of operating lease liabilities	150	228			
Current portion of long-term debt and finance leases	Current portion of long-term debt and finance leases	736	276			
Total Current Liabilities	Total Current Liabilities	5,074	4,493			
Long-Term Debt, Net of Current Portion	Long-Term Debt, Net of Current Portion	2,128	1,883			
Long-Term Debt, Net of Current Portion	Long-Term Debt, Net of Current Portion					
Noncurrent Liabilities	Noncurrent Liabilities					
Noncurrent Liabilities	Noncurrent Liabilities					
Long-term operating lease liabilities, net of current portion	Long-term operating lease liabilities, net of current portion	1,113	1,393			
Deferred income taxes	Deferred income taxes	662	574			
Deferred revenue	Deferred revenue	1,366	1,374			

Obligation for pension and post-retirement medical benefits	Obligation for pension and post-retirement medical benefits	368	348
Other liabilities	Other liabilities	361	305
Total Noncurrent Liabilities	Total Noncurrent Liabilities	3,870	3,994
Commitments and Contingencies (Note 7)	Commitments and Contingencies (Note 7)		
Commitments and Contingencies (Note 7)			
Commitments and Contingencies (Note 7)			
Shareholders' Equity	Shareholders' Equity		
Shareholders' Equity			
Shareholders' Equity			
Preferred stock, \$0.01 par value, Authorized: 5,000,000 shares, none issued or outstanding	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: 2023 - 138,004,646 shares; 2022 - 136,883,042 shares, Outstanding: 2023 - 127,120,173 shares; 2022 - 127,533,916 shares	Common stock, \$0.01 par value, Authorized: 400,000,000 shares, Issued: 2023 - 138,004,646 shares; 2022 - 136,883,042 shares, Outstanding: 2023 - 127,120,173 shares; 2022 - 127,533,916 shares	1	1
Common stock, \$0.01 par value, Authorized: 400,000,000 shares, Issued: 2024 - 139,137,527 shares; 2023 - 138,960,830 shares, Outstanding: 2024 - 125,705,964 shares; 2023 - 126,090,353 shares	Common stock, \$0.01 par value, Authorized: 400,000,000 shares, Issued: 2024 - 139,137,527 shares; 2023 - 138,960,830 shares, Outstanding: 2024 - 125,705,964 shares; 2023 - 126,090,353 shares		
Capital in excess of par value	Capital in excess of par value	659	577
Treasury stock (common), at cost: 2023 - 10,884,473 shares; 2022 - 9,349,944 shares	Treasury stock (common), at cost: 2023 - 10,884,473 shares; 2022 - 9,349,944 shares	(744)	(674)
Treasury stock (common), at cost: 2024 - 13,431,563 shares; 2023 - 12,870,477 shares	Treasury stock (common), at cost: 2024 - 13,431,563 shares; 2023 - 12,870,477 shares		
Accumulated other comprehensive loss	Accumulated other comprehensive loss	(360)	(388)

Retained earnings	Retained earnings	4,537	4,300
		4,093	3,816
Total Liabilities and Shareholders' Equity	Total Liabilities and Shareholders' Equity	\$ 15,165	\$ 14,186

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(unaudited)*

<i>(in millions, except per share amounts)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating Revenue				
Passenger revenue	\$ 2,618	\$ 2,615	\$ 7,200	\$ 6,544
Mileage Plan other revenue	159	146	483	433
Cargo and other revenue	62	67	190	190
Total Operating Revenue	2,839	2,828	7,873	7,167
Operating Expenses				
Wages and benefits	782	686	2,259	1,931
Variable incentive pay	45	48	149	140
Aircraft fuel, including hedging gains and losses	694	877	1,932	2,000
Aircraft maintenance	118	92	367	331
Aircraft rent	48	76	161	222
Landing fees and other rentals	183	161	502	435
Contracted services	100	83	290	243
Selling expenses	84	82	231	218
Depreciation and amortization	113	104	330	310
Food and beverage service	62	52	176	143
Third-party regional carrier expense	58	53	164	145
Other	185	207	544	536
Special items - fleet transition and other	156	155	355	376
Special items - labor and related	—	90	51	90
Total Operating Expenses	2,628	2,766	7,511	7,120
Operating Income	211	62	362	47
Non-operating Income (Expense)				
Interest income	23	17	62	35
Interest expense	(34)	(31)	(90)	(84)
Interest capitalized	7	3	21	8
Special items - net non-operating	(8)	—	(14)	—
Other - net	(6)	14	(22)	38
Total Non-operating Income (Expense)	(18)	3	(43)	(3)
Income Before Income Tax	193	65	319	44
Income tax expense	54	25	82	8
Net Income	\$ 139	\$ 40	\$ 237	\$ 36
Basic Earnings Per Share:	\$ 1.09	\$ 0.32	\$ 1.86	\$ 0.28
Diluted Earnings Per Share:	\$ 1.08	\$ 0.31	\$ 1.84	\$ 0.28
Shares used for computation:				
Basic	127.187	126.783	127.375	126.440
Diluted	129.188	128.370	129.085	128.087

Three Months Ended March 31,

(in millions, except per share amounts)		2024	2023
Operating Revenue			
Passenger revenue	\$	2,004	\$ 1,984
Mileage Plan other revenue		164	154
Cargo and other revenue		64	58
Total Operating Revenue		2,232	2,196
Operating Expenses			
Wages and benefits		804	723
Variable incentive pay		44	47
Aircraft fuel, including hedging gains and losses		565	665
Aircraft maintenance		122	124
Aircraft rent		47	59
Landing fees and other rentals		165	152
Contracted services		97	95
Selling expenses		77	66
Depreciation and amortization		126	104
Food and beverage service		58	54
Third-party regional carrier expense		54	52
Other		205	177
Special items - fleet transition		26	13
Special items - integration costs		8	—
Special items - labor and other		—	51
Total Operating Expenses		2,398	2,382
Operating Loss		(166)	(186)
Non-operating Income (Expense)			
Interest income		17	17
Interest expense		(35)	(28)
Interest capitalized		6	7
Other - net		—	(9)
Total Non-operating Expense		(12)	(13)
Loss Before Income Tax		(178)	(199)
Income tax benefit		(46)	(57)
Net Loss	\$	(132)	\$ (142)
Basic Loss Per Share:	\$	(1.05)	\$ (1.11)
Diluted Loss Per Share:	\$	(1.05)	\$ (1.11)
Weighted Average Shares Outstanding used for computation:			
Basic		125.970	127.501
Diluted		125.970	127.501

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS (unaudited)

		Three Months Ended September 30,		Nine Months Ended September 30,	
		Three Months Ended March 31,		Three Months Ended March 31,	
		Three Months Ended March 31,		Three Months Ended March 31,	
		Three Months Ended March 31,		Three Months Ended March 31,	
(in millions)	(in millions)	2023	2022	2023	2022
Net Income	\$	139	\$ 40	\$ 237	\$ 36
(in millions)					
(in millions)					

	Net Loss				
	Net Loss				
	Net Loss				
	Other comprehensive income (loss), net of tax				
	Other comprehensive income (loss), net of tax				
	Other comprehensive income (loss), net of tax				
	Marketable securities	2	(26)	18	(86)
	Marketable securities				
	Marketable securities				
	Employee benefit plans				
	Employee benefit plans				
	Employee benefit plans	3	1	11	2
	Interest rate derivative instruments	—	5	(1)	18
Total other comprehensive income (loss), net of tax	\$ 5	\$ (20)	\$ 28	\$ (66)	
	Interest rate derivative instruments				
	Interest rate derivative instruments				
Total other comprehensive income, net of tax					
Total other comprehensive income, net of tax					
Total other comprehensive income, net of tax					
Total Comprehensive Income (Loss), Net of Tax	\$ 144	\$ 20	\$ 265	\$ (30)	
Total Comprehensive Loss, Net of Tax					
Total Comprehensive Loss, Net of Tax					
Total Comprehensive Loss, Net of Tax					

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)

		Capital in						
		Common Stock		Excess of Par		Accumulated Other	Retained	
(in millions)	(in millions)	Outstanding	Common Stock	Value	Treasury Stock	Comprehensive Loss	Earnings	Total
Balance at December 31, 2022		127.534	\$ 1	\$ 577	\$ (674)	\$ (388)	\$ 4,300	\$ 3,816
(in millions)								
(in millions)								
Balance at December 31, 2023								
Balance at December 31, 2023								
Balance at December 31, 2023								
Net loss								
Net loss								
Net loss	Net loss	—	—	—	—	—	(142)	(142)
Other comprehensive income	Other comprehensive income	—	—	—	—	23	—	23
Other comprehensive income								
Other comprehensive income								
Common stock repurchase	Common stock repurchase	(0.414)	—	—	(18)	—	—	(18)

Common stock repurchase							
Common stock repurchase							
Stock-based compensation							
Stock-based compensation							
Stock-based compensation	Stock-based compensation	—	—	12	—	—	12
Stock issued under stock plans	Stock issued under stock plans	0.123	—	(2)	—	—	(2)
Balance at March 31, 2023		127.243	\$ 1	\$ 587	\$ (692)	\$ (365)	\$ 4,158
Net income							
Other comprehensive income							
Common stock repurchase							
Stock-based compensation							
Stock issued for employee stock purchase plan							
Stock issued under stock plans							
Balance at June 30, 2023		127.348	\$ 1	\$ 648	\$ (731)	\$ (365)	\$ 4,398
Net income							
Other comprehensive income							
Common stock repurchase							
Stock-based compensation							
Stock issued under stock plans	Stock issued under stock plans	0.021	—	—	—	—	—
Balance at September 30, 2023		127.120	\$ 1	\$ 659	\$ (744)	\$ (360)	\$ 4,537
Stock issued under stock plans							
Balance at March 31, 2024							
Balance at March 31, 2024							
Balance at March 31, 2024							

(in millions)	Common Stock Outstanding	Common Stock	Capital in Excess of Par Value	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at December 31, 2021	125.906	\$ 1	\$ 494	\$ (674)	\$ (262)	\$ 4,242	\$ 3,801
Net loss							
Other comprehensive loss							
Stock-based compensation							
Stock issued under stock plans							
Balance at March 31, 2022	126.088	\$ 1	\$ 503	\$ (674)	\$ (292)	\$ 4,099	\$ 3,637
Net income							
Other comprehensive loss							
Stock-based compensation							
Stock issued for employee stock purchase plan							
Stock issued under stock plans							
Balance at June 30, 2022	126.760	\$ 1	\$ 542	\$ (674)	\$ (308)	\$ 4,238	\$ 3,799
Net income							
Other comprehensive loss							
Stock-based compensation							
Stock issued under stock plans							
Balance at September 30, 2022	126.834	\$ 1	\$ 549	\$ (674)	\$ (328)	\$ 4,278	\$ 3,826

<i>(in millions)</i>	Common Stock Outstanding	Common Stock	Capital in Excess of Par Value	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at December 31, 2022	<u>127.534</u>	<u>\$ 1</u>	<u>\$ 577</u>	<u>\$ (674)</u>	<u>\$ (388)</u>	<u>\$ 4,300</u>	<u>\$ 3,816</u>
Net loss	—	—	—	—	—	(142)	(142)
Other comprehensive income	—	—	—	—	23	—	23
Common stock repurchase	(0.414)	—	—	(18)	—	—	(18)
Stock-based compensation	—	—	12	—	—	—	12
Stock issued under stock plans	0.123	—	(2)	—	—	—	(2)
Balance at March 31, 2023	<u>127.243</u>	<u>\$ 1</u>	<u>\$ 587</u>	<u>\$ (692)</u>	<u>\$ (365)</u>	<u>\$ 4,158</u>	<u>\$ 3,689</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

		Nine Months Ended September 30,				
		Three Months Ended March 31,		Three Months Ended March 31,		
<i>(in millions)</i>	<i>(in millions)</i>	2023	2022	<i>(in millions)</i>	2024	2023
Cash Flows from Operating Activities:	Cash Flows from Operating Activities:			Cash Flows from Operating Activities:		
Net Income	\$ 237	\$ 36				
Net Loss						
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	Adjustments to reconcile net income to net cash provided by (used in) operating activities:			Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	Depreciation and amortization	330	310			
Stock-based compensation and other	Stock-based compensation and other	73	33			
Special items - fleet transition and other		344	376			
Special items - labor and related		51	—			
Special items - fleet transition						
Special items - labor and other						

Changes in certain assets and liabilities:	Changes in certain assets and liabilities:		
Changes in certain assets and liabilities:			
Changes in certain assets and liabilities:			
Changes in deferred income taxes			
Changes in deferred income taxes			
Changes in deferred income taxes	Changes in deferred income taxes	90	—
Increase in accounts receivable	Increase in accounts receivable	(45)	(59)
Increase in air traffic liability	Increase in air traffic liability	179	304
Increase in deferred revenue	Increase in deferred revenue	102	123
Federal income tax refund		—	260
Other - net			
Other - net			
Other - net	Other - net	(258)	26
Net cash provided by operating activities	Net cash provided by operating activities	1,103	1,409
Cash Flows from Investing Activities:	Cash Flows from Investing Activities:		Cash Flows from Investing Activities:
Property and equipment additions	Property and equipment additions		Property and equipment additions
Aircraft and aircraft purchase deposits	Aircraft and aircraft purchase deposits	(669)	(688)
Other flight equipment	Other flight equipment	(153)	(156)
Other property and equipment	Other property and equipment	(169)	(103)
Total property and equipment additions	Total property and equipment additions	(991)	(947)
Supplier proceeds			
Purchases of marketable securities	Purchases of marketable securities	(519)	(1,670)

Sales and maturities of marketable securities	Sales and maturities of marketable securities	806	1,731
Other investing activities	Other investing activities	(106)	(2)
Net cash used in investing activities		(810)	(888)

Cash Flows from Financing Activities:	Cash Flows from Financing Activities:	Cash Flows from Financing Activities:	
Proceeds from issuance of long-term debt, net of issuance costs	Proceeds from issuance of long-term debt, net of issuance costs	313	—
Long-term debt payments	Long-term debt payments	(242)	(333)
Common stock repurchases	Common stock repurchases	(70)	—
Other financing activities	Other financing activities	11	37
Net cash provided by (used in) financing activities		12	(296)

Net increase in cash and cash equivalents	Net increase in cash and cash equivalents	305	225
Cash, cash equivalents, and restricted cash at beginning of period	Cash, cash equivalents, and restricted cash at beginning of period	369	494
Cash, cash equivalents, and restricted cash at end of the period	Cash, cash equivalents, and restricted cash at end of the period	\$ 674	\$ 719

		Three Months Ended March 31,		Three Months Ended March 31,	
(in millions)	(in millions)	2023	2022	(in millions)	2024
Supplemental disclosure:	Supplemental disclosure:				2023
Cash paid during the period for:	Cash paid during the period for:				
Cash paid during the period for:					
Cash paid during the period for:					
Interest, net of amount capitalized					
Interest, net of amount capitalized					
Interest, net of amount capitalized	Interest, net of amount capitalized	\$ 85	\$ 72		
Income taxes, net of refunds received		14	—		
Non-cash transactions:					
Non-cash transactions:					
Non-cash transactions:	Non-cash transactions:				
Right-of-use assets acquired through operating leases	Right-of-use assets acquired through operating leases	120	419		
Operating leases converted to finance leases		505	—		
Right-of-use assets acquired through operating leases					
Right-of-use assets acquired through operating leases					
Property and equipment acquired through the issuance of debt					
Property and equipment acquired through the issuance of debt					
Property and equipment acquired through the issuance of debt	Property and equipment acquired through the issuance of debt	179	—		

Reconciliation of cash, cash equivalents, and restricted cash:	Reconciliation of cash, cash equivalents, and restricted cash:		
Reconciliation of cash, cash equivalents, and restricted cash:	Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	Cash and cash equivalents		
Cash and cash equivalents	Cash and cash equivalents		
Cash and cash equivalents	Cash and cash equivalents	647	688
Restricted cash included in Other noncurrent assets	Restricted cash included in Other noncurrent assets	27	31
Total cash, cash equivalents, and restricted cash at end of the period	Total cash, cash equivalents, and restricted cash at end of the period	\$674	\$719

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The condensed consolidated financial statements include the accounts of Air Group, or the Company, and its primary subsidiaries, Alaska and Horizon. The condensed consolidated financial statements also include McGee Air Services (McGee), a ground services subsidiary of Alaska, and other immaterial business units. All intercompany balances and transactions have been eliminated. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Consistent with these requirements, this Form 10-Q does not include all the information required by GAAP for complete financial statements. It should be read in conjunction with the consolidated financial statements and accompanying notes in the Form 10-K for the year ended **December 31, 2022** **December 31, 2023**. In the opinion of management, all adjustments have been made that are necessary to fairly present the Company's financial position as of **September 30, 2023** **March 31, 2024** and the results of operations for the three **and nine** months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**. Such adjustments were of a normal recurring nature. Certain rows, columns, figures, or percentages may not recalculate due to rounding.

In preparing these statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities, as well as the reported amounts of revenue and expenses, including impairment charges. Due to seasonal variations in the demand for air travel, the volatility of aircraft fuel prices, changes in global economic conditions, changes in the competitive environment, and other factors, operating results for the three **and nine** months ended **September 30, 2023** **March 31, 2024** are not necessarily indicative of operating results for the entire year.

Flight 1282 and Boeing 737-9 MAX Grounding

As a result of the Flight 1282 accident and the subsequent grounding of Boeing 737-9 MAX (B737-9) aircraft, Air Group's operation and results were significantly impacted. The Company received compensation from Boeing to address the financial damages incurred as a result of the grounding. As part of this compensation, Boeing paid Air Group \$162 million in cash during the first quarter. Subsequent to quarter end, Boeing issued Air Group \$61 million in supplier credit memos to be used on future Boeing purchases.

Compensation received under the agreement is accounted for as a reduction in cost basis of certain B737-9 aircraft. Proceeds received as of March 31, 2024 are reflected within Aircraft and other flight equipment or Deposits for future flight equipment within the condensed consolidated balance sheets.

NOTE 2. FLEET TRANSITION PROPOSED ACQUISITION OF HAWAIIAN HOLDINGS, INC.

On December 2, 2023, the Company entered into a definitive agreement to acquire Hawaiian Holdings, Inc. (Hawaiian). The Company has agreed to pay Hawaiian's shareholders \$18.00 per share, or approximately \$1.0 billion, in cash for the outstanding shares of Hawaiian. In addition, the Company expects to assume Hawaiian's debt and lease obligations on the date of acquisition. The acquisition has been approved by Hawaiian's shareholders and is subject to final approval by various regulatory bodies.

On February 7, 2024, Air Group and Hawaiian each received a request for additional information and documentary material (the "Second Request") from the Antitrust Division of the Department of Justice (the "DOJ") in connection with the DOJ's review of the acquisition. On March 27, 2024, Air Group and Hawaiian entered into a timing agreement with the DOJ pursuant to which they agreed, among other things, not to consummate the acquisition before 90 days following the date on which both parties have certified substantial compliance with the Second Request unless they have received written notice from the DOJ prior to the end of such 90-day period that the DOJ has closed its investigation of the acquisition.

In the first quarter of 2022, 2024, the Company announced plans to accelerate the transition incurred integration costs of its mainline operations to an all-Boeing 737 fleet. It also announced plans to transition its regional operations to an all-Embraer fleet. The removal of all A320 and Q400 aircraft from operating service was completed in January 2023. The removal of all A321neo aircraft from operating service was completed in September 2023. At September 30, 2023, Alaska had reached agreements with multiple lessors to exit its ten A321neo operating leases and purchase the aircraft. Three aircraft purchases closed by September 30, 2023 \$8 million. Subsequent to quarter end, Alaska finalized an agreement to sell the ten aircraft to American Airlines. The remaining seven purchases and all sales to American Airlines These costs are expected to occur in the fourth quarter of 2023 and first quarter of 2024. As a result of the new agreements, the operating leases associated with the seven aircraft that were not purchased by September 30, 2023 were considered modified, and upon evaluation were reclassified classified as finance leases.

Valuation of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or circumstances indicate that the total carrying value of an asset or asset group may not be recoverable. In the second quarter, the Company performed an impairment analysis for the A321neo fleet and recorded an impairment charge of \$156 million.

In the third quarter, the Company determined there was additional impairment related to the A321neo fleet due to new purchase activity in the period. The Company estimated the fair market value for the A321neo aircraft using available market price information with adjustments based on quantitative and qualitative considerations. Based on this fair market value, the Company recorded an impairment charge of \$123 million, reflecting the amount by which carrying value exceeded fair value of the aircraft. This charge is included special items within Special items - fleet transition and other in the condensed consolidated statements of operations.

Other Fleet Related Disclosure

The ten A321neo aircraft that have been removed from operating service are classified Company expects to continue to incur integration costs as Assets held for sale in activities supporting the condensed consolidated balance sheets as of September 30, 2023. Seven of these aircraft are classified as finance leases, whose lease liabilities are reflected within Current portion of long-term debt and finance leases and total \$452 million as of September 30, 2023. Interest expense associated with the finance leases of \$8 million for the third quarter of 2023 was recognized within Special items - net non-operating in the condensed consolidated statements of operations.

Special charges were also recognized during the three and nine months ended September 30, 2023 for other fleet transition costs, including accelerated aircraft ownership expenses, certain aircraft maintenance work performed as a result of the fleet retirements, adjustments to estimated costs to return the A320 fleet, and penalty rent for Airbus aircraft which have not yet been returned to the lessor as of the lease expiration date.

The following table summarizes our special charges for fleet transition costs for the three and nine months ended September 30, 2023 and 2022:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Impairment of long-lived assets ^(a)	\$ 120	\$ —	\$ 271	\$ 70
Other fleet transition costs	36	155	84	306
Special items - fleet transition and other	\$ 156	\$ 155	\$ 355	\$ 376

(a) Net of other immaterial activity recognized in the three and nine months ended September 30, 2023, proposed acquisition continue.

NOTE 3. REVENUE

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

The Company disaggregates revenue by segment in Note 10. The level of detail within the Company's condensed consolidated statements of operations segment disclosures, and in this footnote depict the nature, amount, timing, and uncertainty of revenue and how cash flows are affected by economic and other factors.

Passenger Ticket and Ancillary Services Revenue

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Three Months Ended March 31,				
Three Months Ended March 31,				
Three Months Ended March 31,				
2024				

		2024			
		2024			
Passenger ticket revenue, net of taxes and fees					
Passenger ticket revenue, net of taxes and fees					
Passenger ticket revenue, net of taxes and fees	Passenger ticket revenue, net of taxes and fees	\$ 2,226	\$ 2,252	\$ 6,081	\$ 5,536
Passenger ancillary revenue	Passenger ancillary revenue	135	127	362	337
Passenger ancillary revenue					
Passenger ancillary revenue					
Mileage Plan passenger revenue					
Mileage Plan passenger revenue					
Mileage Plan passenger revenue	Mileage Plan passenger revenue	257	236	757	671
Total Passenger revenue	Total Passenger revenue	\$ 2,618	\$ 2,615	\$ 7,200	\$ 6,544
Total Passenger revenue					
Total Passenger revenue					

Mileage Plan Loyalty Program

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Passenger revenue	\$ 257	\$ 236	\$ 757	\$ 671
Mileage Plan other revenue	159	146	483	433
Total Mileage Plan revenue	\$ 416	\$ 382	\$ 1,240	\$ 1,104

	Three Months Ended March 31,	
	2024	2023
Mileage Plan passenger revenue	\$ 248	\$ 232
Mileage Plan other revenue	164	154
Total Mileage Plan revenue	\$ 412	\$ 386

Cargo and Other Revenue

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<div> <div>Three Months Ended March 31,</div> <div>Three Months Ended March 31,</div> <div>Three Months Ended March 31,</div> <div>2024</div> <div>2024</div> <div>2024</div> </div>				
Cargo revenue				
Cargo revenue				
Cargo revenue	\$ 29	\$ 37	\$ 97	\$ 102
Other revenue	33	30	93	88

Other revenue				
Other revenue				
Total Cargo and other revenue	Total Cargo and other revenue	\$ 62	\$ 67	\$ 190
Total Cargo and other revenue				
Total Cargo and other revenue				

Air Traffic Liability and Deferred Revenue

Passenger ticket and ancillary services liabilities

The Company recognized Passenger revenue of \$33,584 million and \$65,485 million from the prior year-end air traffic liability balance for the three months ended September 30, 2023 March 31, 2024 and 2022, and \$621 million and \$587 million from the prior year-end air traffic liability balance for the nine months ended September 30, 2023 and 2022. 2023.

Mileage Plan assets and liabilities

The Company records a receivable for amounts due from the affinity card partner and from other partners as mileage credits are sold until the payments are collected. The Company had \$91 million \$104 million of such receivables as of September 30, 2023 March 31, 2024 and \$83 million \$102 million as of December 31, 2022 December 31, 2023.

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

		Nine Months Ended September 30,	
		2023	2022
Three Months Ended March 31,		Three Months Ended March 31,	
2024		2024	2023
Total Deferred Revenue balance at January 1	Total Deferred Revenue balance at January 1	\$2,497	\$2,358
Travel miles and companion certificate redemption -	Travel miles and companion certificate redemption -		
Passenger revenue	Passenger revenue	(712)	(632)
Miles redeemed on partner airlines - Other revenue	Miles redeemed on partner airlines - Other revenue	(86)	(45)
Increase in liability for mileage credits issued	Increase in liability for mileage credits issued	900	800
Total Deferred Revenue balance at September 30	Total Deferred Revenue balance at September 30	\$2,599	\$2,481

Total
Deferred
Revenue
balance at
March 31

NOTE 4. FAIR VALUE MEASUREMENTS

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

Fair Value of Financial Instruments on a Recurring Basis

As of September 30, 2023 March 31, 2024, total cost basis and fair value for all marketable securities was \$1.9 billion, compared to a total were \$1.4 billion. Differences in cost basis and fair value of \$1.8 billion. The decline in value is marketable securities are primarily due to a result of changes in interest rates. Management does not believe any unrealized losses are the result of expected credit losses based on its evaluation of industry and duration exposure, credit ratings of the securities, liquidity profiles, and other observable information as of September 30, 2023 March 31, 2024.

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

		September 30, 2023			December 31, 2022								
		Level			Level								
		1	Level 2	Total	1	Level 2	Total						
		March 31, 2024			March 31, 2024			December 31, 2023					
		Level 1			Level 1			Level 2			Total		
Assets	Assets												
Assets													
Assets													
Marketable securities	Marketable securities												
Marketable securities													
Marketable securities													
U.S. government and agency securities													
U.S. government and agency securities													
U.S. government and agency securities	U.S. government and agency securities	\$508	\$ —	\$ 508	\$505	\$ —	\$ 505						
Equity mutual funds	Equity mutual funds	5	—	5	5	—	5						
Foreign government bonds	Foreign government bonds	—	10	10	—	25	25						
Asset-backed securities	Asset-backed securities	—	216	216	—	261	261						
Mortgage-backed securities	Mortgage-backed securities	—	123	123	—	196	196						
Corporate notes and bonds	Corporate notes and bonds	—	889	889	—	1,025	1,025						
Municipal securities	Municipal securities	—	53	53	—	62	62						

Total Marketable securities	Total Marketable securities	513	1,291	1,804	510	1,569	2,079
Derivative instruments	Derivative instruments						
Fuel hedge contracts - call options	Fuel hedge contracts - call options	—	40	40	—	44	44
Fuel hedge contracts - call options	Fuel hedge contracts - call options						
Interest rate swap agreements	Interest rate swap agreements	—	13	13	—	15	15
Total Assets	Total Assets	\$513	\$1,344	\$1,857	\$510	\$1,628	\$2,138

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. Foreign government bonds, asset-backed securities, mortgage-backed securities, corporate notes and bonds, and municipal securities are Level 2 as the fair value is based on standard valuation models that are calculated based on observable inputs such as quoted interest rates, yield curves, credit ratings of the security and other observable market information.

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

Activity and Maturities for Marketable Securities

Maturities for marketable securities (in millions):

September 30, 2023	Cost Basis	Fair Value
March 31, 2024	March 31, 2024	Cost Basis
Due in one year or less	Due in one year or less	
	\$ 403	\$ 395
Due after one year through five years	Due after one year through five years	
	1,386	1,320
Due after five years	Due after five years	
	73	68
Due after 10 years	Due after 10 years	
	18	16
No maturity date	No maturity date	
	4	5
Total	Total	
	\$1,884	\$1,804

Fair Value of Other Financial Instruments

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

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

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

Debt: To estimate the fair value of all fixed-rate debt as of **September 30, 2023** **March 31, 2024**, the Company uses the income approach by discounting cash flows or estimation using quoted market prices, utilizing borrowing rates for comparable debt over the remaining life of the outstanding debt. The estimated fair value of the fixed-rate Enhanced Equipment Trust Certificate (EETC) debt is Level 2, as it is estimated using observable inputs, while the estimated fair value of **\$566** **\$582** million of other fixed-rate debt, including PSP notes payable, is classified as Level 3, as it is not actively traded and is valued using discounted cash flows which is an unobservable input.

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

		September 30, 2023	December 31, 2022		
March 31, 2024				March 31, 2024	December 31, 2023
Fixed-rate debt	Fixed-rate debt	\$ 1,520	\$ 1,660		
Fixed-rate debt					
Fixed-rate debt					
Estimated fair value	Estimated fair value	\$ 1,372	\$ 1,473		
Estimated fair value					
Estimated fair value					

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are recognized or disclosed at fair value on a nonrecurring basis, including property, plant and equipment, operating and finance lease assets, goodwill, and intangible assets. These assets are subject to fair valuation when there is evidence of impairment. **Refer to Note 2 for details regarding impairment charges** **No material impairments were recorded in during the three and nine months ended** **September 30, 2023** **March 31, 2024**.

NOTE 5. LONG-TERM DEBT

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

		September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Fixed-rate notes payable due through 2029	Fixed-rate notes payable due through 2029	\$ 85	\$ 113		
Fixed-rate PSP notes payable due through 2031	Fixed-rate PSP notes payable due through 2031	600	600		

Fixed-rate EETC payable due through 2025 & 2027	Fixed-rate EETC payable due through 2025 & 2027		
		835	947
Variable-rate notes payable due through 2035		907	514
Variable-rate notes payable due through 2036			
Less debt issuance costs	Less debt issuance costs	(15)	(15)
Total debt	Total debt	2,412	2,159
Less current portion ^(a)	Less current portion ^(a)	284	276
Long-term debt, less current portion	Long-term debt, less current portion	\$ 2,128	\$ 1,883
Weighted-average fixed-interest rate	Weighted-average fixed-interest rate	3.4 %	3.5 %
Weighted-average fixed-interest rate			
Weighted-average fixed-interest rate		3.3 %	3.4 %
Weighted-average variable-interest rate	Weighted-average variable-interest rate	6.8 %	5.8 %
Weighted-average variable-interest rate	Weighted-average variable-interest rate	6.8 %	6.8 %

(a) Excludes finance lease liabilities recognized within Current portion of long-term debt and finance leases in the condensed consolidated balance sheets as of September 30, 2023 December 31, 2023.

Approximately \$216 \$240 million of the Company's total variable-rate notes payable are effectively fixed via interest rate swaps at September 30, 2023 March 31, 2024, resulting in an effective weighted-average interest rate for the full debt portfolio of 4.3% 4.6%.

During the nine three months ended September 30, 2023 March 31, 2024, the Company incurred debt of \$495 million \$195 million from multiple lenders and sources. New debt includes proceeds of \$316 million \$150 million which is secured by aircraft. Additionally, \$179 million \$45 million of debt was incurred as part of an agreement to finance certain E175 deliveries. Debt from this agreement is reflected as a non-cash transaction within the supplemental disclosures in the condensed consolidated statements of cash flows. Also during During the nine three months ended September 30, 2023 March 31, 2024, the Company made scheduled debt payments of \$240 million and prepayments of \$2 million \$102 million.

Debt Maturity

At September 30, 2023 March 31, 2024, long-term debt principal payments for the next five years and thereafter are as follows (in millions):

	Total	Total
--	-------	-------

Remainder of 2023		\$ 45
2024		286
Remainder of 2024		
2025	2025	343
2026	2026	292
2027	2027	597
2028		
Thereafter	Thereafter	864
Total	Total	
Principal	Principal	
Payments	Payments	\$2,427

Bank Lines of Credit

Alaska has three credit facilities totaling \$626 million as of **September 30, 2023** **March 31, 2024**. One of the credit facilities facility is for \$150 million, expires in March 2025, and is secured by certain accounts receivable, spare engines, spare parts, and ground service equipment. A second credit facility which is for \$400 million, expires in June 2026, and is secured by aircraft, was amended by the Company in the third quarter to increase its size to \$400 million and extend its term to June 2026. aircraft. Both facilities have variable interest rates based on SOFR plus a specified margin. A third credit facility is for \$76 million, expires in June 2024, and is secured by aircraft.

Alaska has secured letters of credit against the third facility, but has no plans to borrow using either of the other two facilities. All credit facilities have a requirement to maintain a minimum unrestricted cash and marketable securities balance of \$500 million. Alaska was in compliance with this covenant at **September 30, 2023** **March 31, 2024**.

Subsequent to quarter end, the Company executed an amendment to extend the term of the \$150 million credit facility from March 2025 to April 2028.

NOTE 6. EMPLOYEE BENEFIT PLANS

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

		Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
		Three Months Ended September 30,		Nine Months Ended September 30,			
		2023	2022	2023	2022		
Service cost	Service cost	\$ 8	\$ 12	\$ 22	\$ 34		
Service cost							
Service cost							
Pension expense included in Wages and benefits							
Pension expense included in Wages and benefits							
Pension expense included in Wages and benefits	Pension expense included in Wages and benefits	8	12	22	34		
Interest cost	Interest cost	27	17	81	49		
Interest cost							
Interest cost							
Expected return on assets	Expected return on assets	(28)	(32)	(85)	(96)		
Amortization of prior service cost (credit)		—	(1)	—	(1)		
Expected return on assets							
Expected return on assets							
Recognized actuarial loss							
Recognized actuarial loss							
Recognized actuarial loss	Recognized actuarial loss	5	2	17	6		

Pension expense included in Non-operating Income (Expense)	Pension expense included in Non-operating Income (Expense)	\$	4	\$	(14)	\$	13	\$	(42)
Pension expense included in Non-operating Income (Expense)									
Pension expense included in Non-operating Income (Expense)									

NOTE 7. COMMITMENTS AND CONTINGENCIES

Alaska continues to experience delivery delays of B737 aircraft. Boeing has communicated that certain B737 aircraft are expected to be delivered later than the contracted delivery dates provided to Alaska. This includes certain B737-10 aircraft contracted for delivery in 2025 that have been moved to 2026, pending certification of the B737-10. We have incorporated these adjustments in the tables below, however, management expects that other Boeing aircraft deliveries may also be delayed later than negotiated delivery timeframes.

Future minimum contractual payments for commitments as of September 30, 2023 March 31, 2024 (in millions):

		Aircraft-Related Commitments ^(a)	Capacity Purchase Agreements and Other Obligations ^(b)
Remainder of 2023		\$ 460	\$ 56
2024		1,754	224
		Aircraft-Related Commitments ^(a)	
		Aircraft-Related Commitments ^(a)	
		Aircraft-Related Commitments ^(a)	
Remainder of 2024			
Remainder of 2024			
Remainder of 2024			
2025			
2025			
2025	2025	1,438	227
2026	2026	688	219
2026			
2026			
2027	2027	334	220
2027			
2027			
2028			
2028			
2028			
Thereafter			
Thereafter			
Thereafter	Thereafter	591	739
Total	Total	\$ 5,265	\$ 1,685
Total			
Total			

(a) Includes contractual commitments for aircraft, engines, and aircraft maintenance, maintenance, and incorporates the impact of expected delays for certain B737 aircraft as communicated by Boeing. Option deliveries are excluded from minimum commitments until exercise.

(b) Primarily comprised of non-lease costs associated with capacity purchase agreements, as well as other various sponsorship agreements and investment commitments.

Aircraft Commitments

Aircraft purchase commitments include contractual commitments for aircraft and engines. Details for contractual aircraft commitments as of September 30, 2023 March 31, 2024 are outlined below.

		Options and Other Rights					Total		
Firm Orders					Firm Orders		Options and Other Rights		
Aircraft Type	Aircraft Type	2023-2027	2025-2030	2023-2030	Aircraft Type	2024-2027	2025-2030	2024-2030	
B737	B737	89	105	194	B737	80	105	185	
E175	E175	9	13	22	E175	7	7	14	
Total	Total	98	118	216	Total	87	112	199	

The B737 fleet commitments outlined above represent the contractual commitments as defined in Alaska's existing order with Boeing as of September 30, 2023. Boeing has communicated to Alaska that certain B737 deliveries contracted in 2023 are expected to be delayed into 2024.

Alaska has contractual agreements as of September 30, 2023 to purchase seven of its leased A321neo aircraft. These transactions are expected to occur in the fourth quarter of 2023 and first quarter of 2024. The obligations for these aircraft, including both the remaining lease payments and subsequent purchase, are reflected within Current portion of long-term debt and finance leases in the condensed consolidated balance sheets as of September 30, 2023 and are not reflected in the tables above. Refer to Note 2 to the condensed consolidated financial statements for additional details.

Aircraft Maintenance

Aircraft maintenance commitments include contractual commitments for engine maintenance agreements requiring monthly payments based upon utilization, such as flight hours, cycles, and age of the aircraft. In turn, these maintenance agreements transfer certain risks to the third-party service provider. Alaska has contracts for maintenance on its B737-800 and B737-900ER aircraft engines through 2026 and 2032, respectively. Horizon has a contract contracts for maintenance on certain its E175 aircraft engines through 2033, 2033 and 2039.

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.

As part of the 2016 acquisition of Virgin America, Alaska assumed responsibility for the Virgin trademark license agreement with the Virgin Group. In 2019, pursuant to that agreement's venue provision, the Virgin Group sued Alaska in England, alleging that the agreement requires Alaska to pay \$8 million per year as a minimum annual royalty through 2039, adjusted annually for inflation and irrespective of Alaska's actual use (or non-use) of the mark. The possible range of contractual liability is between \$10 million and \$160 million. Alaska stopped making royalty payments in 2019 after ending all use of the Virgin brand. On February 16, 2023, the commercial court issued a ruling adopting Virgin Group's interpretation of the license agreement. The Company has appealed the decision and believes the claims in the case are without factual and legal merit, a position supported by Virgin America's representations during pre-merger due diligence. Alaska also commenced a separate claim for breach of the agreement against the Virgin Group that may affect the Company's total liability in the matter.

On April 15, 2024, a private antitrust action captioned *Warren Yoshimoto, et al., v. Alaska Airlines, Inc., et al.* was filed in the United States District Court for the District of Hawaii, against Alaska Airlines, Inc. and Alaska Air Group, Inc. The plaintiffs, whom the complaint describes as airline passengers, allege that the pending acquisition of Hawaiian Airlines, Inc. by Alaska Airlines, Inc. would violate U.S. antitrust laws. They seek to enjoin the merger or obtain divestitures, as well as costs and attorneys' fees. The Company believes the allegations in the complaint are without merit and will defend against them vigorously, while continuing to work cooperatively with the U.S. Department of Justice to obtain regulatory clearance to close the acquisition.

NOTE 8. SHAREHOLDERS' EQUITY

Common Stock Repurchase

In August 2015, the Board of Directors authorized a \$1 billion share repurchase program. In March 2020, the Company suspended the share repurchase program as required by the CARES Act. These restrictions ended on October 1, 2022. The Company restarted the share repurchase program in February 2023 pursuant to the existing repurchase program. As of September 30, 2023 March 31, 2024, the Company has repurchased 9.1 million 11.7 million shares for \$613 million \$709 million under this program. No shares were repurchased in 2022.

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

	Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023	
	Shares	Amount	Shares	Amount
2015 Repurchase Program—\$1 billion	248,988	\$ 13	1,534,529	\$ 70

	Three Months Ended March 31,			
	2024		2023	
	Shares	Amount	Shares	Amount
2015 Repurchase Program—\$1 billion	561,086	\$ 21	413,554	\$ 18

CARES Act Warrant Issuances

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

As of September 30, 2023 March 31, 2024, there are 1,882,517 total warrants outstanding, with a weighted average strike price of \$39.06. The value of the warrants was estimated using a Black-Scholes option pricing model. The total fair value of all outstanding warrants was \$30 million, recorded in stockholders' equity at issuance.

Earnings Per Share (EPS)

Diluted EPS is NOTE 9. LOSS PER SHARE

Basic loss per share and diluted loss per share are calculated by dividing net income loss by the weighted average number of common shares outstanding plus during the number of additional common shares that would have been outstanding assuming the exercise of in-the-money stock options, restricted stock units, and warrants, using the treasury-stock method. Anti-dilutive common stock equivalents excluded from the calculation of diluted earnings per share were 1.2 million and 1.9 million for the three and nine months ended September 30, 2023, and 1.4 million and 1.7 million for the three and nine months ended September 30, 2022. period.

(in millions, except per share amounts)	Three Months Ended March 31,	
	2024	2023
Net loss	\$ (132)	\$ (142)
Basic weighted average shares outstanding	125.970	127.501
Dilutive effect of share-based instruments	—	—
Diluted weighted average shares outstanding	125.970	127.501
Basic loss per share	\$ (1.05)	\$ (1.11)
Diluted loss per share	\$ (1.05)	\$ (1.11)
Antidilutive amounts excluded from calculation:		
Employee stock awards	3.8	2.4
Stock warrants	0.2	0.4

NOTE 9.10. ACCUMULATED OTHER COMPREHENSIVE LOSS

A roll forward of the amounts included in accumulated other comprehensive loss net of tax (in millions), is shown below for the three and nine months ended September 30, 2023 March 31, 2024 and 2022: 2023:

	Marketable Securities	Employee Benefit Plan	Interest Rate Derivatives	Total
Balance at June 30, 2023, net of tax effect of \$116	\$ (64)	\$ (311)	\$ 10	\$ (365)
Reclassifications into earnings, net of tax impact of \$(1)	2	3	—	5
Change in value, net of tax impact of \$0	—	—	—	—
Balance at September 30, 2023, net of tax effect of \$115	\$ (62)	\$ (308)	\$ 10	\$ (360)
Balance at December 31, 2022, net of tax effect of \$122	\$ (80)	\$ (319)	\$ 11	\$ (388)
Reclassifications into earnings, net of tax effect of \$(5)	9	11	—	20
Change in value, net of tax effect of \$(2)	9	—	(1)	8
Balance at September 30, 2023, net of tax effect of \$115	\$ (62)	\$ (308)	\$ 10	\$ (360)

	Marketable Securities	Employee Benefit Plan	Interest Rate Derivatives	Tax Effect	Total
Balance at December 31, 2023	\$ (46)	\$ (358)	\$ 8	\$ 97	\$ (299)

Change in value	1	—	1	—	2
Reclassifications into earnings	—	4	—	(1)	3
Balance at March 31, 2024	\$ (45)	\$ (354)	\$ 9	\$ 96	\$ (294)

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

	Marketable Securities	Employee Benefit Plan	Interest Rate Derivatives	Tax Effect	Total
Balance at December 31, 2022	\$ (104)	\$ (421)	\$ 15	\$ 122	\$ (388)
Change in value	20	—	(3)	(3)	14
Reclassifications into earnings	6	5	—	(2)	9
Balance at March 31, 2023	\$ (78)	\$ (416)	\$ 12	\$ 117	\$ (365)

NOTE 10, 11. OPERATING SEGMENT INFORMATION

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

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

- **Mainline** - includes scheduled air transportation on Alaska's Boeing or Airbus jet aircraft for passengers and cargo throughout the U.S., and in parts of Canada, Mexico, Costa Rica, Belize, Guatemala, and Belize, the Bahamas.
- **Regional** - includes Horizon's and other third-party carriers' scheduled air transportation for passengers across a shorter distance network within the U.S., Canada, and Canada Mexico under a CPA. This segment includes the actual revenue 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 In addition to these reporting reported segments, based on flight profitability data, aircraft type, route economics and other financial information.

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

Over time, our Mainline and Regional airline segments have increasingly been managed as a single component that provides scheduled air transportation for passengers and cargo, and includes our loyalty program. Managing this component in an integrated manner enables our team to leverage our comprehensive network, single route scheduling system, and fleet as a single business to deliver optimized consolidated financial results. In the first quarter of 2024, management began evaluating changes to internal reporting that may change the discrete information that is provided to our CODM in the future to better align with the way the business is managed. Such changes may have an impact on the company's reportable segments once finalized. We will continue to report using the existing segment structure until changes in our internal reporting have been fully implemented, and a segment analysis has been performed to determine if any changes to reportable segments are indicated.

Operating segment information is as follows (in millions):

Three Months Ended September 30, 2023

	Three Months Ended September 30, 2022						
	Mainline	Regional	Horizon	Consolidating & Other ^(a)	Air Group Adjusted ^(b)	Special Items ^(c)	Consolidated
Operating Revenue							
Passenger revenue	\$ 2,225	\$ 393	\$ —	\$ —	\$ 2,618	\$ —	\$ 2,618
CPA revenue	—	—	104	(104)	—	—	—
Mileage Plan other revenue	146	13	—	—	159	—	159
Cargo and other revenue	60	—	—	2	62	—	62
Total Operating Revenue	2,431	406	104	(102)	2,839	—	2,839
Operating Expenses							
Operating expenses, excluding fuel	1,484	297	89	(92)	1,778	156	1,934
Fuel expense	621	108	—	—	729	(35)	694
Total Operating Expenses	2,105	405	89	(92)	2,507	121	2,628
Non-operating Income (Expense)	—	—	(11)	1	(10)	(8)	(18)
Income (Loss) Before Income Tax	\$ 326	\$ 1	\$ 4	\$ (9)	\$ 322	\$ (129)	\$ 193
Pretax Margin					11.4 %		6.8 %
	Three Months Ended September 30, 2022						
	Mainline	Regional	Horizon	Consolidating & Other ^(a)	Air Group Adjusted ^(b)	Special Items ^(c)	Consolidated
Operating Revenue							
Passenger revenue	\$ 2,217	\$ 398	\$ —	\$ —	\$ 2,615	\$ —	\$ 2,615
CPA revenue	—	—	93	(93)	—	—	—
Mileage Plan other revenue	133	13	—	—	146	—	146
Cargo and other revenue	65	—	—	2	67	—	67
Total Operating Revenue	2,415	411	93	(91)	2,828	—	2,828
Operating Expenses							
Operating expenses, excluding fuel	1,352	292	94	(94)	1,644	245	1,889
Fuel expense	625	121	—	—	746	131	877
Total Operating Expenses	1,977	413	94	(94)	2,390	376	2,766
Non-operating Income (Expense)	8	—	(5)	—	3	—	3
Income (Loss) Before Income Tax	\$ 446	\$ (2)	\$ (6)	\$ 3	\$ 441	\$ (376)	\$ 65
Pretax Margin					15.6 %		2.3 %

Nine Months Ended September 30, 2023									
	Consolidating Air Group Special								
	Mainline	Regional	Horizon	& Other ^(a)	Adjusted ^(b)	Items ^(c)	Consolidated		
	Three Months Ended March 31, 2024						Three Months Ended March 31, 2024		
	Mainline	Regional	Horizon	Consolidating & Other ^(a)	Air Group Adjusted ^(b)	Special Items ^(c)	Consolidated		
Operating Revenue	Operating Revenue								
Passenger revenue	Passenger revenue								
Passenger revenue	Passenger revenue								
Passenger revenue	Passenger revenue								
Passenger revenue	Passenger revenue								
Passenger revenue	Passenger revenue								
CPA revenue	CPA revenue								
CPA revenue	CPA revenue								
Mileage Plan other revenue	Mileage Plan other revenue								
Mileage Plan other revenue	Mileage Plan other revenue								
Mileage Plan other revenue	Mileage Plan other revenue								
Mileage Plan other revenue	Mileage Plan other revenue								

Cargo and other revenue	Cargo and other revenue	184	—	—	6	190	—	190	
Total Operating Revenue	Total Operating Revenue	6,774	1,093	274	(268)	7,873	—	7,873	
Operating Expenses	Operating Expenses								
Operating expenses, excluding fuel									
Operating expenses, excluding fuel									
Operating expenses, excluding fuel	Operating expenses, excluding fuel	4,342	832	260	(261)	5,173	406	5,579	
Fuel expense	Fuel expense	1,672	274	—	—	1,946	(14)	1,932	
Total Operating Expenses	Total Operating Expenses	6,014	1,106	260	(261)	7,119	392	7,511	
Non-operating Income (Expense)	Non-operating Income (Expense)	(3)	—	(29)	3	(29)	(14)	(43)	
Non-operating Income (Expense)									
Non-operating Income (Expense)									
Income (Loss) Before Income Tax	Income (Loss) Before Income Tax	\$ 757	\$ (13)	\$ (15)	\$ (4)	\$ 725	\$ (406)	\$ 319	
Pretax Margin	Pretax Margin	9.2 %					4.1 %		Pretax Margin
Nine Months Ended September 30, 2022									
Consolidating Air Group Special Mainline Regional Horizon & Other(a) Adjusted(b) Items(c) Consolidated									
Three Months Ended March 31, 2023									
Three Months Ended March 31, 2023									
Three Months Ended March 31, 2023									
Mainline Regional Horizon Consolidating Air Group Special Mainline Regional Horizon & Other(a) Adjusted(b) Items(c) Consolidated									
Operating Revenue	Operating Revenue								
Passenger revenue									
Passenger revenue									
Passenger revenue	Passenger revenue	\$ 5,488	\$ 1,056	\$ —	\$ —	\$ 6,544	\$ —	\$ 6,544	
CPA revenue	CPA revenue	—	—	288	(288)	—	—	—	
Mileage Plan other revenue	Mileage Plan other revenue	392	41	—	—	433	—	433	

Cargo and other revenue	Cargo and other revenue	186	—	—	4	190	—	190
Total Operating Revenue	Total Operating Revenue	6,066	1,097	288	(284)	7,167	—	7,167
Operating Expenses	Operating Expenses							
Operating expenses, excluding fuel								
Operating expenses, excluding fuel								
Operating expenses, excluding fuel	Operating expenses, excluding fuel	3,808	843	291	(288)	4,654	466	5,120
Fuel expense	Fuel expense	1,623	313	—	—	1,936	64	2,000
Total Operating Expenses	Total Operating Expenses	5,431	1,156	291	(288)	6,590	530	7,120
Non-operating Income (Expense)	Non-operating Income (Expense)	12	—	(15)	—	(3)	—	(3)
Non-operating Income (Expense)								
Non-operating Income (Expense)								
Income (Loss) Before Income Tax	Income (Loss) Before Income Tax	\$ 647	\$ (59)	\$ (18)	\$ 4	\$ 574	\$ (530)	\$ 44
Pretax Margin	Pretax Margin					8.0 %	0.6 %	
Pretax Margin								
Pretax Margin								

(a) Includes consolidating entries, Air Group parent company, McGee Air Services, and other immaterial business units.

(b) The Air Group Adjusted column represents the financial information that is reviewed by management to assess performance of operations and determine capital allocation and excludes certain charges.

(c) Includes special items and mark-to-market fuel hedge accounting adjustments.

Total assets were as follows (in millions):

		September 30, 2023	December 31, 2022		
		March 31, 2024	March 31, 2024	December 31, 2023	
Mainline	Mainline	\$ 20,468	\$ 19,733		
Horizon	Horizon	1,320	1,157		
Consolidating & Other	Consolidating & Other	(6,623)	(6,704)		
Consolidated	Consolidated	\$ 15,165	\$ 14,186		

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

OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand our company **segment operations** and the present business environment. MD&A is provided as a supplement to – and should be read in conjunction with – our consolidated financial statements and the accompanying notes. All statements in the following discussion that are not statements of historical information or descriptions of current accounting policy are forward-looking statements. Please consider our forward-looking statements in light of the risks referred to in this report's introductory cautionary note and the risks mentioned in "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**. This overview summarizes the MD&A, which includes the following sections:

- **Third GAAP to Non-GAAP Reconciliations and Operating Statistics** - reconciliations of reported non-GAAP financial measures to their most directly comparable financial measures reported on a GAAP basis, as well as operating statistics we use to measure operating performance.
- **First Quarter Review** - highlights from the **third first** quarter of **2023 2024** outlining some of the major events that occurred during the period.
- **Results of Operations** - an in-depth analysis of our **consolidated** revenue **by segment** and our expenses **from a consolidated perspective** for the three **and nine** months ended **September 30, 2023** **March 31, 2024**. To the extent material to the understanding of segment profitability, we more fully describe the segment expenses per financial statement line item. Financial and statistical data is also included here. This section includes forward-looking statements regarding our view of the remainder of **2023, 2024**.
- **Liquidity and Capital Resources** - an overview of our financial position, analysis of cash flows, and relevant contractual obligations and commitments.

THIRD QUARTER REVIEW

Third Quarter Results

GAAP TO NON-GAAP RECONCILIATIONS AND OPERATING STATISTICS

We recorded consolidated pretax income for the third quarter **are providing reconciliations** of 2023 under GAAP of \$193 million, compared to consolidated pretax income of \$65 million in the third quarter of 2022. Increased pretax income is primarily the result of a \$183 million decrease in aircraft fuel costs, and an \$81 million decrease in special operating and non-operating charges. These decreases were partially offset by a \$134 million increase in other operating expense categories.

See "Results of Operations" below for further discussion of changes in revenue and operating expenses as compared to 2022, and our reconciliation of **reported non-GAAP financial** measures to **the their** most directly comparable **financial measures reported on a GAAP measure**. A glossary of financial terms can be found at the end of this Item 2.

Operational Milestones

In the third quarter, our airlines leveraged our foundational strength of operational excellence, leading the industry in completion rate and finishing with an on-time performance higher than 80%. Additionally, Alaska completed its transition back to a single-fleet operator following the retirement of its A321neo aircraft in September. Subsequent to quarter end, Alaska reached an agreement with American Airlines to sell all ten A321neos, with sales expected to be completed by the first quarter of 2024.

Labor Update

Under the terms of the existing collective bargaining agreement with the Air Line Pilots Association (ALPA), Alaska's pilots' wages underwent a market review in the third quarter. Following this review, Alaska executed a Letter of Agreement with ALPA for a one-time market rate adjustment to increase pay rates effective September 1, 2023.

Alaska is actively negotiating for new contracts with its mainline flight attendants represented by the Association of Flight Attendants, whose contract became amendable in December 2022, and its mainline mechanics represented by the Aircraft Mechanics Fraternal Association, whose contract became amendable in October 2023. Horizon is actively negotiating for a new contract with its pilots, represented by the International Brotherhood of Teamsters, whose contract becomes amendable in December 2024.

Outlook

For the fourth quarter of 2023, we anticipate our cost discipline and operational excellence will continue to benefit unit costs, with CASMex expected to be down 3% to 5% on capacity up 11% to 14% as compared to the prior year. Although we have seen some slowing in the demand environment, we expect our diversified product offerings and Mileage Plan revenue streams will lift total revenue up 1% to 4% over 2022. For the full year, headwinds from fuel prices which were not previously contemplated, coupled with decreased revenue expectations, have led us to reduce our expected full year adjusted pretax margin to 7% to 8%.

We continue to remain focused on setting intentional targets and taking the appropriate steps to deliver on those targets. Changes to the operating environment and industry trends could lead to adjustments to the guidance provided as management aligns our business to be appropriately responsive. As we leverage our network and diversified revenue offerings for growth, our people are focused on keeping costs low and running a strong operation. These are competitive advantages we have cultivated over many years that will continue to serve us in the remainder of 2023 and beyond.

RESULTS OF OPERATIONS

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

basis. We believe **disclosure that consideration of earnings** excluding the impact of aircraft fuel and special items is useful information **these non-GAAP financial measures may be important to investors because:** for the following reasons:

- By excluding fuel expense and special items certain costs from our unit metrics, we believe that we have better visibility into the results of operations as we focus on cost-reduction and productivity initiatives. Our industry is highly competitive and is characterized by high fixed costs, so even a small reduction in non-fuel operating costs can lead to 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) and investors to understand the impact of (and trends in) company-specific cost drivers such as productivity, airport costs, maintenance costs, etc., which are more controllable by management. We adjust for expenses related directly to our freighter aircraft operations to allow for better comparability to other domestic carriers that do not operate freighter aircraft. We also exclude certain special charges as they are unusual or nonrecurring in nature and adjusting for these expenses allows management and investors to better understand our cost performance.
- Cost per ASM (CASM) excluding fuel expense and special items CASMex is one of the most important measures used by management and by our the Air Group Board of Directors in assessing quarterly and annual cost performance.
- CASM excluding fuel expense and special items CASMex is also a measure commonly used by industry analysts, and we believe it is an important metric the basis by which they have historically compared our airline to others in the industry. The measure is also the subject of frequent questions from investors.
- Adjusted pretax income before income tax (and other items as specified in our plan documents) is an important metric for the employee annual incentive plan, which covers the majority of employees within the Alaska Air Group organization. employees.
- Disclosure of the individual impact of certain noted items provides investors the ability to measure and monitor performance both with and without these special items. We believe that disclosing the impact of these items as noted above is important because it provides information on significant items that are not necessarily indicative of future performance. Industry analysts and investors consistently measure our performance without these items for better comparability between periods and among other airlines.
- Although we disclose our unit revenue, we do not, nor are we able to, evaluate unit revenue excluding the impact that changes in fuel costs have had on ticket prices. Fuel expense represents a large percentage of our total operating expenses. Fluctuations in fuel prices often drive changes in unit revenue in the mid-to-long term. Although we believe it is useful to

evaluate non-fuel unit costs for the reasons noted above, we would caution readers of these financial statements not to place undue reliance on unit costs excluding fuel as a measure or predictor of future profitability because of the significant impact of fuel costs on our business.

Although we are presenting these non-GAAP amounts for the reasons above, investors and other readers should not necessarily conclude that these amounts consider them a substitute for GAAP figures.

GAAP TO NON-GAAP RECONCILIATIONS (unaudited)

(in millions)	Three Months Ended March 31,			
	2024		2023	
	Dollars	Margin	Dollars	Margin
Loss before income tax	(178)	(8.0)%	(199)	(9.1)%
Adjusted for:				
Mark-to-market fuel hedge adjustment	(13)		20	
Special items - fleet transition ^(a)	26		13	
Special items - integration costs ^(b)	8		—	
Special items - labor and other ^(c)	—		51	
Adjusted loss before income tax	(157)	(7.0)%	(115)	(5.2)%

(a) Special items - fleet transition in the three months ended March 31, 2024 and 2023 is primarily for costs associated with the retirement of Airbus and Q400 aircraft, as well as gains on the sale of certain Q400 aircraft.

(b) Special items - integration costs is associated with our proposed acquisition of Hawaiian Airlines.

(c) Special items - labor and other is for changes to Alaska pilots' sick leave benefits resulting from an agreement signed in the first quarter of 2023.

(in millions, except per share amounts)	Three Months Ended March 31,			
	2024		2023	
	Dollars	Diluted EPS	Dollars	Diluted EPS
Net loss per share	\$ (132)	\$ (1.05)	\$ (142)	\$ (1.11)
Mark-to-market fuel hedge adjustment	(13)	(0.10)	20	0.16
Special items - fleet transition	26	0.21	13	0.10
Special items - integration costs	8	0.06	—	—
Special items - labor and other	—	—	51	0.40
Income tax effect of reconciling items above	(5)	(0.04)	(21)	(0.17)
Adjusted net loss per share	\$ (116)	\$ (0.92)	\$ (79)	\$ (0.62)

(in millions)	Three Months Ended March 31,	
	2024	2023
Total operating expenses	2,398	2,382
Less the following components:		
Aircraft fuel, including hedging gains and losses	565	665
Freighter costs ^(a)	15	14
Special items - fleet transition	26	13
Special items - integration costs	8	—
Special items - labor and other	—	51
Total operating expenses, excluding fuel, freighter costs, and special items	1,784	1,639
CASMex	11.60 ¢	10.44 ¢

(a) Freighter costs in the three months ended March 31, 2024 and 2023 are **nonrecurring, infrequent, or unusual in nature**; not presented separately on the consolidated statements of operations.

OPERATING STATISTICS SUMMARY (unaudited)

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

	Three Months Ended March 31,
	Three Months Ended March 31,
	Three Months Ended March 31,
2024	
2024	
2024	
Revenue passengers (000)	
Revenue passengers (000)	
Revenue passengers (000)	
RPMs (000,000) "traffic"	
RPMs (000,000) "traffic"	
RPMs (000,000) "traffic"	
ASMs (000,000) "capacity"	
ASMs (000,000) "capacity"	
ASMs (000,000) "capacity"	
Load factor	
Load factor	
Load factor	
Yield	
Yield	
Yield	
PRASM	
PRASM	
PRASM	
RASM	
RASM	
RASM	
CASMex ^(a)	
CASMex ^(a)	
CASMex ^(a)	
Economic fuel cost per gallon ^(a)	
Economic fuel cost per gallon ^(a)	
Economic fuel cost per gallon ^(a)	
Fuel gallons (000,000)	

Fuel gallons (000,000)						
Fuel gallons (000,000)						
ASMs per fuel gallon						
ASMs per fuel gallon						
ASMs per fuel gallon						
Departures (000)						
Departures (000)						
Departures (000)						
Average full-time equivalent employees (FTEs)						
Average full-time equivalent employees (FTEs)						
Average full-time equivalent employees (FTEs)						
Operating fleet ^(b)						
Operating fleet ^(b)						
Operating fleet ^(b)						
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Change	2023	2022	Change
Consolidated Operating Statistics: ^(a)						
Revenue passengers (000)	12,210	11,437	7%	33,654	31,137	8%
RPMs (000,000) "traffic"	15,718	14,143	11%	43,208	38,475	12%
ASMs (000,000) "capacity"	18,582	16,349	14%	51,447	45,743	12%
Load factor	84.6%	86.5%	(1.9) pts	84.0%	84.1%	(0.1) pts
Yield	16.66¢	18.48¢	(10)%	16.66¢	17.01¢	(2)%
RASM	15.28¢	17.30¢	(12)%	15.30¢	15.67¢	(2)%
CASM ^(b)	9.57¢	10.05¢	(5)%	10.05¢	10.17¢	(1)%
Economic fuel cost per gallon ^(b)	\$3.26	\$3.66	(11)%	\$3.14	\$3.38	(7)%
Fuel gallons (000,000)	224	204	10%	620	573	8%
ASMs per fuel gallon	83.0	80.1	4%	83.0	79.8	4%
Departures (000)	111.8	110.4	1%	311.6	309.3	1%
Average full-time equivalent employees (FTEs)	23,879	22,878	4%	23,386	22,354	5%
Mainline Operating Statistics:						
Revenue passengers (000)	9,681	8,671	12%	26,735	23,557	13%
RPMs (000,000) "traffic"	14,471	12,846	13%	39,967	34,818	15%
ASMs (000,000) "capacity"	17,123	14,782	16%	47,584	41,221	15%
Load factor	84.5%	86.9%	(2.4) pts	84.0%	84.5%	(0.5) pts
Yield	15.37¢	17.26¢	(11)%	15.37¢	15.76¢	(2)%
RASM	14.20¢	16.34¢	(13)%	14.24¢	14.72¢	(3)%
CASM ^(b)	8.67¢	9.15¢	(5)%	9.12¢	9.24¢	(1)%
Economic fuel cost per gallon ^(b)	\$3.22	\$3.61	(11)%	\$3.11	\$3.35	(7)%
Fuel gallons (000,000)	193	173	12%	538	484	11%
ASMs per fuel gallon	88.7	85.4	4%	88.4	85.2	4%
Departures (000)	72.3	65.3	11%	202.1	182.7	11%
Average full-time equivalent employees (FTEs)	18,619	17,453	7%	18,184	17,035	7%
Aircraft utilization	11.9	10.5	13%	11.5	10.4	11%
Average aircraft stage length	1,386	1,347	3%	1,379	1,348	2%
Operating fleet ^(d)	220	232	(12) a/c	220	232	(12) a/c

Regional Operating Statistics:

(c)						
Revenue passengers (000)	2,529	2,767	(9)%	6,919	7,579	(9)%
RPMS (000,000) "traffic"	1,247	1,297	(4)%	3,241	3,657	(11)%
ASMs (000,000) "capacity"	1,459	1,567	(7)%	3,862	4,522	(15)%
Load factor	85.5%	82.8%	2.7 pts	83.9%	80.9%	3.0 pts
Yield	31.57¢	30.69¢	3%	32.61¢	28.88¢	13%
RASM	27.85¢	26.23¢	6%	28.30¢	24.26¢	17%
Departures (000)	39.5	45.2	(13)%	109.5	126.6	(14)%
Operating fleet ^(d)	83	94	(11) a/c	83	94	(11) a/c

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

(b) See reconciliation of this non-GAAP measure to the most directly related GAAP measure measure.

(b) Includes aircraft owned and leased by Alaska and Horizon as well as aircraft operated by third-party regional carriers under capacity purchase agreements. Excludes non-operating aircraft.

FIRST QUARTER REVIEW

Financial Overview

We reported a loss before income tax for the first quarter of 2024 of \$178 million, compared to \$199 million for the first quarter of 2023. Despite the impacts of Flight 1282 and the subsequent grounding of the B737-9 fleet, which are outlined more fully below, the Company recorded record first quarter revenue bolstered by strategic capacity deployment and strong leisure and business demand. Revenue improvement, combined with a \$100 million decrease in aircraft fuel costs, offset by increased non-fuel operating expenses drove the year-over-year improvement in pretax loss.

See "Results of Operations" below for further discussion of changes in revenue and operating expenses as compared to 2023. A glossary of financial terms can be found at the end of this Item 2.

Flight 1282 and B737-9 Updates

Air Group's first quarter operation and results were significantly impacted by Flight 1282 in January and the B737-9 grounding which extended into February. These events negatively impacted results by \$162 million in the accompanying pages, first quarter, of which approximately \$150 million relates to lost revenue and the remainder to incremental costs. The Company received \$162 million in cash compensation from Boeing to address these financial damages, which was recorded as an offset to the cost basis of certain B737-9 aircraft. Subsequent to quarter end, Boeing issued Air Group \$61 million in supplier credit memos to be used on future Boeing purchases.

(c) Data presented

Labor Update

In the first quarter, Alaska technicians, represented by the Aircraft Mechanics Fraternal Union (AMFA), ratified a new five-year Collective Bargaining Agreement (CBA) that includes information related to flights operated wage increases and quality of life improvements.

Alaska is in negotiations with its flight attendants represented by the Association of Flight Attendants (AFA) for an updated CBA. A mediator from the National Mediation Board is involved in the negotiations. Horizon has initiated negotiations with certain labor groups for updated CBAs, including its pilots, represented by the International Brotherhood of Teamsters; its flight attendants, represented by AFA; and third-party carriers, its technicians, represented by AMFA.

(d) Excludes all aircraft removed from operating service.

Outlook

The following represents our expectations for the second quarter and full year 2024 results:

	Q2 Expectation
Capacity (ASMs) % change versus 2023	Up 5% to 7%
Economic fuel cost per gallon	\$3.00 to \$3.20
Earnings per share ^(a)	\$2.20 to \$2.40
	Full Year Expectation
Capacity (ASMs) % change versus 2023	< 3%
Earnings per share ^(a)	\$3.25 to \$5.25
Capital expenditures	\$1.2 billion - \$1.3 billion

(a) Earnings per share guidance assumes a full year tax rate of approximately 25%

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED SEPTEMBER 30, 2023 MARCH 31, 2024 TO THREE MONTHS ENDED SEPTEMBER 30, 2022

Our consolidated net income for the three months ended September 30, 2023 was \$139 million, or \$1.08 per share, compared to a consolidated net income of \$40 million, or \$0.31 per share, for the three months ended September 30, 2022.

Excluding the impact of special items and mark-to-market fuel hedge adjustments, our adjusted net income for the third quarter of MARCH 31, 2023 was \$237 million, or \$1.83 per share, compared to an adjusted net income of \$325 million, or \$2.53 per share, for the third quarter of 2022. The following table reconciles our adjusted net income per share (EPS) to amounts as reported in accordance with GAAP:

(in millions, except per share amounts)	Three Months Ended September 30,			
	2023		2022	
	Dollars	Diluted EPS	Dollars	Diluted EPS
GAAP net income per share	\$ 139	\$ 1.08	\$ 40	\$ 0.31
Mark-to-market fuel hedge adjustments	(35)	(0.27)	131	1.02
Special items - fleet transition and other	156	1.20	155	1.21
Special items - labor and related	—	—	90	0.70
Special items - net non-operating	8	0.06	—	—
Income tax effect of reconciling items above	(31)	(0.24)	(91)	(0.71)
Non-GAAP adjusted net income per share	\$ 237	\$ 1.83	\$ 325	\$ 2.53

CASM excluding fuel and special items reconciliation is summarized below:

(in cents)	Three Months Ended September 30,		
	2023	2022	% Change
Consolidated:			
CASM	14.14 ¢	16.91 ¢	(16)%
Less the following components:			
Aircraft fuel, including hedging gains and losses	3.73	5.36	(30)%
Special items - fleet transition and other	0.84	0.95	(12)%
Special items - labor and related	—	0.55	(100)%
CASM excluding fuel and special items	9.57 ¢	10.05 ¢	(5)%
Mainline:			
CASM	13.01 ¢	16.20 ¢	(20)%
Less the following components:			
Aircraft fuel, including hedging gains and losses	3.42	5.52	(38)%
Special items - fleet transition and other	0.92	0.92	— %
Special items - labor and related	—	0.61	(100)%
CASM excluding fuel and special items	8.67 ¢	9.15 ¢	(5)%

OPERATING REVENUE

Total operating revenue was approximately flat increased \$36 million, or 2%, in the third first quarter of 2023 2024 compared to the same period in 2022, 2023. The changes are summarized in the following table:

Three Months Ended September 30,						Three Months Ended March 31,					
Three Months Ended March 31,						Three Months Ended March 31,					
(in millions)	(in millions)	2023	2022	% Change	(in millions)	2024	2023	% Change			
Passenger revenue	Passenger revenue	\$2,618	\$2,615	— %	Passenger revenue	\$ 2,004	\$ 1,984	1 %			
Mileage Plan other revenue	Mileage Plan other revenue	159	146	9 %	Mileage Plan other revenue	164	154	6 %			

Cargo and other revenue	Cargo and other revenue	62	67	(7)	%	Cargo and other revenue	64	58	58	10	10	%
Total Operating Revenue	Total Operating Revenue	\$2,839	\$2,828	—	%	Total Operating Revenue	\$ 2,232	\$ 2,196	2	2	%	

Passenger revenue

On a consolidated basis, Passenger revenue for the third first quarter of 2023 was approximately flat 2024 increased \$20 million, or 1% compared to the same period in 2022, 2023. While passenger traffic rose 11% due to increased departures flown by larger aircraft in our Mainline fleet, softening of the demand environment led to a 10% decrease in yield following record highs in the prior year. Additionally, cancellations for travel to Maui following wildfires in August B737-9 grounding resulted in approximately \$20 million \$150 million in decreased passenger lost revenue, for meaningful improvements in corporate travel revenue and general close-in strength drove improvements in unit revenue to help offset this negative impact. Additionally, increased traffic on ten E175 aircraft added to our fleet since the third first quarter compared of 2023 contributed positively to the prior year. Passenger revenue.

We expect to see further growth to Passenger revenue as we progress through 2024 driven by diverse revenue offerings, increased capacity, continued improvements to our strategic network, and further recovery of West Coast corporate travel.

Mileage Plan other revenue

On a consolidated basis, Mileage Plan other revenue for the third first quarter of 2023 2024 increased by \$13 million \$10 million, or 9% 6%. The increase was driven by higher commissions from our bank card partners partner primarily due to increased credit card acquisitions, as well as higher commission revenue from other third party partners.

We expect to see continued strength in Mileage Plan other revenue for the remainder of 2024, enabled by higher commissions from increased card spend levels and annual membership fees, incremental partner activity.

Cargo and other revenue

On a consolidated basis, Cargo and other revenue for the first quarter of 2024 increased by \$6 million, or 10%. The growth was driven by incremental lounge revenue and other miscellaneous increases.

We expect to see further growth in Cargo and other revenue for the remainder of 2024, driven by increased freight volumes with the addition of a second B737-800 freighter to our fleet in the second quarter of 2024.

OPERATING EXPENSES

Total operating expenses decreased \$138 million increased \$16 million, or 5% 1%, compared to the third first quarter of 2022, 2023. We believe it is useful to summarize operating expenses as follows, which is consistent with the way expenses are reported internally and evaluated by management:

(in millions)	(in millions)	Three Months Ended September 30,			(in millions)	Three Months Ended March 31,				
		2023	2022	% Change		2024	2023	% Change		
Fuel expense	Fuel expense	\$ 694	\$ 877	(21) %	Fuel expense	\$ 565	\$ 665	(15)	(15) %	
Non-fuel operating expenses, excluding special items	Non-fuel operating expenses, excluding special items	1,778	1,644	8 %	Non-fuel operating expenses, excluding special items	1,799	1,653	1,653	9	9 %
Special items - fleet transition and other		156	155	1 %						
Special items - labor and related		—	90	(100) %						
Special items - fleet transition					Special items - fleet transition	26	13	100	%	

Special items - integration costs					Special items - integration costs	8	—		NM
Special items - labor and other					Special items - labor and other	—	51	(100)	%
Total Operating Expenses	Total Operating Expenses	\$2,628	\$2,766	(5) %	Total Operating Expenses	\$ 2,398	\$ 2,382	1	1 %

Fuel expense

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

Aircraft fuel expense decreased \$183 million \$100 million, or 21% 15%, compared to the third first quarter of 2022 2023. The elements of the change are illustrated in the following table:

		Three Months Ended September 30,			
		2023		2022	
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		2024			
		2024			
		2024			
(in millions, except for per gallon amounts)					
(in millions, except for per gallon amounts)					
(in millions, except for per gallon amounts)	(in millions, except for per gallon amounts)				
		Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	Raw or "into-plane" fuel cost	\$ 711	\$ 3.18	\$ 775	\$ 3.80
(Gain)/loss on settled hedges		18	0.08	(29)	(0.14)
Consolidated economic fuel expense		\$ 729	\$ 3.26	\$ 746	\$ 3.66
Raw or "into-plane" fuel cost					
Raw or "into-plane" fuel cost					
Losses on settled hedges					
Losses on settled hedges					
Losses on settled hedges					
Economic fuel expense					
Economic fuel expense					
Economic fuel expense					
Mark-to-market fuel hedge adjustments	Mark-to-market fuel hedge adjustments	(35)	(0.16)	131	0.64
GAAP fuel expense		\$ 694	\$ 3.10	\$ 877	\$ 4.30
Mark-to-market fuel hedge adjustments					

Mark-to-market fuel hedge adjustments					
Aircraft fuel, including hedging gains and losses					
Aircraft fuel, including hedging gains and losses					
Aircraft fuel, including hedging gains and losses					
Fuel gallons	Fuel gallons		224		204
Fuel gallons					
Fuel gallons					

Raw fuel expense decreased 8% 11% in the third first quarter of 2023 2024 compared to the third first quarter of 2022, 2023, due to lower per gallon costs partially offset by increased fuel consumption. Raw fuel expense per gallon on decreased by 16% due to lower all-in jet fuel prices. Jet fuel prices are impacted by the price of crude oil and refining margins associated with the conversion of crude oil to jet fuel, both of which have decreased in the third quarter of 2023 compared to the prior year. Fuel gallons consumed increased 10%, driven by increased capacity. fuel.

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

Losses recognized for hedges that settled during the third first quarter were \$18 million \$13 million in 2023, 2024, compared to gains losses of \$29 million \$12 million in the same period in 2022, 2023. These amounts represent cash paid for premium expense, offset by any cash received from those hedges at settlement. In 2023, we suspended our crude oil hedge program. Our final option position will settle in the first quarter of 2025.

In the second quarter, we expect our economic fuel cost per gallon to range between \$3.00 to \$3.20.

Non-fuel expenses

The table below provides the reconciliation of the operating expense line items, excluding fuel and other special items. Significant operating expense variances from 2022 2023 are more fully described below.

(in millions)	Three Months Ended September 30,		
	2023	2022	% Change
Wages and benefits	\$ 782	\$ 686	14 %
Variable incentive pay	45	48	(6)%
Aircraft maintenance	118	92	28 %
Aircraft rent	48	76	(37)%
Landing fees and other rentals	183	161	14 %
Contracted services	100	83	20 %
Selling expenses	84	82	2 %
Depreciation and amortization	113	104	9 %
Food and beverage service	62	52	19 %
Third-party regional carrier expense	58	53	9 %
Other	185	207	(11)%
Total non-fuel operating expenses, excluding special items	\$ 1,778	\$ 1,644	8 %

(in millions)	Three Months Ended March 31,		
	2024	2023	% Change
Wages and benefits	\$ 804	\$ 723	11 %
Variable incentive pay	44	47	(6)%
Aircraft maintenance	122	124	(2)%
Aircraft rent	47	59	(20)%
Landing fees and other rentals	165	152	9 %

Contracted services	97	95	2 %
Selling expenses	77	66	17 %
Depreciation and amortization	126	104	21 %
Food and beverage service	58	54	7 %
Third-party regional carrier expense	54	52	4 %
Other	205	177	16 %
Total non-fuel operating expenses, excluding special items	\$ 1,799	\$ 1,653	9 %

Wages and benefits

Wages and benefits increased by \$96 million \$81 million, or 14% 11%, in the third first quarter of 2023, 2024. The primary components of Wages and benefits are shown in the following table:

(in millions)	Three Months Ended September 30,			(in millions)	Three Months Ended March 31,			
	(in millions)	2023	2022		2024	2023	% Change	
Wages	Wages	\$602	\$514	17 %	Wages	\$ 609	\$ 558	9 %
Payroll taxes					Payroll taxes	44	41	7 %
Medical and other benefits					Medical and other benefits	83	66	26 %
Defined contribution plans					Defined contribution plans	61	51	20 %
Pension - Defined benefit plans	Pension - Defined benefit plans	7	11	(36) %	Pension - Defined benefit plans	7	7	— %
Defined contribution plans		51	39	31 %				
Medical and other benefits		85	85	— %				
Payroll taxes		37	37	— %				
Total Wages and benefits	Total Wages and benefits	\$782	\$686	14 %	Total Wages and benefits	\$ 804	\$ 723	11 %

Wages increased \$88 million \$51 million, or 17% 9%, on 4% growth in FTEs. When combined with FTE increases, driven by higher wage rates stemming from market adjustments and annual step increases were labor agreements reached with various represented labor groups since the primary driver first quarter of 2023, as well as additional impact from irregular operations following the B737-9 grounding. Increased expense for incremental year-over-year expense for payroll taxes is consistent with the change in wages.

Incremental Increased expense for medical and other benefits was primarily driven by an increase in the cost of medical services compared to the prior year. Increased expense for defined contribution plans was driven by the change in wages as well as higher matching contributions for several various labor groups. Decreased defined benefit expense was driven by changes in actuarial assumptions.

Aircraft maintenance

Aircraft maintenance expense increased by \$26 million, or 28%. We expect to see higher wages and benefits for the remainder of 2024 due to the increase in wage rates and additional agreements we may reach during the third quarter of 2023. The increase was primarily driven by the new B737-900ER power-by-the-hour contract in 2023, as well as increased aircraft utilization, year with represented labor groups.

Aircraft rent

Aircraft rent expense decreased by \$28 million \$12 million, or 37% 20%, in the third first quarter of 2023, 2024. The decrease was primarily driven by the retirement of 23 ten leased A320 aircraft. The A321neo aircraft fleet retirement also contributed to the decrease, as seven aircraft were reclassified from operating leases to finance leases and three aircraft

were purchased during 2023. These decreases were operations, partially offset by delivery the addition of four one leased B737-9 aircraft and one leased B737-800 freighter since the third first quarter of 2022, 2023.

We expect aircraft rent to remain below 2023 levels for the remainder of 2024, due to the net reduction in leased aircraft described above.

Landing fees and other rentals

Landing fees and other rentals increased by \$22 million \$13 million, or 14% 9%, in the third first quarter of 2023, 2024. The increase was driven primarily by higher terminal rent costs resulting from both rate and volume increases at many of our facilities. Landing facilities, as well as non-recurring favorable settlements that were realized in 2023.

We expect landing fees also increased and other rentals to increase for the remainder of 2024 as compared to 2023 due to increased capacity and higher rates and larger landing weights due to a shift in the mix of flying from Regional to Mainline and upgauging our fleet.

Contracted services at airports.

Contracted services Selling expenses

Selling expenses increased by \$17 million \$11 million, or 20% 17%, in the third first quarter of 2024. The increase was primarily driven by increased credit card commissions, as well as timing differences.

We expect selling expenses to increase for the remainder of 2024 as compared to 2023, due primarily to higher sales and an increase in marketing costs as we continue to build our brand.

Depreciation and amortization

Depreciation and amortization increased by \$22 million, or 21%, in the first quarter of 2024. The increase was primarily due to the addition of 22 owned B737 aircraft and ten owned E175 aircraft to our fleet since the first quarter of 2023. The increase was driven primarily by higher rates charged by vendors for services as well as an increase in passengers.

Food Incremental depreciation on ground service and beverage service

Food and beverage service increased by \$10 million, or 19%, in other equipment also contributed to the third quarter of 2023. The increase was driven by a combination of 7% growth in revenue passengers and higher costs for food, food service supplies, and transportation. increase.

Other expense

Other expense decreased increased by \$22 million \$28 million, or 11% 16%, in the third first quarter of 2023, 2024. The decrease increase was primarily driven by one-time employee recognition passenger remuneration and crew hotel costs of \$28 million recorded in due to the third quarter of 2022, partially offset by increases B737-9 grounding. Additional software expenses also contributed to miscellaneous variable costs in 2023 consistent with increased capacity.

the increase.

Special items - fleet transition and other

We recorded expenses associated with the Company's fleet transition of \$156 million \$26 million in the third first quarter of 2023, Refer 2024. These costs consist of certain aircraft maintenance work performed as a result of the fleet retirements, adjustments to Note 2 estimated costs to return the A320 fleet, and holdover rent for Airbus aircraft which have not yet been returned to the consolidated financial statements for lessor as of the lease expiration date.

Special items - integration costs

We recorded \$8 million in integration costs associated with our proposed acquisition of Hawaiian Airlines. These costs primarily consist of professional services fees. We expect to incur additional details. integration costs as activities supporting the proposed acquisition continue.

ADDITIONAL SEGMENT INFORMATION

Refer to Note 10 11 to the consolidated financial statements for a detailed description of each segment. Below is a summary of each segment's results.

Mainline

Mainline operations reported an adjusted pretax profit of \$326 million in the third quarter of 2023, compared to a profit of \$446 million in the same period in 2022. The \$120 million decrease was driven primarily by a \$132 million increase in non-fuel operating expenses. Compared to the prior year, non-fuel operating expenses increased primarily due to higher wage rates across various labor groups. Higher variable costs, largely consistent with the overall growth in capacity and departures, also contributed to the increase.

Regional

Regional operations reported adjusted pretax profit of \$1 million in the third quarter of 2023, compared to a loss of \$2 million in the same period in 2022. The \$3 million improvement was driven by decreased fuel expense on less capacity and a lower price per gallon, partially offset by decreased revenue on less capacity and higher wage rates.

Horizon

Horizon reported an adjusted pretax profit of \$4 million in the third quarter of 2023, compared to a loss of \$6 million in the same period in 2022. The \$10 million improvement was driven by updates to internal rates under Horizon's CPA with Alaska and cost savings following Horizon's transition to a single fleet. These improvements were partially offset by higher interest expense associated with debt financing of new E175 deliveries in 2023.

COMPARISON OF NINE MONTHS ENDED SEPTEMBER 30, 2023 TO NINE MONTHS ENDED SEPTEMBER 30, 2022

Our consolidated net income for the nine months ended September 30, 2023 was \$237 million, or \$1.84 per share, compared to consolidated net income of \$36 million, or \$0.28 per share, for the nine months ended September 30, 2022.

Our adjusted net income for the nine months ended September 30, 2023 was \$545 million, or \$4.22 per share, compared to adjusted net income of \$438 million, or \$3.42 per share, for the nine months ended September 30, 2022. The following table reconciles our adjusted net income and adjusted EPS to amounts as reported in accordance with GAAP:

(in millions, except per share amounts)	Nine Months Ended September 30,			
	2023		2022	
	Dollars	Diluted EPS	Dollars	Diluted EPS
GAAP net income per share	\$ 237	\$ 1.84	\$ 36	\$ 0.28
Mark-to-market fuel hedge adjustments	(14)	(0.11)	64	0.50
Special items - fleet transition and other	355	2.75	376	2.94
Special items - labor and related	51	0.39	90	0.70
Special items - net non-operating	14	0.11	—	—
Income tax effect of reconciling items above	(98)	(0.76)	(128)	(1.00)
Non-GAAP adjusted net income per share	\$ 545	\$ 4.22	\$ 438	\$ 3.42

CASM excluding fuel and special items reconciliation is summarized below:

(in cents)	Nine Months Ended September 30,		
	2023	2022	% Change
Consolidated:			
CASM	14.60 ¢	15.56 ¢	(6)%
Less the following components:			
Aircraft fuel, including hedging gains and losses	3.76	4.37	(14)%
Special items - fleet transition and other	0.69	0.82	(16)%
Special items - labor and related	0.10	0.20	(50)%
CASM excluding fuel and special items	10.05 ¢	10.17 ¢	(1)%
Mainline:			
CASM	13.47 ¢	14.59 ¢	(8)%
Less the following components:			
Aircraft fuel, including hedging gains and losses	3.49	4.44	(21)%
Special items - fleet transition and other	0.75	0.69	9 %
Special items - labor and related	0.11	0.22	(50)%
CASM excluding fuel and special items	9.12 ¢	9.24 ¢	(1)%

OPERATING REVENUE

Total operating revenue increased \$706 million, or 10%, during the first nine months of 2023 compared to the same period in 2022. The changes are summarized in the following table:

(in millions)	Nine Months Ended September 30,		
	2023	2022	% Change
Passenger revenue	\$ 7,200	\$ 6,544	10 %
Mileage Plan other revenue	483	433	12 %
Cargo and other revenue	190	190	— %
Total Operating Revenue	\$ 7,873	\$ 7,167	10 %

Passenger revenue

On a consolidated basis, Passenger revenue for the first nine months of 2023 increased by \$656 million, or 10%, on a 12% increase in passenger traffic, partially offset by a 2% decrease in yield. The increase was primarily driven by increased departures flown by larger aircraft in our Mainline fleet. Redemptions by Mileage Plan members also provided a benefit over the prior year, with greater redemption on both Alaska and partner airlines.

We expect to see fourth quarter Passenger revenue consistent with the prior year due to increases in passenger traffic being offset by decreased yields.

Mileage Plan other revenue

On a consolidated basis, Mileage Plan other revenue increased \$50 million, or 12%, in the first nine months of 2023. The increase was driven by higher commissions from our bank card partners due to increased spend levels, annual membership fees, and credit card acquisitions.

We expect to see continued strength in Mileage Plan other revenue for the remainder of 2023, enabled by higher commissions from increased card spend.

OPERATING EXPENSES

Total operating expenses increased \$391 million, or 5%, compared to the first nine months of 2022. We believe it is useful to summarize operating expenses as follows, which is consistent with the way expenses are reported internally and evaluated by management:

(in millions)	Nine Months Ended September 30,		
	2023	2022	% Change
Fuel expense	\$ 1,932	\$ 2,000	(3) %
Non-fuel operating expenses, excluding special items	5,173	4,654	11 %
Special items - fleet transition and other	355	376	(6) %
Special items - labor and related	51	90	(43) %
Total Operating Expenses	\$ 7,511	\$ 7,120	5 %

Fuel expense

Aircraft fuel expense decreased \$68 million, or 3%, compared to the nine months ended September 30, 2022. The elements of the change are illustrated in the table:

(in millions, except for per gallon amounts)	Nine Months Ended September 30,			
	2023		2022	
	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	\$ 1,899	\$ 3.06	\$ 2,103	\$ 3.67
(Gain)/loss on settled hedges	47	0.08	(167)	(0.29)
Consolidated economic fuel expense	\$ 1,946	\$ 3.14	\$ 1,936	\$ 3.38
Mark-to-market fuel hedge adjustments	(14)	(0.02)	64	0.11
GAAP fuel expense	\$ 1,932	\$ 3.12	\$ 2,000	\$ 3.49
Fuel gallons		620		573

Raw fuel expense decreased 10% in the first nine months of 2023 compared to the first nine months of 2022, due to lower per gallon costs, partially offset by increased fuel consumption. Raw fuel expense per gallon decreased by approximately 17% due to lower all-in jet fuel prices. Jet fuel prices are impacted by the price of crude oil and refining margins associated with the conversion of crude oil to jet fuel, both of which have decreased in the first nine months of 2023 compared to the prior year. Fuel gallons consumed increased 8%, driven by increased capacity.

Economic fuel expense includes losses recognized for hedges that settled in the first nine months of 2023 of \$47 million, compared to gains of \$167 million in the same period in 2022. These amounts represent cash paid for premium expense, offset by any cash received from those hedges at settlement.

We expect our economic fuel cost per gallon in the fourth quarter to range between \$3.30 to \$3.40 per gallon.

Non-fuel expenses

(in millions)	Nine Months Ended September 30,		
	2023	2022	% Change
Wages and benefits	\$ 2,259	\$ 1,931	17 %
Variable incentive pay	149	140	6 %
Aircraft maintenance	367	331	11 %

Aircraft rent	161	222	(27) %
Landing fees and other rentals	502	435	15 %
Contracted services	290	243	19 %
Selling expenses	231	218	6 %
Depreciation and amortization	330	310	6 %
Food and beverage service	176	143	23 %
Third-party regional carrier expense	164	145	13 %
Other	544	536	1 %
Total non-fuel operating expenses, excluding special items	\$ 5,173	\$ 4,654	11 %

Wages and benefits

Wages and benefits increased by \$328 million, or 17%, in the first nine months of 2023. The primary components of wages and benefits are shown in the following table:

(in millions)	Nine Months Ended September 30,		
	2023	2022	% Change
Wages	\$ 1,736	\$ 1,467	18 %
Pension - Defined benefit plans	22	34	(35) %
Defined contribution plans	151	116	30 %
Medical and other benefits	228	207	10 %
Payroll taxes	122	107	14 %
Total Wages and benefits	\$ 2,259	\$ 1,931	17 %

Wages increased \$269 million, or 18%, on 5% growth in FTEs. When combined with FTE increases, higher wage rates stemming from market adjustments and annual step increases were the primary driver for incremental year-over-year expense for wages and related taxes. Higher stock-based compensation also contributed to the increase in wages, driven by additional stock award grants within the period.

Incremental expense for defined contribution plans was driven by the change in wages as well as higher matching contributions for several labor groups. Increased expense for medical and other benefits was primarily driven by an increase in claims compared to the prior year and incremental FTEs. Decreased defined benefit expense was driven by changes in actuarial assumptions.

We expect to see higher wages and benefits for the remainder of 2023 due to the increase in wage rates. Wages and benefits could also increase further in 2023 due to agreements we may reach in the fourth quarter with represented labor groups.

Aircraft maintenance

Aircraft maintenance expense increased by \$36 million, or 11%, in the first nine months of 2023. The increase was primarily driven by the new B737-900ER power-by-the-hour contract and increased aircraft utilization, partially offset by \$35 million of lease return costs in the first quarter of 2022 that did not recur in 2023 as all lease return costs associated with the Company's fleet transition have been recorded to Special items - fleet transition and other since the announcement of our fleet transition plan in the second quarter of 2022.

We expect aircraft maintenance to increase for the remainder of 2023 as compared to 2022 due primarily to the B737-900ER power-by-the-hour contract, which will total approximately \$100 million for the year. Higher aircraft utilization will also contribute to an increase in aircraft maintenance.

Aircraft rent

Aircraft rent expense decreased by \$61 million, or 27%, in the first nine months of 2023. The decrease was driven by the retirement of 23 leased A320 aircraft. The A321neo fleet retirement also contributed to the decrease, as seven aircraft were reclassified from operating leases to finance leases and three aircraft were purchased during 2023. These decreases were partially offset by delivery of four leased B737-9 aircraft since the third quarter of 2022.

We expect aircraft rent will remain below 2022 levels for the remainder of 2023, due to the net reduction in overall leased aircraft described above.

Landing fees and other rentals

Landing fees and other rentals increased by \$67 million, or 15%, in the first nine months of 2023. The increase was driven primarily by higher terminal rent costs resulting from both rate and volume increases at many of our facilities. Landing fees also increased due to higher rates and larger landing weights due a shift in the mix of flying from Regional to Mainline and upgauging our fleet.

We expect landing fees and other rentals to increase for the remainder of 2023 as compared to 2022 due to increased capacity and higher rates at airports.

Contracted services

Contracted services increased by \$47 million, or 19%, in the first nine months of 2023. The increase was primarily driven by higher rates charged by vendors for services as well as an increase in passengers.

We expect contracted services to increase for the remainder of 2023 as compared to 2022 due to the reasons described above.

Food and beverage service

Food and beverage service increased by \$33 million, or 23%, in the first nine months of 2023. The increase was driven by a combination of 8% growth in revenue passengers and higher costs for food, food service supplies, and transportation.

We expect the factors described above will continue to have a similar impact on food and beverage service for the remainder of 2023 as compared to 2022.

Third-party regional carrier expense

Third-party regional carrier expense, which represents payments made to SkyWest under the CPA with Alaska, increased \$19 million, or 13%, in the first nine months of 2023. The increase in third-party regional carrier expense is driven by incremental SkyWest-operated departures. SkyWest departures have risen due to the annualization of ten E175 aircraft operating under the CPA which were delivered during the first half of 2022. Higher wage rates for flight crews have also contributed to the increase.

We expect third-party regional carrier expense will continue to be higher for the remainder of 2023 as compared to 2022 due to incremental departures and block hours, as well as higher wage rates for flight crews.

Other expense

Other expense increased \$8 million, or 1%, in the first nine months of 2023. Costs increased as a result of crew-related expenses due to contract improvements for Alaska pilots, coupled with additional professional services and software expenses. These increases were partially offset by one-time employee recognition costs of \$28 million recorded in the third quarter of 2022.

We expect other expense will continue to be higher for the remainder of 2023 as compared to 2022 due to overall growth throughout our network.

Special items - fleet transition

We recorded expenses associated with the Company's fleet transition of \$355 million in the first nine months of 2023. Refer to Note 2 to the consolidated financial statements for additional details.

Special items - labor and other

We recorded a nonrecurring expense of \$51 million in the first quarter of 2023 due to a Letter of Agreement with Alaska pilots, represented by ALPA. The charge is a one-time adjustment of accrued benefits related to expected future cash payments of pilots' unused sick leave upon retirement.

ADDITIONAL SEGMENT INFORMATION

Refer to Note 10 to the consolidated financial statements for a detailed description of each segment. Below is a summary of each segment's results.

Mainline

Mainline operations reported an adjusted pretax profit loss of \$757 million \$162 million in the first nine months quarter of 2023, 2024, compared to a profit loss of \$647 million \$84 million in the same period in 2022, 2023. The \$110 million improvement \$78 million decrease was driven by decreased passenger revenue as a \$708 million increase in operating revenue, partially offset by a \$534 million increase in result of the B737-9 grounding, as well as increased non-fuel operating expense and a \$49 million increase in fuel expense.

As compared to the prior year, higher revenue is expenses, which were primarily attributable to a 15% increase in traffic driven by the increase in capacity. Non-fuel operating expenses increased, driven by higher wage rates across various labor groups and higher variable incremental ownership costs largely consistent associated with 22 owned B737 aircraft added to Alaska's fleet since the overall growth in capacity first quarter of 2023. These increases were partially offset by decreased fuel costs due to lower per gallon costs and departures. Additional fewer gallons consumed and prior year gains from settled hedges drove the increase in fuel expense. consumed.

Regional

Regional operations reported an adjusted pretax loss of \$13 million \$2 million in the first nine months quarter of 2023, 2024, compared to a loss of \$59 million \$19 million in the same period in 2022, 2023. The \$46 million \$17 million improvement was primarily driven by decreased fuel expense due to a lower price per gallon and fewer gallons consumed. higher passenger revenue consistent with the increase in traffic, partially offset by higher operating expenses driven by increased capacity.

Horizon

Horizon reported an adjusted pretax loss profit of \$15 million \$5 million in the first nine months quarter of 2023, 2024, compared to a loss of \$18 million \$14 million in the same period in 2022, 2023. The \$3 million \$19 million improvement was driven by decreased operating expenses incremental revenue consistent with less flying and other increased capacity sold

to Alaska, as well as cost savings following Horizon's reductions resulting from Horizon's transition to a single fleet, as well as updates to internal rates under Horizon's CPA with Alaska fleet. These improvements were partially offset by lower overall CPA revenue consistent with less flying, as well as higher interest expense associated with debt financing increased expenses driven by the addition of new ten owned E175 deliveries in aircraft added to Horizon's fleet since the first quarter of 2023.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are:

- Existing cash and marketable securities of \$2.5 billion \$2.3 billion;
- Cash flows from operations of \$1.1 billion \$292 million;
- 62 Our Mileage Plan program and 63 unencumbered aircraft that which could be financed, if necessary;
- Combined bank line-of-credit facilities, with no outstanding borrowings, of \$550 million.

During the three months ended September 30, 2023 March 31, 2024, we took free and clear delivery of five owned Boeing 737-9 aircraft. We incurred new of debt of \$361 million \$195 million and made debt payments totaling \$93 million of \$102 million. We ended the quarter with a debt-to-capitalization ratio of 48% 47%, within our target range of 40% to 50%. We continued share repurchases, spending \$13 million \$21 million in the third first quarter, pursuant to the \$1 billion repurchase plan authorized by the Board of Directors in August 2015.

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

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

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

(in millions)	(in millions)	September December			(in millions)	March 31,		December		Change
		30, 2023	31, 2022	Change		2024		31, 2023		
Cash and marketable securities	Cash and marketable securities	\$ 2,451	\$ 2,417	1 %	Cash and marketable securities	\$ 2,278	\$	\$ 1,791	27 %	27 %
Cash, marketable securities, and unused lines of credit as a percentage of trailing twelve months' revenue	Cash, marketable securities, and unused lines of credit as a percentage of trailing twelve months' revenue	29 %	29 %	—	Cash, marketable securities, and unused lines of credit as a percentage of trailing twelve months' revenue	27 %		22 %		5 pts
Long-term debt, net of current portion	Long-term debt, net of current portion	2,128	1,883	13%	Long-term debt, net of current portion	2,264	2,182	2,182	4%	4%
Shareholders' equity	Shareholders' equity	\$ 4,093	\$ 3,816	7%	Shareholders' equity	\$ 3,977	\$	\$ 4,113	(3)%	(3)%
Debt-to-capitalization, including operating and finance leases	Debt-to-capitalization, including operating and finance leases									
(in millions)	(in millions)									
(in millions)	(in millions)									
(in millions)	(in millions)	September 30, 2023	December 31, 2022	Change	March 31, 2024			December 31, 2023		Change

Long-term debt, net of current portion	Long-term debt, net of current portion	\$ 2,128	\$ 1,883	13%	Long-term debt, net of current portion	\$2,264	\$	\$	2,182	4%		4%
Capitalized operating leases	Capitalized operating leases	1,263	1,621	(22)%	Capitalized operating leases	1,256	1,283		1,283	(2)%		(2)%
Capitalized finance leases ^(a)	Capitalized finance leases ^(a)	452	—	NM	Capitalized finance leases ^(a)	—	64		64	NM		NM
Adjusted debt, net of current portion of long-term debt	Adjusted debt, net of current portion of long-term debt	\$ 3,843	\$ 3,504	10%	Adjusted debt, net of current portion of long-term debt	\$3,520	\$	\$	3,529	—%		—%
Shareholders' equity	Shareholders' equity	4,093	3,816	7%	Shareholders' equity	3,977	4,113		4,113	(3)%		(3)%
Total invested capital	Total invested capital	\$ 7,936	\$ 7,320	8%	Total invested capital	\$7,497	\$	\$	7,642	(2)%		(2)%
Debt-to-capitalization, including operating and finance leases	Debt-to-capitalization, including operating and finance leases	48 %	48 %	—								
Debt-to-capitalization, including operating and finance leases	Debt-to-capitalization, including operating and finance leases											
Debt-to-capitalization, including operating and finance leases	Debt-to-capitalization, including operating and finance leases					47 %			46 %		1 pt	

(a) To best reflect our leverage at **September 30, 2023** **December 31, 2023**, we included our capitalized finance lease balances, which are recognized within the Current portion of long-term debt and finance leases line in the condensed consolidated balance sheets.

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

(in millions)	(in millions)	September 30, 2023	December 31, 2022	(in millions)	March 31, 2024	December 31, 2023
Current portion of long-term debt and finance leases	Current portion of long-term debt and finance leases	\$ 736	\$ 276			
Current portion of operating lease liabilities	Current portion of operating lease liabilities	150	228			
Long-term debt	Long-term debt	2,128	1,883			
Long-term operating lease liabilities, net of current portion	Long-term operating lease liabilities, net of current portion	1,113	1,393			

Total adjusted debt	Total adjusted debt	4,127	3,780
Less: Cash and marketable securities	Less: Cash and marketable securities	2,451	2,417
Adjusted net debt	Adjusted net debt	\$ 1,676	\$ 1,363
		Twelve Months Ended September 30, 2023	Twelve Months Ended December 31, 2022
(in millions)	(in millions)	30, 2023	31, 2022
(in millions)			
(in millions)			
		Twelve Months Ended March 31, 2024	Twelve Months Ended December 31, 2023
GAAP Operating Income ^(a)	GAAP Operating Income ^(a)	\$ 385	\$ 70
Adjusted for:	Adjusted for:		
Special items	Special items		
Special items	Special items		
Special items	Special items	520	580
Mark-to-market fuel hedge adjustments	Mark-to-market fuel hedge adjustments	(2)	76
Depreciation and amortization	Depreciation and amortization	435	415
Aircraft rent	Aircraft rent	230	291
EBITDAR	EBITDAR	\$ 1,568	\$ 1,432
Adjusted net debt to EBITDAR	Adjusted net debt to EBITDAR	1.1x	1.0x
Adjusted net debt to EBITDAR	Adjusted net debt to EBITDAR	1.1x	1.4x

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

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

ANALYSIS OF OUR CASH FLOWS

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

Cash Provided by Operating Activities

For the first nine three months of 2023, 2024, net cash provided by operating activities was \$1.1 billion \$292 million, compared to \$1.4 billion \$222 million in 2022, 2023. Cash provided by ticket sales and from our co-branded credit card agreement are the primary sources of our operating cash flow. Our primary use of operating cash flow is for operating expenses, including payments for employee wages and benefits, payments to suppliers for goods and services, and payments to lessors and airport authorities for rents and landing fees. Operating cash flow also includes payments to, or refunds from, federal, state, and local taxing authorities.

The \$306 million \$70 million net decrease increase in our operating cash flows was due to a combination of factors. Payments made in 2024 for our 2023 incentive pay program were approximately \$60 million lower than payments in 2023 for our 2022 operating cash flows included federal income tax refunds of \$260 million. program. Additionally, growth in our air traffic liability decreased \$125 million and payments made increased \$35 million in 2023 for our 2022 performance-based pay program were approximately \$110 million higher than payments in 2022 for our 2021 program. the first quarter compared to the prior year. These amounts were partially offset by an improved net income compared to the prior year. other changes in working capital accounts.

Cash Used in Provided by Investing Activities

Cash **used in** provided by investing activities was **\$810 million** \$318 million during the first **nine** three months of **2023**, 2024, compared to **\$888 million** \$60 million in **2022**, 2023. The change was due to a combination of factors. Marketable securities activity was \$287 million of net sales during In the first nine months quarter, the Company received \$162 million in compensation from Boeing related to the B737-9 grounding, which is presented as Supplier proceeds. Total property and equipment expenditures decreased \$67 million as we took no deliveries of **2023**, B737-9 aircraft in the first quarter of 2024 compared to **\$61 million** three owned B737-9 deliveries in **2022**. This amount was the prior period, and due to changes in contractual terms of our aircraft purchase deposit schedule with Boeing. Cash flows from other investing activities increased \$96 million due to the sale of certain A321neo aircraft. These changes were partially offset by an increase in capital expenditures, decreased cash flows from net sales of marketable securities, which were **\$44 million** higher **\$120 million** in 2024, compared to **2022**. Cash used **\$187 million** in investing during the first nine months of 2023 was also impacted by the purchase of three previously leased A321neo aircraft, included in Other investing activities, which are expected to be sold to American Airlines in the fourth quarter of 2023 and first quarter of 2024.

2023.

Cash **Provided by (Used in)** **Used in** Financing Activities

Cash **provided by** financing activities was \$12 million during the first nine months of 2023, compared to cash used in financing activities was \$5 million during the first three months of \$296 million 2024, compared to \$114 million in **2022**, 2023. The change was largely driven by **\$313 million** \$149 million in new debt proceeds and \$91 million less in payments for outstanding long-term debt **2024** compared to **2022**. These amounts were zero in 2023, partially offset by common stock repurchases of \$70 million increased cash used in **2023** and a decrease of cash flows from other financing activities, of **\$26 million**, which the settlement of our final A321neo finance lease was the largest component.

MATERIAL CASH COMMITMENTS

Material cash requirements include the following contractual and other obligations: obligations. In prior filings, we had indicated our expected capital expenditures for 2024 would be approximately \$1.4 billion to \$1.5 billion. Based on management's assumptions regarding aircraft delivery delays in 2024, described in more detail below, we now expect 2024 capital expenditures to be approximately \$1.2 billion to \$1.3 billion.

Aircraft Commitments

As of **September 30, 2023** March 31, 2024, Alaska **has had** firm orders to purchase **89** 80 B737 aircraft with deliveries between **2023** 2024 and **2027** and a firm commitment to lease one B737-9 aircraft with delivery in 2023, 2027. Alaska has also had rights for 105 additional B737-10 B737 aircraft between 2026 and through 2030. Alaska also has commitments to lease two B737-800 freighters with deliveries in 2023 and 2024.

Alaska continues to experience delivery delays of B737 aircraft. Boeing has communicated to Alaska that certain B737 deliveries contracted in 2023 aircraft are expected to be delivered later than the contracted delivery dates provided to Alaska. This includes certain B737-10 aircraft contracted for delivery in 2025 that have been moved to 2026, pending certification of the B737-10. We have incorporated these adjustments in the tables below, however, management expects that other Boeing aircraft deliveries may also be delayed into 2024. The anticipated fleet later than negotiated delivery schedule outlined below reflects the expected impact of these delays. Alaska continues to work with Boeing to structure delivery timelines in a manner that supports Alaska's capacity growth plans. timeframes.

As of **September 30, 2023** March 31, 2024, Horizon **has had** commitments to purchase **nine** seven E175 aircraft with deliveries between 2024 and 2026. Horizon **has also had** options to acquire **13** seven E175 aircraft between 2025 and 2026. The remaining E175 deliveries delivery expected through the end of in 2024 are is covered under a financing agreement executed in the second quarter of 2023. Capital expenditures for these deliveries, this delivery, which are included within aircraft-related commitments in the contractual obligations table below, will be reflected as a non-cash transaction in the condensed consolidated statements of cash flows. Subsequent to quarter end, two of Horizon's **13** seven E175 options expired.

Options will be exercised only if we believe return on invested capital targets can be met over the long term. We intend to finance future aircraft deliveries and option exercises using cash flow from operations or long-term debt.

To best The following table summarizes our fleet plan based on contractual terms, with adjustments to reflect our expectations of future fleet activity, we have incorporated anticipated delivery delays and other modifications of our order book as agreed to in principle with Boeing into the following table, which summarizes our expected fleet count communicated by year, as of November 2, 2023; Boeing:

Aircraft	Actual Fleet		Anticipated Fleet Activity				
	September 30, 2023	2023 Changes	Dec 31,	2024 Changes	Dec 31,	2025 Changes	Dec 31,
			2023		2024		2025
B737-700 Freighters	3	—	3	—	3	—	3
B737-800 Freighters	—	1	1	1	2	—	2
B737-700	11	—	11	—	11	—	11
B737-800	59	—	59	—	59	—	59
B737-900	12	—	12	—	12	—	12
B737-900ER	79	—	79	—	79	—	79
B737-8	—	1	1	7	8	12	20
B737-9	56	8	64	17	81	—	81
B737-10	—	—	—	—	—	11	11
Total Mainline Fleet	220	10	230	25	255	23	278
E175 operated by Horizon	41	—	41	3	44	3	47

E175 operated by third party	42	—	42	—	42	1	43
Total Regional Fleet	83	—	83	3	86	4	90
Total	303	10	313	28	341	27	368

Aircraft	Actual Fleet		Anticipated Fleet Activity				
	March 31, 2024	2024 Changes	Dec 31, 2024	2025 Changes	Dec 31, 2025	2026 Changes	Dec 31, 2026
B737-700 Freighters	3	—	3	—	3	—	3
B737-800 Freighters	1	1	2	—	2	—	2
B737-700	11	—	11	—	11	—	11
B737-800	59	—	59	—	59	—	59
B737-900	12	—	12	—	12	—	12
B737-900ER	79	—	79	—	79	—	79
B737-8	1	7	8	12	20	—	20
B737-9	64	16	80	—	80	—	80
B737-10	—	—	—	—	—	30	30
Total Mainline Fleet	230	24	254	12	266	30	296
E175 operated by Horizon	43	1	44	3	47	3	50
E175 operated by third party	42	—	42	1	43	—	43
Total Regional Fleet	85	1	86	4	90	3	93
Total	315	25	340	16	356	33	389

Fuel Hedge Positions

All In 2023, we suspended our crude oil hedge program. Existing positions entered into before suspension of our the program will settle through the first quarter of 2025. All 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. We typically Prior to suspension, our program was designed to hedge on up to 50% of our expected consumption. Our crude oil positions are as follows:

	Approximate % of Expected Fuel Requirements		Weighted-Average Crude Oil Price per Barrel	Average Premium Cost per Barrel	Approximate % of Expected Fuel Requirements		Weighted-Average Crude Oil Price per Barrel	Average Premium Cost per Barrel
Fourth Quarter of 2023	50	%	\$96	\$7				
Full Year 2023	50	%	\$96	\$7				
First Quarter of 2024	50	%	\$90	\$5				
Second Quarter of 2024								
Second Quarter of 2024								
Second Quarter of 2024	40	%	\$90	\$5	40	%	\$90	\$5
Third Quarter of 2024	30	%	\$88	\$5	30	%	\$88	\$5
Fourth Quarter of 2024	20	%	\$87	\$5	20	%	\$87	\$5

Full Year 2024	Full Year 2024	35	%	\$89	\$5	Full Year 2024	30	%	\$88	\$5
First Quarter of 2025	First Quarter of 2025	10	%	\$92	\$5	First Quarter of 2025	10	%	\$92	\$5
Full Year 2025	Full Year 2025	2	%	\$92	\$5	Full Year 2025	2	%	\$92	\$5

Contractual Obligations

The following table provides a summary of our obligations as of November 2, 2023 and reflects anticipated delivery delays and other modifications of our order book as agreed to in principle with Boeing, March 31, 2024. For agreements with variable terms, amounts included reflect our minimum obligations.

(in millions)	(in millions)	Remainder of 2023	2024	2025	2026	2027	Beyond 2027	Total	(in millions)	Remainder of 2024	2025	2026	2027	2028	Beyond 2028	Total
Debt obligations	Debt obligations	\$ 45	\$ 286	\$ 343	\$ 292	\$ 597	\$ 864	\$ 2,427								
Lease commitments(a)	Lease commitments(a)	454	265	195	194	188	841	2,137								
Aircraft-related commitments(b)	Aircraft-related commitments(b)	460	1,211	1,337	1,093	587	591	5,279								
Interest obligations(c)	Interest obligations(c)	23	120	104	102	92	150	591								
CPA and other obligations	CPA and other obligations	56	224	227	219	220	739	1,685								
Total	Total	\$ 1,038	\$2,106	\$2,206	\$1,900	\$1,684	\$ 3,185	\$12,119								

(a) Lease commitments include minimum payments for aircraft operated under (operating and non-operating) with associated operating leases and aircraft removed from operating service which remain under operating and finance leases, as we have remaining cash obligations under existing terms. It also includes minimum lease payments for facilities.

(b) Includes contractual commitments for aircraft, engines, and aircraft maintenance, maintenance, and incorporates the impact of expected delays for certain B737 aircraft as communicated by Boeing. Option deliveries are excluded from minimum commitments until exercise.

(c) For variable-rate debt, future obligations are shown above using interest rates forecast as of September 30, 2023 March 31, 2024.

Debt Obligations and Interest Obligations

The Company primarily issues debt to fund purchases of aircraft or other capital expenditures. During the nine months ended September 30, 2023, the Company incurred new debt of \$495 million and repaid \$242 million in existing debt. At September 30, 2023 March 31, 2024, our debt portfolio carries a weighted average interest rate of 4.3% 4.6%. Interest is paid with regular debt service. Debt service obligations remaining in 2024 are expected to be approximately \$300 million, inclusive of interest and principal. Refer to Note 5 to the consolidated financial statements for further discussion of our debt and interest balances.

CPA and Other Obligations

We have obligations primarily associated with the non-lease components of our capacity purchase agreement agreements between Alaska and SkyWest, as well as other various sponsorship agreements and investment commitments.

Leased Aircraft Return Costs

For many of our leased aircraft, contractual terms require us to return the aircraft in a specified state. As a result of these contractual terms, we will incur significant costs to return these aircraft at the termination of the lease. Costs to return leased aircraft are accrued when the costs are probable and reasonably estimable, usually over the twelve months prior to the lease return or any expected early retirement date, unless a determination is made to remove the leased asset from operation. If the leased aircraft is removed from the operating fleet, the estimated cost to return is accrued at the time of removal. If a leased aircraft has a known early retirement date in the future, the estimated cost to Lease return is accrued through the retirement date. Any accrual is estimates are 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. A total of \$165 At March 31, 2024, \$90 million is accrued for upcoming lease returns, at September 30, 2023, including costs recorded and classified within Other accrued liabilities in prior year periods. the consolidated balance sheets.

Credit Card Agreements

Alaska has 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.

Sustainability Commitments

As part of our efforts to reach net-zero carbon emissions by 2040, we have outlined a five-part path that we expect to include includes operational efficiency, fleet renewal, sustainable aviation fuel (SAF), enabling investing in new technologies, including zero emission aircraft in the future, and using credible offsetting and removal technologies to close the gaps to our emissions target in future years. We anticipate these efforts will require cash outlays, not all of which are reflected in our contractual commitments. Finding and establishing relationships with suppliers to meet these commitments is in process. Currently, Alaska has certain agreements to purchase approximately 200 million gallons of neat SAF to be delivered through 2030, in the coming years. These agreements are dependent on suppliers' ability to obtain all required governmental and regulatory approvals, achieve commercial operation, and produce sufficient quantities of SAF. Financial commitments that have been contractually established and have met defined minimum obligations, including those related to Alaska Star Ventures, are included within the CPA and other obligations row in the above table.

Income Taxes

For federal income tax purposes, the majority of our property and equipment 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 property and equipment difference will reverse into taxable income, potentially resulting in an increase in income taxes payable.

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, among other factors out of our control), whether bonus depreciation provisions are available, as well as other legislative changes beyond our control. We believe we have the liquidity to make our future tax payments.

Proposed Acquisition of Hawaiian Holdings Inc.

On December 2, 2023, the Company entered into a definitive agreement to acquire Hawaiian Holdings, Inc. (Hawaiian). The Company has agreed to pay Hawaiian's shareholders \$18.00 per share, or approximately \$1.0 billion, in cash for the outstanding shares of Hawaiian. In addition, the Company expects to assume Hawaiian's debt and lease obligations on the date of acquisition. The acquisition is dependent on approval by various regulatory bodies and other customary closing conditions. The Company expects to fund this acquisition through a combination of existing cash and marketable securities, new debt, as well as other available sources of liquidity.

CRITICAL ACCOUNTING ESTIMATES

There have been no material changes to our critical accounting estimates during the three and nine months ended September 30, 2023 March 31, 2024. For information regarding our critical accounting estimates, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023.

GLOSSARY OF AIRLINE TERMS

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

Adjusted net debt to EBITDAR - represents net 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; represents all operating expenses including fuel, freighter costs, and special items

CASMex - operating costs excluding fuel, freighter costs, and special items per ASM, or "unit cost"; 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 and finance leases) 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 settled our fuel-hedging contracts in program

Freighter Costs - operating expenses directly attributable to the period operation of Alaska's Boeing 737 freighter aircraft exclusively performing cargo missions

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 A320, and Airbus A321neo jets and all associated revenue and costs

Productivity PRASM- number of passenger revenue passengers per full-time equivalent employee ASM, or "passenger unit revenue"

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

Regional- represents capacity purchased by Alaska from Horizon and SkyWest. In Financial results in this segment Regional records 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 Air Group and on behalf of Horizon, Horizon

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There have been no material changes in market risk from the information provided in Item 7A. "Quantitative and Qualitative Disclosure About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2023 March 31, 2024, an evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer (collectively, our "certifying officers"), of the effectiveness of the design and operation of our disclosure controls and procedures. These disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in our periodic reports filed with or submitted to the Securities and Exchange Commission (the SEC) is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and includes, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our certifying officers, as appropriate, to allow timely decisions regarding required disclosure. Our certifying officers concluded, based on their evaluation, that disclosure controls and procedures were effective as of September 30, 2023 March 31, 2024.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2023 March 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

PART II

ITEM 1. LEGAL PROCEEDINGS

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

As part of the 2016 acquisition of Virgin America, Alaska assumed responsibility for the Virgin trademark license agreement with the Virgin Group. In 2019, pursuant to that agreement's venue provision, the Virgin Group sued Alaska in England, alleging that the agreement requires Alaska to pay \$8 million per year as a minimum annual royalty through 2039, adjusted annually for inflation and irrespective of Alaska's actual use (or non-use) of the mark. The possible range of contractual liability is between \$10 million and \$160 million. Alaska stopped making royalty payments in 2019 after ending all use of the Virgin brand. On February 16, 2023, the commercial court issued a ruling adopting Virgin Group's interpretation of the license agreement. The Company has appealed the decision and believes the claims in the case are without factual and legal merit, a position supported by Virgin America's representations during pre-merger due diligence. Alaska also commenced a separate claim for breach of the agreement against the Virgin Group that may affect the Company's total liability in the matter.

On April 15, 2024, a private antitrust action captioned *Warren Yoshimoto, et al., v. Alaska Airlines, Inc., et al.* was filed in the United States District Court for the District of Hawaii, against Alaska Airlines, Inc. and Alaska Air Group, Inc. The plaintiffs, whom the complaint describes as airline passengers, allege that the pending acquisition of Hawaiian Airlines, Inc. by Alaska Airlines, Inc. would violate U.S. antitrust laws. They seek to enjoin the merger or obtain divestitures, as well as costs and attorneys' fees. The Company believes the allegations in the complaint are without merit and will defend against them vigorously, while continuing to work cooperatively with the U.S. Department of Justice to obtain regulatory clearance to close the acquisition.

ITEM 1A. RISK FACTORS

See Part I, Item 1A. "Risk Factors," in our 2022 2023 Form 10-K for a detailed discussion of risk factors affecting Alaska Air Group.

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

This table provides certain information with respect to our purchases of shares of our common stock during the third first quarter of 2023, 2024.

	Total Number of Shares Purchased	Average Price Paid per Share	Maximum remaining dollar value of shares that can be purchased under the plan (in millions)
July 1, 2023 - July 31, 2023	141,538	\$ 51.08	
August 1, 2023 - August 31, 2023	107,450	\$ 46.99	
September 1, 2023 - September 30, 2023	—	\$ —	
Total	248,988	\$ 49.32	\$ 387

	Total Number of Shares Purchased	Average Price Paid per Share	Maximum remaining dollar value of shares that can be purchased under the plan (in millions)
January 1, 2024 - January 31, 2024	46,000	\$ 36.74	
February 1, 2024 - February 29, 2024	227,708	37.36	
March 1, 2024 - March 31, 2024	287,378	38.38	
Total	561,086	\$ 37.83	\$ 291

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

As of September 30, 2023 March 31, 2024, a total of 1,882,517 shares of the Company's common stock have been issued to Treasury in connection with the Payroll Support Program. Each warrant is exercisable at a strike price of \$31.61 (928,126 shares related to PSP1), \$52.25 (305,499 shares related to PSP2), and \$66.39 (221,812 shares related to PSP3) per share of common stock. An additional 427,080 warrants were issued in conjunction with a draw on the CARES Act Loan in 2020 at a strike price of \$31.61. These warrants are non-voting, freely transferable, may be settled as net shares or in cash at the Company's option, and have a five-year term. Such warrants were issued to Treasury in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act").

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

During the three months ended September 30, 2023 March 31, 2024, no director or officer of Alaska Air Group adopted, modified, or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement, as such terms are defined in Item 408(a) of Regulation S-K promulgated under the Securities Exchange Act of 1934.

ITEM 6. EXHIBITS

The following documents are filed as part of this report:

1. *Exhibits*: See Exhibit Index.

SIGNATURES

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

ALASKA AIR GROUP, INC.

/s/ EMILY HALVERSON

Emily Halverson

Vice President Finance, **Controller**, and **Controller** **Treasurer**

November 2, 2023 May 3, 2024

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number
3.1	Amended and Restated Certificate of Incorporation of Registrant	10-Q	August 3, 2017	3.1
3.2	Amended and Restated Bylaws of Registrant	8-K	December 15, 2015	3.2
10.1#†	Amendment No. 22 to Purchase Agreement COM0041-16 between Embraer S.A. and Horizon Air Industries, Inc.	10-Q		
10.2#†	Amendment No. 23 to Purchase Agreement COM0041-16 between Embraer S.A. and Horizon Air Industries, Inc.	10-Q		
31.1†	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	10-Q		
31.2†	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	10-Q		
32.1†	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	10-Q		
32.2†	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	10-Q		
101.INS†	XBRL Instance Document - The instance document does not appear in the interactive data file because XBRL tags are embedded within the inline XBRL document.			
101.SCH†	XBRL Taxonomy Extension Schema Document			
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document			
104†	Cover Page Interactive Data File - The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.			
†	Filed herewith			
*	Indicates management contract or compensatory plan or arrangement.			
#	Certain portions of this document that constitute confidential information have been redacted in accordance with Regulation S-K Item 601(b)(10).			

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#	Certain portions of this document that constitute confidential information have been redacted in accordance with Regulation S-K Item 601(b)(10).	

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

AMENDMENT No. 22 TO PURCHASE AGREEMENT COM0041-16

This Amendment No.22 [COM0120-23] (the "Amendment No.22") dated as of May 2, 2023 is between **EMBRAER S.A.**, a corporation existing under the laws of Brazil, which address and principal place of business is at Avenida Brigadeiro Faria Lima, 2170, prédio F-100, Putim, in the city of São José dos Campos, State of São Paulo, Brazil ("Embraer") and **HORIZON AIR INDUSTRIES, INC.** ("Buyer"), collectively referred to herein as the "Parties", and constitutes an amendment and modification to Purchase Agreement COM0041-16 dated April 11th, 2016 as amended and assigned from time to time (the "Purchase Agreement").

All capitalized terms not otherwise defined herein shall have the same meaning when used herein as provided in the Purchase Agreement and in case of any conflict between this Amendment No. 22 and the Purchase Agreement, this Amendment No. 22 shall control.

WHEREAS, the Parties have agreed to modify certain items of the Aircraft #40 and the Aircraft #41 specific configuration, as per PMC 013 and 14.

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

1. CONFIGURATION CHANGES TO THE AIRCRAFT

1.a Buyer has requested, and Embraer has agreed to change the Aircraft #40 and the Aircraft#41 livery to the commemorative livery, as per PMC 013 and 14 duly signed by Buyer on [* * *].

1.b There shall be no change in the weight of the Aircraft #40 and the Aircraft #41 as a consequence of the modification described above.

1.c As a result of the change described in this Article 1, the Aircraft Basic Price of the Aircraft #40 and the Aircraft #41 shall be increased by USD [* * *].

2. PRICE

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

[* * *]

3. REINSTATEMENT OF PURCHASE AGREEMENT

All other provisions and conditions of the referenced Purchase Agreement, as well as its related Attachments and Letter Agreement, which are not specifically modified by this Amendment No. 22 shall remain in full force and effect without any change.

4. COUNTERPARTS

This Amendment No. 22 may be executed by the Parties hereto in any number of separate counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument and all of which when taken together shall constitute one and the same instrument. This Amendment No. 22 may be signed and exchanged by e-mail attaching a copy of the signed Amendment No. 22 in portable document format with originals to follow by an internationally recognized courier, as applicable.

[SIGNATURE PAGE FOLLOWS]

COM0120-23 2 of 3

Amendment No.22 to PA COM0041-16

IN WITNESS WHEREOF, Embraer and Buyer, by their duly authorized officers, have entered into and executed this Amendment No. 22 to be effective as of the date first written above.

EMBRAER S.A.HORIZON AIR INDUSTRIES, INC.

By: _____ By: _____

Name: _____ Name: _____

Title: _____ Title: _____

By: _____

Name:
Title:

COM0120-23 3 of 3

Amendment No.22 to PA COM0041-16

ications
veames@lifescicomms.com

Investor Contact

Corey Davis, Ph.D.
LifeSci Advisors
+1 212 915 2577
cdavis@lifesciadvisors.com

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

AMENDMENT No. 23 TO PURCHASE AGREEMENT COM0041-16

This Amendment No.23 [COM0345-23] (the "Amendment No.23") dated as of September 13, 2023 is between **EMBRAER S.A.**, a corporation existing under the laws of Brazil, which address and principal place of business is at Avenida Brigadeiro Faria Lima, 2170, prédio F-100, Putim, in the city of São José dos Campos, State of São Paulo, Brazil ("Embraer") and **HORIZON AIR INDUSTRIES, INC.** ("Buyer"), collectively referred to herein as the "Parties", and constitutes an amendment and modification to Purchase Agreement COM0041-16 dated April 11th, 2016 as amended and assigned from time to time (the "Purchase Agreement").

All capitalized terms not otherwise defined herein shall have the same meaning when used herein as provided in the Purchase Agreement and in case of any conflict between this Amendment No. 23 and the Purchase Agreement, this Amendment No. 23 shall control.

WHEREAS, the Parties have agreed to modify certain items of the specific configuration for Aircraft #40 and #41 (HA-45 and HA-46), as per PMC 012.

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

1. CONFIGURATION CHANGES TO THE AIRCRAFT

1.a Buyer has requested, and Embraer has agreed to change the MTOW from 89,000lb to 86,000lb for Aircraft #40 and Aircraft #41, as per PMC 012 duly signed by Buyer on January 19, 2023.

1.b As a consequence of the above mentioned the Aircraft model should be converted from AR version to LR version.

1.c There shall be no considerable change in the weight of Aircraft #40 and Aircraft #41, as a consequence of the modification described above.

1.d [* * *].

2. ATTACHMENT CHANGE

As a result of the change referred to in Article 1 above, Attachment A to the Purchase Agreement are hereby deleted and replaced in their entirety by Attachments A to this Amendment No. 23, which shall be deemed to be Attachment A for all purposes under the Purchase Agreement.

3. REINSTATEMENT OF PURCHASE AGREEMENT

All other provisions and conditions of the referenced Purchase Agreement, as well as its related Attachments and Letter Agreement, which are not specifically modified by this Amendment No. 23 shall remain in full force and effect without any change.

4. COUNTERPARTS

This Amendment No. 23 may be executed by the Parties hereto in any number of separate counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument and all of which when taken together shall constitute one and the same instrument. This Amendment No. 23 may be signed and exchanged by e-mail attaching a copy of the signed Amendment No. 23 in portable document format with originals to follow by an internationally recognized courier, as applicable.

[SIGNATURE PAGE FOLLOWS]

COM0345-23 2 of 3

Amendment No.23 to PA COM0041-16

IN WITNESS WHEREOF, Embraer and Buyer, by their duly authorized officers, have entered into and executed this Amendment No. 23 to be effective as of the date first written above.

EMBRAER S.A.HORIZON AIR INDUSTRIES, INC.

By: _____ By: _____

Name: _____ Name: _____

Title: _____ Title: _____

By: _____

Name: _____

Title:

COM0345-23 3 of 3

Amendment No.23 to PA COM0041-16 39

EXHIBIT 31.1

CERTIFICATIONS

I, Benito Minicucci, certify that:

1. I have reviewed this ~~annual~~ quarterly report on Form 10-Q of Alaska Air Group, Inc. for the period ended ~~September 30, 2023~~ March 31, 2024;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) ~~all~~ 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~~ Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/ BENITO MINICUCCI

Benito Minicucci

President and Chief Executive Officer

~~November 2, 2023~~ May 3, 2024

EXHIBIT 31.2

CERTIFICATIONS

I, Shane R. Tackett, certify that:

1. I have reviewed this ~~annual~~ **quarterly** report on Form 10-Q of Alaska Air Group, Inc. for the period ended ~~September 30, 2023~~ **March 31, 2024**;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) ~~all~~ **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~~ **Any** fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/ SHANE R. TACKETT

Shane R. Tackett

Executive Vice President/Finance and Chief Financial Officer

~~November 2, 2023~~ **May 3, 2024**

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~~ **Quarterly** Report of Alaska Air Group, Inc. (the "Company") on Form 10-Q for the period ended ~~September 30, 2023~~ **March 31, 2024** as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Benito Minicucci, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By /s/ BENITO MINICUCCI

Benito Minicucci

Chief Executive Officer

~~November 2, 2023~~ **May 3, 2024**

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 Quarterly** Report of Alaska Air Group, Inc. (the "Company") on Form 10-Q for the period ended **September 30, 2023** **March 31, 2024** as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shane R. Tackett, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By /s/ SHANE R. TACKETT

Shane R. Tackett

Executive Vice President/Finance and Chief Financial Officer

November 2, 2023 **May 3, 2024**

DISCLAIMER

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