

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

June 8, 1995

Date of Report
(Date of earliest event reported)

ALASKA AIR GROUP, INC. AND ALASKA AIRLINES, INC.

(Exact name of registrant as specified in its charter)

1-8957 - Alaska Air Group, Inc.
0-19978- Alaska Airlines, Inc.

(Commission File No.)

Delaware - Alaska Air Group, Inc.
Alaska - Alaska Airlines, Inc.

91-1292054 - Alaska Air Group, Inc.
92-00092535 - Alaska Airlines, Inc.

(State or other jurisdiction of
incorporation)

(IRS Employer Identification No.)

19300 Pacific Highway South
Seattle, Washington 98188

(Address of principal executive offices, including zip code)

(206) 433-3200

(Registrant's telephone number, including area code)

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ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

Exhibit

Number Exhibit

- | Exhibit
Number | Exhibit |
|-------------------|--|
| 1 | Form of Purchase Agreement, which is being filed pursuant to Regulation S-K, Item 601(b)(1) in lieu of filing the otherwise required exhibit to the Registration Statement on Form S-3, File No. 33-52265, under the Securities Act of 1933, as amended, and which, since this Form 8-K filing is incorporated by reference in such registration statement, is set forth in full in such registration statement. |
| 4 | Form of Supplemental Indenture No. 1 (including Form of Debenture), which is being filed pursuant to Regulation S-K, Item 601(b)(4) in lieu of filing the otherwise required exhibit to the Registration |

Statement on Form S-3, File No. 33-52265, under the Securities Act of 1933, as amended, and which, since this Form 8-K filing is incorporated by reference in such registration statement, is set forth in full in such registration statement.

- 23 Consent of Arthur Andersen LLP, which is being filed pursuant to Regulation S-K, Item 601(b)(23) in lieu of filing the otherwise required exhibit to the Registration Statement on Form S-3, File No. 33-52265, under the Securities Act of 1933, as amended, and which, since this Form 8-K filing is incorporated by reference in such registration statement, is set forth in full in such registration statement.
- 25 Form T-1 Statement of Eligibility of Trustee, which is being filed pursuant to Regulation S-K, Item 601(b)(25) in lieu of filing the otherwise required exhibit to the Registration Statement on Form S-3, File No. 33-52265, under the Securities Act of 1933, as amended, and which, since this Form 8-K filing is incorporated by reference in such registration statement, is set forth in full in such registration statement.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ALASKA AIR GROUP, INC.
ALASKA AIRLINES, INC.

Dated: June 8, 1995

By /s/ Harry G. Lehr

Name: Harry G. Lehr
Title: Senior Vice President,
Planning & Finance

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EXHIBIT INDEX

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S&S Draft
5/26/95

- - - - -
- - - - -

ALASKA AIR GROUP, INC.
(a Delaware corporation)

Convertible Debt Securities

PURCHASE AGREEMENT

Dated: _____, 1995

- - - - -
- - - - -

ALASKA AIR GROUP, INC.

\$100,000,000 Convertible Debentures due 2005

PURCHASE AGREEMENT

_____, 1995

MERRILL LYNCH & CO.
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
GOLDMAN, SACHS & CO.
c/o MERRILL LYNCH & CO.
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
Merrill Lynch World Headquarters
North Tower
World Financial Center
New York, New York 10281-1305

Dear Sirs:

1. INTRODUCTORY. Alaska Air Group, Inc., a Delaware corporation (the "Company"), proposes to issue and sell to the underwriters named in Schedule I the principal amount of certain of its debt securities specified in Schedule II (the "Firm Securities"). The Company also grants to the Underwriters, severally and not jointly, the option described in Section 3(c) to purchase all or any part of the additional principal amount of debt securities as set forth in Schedule II (the "Optional Securities"). The Optional

Securities together with the Firm Securities are collectively referred to herein as the "Securities". The Securities will be issued pursuant to a supplement (the "Indenture Supplement") to an Indenture (the "Indenture") between the Company and Harris Trust Company of California, as Trustee (the "Trustee"). The Indenture, as amended or supplemented to the date hereof and as supplemented by the Indenture Supplement, is herein referred to as the "Designated Indenture".

The Securities are convertible, subject to certain limitations set forth in the Indenture, into shares of common stock, par value \$1.00 per share, of the Company (the "Common Stock"), as specified in Schedule II. The shares of Common Stock issuable upon conversion of the Securities are referred to herein as the "Shares". As used herein, unless the context otherwise requires, the term "Underwriters" shall mean the firm or firms named as

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Underwriter or Underwriters in Schedule I and the term "you" shall mean the Underwriter or Underwriters, if no underwriting syndicate is purchasing the Securities, or the representative or representatives of the Underwriters, if an underwriting syndicate is purchasing the Securities, as indicated in Schedule I.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-3 (Registration No. 33-52265), as amended by Amendment No. 1 thereto, including a prospectus relating to its convertible debt securities (including the Securities), and the offering thereof and of certain other securities of the Company and its subsidiary, Alaska Airlines, Inc., from time to time in accordance with Rule 415 under the Securities Act of 1933, as amended (the "1933 Act"). Such registration statement has been declared effective by the Commission. As provided in Section 4(a), a prospectus supplement reflecting the terms of the Securities, the terms of the offering thereof and the other matters set forth therein has been prepared and will be filed pursuant to Rule 424 under the 1933 Act. Such prospectus supplement, in the form first filed after the date hereof pursuant to Rule 424, is herein referred to as the "Prospectus Supplement". Such registration statement, as amended at the date hereof, including the exhibits thereto and the documents incorporated by reference therein, is herein called the "Registration Statement", and the basic prospectus included therein relating to the offering of convertible debt securities under the Registration Statement, as supplemented by the Prospectus Supplement, is herein called the "Prospectus", except that, if such basic prospectus is amended or supplemented on or prior to the date on which the Prospectus Supplement is first filed pursuant to Rule 424, the term "Prospectus" shall refer to the basic prospectus, as so amended or supplemented and as supplemented by the Prospectus Supplement, in either case including the documents filed by the Company with the Commission pursuant to the Securities Exchange Act of 1934, as amended (the "1934 Act"), that are incorporated by reference therein.

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company represents and warrants to, and agrees with you that:

(a) On the original effective date of the Registration Statement, on the effective date of the most recent post-effective amendment thereto, if any, and on the date of the filing by the Company of any annual report on Form 10-K after the original filing of the Registration Statement, the Registration Statement complied in all material respects with the requirements of the 1933 Act and the rules and regulations of the Commission thereunder (the "1933 Act Regulations"), the Trust Indenture Act of 1939, as amended (the "1939 Act"), and the rules and regulations of the Commission under the 1939 Act (the "1939 Act Regulations") and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; on the date hereof, and on each Closing Date (as defined below), the Registration Statement, and any amendments thereof, and the Prospectus, and any amendments thereof and supplements thereto, comply and will

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comply in all material respects with the requirements of the 1933 Act, the 1933 Act Regulations, the 1939 Act and the 1939 Act Regulations and neither the Registration Statement nor any amendments thereof include or will

include an untrue statement of a material fact or omit or will omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and neither the Prospectus nor any amendments thereof and supplements thereto, include or will include an untrue statement of a material fact or omit or will omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that the Company makes no representations or warranties as to statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of any Underwriter, directly or through you, expressly for use in the Registration Statement or the Prospectus. On each Closing Date (as defined below), the Designated Indenture will comply in all material respects with the requirements of the 1939 Act and the 1939 Act Regulations.

(b) Each of the Indenture, each supplement thereto, if any, to the date hereof and the Indenture Supplement has been duly authorized by the Company. The Indenture as executed is or will be substantially in the form filed as an exhibit to the Registration Statement. The Designated Indenture, when duly executed and delivered (to the extent required by the Indenture) by the Company and the Trustee, will constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights or by general equity principles.

3. PURCHASE, SALE AND DELIVERY OF SECURITIES. (a) On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company agrees to sell to each Underwriter, and each Underwriter agrees, severally and not jointly, to purchase from the Company, at the purchase price to the Underwriters set forth in Schedule II, the principal amount of Firm Securities set forth opposite the name of such Underwriter in Schedule I.

(b) The Company will deliver the Firm Securities to you for your account at the date, time and location specified in Schedule II, or at such other date, time and location as shall be agreed upon by the Company and you, against payment of the purchase price by certified or official bank check or checks in funds available the next succeeding business day drawn to the order of Alaska Air Group, Inc., such time being herein referred to as the "First Closing Date". The Firm Securities so to be delivered will be in definitive, fully registered form in such denominations and registered in such names as you request, and will be made available for

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checking and packaging at the office of the Trustee, at least 24 hours prior to the First Closing Date.

(c) In addition, upon written notice from you given to the Company not more than 30 days subsequent to the date of the initial public offering of the Firm Securities, the Underwriters, severally and not jointly, may purchase all or less than all of the Optional Securities at the purchase price to the Underwriters to be paid for the Firm Securities. The Company agrees to sell to the Underwriters the amount of Optional Securities specified in such notice and each Underwriter, acting severally and not jointly, agrees to purchase from the Company that portion of the aggregate number of Optional Securities being purchased which the number of Firm Securities set forth opposite the name of such Underwriter bears to the total number of Firm Securities (such proportion is hereinafter referred to as such Underwriter's "underwriting obligation proportion"). Such Optional Securities may be purchased by you only for the purpose of covering over-allotments made in connection with the sale of the Firm Securities. No Optional Securities shall be sold or delivered unless the Firm Securities previously have been, or simultaneously are, sold and delivered. The right to purchase the Optional Securities or any portion thereof may be surrendered and terminated at any time upon notice by you to the Company.

(d) The time for the delivery of and payment for the Optional Securities, being herein referred to as the "Second Closing Date" (which may be the First Closing Date), shall be determined by you but shall be not later than seven full business days after written notice of election to purchase Optional Securities is given. Each of the First Closing Date and the Second Closing Date

is referred to herein as a "Closing Date". The Company will deliver the Optional Securities to you, against payment of the purchase price therefor by certified or official bank check or checks in funds available the next succeeding business day drawn to the order of Alaska Air Group, Inc., at the address specified in Schedule II. The Optional Securities will be in definitive form, in such denominations and registered in such names as you request.

4. CERTAIN AGREEMENTS OF THE COMPANY. The Company agrees with you that:

(a) If reasonably requested by you in connection with the offering of the Securities, the Company will prepare a preliminary prospectus supplement containing such information as you and the Company deem appropriate and, immediately following the execution of this Agreement, the Company will prepare a Prospectus Supplement that complies with the 1933 Act and the 1933 Act Regulations and that sets forth the principal amount of the Securities and their terms not otherwise specified in the Indenture, the name of each Underwriter participating in the offering and the principal amount of the Securities that each severally has agreed to purchase, the name of each Underwriter, if any, acting as representative of the Underwriters in connection with the offering, the price at which the Securities are to be purchased by the Underwriters from the Company, any initial public

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offering price, any selling concession and reallowance and any delayed delivery arrangements, and such other information as you and the Company deem appropriate in connection with the offering of the Securities. The Company will promptly transmit copies of the Prospectus Supplement to the Commission for filing pursuant to Rule 424 under the 1933 Act and will furnish to the Underwriters as many copies of any preliminary prospectus supplement and the Prospectus as you shall reasonably request.

(b) The Company will advise you promptly of any proposal to amend or supplement the registration statement as filed or the related prospectus or the Registration Statement or the Prospectus and will not effect such amendment or supplement without your consent; and the Company will also advise you promptly of any amendment or supplement of the Registration Statement or the Prospectus, and of the institution by the Commission of any stop order proceedings in respect of the Registration Statement, and will use its best efforts to prevent the issuance of any such stop order and to obtain as soon as possible its lifting, if issued.

(c) If at any time when a prospectus relating to the Securities is required to be delivered under the 1933 Act any event occurs as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact, or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at any time to amend the Prospectus to comply with the 1933 Act, the Company promptly will prepare and file with the Commission an amendment or supplement which will correct such statement or omission or an amendment which will effect such compliance. Neither your consent to, nor delivery of, any such amendment or supplement shall constitute a waiver of any of the conditions set forth in Section 5.

(d) The Company will make generally available to its security holders as soon as practicable, but not later than 45 days after the close of the period covered thereby (90 days if such period is a fiscal year), an earnings statement of the Company (in form complying with the provisions of Rule 158 of the 1933 Act Regulations), covering a period of 12 months beginning after the date of this Agreement but not later than the first day of the Company's fiscal quarter next following the date of this Agreement.

(e) The Company will furnish to you copies of the Registration Statement (three of which will include all exhibits), each related preliminary prospectus, the Prospectus and all amendments and supplements to such documents, in each case as soon as available and in such quantities as you may reasonably request,

(f) The Company will arrange for the qualification of the Securities and the shares of Common Stock issuable upon conversion of Securities for

sale under the laws of

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such jurisdictions as you designate and will continue such qualifications in effect so long as required for the distribution.

(g) During the period of five years hereafter, the Company will furnish to you, as soon as practicable after the end of each fiscal year, a copy of its annual report to stockholders for such year; and the Company will furnish to you (i) as soon as available, a copy of each report or definitive proxy statement of the Company filed with the Commission under the 1934 Act or mailed to shareholders and (ii) from time to time, such other information concerning the Company as you may reasonably request.

(h) The Company will pay all expenses incident to the performance of its obligations under this Agreement, and will reimburse you for any expenses (including fees and disbursements of counsel) incurred by you in connection with qualification of the Securities and the shares of Common Stock issuable upon conversion of the Securities for sale under the laws of such jurisdictions as you designate and the printing of memoranda relating thereto, for any fees charged by investment-rating agencies for the rating of the Securities, for the filing fee of the National Association of Securities Dealers, Inc. relating to the Securities and for expenses incurred in distributing preliminary prospectuses and the Prospectus (including any amendments and supplements thereto).

(i) The Company will not, directly or indirectly, except with the prior consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated, offer, sell, or enter into any agreement to sell to any person other than you, for a period of 90 days after the date of the Prospectus Supplement, any shares of Common Stock or any other securities of the Company convertible by the holder thereof into, or exercisable by the holder thereof for, Common Stock (other than shares issuable upon conversion of the Securities, the exercise or conversion of currently outstanding securities of the Company and the grant of certain rights pursuant to employee benefit plans).

(j) The Company has complied and will comply with all the provisions of Florida H.B. 1771, codified as Section 517.075 of the Florida statutes, and all regulations promulgated thereunder relating to issuers doing business in Cuba.

5. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the several Underwriters to purchase and pay for the Firm Securities on the First Closing Date and the Optional Securities on the Second Closing Date that they have respectively agreed to purchase hereunder will be subject to the accuracy of the representations and warranties on the part of the Company herein, to the accuracy of the statements of Company officers made pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder and to the following additional conditions precedent:

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(a) You shall have received a letter, dated the date hereof, of Arthur Andersen & Co., confirming that they are independent public accountants within the meaning of the 1933 Act and the 1933 Act Regulations and stating in effect that:

(i) In their opinion the financial statements and schedules examined by them and included or incorporated by reference in the Prospectus comply in form and in all material respects with the applicable accounting requirements of the 1933 Act and the 1933 Act Regulations;

(ii) They have made a review of the unaudited financial statements included or incorporated by reference in the Prospectus in accordance with standards established by the American Institute of Certified Public Accountants, as indicated in their report attached to such letter;

(iii) On the basis of the review referred to in clause (ii)

above, a reading of the latest available interim financial statements of the Company, inquiries of officials of the Company responsible for financial and accounting matters and other specified procedures, nothing came to their attention that caused them to believe that:

(A) the unaudited financial statements included or incorporated by reference in the Prospectus do not comply in form and in all material respects with the applicable accounting requirements of the 1933 Act and the 1933 Act Regulations, or are not in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements included in the Registration Statement;

(B) at the date of the latest available balance sheet read by such accountants, or at a subsequent specified date not more than five days prior to the date of such letter, there was any change in the capital stock or any increase in the short-term debt, long-term debt or total current liabilities or any decrease in the total current assets, total assets or shareholders' equity, in each case, of the Company on a consolidated basis, as compared with amounts shown on the latest balance sheet included or incorporated by reference in the Prospectus; or

(C) for the period from the closing date of the latest income statement included in the Prospectus to the closing date of the latest available income statement read by such accountants, or to a subsequent specified date not more than five days prior to the date of such letter, there were any decreases, as compared with the corresponding period of the

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previous year, in operating revenue or operating income, or in the total or per share amounts of net income or in the ratio of earnings to fixed charges, in each case, of the Company on a consolidated basis, except in all cases set forth in clause (B) above and this clause (C) for changes, increases or decreases which the Prospectus discloses have occurred or may occur, or which are described in such letter; and

(iv) They have compared specified dollar amounts (or percentages derived from such dollar amounts) and other financial information included or incorporated by reference in the Prospectus (in each case to the extent that such dollar amounts, percentages and other financial information are derived from the general accounting records of the Company subject to the internal controls of the Company's accounting system or are derived directly from such records by analysis or computation) with the results obtained from inquiries, a reading of such general accounting records and other procedures specified in such letter, and have found such dollar amounts, percentages and other financial information to be in agreement with such results, except as otherwise specified in such letter.

All financial statements and schedules included in material incorporated by reference into the Prospectus shall be deemed included in the Registration Statement for purposes of this subsection (a).

(b) The Registration Statement shall have become effective prior to the date hereof, and at each Closing Date, no stop order suspending the effectiveness of the Registration Statement shall have been issued under the 1933 Act and no proceedings for that purpose shall have been instituted or shall be pending or, to your knowledge or the knowledge of the Company, shall be contemplated by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel for the Underwriters.

(c) Subsequent to the execution and delivery of this Agreement, there shall not have occurred (i) any change, or any development involving a prospective change, in or affecting particularly the business or properties of the Company or its subsidiaries which, in your judgment, materially impairs the investment quality of the Securities; (ii) any downgrading in the rating of any debt securities of the Company by any "nationally

recognized statistical rating organization" (as defined for purposes of Rule 436(g) under the 1933 Act), or any public announcement that any such organization has under surveillance or review its rating of any debt securities of the Company (other than an announcement with positive implications of a possible upgrading, and no implication of a possible downgrading, of such rating); (iii) any suspension or limitation of trading in securities generally on the New York Stock Exchange, or any setting of minimum prices

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for trading on such exchange, or any suspension of trading of the Common Stock of the Company on any exchange or in the over-the-counter market; (iv) any banking moratorium declared by federal or New York authorities; or (v) any outbreak or escalation of major hostilities in which the United States is involved, any declaration of war by Congress or any other substantial national or international calamity or emergency if, in your judgment, the effect of any such outbreak, escalation, declaration, calamity or emergency makes it impractical or inadvisable to proceed with completion of the sale of and payment for the Securities.

(d) You shall have received an opinion of Steven G. Hamilton, Vice President and General Counsel of the Company, dated such Closing Date, to the effect that:

(i) Each of the Company, Alaska Airlines, Inc. ("AS") and Horizon Air Industries, Inc. ("QX") is validly existing as a corporation in good standing under the laws of the State of Delaware (in the case of the Company), the laws of the State of Alaska (in the case of AS), and the laws of the State of Washington (in the case of QX), with corporate power and authority to own its properties and conduct its business as described in the Prospectus; each of the Company, AS and QX is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which it owns or leases substantial properties or in which the conduct of its business requires such qualifications, except where the failure to so qualify would not have a material adverse effect on the business of the Company, AS and QX, taken as a whole; and all of the issued and outstanding shares of capital stock of AS and QX have been duly authorized and validly issued and are fully paid and nonassessable and are owned by the Company free and clear of any liens, encumbrances, equities or claims;

(ii) The Securities delivered on such Closing Date have been duly authorized, executed, authenticated, issued and delivered and constitute valid and legally binding obligations of the Company, entitled to the benefits provided by the Designated Indenture; the Securities delivered on such Closing Date are convertible into Common Stock of the Company in accordance with the terms of the Designated Indenture; the shares of such Common Stock issuable upon conversion of the Securities delivered on such Closing Date at the initial Conversion Rate have been duly authorized and reserved for issuance upon such conversion, and, when issued upon such conversion, will be duly issued, fully paid and nonassessable; the outstanding shares of capital stock of the Company have been duly authorized and issued, and are fully paid and nonassessable; and the stockholders of the Company have no preemptive rights under the Certificate of Incorporation of the Company or any agreement known to such counsel or by operation of law with respect to the Securities or such capital stock;

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(iii) Each of the Indenture and the Supplemental Indenture has been duly authorized, executed and delivered, and the Designated Indenture constitutes a valid and binding instrument in accordance with its terms except as the same may be limited by bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights or by general equity principles;

(iv) The Rights Agreement dated as of December 2, 1986, as amended, between the Company and The First National Bank of Boston, as

rights agent (the "Rights Agreement"), has been duly authorized, executed and delivered by the Company; the preferred share purchase rights issuable under the Rights Agreement (the "Rights") have been duly authorized by the Company and, when issued upon the issuance of the Shares, will be validly issued; and the preferred shares issuable upon the exercise of the Rights (the "Preferred Shares") that are associated with the shares of Common Stock issuable upon conversion of the Securities at the initial Conversion Rate have been duly authorized by the Company and validly reserved for issuance upon the exercise of such Rights and, when issued upon such exercise in accordance with the terms of the Rights Agreement, will be validly issued, fully paid and nonassessable;

(v) The Registration Statement was declared effective under the 1933 Act as of the date and time specified in such opinion, the Prospectus was filed with the Commission pursuant to the subparagraph of Rule 424(b) specified in such opinion on the date specified therein and, to the best of the knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement or any part thereof has been issued and no proceedings for that purpose have been instituted or are pending or contemplated under the 1933 Act; no fact has come to such counsel's attention that would lead him to believe that either the Registration Statement or the Prospectus, or any such amendment or supplement, as of their respective effective or issue dates and as of such Closing Date, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading; the descriptions in the Registration Statement and the Prospectus of statutes, legal and governmental proceedings and contracts and other documents are accurate and fairly present the information required to be shown; and such counsel does not know of any legal or governmental proceedings required to be described in the Prospectus which are not described as required, nor of any contracts or documents of a character required to be described in the Registration Statement or Prospectus or to be filed as exhibits to the Registration Statement which are not described and filed as required, it being understood that such counsel need express no opinion as

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to the financial statements or other financial or statistical data contained in the Registration Statement or the Prospectus;

(vi) This Agreement has been duly authorized, executed and delivered by the Company;

(vii) AS and QX each have such licenses and authorizations from the Civil Aeronautics Board (the "CAB") or the Department of Transportation (the "DOT"), as the successor to the CAB, and the Federal Aviation Administration (the "FAA") as are necessary to own its properties and to conduct its business in the manner described in the Prospectus; such counsel has no reason to believe that either the DOT, as the successor to the CAB, or the FAA is considering modifying, suspending or revoking any such licenses or certificates; and, to the best knowledge of such counsel, AS and QX each are in compliance, in all material respects, with the provisions of such licenses and certificates;

(viii) No consent, approval, authorization or order of, notice to or filing with the DOT, as the successor to the CAB, or the FAA is required for the consummation by the Company of the transactions contemplated by this Agreement;

(ix) Such counsel confirms that the statements incorporated in the Prospectus by reference to Item 1 of the Company's Form 10-K for the year 1994, insofar as they are, or refer to, statements of law or legal conclusions relating to United States aviation law or are descriptions of legal proceedings, have been prepared or reviewed by such counsel and are correct and present fairly the information purported to be shown; and the descriptions incorporated by reference in the Registration Statement and the Prospectus of licenses and authorizations are accurate in all material respects and present fairly the information purported to be shown;

(x) Such counsel does not know of any proceedings required to be described in the Prospectus involving United States aviation law pending against or affecting the properties or licenses of, AS or QX or of any United States aviation laws or regulations required to be described in the Prospectus, which are not described in the Prospectus;

(xi) The issuance and delivery by the Company of the Securities and the shares of Common Stock issuable upon conversion of the Securities at the initial Conversion Rate, the execution and delivery of this Agreement, the Indenture and the Supplemental Indenture by the Company, the consummation by the Company

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of the transactions herein and therein contemplated and in the manner herein and therein contemplated, and compliance by the Company with the terms of this Agreement and the Designated Indenture do not and will not result in a breach of any of the terms or provisions of, or constitute a default under, the Certificate of Incorporation or By-Laws, as amended, of the Company or any of its subsidiaries or any indenture or other agreement or instrument known to such counsel to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or a violation of any law, rule, regulation, judgment or order known to such counsel to be applicable to the Company or any of its subsidiaries of any court, regulatory body, administrative agency, government or governmental body having jurisdiction over the Company or any of its subsidiaries; and

(xii) Each of the Annual Report of the Company on Form 10-K for the year ended December 31, 1994 and the Quarterly Report of the Company on Form 10-Q for the Three Months ended March 31, 1995 incorporated by reference in the Registration Statement and the Prospectus, as of its respective date of filing with the Commission and as of the issue date of the Prospectus, complied as to form in all material respects with the requirements of the 1934 Act and the 1934 Act Regulations.

(e) You shall have received an opinion of Perkins Coie, counsel for the Company, dated such Closing Date, to the effect that:

(i) The Company is validly existing as a corporation, in good standing under the laws of the State of Delaware, with corporate power and authority to own its properties and conduct its business as described in the Prospectus;

(ii) The Securities delivered on such Closing Date have been duly authorized, executed, authenticated, issued and delivered and constitute valid and legally binding obligations of the Company, entitled to the benefits provided by the Designated Indenture; the Securities delivered on such Closing Date are convertible into Common Stock of the Company in accordance with the terms of the Designated Indenture; the shares of such Common Stock initially issuable upon conversion of the Securities delivered on such Closing Date have been duly authorized and reserved for issuance upon such conversion, and, when issued upon such conversion, will be duly issued, fully paid and nonassessable; and the stockholders of the Company have no preemptive rights under the Certificate of Incorporation of the Company or any agreement known to such counsel or by operation of law with respect to the Securities or such Common Stock;

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(iii) Each of the Indenture and the Indenture Supplement has been duly authorized, executed and delivered, the Indenture has been duly qualified under the 1939 Act, and the Designated Indenture constitutes a valid and binding instrument in accordance with its terms except as the same may be limited by bankruptcy, insolvency,

reorganization or other laws relating to or affecting the enforcement of creditors' rights or by general equity principles;

(iv) The Registration Statement was declared effective under the 1933 Act as of the date and time specified in such opinion, the Prospectus was filed with the Commission pursuant to the subparagraph of Rule 424(b) specified in such opinion on the date specified therein, and, to the best of the knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement or any part thereof has been issued and no proceedings for the purpose have been instituted or are pending or contemplated under the 1933 Act, and the Registration Statement and the Prospectus (other than documents filed by the Company with the Commission pursuant to the 1934 Act and incorporated by reference therein as to which such counsel has not been asked to comment) and each amendment or supplement thereto, as of their respective effective or issue dates, complied as to form in all material respects with the requirements of the 1933 Act, the 1939 Act and the 1933 Act Regulations; no fact has come to such counsel's attention that would lead them to believe that either the Registration Statement or the Prospectus, or any such amendment or supplement, as of their respective effective or issue dates and as of such Closing Date, contained any untrue statement of material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading, it being understood that such counsel need express no opinion as to the financial statements or other financial or statistical data contained in the Registration Statement or Prospectus;

(v) The Securities, the Indenture, the Indenture Supplement, the Shares, the Common Stock, the Rights and the Rights Agreement conform in all material respects to the descriptions thereof contained in the Prospectus; and

(vi) This Agreement has been duly authorized, executed and delivered by the Company.

(f) You shall have received from Shearman & Sterling, counsel for the Underwriters, such opinion or opinions, dated such Closing Date, with respect to the incorporation of the Company, the validity of the Securities delivered on such Closing Date, the Registration Statement, the Prospectus and other related matters as you may require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

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(g) You shall have received a certificate of the President or any Vice-President and a principal financial or accounting officer of the Company, dated such Closing Date, in which such officers, to the best of their knowledge after reasonable investigation, shall state that the representations and warranties of the Company in this Agreement are true and correct; that the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to such Closing Date; that no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are contemplated by the Commission; and that, subsequent to the date of the most recent financial statements in the Prospectus, there has been no material adverse change in the financial position or results of operation of the Company and its subsidiaries taken as a whole except as set forth or contemplated in the Prospectus or as described in such certificate.

(h) You shall have received a letter of Arthur Andersen & Co., dated such Closing Date, which meets the requirements of subsection (a) above, except that the specified date referred to in such subsection will be a date not more than five days prior to such Closing Date for the purposes of this subsection (h).

(i) The shares of Common Stock issuable upon conversion of Securities at the initial Conversion Rate shall have been duly authorized for listing, subject to official notice of issuance, on the New York Stock Exchange.

The Company will furnish you with such conformed copies of such opinions, certificates, letters and documents as you reasonably request.

6. INDEMNIFICATION. (a) The Company will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the 1933 Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, the Prospectus, or any amendment or supplement thereto, or any related preliminary prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; and will reimburse such Underwriter for any legal or other expenses reasonably incurred by you in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred; PROVIDED, HOWEVER, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any of such documents in reliance upon and in conformity with written information furnished to the Company by Merrill Lynch, Pierce, Fenner & Smith Incorporated specifically for use therein.

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(b) Each Underwriter severally agrees to indemnify and hold harmless the Company against any losses, claims, damages or liabilities to which the Company may become subject, under the 1933 Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, the Prospectus or any amendment or supplement thereto, or any related preliminary prospectus, or arise out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by Merrill Lynch, Pierce, Fenner & Smith Incorporated specifically for use therein; and will reimburse any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred.

(c) Promptly after receipt by an indemnified party under this Section of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under subsection (a) or (b) above, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under subsection (a) or (b) above. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section 6 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation.

(d) If the indemnification provided for in this Section 6 is unavailable or insufficient to hold harmless an indemnified party under subsection (a) or (b) above, then each indemnifying party shall contribute to the amount paid if payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in subsection (a) or (b) above, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the Underwriters on the other in connection

with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or you and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (d). Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the securities purchased by such Underwriter and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter otherwise has been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) The obligations of the Company under this Section 6 shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls either Underwriter within the meaning of the 1933 Act; and each Underwriter's obligations under this Section 6 shall be in addition to any liability which such Underwriter may otherwise have and shall extend, upon the same terms and conditions, to each director of the Company, to each officer of the Company who has signed the Registration Statement and to each person, if any, who controls the Company within the meaning of the 1933 Act.

7. SURVIVAL OF CERTAIN REPRESENTATIONS AND OBLIGATIONS. The respective indemnities, agreements, representations, warranties, and other statements of the Company or its officers and of you set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation, or statement as to the results thereof, made by or on behalf of you or the Company or any of their respective representatives, officers or directors or any controlling person, and will survive delivery of and payment for the Securities. If for any reason the purchase of the Securities by you is not consummated, the Company shall remain responsible for the expenses to be paid or reimbursed by it pursuant to Section 4 and the respective obligations of the Company and you pursuant to Section 6 shall remain in effect. If the purchase of the Securities by you is not consummated for any reason other than solely because of the occurrence of any event specified in clause (iii), (iv), or (v) of Section 5(c), the Company will

reimburse you for all out-of-pocket expenses (including fees and disbursements of counsel) reasonably incurred by you in connection with the offering of the Securities.

8. DEFAULT. If one or more of the Underwriters shall fail at the First Closing Date to purchase the Firm Securities that it or they are obligated to purchase (the "Defaulted Securities"), you shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth; if, however, you have not completed such arrangements within such 24-hour period, then:

(a) if the aggregate principal amount of Defaulted Securities does not exceed 10% of the aggregate principal amount of the Securities to be

purchased pursuant to this Agreement, the non-defaulting Underwriters shall be obligated to purchase the full amount thereof in the proportions that their respective underwriting obligation proportions bear to the underwriting obligation proportions of all non-defaulting Underwriters, or

(b) if the aggregate principal amount of Defaulted Securities exceeds 10% of the aggregate principal amount of the Firm Securities to be purchased pursuant to this Agreement, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter.

No action taken pursuant to this Section shall relieve any defaulting Underwriter from liability in respect of its default.

In the event of any such default that does not result in a termination of this Agreement, either you or the Company shall have the right to postpone the First Closing Date for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Prospectus or in any other documents or arrangements. As used herein, the term "Underwriter" includes any person substituted for an Underwriter under this Section 8.

9. NOTICES. All communications hereunder will be in writing, and, if sent to you, will be mailed, delivered or sent via facsimile and confirmed to you, c/o Merrill Lynch & Co., at Merrill Lynch World Headquarters, North Tower, World Financial Center, New York, New York 10281-1201, Attention: Curtis B. McWilliams, or, if sent to the Company, will be mailed, delivered or sent via facsimile and confirmed to it at 19300 Pacific Highway South, Seattle, Washington 98188.

10. SUCCESSORS. This Underwriting Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers and directors

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and controlling persons referred to in Section 6, and no other person will have any right or obligation hereunder.

11. GOVERNING LAW. This Agreement shall be governed by the laws of the State of New York.

12. COUNTERPARTS. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

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If the foregoing is in accordance with your understanding of our agreement, kindly sign and return to us the enclosed duplicate hereof, whereupon it will become a binding agreement between the Company and each Underwriter in accordance with its terms.

Very truly yours,

ALASKA AIR GROUP, INC.

By _____
Name:
Title:

The foregoing Underwriting Agreement
is hereby confirmed and accepted as
of the date first above written.

MERRILL LYNCH & CO.
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED

GOLDMAN, SACHS & CO
By: MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By: _____
Name:
Investment Banking Group

SCHEDULE I
to Purchase Agreement
dated _____, 1995

ALASKA AIR GROUP, INC.

___% Convertible Senior Debentures due 2005

Underwriter
- -----

Principal Amount
Purchased

MERRILL LYNCH & CO.
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
GOLDMAN, SACHS & CO.

\$100,000,000

SCHEDULE II
to Purchase Agreement
dated _____, 1995

Alaska Air Group, Inc.

___% Convertible Senior Debentures due 2005

Principal amount to be issued: \$100,000,000
Over-allotment option: \$15,000,000
Current ratings: B+/B3
Interest rate: ___% per annum, payable semiannually
Interest accrues from: _____, 1995
Date of maturity: _____, 2005
Initial Conversion Price: \$____ per share (____ shares of Common
Stock for every \$1,000 principal amount
of Convertible Debt Securities)

Redemption provisions: The Convertible Debt Securities may be
redeemed at the option of the Company,
in whole or in part, at any time on or
after _____, 1998, on not less than
30 nor more than 60 days' prior notice
at the redemption prices (expressed as
percentages of principal amount) set
forth below, together with accrued and
unpaid interest, if any, to the date of
redemption, if redeemed during the
12-month period beginning on _____ of
the years indicated below (subject to
the right of holders of record on
relevant record dates to receive

interest due on any interest payment date):

Year	Redemption Price
----	-----
1998	%
1999	%
2000	%
2001	%
2002	%
2003	%
2004 and thereafter. . . .	100.000%

If less than all of the Convertible Debt Securities are to be redeemed, the Trustee shall select the Convertible Debt Securities or portions thereof to be redeemed either pro rata or by lot or by any other method the Trustee deems fair and appropriate.

Sinking fund requirements: None

Initial public offering price: ___% of the principal amount plus accrued interest from the date of issuance of the Firm Securities.

Purchase price: _____% of the principal amount plus accrued interest from the date of issuance of the Firm Securities (payable in next day funds).

Closing date, time and location: _____, 1995. 9:00 a.m.

for delivery of the Securities:
Shearman & Sterling
599 Lexington Avenue
New York, New York 10022

for delivery of closing documents:
Perkins Coie
1201 Third Avenue, 40th Floor
Seattle, Washington 98101

Delayed delivery contracts: Not authorized

Listing requirement: None

Other terms and conditions: None

ALASKA AIR GROUP, INC.

Issuer

to

HARRIS TRUST AND SAVINGS BANK

Trustee

SUPPLEMENTAL INDENTURE NO. 1

Dated as of _____, 1995

\$100,000,000

___% Convertible Senior Debentures due 2005

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EXHIBIT A - FORM OF FACE OF DEBENTURE

SUPPLEMENTAL INDENTURE NO. 1, dated as of _____, 1995, between ALASKA AIR GROUP, INC., a corporation duly organized and existing under the laws of the State of Delaware (herein called the "Company"), and HARRIS TRUST COMPANY AND SAVINGS BANK, a trust company duly organized and existing under the laws of the State of Illinois, Trustee (herein called the "Trustee") (the "Supplemental Indenture").

RECITALS OF THE COMPANY

The Company has heretofore delivered to the Trustee an Indenture dated as of _____, 199_, a form of which has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, as an exhibit to Amendment No. 1 to the Company's Registration Statement on Form S-3 (Registration No. 33-52265) (the "Senior Indenture"), providing for the issuance from time to time of Securities of the Company.

Section 3.1 of the Senior Indenture provides for various matters with respect to any series of Securities issued under the Senior Indenture to be established in an indenture supplemental to the Senior Indenture.

Section 8.1 of the Senior Indenture provides for the Company and the Trustee to enter into an indenture supplemental to the Senior Indenture (i) to establish the form or terms of Securities of any series as provided by Sections 2.1 and 3.2 of the Senior Indenture and (ii) to change any provisions of the Senior Indenture, provided such change becomes effective only when there is no Security Outstanding of any series that is entitled to the benefit of such provision.

The Board of Directors of the Company has duly adopted resolutions authorizing the Company to execute and deliver this Supplemental Indenture.

All the conditions and requirements necessary to make this Supplemental Indenture, when duly executed and delivered, a valid and binding agreement in accordance with its terms and for the purposes herein expressed, have been performed and fulfilled.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Debentures provided for herein by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders, as follows:

ARTICLE ONE

RELATION TO SENIOR INDENTURE; DEFINITIONS

SECTION 1.1. RELATION TO SENIOR INDENTURE.

This Supplemental Indenture constitutes an integral part of the Senior Indenture.

SECTION 1.2. DEFINITIONS.

For all purposes of this Supplemental Indenture, except as otherwise expressly provided for or unless the context otherwise requires:

(1) Capitalized terms used but not defined herein shall have the respective meanings assigned to them in the Senior Indenture; and

(2) All references herein to Articles and Sections, unless otherwise specified, refer to the corresponding Articles and Sections of this Supplemental Indenture.

"Change in Control" means the occurrence of the following events:

(i) any "person" or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) other than the Company, any subsidiary of the Company or any employee benefit plan or stock ownership plan of either the Company or any subsidiary of the Company, (A) files a Schedule 13D or 14D-1 under the Exchange Act (or any successor schedule, form or report) disclosing that such person has become the "beneficial owner" of 50% or more of the Company's Capital Stock having the power to vote in the election of directors under ordinary circumstances ("Voting Stock"), with certain exceptions, (B) acquires more than 50% of the assets of the Company, or (C) acquires more than 50% of the assets or Voting Stock of any subsidiary (1) the total assets of which exceed 50% of the consolidated total assets of the Company and its subsidiaries or (2) the operating income of which exceeded 50% of the average of the consolidated operating income of the Company and its subsidiaries for the three most recently completed fiscal years of the Company; or

(ii) there shall be consummated any consolidation or merger of the Company (A) in which the Company is not the resulting or surviving corporation or (B) pursuant to which any Voting Stock of the Company would be converted into cash, securities or other property, in each case, other than a consolidation or merger of the Company in which the holders of such Voting Stock immediately prior to the consolidation or merger have at least a majority of the Voting Stock, directly or indirectly, of the resulting or surviving corporation immediately after the consolidation or merger.

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"Change in Control Offer" means the purchase by the Company of all or any part (provided that the principal amount must be \$1,000 or an integral multiple thereof) of each Holder's Debentures on the date that is 35 days after the occurrence of a Change in Control at a cash purchase price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of the Change in Control Offer.

"Change in Control Purchase Date" has the meaning specified in Section 2.6(a).

"Change in Control Purchase Price" has the meaning specified in Section 2.6(a).

"Conversion Date" has the meaning specified in Section 2.4(b).

"conversion rate" has the meaning specified in Section 2.4(a).

"Current Market Price" per share of Common Stock means the average of the last reported sale price of the Common Stock on the New York Stock Exchange for 30 consecutive Trading Days commencing 45 Trading Days before the day in question.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Ex-Dividend Date" means, with respect to any cash dividend on the

Common Stock, the day immediately prior to the commencement of "ex-dividend" trading of the Common Stock on the New York Stock Exchange.

"Holder" means each Holder of a Debenture.

"Interest Payment Date" has the meaning specified in Section 2.3.

"Market Value" of a share of capital stock means, for any given day, the average of the high and low per share sales price on such day of the Common Stock on the New York Stock Exchange Composite Tape.

"Over-Allotment Option" has the meaning specified in Section 2.2.

"Quoted Price" means, for any given day, the last reported per share sale price on such day of the Common Stock on the New York Stock Exchange Composite Tape.

"Regular Record Date" has the meaning specified in Section 2.3.

"Senior Indenture" has the meaning specified in the recitals of this Supplemental Indenture.

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"Trading Day" means a day on which the New York Stock Exchange is open for the transaction of business.

"Voting Stock" has the meaning specified in "Change of Control".

ARTICLE TWO

THE SERIES OF DEBENTURES

SECTION 2.1. TITLE OF THE SECURITIES.

There shall be a series of Securities designated the "_____% Convertible Senior Debentures due 2005" (the "Debentures").

SECTION 2.2. LIMITATION ON AGGREGATE PRINCIPAL AMOUNT; DATES OF DEBENTURES.

The aggregate principal amount of the Debentures shall be limited to \$100,000,000 (subject to increase as provided in this Section), and, except as provided in this Section and in Section 3.6 of the Senior Indenture, the Company shall not execute and the Trustee shall not authenticate or deliver Debentures in excess of such aggregate principal amount; PROVIDED, HOWEVER, that in the event that the Company sells any Debentures pursuant to the over-allotment option (the "Over-Allotment Option") granted pursuant to Section 3 of the Purchase Agreement among the Company, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co., dated _____, 1995, then the Trustee shall, upon receipt of written notice from the Company stating that the Over-Allotment Option has been exercised, authenticate and deliver Debentures for original issue in an aggregate principal amount not in excess of \$100,000,000 plus \$15,000,000 aggregate principal amount for the Debentures sold pursuant to the Over-Allotment Option, without any further action by the Company.

Nothing contained in this Section 2.2 or elsewhere in this Supplemental Indenture, or in the Debentures, is intended to or shall limit execution by the Company or authentication or delivery by the Trustee of Debentures under the circumstances contemplated by Sections 3.3, 3.4, 3.6 and 8.6 of the Senior Indenture and Section 2.4(b) of this Supplemental Indenture.

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SECTION 2.3. INTEREST AND INTEREST RATES.

The Debentures will bear interest at a rate of ____% per annum from _____, 1995 or from the most recent Interest Payment Date to which

interest has been paid or provided for, payable semiannually on _____ and _____ of each year, commencing _____, 199_ (each, an "Interest Payment Date"), to the Person in whose name such Debenture is registered at the close of business on _____ or _____ next preceding such Interest Payment Date (each, a "Regular Record Date"). Interest will be computed on the basis of a 360-day year comprising twelve 30-day months. The interest so payable on any Debenture which is not punctually paid or duly provided for on any Interest Payment Date shall forthwith cease to be payable to the Person in whose name such Debenture is registered on the relevant Regular Record Date, and such defaulted interest shall instead be payable to the Person in whose name such Debenture is registered on the Special Record Date or other specified date determined in accordance with the Senior Indenture.

SECTION 2.4. CONVERSION OF DEBENTURES.

(a) CONVERSION PRIVILEGE. The Debentures, or any portion thereof that is \$1,000 or an integral multiple of \$1,000, are convertible into shares of Common Stock at any time prior to the Maturity of the Debentures, subject to prior redemption at the option of the Company on or after _____, 1998 or purchase by the Company in a Change in Control Offer. The number of shares issuable upon conversion of a Debenture is determined by dividing the principal amount of the Debenture or portion thereof to be converted by \$1,000, multiplying the result by the conversion rate in effect on the Conversion Date and rounding the result to the nearest 1/1,000 of a share. The Company shall not be required to issue fractional shares of Common Stock but will pay a cash adjustment in lieu thereof. In the case of any Debenture or portion thereof called for redemption, such conversion rights shall expire at the close of business on the Business Day immediately preceding the Redemption Date. Interest accrued shall not be paid on Debentures converted; PROVIDED, HOWEVER, that if any Debenture is called for redemption on _____, 1998, and such Debenture is surrendered for conversion at any time during the ten Business Days immediately preceding the date fixed for redemption, interest shall accrue on such Debenture through the Redemption Date and shall be payable on such Redemption Date to the person who surrenders such Debenture for conversion. If any Debenture not called for redemption is converted between a record date for the payment of interest and the next succeeding interest payment date, such Debenture must be accompanied by funds equal to the interest payable on such interest payment date on the principal amount so converted.

The initial conversion rate is _____ shares of Common Stock per each \$1,000 principal amount of the Debentures (the "conversion rate"). The conversion rate is subject to adjustment as provided in Section 2.4(f).

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(b) CONVERSION PROCEDURE. To convert a Debenture a Holder must

(i) complete and sign the conversion notice attached to the Debenture,

(ii) surrender the Debenture to the Company at the office or agency to be maintained by the Company in accordance with the provisions of Section 9.2 of the Senior Indenture,

(iii) furnish appropriate endorsements and transfer documents if required by the Company, and

(iv) pay any interest required pursuant to this Section 2.4(b) or any transfer or similar tax, required pursuant to Section 2.4(d).

The date on which the Holder satisfies such requirements shall be referred to as the "Conversion Date."

As soon as practical after the Conversion Date, the Company shall deliver a certificate for the number of full shares of Common Stock issuable upon the conversion and a check for any fractional share. The Person in whose name the certificate is registered shall be treated as a stockholder of record on and after the Conversion Date.

Except as provided in Section 2.4(a), no payment or adjustment will be made for accrued interest on a converted Debenture. If any Debenture is converted between a record date for the payment of interest and the next

succeeding Interest Payment Date, such Debenture upon surrender must be accompanied by funds equal to the interest payable on such Interest Payment Date on the principal amount so converted (unless such Debenture shall have been called for redemption, in which case no such payment shall be required).

If a Holder converts more than one Debenture at the same time, the number of full shares issuable upon the conversion shall be based on the total principal amount of the Debentures converted.

Upon surrender of a Debenture that is converted in part, the Trustee shall authenticate for the Holder a new Debenture equal in principal amount to the unconverted portion of the Debenture surrendered.

(c) FRACTIONAL SHARES. The Company shall not be required to issue fractional shares of Common Stock upon conversion of a Debenture but shall instead deliver its check for the current market value of any such fractional shares. The Company shall determine the current market value of a fraction of a share by multiplying the Quoted Price of a full share on the last

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Trading Day prior to the Conversion Date by the fraction and rounding the result to the nearest cent.

In the absence of such quotation, the Company shall determine the Current Market Price on the basis of such quotations as it considers appropriate.

(d) TAXES ON CONVERSION. If a Holder converts a Debenture, the Company shall pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of Common Stock upon the conversion. However, the Holder shall pay any such tax which is due because the shares are issued in a name other than the Holder's name.

(e) COMPANY TO PROVIDE STOCK. The Company shall reserve out of its authorized but unissued Common Stock or its Common Stock held in treasury enough shares of Common Stock to permit the conversion of the Debentures.

All shares of Common Stock which may be issued upon conversion of the Debentures shall be fully paid and nonassessable.

The Company will endeavor to comply with all securities laws regulating the offer and delivery of shares of Common Stock upon conversion of Debentures and will endeavor to list such shares on each national securities exchange on which the Common Stock is then listed.

(f) ADJUSTMENT TO CONVERSION RATE. The conversion rate is subject to adjustment upon:

(i) the subdivision, combination or reclassification of the outstanding Common Stock of the Company;

(ii) the issuance by the Company of Common Stock as a dividend or distribution on the Common Stock;

(iii) the issuance of rights or warrants to all holders of Common Stock entitling them to subscribe for or purchase shares of Common Stock (or securities convertible into or exchangeable for Common Stock) at a price per share (or having a conversion or exchange price per share) less than the Current Market Price of the Common Stock on the record date; and

(iv) the distribution by the Company to all holders of Common Stock of shares of capital stock other than Common Stock, debt securities or assets or rights or warrants to purchase assets or securities of the Company (excluding the rights and warrants referred to in clause (iii) and cash dividends or other cash distributions from consolidated

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current net earnings or earned surplus or dividends payable in Common Stock but including Extraordinary Cash Dividends).

Subject to Section 2.4(o), upon the occurrence of any event specified in Section 2.4(f) (i) or (ii), the conversion rate in effect immediately prior to such event shall be adjusted by the Company so that the Holder of a Debenture thereafter converted may receive the number of shares of capital stock of the Company which he would have owned immediately following such action if he had converted the Debenture immediately prior to such action.

The adjustment shall become effective immediately after the record date in the case of a dividend or distribution and immediately after the effective date in the case of a subdivision, combination or reclassification.

If after an adjustment a Holder of a Debenture upon conversion of it may receive shares of two or more classes of capital stock of the Company, the Company shall determine the allocation of the adjusted conversion rate between the classes of capital stock. After such allocation, the conversion rate of each class of capital stock shall thereafter be subject to adjustment on terms comparable to those applicable to Common Stock in this Section 2.4.

(g) ADJUSTMENT FOR RIGHTS, WARRANTS AND OTHER ISSUANCES. Upon the occurrence of any event specified in Section 2.4(f) (iii), the conversion rate shall be adjusted in accordance with the formula:

$$C' = C \times \frac{O + N}{N \times P + O + M}$$

where:

- C' = the adjusted conversion rate.
- C = the current conversion rate.
- O = the number of shares of Common Stock outstanding on the record date or issuance date, as applicable.
- N = the number of additional shares of Common Stock offered or issuable upon conversion or exchange.
- P = the offering, conversion or exchange price per share of the additional shares.

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- M = the Current Market Price per share of Common Stock on the record date or issuance date as applicable.

Upon the occurrence of any event specified in Section 2.4(f) (iii), the adjustment shall become effective immediately after the record date for the determination of stockholders entitled to receive the rights or warrants; PROVIDED, HOWEVER, that, in the event that all the shares of Common Stock offered for purchase are not delivered upon the exercise of such rights or warrants, upon the expiration of such rights or warrants the conversion price shall be immediately readjusted to be what it would have been if "N" in the above formula had been the number of shares actually issued.

(h) ADJUSTMENT FOR OTHER DISTRIBUTIONS. Upon the occurrence of an event specified in Section 2.4(f) (iv), the conversion rate shall be adjusted in accordance with the formula:

$$C' = C \times \frac{M}{M - F}$$

where:

- C' = the adjusted conversion rate.
- C = the current conversion rate.

- M = the Current Market Price per share of Common Stock on the record date mentioned below.
- F = the fair market value (as determined by the Company) on the record date of the assets, securities, rights or warrants to be distributed attributable to one share of Common Stock;

PROVIDED that in the event that the difference "M-F" as defined in the above formula is less than \$1.00 or "F" above is equal to or greater than the Current Market Price of the Common Stock on the record date mentioned above, in lieu of the foregoing adjustment, adequate provision shall be made so that each Holder shall thereafter have the right to receive upon conversion the amount of securities or assets such Holder would have received had such Holder converted its Debentures on such record date. In the event that such dividend or distribution is not so paid or made, the conversion rate shall again be adjusted to be the conversion rate that would then be in effect if such dividend or distribution had not been declared. If the Company determines the fair market value of any distribution for purposes of this Section 2.4(h) by reference to the actual or when issued trading market for any such assets, securities, rights or warrants, it must in doing so consider the prices in such market over the same period used in computing the Current Market Price of the Common Stock.

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The adjustment shall become effective immediately after the record date for the determination of stockholders entitled to receive the distribution.

For purposes of this Section 2.4, the term "Extraordinary Cash Dividend" shall mean any cash dividend with respect to the Common Stock the amount of which, together with the aggregate amount of cash dividends on the Common Stock to be aggregated with such cash dividend in accordance with the provisions of this paragraph, equals or exceeds the threshold percentages set forth in item (i) or item (ii) below:

(i) If, upon the date prior to the Ex-Dividend Date with respect to a cash dividend on the Common Stock, the aggregate amount of such cash dividend, together with the amounts of all cash dividends on the Common Stock with Ex-Dividend Dates occurring in the 85-day period ending on the date prior to the Ex-Dividend Date with respect to the cash dividend to which this provision is being applied, equals or exceeds 12.5% of the average of the Sale Prices during the period beginning on the date after the first such Ex-Dividend Date in such period and ending on the date prior to the Ex-Dividend Date with respect to the cash dividend to which this provision is being applied (except that if no other cash dividend has had an Ex-Dividend Date occurring in such period, the period for calculating the average of the Sale Prices shall be the period commencing 85 days prior to the date prior to the Ex-Dividend Date with respect to the cash dividend to which this provision is being applied), such cash dividend, together with each other cash dividend with an Ex-Dividend Date occurring in such 85-day period, shall be deemed to be an Extraordinary Cash Dividend, and for purposes of applying the formula set forth above in this Section 2.4(h), the value of "F" shall be equal to (w) the aggregate amount of such cash dividend together with the amounts of the other cash dividends with Ex-Dividend Dates occurring in such period minus (x) the aggregate amount of such other cash dividends with Ex-Dividend Dates occurring in such period for which a prior adjustment in the Conversion Rate was previously made under this Section 2.4(h).

(ii) If, upon the date prior to the Ex-Dividend Date with respect to a cash dividend on the Common Stock, the aggregate amount of such cash dividend, together with the amounts of all cash dividends on the Common Stock with Ex-Dividend Dates occurring in the 365-day period ending on the date prior to the Ex-Dividend Date with respect to the cash dividend to which this provision is being applied, equals or exceeds 25% of the average of the Sale Prices during the period beginning on the date after the first such Ex-Dividend Date in such period and ending on the date prior to the Ex-Dividend Date with respect to the cash dividend to which this provision is being applied (except that if no other cash dividend has had an Ex-Dividend Date occurring in such period, the period for calculating the average of the Sale Prices shall be the period commencing 365 days prior to the date prior to the Ex-Dividend Date with respect to the cash dividend to which this provision is being applied), such cash dividend, together with each other cash dividend with an Ex-Dividend Date occurring in such 365-day period, shall be deemed to be an Extraordinary Cash Dividend, and

for purposes of applying the formula set

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forth above in this Section 2.4(h), the value of "F" shall be equal to (y) the aggregate amount of such cash dividend together with the amounts of the other cash dividends with Ex-Dividend Dates occurring in such period minus (z) the aggregate amount of such other cash dividends with Ex-Dividend Dates occurring in such period from which a prior adjustment in the Conversion Rate was previously made under this Section 2.4(h).

(i) CONSIDERATION RECEIVED. For purposes of any computation respecting consideration received pursuant to Section 2.4(f)(iii), the following shall apply:

(i) in the case of issuance of shares of Common Stock for cash, the consideration shall be the amount of such cash, PROVIDED that in no case shall any deduction be made for commissions, discounts or other expenses incurred by the Company for any underwriting of the issue or otherwise in connection therewith;

(ii) in the case of the issuance of shares of Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair market thereof as determined in good faith by the Board of Directors (irrespective of the accounting treatment thereof), whose determination shall be conclusive, and described in a Board resolution which shall be filed with the Trustee; and

(iii) in the case of the issuance of securities convertible into or exchangeable or exercisable for shares, the aggregate consideration received therefor shall be deemed to be the consideration received by the Company for the issuance of such securities plus the additional minimum consideration, if any, to be received by the Company upon the conversion or exchange thereof (the consideration in each case to be determined in the same manner as provided in clauses (i) and (ii) of this Section).

(j) WHEN ADJUSTMENT MAY BE DEFERRED. No adjustment in the conversion rate need be made unless the cumulative adjustments would require a decrease or an increase (subject to the provisions of Section 2.4(k)) of at least 1% in the conversion rate. Any adjustments that are not made shall be carried forward and taken into account in any subsequent adjustment.

(k) WHEN NO ADJUSTMENT REQUIRED. To the extent the Debentures become convertible into cash, no adjustment need be made thereafter as to the cash. Interest will not accrue on the cash. No adjustment need be made for a change in the par value or no par value of the Common Stock.

No downward adjustment in the conversion rate shall be made except in the event of a reverse split.

(l) NOTICE OF ADJUSTMENT. Whenever the conversion rate is adjusted, the Company shall promptly mail to all Holders a notice of the adjustment. The Company shall file

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with the Trustee a certificate from the Company's independent public accountants briefly stating the facts requiring the adjustment and the manner of computing it. The certificate shall be conclusive evidence that the adjustment is correct.

(m) VOLUNTARY INCREASE. The Company from time to time may increase the conversion rate by any amount for any period of time if the period is at least twenty days and if the increase is irrevocable during such period.

Whenever the conversion rate is increased pursuant to this Section 2.4(m), the Company shall mail to all Holders and to the Trustee a notice of the increase. The notice shall state the increased conversion rate and the period it will be in effect.

An increase of the conversion rate does not change or adjust the conversion rate otherwise in effect for purposes of calculating the adjustments required by Section 2.4(f).

(n) NOTICE OF CERTAIN TRANSACTIONS. If:

(i) the Company takes any action that would require an adjustment in the conversion rate pursuant to Section 2.4(f);

(ii) the Company takes any action that would require a supplemental indenture pursuant to Section 2.4(o); or

(iii) there is a liquidation or dissolution of the Company;

the Company shall mail to all Holders and to the Trustee a notice stating the proposed record date for a dividend or distribution or the proposed effective date of a subdivision, combination, reclassification, consolidation, merger, transfer, liquidation or dissolution. The Company shall mail the notice at least 15 days before such date. Failure to mail the notice or any defect in it shall not affect the validity of the transaction.

(o) REORGANIZATION OF COMPANY. If the Company is a party to a transaction subject to Section 7.1 of the Senior Indenture or a merger which reclassifies or changes its outstanding Common Stock, the Person obligated to deliver securities, cash or other assets upon conversion of Debentures shall enter into a supplemental indenture. If the issuer of securities deliverable upon conversion of Debentures is an Affiliate of the surviving or transferee corporation, that issuer shall join in the supplemental indenture.

The supplemental indenture shall provide that the Holder of each outstanding Debenture shall have the right to convert such Debenture into the kind and amount of shares of stock and other securities and property (including cash) received in such transaction by a holder of the number of shares of Common Stock into which such Debenture was convertible

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immediately prior to the effective date of such transaction. The supplemental indenture shall provide for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided for in this Section 2.4. The successor company shall mail to all Holders a notice briefly describing the supplemental indenture.

If this Section applies, the provisions for adjustment of the conversion rate set forth in Section 2.4 with respect to any event specified in Sections 2.4(f)(i) and (ii) do not apply.

(p) COMPANY DETERMINATION FINAL. Any determination that the Company or the Board of Directors must make pursuant to Section 2.4(c), (f), (g), (h), or (k) or with respect to the Current Market Price of Common Stock as provided in the definition thereof in Section 1.2 shall be conclusive.

(q) TRUSTEE'S DISCLAIMER. The Trustee has no duty to determine when an adjustment under this Section 2.4 should be made, how it should be made or what it should be. The Trustee has no duty to determine whether a supplemental indenture under Section 2.4(o) need be entered into or whether any provisions of any supplemental indenture under Section 2.4(o) are correct. The Trustee shall not be accountable for and makes no representation as to the validity or value of any securities or assets issued upon conversion of Debentures. The Trustee shall not be responsible for the Company's failure to comply with this Section 2.4. Each conversion agent other than the Company shall have the same protection under this Section as the Trustee.

(r) SECTION CONTROLS. The provisions of Article 12 of the Senior Indenture (except for Sections 12.10 and 12.11) are superseded by the provisions of this Section 2.4.

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SECTION 2.5. REDEMPTION.

The Debentures may be redeemed at the option of the Company, in whole or in part, at any time on or after _____, 1998, on not less than 30 nor more than 60 days' prior notice to each Holder of Debentures to be redeemed, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, to the Redemption Date, if redeemed during the 12-month period beginning _____ of the calendar years indicated below (subject to the right of the Holders of record on relevant record dates to receive interest due on an Interest Payment Date):

Year ----	Redemption Price -----
1998	%
1999	%
2000	%
2001	%
2002	%
2003	%

and, after _____, 2004, at 100% of principal amount.

Any Debentures called for redemption, unless surrendered for conversion on or before the close of business on the date prior to the Redemption Date, are subject to being purchased from the Holders of such Debentures at the redemption price, together with the amount of accrued and unpaid interest thereon to the Redemption Date, by one or more investment bankers or other purchasers who may agree with the Company to purchase such Debentures and convert them into Common Stock of the Company.

SECTION 2.6. PURCHASE OF THE DEBENTURES AT THE OPTION OF THE HOLDER.

(a) Upon the occurrence of any Change in Control occurring prior to the Maturity of the Debentures, each Holder shall have the right, at such Holder's option, to require the Company to purchase all or any part (provided that the principal amount is \$1,000 or an integral multiple thereof) of such Holder's Debentures on the date that is 35 Business Days after the occurrence of such Change in Control (the "Change in Control Purchase Date") at a cash purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon to such date (the "Change in Control Purchase Price").

(b) Within 15 Business Days after the Change in Control, the Company shall mail to the Trustee, who shall mail to each Holder (and to beneficial owners as required by

applicable law) a notice regarding the Change in Control in the manner provided in Section 1.6 of the Senior Indenture notice regarding such Change in Control stating:

- (i) the date of such Change in Control and, briefly, the events causing such Change in Control;
- (ii) the last date on which the Change in Control Purchase Notice (as defined below) must be given;
- (iii) the Change in Control Purchase Date;
- (iv) the Change in Control Purchase Price;
- (v) the name and address of the Paying Agent and the Conversion Agent;
- (vi) the Conversion Rate and any adjustments thereto;
- (vii) that Debentures with respect to which a Change in Control Purchase Notice is given by the Holder may be converted into shares of Common Stock only if the Change in Control Purchase Notice has been withdrawn in accordance with the terms of the Indenture;

(viii) the procedures that Holders must follow to exercise these rights;

(ix) the procedures for withdrawing a Change in Control Purchase Notice;

(x) that Holders who want to convert Debentures must satisfy the requirements set forth in paragraph 3 of the Debentures; and

(xi) briefly, the conversion rights of Holders of Debentures.

(c) Holders electing to have Debentures purchased must deliver written notice of the exercise of such right (a "Change in Control Purchase Notice") to the Paying Agent or to an office or agency maintained by the Company for such purpose in the Borough of Manhattan, The City of New York, New York, of the exercise of such right prior to the close of business on the Change in Control Purchase Date. The Change in Control Purchase Notice must state:

(i) the certificate numbers of the Debentures to be delivered by the Holder thereof for purchase by the Company;

(ii) the portion of the principal amount of Debentures to be purchased, which portion must be \$1,000 or an integral multiple thereof; and

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(iii) that such Debentures are to be purchased by the Company on the Change in Control Purchase Date pursuant to the applicable provisions of the Debentures.

(d) Upon receipt by the Company of the Change in Control Purchase Notice specified in Section 2.6(c), the Holder of the Debenture in respect of which such Change in Control Purchase Notice was given shall (unless such Change in Control Purchase Notice is withdrawn as specified in the following paragraph) thereafter be entitled to receive solely the Change in Control Purchase Price with respect to such Debenture. Such Change in Control Purchase Price shall be due and payable as of the Change in Control Purchase Date and shall be paid to such Holder promptly following the later of (x) the Change in Control Purchase Date (provided the conditions in Section 2.6(c), as applicable, have been satisfied) and (y) the date of delivery of such Debenture to the Trustee or to the office or agency referred to in Section 9.2 of the Senior Indenture by the Holder thereof in the manner required by Section 2.6(c). Debentures in respect of which a Change in Control Purchase Notice has been given by the Holder thereof may not be converted into shares of Common Stock on or after the date of the delivery of such Change in Control Purchase Notice, unless such Change in Control Purchase Notice has first been validly withdrawn as specified in the following paragraph.

Any Change in Control Purchase Notice may be withdrawn by the Holder by a written notice of withdrawal delivered to the Paying Agent or to any other office or agency maintained for such purpose on or prior to the close of business on the Change in Control Purchase Date. Such notice of withdrawal shall state:

(i) the principal amount of Debentures and the certificate numbers of the Debentures as to which the withdrawal notice relates; and

(ii) the principal amount of Debentures, if any, that remains subject to the original Change in Control Purchase Notice.

There shall be no purchase of any Debentures pursuant to this Section 2.6 if there has occurred and is continuing (prior to, on or after, as the case may be, the giving, by the Holders of such Debentures, of the required Change in Control Purchase Notice) an Event of Default (other than a default in the payment of the Change in Control Purchase Price with respect to such Debentures).

(e) Prior to the Change in Control Purchase Date but in no event more than ten days prior to such date, the Company shall deposit with the

Trustee (or, if the Company or a Subsidiary or an Affiliate of either of them is acting as paying agent, shall segregate and hold in trust as provided in Section 9.3 of the Senior Indenture) an amount of cash in immediately available funds sufficient to pay the aggregate Change in Control Purchase Price of all the Debentures or portions thereof which are to be purchased. Upon any such deposit, interest shall cease to accrue on such Debentures (or portions thereof) on and after the Change in Control

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Purchase Date, and the Holders thereof shall have no other rights as such (other than the right to receive the Change in Control Purchase Price upon surrender of such Debentures).

(f) Payment of the Change in Control Purchase Price for a Debenture for which a Change in Control Purchase Notice has been delivered and not withdrawn is conditioned upon delivery of such Debenture (together with necessary endorsements) to the Paying Agent or to any other office or agency maintained for such purpose, at any time (whether prior to, on or after the Change in Control Purchase Date) after delivery of such Change in Control Purchase Notice. Payment of the Change in Control Purchase Price for such Debenture will be made promptly following the later of the Change in Control Purchase Date or the time of delivery of such Debenture.

(g) The Company shall comply with the tender offer rules under the Exchange Act which may then be applicable and will file Schedule 13E-4 or any other schedule required thereunder in connection with any offer by the Company to purchase Debentures at the option of Holders upon a Change in Control.

(h) The Trustee shall return to the Company any cash, together with interest thereon (subject to the provisions of Section 6.4 of the Senior Indenture), held by it for the payment of the Change in Control Purchase Price of the Debentures that remains unclaimed as provided in Section 9.3 of the Senior Indenture.

(i) In connection with any redemption of Debentures, the Company may arrange for the purchase and conversion of any such Debentures by an agreement with one or more investment bankers or other purchasers to purchase such Debentures by paying to the Holders, or to the Trustee in trust for such Holders, on or before the close of business on the day prior to the Redemption Date, an amount, in cash, not less than the redemption price payable by the Company on redemption of such Debentures, together with the amount of accrued and unpaid interest thereon to the date fixed for redemption. Notwithstanding anything to the contrary contained herein, the obligation of the Company to pay the redemption price of such Debentures, together with the amount of accrued and unpaid interest thereon to the Redemption Date, shall be satisfied and discharged to the extent such amount is so paid by such purchasers. Pursuant to such an agreement, any such Debentures tendered by the Holder for redemption or not duly surrendered for conversion by such Holder shall be deemed acquired by such purchasers from such Holder and (notwithstanding anything to the contrary contained in Section 2.4) surrendered by such purchasers for conversion, all as of immediately prior to the close of business on the day prior to the Redemption Date, subject to payment of the above as aforesaid.

The Trustee shall be under no obligation to ascertain the occurrence of a Change in Control or to give notice with respect thereto. The Trustee may conclusively assume, in the absence of written notice to the contrary from the Company, that no Change in Control has occurred.

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(j) The Board of Directors of the Company shall not be permitted to waive the Company's obligation to purchase Debentures at the option of a Holder in the event of a Change in Control.

SECTION 2.7. PLACE OF PAYMENT.

The Place of Payment where the Debentures may be presented or surrendered for payment, where the Debentures may be surrendered for

registration of transfer or exchange and where notices and demands to and upon the Company in respect of the Debentures and the Senior Indenture may be served shall be in the Borough of Manhattan, The City of New York, New York, and the office or agency maintained by the Company for such purpose shall initially be Bank of Montreal Trust Company, 77 Water Street, 4th Floor, New York, New York 10005.

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SECTION 2.8. METHOD OF PAYMENT.

Payment of the principal of and interest on this Debenture will be made at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, The City of New York (which shall initially be the office or agency of the Trustee designated in Section 2.7), in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; PROVIDED, HOWEVER, that at the option of the Company, payments of principal and interest on the Debentures (other than payments of principal and interest due at the Maturity of the Debentures) may be made (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the register of Holders or (ii) by wire transfer to an account maintained by the Person entitled thereto as specified in the register of Holders.

SECTION 2.9. DENOMINATION.

The Debentures will be issued in denominations of \$1,000 and integral multiples thereof.

SECTION 2.10. CURRENCY.

Principal and interest on the Debentures shall be payable in United States Dollars.

SECTION 2.11. FORM OF DEBENTURES.

The Debentures shall be substantially in the form attached hereto as Exhibit A.

SECTION 2.12. REGISTRAR AND PAYING AGENT.

The Trustee shall initially serve as Registrar and Paying Agent for the Debentures.

SECTION 2.13. DEFEASANCE.

Sections 4.3, 4.4, 4.5, 4.6 and 4.7 of the Senior Indenture shall not apply to the Debentures.

SECTION 2.14. NO SINKING FUND.

The provisions of Article 11 of the Senior Indenture shall not apply to the Debentures.

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ARTICLE THREE

MISCELLANEOUS PROVISIONS

SECTION 3.1. RATIFICATION OF SENIOR INDENTURE.

Except as expressly modified or amended hereby, the Senior Indenture continues in full force and effect and is in all respects confirmed and preserved.

SECTION 3.2. SUPPLEMENTAL INDENTURE.

Notwithstanding any provision to the contrary in Section 8.2 of the Senior Indenture, no supplemental indenture entered into by the Company and the Trustee in accordance with Article 9 of the Senior Indenture shall, without the consent of the Holder of each Outstanding Debenture affected thereby, change or eliminate any of such Holder's rights under Section 2.4 or 2.6 hereof.

It shall not be necessary for any Act of Holders under this Section 3.2 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

SECTION 3.3. GOVERNING LAW.

This Supplemental Indenture and each Debenture shall be governed by and construed in accordance with the laws of the State of New York. This Supplemental Indenture is subject to the provisions of the Trust Indenture Act of 1939, as amended, and shall, to the extent applicable, be governed by such provisions.

SECTION 3.4. COUNTERPARTS.

This Supplemental Indenture may be executed in any number of counterparts, each of which shall be an original, but all such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first written above.

ALASKA AIR GROUP, INC.

By: _____
Name:
Title:

Attest: _____
Name:
Title:

HARRIS TRUST AND SAVINGS BANK,
Trustee

By: _____
Name:
Title:

Attest: _____
Name:
Title:

EXHIBIT A TO
SUPPLEMENTAL INDENTURE NO. 1

[FORM OF FACE OF DEBENTURE]

No. CUSIP _____

ALASKA AIR GROUP, INC.

___% Convertible Senior Debenture due 2005

ALASKA AIR GROUP, INC., a corporation duly organized and existing under the laws of the State of Delaware (herein referred to as the "Company"), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____ DOLLARS on _____, 2005 (the "Maturity"), at the agency of the Company in the Borough of Manhattan, The City of New York, New York, or at such other office or agency of the Company as may be maintained for such purpose, in such coin or currency of The United States of America as at the time of payment is legal tender for the payment of public and private debts, and to pay to the registered Holder hereof, as hereinafter provided, interest on said principal sum at the rate per annum specified in the title of this Debenture, in like coin or currency, semiannually on _____ and _____ in each year, commencing _____, 199_. Interest shall accrue from the most recent date to which interest has been paid or duly provided for or, if no interest has been paid or duly provided for, from _____. The interest so payable on any _____ or _____ shall, subject to certain exceptions provided in the Supplemental Indenture hereinafter referred to, be paid to the Person in whose name this Debenture is registered at the close of business on the _____ or _____, as the case may be, next preceding such _____ or _____ whether or not such _____ or _____ is a Business Day. Interest shall be computed on the basis of a 360-day year of twelve 30-day months. Payment of interest may be made at the option of the Company (i) either by check mailed by first-class mail to the address of the Person entitled thereto at such address as shall appear on the registry books of the Company or (ii) by transfer to an account maintained by the Person entitled thereto located in the United States.

As provided in the Supplemental Indenture, this Debenture shall be deemed to be a contract made under the laws of the State of New York, and for all purposes shall be governed by and construed in accordance with the laws of such State.

Reference is made to the further provisions of this Debenture set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as though fully set forth at this place.

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This Debenture shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been signed by the Trustee under the Senior Indenture and Supplemental Indenture referred to on the reverse hereof.

IN WITNESS WHEREOF, ALASKA AIR GROUP, INC. has caused this instrument to be duly executed under its corporate seal.

Dated:

ALASKA AIR GROUP, INC.

By: _____
Name:
Title:

[Corporate Seal]

Attest: _____
[Name]
Assistant Secretary

[FORM OF REVERSE OF DEBENTURE]

ALASKA AIR GROUP, INC.

___% Convertible Senior Debenture due 2005

(1) INDENTURE. This Debenture is one of a duly authorized issue of Securities of the Company known as its ___% Convertible Senior Debentures due 2005 (herein referred to as the "Debentures"), limited to the aggregate principal amount of \$100,000,000 (\$115,000,000 aggregate principal amount if the Underwriters' Over-allotment Option is exercised), all issued or to be issued in one or more series under and pursuant to an indenture, dated as of _____, _____ (herein referred to as the "Senior Indenture"), between the Company and Harris Trust and Savings Bank, Trustee (herein referred to as the "Trustee"), to which Senior Indenture and all indentures supplemental thereto reference is hereby made for a description of the respective rights, limitations of rights, obligations, duties and immunities thereunder of the Company, the Trustee and the Holders of the Debentures. This Debenture is one of the series designated on the face hereof, and is issued pursuant to an indenture supplement, dated as of _____, 1995, to the Senior Indenture from the Company to the Trustee, relating to the Debentures of this series (the "Supplemental Indenture").

(2) REDEMPTION. The Debentures may be redeemed at the option of the Company, in whole or in part, at any time on or after _____, 1998, on not less than 30 nor more than 60 days' prior notice to each Holder of Debentures to be redeemed, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, to the Redemption Date, if redeemed during the 12-month period beginning on _____ of the calendar years indicated below (subject to the right of Holders of record on relevant record dates to receive interest due on an Interest Payment Date):

Year	Redemption Price
----	-----
1998	%
1999	%
2000	%
2001	%
2002	%
2003	%

and, after _____, 2004, at 100% of principal amount.

If less than all of the Debentures are to be redeemed, the Trustee shall select the Debentures or portions thereof to be redeemed in such manner as the Trustee shall deem fair and appropriate and in accordance with Section 10.3 of the Senior Indenture. Notice of such redemption shall be mailed to the Holders of Debentures to be redeemed in whole or in part by first-class mail at their addresses as they shall appear upon the registry books of the Company, all as provided in Section 10.4 of the Senior Indenture. Any such notice which is mailed to a Holder in the manner hereinabove

provided shall be conclusively deemed to have been received by such Holder, whether or not such Holder actually receives such notice.

Any Debentures called for redemption, unless surrendered for conversion on or before the close of business on the date prior to the Redemption Date, are subject to being purchased from the Holder of such Debentures at the redemption price, together with the amount of accrued and unpaid interest thereon to the Redemption Date, by one or more investment bankers or other purchasers who may agree with the Company to purchase such Debentures and convert them into Common Stock of the Company.

(3) PURCHASE OF DEBENTURES AT THE OPTION OF THE HOLDER. Subject to the terms and conditions of the Supplemental Indenture, upon the occurrence of any Change in Control of the Company prior to the Maturity of the Debentures, each Holder will have the right, at such Holder's option, to require the Company to purchase all or any part (provided that the principal amount is \$1,000 or an integral multiple thereof) of such Holder's Debentures on the date that is 35 Business Days after the occurrence of such Change in Control (the "Change in Control Purchase Date") at a cash purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon to such date (the "Change in Control Purchase Price").

Holders electing to have Debentures purchased must deliver written notice of the exercise of such right (a "Change in Control Purchase Notice") to the Paying Agent or to an office or agency maintained by the Company for such purpose in the Borough of Manhattan, The City of New York, New York, prior to the close of business on the Change in Control Purchase Date, stating: (1) the certificate numbers of the Debentures to be delivered by the Holder thereof for purchase by the Company; (2) the portion of the principal amount of Debentures to be purchased, which portion must be \$1,000 or an integral multiple thereof; and (3) that such Debentures are to be purchased by the Company on the Change in Control Purchase Date pursuant to the applicable provisions of the Debentures.

Any Change in Control Purchase Notice may be withdrawn by the Holder by a written notice of withdrawal delivered to the Paying Agent or to any other office or agency maintained for such purpose on or prior to the close of business on the Change in Control Purchase Date, stating the principal amount and the certificate numbers of the Debentures as to which the withdrawal notice relates and the principal amount of Debentures, if any, that remains subject to the original Change in Control Purchase Notice.

Payment of the Change in Control Purchase Price for a Debenture for which a Change in Control Purchase Notice has been delivered and not withdrawn is conditioned upon delivery of such Debenture (together with necessary endorsements) to the Paying Agent or to any other office or agency maintained for such purpose, at any time (whether prior to, on or after the Change in Control Purchase Date) after delivery of such Change in Control Purchase Notice. Payment of the Change in

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Control Purchase Price for such Debenture will be made promptly following the later of the Change in Control Purchase Date or the time of delivery of such Debenture.

(4) CONVERSION. The Debentures, or any portion thereof that is \$1,000 or an integral multiple of \$1,000, are convertible into shares of the Company's Common Stock at any time prior to Maturity, subject to prior redemption at the option of the Company on or after ____, 1998 or purchase by the Company in a Change in Control Offer, at the conversion rate in effect on the Conversion Date and rounding the result to the nearest 1/1,000 of a share, upon surrender of this Debenture, together with the conversion notice attached to this Debenture, to the Company at the office or agency maintained by the Company for that purpose in the Borough of Manhattan, The City of New York, New York and upon furnishing appropriate endorsements and transfer documents if required by the Company. A Debenture is not convertible if a Change in Control Purchase Notice has been delivered to the Trustee and has not been withdrawn. Accrued interest will not be paid on the Debentures that are converted; PROVIDED, HOWEVER, that if any Debenture is called for redemption on ____, 1998, and such Debenture is surrendered for conversion at any time during the ten Business Days immediately preceding the date fixed for redemption, interest shall accrue on such Debenture through the Redemption Date and shall be payable on such Redemption Date to the person who surrenders such Debenture for conversion. If any Debenture is converted between a record date for the payment of interest and the next succeeding Interest Payment Date, such Debenture upon surrender must be accompanied by funds equal to the interest payable on such Interest Payment Date on the principal amount so converted (unless such Debenture shall have been called for redemption, in which case no such payment shall be required). The Company shall not be required to issue fractional shares of Common Stock but will pay a cash adjustment in lieu thereof. In the case of any Debenture or portion thereof called for redemption, such conversion rights expire at the close of business on the Business Day immediately preceding the Redemption Date.

The Company is not required to make any adjustment in the conversion rate of less than 1%, but instead such adjustment shall be carried forward and taken into account in the computation of any subsequent adjustment.

If the Company is party to a transaction subject to Section 7.1 of the Senior Indenture or a merger which reclassifies or changes its outstanding Common Stock, the Holder of each outstanding Debenture shall have the right to convert such Debenture only into the kind and amount of shares of stock and other securities and property (including cash) received in such transaction by a holder of the number of shares of Common Stock into which such Debenture was

convertible immediately prior to the effective date of such transaction.

(5) DEFAULTS AND REMEDIES. If an Event of Default (as defined in Section 5.1 of the Senior Indenture) with respect to the Debentures shall have occurred and be continuing, the principal amount of this Debenture plus any accrued interest to the date of acceleration may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Senior Indenture.

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(6) AMENDMENTS AND WAIVERS. The Senior Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders under the Senior Indenture at any time by the Company and the Trustee and the waiver of certain past defaults under the Senior Indenture with the consent of the Holders of a majority in aggregate principal amount of the Debentures at the time outstanding. Any such consent or waiver by or on behalf of the Holder of this Debenture (unless effectively revoked as provided in the Senior Indenture) shall be conclusive and binding upon such Holder and upon all future Holders of this Debenture and of any Debenture issued upon the registration of transfer hereof or in exchange herefor whether or not notation of such consent or waiver is made upon this Debenture or such other Debenture.

(7) DENOMINATIONS, TRANSFERS AND EXCHANGES. The Debentures are issuable as definitive registered Debentures without coupons in denominations of \$1,000 and integral multiples thereof. Upon surrender of this Debenture, the transfer of this Debenture is registrable by the registered Holder hereof in person or by his attorney duly authorized in writing on the registry books of the Company at the office or agency to be maintained by the Company referred to on the face hereof, subject to the terms of the Senior Indenture but without payment of any charge other than a sum sufficient to reimburse the Company for any tax or other governmental charge incident thereto. Upon any such registration of transfer, a new Debenture or Debentures of authorized denomination or denominations, for the same aggregate principal amount, will be issued to the transferee in exchange hereof. Principal of, premium, if any, Change in Control Purchase Price and interest on this Debenture are payable at the office or agency of the Company referred to on the face hereof, except that, at the option of the Company, payment of interest hereon may be made either (i) by check mailed to the address of the Person entitled thereto as such address shall appear on the registry books of the Company or (ii) by transfer to an account maintained by the Person entitled thereto located in the United States.

Prior to the presentation for registration of transfer or conversion, the Company, the Trustee, any paying agent, any conversion agent and any Debenture registrar may deem and treat the person in whose name this Debenture shall be registered upon the registry books of the Company as the absolute owner of this Debenture (whether or not this Debenture shall be overdue and notwithstanding any notation of ownership or other writing hereon), for the purpose of receiving payment of or on account of the principal hereof, premium, if any, Change in Control Purchase Price and interest due hereon, for purposes of conversion and for all other purposes, and neither the Company nor the Trustee nor any paying agent nor any conversion agent nor any Debenture registrar shall be affected by any notice to the contrary. All such payments and conversions shall be valid and effectual to satisfy and discharge the liability on this Debenture to the extent of the sum or sums so paid or of the principal amount of this Debenture so converted into Common Stock.

(8) OBLIGATION AND RECOURSE. No reference herein to the Senior Indenture or the Supplemental Indenture and no provision of this Debenture or of the Senior Indenture or the

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Supplemental Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, premium, if any, Change in Control Purchase Price and interest on this Debenture at the place, at the respective times, at the rate and in the currency herein prescribed. No recourse shall be had for the payment of the principal of, premium, if any,

Change in Control Purchase Price or the interest on this Debenture, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Senior Indenture or the Supplemental Indenture or any other indenture supplemental thereto, against any incorporator, stockholder, officer or director, as such, past, present or future, of the Company or of any successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released.

Terms used in this Debenture and defined in the Senior Indenture or the Supplemental Indenture, as the case may be, are used herein as therein defined.

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION]

This is one of the Debentures described in the within-mentioned Supplemental Indenture.

HARRIS TRUST AND SAVINGS BANK,
as Trustee

By: _____
Authorized Signatory

ASSIGNMENT FORM

To assign this Debenture, fill in the form below:

I or we assign and transfer this Debenture to:

(Print or type assignee's social security or tax
identification number)

(Print or type name, address and zip code of assignee)
and irrevocably appoint

agent
to transfer this Debenture on the books of the Company.
The agent may substitute another to act for him.

CONVERSION NOTICE

To convert this Debenture into Common Stock of the
Company, check the box:

/ /

To convert only part of this Debenture, state the amount:

\$ _____
(must be in multiples
of \$1,000)

If you want the stock certificate[s] made out in another
person's name, fill in the form below:

(Print or type other person's social security or tax
identification number)

(Print or type other person's name, address and zip code)

Date: _____ Your Signature: _____

(Sign exactly as your name appears
on the other side of this Debenture)

Consent of Independent Public Accountants

To Alaska Air Group:

As independent public accountants, we hereby consent to the incorporation of our reports included in Alaska Air Group's Form 10-K for the year ended December 31, 1994, into the Company's previously filed Registration Statement File No. 33-52265.

Arthur Andersen LLP

Seattle, Washington,
June 6, 1995

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM T-1

Statement of Eligibility
Under the Trust Indenture Act of 1939
of a Corporation Designated to Act as
Trustee

Check if an Application to Determine
Eligibility of a Trustee Pursuant to Section
305(b)(2) _____

HARRIS TRUST AND SAVINGS BANK
(Name of Trustee)

Illinois
(State of Incorporation)

36-1194448
(I.R.S. Employer
Identification No.)

111 West Monroe Street, Chicago, Illinois 60603
(Address of principal executive offices)

Renee Johnson, Harris Trust and Savings Bank,
311 West Monroe Street, Chicago, Illinois, 60606
312-461-4069
(Name, address and telephone number for agent for service)

ALASKA AIR GROUP, INC.
(Name of obligor)

Delaware
(State of Incorporation)

91-1292054
(I.R.S. Employer
Identification No.)

19300 Pacific Highway South
Seattle, Washington 98188
(Address of principal executive offices)

Convertible Senior Debentures
(Title of indenture securities)

1. GENERAL INFORMATION. Furnish the following information as to the
Trustee:

- (a) Name and address of each examining or supervising authority to which
it is subject.

Commissioner of Banks and Trust Companies, State of Illinois,
Springfield, Illinois; Chicago Clearing House Association, 164 West
Jackson Boulevard, Chicago, Illinois; Federal Deposit Insurance
Corporation, Washington, D.C.; The Board of Governors of the
Federal Reserve System, Washington, D.C.

- (b) Whether it is authorized to exercise corporate trust powers.

Harris Trust and Savings Bank is authorized to exercise corporate
trust powers.

2. AFFILIATIONS WITH OBLIGOR. If the Obligor is an affiliate of the Trustee,
describe each such affiliation.

The Obligor is not an affiliate of the Trustee.

3. thru 15.

NO RESPONSE NECESSARY

16. LIST OF EXHIBITS.

1. A copy of the articles of association of the Trustee is now in effect which includes the authority of the trustee to commence business and to exercise corporate trust powers.

A copy of the Certificate of Merger dated April 1, 1972 between Harris Trust and Savings Bank, HTS Bank and Harris Bankcorp, Inc. which constitutes the articles of association of the Trustee as now in effect and includes the authority of the Trustee to commence business and to exercise corporate trust powers was filed in connection with the Registration Statement of Louisville Gas and Electric Company, File No. 2-44295, and is incorporated herein by reference.

2. A copy of the existing by-laws of the Trustee.

A copy of the existing by-laws of the Trustee was filed in connection with the Registration Statement of Hillenbrand Industries, Inc., File No. 33-44086, and is incorporated herein by reference.

3. The consents of the Trustee required by Section 321(b) of the Act.

(included as Exhibit A on page 2 of this statement)

4. A copy of the latest report of condition of the Trustee published pursuant to law or the requirements of its supervising or examining authority.

(included as Exhibit B on page 3 of this statement)

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SIGNATURE

Pursuant to the requirements of the Trust Indenture Act of 1939, the Trustee, HARRIS TRUST AND SAVINGS BANK, a corporation organized and existing under the laws of the State of Illinois, has duly caused this statement of eligibility to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of Chicago, and State of Illinois, on the 7h day of June, 1995.

HARRIS TRUST AND SAVINGS BANK

By: /s/ Renee Johnson

Renee Johnson
Trust Officer

EXHIBIT A

The consents of the trustee required by Section 321(b) of the Act.

Harris Trust and Savings Bank, as the Trustee herein named, hereby consents that reports of examinations of said trustee by Federal and State authorities may be furnished by such authorities to the Securities and Exchange Commission upon request therefor.

HARRIS TRUST AND SAVINGS BANK

By:/s/ Renee Johnson

Renee Johnson
Trust Officer

Attached is a true and correct copy of the statement of condition of Harris Trust and Savings Bank as of December 31, 1994, as published in accordance with a call made by the State Banking Authority and by the Federal Reserve Bank of the Seventh Reserve District.

[HARRIS BANK LOGO]

Harris Trust and Savings Bank
111 West Monroe Street
Chicago, Illinois 60603

of Chicago, Illinois And Foreign and Domestic Subsidiaries, at the close of business on December 31, 1994, a state banking institution organized and operating under the banking laws of this State and a member of the Federal Reserve System. Published in accordance with a call made by the Commissioner of Banks and Trust Companies of the State of Illinois and by the Federal Reserve Bank of this District.

Bank's Transit Number 71000288

ASSETS		THOUSANDS OF DOLLARS
CASH AND BALANCES DUE FROM DEPOSITORY INSTITUTIONS:		
NON-INTEREST BEARING BALANCES AND CURRENCY AND COIN.		\$1,226,753
INTEREST BEARING BALANCES.		\$732,083
SECURITIES:		
a. HELD-TO MATURITY SECURITIES.		\$718,072
b. AVAILABLE-FOR-SALE SECURITIES.		\$1,795,896
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL IN DOMESTIC OFFICES OF THE BANK AND OF ITS EDGE AND AGREEMENT SUBSIDIARIES, AND IN IBF'S:		
FEDERAL FUNDS SOLD		\$374,200
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL.		\$9,831
LOANS AND LEASE FINANCING RECEIVABLES:		
LOANS AND LEASES, NET OF UNEARNED INCOME	\$6,371,039	
LESS: ALLOWANCE FOR LOAN AND LEASE LOSSES	\$90,492	

LOANS AND LEASES, NET OF UNEARNED INCOME, ALLOWANCE, AND RESERVE (ITEM 4.a MINUS 4.b)		\$6,280,547
ASSETS HELD IN TRADING ACCOUNTS.		\$169,830
PREMISES AND FIXED ASSETS (INCLUDING CAPITALIZED LEASES)		\$136,703
OTHER REAL ESTATE OWNED.		\$1,780
INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES.		\$37
CUSTOMER'S LIABILITY TO THIS BANK ON ACCEPTANCES OUTSTANDING		\$69,447
INTANGIBLE ASSETS.		\$24,851
OTHER ASSETS		\$403,300

TOTAL ASSETS		\$11,944,330

LIABILITIES		
DEPOSITS:		
IN DOMESTIC OFFICES		\$4,529,148
NON-INTEREST BEARING	\$2,659,945	
INTEREST BEARING	\$1,869,203	
IN FOREIGN OFFICES, EDGE AND AGREEMENT SUBSIDIARIES, AND IN IBF'S.		\$2,486,418
NON-INTEREST BEARING	\$31,903	
INTEREST BEARING	\$2,454,515	
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE IN DOMESTIC OFFICES OF THE BANK AND OF ITS EDGE AND AGREEMENT SUBSIDIARIES, AND IN IBF'S:		
FEDERAL FUNDS PURCHASED		\$1,179,441
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE.		\$1,643,381
TRADING LIABILITIES		\$149,363
OTHER BORROWED MONEY:		
a. WITH ORIGINAL MATURITY OF ONE YEAR OR LESS		\$667,231
b. WITH ORIGINAL MATURITY OF MORE THAN ONE YEAR		\$14,268
BANK'S LIABILITY ON ACCEPTANCES EXECUTED AND OUTSTANDING		\$69,447
SUBORDINATED NOTES AND DEBENTURES.		\$235,000
OTHER LIABILITIES.		\$240,902

TOTAL LIABILITIES		\$11,214,599

EQUITY CAPITAL		
COMMON STOCK		\$100,000
SURPLUS		\$275,000

a. UNDIVIDED PROFITS AND CAPITAL RESERVES	\$375,032
b. NET UNREALIZED HOLDING GAINS (LOSSES) ON AVAILABLE-FOR-SALE SECURITIES	(\$20,301)

TOTAL EQUITY CAPITAL	\$729,731

TOTAL LIABILITIES, LIMITED-LIFE PREFERRED STOCK, AND EQUITY CAPITAL.	\$11,944,330

I, Paul Skubic, Controller of the above-named bank, do hereby declare that this Report of Condition has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and is true to the best of my knowledge and belief.

PAUL SKUBIC
1/27/95

We, the undersigned directors, attest to the correctness of this Report of Condition and declare that it has been examined by us and, to the best of our knowledge and belief, has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and the Commissioner of Banks and Trust Companies of the State of Illinois and is true and correct.

DONALD S. HUNT,
RICHARD E. TERRY,
JAMES J. GLASSER,

Directors.