APPENDIX A: DETAILED ACCOUNTING METHODOLOGY

A.1 Issuance-to-Revenue Ratio Calculation

This ratio is a useful analytical proxy for the underlying economics of the loyalty programme under ASC 606. It is not a metric defined or required by the standard itself.

The ratio is calculated as:

Ratio = Increase in liability for loyalty points issued (quarterly) / Loyalty Programme Other Revenue (quarterly)

Data is extracted from Alaska Air Group 10-Q and 10-K filings, specifically:

- "Increase in liability for loyalty points issued" from Note 3: Revenue
- "Loyalty programme other revenue" from segment revenue disclosures

Quarterly figures for cumulative YTD disclosures are derived by subtracting prior quarter YTD figures.

A.2 Baseline Period Selection

The baseline period (Q3 2022 through Q1 2025) was selected based on: availability of consistent disclosure format post-ASC 606 implementation; exclusion of pandemic-affected periods; inclusion of sufficient observations for statistical validity (n=11); and termination before the anomaly quarter.

A.3 Statistical Analysis

Z-Score Calculation:

$Z = (X - \mu) / \sigma$

Where:

- X = Observed Q2 2025 ratio (2.743)
- μ = Baseline mean (1.8836)
- σ = Baseline standard deviation (0.0826)

$Z = (2.743 - 1.8836) / 0.0826 = 10.40$

Sensitivity Analysis:

Baseline Period	Quarters (n)	Mean (μ)	Std Dev (σ)	Q2 2025 Z-Score
Q3 2022 - Q1 2025	11	1.8836	0.0826	10.40σ
Q1 2024 - Q1 2025	5	1.918	0.101	8.14σ
Q1 2022 - Q1 2025	13	1.875	0.115	7.50σ

All specifications yield Z-scores exceeding 7σ. The finding is robust to baseline selection.

A.4 Peer Comparison Methodology

Quarterly issuance-to-revenue ratios were calculated for United Airlines (UAL), Delta Air Lines (DAL), and American Airlines (AAL) using identical methodology applied to their respective SEC filings.

Baseline Statistics (Q3 2022 - Q1 2025):

Airline	Mean (μ)	Std Dev (σ)	Coefficient of Variation
Alaska	1.8836	0.0826	4.4%
United	1.200	0.094	7.8%
Delta	1.360	0.064	4.7%
American	1.358	0.375	27.6%

A.5 Balance Sheet Movements

Affinity Card Receivables:

Period	Affinity Receivables ($M)	Q-o-Q Change	% Change
Q1 2025	111	-65	-37%
Q2 2025	**306**	**+195**	**+176%**
Q3 2025	177	-129	-42%

Other Noncurrent Assets:

Period	Other Noncurrent Assets ($M)	Q-o-Q Change	% Change
Q2 2025	316	-	-
Q3 2025	436	+120	+38%

Cash Flow Corroboration:

The Q2 2025 cash flow statement shows a use of operating cash of approximately $171M for accounts receivable movements, confirming the receivables spike was non-cash in nature. The subsequent Q3 2025 receivables decline did not generate corresponding operating cash inflow, supporting the inference that the asset was reclassified rather than collected.

A.6 Partner-to-Passenger Redemption Ratio Methodology

The partner-to-passenger redemption ratio provides a merger-normalised metric for assessing whether partner redemptions are elevated relative to overall redemption activity.

Ratio Calculation:

Ratio = Loyalty redemptions - Partner Airlines (quarterly) / Loyalty redemptions - Passenger Revenue (quarterly)

Rationale:

Both partner and passenger redemptions should scale proportionally with the merged entity's larger membership base. If the Hawaiian merger simply added Hawaiian's loyalty economics to

Alaska's, the ratio should remain stable. Deviations from the historical ratio therefore indicate changes in the composition of redemptions rather than mere scale effects from the merger.

Baseline Statistics (Q1 2024 - Q1 2025):

Measure	Value
Mean (μ)	0.145
Standard deviation (σ)	0.019
Range	0.120 - 0.168

Post-Baseline Observations:

Quarter	Ratio	Z-Score
Q2 2025	0.201	+2.95σ
Q3 2025	0.222	+4.05σ

The Q3 2025 deviation of 4.05 standard deviations has a probability of less than 0.005% under normal distributional assumptions.

A.7 Limitations

This analysis was conducted using publicly available SEC filings. The following information was not available and would be required for definitive conclusions: internal accounting memoranda and judgement documentation; Bank of America contract terms and amendments; detailed composition of Other Noncurrent Assets; partner compensation expense detail by carrier; and management explanations for observed patterns.

A comprehensive forensic audit with management access would be required to definitively determine the cause and precise magnitude of the patterns identified. Management may have information and rationales not apparent from public disclosures that differ from the interpretations presented here.

A.8 Null Hypothesis Exploration

Before concluding that the Q2-Q3 2025 accounting patterns warrant concern, a responsible analysis must consider whether benign explanations could account for the observations. This section examines 17 alternative hypotheses that might be offered to explain the 10.40σ statistical anomaly, the $195M receivables spike, and the subsequent $120M reclassification to noncurrent assets. Each hypothesis is assessed against what the numbers would need to show if true, and what GAAP would require to be disclosed.

The framework applied to each hypothesis is straightforward: if a benign explanation is correct, it must be consistent with the quantitative data, temporally plausible, and accompanied by the disclosures that GAAP requires for material transactions of that nature. Failure on any criterion suggests the explanation is inadequate.

Hypothesis 1: Hawaiian Airlines Integration Accounting

The Benign Explanation

The Hawaiian Airlines acquisition closed on 18 September 2024. Complex acquisitions involve purchase price allocations, fair value adjustments, and measurement period refinements under ASC 805. An observer might reasonably assume that the Q2 2025 loyalty programme anomalies reflect integration accounting noise from absorbing Hawaiian's HawaiianMiles programme.

What Would Need to Be True

If integration accounting caused the Q2 2025 anomaly, the following signatures would be expected. The loyalty programme ratio deviations would have appeared immediately after the September 2024 acquisition close, or at least shown a gradual trend through Q4 2024 and Q1 2025 as integration progressed. Any measurement period adjustments affecting loyalty accounting would be disclosed in Note 2 (Business Combinations), as required by ASC 805-10-50-2(h). The MD&A would explain integration impacts on loyalty programme other revenue and related balance sheet items.

Why It Fails

The timing is inconsistent with an integration explanation. Q4 2024 and Q1 2025 ratios were 2.02 and 2.00 respectively, both within normal ranges and showing no anomaly. The 10.40σ deviation appeared only in Q2 2025, eight months after the acquisition closed, then immediately reverted to 1.87 in Q3 2025. This single-quarter spike followed by complete normalisation is inconsistent with gradual integration effects.

The filing states that no material ASC 805 measurement period adjustments were recorded during the quarter. This limits the plausibility of a late purchase accounting true up as the driver of the observed anomaly. It does not, however, preclude post close operational integration effects, such as programme harmonisation, award chart changes, partner settlement mechanics, IT migrations, or customer conversion incentives. If Hawaiian integration is the explanation, it would therefore need to operate through such operational mechanisms rather than through purchase accounting adjustments, and would still be expected to support a coherent commercial and accounting narrative if material.

GAAP Reference: ASC 805-10-50-2(h) requires disclosure of material effects of acquisitions on reported results. No such disclosure links the Q2 2025 anomaly to Hawaiian integration.

Verdict: ASC 805 measurement period accounting does not explain a one quarter, isolated 10.40σ event appearing eight months after acquisition close; any integration based explanation would need to be operational in nature and should still support a coherent disclosed narrative if material.

Hypothesis 2: Standalone Selling Price Volatility

The Benign Explanation

Under ASC 606, Alaska must allocate the cash received from Bank of America between a marketing component (recognised immediately as revenue) and a transportation component (deferred until miles are redeemed). This allocation depends on the estimated standalone selling price (SSP) of the transportation element. An observer might suggest that Alaska refined its SSP estimate in Q2 2025, causing more of each dollar received to be allocated to deferred revenue rather than immediate recognition.

What Would Need to Be True

The issuance to revenue ratio is an analytical proxy rather than a direct accounting metric. If one assumes, illustratively, that the observed ratio movement were driven primarily by changes in allocation economics such as SSP, the implied change would be very large by industry standards. However, the ratio can also be affected by mix effects, classification timing, and changes in partner economics. Accordingly, the implied percentage should be interpreted as an order of magnitude indicator rather than a precise inferred SSP revision.

Why It Fails

No disclosure of any SSP or breakage assumption change appears in the Q2 2025 10-Q. Alaska's 2024 10-K provides sensitivity analysis on key loyalty assumptions, but no Q2 2025 update references any change. The implied magnitude of any SSP shift, if one assumes allocation economics are the primary driver of the proxy movement, would be exceptionally large by industry standards. However, because the ratio can be influenced by mix, timing, classification, and partner economics, the proxy cannot be reverse engineered into a single precise SSP percentage change with confidence.

Furthermore, if Alaska genuinely changed its SSP estimate by this magnitude without disclosure, that would itself constitute a GAAP violation under ASC 606-10-50-17. The hypothesis thus fails the "GAAP trap": either no material change occurred (leaving the anomaly unexplained), or a material change occurred without required disclosure (constituting a compliance failure).

GAAP Reference: ASC 606 10 50 17 through 50 20 require disclosure of the significant judgements, and changes in judgements, that affect the determination of the amount and timing of revenue recognition. While the Codification does not require registrants to restate or highlight every quarterly change in judgement, a material change in SSP, breakage assumptions, or other key loyalty programme judgements that materially affects reported results would ordinarily be explained in the interim period narrative disclosures.

Verdict: SSP volatility fails both quantitative plausibility (35-40% single-quarter shift is economically implausible) and the disclosure test (no change was disclosed).

Hypothesis 3: Bank of America Contract Restructuring

The Benign Explanation

Alaska's Mileage Plan generates most of its loyalty revenue through its co-branded credit card partnership with Bank of America. An observer might suggest that Q2 2025 reflected a contract restructuring with Bank of America, perhaps a pre-payment arrangement, modified pricing structure, or advance purchase of miles ahead of a new card product launch.

What Would Need to Be True

ASC 606 does not require registrants to label or separately disclose every contract modification. However, the standard requires sufficient disclosure to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows. A material change in commercial terms affecting loyalty economics would ordinarily be expected to be explainable through the ASC 606 disclosure framework, including disclosures about performance obligations, significant payment terms, contract balances, and significant judgements. Where such a change materially affects an interim period, a registrant would typically provide narrative explanation in its quarterly filing even if the Codification does not prescribe a discrete “contract modification” disclosure.

Why It Fails

The temporal sequence is inconsistent. The Q2 2025 anomaly occurred in April-June 2025. Alaska's disclosed Bank of America contract amendments occurred in September 2025, and the Summit Visa Infinite card launched in August 2025, both subsequent to the anomaly quarter. Contractual modifications cannot retroactively cause accounting effects in prior quarters.

Moreover, the cash flow statement does not show unusual cash receipts in Q2 2025 that would correspond to a prepayment. The receivables increase of $195M represents the opposite of a prepayment, as it suggests amounts owed to Alaska rather than advance cash received.

GAAP Reference: ASC 606-10-50-12 requires disclosure of significant contract modifications.

Verdict: Contract restructuring is temporally impossible as disclosed amendments post-date the anomaly, and the cash flow pattern contradicts any prepayment hypothesis.

Hypothesis 4: Breakage Assumption Refinement

The Benign Explanation

Airlines estimate the proportion of issued miles that will ultimately expire unredeemed (breakage). If Alaska reduced its breakage estimate in Q2 2025, expecting more miles to be redeemed, it would defer more revenue and increase the loyalty liability. An observer might suggest this explains the elevated issuance-to-revenue ratio.

What Would Need to Be True

Using management's disclosed annual breakage sensitivity as a reference point, an illustrative back of the envelope analysis suggests that a very large change in breakage assumptions would be required to produce a liability movement of the magnitude observed in a single quarter. This estimate assumes a broadly linear relationship between breakage rate changes and liability impact, which may not hold precisely in practice. The conclusion is therefore directional: any such breakage revision would need to be unusually large relative to historical practice.

Why It Fails

ASC 250-10-50-4 explicitly requires disclosure of material changes in accounting estimates. No such disclosure appears. Alaska's Q2 2025 10-Q makes no mention of breakage assumption changes. If a 15 percentage point breakage revision occurred without disclosure, that would itself be a GAAP violation.

Additionally, the single-quarter spike and immediate reversion pattern is inconsistent with a genuine breakage assumption change. If Alaska genuinely believed more miles would be redeemed, that belief would persist across quarters rather than appearing and disappearing within 90 days.

GAAP Reference: ASC 606 requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows, including disclosure of significant judgements and explanations of material movements in contract balances. Material contract modifications would ordinarily be expected to be explainable within that disclosure framework and, where material to the interim period, discussed in the quarterly narrative.

Verdict: Breakage refinement fails the GAAP disclosure trap, as either no material change occurred (anomaly unexplained), or a material change occurred without disclosure (GAAP violation). The required magnitude is also economically implausible.

Hypothesis 5: Industry-Wide Disruption

The Benign Explanation

External factors such as changes in consumer credit card spending behaviour, macroeconomic shifts, or regulatory changes affecting frequent flyer programmes might have caused unusual patterns across the airline industry in Q2 2025. An observer might suggest Alaska is simply reflecting broader industry trends.

What Would Need to Be True

If industry-wide factors caused the anomaly, peer airlines would exhibit similar deviations from their historical patterns. United, Delta, and American, all operating large co-branded credit card programmes with similar structures, would show comparable ratio movements.

Why It Fails

Peer comparison demonstrates the anomaly is unique to Alaska.

Airline	Q2 2025 Ratio	Baseline Mean	Z-Score
Alaska	2.74	1.88	+10.40σ
United	1.20	1.20	0.00σ
Delta	1.44	1.36	+1.25σ
American	1.18	1.36	-0.46σ

United's ratio was precisely at its baseline mean. Delta showed only modest elevation. American was actually below its historical average. Whatever occurred at Alaska in Q2 2025 has no parallel at major US peers during the same period.

GAAP Reference: No specific provision; this is a factual test of whether the anomaly reflects company-specific versus industry-wide factors.

Verdict: Industry-wide disruption is empirically rejected. The anomaly is Alaska-specific.

Hypothesis 6: Summit Card Pre-Positioning

The Benign Explanation

Alaska launched its Summit Visa Infinite premium credit card in August 2025. An observer might suggest that Bank of America pre-purchased miles in Q2 2025 in anticipation of this launch, causing the issuance spike.

What Would Need to Be True

If Bank of America pre-positioned miles for Summit, the purchase would generate marketing revenue recognition under ASC 606. Marketing revenue, which is recognised immediately upon mile delivery, would show substantial year-on-year growth in Q2 2025.

Why It Fails

The decomposition of loyalty programme other revenue reveals that marketing and brand revenue grew only 4% year-on-year in Q2 2025, rising from approximately $135M to $140M. This modest growth is inconsistent with a substantial mile pre-purchase. The $181M excess issuance implied by the ratio anomaly vastly exceeds the $5M year-on-year growth in the marketing component.

Furthermore, the Summit card launched in Q3 2025, by which point the ratio had already normalised. If pre-positioning occurred, its effects would logically persist through the launch quarter rather than reversing before the card even became available.

GAAP Reference: ASC 606 requires revenue recognition when performance obligations are satisfied. Mile delivery triggers immediate marketing revenue recognition.

Verdict: Summit pre-positioning fails the marketing revenue test, as the relevant revenue line did not grow commensurately with the issuance spike.

Hypothesis 7: Receivable Timing and Cash Collection Lag

The Benign Explanation

Trade receivables fluctuate based on billing cycles and payment terms. An observer might suggest the $195M Q2 2025 receivables increase simply reflects timing of Bank of America payments, and that Q3 2025 saw normal cash collection.

What Would Need to Be True

If the receivables increase were genuine and subsequently collected, the Q3 2025 cash flow statement would show corresponding operating cash inflow. The receivables decline would be matched by cash receipts, and the asset would not need to be reclassified elsewhere on the balance sheet.

Why It Fails

The cash flow statement tells a different story. The Q2 2025 cash flow statement shows a use of operating cash of approximately $171M for accounts receivable movements, confirming the receivables spike was non-cash in nature. The Q2 2025 cash flow statement reflects a material operating cash outflow associated with accounts receivable movements, consistent with the receivables spike being largely non cash in nature. In Q3 2025, the reduction in reported receivables is not mirrored by an equally clear, isolated operating cash inflow attributable to collections. This pattern is consistent with some form of reclassification, netting, or offset within working capital rather than straightforward cash settlement, but the financial statements do not provide sufficient disaggregation to conclude definitively.

However, for a $129M receivable decline to reflect cash collection without being visible as a material operating cash tailwind, other working-capital items would need to show an equal-and-opposite outflow of comparable magnitude in the same quarter. A working-capital bridge can therefore falsify (or corroborate) this defence even without counterparty-level cash disclosure.

Instead of cash collection, approximately $120M appears to have been reclassified from current receivables to Other Noncurrent Assets, which rose from $316M to $436M between Q2 and Q3 2025. This reclassification received no explanatory disclosure.

GAAP Reference: ASC 210-10-45-1 governs balance sheet classification and requires assets to be classified based on their nature and expected realisation. Regulation S-K Item 303 requires MD&A disclosure of material changes in liquidity. If collectibility became uncertain or terms were modified in a manner that changes risk, the company would be expected to assess and reflect expected credit losses and describe the nature of the receivable/contract asset and collection assumptions.

Verdict: The cash flow data contradict the timing explanation. The receivable was not collected; it was apparently reclassified without disclosure.

Hypothesis 8: Reclassification to Noncurrent Receivable Due to Extended Payment Terms

The Benign Explanation

Bank of America might have negotiated extended payment terms on a portion of its obligations to Alaska. An observer might suggest the movement from current receivables to noncurrent assets reflects a straightforward reclassification of the same receivable based on longer expected collection timing.

What Would Need to Be True

If Bank of America payment terms extended beyond one year, the receivable would remain a receivable, properly classified as noncurrent. ASC 606-10-45-3 is clear that a receivable is an unconditional right to consideration. If the right remains unconditional but simply has a longer collection horizon, it would be presented as a noncurrent receivable with appropriate disclosure. If a significant financing component exists due to the extended terms, ASC 606-10-32-15 requires either interest income or contra-revenue treatment. MD&A would address the liquidity implications of a major customer extending payment terms.

Why It Fails

The asset did not move to a "noncurrent receivables" line. It moved into the generic "Other Noncurrent Assets" category, which is not a receivable classification. There is no disclosure of modified Bank of America payment terms. There is no discussion of significant financing components or interest income. MD&A makes no mention of any impact on liquidity or working capital from modified partner payment terms.

For a movement of this magnitude, roughly $120M affecting a significant business relationship, silence in the financial statement notes and MD&A is inconsistent with standard disclosure practices.

GAAP Reference: ASC 606 distinguishes contract assets from receivables based on whether the entity’s right to consideration is conditional on something other than the passage of time. Where the entity has an unconditional right to consideration, the balance is presented as a receivable. Where consideration remains conditional on future performance or other factors, the balance is presented as a contract asset. Reclassification between these categories therefore reflects a change in the nature of the underlying right, not merely a balance sheet relabelling. As stated in the previous hypothesis, the company would be expected to assess and reflect expected credit losses and describe their nature.

Verdict: The "longer terms" explanation fails on classification (not presented as a receivable), financing treatment (no interest disclosed), and liquidity disclosure (no MD&A mention).

Hypothesis 9: Contract Asset Rather Than Receivable Relabelling

The Benign Explanation

ASC 606 distinguishes between receivables (unconditional rights) and contract assets (conditional rights, dependent on further performance). An observer might suggest the issue is merely one of labelling, that what Alaska calls a "receivable" is actually a contract asset, and the subsequent movement reflects proper reclassification.

What Would Need to Be True

If the amounts were truly contract assets, they would be presented and described as such under ASC 606-10-45-3. Note 3 (Revenue Recognition) would discuss contract asset balances, movements, and the nature of the conditionality. Any reclassification from receivable to contract asset would be explained, including what performance triggers must be satisfied.

Why It Fails

Alaska's Q2 2025 10-Q explicitly presents "amounts due from affinity card partners and from other partners" as receivables, not contract assets. The presentation treats these as unconditional rights to consideration. In Q3 2025, the amounts do not appear in a contract asset line; instead, they apparently move into generic "Other Noncurrent Assets" with no contract asset disclosure.

There is no explanation of what conditionality or performance triggers would apply. The company treated these as receivables (unconditional), then moved a portion to an opaque balance sheet category without following ASC 606 contract asset disclosure requirements.

GAAP Reference: ASC 606-10-45-3 distinguishes receivables from contract assets based on conditionality. ASC 606-10-50-8 requires disclosure of contract balance explanations.

Verdict: This is not a mere labelling issue. The company treated these as receivables, then obscured part of them without following contract asset disclosure rules.

Hypothesis 10: Immaterial Presentation Differences

The Benign Explanation

Management characterised the $58M retroactive restatement of 2024 affinity receivables as "immaterial." An observer might extrapolate this characterisation to the broader pattern, suggesting the entire Q2-Q3 2025 sequence represents nothing more than immaterial presentation adjustments not warranting detailed disclosure.

What Would Need to Be True

For the "immaterial" characterisation to hold across the full pattern, the amounts involved would need to be quantitatively and qualitatively immaterial under SEC Staff Accounting Bulletin 99 (SAB 99). SAB 99 establishes that materiality is not purely a numerical threshold; qualitative factors matter equally. An item is material if "there is a substantial likelihood that a reasonable investor would consider it important."

Why It Fails

The quantitative test fails decisively. The estimated misstatement range of $120M to $200M represents 30% to 51% of Alaska's 2024 net income of $395M. Even the most conservative estimate exceeds the commonly applied 5% threshold by a factor of six. The $58M restatement alone, at 15% of net income, strains any reasonable definition of immateriality.

The qualitative factors under SAB 99 are equally problematic. The anomaly masks a key revenue trend in Alaska's third-largest revenue category. The reclassification distorts working capital and liquidity metrics used by investors. The pattern exhibits an exact temporal correlation with an extreme statistical outlier. The anomaly is unique to Alaska among peer airlines, suggesting company-specific factors rather than industry dynamics. The Bank of America relationship is explicitly described as a strategic asset in investor materials.

By any reasonable standard, these are not immaterial presentation differences.

GAAP Reference: SAB 99 sets forth qualitative factors for materiality assessment beyond numerical thresholds.

Verdict: "Presentation only" is not credible at these magnitudes. The amounts exceed standard materiality thresholds by 6-10x, and multiple SAB 99 qualitative factors are triggered.

Hypothesis 11: One-for-One Hawaiian Point Conversion Funded by Affinity Partner Economics

Benign Explanation

Following the Hawaiian Airlines acquisition, Alaska made a post-close commercial decision to convert HawaiianMiles into Alaska miles on a one-for-one basis. If HawaiianMiles historically carried lower standalone selling prices or lower expected fulfilment costs than Alaska miles, this conversion would increase the economic value of the outstanding loyalty obligation. Under this hypothesis, the Q2 2025 increase in loyalty contract liabilities reflects a cumulative catch-up to align the converted Hawaiian member population with Alaska programme economics. Rather than recognising the offset through a reduction in loyalty programme other revenue, Alaska recognised a receivable from its affinity card partner on the basis that the incremental obligation would be contractually funded by the partner over time.

What Would Need to Be True

- The one-for-one conversion decision occurred post-close and was not an acquisition-date fact, such that the accounting impact properly falls under ASC 606 rather than ASC 805 purchase accounting.
- The conversion materially increased the value of outstanding points, requiring recognition of an incremental loyalty contract liability via a change in estimate or contract modification analysis.
- The affinity card agreement includes provisions that obligate the partner to fund the increased value of previously issued points, giving Alaska a present and enforceable right to incremental consideration.
- The recognised balance qualifies as a receivable rather than a contract asset, meaning the right to consideration is unconditional or conditional only on the passage of time.
- Any portion expected to be collected beyond twelve months is appropriately classified as non-current with clear disclosure of settlement terms.

Why It Likely Fails

This hypothesis requires a combination of a post-close economic upgrade and a contractual repricing of the affinity relationship, neither of which is described in the public filings. The filings do not disclose a material change in loyalty programme economics, a repricing or true-up mechanism with the affinity partner, or a renegotiation of partner funding terms. The subsequent reclassification of the balance into a generic “Other Non-Current Assets” line item, rather than a clearly identified receivable or contract asset with disclosed terms, is inconsistent with how material, enforceable partner claims are typically presented.

GAAP Reference: ASC 606 requires receivables to reflect unconditional rights to consideration and contract assets to reflect rights conditional on future performance or events. Material changes in revenue recognition judgements or contract balances are expected to be explainable through disclosure. Post-acquisition changes in loyalty economics do not adjust goodwill and are accounted for through revenue recognition mechanics rather than purchase accounting.

Verdict: A one-for-one conversion can explain an increase in loyalty contract liabilities in principle. It does not naturally explain recognition of a large affinity receivable unless the partner is contractually obligated to fund the incremental value. Absent disclosure of such contractual mechanisms, this hypothesis remains incomplete.

Hypothesis 12: Single Loyalty Platform Migration Revaluation of Acquired Mileage Liabilities

Benign Explanation

The Q2 2025 anomaly reflects a non-cash technical remeasurement when HawaiianMiles balances were migrated onto Alaska's loyalty platform and subledger. HawaiianMiles points were historically measured using Hawaiian's assumptions. Upon migration, Alaska aligned the acquired outstanding miles to Alaska's higher SSP and redemption cost assumptions, producing a one-time increase in the loyalty contract liability without corresponding revenue.

What Would Need to Be True

- The migration occurred in Q2 2025 and required formal alignment of valuation and recognition policies.
- HawaiianMiles liabilities were carried under materially different assumptions that, when aligned, increased the measured obligation.
- The adjustment reflects either acquisition-date facts finalised within the ASC 805 measurement period or a post-close change in estimate under ASC 606.
- If ASC 805 applies, goodwill would increase. If ASC 606 applies, a cumulative catch-up to revenue would occur.
- The migration explains a discrete step change rather than a gradual trend.

Why It Likely Fails

If the adjustment were an ASC 805 measurement period update, goodwill would be affected and disclosed as such. If it were an ASC 606 change in estimate, a visible revenue impact would be expected. The filings show neither a material goodwill adjustment nor a commensurate revenue catch-up, and provide no narrative explaining a migration-driven revaluation of this magnitude.

GAAP Reference: ASC 805 measurement period adjustments adjust goodwill for acquisition-date facts. ASC 606 changes in estimate affecting loyalty obligations require cumulative catch-up accounting through revenue unless funded by a third party.

Verdict: A platform migration can trigger a liability remeasurement, but the accounting must resolve through either goodwill or revenue. The absence of either outcome weakens this explanation.

Hypothesis 13: Long-Term Affinity Partner Financing Structure

Benign Explanation

The Q2 2025 spike in receivables reflects recognition of a claim against the affinity card partner to fund integration-related loyalty costs, with the Q3 reclassification to non-current assets reflecting formalisation of a long-term settlement schedule extending beyond twelve months.

What Would Need to Be True

- The affinity agreement includes enforceable provisions requiring the partner to fund integration or loyalty harmonisation costs.
- Alaska has an unconditional or time-only conditional right to the consideration.
- The timing of expected cash flows supports non-current classification.
- Any significant financing component is appropriately considered and disclosed.
- The arrangement is sufficiently material to warrant explanation.

Why It Likely Fails

The filings do not describe a material renegotiation or repricing of the affinity agreement, nor do they clearly present the balance as a non-current receivable or contract asset with disclosed terms. Presentation within a generic non-current asset category obscures the nature of the claim and is inconsistent with standard practice for material partner financing arrangements.

GAAP Reference: ASC 606 distinguishes receivables from contract assets based on unconditional rights to consideration. Material partner arrangements and long-dated settlement terms are expected to be disclosed.

Verdict: A long-term partner funding arrangement could explain the classification change, but the absence of disclosure and clear presentation materially undermines this hypothesis.

Hypothesis 14: Post-Migration Redemption Surge from Newly Enabled Partner Access

Benign Explanation

The elevated partner redemption costs reflect legitimate pent-up demand by Hawaiian members gaining access to Alaska's broader partner network following platform integration, rather than fraud or cybersecurity failures.

What Would Need to Be True

- Platform integration materially expanded partner redemption options.
- Hawaiian members redeemed at higher-value partners at elevated rates.
- Redemption mix shifted materially toward higher-cost partners.
- Customer complaints reflect migration friction rather than account compromise.

Why It Likely Fails

While this hypothesis plausibly explains increased redemption costs and customer noise, it does not explain a discrete, large increase in loyalty contract liabilities. A redemption surge reduces liabilities rather than creates them, unless paired with a separate liability revaluation event that is not clearly disclosed.

GAAP Reference: Under ASC 606, redemptions reduce contract liabilities and trigger cost recognition. Redemption activity alone does not increase deferred revenue.

Verdict: Redemption surges explain cost pressure and customer disruption, but not the observed liability issuance anomaly in isolation.

Hypothesis 15: Measurement Period Adjustments Under ASC 805

Benign Explanation

The $58 million retroactive adjustment reflects a standard ASC 805 measurement period refinement to acquired balances, such as legacy Hawaiian receivables, and is not indicative of error or irregularity.

What Would Need to Be True

- The adjustment relates to acquisition-date facts.
- It falls within the one-year measurement period.
- The adjustment affects goodwill rather than current-period earnings.
- The nature of the adjustment is described in the purchase accounting disclosures.

Why It Likely Fails

Measurement period adjustments can explain retrospective changes, but they do not explain a Q2 2025 loyalty issuance-to-revenue ratio spike unless the spike itself reflects a purchase accounting adjustment. The filings indicate no material measurement period adjustments to the loyalty obligation, limiting the explanatory power of this hypothesis.

GAAP Reference: ASC 805 permits retrospective adjustment of provisional amounts for acquisition-date facts, with corresponding goodwill adjustments.

Verdict: Measurement period accounting can explain discrete retrospective changes, but it does not plausibly explain the full Q2–Q3 2025 pattern observed.

Hypothesis 16: Mass Reinstatements / Customer Make-Goods (Issuance Without Consideration)

The Benign Explanation

Alaska reinstated large volumes of previously issued miles (or granted customer make-good credits) due to account compromise, operational correction, or migration issues. This would increase “liability for loyalty points issued” without increasing “loyalty programme other revenue.”

What Would Need to Be True

- The reinstated/credited miles were recorded as an increase to the loyalty contract liability in Q2 2025.
- The offset was recorded as (i) an operating expense (customer service/fraud), or (ii) contra-revenue within passenger or loyalty revenue, or (iii) another clearly identifiable income statement line.
- The scale would be reconcilable to a discrete event and explain the reversion in Q3.
- If driven by cyber compromise, risk/incident disclosure would be expected to align with the magnitude of customer restitution.

Why It Fails

Public disclosures do not identify a discrete income statement line item consistent with a customer restitution event of the magnitude implied by the $180M “excess” liability creation, nor do they provide a quantified rollforward that isolates reinstatements/adjustments versus partner-funded issuances.

GAAP Reference: ASC 606 requires contract liability movements to be explainable through contract balance disclosures; material changes in judgments and material movements that affect revenue timing should be understandable from disclosures.

Verdict: Reinstatements can explain the *direction* of the ratio move but fail the disclosure and reconciliation test absent quantified rollforwards and identifiable offsets.

Hypothesis 17: Revenue Caption Reclassification (Denominator Shift)

The Benign Explanation

The observed issuance-to-revenue ratio spike is not driven by changes in loyalty issuance economics, but by a temporary reclassification of loyalty-related revenue between “Loyalty programme other revenue” and other revenue captions (for example passenger revenue or marketing revenue). Under this explanation, the denominator of the ratio was understated in Q2 2025 due to presentation choices rather than economic change.

What Would Need to Be True

For this explanation to hold, the following conditions would need to be met:

- Alaska reclassified a material portion of loyalty-related consideration away from “Loyalty programme other revenue” in Q2 2025.

- The reclassification affected only the presentation of revenue, not total revenue, and therefore did not trigger changes in cash flow.
- Comparative periods were either recast, or the reclassification was disclosed clearly enough for investors to understand period-to-period comparability.
- The reclassification reversed or normalised in Q3 2025, coinciding with the ratio's reversion to baseline.

Why It Fails

No disclosure in the Q2 2025 or Q3 2025 filings describes any reclassification of loyalty-related revenue captions. There is no footnote explaining a change in revenue presentation, no recast of prior-period comparatives, and no MD&A discussion of revenue classification changes affecting trend analysis.

Absent disclosure, investors have no basis to conclude that the ratio spike reflects a denominator artefact rather than a genuine economic or accounting event. Moreover, a reclassification large enough to produce a 10.40σ deviation would be qualitatively material under SAB 99 and would ordinarily be disclosed even if total revenue were unchanged.

GAAP Reference: ASC 606-10-50 and Regulation S-K Item 303 require disclosure sufficient to enable users to understand the nature and comparability of revenue streams. Material changes in revenue presentation that affect trend analysis require explanation.

Verdict: A revenue caption reclassification could, in theory, distort the issuance-to-revenue ratio without changing underlying economics. In practice, the absence of any disclosure or comparative recast renders this explanation unsupported by the public filings.

Summary of Null Hypothesis Evaluation

This analysis examined seventeen potential benign explanations for the Q2–Q3 2025 accounting patterns observed at Alaska Air Group. Each hypothesis was evaluated against three criteria:

1. Quantitative sufficiency to explain the magnitude of the observed movements.
2. Temporal alignment with the discrete, one-quarter nature of the anomaly.
3. Consistency with the disclosure and presentation requirements of U.S. GAAP.

Hypothesis	Quantitative	Temporal	Disclosure	Verdict
Hawaiian Integration (ASC 805)	Fail	Fail	Fail	Rejected

Hypothesis	Quantitative	Temporal	Disclosure	Verdict
SSP Volatility	Fail	Pass	Fail	Rejected
Contract Restructuring	N/A	Fail	Fail	Rejected
Breakage Refinement	Fail	Pass	Fail	Rejected
Industry-Wide Disruption	Fail	N/A	N/A	Rejected
Summit Pre-Positioning	Fail	Fail	N/A	Rejected
Receivable Timing	Fail	Fail	N/A	Rejected
Extended Payment Terms	N/A	Pass	Fail	Rejected
Contract Asset Relabelling	N/A	Pass	Fail	Rejected
Immaterial Presentation	Fail	N/A	Fail	Rejected
One-for-One Hawaiian Conversion	Fail	Pass	Fail	Rejected
Platform Migration Revaluation	Fail	Fail	Fail	Rejected
Long-Term Partner Financing	Pass	Pass	Fail	Rejected
Post-Migration Redemption Surge	Fail	Pass	N/A	Rejected

Hypothesis	Quantitative	Temporal	Disclosure	Verdict
Measurement Period Adjustments	Fail	Fail	Pass	Rejected
Mass Reinstatements / Make-goods	Pass	Pass	Fail	Rejected
Revenue Caption Reclassification	N/A	Pass	Fail	Rejected

Across all seventeen hypotheses, the same structural constraint applies. Any benign explanation capable of producing the observed Q2–Q3 2025 patterns must simultaneously satisfy magnitude, timing, and disclosure requirements. No hypothesis satisfies all three.

Where an explanation can account for the magnitude, it fails on timing or disclosure. Where it aligns temporally, it lacks quantitative sufficiency or requires accounting effects that are not visible in the financial statements.

This creates a consistent GAAP constraint: either the benign explanation is incorrect, leaving the anomaly unexplained, or it is correct but would have required disclosure that is absent. Both outcomes converge on the same conclusion: the Q2–Q3 2025 accounting patterns warrant explanation that has not been provided in the public filings.

A.9 Accounting Signatures: Expected Financial Statement Effects by Hypothesis

The table below summarises the accounting signatures that would be expected if each broad category of benign explanation were correct. These signatures describe where the offsetting debits and credits must appear under U.S. GAAP.

Explanation Type	Expected Debit	Expected Credit	Where It Must Appear	Disclosure Implication
SSP / Breakage Change	Contract liability	Revenue (cumulative catch-up)	Income statement and contract balance rollforward	Disclosure of change in judgement under ASC 606

Explanation Type	Expected Debit	Expected Credit	Where It Must Appear	Disclosure Implication
Partner Prepayment	Cash	Deferred revenue / contract liability	Operating cash inflow; liability increase	Explanation of payment terms
Reinstatements / Make-goods	Expense or contra-revenue	Contract liability	Income statement line item identifiable	Disclosure of customer restitution
Revenue Reclassification	One revenue caption	Another revenue caption	Revenue footnote and comparatives	Explanation of presentation change
Extended Payment Terms	Noncurrent receivable	Current receivable	Balance sheet reclassification	MD&A liquidity discussion
Contract Asset Conditionality	Contract asset	Revenue	Contract asset disclosure	Explanation of conditionality
Collectibility Issue	Allowance for credit losses	Receivable	CECL allowance	Disclosure of credit risk
Acquisition Measurement Period	Goodwill	Acquired liability	Balance sheet and Note 2	ASC 805 measurement period disclosure
Platform Migration Revaluation	Revenue or goodwill	Contract liability	Income statement or goodwill	Explanation of remeasurement basis

Any benign explanation advanced by management must be consistent with one or more of the above signatures. Where the expected signature is absent from the published financial statements, the explanation is either incorrect or incomplete.
