

Air Carrier: Horizon Air Industries, Inc.  
Operation: Domestic  
Period Ended: September 30, 2007

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NOTES TO RSPA FORM 41 REPORT

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1. Effective January 1, 1987, Horizon Air Industries, Inc. (the Company) changed its balance sheet to reflect pushdown accounting by its parent, Alaska Air Group (AAG). As a result, the financial statements reflected property, plant, and equipment at 1/1/87 market (12/31/86 book) value. Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets". During the second quarter of 2002, the company completed the first step of its impairment test related to its \$38.9 million of goodwill and determined that the net book value exceeded its fair value. In the fourth quarter of 2002, the company completed the second step of its impairment test and determined that all of the Company's goodwill was impaired. As a result, the Company recorded a one-time, non-cash charge, effective January 1, 2002 of \$38.9 million to write-off all of its goodwill. This charge is nonoperational in nature and is reflected as a cumulative effect of accounting change in the statement of income.
2. Passenger Facility Charge Activity for the Quarterly Period Ended September 30, 2007.

PFC Amount in Account 2190 at Beginning of Quarter	\$ 0
Total Amount Collected in Trust for Public Agencies	\$ 0
Total Amount Remitted to Public Agencies	\$ 0
Adjustments (Collection compensation, PFC refunds)	\$ 0
PFC Amount in Account 2190 at End of Quarter	\$ 0

3. As of September 30, 2007 the Company had firm orders for 15 Bombardier Q400 aircraft with deliveries in 2008 and 2009. The firm orders require payments of approximately \$300 million in 2008 and 2009.
4. Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. For the quarter ended September 30, 2007, the Company recognized \$.8 million of non-operating income related to fair market value changes in future fuel hedge contracts and \$2.7 million of non-operating income related to fair market value changes in settled fuel hedge contracts. At September 30, 2007 the Company had unrealized gains of \$0 net of income taxes related to fuel hedge contracts. The unrealized gains are recorded as an addition to retained earnings on the balance sheet.

5. On January 1, 2004, Horizon began operating flights for Frontier Airlines as Frontier Jet Express. The following is information regarding fuel consumption for the Jet Express flights for the quarter ending September 30, 2007: July 932,840 gallons, August 920,805 gallons and September 836,007 gallons.
  
6. During the third quarter of 2006, Horizon signed a letter of intent with another carrier to sublease up to 16 of its Bombardier Q200 aircraft. Eleven will leave Horizon's operating fleet in 2007, and an additional 5 will leave the first half of 2008. Each sublease will result in a loss for Horizon approximating the difference between the lease payments and the sublease receipts. The loss on each aircraft will be recorded when the specific aircraft leave Horizon's fleet and the sublease arrangement begins. As of September 30, 2007, eight of the aircraft have been delivered to the other carrier, resulting in a sublease loss of approximately \$4 million in the third quarter. The Company expects the loss to average \$1.5 million per aircraft.