



Management Voluntary Severance Incentive (VSI) Follow-up Questions & Answers

In response to Friday's announcement regarding the VSI program, several more questions have been posed. Below, we've answered the most frequently asked questions.

1: Why can't people who participate in the VSI program reapply to Alaska?

When you look at the VSI program as a whole, it doesn't make sense to allow people to leave the company with such a generous package and then turn around and come back to work.

2: Why can employees who participate in VSI apply to Horizon Air?

Horizon is a separate company. The VSI program is an Alaska Airlines program, not an Air Group program. As a result, if someone who participates in the VSI program wants to apply to Horizon Air, they may do so.

3: If I participate in VSI and then apply to and am hired by Horizon, will my Alaska service be bridged?

Employees who participate in VSI and subsequently go to work at Horizon will not receive any credit for their Alaska service. They will be starting over in regards to service pins, pass benefits and all other seniority-based privileges.

4: Will an employee who is approved for VSI have any input regarding their last day worked?

Our goal is to let those employees who take VSI leave as soon as possible. However, in some cases, an employee's last day will have to be delayed due to business needs. The Company will do its best to be accommodating wherever possible.

5: Could an employee request a last day beyond May 31, 2005?

The Company retains the right to make final decisions regarding an employee's last day worked based on business needs. An employee may request a date after May 31, 2005, but it would have to be discussed on a case-by-case basis.

6: If I am approved for VSI and my last day is in 2004, can I defer my lump sum payout until 2005 for tax reasons?

Because a lump sum payment such as the one offered under the VSI program is considered income, it must be taxed in the year it is paid. There may be instances where an employee whose last day worked is in 2004 can remain on the payroll until 2005, but those cases must be worked out with Employee Services.

7: Bill Ayer said that we are trying to eliminate layers of management. Are there specific levels that are being targeted through the reorganization?

The flattening of the organization is only part of the new structure that is envisioned for Alaska Airlines. No specific level is being targeted – we anticipate that all levels throughout the company will be impacted to some degree.



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8: Will anyone who applies for VSI be turned down?

The Company's goal is to approve VSI for everyone who chooses to apply. However, ultimately the decision to approve or not will be based on business needs. It is possible that someone would not be approved to participate in the VSI program, but we will try to accommodate all interested employees.

9: If I participate in the VSI program and then go to work as an independent consultant or for a company that supplies goods or services to Alaska, will I be eligible to do work for the Company in that capacity?

Yes, because you would not be considered an employee of Alaska Airlines.

10: If we have a high number of people that apply for VSI, will there still be people who involuntarily lose their jobs?

Possibly. It is important to remember that we are not just downsizing - we are also reorganizing. Depending on who takes VSI, and how each department is impacted, there may be a need to make further cuts in order to achieve our new, leaner organization.

11: If I do not apply for VSI and then lose my job in the reorganization, will I receive the terms of the VSI program?

Yes. Everyone whose job is eliminated through the management restructuring will receive the cash and benefits offered in the VSI program. This will only extend to those who are directly affected by the reorganization and will not apply to those who are terminated for cause (e.g., violation of company rules).

12: How did the Company decide that we needed a 10% reduction?

That figure is approximate. No specific target has been established, but we expect that we will have 150 fewer management employees when all is said and done.

13: Does this mean that we are experiencing a hiring freeze?

We have certainly slowed management hiring considerably. If a position is operationally necessary, we will continue the hiring process, but we are reevaluating all open positions.

We are still hiring for open frontline positions. The hiring slow down will not affect those jobs.

14: I'm still confused about unemployment. Will I be approved to receive unemployment benefits if I participate in the VSI program?

Alaska Airlines will not contest unemployment filings made by anyone who leaves the company through the VSI program. However, eligibility for unemployment benefits is a decision that is made by state agencies. Depending on the regulations in your state, you may be eligible to receive some benefits, but that decision is up to the individual state agencies, not Alaska Airlines.



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15: Are there any specific departments or divisions within the company that are being targeted for downsizing?

No. Every area is being looked at.

16: How do we know if our position will be eliminated as a result of the management restructuring?

No decisions have been finalized. Remember, however, that anyone who loses their job as a direct result of the reorganization will receive the benefits of the VSI program.

17: Everyone is already so busy. How can we get by with less management?

This restructure is going to require us to focus on what is truly important. We've talked over the past year or so about creating "stop doing" lists and instead putting our energy into tasks that are strategic and which allow us to compete in the new low-fare environment.

18: Will we backfill any of the positions that are vacated as a result of the VSI program?

Probably. We'll need to make that decision based on who applies and is approved to participate.

19: Who decides whether an application will be approved?

We will consider all applications. The decision whether to approve a specific employee's application will be made in partnership with that employee's division head. Again, the Company's goal is to accommodate everyone who is interested in the program.

20: Is it possible that the reorganization will move people between divisions?

Yes. Again, everything is being considered.

21: How will decisions be made regarding people who are involuntarily terminated?

A number of factors will be considered – organizational structure, levels of management, size of the division or department, our overall business plan, and the individual's performance.

22: Is there a timeline for when the Company will tell me whether or not I've been approved to participate in the VSI program?

Employees will be notified by the end of September.

23: If I am contributing to a Health Care Spending Account or Daycare Spending Account, what will happen to the money that I have not yet claimed?

All of the normal rules regarding these spending accounts will apply. While you remain on the payroll, your contributions will continue. After you have left, you will still have a period of time to make claims for expenses incurred while you were still on the payroll. If you have questions about your specific situation, please contact the Health Benefits Department.



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24: Can I add a Domestic Partner to my travel benefits after I leave the company?

TOM??

26: Is Company-paid COBRA coverage considered taxable income?

No.

27: If a prospective employer contacts Alaska for a reference check, what information will you provide?

Under Alaska Airlines' neutral reference policy, employees should refer prospective employers to Alaska's Benefits Department at (206) 392-5042 for employment verification purposes. Under Alaska's policy, the only information that will be provided to prospective employers includes dates of employment and job title, and only upon written authorization by the employee, confirmation of the last rate of pay.

28: Can I see the plans for the reorganization prior to making my decision?

Restructuring plans have not been finalized and we don't expect them to be until we know who will be taking advantage of the VSI program. Employees will need to make the decision whether to take VSI based on their own circumstances and what works for their families.

29: If, earlier in my career, I left the company for three years and then came back, will my service prior to leaving count towards my years of service?

Our policy is to only bridge breaks in service of less than a year. If you have a break in service greater than one year, your service before you left will not be counted in determining your benefits under the VSI program.

30: I thought I had to retire directly from active service in order to be eligible for retiree travel. How does participation in the VSI program impact me?

Current pass policy does require that employees hired after 1/1/1991 retire directly from active service and receive a monthly retirement benefit in order to be eligible for retiree travel. However, the decision has been made to bridge VSI travel eligibility into retiree travel.

For purposes of meeting this requirement of "retiring from active service" we will count the time the employee is eligible for VSI passes. Therefore, an employee may terminate their employment under the VSI program, and if they have the requisite years of service to qualify for retiree travel at the time of their termination, they can defer receipt of their monthly defined benefit until the expiration of their VSI pass eligibility, and then retire with retiree travel privileges.



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- 31: The General Release & Waiver says that I may be required to sign a non-compete agreement if I participate in the VSI program. How likely is this to happen? Would I know if I had to sign this kind of agreement before I make a final decision?**

The decision to ask an employee to sign a non-compete and/or confidentiality agreement will be made on a case-by-case basis. We will ensure the person is fully aware of our requirements for their participation in VSI after they submit an election form and before they sign the release and waiver and/or other required documents.

- 32: If I'm a part-time employee, how will my pay be determined during the nine weeks I remain on the payroll? Will I receive the same Company-paid health benefits as full-time employees?**

During the nine-week period that you remain on the active payroll, you will be paid for the number of regular hours you are typically scheduled to work.

The twelve months of Company-paid health care will not be pro-rated if you are part-time – you will receive the same benefit as a full-time employee. The only VSI benefit that is affected by your part-time status is the severance portion of the lump sum payment, which will be pro-rated by the number of regular hours you are typically scheduled to work.

- 33: Will the management restructure impact our agreement with the FAA regarding staffing levels following 261?**

Safety remains our number one priority. We will ensure that all of our commitments to the FAA are fulfilled.