

APPENDIX E: UNDERSTANDING THE MILEAGE PLAN: AN ACCOUNTING PRIMER

Before examining the anomalies, some readers may benefit from understanding how loyalty programme transactions flow through Alaska's financial statements. This context may prove insightful in appreciating why the Q2 2025 deviation is so significant.

Alaska operates the Mileage Plan through a co-branded credit card partnership with Bank of America.

Under ASC 606, Alaska allocates the cash it receives from Bank of America between two components: a **marketing and brand component**, recognised immediately as "loyalty programme other revenue"; and a **transportation component**, recorded as a deferred revenue liability until miles are redeemed or expire (breakage).

Based on Alaska's disclosures, the loyalty programme economics appear to be presented on a relatively **net** basis (with certain partner costs offset within "loyalty programme other revenue"), whereas some peer airlines report comparable items on a more **gross** basis. This difference in presentation practice can materially affect cross-carrier comparisons of loyalty revenue and margins.

In simplified terms, the economic flow is as follows. First, Bank of America purchases miles: as cardholders earn miles on spend, Bank of America buys those miles from Alaska at a contracted price per mile. The exact rate is not disclosed. Based on the relationship between reported loyalty revenue and liability movements, the all-in price could be in the region of **c. 1.25 cents per mile**, purely as an analytical estimate.

Second, Alaska records a portion as a liability: a portion of that price per mile is allocated to the future transportation obligation and recorded as an increase in the loyalty deferred revenue balance ("increase in liability for loyalty points issued"). From the 2024 10-K data, this implied standalone selling price (SSP) is estimated at roughly **c. 0.75 cents per mile**. This number is not disclosed directly; it is inferred from the relationship between miles issued and the associated liability.

Third, Alaska records the remainder as revenue: the residual portion of the price per mile (the difference between the total price and the SSP transportation component) is recognised immediately as "loyalty programme other revenue", reflecting the brand, marketing and access-to-customer-list value that Alaska provides to Bank of America.

Fourth, Alaska recognises deferred revenue as miles are redeemed: when miles are redeemed, Alaska releases the relevant portion of deferred revenue. Redemptions on Alaska's own metal

appear as "loyalty redemptions - passenger revenue". Redemptions on partner airlines reduce the loyalty liability and give rise to a reimbursement expense to partners; the net margin between the SSP value released and the partner reimbursement cost effectively flows through "loyalty programme other revenue".

There are two further flows that influence the key metrics in this report. Miles are also awarded on flown tickets. These miles increase the loyalty deferred revenue ("liability for points issued") but are funded out of ticket revenue rather than Bank of America consideration. They therefore increase the numerator of the issuance-to-revenue ratio without directly increasing "loyalty programme other revenue". Additionally, for partner redemptions, Alaska reimburses partners at a contractual rate per mile. If that reimbursement rate is below the SSP, the programme generates a positive margin on those redemptions. If the reimbursement rate is above the SSP, the margin is negative.

Despite these additional moving parts, the **issuance-to-revenue ratio** provides a useful analytical proxy for the underlying economics of the loyalty programme: it captures how many dollars of new loyalty liability ("miles issued") are being created for each dollar of "loyalty programme other revenue" recognised in the same quarter. As shown below, this ratio has historically been remarkably stable.