PROSPECTUS SUPPLEMENT

(TO PROSPECTUS DATED MARCH 23, 1994)

$115,000,000

[LOGO]

6 1/2% CONVERTIBLE SENIOR DEBENTURES DUE 2005

The 6 1/2% Convertible Senior Debentures due 2005 (the "Debentures") of Alaska Air Group, Inc. ("Air Group" or the "Company") are convertible at any time on or prior to maturity, unless previously redeemed or otherwise purchased, into shares of the Company's Common Stock at a conversion price of $21.50 per share (equivalent to a conversion rate of 46.512 shares per $1,000 principal amount of Debentures), subject to certain adjustments. The Common Stock is listed on the New York Stock Exchange under the symbol "ALK". On June 21, 1995, the last reported sales price of the Common Stock on the New York Stock Exchange was $17 5/8 per share.

Interest on the Debentures is payable on June 15 and December 15 of each year, commencing December 15, 1995. The Debentures will be redeemable at the Company's option, in whole or in part, at any time on or after June 15, 1998, at the redemption prices set forth herein. In the event of a Change in Control (as hereinafter defined), each holder of the Debentures may require the Company to repurchase all or a portion of such holder's Debentures at 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase. See "Description of the Debentures."

The Debentures will constitute senior unsecured obligations of the Company and will rank PARI PASSU in right of payment to the Company's other senior unsecured indebtedness. See "Capitalization" and "Description of the Debentures." The Company is a holding company and, accordingly, the Debentures will be effectively subordinated to all existing and future liabilities of the Company's operating subsidiaries.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS TO WHICH IT RELATES. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC (1)	UNDERWRITING DISCOUNT (2)	PROCEEDS TO COMPANY (1)(3)
Per Debenture..............................	100%	2.5%	97.5%
Total (4)..................................	$115,000,000	$2,875,000	$112,125,000

<FN>

(1) Plus accrued interest, if any, from date of issuance.

(2) The Company has agreed to indemnify the several Underwriters against certain liabilities under the Securities Act of 1933, as amended. See "Underwriting."

(3) Before deducting expenses payable by the Company estimated at $200,000.

(4) The Company has granted the several Underwriters an option, exercisable within 30 days after the date of this Prospectus Supplement, to purchase up to an additional $17,250,000 aggregate principal amount of Debentures on the terms set forth above to cover over-allotments, if any. If such option is exercised in full, the total Price to Public, Underwriting Discount and Proceeds to Company will be $132,250,000, $3,306,250 and $128,943,750, respectively. See "Underwriting."

The Debentures are offered by the several Underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of certain legal matters by counsel for the Underwriters and certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the Debentures will be made in New York, New York on or about June 27, 1995.

MERRILL LYNCH & CO. GOLDMAN, SACHS & CO.

The date of this Prospectus Supplement is June 21, 1995.

[MAP INDICATING ALASKA AIRLINES AND HORIZON AIR ROUTES]

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE DEBENTURES OFFERED HEREBY AND OF THE OUTSTANDING COMMON STOCK OF THE COMPANY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUPPLEMENT SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE DETAILED INFORMATION AND CONSOLIDATED FINANCIAL STATEMENTS INCLUDED ELSEWHERE HEREIN OR INCORPORATED BY REFERENCE INTO THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS. THIS PROSPECTUS SUPPLEMENT SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING PROSPECTUS DATED MARCH 23, 1994.

THE COMPANY

Air Group is a holding company incorporated in Delaware in 1985. Its principal subsidiaries are Alaska Airlines, Inc. ("Alaska Airlines") and Horizon Air Industries, Inc. ("Horizon"). Alaska Airlines, founded in 1932, provides scheduled air transportation to 37 cities in Alaska, Washington, Oregon, Nevada, California and Arizona, three cities in Mexico, three cities in the Russian Far East and many smaller communities in Alaska and California through code-sharing agreements with local carriers. As of December 31, 1994, Alaska Airlines operated 23 owned and 49 leased jet aircraft with an average age of six years. Horizon, a regional commuter carrier founded in 1981, provides scheduled air transportation to 36 cities in Washington, Oregon, Montana, Idaho and California, as well as two cities in Canada. Horizon provides interconnecting passenger traffic to Alaska Airlines through its major hub cities, Seattle, Portland and Spokane. As of December 31, 1994, Horizon operated five owned and 60 leased aircraft with an average age of nine years.

For the year ended December 31, 1994, Air Group's consolidated operating revenues were $1.3 billion, of which 89% came from scheduled passenger services, 7% came from freight and mail, and 4% came from mileage plan partners and other nonpassenger sources. Alaska Airlines carried approximately 9.0 million passengers in 1994 and accounted for approximately 81% of Air Group's consolidated 1994 operating revenues. Horizon carried approximately 3.5 million passengers in 1994 and accounted for the remaining 19% of Air Group's consolidated 1994 operating revenues.

The Company's strategy is to define strategic markets and then to achieve strong market positions by offering high-quality service at competitive prices. The combined route system of Alaska Airlines and Horizon, when viewed as a whole, blends aspects of both the hub-and-spoke and linear route system concepts, resulting in an integrated system that provides passengers with more frequent flights than the Company's competitors in a substantial majority of the 150 nonstop city pairs that the Company serves. Both Alaska Airlines and Horizon seek to differentiate themselves from their competitors by offering superior levels of value and service. Alaska Airlines' service has been recognized with a number of awards, including Airline of the Year awards from CONDE NAST TRAVELER magazine in five of the last six years and high rankings in consumer magazines and customer surveys by J.D. Power & Associates and the Zagat's United States Travel Survey.

THE OFFERING

Issue............................	$115,000,000 principal amount of 6 1/2% Convertible Senior Debentures due 2005.
Interest..........................	Each Debenture will bear interest at a rate of 6 1/2% per annum. Interest will be paid semiannually on June 15 and December 15 of each year, commencing December 15, 1995. See "Description of the Debentures--General" in this Prospectus Supplement.
Conversion Rights.................	Each Debenture will be convertible, at the holder's option, at any time on or prior to maturity, unless previously redeemed or otherwise purchased, into Common Stock at a conversion price of $21.50 per share (equivalent to a conversion rate of 46.512 shares per $1,000 principal amount of Debentures), subject to certain adjustments. See "Description of the Debentures--Conversion" in this Prospectus Supplement.

Optional Redemption...............	The Debentures will be redeemable, in whole or in part, at the Company's option at any time on or after June 15, 1998, initially at 104.333% of their principal amount, plus accrued interest, declining to 100% of their principal amount, plus accrued interest, on or after June 15, 2004. See "Description of the Debentures--Redemption" in this Prospectus Supplement.
Purchase of Debentures Upon a Change in Control.........	At the holder's option, the Company will purchase for cash any Debenture, as of 35 business days after the occurrence of a Change in Control of the Company, for a Change in Control Purchase Price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the Change in Control Purchase Date. The Change in Control purchase feature of the Debentures may in certain circumstances have an antitakeover effect. See "Description of the Debentures--Purchase of Debentures Upon Change in Control" in this Prospectus Supplement for a summary of these provisions and the definitions of the above defined terms.
Ranking...........................	The Debentures will constitute senior unsecured obligations of Air Group and will rank PARI PASSU in right of payment to Air Group's other senior unsecured indebtedness. See "Description of the Debentures--Ranking" in this Prospectus Supplement. Air Group is a holding company and, accordingly, the Debentures will be effectively subordinated to all existing and future liabilities of Air Group's operating subsidiaries, including Alaska Airlines and Horizon.
Use of Proceeds...................	The net proceeds to the Company from this offering will be added to working capital and used for general corporate purposes, including the redemption or repurchase of the Company's outstanding 7 1/4% zero coupon convertible subordinated notes due 2006. Pending such uses, the net proceeds of this offering will be invested in short-term, interest-bearing securities. See "Use of Proceeds" in this Prospectus Supplement.

SUMMARY FINANCIAL AND OPERATING DATA

The following table summarizes selected financial and operating information for Air Group and its principal subsidiaries, Alaska Airlines and Horizon. The consolidated financial data for each of the five years ended December 31, 1994, set forth below, have been taken from the financial data included in Air Group's Form 10-K for the year ended December 31, 1994 incorporated by reference in this Prospectus Supplement and the related Registration Statement. The financial statements for the five years ended December 31, 1994 have been examined by Arthur Andersen LLP, independent public accountants. This summary should be read in conjunction with the financial statements, including the notes thereto, and other information contained in the documents incorporated by reference. The selected financial information for the three-month periods ended March 31, 1995 and 1994 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that are necessary, in the opinion of management, for a fair presentation of results of operations for such periods. The airline business is seasonal in nature and the operating results for the three months ended March 31, 1995 are not necessarily indicative of results to be expected for the full year.

	THREE MONTHS ENDED MARCH 31,	
	1995	1994
	(DOLLARS IN THOUSANDS)	
CONSOLIDATED FINANCIAL DATA:		
STATEMENT OF OPERATIONS DATA:		
Operating revenues	$ 294,573	$ 280,382
Operating expenses	312,874	283,310
Operating income (loss)	(18,301)	(2,928)
Net income (loss)	$ (16,340)	$ (6,313)
Average primary shares outstanding (000)	13,400	13,349
Primary earnings (loss) per share (a)	$ (1.22)	$ (0.47)
Fully diluted earnings per share	(b)	(b)
BALANCE SHEET DATA (AT END OF PERIOD):		
Total assets	$1,287,833	$1,191,587
Long-term debt and capital lease obligations	579,236	593,405
Redeemable preferred stock	--	--
Shareholders' equity	175,313	160,919
ALASKA AIRLINES OPERATING DATA (C):		
Revenue passenger miles (000,000)	1,793	1,536
Available seat miles (000,000)	3,182	2,553
Revenue passenger load factor	56.4%	60.2%
Yield per passenger mile	11.2 CENTS	12.8 CENTS
Operating expenses per available seat mile	7.8 CENTS	8.9 CENTS
HORIZON AIR OPERATING DATA (C):		
Revenue passenger miles (000,000)	186	143
Available seat miles (000,000)	323	241
Revenue passenger load factor	57.7%	59.4%
Yield per passenger mile	31.9 CENTS	35.7 CENTS
Operating expenses per available seat mile	20.6 CENTS	22.9 CENTS

	YEAR ENDED DECEMBER 31,				
	1994	1993	1992	1991	1990
CONSOLIDATED FINANCIAL DATA:					
STATEMENT OF OPERATIONS DATA:					
Operating revenues	$1,315,620	$1,128,329	$1,115,378	$1,104,031	$1,046,965
Operating expenses	1,240,622	1,145,102	1,210,219	1,069,405	1,018,546
Operating income (loss)	74,998	(16,773)	(94,841)	34,626	28,419
Net income (loss)	$ 22,531	$ (30,918)	$ (84,837)	$ 10,338	$ 17,167
Average primary shares outstanding (000)	13,378	13,340	13,309	13,413	13,675
Primary earnings (loss) per share (a)	$ 1.68	$ (2.51)	$ (6.87)	$ 0.27	$ 0.82
Fully diluted earnings per share	1.62	(b)	(b)	(b)	(b)
BALANCE SHEET DATA (AT END OF PERIOD):					
Total assets	$1,315,771	$1,134,954	$1,208,358	$1,225,455	$1,021,404
Long-term debt and capital lease obligations	589,904	525,418	487,847	499,971	281,759

Redeemable preferred stock.............	--	--	61,235	60,947	60,665
Shareholders' equity...................	191,278	166,833	196,724	284,447	279,833
ALASKA AIRLINES OPERATING DATA (C):					
Revenue passenger miles (000,000).......	7,587	5,514	5,537	4,948	4,494
Available seat miles (000,000)..........	12,082	9,426	9,617	8,789	8,380
Revenue passenger load factor...........	62.8%	58.5%	57.6%	56.3%	53.6%
Yield per passenger mile................	12.2 CENTS	14.3 CENTS	14.5 CENTS	16.7 CENTS	17.8 CENTS
Operating expenses per available seat mile..................................	8.3 CENTS	9.9 CENTS	10.5 CENTS	10.2 CENTS	10.3 CENTS
HORIZON AIR OPERATING DATA (C):					
Revenue passenger miles (000,000).......	733	560	486	405	357
Available seat miles (000,000)..........	1,165	986	905	786	720
Revenue passenger load factor...........	62.9%	56.8%	53.7%	51.5%	49.6%
Yield per passenger mile................	33.3 CENTS	37.9 CENTS	40.7 CENTS	42.9 CENTS	43.4 CENTS
Operating expenses per available seat mile..................................	21.0 CENTS	21.8 CENTS	22.2 CENTS	22.3 CENTS	21.9 CENTS

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(a) For 1992, primary earnings per share includes $(.34) for the $4.6 million cumulative effect of the postretirement benefits accounting change as of January 1, 1992.
(b) Antidilutive.
(c) See "Selected Financial and Operating Data" in this Prospectus Supplement for definition of terms.

THE COMPANY

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The Company's strategy is to define strategic markets and then to achieve strong market positions by offering high-quality service at competitive prices. The combined route system of Alaska Airlines and Horizon, when viewed as a whole, blends aspects of both the hub-and-spoke and linear route system concepts, resulting in an integrated system that provides passengers with more frequent flights than the Company's competitors in a substantial majority of the 150 nonstop city pairs that the Company serves. Both Alaska Airlines and Horizon seek to differentiate themselves from their competitors by offering superior levels of value and service. Alaska Airlines' service has been recognized with a number of awards, including Airline of the Year awards from CONDE NAST TRAVELER magazine in five of the last six years and high rankings in consumer magazines and customer surveys by J.D. Power & Associates and the Zagat's United States Travel Survey.

COST AND PRODUCTIVITY IMPROVEMENTS

In response to changing conditions and intense competition, Alaska Airlines executed a cost reduction and productivity improvement program beginning in 1992 and continuing into 1995. As a result of this program, Alaska Airlines has been able to significantly reduce its cost per available seat mile ("ASM") from 10.2 cents in 1992 to 8.3 cents in 1994 and to 7.8 cents in the first quarter of 1995. The program embodies the following five key elements:

- Achieving permanent reductions in operating costs
- Improving productivity of equipment
- Improving productivity of employees
- Reducing or eliminating unprofitable flights
- Restructuring the Company's finances to reduce high-cost debt and lease expense

OPERATING COST REDUCTION. Management reviewed and evaluated every Company program to eliminate nonessential activities. Vendor contracts were renegotiated, operating procedures revised, and staffing levels reduced. Without compromising quality, Alaska Airlines and Horizon reduced their inflight meal costs by altering menus, emphasizing lighter fare, and discontinuing meals on shorter flights and on those flights operating outside of regular mealtimes. Alaska Airlines and Horizon are currently developing an electronic ticketing program, as well as other more direct methods for ticket distribution, which are expected to offer improved customer convenience and may reduce distribution costs.

FLEET PRODUCTIVITY. Recognizing the cost savings that could be achieved by operating a more efficient fleet, Alaska Airlines undertook a targeted program of aircraft retirement. Since 1992, Alaska Airlines has

retired 25 older Boeing 727-200/100 aircraft while adding 33 new McDonnell Douglas MD-80 and Boeing 737-400 aircraft, which has resulted in significant fuel, labor and maintenance cost savings. The new aircraft are 33%-45% more fuel efficient and have contributed to lower labor costs since they require only two pilots, compared to the three required by the older aircraft.

While cost reductions were the centerpiece of operating improvements in 1993, productivity improvements were the focus in 1994. By reducing turn times and increasing the workday, Alaska Airlines increased aircraft utilization, measured in block hours per day per aircraft, from 8.5 hours in 1992 to 10.3 hours in 1994 and to 10.4 hours in the first quarter of 1995.

EMPLOYEE PRODUCTIVITY. Alaska Airlines has also found ways to significantly improve employee productivity. From 1992 to 1994, employees per departure improved 12.8%, passengers per employee increased 44.0% and ASMs per employee grew 26.2%. During the same period, Horizon also showed increases in ASMs per employee and passengers per employee.

IMPROVED PROFITABILITY OF ROUTE STRUCTURE. Alaska Airlines reviewed its route structure to identify nonprofitable flights. Service to Boise, Spokane, Tucson, Long Beach, Guadalajara and Mexico City was suspended. Marginal routes were pared, and aircraft were reassigned to core routes in Alaska and California. The Company also continued to explore new opportunities to expand its markets. Service was added to Las Vegas, Reno, Sacramento and a number of smaller communities in Alaska.

FINANCIAL RESTRUCTURING. The Company took advantage of historically low interest rates to restructure its higher-cost obligations. $61.2 million of the Company's preferred stock was redeemed in 1993, thereby eliminating preferred dividends and reducing the Company's after-tax capital costs by more than $4 million per year. In addition, the Company further reshaped its cost structure by entering into an agreement in late 1994 with International Lease Finance Corporation that provides lower ownership costs for 20 of Alaska Airlines' 22 Boeing 737-400 aircraft. This new agreement is expected to generate savings of more than $6 million annually over its 10-year term.

MARKET SHARE

ALASKA AIRLINES

During the first quarter of 1995, Alaska Airlines had the highest share of nonstop flights along its routes in each of its following major markets:

PACIFIC NORTHWEST TO ALASKA		WEST COAST U.S. TO WEST COAST MEXICO	
ALASKA AIRLINES	61.0%	ALASKA AIRLINES	52.9%
MarkAir (1)	15.0%	Delta	13.7%
Delta	9.4%	AeroMexico	13.7%
United	5.4%	Mexicana	12.8%
All Others	9.2%	Aero California	6.9%

PACIFIC NORTHWEST TO NORTHERN CALIFORNIA		PACIFIC NORTHWEST TO SOUTHERN CALIFORNIA	
ALASKA AIRLINES	41.5%	ALASKA AIRLINES	72.1%
United/United Shuttle	32.4%	United/United Shuttle	14.6%
Southwest	16.3%	Delta	10.1%
Reno Air	5.0%	MarkAir (1)	3.1%
All Others	4.8%	All Others	.1%

Source: Official Airline Guide Standard Scheduling Information Manual dated May 4, 1995.

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(1) MarkAir has since ceased operating in these markets. See "Recent Operating Results and Developments" in this Prospectus Supplement.

Approximately 65% of Alaska Airlines' passengers travel from the Pacific Northwest to other West Coast destinations, 25% travel between the Pacific Northwest and Alaska or within Alaska, and 10% travel internationally. The most significant element of Alaska Airlines' route system is its high frequency service in all the major West Coast markets that it serves.

Alaska Airlines provides extensive service between the Pacific Northwest and both the Northern California and Southern California markets, as well as within the Pacific Northwest region. Less than 3% of Alaska Airlines' service is on intra-California routes.

Over half of the U.S. cities served by Alaska Airlines are located in the state of Alaska. In each year since 1973, Alaska Airlines has carried more passengers between Alaska and the U.S. mainland than any other airline. Alaska Airlines also serves many smaller communities in Alaska and California through code-sharing agreements with local carriers.

Alaska Airlines serves three resort cities in Mexico: Puerta Vallarta, Mazatlan and Los Cabos. Traffic in these markets is strongest during the winter months, which partially offsets the reduced seasonal demand in Alaska, thereby allowing the Company to better utilize its aircraft fleet. Alaska Airlines serves the Russian Far East with flights to Magadan, Khabarovsk and Vladivostok, and plans to begin service this summer to Petropavlosk.

HORIZON

Horizon is the largest regional airline in the Pacific Northwest, and serves 36 cities in Washington, Oregon, Montana, Idaho and California, as well as two cities in Canada. In 1994, Horizon carried approximately 3.5 million passengers.

Horizon flights are listed under the Alaska Airlines designator code in airline computer reservation systems. Certain Horizon flights are also listed under the Northwest designator code. In 1994, 24% of Horizon's passengers connected to Alaska Airlines flights and another 8% connected to Northwest Airlines flights. The number of passengers connecting between Alaska Airlines and Horizon rose 44% in 1994. In contrast to most regional airlines, Horizon relies much less on connecting traffic, with over half of its passengers having origins and destinations within the Horizon route system.

SERVICE

The Company generally offers the same low fares as its competitors, but with more frequent service. The Company, however, believes that both Alaska Airlines and Horizon offer superior value to their customers by providing a higher level of customer service and amenities as compared to their major competitors. Unlike its major competitors, Alaska Airlines continues to offer meal service, advance seat selection and a first-class cabin. Additionally, Alaska Airlines' fleet, with an average age of six years, is the youngest of any major U.S. carrier and is configured to create more legroom for its passengers. The Company also provides interline services that allow passengers to be ticketed and to check their baggage to their final destinations on virtually every major airline in the world.

The Company's mileage program allows customers to earn mileage credits while flying on Alaska Airlines, as well as Horizon, Northwest Airlines, TWA, SAS, Qantas and British Airways. Mileage credit can be redeemed for travel on Alaska Airlines, Horizon or any of the program partners for reward travel worldwide. Mileage can also be earned from marketing partners such as credit card issuers, long-distance telecommunications carriers, hotels and car rental firms. In 1994, the Company generated $34 million in revenues from sales of mileage credits to nonairline partners.

EMPLOYEES

Alaska Airlines had 6,901 full-time and part-time employees as of December 31, 1994, approximately 87% of whom are represented under collective bargaining agreements. No material Alaska Airlines labor agreements are amendable until September 1997.

Horizon had 2,951 full-time and part-time employees as of December 31, 1994, approximately 20% of whom are represented under collective bargaining agreements.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the Debentures offered hereby are estimated to be approximately $112,125,000 (excluding expenses other than the Underwriters' discount and assuming that the Underwriters' over-allotment option is not exercised). Such net proceeds will be added to working capital and used for general corporate purposes, including the redemption or repurchase of the Company's outstanding 7 1/4% zero coupon convertible subordinated notes due 2006, which the Company may be obligated to repurchase at the option of the holders thereof on April 18, 1996. Pending such uses, the net proceeds of this offering will be invested in short-term, interest-bearing securities.

CAPITALIZATION

The following table sets forth Air Group's consolidated capitalization as of March 31, 1995 and as adjusted to reflect the sale of the Debentures offered hereby, assuming no exercise of the Underwriters' over-allotment option and without giving effect to the Underwriters' discount and the payment of expenses, and does not reflect application of the net proceeds of this offering. See "Use of Proceeds" in this Prospectus Supplement.

	MARCH 31, 1995	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS)	
Indebtedness:		
Short-term borrowings	$ 4,000	$ 4,000
Current portion of long-term debt and capital lease obligations	72,080	72,080
Notes payable due through 2009	325,077	325,077
6 1/2% convertible senior debentures due 2005	--	115,000
Convertible subordinated debentures:		

7 3/4% due 2005-2010	14,354	14,354
6 7/8% due 2000-2014	54,041	54,041
7 1/4% zero coupon convertible subordinated notes due 2006	130,085	130,085
Long-term capital lease obligations	55,679	55,679
Total indebtedness	$ 655,316	$ 770,316
Shareholders' Equity:		
Common stock, par value $1.00 per share (30,000,000 shares authorized; 13,402,186 shares outstanding)	$ 97,534	$ 97,534
Deferred compensation	(4,353)	(4,353)
Retained earnings	82,132	82,132
Total shareholders' equity	$ 175,313	$ 175,313
Total capitalization	$ 830,629	$ 945,629

RECENT OPERATING RESULTS AND DEVELOPMENTS

Air Group incurred a first quarter 1995 net loss of $16.3 million, or $1.22 per share, compared to a net loss of $6.3 million, or $0.47 per share, in the prior year's first quarter. The operating loss for the quarter was $18.3 million compared to $2.9 million for the same quarter the prior year. The 1995 results reflect lower average fares and load factors at both Alaska Airlines and Horizon.

Alaska Airlines' passenger revenues, which accounted for 86% of its total operating revenues, increased 1.5% in the first quarter of 1995 on a 17% increase in passenger traffic. Capacity increased 25% primarily due to increased flights in the Pacific Northwest-to-California market. The load factor dropped from 60.2% in the first quarter of 1994 to 56.4% in the first quarter of 1995. Passenger yields declined 13% to 11.2 cents

per passenger mile in the first quarter of 1995, reflecting increased competition in the West Coast routes. Operating cost per ASM decreased 13% to 7.8 cents in the first quarter of 1995, compared to 8.9 cents in the first quarter of 1994.

During the fourth quarter of 1994 and the first quarter of 1995, Alaska Airlines experienced yield declines resulting from low fare offerings across its system. Although several fare increases have occurred since early February, the lingering effect of these low fare offerings will have an impact on second quarter results. In addition, for the past several months industry capacity increases in Alaska Airlines' West Coast markets have exceeded traffic increases, resulting in lower load factors.

MarkAir, a significant competitor of Alaska Airlines in the state of Alaska since 1992, filed for Chapter 11 bankruptcy for the second time on April 14, 1995 and ceased operating in all of Alaska Airlines' markets at the end of April 1995.

Horizon's passenger revenues, which accounted for 95% of its total operating revenues, increased 16% in the first quarter of 1995 on a 30% increase in passenger traffic. Capacity increased 34% due to the addition of larger-capacity Fokker F-28 jets and Dornier 328 turboprop aircraft. The load factor dropped from 59.4% in the first quarter of 1994 to 57.7% in the first quarter of 1995. Passenger yields declined 11% to 31.9 cents per passenger mile in the first quarter of 1995, reflecting increased competition and longer passenger trips.

The International Association of Machinists (the "IAM") represents Alaska Airlines' clerical, office and passenger service employees. On April 17, 1995, Alaska Airlines and the IAM reached agreement on an amended four-year contract for these employees; the contract was ratified by the employees in early May. In April 1995, Horizon's mechanics and related classifications of the Transport Workers Union of America ratified a new three-year contract.

PRICE RANGE OF COMMON STOCK

The Company's Common Stock is listed on the New York Stock Exchange. The following table indicates the high and low sales prices of the Common Stock as reported by the New York Stock Exchange for the periods indicated.

	HIGH	LOW
1993		
First Quarter........................	$18	$15 5/8
Second Quarter.......................	17 7/8	14 1/4
Third Quarter........................	15	12 1/4
Fourth Quarter.......................	17 3/8	12 1/2
1994		
First Quarter........................	$18 7/8	$13 5/8
Second Quarter.......................	16 1/8	13 3/4
Third Quarter........................	17 7/8	14 3/8
Fourth Quarter.......................	18	13 1/8
1995		
First Quarter........................	$16 3/4	$13 1/2
Second Quarter (through June 21, 1995)..............................	17 5/8	14 1/2

SELECTED FINANCIAL AND OPERATING DATA

The following table summarizes selected financial and operating information for Air Group and its principal subsidiaries, Alaska Airlines and Horizon. The consolidated financial data for each of the five years ended December 31, 1994, set forth below, have been taken from the financial data included in Air Group's Form 10-K for the year ended December 31, 1994 incorporated by reference in this Prospectus Supplement and the related Registration Statement. The financial statements for the five years ended December 31, 1994 have been examined by Arthur Andersen LLP, independent public accountants. This summary should be read in conjunction with the financial statements, including the notes thereto, and other information contained in the documents incorporated by reference. The selected financial information for the three-month periods ended March 31, 1995 and 1994 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that are necessary, in the opinion of management, for a fair presentation of results of operations for such periods. The airline business is seasonal in nature and the operating results for the three months ended March 31, 1995 are not necessarily indicative of results to be expected for the full year.

	THREE MONTHS ENDED MARCH 31,	
	1995	1994
	(DOLLARS IN THOUSANDS)	
CONSOLIDATED FINANCIAL DATA:		
STATEMENT OF OPERATIONS DATA:		
Operating revenues...............	$ 294,573	$ 280,382
Operating expenses...............	312,874	283,310
Operating income (loss)..........	(18,301)	(2,928)
Other nonoperating expense, net (a).............................	(11,636)	(8,084)
Income (loss) before income tax expense and accounting change....	(29,937)	(11,012)
Net income (loss)................	$ (16,340)	$ (6,313)
Average primary shares outstanding (000)...........................	13,400	13,349
Primary earnings (loss) per share (b).............................	$ (1.22)	$ (0.47)
Fully diluted earnings per share...........................	(c)	(c)
Cash dividends per share..........	--	--
BALANCE SHEET DATA (AT END OF PERIOD):		
Total assets.....................	$1,287,833	$1,191,587
Long-term debt and capital lease obligations.....................	579,236	593,405
Redeemable preferred stock........	--	--
Shareholders' equity.............	175,313	160,919
Ratio of earnings to fixed charges.........................	(d)	(d)
ALASKA AIRLINES OPERATING DATA:		
Revenue passenger miles		

(000,000)	1,793	1,536
Available seat miles (000,000)	3,182	2,553
Revenue passenger load factor	56.4%	60.2%
Yield per passenger mile	11.2 CENTS	12.8 CENTS
Operating expenses per available seat mile	7.8 CENTS	8.9 CENTS
HORIZON AIR OPERATING DATA:		
Revenue passenger miles (000,000)	186	143
Available seat miles (000,000)	323	241
Revenue passenger load factor	57.7%	59.4%
Yield per passenger mile	31.9 CENTS	35.7 CENTS
Operating expenses per available seat mile	20.6 CENTS	22.9 CENTS

	YEAR ENDED DECEMBER 31,				
	1994	1993	1992	1991	1990
CONSOLIDATED FINANCIAL DATA:					
STATEMENT OF OPERATIONS DATA:					
Operating revenues	$1,315,620	$1,128,329	$1,115,378	$1,104,031	$1,046,965
Operating expenses	1,240,622	1,145,102	1,210,219	1,069,405	1,018,546
Operating income (loss)	74,998	(16,773)	(94,841)	34,626	28,419
Other nonoperating expense, net (a)	(34,037)	(29,039)	(30,865)	(18,419)	(501)
Income (loss) before income tax expense and accounting change	40,961	(45,812)	(125,706)	16,207	27,918
Net income (loss)	$ 22,531	$ (30,918)	$ (84,837)	$ 10,338	$ 17,167
Average primary shares outstanding (000)	13,378	13,340	13,309	13,413	13,675
Primary earnings (loss) per share (b)	$ 1.68	$ (2.51)	$ (6.87)	$ 0.27	$ 0.82
Fully diluted earnings per share	1.62	(c)	(c)	(c)	(c)
Cash dividends per share	--	--	$ 0.15	$ 0.20	$ 0.20
BALANCE SHEET DATA (AT END OF PERIOD):					
Total assets	$1,315,771	$1,134,954	$1,208,358	$1,225,455	$1,021,404
Long-term debt and capital lease obligations	589,904	525,418	487,847	499,971	281,759
Redeemable preferred stock	--	--	61,235	60,947	60,665
Shareholders' equity	191,278	166,833	196,724	284,447	279,833
Ratio of earnings to fixed charges	1.36	(d)	(d)	1.10	1.32
ALASKA AIRLINES OPERATING DATA:					
Revenue passenger miles (000,000)	7,587	5,514	5,537	4,948	4,494
Available seat miles (000,000)	12,082	9,426	9,617	8,789	8,380
Revenue passenger load factor	62.8%	58.5%	57.6%	56.3%	53.6%
Yield per passenger mile	12.2 CENTS	14.3 CENTS	14.5 CENTS	16.7 CENTS	17.8 CENTS
Operating expenses per available seat mile	8.3 CENTS	9.9 CENTS	10.5 CENTS	10.2 CENTS	10.3 CENTS
HORIZON AIR OPERATING DATA:					
Revenue passenger miles (000,000)	733	560	486	405	357
Available seat miles (000,000)	1,165	986	905	786	720
Revenue passenger load factor	62.9%	56.8%	53.7%	51.5%	49.6%
Yield per passenger mile	33.3 CENTS	37.9 CENTS	40.7 CENTS	42.9 CENTS	43.4 CENTS
Operating expenses per available seat mile	21.0 CENTS	21.8 CENTS	22.2 CENTS	22.3 CENTS	21.9 CENTS

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(a) Includes capitalized interest of $0 and $.1 million for the three months ended March 31, 1995 and 1994, respectively, and $.4 million, $.5 million, $6.1 million, $8.3 million and $9.0 million for the years ended December 31, 1994, 1993, 1992, 1991 and 1990, respectively.

(b) For 1992, primary earnings per share includes $(.34) for the $4.6 million cumulative effect of the postretirement benefits accounting change as of January 1, 1992.

(c) Antidilutive.

(d) For 1993 and 1992, earnings are inadequate to cover fixed charges by $46.3 million and $131.8 million, respectively. For the three months ended March 31, 1995 and 1994, earnings are inadequate to cover fixed charges by $29.9 million and $11.1 million, respectively.

REVENUE PASSENGER MILES--THE NUMBER OF PAYING PASSENGERS ON A FLIGHT MULTIPLIED BY THE ROUTE MILES OF THAT FLIGHT, SUMMED FOR ALL PASSENGER FLIGHTS.

AVAILABLE SEAT MILES--AIRCRAFT MILES FLOWN MULTIPLIED BY THE NUMBER OF AVAILABLE SEATS ON THE AIRCRAFT; REPRESENTS THE TOTAL PASSENGER CARRYING CAPACITY OFFERED.

REVENUE PASSENGER LOAD FACTOR--REVENUE PASSENGER MILES DIVIDED BY AVAILABLE SEAT MILES; REPRESENTS THE PERCENTAGE OF AVAILABLE SEAT CAPACITY OCCUPIED BY REVENUE PASSENGERS.

YIELD PER PASSENGER MILE--REPRESENTS THE AVERAGE PASSENGER REVENUE RECEIVED FOR EACH MILE A PASSENGER IS CARRIED.

OPERATING EXPENSES PER AVAILABLE SEAT MILE--REPRESENTS THE RESULT OF OPERATING EXPENSES DIVIDED BY AVAILABLE SEAT MILES.

DESCRIPTION OF THE DEBENTURES

The following description of the particular terms of the Debentures offered hereby (referred to in the accompanying Prospectus as the "Convertible Debt Securities") supplements and, to the extent inconsistent therewith, replaces the description of the general terms and provisions of the Convertible Debt Securities set forth in the accompanying Prospectus, to which description reference is hereby made. Capitalized terms used but not defined herein or in the accompanying Prospectus have the meanings given to them in the Indenture (as hereinafter defined) or the Supplemental Indenture (as hereinafter defined). Section references are to the Supplemental Indenture unless otherwise indicated.

GENERAL

The Debentures will constitute senior unsecured obligations of the Company limited to $115,000,000 aggregate principal amount, plus such additional amount not in excess of $17,250,000 as may be purchased by the Underwriters upon exercise of the over-allotment option. See "Underwriting" in this Prospectus Supplement. The Debentures will mature on June 15, 2005. The Debentures will constitute a series of Convertible Senior Debt Securities (as described in the accompanying Prospectus) and will be issued under an Indenture, dated as of June 27, 1995 (the "Indenture"), between the Company and Harris Trust and Savings Bank, as trustee (the "Trustee"), the terms of which are more fully described in the accompanying Prospectus, as supplemented by a Supplemental Indenture, dated as of June 27, 1995 (the "Supplemental Indenture"), between the Company and the Trustee. The Debentures will be issued only in fully registered form in denominations of $1,000 and integral multiples thereof. Principal, premium, if any, and interest on the Debentures will be payable at the corporate trust office of Bank of Montreal Trust Company in New York, New York.

Interest on the Debentures will accrue at the rate of 6 1/2% per annum and will be payable semiannually on June 15 and December 15 of each year, commencing December 15, 1995, to the holders of record of Debentures on the June 1 and December 1 next preceding such interest payment date. Interest on the Debentures will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the original date of issuance.

CONVERSION

The Debentures will be convertible at their principal amount or any portion thereof that is an integral multiple of $1,000 at any time prior to maturity, subject to prior redemption at the Company's option on or after June 15, 1998 or purchase by the Company at the holder's option in the event of any Change in Control (as hereinafter defined), into shares of Common Stock, at the conversion price set forth on the front cover page hereof, subject to adjustment as described below. The Company will 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, conversion rights will expire at the close of business on the business day immediately preceding the redemption date. Interest accrued shall not be paid on converted Debentures; PROVIDED, HOWEVER, that if any Debenture is called for redemption on June 15, 1998, and such Debenture is surrendered for conversion at any time during the 10 business days immediately preceding the date fixed for redemption, interest shall accrue on such Debenture through the date fixed for redemption 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. (Section 2.4.)

The conversion price is subject to adjustment in certain events, including (a) the subdivision, combination or reclassification of the Company's outstanding Common Stock, (b) the issuance by the Company of Common Stock as a dividend or distribution on the Common Stock, (c) 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 exercise price per share) less than the current market price (as defined in the Supplemental Indenture) of the Common Stock on the record date, and (d) 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 (c) and cash dividends or other cash distributions from consolidated current net earnings or earned surplus or dividends payable in Common Stock but including Extraordinary Cash Dividends). In the Supplemental Indenture, "current market price" is defined as 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 date in question. There will be no upward adjustment in the conversion price except in the event of a reverse stock split. No adjustment of the conversion price will be required to be made until the cumulative adjustments require an increase or decrease of at least 1% in the conversion price as last adjusted. (Section 2.4.)

Certain adjustments to the conversion price to reflect the Company's issuance of certain rights, warrants, evidences of indebtedness, securities or other assets to holders of Common Stock may result in constructive distributions taxable as dividends to U.S. holders of the Debentures. Similarly, if instead of adjusting the conversion price upon such issuance, the Company elects at such time to alter the consideration receivable by the holders of the Debentures upon conversion to include the assets such holders would have been entitled to if conversion had occurred prior to the record date for such issuance, the alteration may result in constructive distributions taxable as dividends to U.S. holders of the Debentures.

Subject to any applicable right of the holders upon a Change in Control, in case of any reclassification (excluding those referred to above), merger, consolidation, sale or conveyance by the Company of all or substantially all of the Company's assets as an entirety, 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) receivable 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 the transaction.

REDEMPTION

The Debentures will be redeemable, in whole or in part, at the Company's option on not less than 30, nor more than 60, days' prior notice to each holder of Debentures to be redeemed, at any time on or after June 15, 1998, at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest to the redemption date, if redeemed during the 12-month period beginning June 15 of the calendar years indicated:

YEAR	REDEMPTION PRICE
1998	104.333%
1999	103.611%
2000	102.889%
2001	102.167%
2002	101.444%
2003	100.722%

and, on or after June 15, 2004, at 100% of the principal amount. (Section 2.5.)

If less than all the Debentures are to be redeemed, the Trustee shall select the Debentures or portions thereof to be redeemed by any method the Trustee deems fair and appropriate. (Section 10.3 of the Indenture.) There is no sinking fund for the Debentures.

RANKING

The Debentures will constitute senior unsecured obligations of the Company and will rank PARI PASSU in right of payment to the Company's other senior unsecured indebtedness. As of the date hereof, the Company had no other senior unsecured indebtedness. The Company is a holding company and, accordingly, the Debentures will be effectively subordinated to all existing and future liabilities of the Company's operating subsidiaries, including Alaska Airlines and Horizon. As of March 31, 1995, the long-term debt and capital lease obligations of Alaska Airlines and of Horizon were $438.0 million and $3.6 million, respectively.

PURCHASE OF DEBENTURES UPON CHANGE IN CONTROL

In the event of any Change in Control, each holder will have the right, at the holder's option, subject to the terms and conditions of the Indenture, to require the Company to purchase all or any part (provided that the principal amount must be $1,000 or an integral multiple thereof) of the 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 (the "Change in Control Purchase Price") equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the Change in Control Purchase Date. (Section 2.6.)

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, which notice shall state, among other things: (a) the date of such Change in Control and, briefly, the events causing such Change in Control, (b) the last date on which the Change in Control Purchase Notice (as hereinafter defined) must be given, (c) the Change in Control Purchase Date, (d) the Change in Control Purchase Price, (e) the name and address of the Paying Agent and the Conversion Agent, (f) the conversion rate and any adjustments thereto, (g) 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, (h) the procedures that holders must follow to exercise these rights, (i) the procedure for withdrawing a Change in Control Purchase Notice, (j) that holders who want to convert Debentures must satisfy the procedural requirements set forth in paragraph 3 of the Debentures, and (k) briefly, the conversion rights of holders of the Debentures. (Section 2.6.)

To exercise the purchase right, the holder must deliver written notice of the exercise of such right (a "Change in Control Purchase Notice") to the Paying Agent or 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. (Section 2.6.) The Change in Control Purchase Notice shall state (a) the certificate numbers of the Debentures to be delivered by the holder thereof for purchase by the Company;

(b) the portion of the principal amount of Debentures to be purchased, which portion must be $1,000 or an integral multiple thereof; and (c) that such Debentures are to be purchased by the Company pursuant to the applicable provisions of the Debentures. (Section 2.6.)

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 mandated by the Company for such purpose prior to the close of business on the Change in Control Purchase Date. The notice of withdrawal shall state the principal amount and the certificate numbers of the Debentures as to which the withdrawal notice relates and the principal amount, if any, that remains subject to a Change in Control Purchase Notice. (Section 2.6.)

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 on delivery of such Debenture (together with the necessary endorsements) to the Paying Agent or an office or agency maintained by the Company for such purpose in the Borough of Manhattan, The City of New York, New York at any time (whether prior to, on or after the Change in Control Purchase Date) after the 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 and the time of delivery of such Debenture. If the Paying Agent holds, in accordance with the terms of the Supplemental Indenture, money sufficient to pay the Change in Control Purchase Price of such Debenture on the business day following the Change in Control Purchase Date, then, on and after the Change in Control Purchase Date, such Debenture will cease to be outstanding and interest on such Debenture will cease to accrue and will be deemed paid, whether or not such Debenture is delivered to the Paying Agent, and all other rights of the holder shall terminate (other than the right to receive the Change in Control Purchase Price upon delivery of such Debenture). (Section 2.6.)

Under the Supplemental Indenture, a "Change in Control" of the Company is deemed to have occurred at such time as (a) any "person" or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (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, (i) 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, (ii) acquires more than 50% of the Company's assets, or (iii) acquires more than 50% of the assets or Voting Stock of any subsidiary (A) the total assets of which exceed 50% of the consolidated total assets of the Company and its subsidiaries or (B) the operating income of which exceeded 50% of the average of the consolidated operating income of the Company and its subsidiaries for the Company's three most recently completed fiscal years, or (b) there shall be consummated any consolidation or merger of the Company (i) in which the Company is not the resulting or surviving corporation or (ii) 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. (Section 1.2.) The Supplemental Indenture does not permit the Company's Board of Directors to waive the Company's obligation to purchase Debentures at a holder's option in the event of a Change in Control of the Company. (Section 2.6.)

The Company shall comply with the provisions of Rule 13e-4 and any other tender offer rules under the Exchange Act that may then be applicable, and will file a Schedule 13E-4 or any other schedule required thereunder in connection with any offer by the Company to purchase Debentures at the option of the holders thereof upon a Change in Control. (Section 2.6.) The Change in Control purchase feature of the Debentures may in certain circumstances make more difficult or discourage a takeover of the Company and, thus, the removal of incumbent management.

If a Change in Control Offer is made, there can be no assurance that the Company would have funds sufficient to pay the Change in Control Purchase Price for all the Debentures that might be delivered by holders of Debentures seeking to exercise the purchase right. In addition, the Company's ability to purchase

Debentures with cash may be limited by the terms of its then existing borrowing arrangements. The Company's ability to purchase Debentures with cash may also be limited by the terms of its subsidiaries' then existing debt agreements due to dividend restrictions, since the Company's source of funds for any such purchase will be primarily from dividends and other payments from its subsidiaries. No Debentures may be purchased pursuant to the provisions described above if there has occurred and is continuing an Event of Default described under "--Certain Covenants and Events of Default" in this Prospectus Supplement (other than a default in the payment of the Change in Control Purchase Price with respect to such Debentures).

Notwithstanding the foregoing, the provisions described above with respect to a Change in Control will not prevent a takeover or recapitalization of the Company that would otherwise comply with the provisions described under "Description of Convertible Debt Securities--Consolidation, Merger or Sale by the Issuer" in the accompanying Prospectus.

DEFEASANCE

The provisions described under "Description of Convertible Debt Securities--Covenant Defeasance" in the accompanying Prospectus are not applicable to the Debentures.

CERTAIN COVENANTS AND EVENTS OF DEFAULT

The provisions of the Indenture that are described in the accompanying Prospectus under "Description of Convertible Debt Securities--General," "--Consolidation, Merger or Sale by the Issuer," "--Events of Default, Notice and Certain Rights on Default" and "--Payment, Registration, Transfer and Exchange" will apply to the Debentures. The provisions of the Indenture that are described in the accompanying Prospectus under "Description of Convertible Debt Securities--Modification of the Indentures" will also apply to the

Debentures; PROVIDED, HOWEVER, that no modification or amendment of the Indenture may, without the consent of the holder of each outstanding Debenture affected thereby, make any change (a) to the definition of the term "Change in Control" or (b) that adversely affects the right to convert, or the conversion price for, any Debenture.

THE TRUSTEE

Harris Trust and Savings Bank will be the Trustee under the Indenture for the Debentures. An affiliate of Harris Trust and Savings Bank serves as trustee with respect to the Company's 7 3/4% Convertible Subordinated Debentures due 2005-2010 and the Company's 7 1/4% zero coupon convertible subordinated notes due 2006.

UNDERWRITING

Subject to the terms and conditions set forth in a purchase agreement (the "Purchase Agreement") between the Company and the several underwriters listed below (the "Underwriters"), the Company has agreed to sell to the Underwriters, and the Underwriters have severally agreed to purchase from the Company, the respective principal amounts of the Debentures set forth opposite their names below. The Purchase Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will be obligated to purchase all the Debentures if any are purchased.

UNDERWRITER	PRINCIPAL AMOUNT
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$ 57,500,000
Goldman, Sachs & Co.	57,500,000
Total	$ 115,000,000

The Underwriters have advised the Company that they propose initially to offer the Debentures to the public at the public offering price set forth on the cover page of this Prospectus Supplement, and to certain dealers at such price less a concession not in excess of 1.5% of the principal amount of the Debentures. After the initial public offering, the public offering price and concession may be changed.

The Company has granted the Underwriters an option, exercisable for 30 days after the date of this Prospectus Supplement, to purchase up to an additional $17,250,000 principal amount of Debentures to cover over-allotments, if any, at the initial public offering price less the underwriting discount.

The Company has been advised by the Underwriters that the Underwriters presently intend to make a market in the Debentures offered hereby; however, they are not obligated to do so. Any market making may be discontinued at any time, and there can be no assurance that an active public market for the Debentures will develop.

The Company has agreed not to sell to any person other than the Underwriters any shares of Common Stock or securities convertible into or exchangeable or exercisable for Common Stock (other than (a) shares issuable upon conversion of the Debentures, (b) shares issuable upon the exercise or conversion of currently outstanding securities of the Company and (c) the grant of certain rights pursuant to employee benefit plans) without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated, on behalf of the Underwriters, for a period of 90 days after the date of this Prospectus Supplement.

The Company has agreed to indemnify the several Underwriters against certain liabilities, including civil liabilities under the Securities Act of 1933, as amended.

The Underwriters, from time to time, perform investment banking and other financial services for the Company and its subsidiaries, including Alaska Airlines and Horizon.

LEGAL OPINIONS

The validity of the Debentures offered hereby will be passed upon for Air Group by Perkins Coie, Seattle, Washington, and for the Underwriters by Shearman & Sterling, New York, New York.

EXPERTS

The consolidated financial statements and schedule of Air Group at December 31, 1994 and for each of the three years in the period ended December 31, 1994, incorporated by reference in this Prospectus Supplement and the related Registration Statement, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are incorporated herein and therein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

PROSPECTUS
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ALASKA AIR GROUP, INC.

CONVERTIBLE DEBT SECURITIES

Alaska Air Group, Inc. ("Air Group") may from time to time offer its convertible debt securities (the "Convertible Debt Securities"), consisting of debentures, notes and/or other evidences of indebtedness representing unsecured obligations of Air Group convertible into Common Stock, par value $1.00 per share ("Common Stock"). The Convertible Debt Securities offered pursuant to this Prospectus may be issued in one or more series or issuances and will be limited to $200,000,000 aggregate public offering price. Certain specific terms of the Convertible Debt Securities in respect of which this Prospectus is being delivered are set forth in the accompanying Prospectus Supplement (the "Prospectus Supplement"), including, where applicable, the specific designation, aggregate principal amount, the denomination, maturity, premium, if any, the rate (which may be fixed or variable), time and method of calculating payment of interest, if any, the place or places where principal of, premium, if any, and interest, if any, on such Convertible Debt Securities will be payable, any terms of redemption at the option of Air Group or the holder, any sinking fund provisions, terms for conversion into Common Stock, the initial public offering price and other special terms. The Prospectus Supplement will indicate whether the Convertible Debt Securities will be Convertible Senior Debt Securities, which will rank equally with all other unsubordinated and unsecured indebtedness of Air Group, or as Convertible Subordinated Debt Securities which will be subordinated in right of payment to all Senior Indebtedness of Air Group (as hereinafter defined). See "Description of Convertible Debt Securities--Subordination of Convertible Subordinated Debt Securities."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Air Group may sell the Convertible Debt Securities to or through underwriters, through dealers or agents or directly to purchasers. See "Plan of Distribution." The accompanying Prospectus Supplement sets forth the names of any underwriters, dealers or agents involved in the sale of the Convertible Debt Securities in respect of which this Prospectus is being delivered, and any applicable fee, commission or discount arrangements with them.

This Prospectus may not be used to consummate sales of Convertible Debt Securities unless accompanied by a Prospectus Supplement applicable to the Convertible Debt Securities being sold.

THE DATE OF THIS PROSPECTUS IS MARCH 23, 1994.

No dealer, salesperson or other individual has been authorized to give any information or to make any representations not contained in this Prospectus in connection with the offering covered by this Prospectus. If given or made, such information or representations must not be relied upon as having been authorized by Air Group or the Underwriter. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, the Convertible Debt Securities in any jurisdiction where, or to any person to whom, it is unlawful to make such offer or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create an implication that there has not been any change in the facts set forth in this Prospectus or in the affairs of Air Group since the date hereof.

AVAILABLE INFORMATION

Air Group is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and, in accordance therewith, files reports and other information with the Securities and Exchange Commission (the "Commission"). Such reports and other information may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549; 75 Park Place, 14th Floor, New York, New York 10007; and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material may also be obtained at prescribed rates from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. In addition, such material filed by Air Group may be inspected and copied at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

This Prospectus constitutes a part of a registration statement on Form S-3 (together with all amendments and exhibits, the "Registration Statement") filed by Air Group and Alaska Airlines, Inc. ("Alaska") with the Commission under the Securities Act of 1933, as amended (the "Securities Act"). This Prospectus does not contain all of the information included in the Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the Commission. Statements contained herein concerning the provisions of any document do not purport to be complete and, in each instance, reference is made to the copy of such document filed as an exhibit to the Registration Statement or otherwise filed with the Commission. Each such statement is subject to and qualified in its entirety by such reference. Reference is made to such Registration Statement and to the exhibits relating thereto for further information with respect to Air Group and the Convertible Debt Securities offered hereby.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents have been filed with the Commission pursuant to the 1934 Act and are incorporated into this Prospectus by reference and made a part hereof: Air Group's Annual Report on Form 10-K for the fiscal year ended December 31, 1993.

All documents filed by Air Group pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this Prospectus, and to be a part hereof from the date of filing of such documents. Any statement incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Air Group will provide without charge to each person to whom a copy of this Prospectus is delivered, upon the written or oral request of such person, a copy of any document incorporated by reference in this Prospectus (other than exhibits to such documents unless such exhibits are specifically incorporated by reference to such documents). Requests for such copies should be directed to the office of the Corporate Secretary, Alaska Air Group, Inc., P.O. Box 68947, Seattle, Washington 98168 (telephone (206) 433-3131).

AIR GROUP AND ALASKA

Air Group is a holding company whose principal subsidiary is Alaska. Alaska accounted for approximately 80% of Air Group's consolidated 1993 operating revenues and 91% of its total assets at December 31, 1993. Alaska's all jet fleet provides scheduled air transportation to 37 airports in six states (Alaska, Washington, Oregon, California, Nevada and Arizona), five cities in Mexico and three cities in Russia. Air Group also owns Horizon Air Industries, Inc. ("Horizon"), a regional airline operating in the Pacific Northwest and western Canada. The principal executive offices of Air Group are located at 19300 Pacific Highway South, Seattle, Washington 98188 (telephone (206) 433-3200).

In 1993 Alaska carried 6.4 million passengers. In each year since 1973, Alaska has carried more passengers between Alaska and the U.S. mainland than any other airline. Passenger traffic in the intra-Alaska markets and between Alaska and the U.S. mainland accounted for 29% of Alaska's total revenue passenger miles during 1993, while west coast traffic accounted for 59% and the Mexico markets 12%. Based on passenger enplanements, Alaska's leading airports are Seattle, Portland, Anchorage and Los Angeles. Based on revenues, the leading nonstop routes were Seattle-Anchorage, Seattle-Los Angeles and Seattle-San Francisco. Alaska's operating fleet at December 31, 1993 consisted of 66 jet aircraft.

USE OF PROCEEDS

Unless otherwise indicated in the accompanying Prospectus Supplement, the net proceeds to Air Group from the sale of the Convertible Debt Securities offered hereby will be added to the working capital of Air Group and will be available for general corporate purposes, among which may be the repayment of outstanding indebtedness and financing of capital expenditures by Alaska and Horizon, including the acquisition of aircraft and related equipment.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the ratio of earnings to fixed charges for Air Group for the periods indicated. Earnings represents earnings before accounting change, income tax expense and fixed charges (excluding interest capitalized). Fixed charges consist of interest and the portion of rental expense deemed representative of the interest factor.

	YEAR ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
Ratio..	(a)	(a)	1.10	1.32	2.30

<FN>
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(a) For the years ended December 31, 1993 and 1992, Air Group's earnings were inadequate to cover fixed charges by $46.3 million and $131.8 million, respectively.

DESCRIPTION OF CONVERTIBLE DEBT SECURITIES

The Convertible Senior Debt Securities are to be issued under an Indenture between Air Group and a Trustee (the "Convertible Senior Debt Indenture"). The Convertible Subordinated Debt Securities are to be issued under an Indenture between Air Group and a Trustee (the "Convertible Subordinated Debt Indenture"). The Convertible Senior Debt Securities Indenture and the Convertible Subordinated Debt Securities Indenture are referred to herein individually as the "Indenture" and collectively as the "Indentures." A copy of each Indenture is filed as an exhibit to the Registration Statement. Information regarding the Trustee will be set forth in the applicable Prospectus Supplement.

The Convertible Debt Securities offered pursuant to this Prospectus will be limited to $200,000,000 aggregate principal amount (or such greater amount, if Convertible Debt Securities are issued at an original issue discount, as shall result in aggregate proceeds of $200,000,000 to Air Group). The statements herein relating to the Convertible Debt Securities and the Indentures are summaries and are subject to the detailed provisions of the Indentures. The following summaries of certain provisions of the Indentures do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all the provisions of the

Indentures, including the definitions therein of certain terms capitalized in this Prospectus. Whenever particular Sections or defined terms of the Indentures are referred to herein or in a Prospectus Supplement, such Sections or defined terms are incorporated herein or therein by reference.

GENERAL

The Indentures do not limit the aggregate principal amount of Convertible Debt Securities which may be issued thereunder and provide that Convertible Debt Securities may be issued from time to time in one or more series. The Convertible Senior Debt Securities will be unsecured and unsubordinated obligations of Air Group and will rank on a parity with all other unsecured and unsubordinated indebtedness of Air Group. The Convertible Subordinated Debt Securities will be unsecured obligations of Air Group and, as set forth below under "Subordination of Convertible Debt Securities," will be subordinated in right of payment to all Senior Indebtedness. The Indenture does not limit Air Group's right to incur additional Senior Indebtedness. As of December 31, 1993, Senior Indebtedness of Air Group on a consolidated basis aggregated approximately $308,700,000.

Reference is made to the Prospectus Supplement which accompanies this Prospectus for a description of the specific series of Convertible Debt Securities being offered thereby, including: (1) the specific designation of such Convertible Debt Securities; (2) any limit upon the aggregate principal amount of such Convertible Debt Securities; (3) the date or dates on which the principal of such Convertible Debt Securities will mature or the method of determining such date or dates; (4) the rate or rates (which may be fixed or variable) at which such Convertible Debt Securities will bear interest, if any, or the method of calculating such rate or rates; (5) the date or dates from which interest, if any, will accrue or the method by which such date or dates will be determined; (6) the date or dates on which interest, if any, will be payable and the record date or dates therefor; (7) the place or places where principal of, premium, if any, and interest, if any, on such Convertible Debt Securities will be payable; (8) the period or periods within which, the price or prices at which, and the terms and conditions upon which, such Convertible Debt Securities may be redeemed, in whole or in part, at the option of Air Group; (9) the obligation, if any, of Air Group to redeem or purchase such Convertible Debt Securities pursuant to any sinking fund or analogous provisions, upon the happening of a specified event or at the option of a holder thereof and the period or periods within which, the price or prices at which and the terms and conditions upon which, such Convertible Debt Securities shall be redeemed or purchased, in whole or in part, pursuant to such obligations; (10) the denominations in which such Convertible Debt Securities are authorized to be issued; (11) the terms and conditions upon which conversion will be effected, including the conversion price, the conversion period and other conversion provisions in addition to or in lieu of those described below; (12) if other than the principal amount thereof, the portion of the principal amount of such Convertible Debt Securities which will be payable upon declaration of the acceleration of the maturity thereof or the method by which such portion shall be determined; (13) the person to whom any interest on any such Convertible Debt Security shall be payable if other than the person in whose name such Convertible Debt Security is registered on the applicable record date; (14) any addition to, or modification or deletion of, any Event of Default (as hereinafter defined) or any covenant of Air Group specified in the Indenture with respect to such Convertible Debt Securities; (15) the application, if any, of such means of covenant defeasance as may be specified for such Convertible Debt Securities; (16) if applicable, provisions related to the issuance of Convertible Debt Securities in book entry form; (17) any addition to, or modification or deletion of, any provision of the Indenture related to the subordination of such Convertible Debt Securities; and (18) any other special terms pertaining to such Convertible Debt Securities. Unless otherwise specified in the applicable Prospectus Supplement, the Convertible Debt Securities will not be listed on any securities exchange. (Section 3.1 of the Indentures.)

Unless otherwise specified in the applicable Prospectus Supplement, Convertible Debt Securities will be issued in fully registered form without coupons. Where Convertible Debt Securities of any series are issued in bearer form, the special restrictions and considerations, including special offering restrictions and special federal income tax considerations, applicable to any such Convertible Debt Securities and to payment on and transfer and exchange of such Convertible Debt Securities will be described in the applicable Prospectus Supplement.

Convertible Debt Securities may be sold at a substantial discount below their stated principal amount, bearing no interest or interest at a rate which at the time of issuance is below market rates. Certain federal income tax consequences and special considerations applicable to any such Convertible Debt Securities will be described in the applicable Prospectus Supplement.

The general provisions of the Indentures do not afford holders of the Convertible Debt Securities protection in the event of a highly leveraged or other transaction involving Air Group or Alaska that may adversely affect holders of Convertible Debt Securities. Any covenants or other provisions included in a supplement or amendment to any Indenture for the benefit of the holders of any particular series of Convertible Debt Securities will be described in the applicable Prospectus Supplement.

PAYMENT, REGISTRATION, TRANSFER AND EXCHANGE

Unless otherwise provided in the applicable Prospectus Supplement, payments in respect of the Convertible Debt Securities will be made at the office or agency of Air Group maintained for that purpose, as Air Group may designate from time to time, except that, at the option of Air Group, interest payments, if any, on Convertible Debt Securities in registered form may be made by (i) checks mailed by the Trustee to the holders of Convertible Debt Securities entitled thereto at their registered addresses or (ii) wire transfer to an account maintained by the Person entitled thereto as specified in the Register. (Sections 3.7 and 9.2 of the Indentures.) Unless otherwise indicated in an applicable Prospectus Supplement, payment of any installment of interest on Convertible Debt Securities in registered form will be made to the Person in whose name such Convertible Debt Security is registered at the close of business on the regular record date for such interest. (Section 3.7 of the Indentures.)

Unless otherwise provided in the applicable Prospectus Supplement, Convertible Debt Securities in registered form will be transferable or exchangeable at the agency of Air Group maintained for such purpose as designated by Air Group from time to time. (Sections 3.5 and 9.2 of the Indentures.) Convertible Debt Securities may be transferred or exchanged without service change, other than any tax or other governmental charge imposed in connection therewith. (Section 3.5 of the Indentures.)

CONVERSION RIGHTS

The terms on which Convertible Debt Securities of any series are convertible into Common Stock will be set forth in the Prospectus Supplement relating thereto. Such terms shall include provisions as to whether conversion is mandatory, at the option of the holder, or at the option of Air Group, and may include provisions in which the number of shares of Common Stock to be received by the holders of Convertible Debt Securities would be calculated according to the market price of Common Stock as of a time stated in the Prospectus Supplement.

SUBORDINATION OF CONVERTIBLE SUBORDINATED DEBT SECURITIES

Unless otherwise provided in the applicable Prospectus Supplement, the obligation of Air Group to make payment on account of the principal of, and premium, if any, and interest on Convertible Subordinated Debt Securities will be subordinated and junior in right of payment, as set forth in the Convertible Subordinated Debt Securities Indenture and described below, to the prior payment in full of all Senior Indebtedness.

"Senior Indebtedness" means all Indebtedness of Air Group unless such Indebtedness, by its terms or the terms of the instrument creating or evidencing it, is subordinate in right of payment to or PARI PASSU with the Convertible Subordinated Debt Securities. (Section 1.1 of the Convertible Subordinated Debt Securities Indenture.) Air Group's 7 1/4% Convertible Subordinated Notes Due 2006, 7 3/4% Convertible Subordinated Debentures Due 2010 and 6 7/8% Convertible Subordinated Debentures Due 2014 do not constitute Senior Indebtedness. "Indebtedness," when used with respect to Air Group, means, without duplication, the principal of, and premium, if any, and accrued and unpaid interest (including post-petition interest) on (i) indebtedness of Air Group for money borrowed, (ii) Indebtedness guarantees by Air Group of indebtedness for money borrowed by any other person, (iii) indebtedness of Air Group evidenced by notes, debentures, bonds or other instruments of indebtedness for payment of which Air Group is responsible or liable, by Indebtedness guarantees or otherwise, (iv) obligations for the reimbursement of any obligor on any letter of

credit, bankers' acceptance or similar credit transaction, (v) obligations of Air Group under Capital Leases and Flight Equipment leases, (vi) obligations under interest rate and currency swaps, caps, collars, options, forward or spot contracts or similar arrangements or with respect to foreign currency hedges, and (vii) commitment and other bank financing fees under contractual obligations associated with bank debt; PROVIDED, HOWEVER, that Indebtedness shall not include amounts owed to trade creditors in the ordinary course of business. (Section 1.1 of the Convertible Subordinated Debt Securities Indenture.)

No payment on account of principal of, or premium, if any, or interest on, the Convertible Subordinated Debt Securities may be made if (i) any Senior Indebtedness is not paid when due or (ii) the maturity of any Senior Indebtedness is accelerated unless, in either case, (a) such failure to pay or acceleration relates to such Senior Indebtedness in an aggregate amount equal to less than $25 million, (b) the default has been cured or waived or has ceased to exist, (c) such acceleration has been rescinded, or (d) such Senior Indebtedness has been paid in full. During the continuance of any default (other than a default described in the preceding sentence) on Senior Indebtedness pursuant to which the maturity thereof may be accelerated immediately (I.E., without further notice and after the expiration of any applicable grace periods) and upon notice by holders of at least $25 million of Senior Indebtedness to Air Group and the Trustee (a "Payment Notice"), Air Group may not make any payments (a "Payment Block") on the Convertible Subordinated Debt Securities until 120 days have elapsed following the receipt of such Payment Notice. After 120 days Air Group may resume payment on the Convertible Subordinate Debt Securities unless payment is prohibited by the first sentence of this paragraph. No more than one Payment Notice is permitted for any one default on Senior Indebtedness (which shall not bar subsequent Payment Notices for other such defaults). All events of default on Senior Indebtedness occurring within a 30-day period shall be treated as one event of default on such Senior Indebtedness for purposes of the preceding sentence. No more than two Payment Blocks are permitted within any 12-month period. Except as provided in the next paragraph, a failure to make any payment with respect to the Convertible Subordinated Debt Securities as a result of the foregoing provisions will not limit the right of the holders of the Convertible Subordinated Debt Securities to accelerate the maturity thereof as a result of such payment default. (Section 13.2 of the Convertible Subordinated Debt

Securities Indenture.)

Upon any distribution of the assets of Air Group upon any dissolution, total or partial liquidation or reorganization of or similar proceeding relating to Air Group, the holders of Senior Indebtedness will be entitled to receive payment in full before the holders of the Convertible Subordinated Debt Securities are entitled to receive any payment. Upon any Event of Default with respect to the Convertible Subordinated Debt Securities, the Trustee or holders of 25% of the Convertible Subordinated Debt Securities must give notice of such Event of Default and the intention to accelerate to Air Group and any other holders of Senior Indebtedness which have theretofore requested such notice, and such acceleration shall not become effective unless and until such Event of Default is continuing on the 60th day after the date of delivery of such notice of intention to accelerate; PROVIDED, HOWEVER, that the Convertible Subordinated Debt Securities shall become immediately due and payable upon notice in the event of a bankruptcy or insolvency of Air Group. (Section 13.3 of the Convertible Subordinated Debt Securities Indenture.) By reason of such subordination, in the event of insolvency, creditors of Air Group who are holders of Senior Indebtedness or of other unsubordinated Indebtedness of Air Group may recover more, ratably, than the holders of the Convertible Subordinated Debt Securities.

CONSOLIDATION, MERGER OR SALE BY THE ISSUER

The Indentures provides that Air Group may, without the consent of the holders of Convertible Debt Securities, merge or consolidate with or into any other corporation or sell, convey, transfer or otherwise dispose of all or substantially all of its assets to any person, firm or corporation, if (i) (a) in the case of a merger or consolidation, Air Group is the surviving corporation or (b) in the case of a merger or consolidation where Air Group is not the surviving corporation and in the case of such a sale, conveyance or other disposition, the successor or acquiring corporation is a corporation organized and existing under the laws of the United States of America or a State thereof and such corporation expressly assumes by supplemental indenture all the obligations of Air Group under the Convertible Debt Securities and any coupons appertaining thereto and under the Indentures, and (ii) immediately after giving effect to such merger or

consolidation, or such sale, conveyance, transfer or other disposition, no Default (as hereinafter defined) or Event of Default shall have occurred and be continuing. In the event a successor corporation assumes the obligations of Air Group, such successor corporation shall succeed to and be substituted for Air Group under the Indentures and under the Convertible Debt Securities and any coupons appertaining thereto and all obligations of Air Group shall terminate. (Section 7.1 of the Indentures.)

EVENTS OF DEFAULT, NOTICE AND CERTAIN RIGHTS ON DEFAULT

The Indentures provide that, if an Event of Default specified therein occurs with respect to the Convertible Debt Securities of any series issued thereunder and is continuing, the Trustee for such series or the holders of 25% in aggregate principal amount of all of the outstanding Convertible Debt Securities of that series, by written notice to Air Group (and to the Trustee for such series, if notice is given by such holders of Convertible Debt Securities), may declare the principal (or, if the Convertible Debt Securities of that series are original issue discount Convertible Debt Securities or indexed Convertible Debt Securities, such portion of the principal amount specified in the Prospectus Supplement) of all the Convertible Debt Securities of that series to be due and payable, subject in the case of Convertible Subordinated Debt Securities to the 60 day prior notice requirement described above under "Subordination of Convertible Subordinated Debt Securities," PROVIDED that Convertible Debt Securities shall become immediately due and payable without prior notice upon a bankruptcy or insolvency of Air Group. (Section 5.2 of the Indentures.)

"Events of Default" with respect to Convertible Debt Securities of any series issued thereunder are defined in the Indentures as being: default for 30 days in payment of any interest on any Convertible Debt Security of that series or any coupon appertaining thereto or any additional amount payable with respect to Convertible Debt Securities of such series as specified in the applicable Prospectus Supplement when due; default for ten days in payment of principal, premium, if any, or on redemption or otherwise, or in the making of a mandatory sinking fund payment of any Convertible Debt Securities of that series when due; default for 60 days after notice to Air Group by the Trustee for such series, or by the holders of 25% in aggregate principal amount of the Convertible Debt Securities of such series then outstanding, in the performance of any other agreement in the Convertible Debt Securities of that series, in the Indentures or in any supplemental indenture or board resolution referred to therein under which the Convertible Debt Securities of that series may have been issued; default resulting in acceleration of other indebtedness of Air Group for borrowed money where the aggregate principal amount so accelerated exceeds $25 million and such acceleration is not rescinded or annulled within ten days after the written notice thereof to Air Group by the Trustee or to Air Group and the Trustee by the holders of 25% in aggregate principal amount of the Convertible Debt Securities of such series then outstanding, PROVIDED that such Event of Default will be cured or waived if the default that resulted in the acceleration of such other indebtedness is cured or waived; and certain events of bankruptcy, insolvency or reorganization of Air Group. (Section 5.1 of the Indentures.) Events of Default with respect to a specified series of Convertible Debt Securities may be added to the Indenture under which the series is issued and, if so added, will be described in the applicable Prospectus Supplement. (Sections 3.1 and 5.1(7) of the Indentures.)

The Indentures provide that the Trustee for any series of Convertible Debt Securities shall, within 90 days after the occurrence of a Default with respect to Convertible Debt Securities of that series, give to the holder of the Convertible Debt Securities of that series notice of all uncured Defaults known to it, PROVIDED that, except in the case of default in payment on the Convertible Debt Securities of that series, the Trustee may withhold the notice if and so long as a committee of its Responsible Officers (as described therein) in good faith determines that withholding such notice is in the interest of the holders of the Convertible Debt Securities of that series. (Section 6.6 of the Indentures.) "Default" means any event which is, or, after notice or passage of time or both, would be, an Event of Default. (Section 1.1 of the Indentures.)

The Indentures provide that the holders of a majority in aggregate principal amount of the Convertible Debt Securities of each series affected (with each such series voting as a class) may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee for such series, or exercising any trust or power conferred on such Trustee. (Section 5.8 of the Indentures.)

The Indenture includes a covenant that Air Group will file annually with the Trustee a certificate as to Air Group's compliance with all conditions and covenants of the applicable Indenture. (Section 9.7 of the Indentures.)

The holders of a majority in aggregate principal amount of any series of Convertible Debt Securities by notice to the Trustee for such series may waive, on behalf of the holders of all Convertible Debt Securities of such series, any past Default or Event of Default with respect to that series and its consequences except a Default or Event of Default in the payment of the principal of, premium, if any, or interest, if any, on any Convertible Debt Security and certain other defaults. (Section 5.7 of the Indentures.)

MODIFICATION OF THE INDENTURES

The Indenture contains provisions permitting Air Group and the Trustee to enter into one or more supplemental indentures without the consent of the holders of any of the Convertible Debt Securities in order (i) to evidence the succession of another corporation to Air Group and the assumption of the covenants of Air Group by a successor to Air Group; (ii) to add to the covenants of Air Group or surrender any right or power of Air Group; (iii) to add additional Events of Default with respect to any series; (iv) to add or change any provisions to such extent as necessary to permit or facilitate the issuance of Convertible Debt Securities in bearer form; (v) to add to, change or eliminate any provision affecting Convertible Debt Securities not yet issued; (vi) to secure the Convertible Debt Securities; (vii) to establish the form or terms of Convertible Debt Securities; (viii) to evidence and provide for successor Trustees; (ix) if allowed without penalty under applicable laws and regulations, to permit payment in respect of Convertible Debt Securities in bearer form in the United States; (x) to correct or supplement any inconsistent provisions or to make any other provisions with respect to matters or questions arising under the Indentures, PROVIDED that such action does not adversely affect the interests of any holder of Convertible Debt Securities of any series issued under such Indentures; or (xi) to cure any ambiguity or correct any mistake. (Section 8.1 of the Indentures.)

The Indenture also contains provisions permitting Air Group and the Trustee, with the consent of the holders of a majority in aggregate principal amount of the outstanding Convertible Debt Securities of each series affected by such supplemental indenture, to execute supplemental indentures adding any provisions to or changing or eliminating any of the provisions of the Indenture or any supplemental indenture or modifying the rights of the holders of Convertible Debt Securities of such series, except that no such supplemental Indenture may, without the consent of the holder of each Convertible Debt Security so affected; (i) change the time for payment of principal or interest on any Convertible Debt Security; (ii) reduce the principal of, or any installment of principal of, or interest on any Convertible Debt Security; (iii) reduce the amount of premium, if any, payable upon the redemption of any Convertible Debt Security; (iv) reduce the amount of principal payable upon acceleration of the maturity of an Original Issue Discount Convertible Debt Security; (v) impair the right to institute suit for the enforcement of any payment on or with respect to any Convertible Debt Security; (vi) reduce the percentage in principal amount of the outstanding Convertible Debt Securities of any series the consent of whose holders is required for modification or amendment of the Indenture or for waiver of compliance with certain provisions of the Indentures or for waiver of certain defaults; (vii) change the obligation of Air Group to maintain an office or agency in the places and for the purposes specified in the Indentures; or (viii) modify the provisions relating to waiver of certain defaults or any of the foregoing provisions. (Section 8.2 of the Indentures.)

COVENANT DEFEASANCE

If indicated in the Prospectus Supplement, Air Group may elect to be released from its obligations with respect to certain covenants applicable to the Convertible Debt Securities of or within any series ("covenant defeasance"), upon the deposit with the Trustee for such series (or other qualifying trustee), in trust for such purpose, of money and/or Government Obligations which through the payment of principal and interest in accordance with their terms will provide money in the amount sufficient to pay the principal of and any premium or interest on such Convertible Debt Securities to Maturity or redemption, as the case may be, and any mandatory sinking fund or analogous payment thereon. Upon the occurrence of a covenant defeasance, Air Group will be released only from its obligations to comply with certain covenants contained in the

Indenture relating to such Convertible Debt Securities, will continue to be obligated in all other respects under such Convertible Debt Securities and will continue to be contingently liable with respect to the payment of principal, interest, if any, and premium, if any, with respect to such Convertible Debt Securities.

Unless otherwise specified in the applicable Prospectus Supplement and except as described below, the conditions to covenant defeasance are as follows: (i) such covenant defeasance must not result in a breach or violation of, or constitute a Default or Event of Default under, the Indentures, or result in a breach or violation of, or constitute a default under, any other material agreement or instrument of Air Group; (ii) certain bankruptcy related Defaults or Events of Default with respect to Air Group must not have occurred and be continuing during the period commencing on the date of the deposit of the trust funds to covenant defease such Convertible Debt Securities and ending on the 91st day after such date; (iii) Air Group must deliver to the Trustee an Opinion of Counsel to the effect that the holders of such Convertible Debt Securities will not recognize income, gain or loss for federal income tax purposes as a result of such covenant defeasance and will be subject to federal income tax on the same amounts and in the same manner and at all the same times as would have been the case if such covenant defeasance had not occurred; (iv) Air Group must deliver to the Trustee an Officers' Certificate and an Opinion of Counsel with respect to compliance with the conditions precedent to such covenant defeasance; and (v) any additional conditions to such covenant defeasance which may be imposed on Air Group pursuant to the Indentures. (Article 4 of the Indentures.) The Indenture requires that a nationally recognized firm of independent public accountants deliver to the Trustee a written certification as to the sufficiency of the trust funds deposited for the covenant defeasance of such Convertible Debt Securities. The Indenture does not provide the holders of such Convertible Debt Securities with recourse against such firm. As described above, in the event of a covenant defeasance, Air Group remains contingently liable with respect to the payment of principal, interest, if any, and premium, if any, with respect to the Convertible Debt Securities.

If Air Group exercises its covenant defeasance option, payment of such

Convertible Debt Securities may not be accelerated by reason of a Default or an Event of Default with respect to the covenants to which such covenant defeasance is applicable. However, if such acceleration were to occur, the realizable value at the acceleration date of the money and Government Obligations in the defeasance trust could be less than the principal and interest then due on such Convertible Debt Securities, in that the required deposit in the defeasance trust is based upon scheduled cash flow rather than market value, which will vary depending upon interest rates and other factors.

DESCRIPTION OF CAPITAL STOCK

Air Group is authorized to issue 30,000,000 shares of Common Stock, $1.00 par value, and 5,000,000 shares of preferred stock.

VOTING RIGHTS. Each holder of Common Stock is entitled to one vote per share on all matters submitted to a vote of such class. Holders of Common Stock do not have cumulative rights. The Board of Directors is classified into three classes, with three or four Directors elected each year to three-year terms. A vote of three-fourths of the shares present at a meeting is required to elect each nominee as a Director and to approve any other matter brought before the stockholders for a vote.

DIVIDEND RIGHTS. Holders of Common Stock share ratably in dividends that may be declared by the Board of Directors out of funds legally available therefor.

LIQUIDATION RIGHTS. Upon any liquidation of Air Group, the holders of Common Stock are entitled to share ratably in the net assets of Air Group available for distribution on the Common Stock.

OTHER. The Common Stock has no preemptive or conversion rights and there are no redemption provisions applicable thereto. The Common Stock is listed on the New York Stock Exchange and the Pacific Stock Exchange. The registrar and transfer agent for the Common Stock is The First National Bank of Boston.

POTENTIAL RIGHTS OF PREFERRED STOCK. Under Air Group's Certificate of Incorporation, the Board of Directors has authority to issue up to 5,000,000 shares of preferred stock. Such shares would have such

voting, dividend, liquidation, conversion, redemption and other rights as may be determined by the Board of Directors, subject to the provisions of the Certificate of Incorporation. Shares of Common Stock would be subject to the preferences, rights and powers of any such shares of preferred stock as set forth in Air Group's Certificate of Incorporation and in the resolutions establishing one or more series of preferred stock. No preferred stock was outstanding at the date of this Prospectus.

CERTAIN OTHER PROVISIONS. Air Group's Certificate of Incorporation contains certain provisions sometimes referred to as "anti-takeover" provisions. In the event that Air Group at any time has a stockholder who is a beneficial owner of more than 15% of the voting power of Air Group, these provisions would require the affirmative vote of the holders of not less than 80% of the outstanding shares of voting stock to approve a consolidation or merger of Air Group with any other corporation, the conveyance to any corporation or other person or any other disposition of all or substantially all of Air Group's assets, or the disposition by Air Group of all or substantially all of the stock or assets of any major subsidiary; provided, however, that this 80% voting requirement does not apply to a transaction which is approved by 80% of the disinterested members of the Board of Directors.

Air Group is party to a Rights Agreement designed to deter partial and two-tier tender offers, stock accumulation programs and other coercive tactics that might be used to gain control without giving the Board of Directors the opportunity to negotiate on behalf of the stockholders. In accordance with the Rights Agreement, one right is attached to each share of outstanding Common Stock. A holder of a right may, under certain circumstances, purchase at a discount from market value either shares of a special class of voting preferred stock of Air Group or shares of capital stock of a corporate entity attempting to acquire Air Group or surviving a merger or consolidation with Air Group.

PLAN OF DISTRIBUTION

Air Group may sell Convertible Debt Securities to one or more underwriters for public offering and sale by them or may sell Convertible Debt Securities to investors or other persons directly or through agents. Any such underwriter or agent involved in the offer and sale of the Convertible Debt Securities will be named in an applicable Prospectus Supplement.

Underwriters may offer and sell the Convertible Debt Securities at a fixed price or prices, which may be changed, or at prices related to prevailing market prices or at negotiated prices. Air Group also may, from time to time, authorize underwriters acting as Air Group's agents to offer and sell the Convertible Debt Securities upon the terms and conditions as shall be set forth in any Prospectus Supplement. In connection with the sale of Convertible Debt Securities, underwriters may be deemed to have received compensation from Air Group in the form of underwriting discounts or commission and may also receive commissions from purchasers of Convertible Debt Securities for whom they may act as agent. Underwriters may sell Convertible Debt Securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions (which may be changed from time to time) from the purchasers for whom they may act as agent.

Any underwriting compensation paid by Air Group to underwriters or agents in connection with the offering of Convertible Debt Securities, and any discounts, concessions or commissions allowed by underwriters to participating dealers, will be set forth in an applicable Prospectus Supplement. Underwriters, dealers and agents participating in the distribution of the Convertible Debt Securities may be deemed to be underwriters, and any discounts and commissions received by them and any profit realized by them on resale of the Convertible Debt Securities may be deemed to be underwriting discounts and commissions under the Securities Act. Underwriters, dealers and agents may be entitled, under agreements with Air Group, to indemnification against and contribution toward certain civil liabilities, including liabilities under the Securities Act, and to reimbursement by Air Group for certain expenses.

Underwriters, dealers and agents may engage in transactions with, or perform services for, Air Group and its subsidiaries in the ordinary course of business.

LEGAL OPINIONS

Unless otherwise indicated in the applicable Prospectus Supplement, the validity of the Convertible Debt Securities offered hereby will be passed upon for Air Group by Perkins Coie, Seattle, Washington.

EXPERTS

The financial statements and schedules of Air Group incorporated by reference in this Prospectus and in the Registration Statement have been audited by Arthur Andersen & Co., independent public accountants, as indicated in their reports with respect thereto, and are incorporated herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

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NO DEALER, SALESPERSON OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. NEITHER THE DELIVERY OF THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS NOR ANY SALE MADE HEREUNDER AND THEREUNDER SHALL UNDER ANY CIRCUMSTANCE CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF. THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS DO NOT CONSTITUTE AN OFFER OR SOLICITATION BY ANYONE IN ANY STATE IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANYONE TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

$115,000,000

[LOGO]

6 1/2% CONVERTIBLE SENIOR
DEBENTURES DUE 2005

PROSPECTUS SUPPLEMENT

MERRILL LYNCH & CO.
GOLDMAN, SACHS & CO.

JUNE 21, 1995