

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from to

Commission File Number 1-8957

ALASKA AIR GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

91-1292054

(State or other jurisdiction of incorporation or organization) (I.R.S.
Employer Identification No.)

19300 Pacific Highway South, Seattle, Washington 98188

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (206) 431-7040

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$1.00 Par Value	New York Stock Exchange
Rights to Purchase Series A Participating Preferred Stock	New York Stock Exchange
7-3/4% Convertible Subordinated Debentures Due 2010	Unlisted
6-7/8% Convertible Subordinated Debentures Due 2014	New York Stock Exchange
7-1/4% Convertible Subordinated Notes Due 2006	New York Stock Exchange
10.21% Series B Cumulative Redeemable Preferred Stock Due 1997	Unlisted

As of December 31, 1994, common shares outstanding totaled 13,400,090. The aggregate market value of the common shares of Alaska Air Group, Inc. held by nonaffiliates, 13,213,789 shares, was approximately \$198 million (based on the closing price of these shares, \$15.00, on the New York Stock Exchange on such date).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ()

DOCUMENTS TO BE INCORPORATED BY REFERENCE

Title of Document	Part Hereof Into Which Document to be Incorporated
Definitive Proxy Statement Relating to 1995 Annual Meeting of Shareholders	Part III

Exhibit Index begins on page 33.

PART I

ITEM 1.BUSINESS

General

Alaska Air Group, Inc. (Air Group or the Company) is a holding company incorporated in Delaware in 1985. Its two principal subsidiaries are Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon). Both subsidiaries operate as airlines. However, each subsidiary's business plan, competition and economic risks differ substantially. Alaska is a major airline, operates an all jet fleet, and its average passenger trip length is 850 miles. Horizon is a regional airline, operates jet and turboprop aircraft, and its average passenger trip is 210 miles. Business segment information is reported in the Notes to Consolidated Financial Statements. The Company's executive offices are located at 19300 Pacific Highway South, Seattle, Washington 98188.

The business of the Company is somewhat seasonal. Quarterly operating income tends to peak during the third quarter.

Alaska

Alaska Airlines is an Alaska corporation, organized in 1937. Alaska serves 36 airports in six states (Alaska, Washington, Oregon, California, Nevada and Arizona), three cities in Mexico and three cities in Russia. In each year since 1973, Alaska has carried more passengers between Alaska and the U.S. mainland than any other airline. Alaska Airlines also serves four smaller cities in California, four in Washington, and many small communities in Alaska through subcontracts with local carriers.

In 1994, Alaska carried 9.0 million passengers. Passenger traffic within Alaska and between Alaska and the U.S. mainland accounted for 25% of Alaska's total revenue passenger miles, while West Coast traffic accounted for 65% and the Mexico markets 10%. Based on passenger enplanements, Alaska's leading airports are Seattle, Portland, Anchorage and Los Angeles. Based on revenues, its leading nonstop routes were Seattle-Anchorage, Seattle-Los Angeles and Seattle-San Francisco.

Alaska's operating fleet at December 31, 1994 consisted of 72 jet aircraft.

Horizon

Horizon, a Washington corporation, began service in 1981 and was acquired by Air Group in 1986. It is the largest regional airline in the Pacific Northwest, and serves 36 airports in six states (Washington, Oregon, Montana, Idaho, Utah and California) and two cities in Canada. In 1994, Horizon carried 3.5 million passengers. Based on passenger enplanements, Horizon's leading airports are Seattle, Portland, Spokane and Boise. Based on revenues, its leading nonstop routes were Seattle-Spokane, Seattle-Portland, Seattle-Boise, Seattle-Vancouver, B.C. and Portland-Boise. At December 31, 1994, Horizon's operating fleet consisted of ten jet and 55 turboprop aircraft.

Horizon flights are listed under the Alaska Airlines designator code in airline computer reservation systems. Certain Horizon flights are dual-designated in these reservation systems as Northwest Airlines and Alaska Airlines. Currently, 32% of Horizon's passengers connect to either Alaska or Northwest.

Airline Regulation

United States Department of Transportation (DOT) - The DOT has the authority to regulate certain airline economic functions including financial and statistical reporting, consumer protection, computerized reservations systems and essential air transportation. The DOT is also charged with determining which U.S. carriers will receive the authority to provide service to international destinations. International operating authority is subject to bilateral agreements between the United States and the respective countries. The countries establish the number of carriers to provide service, approve the carriers selected to provide such service and the size of aircraft to be used. The DOT reviews the carriers authorized under bilateral agreements every five years. Horizon's authority to operate the Seattle-Vancouver, Seattle-Victoria and the Portland-Vancouver routes is to be reviewed in August 1997, March 1999 and July 1995, respectively. Alaska's authority to serve its various Mexico destinations are to be reviewed during 1995 and 1996. The bilateral agreement with Russia will be reviewed in December 1995. The Company expects to be granted authority to continue to operate its international routes. During

January 1995, Alaska applied to the DOT to serve Oakland and San Diego from Vancouver.

Federal Aviation Administration (FAA) - The FAA, an agency within the DOT, has jurisdiction to regulate aviation safety generally, including: the licensing of pilots and maintenance personnel; the establishment of minimum standards for training and maintenance; and technical standards of flight, communications and ground equipment. All aircraft must have and maintain certificates of airworthiness issued by the FAA. Alaska and Horizon aircraft, maintenance facilities and procedures are subject to inspection by the FAA. The FAA has the authority to suspend temporarily or revoke permanently the authority of an air carrier or its licensed personnel for failure to comply with Federal Aviation Regulations and to levy civil penalties for such failure.

Labor Relations - The air transportation industry is regulated under the Railway Labor Act, which vests in the National Mediation Board certain regulatory powers with respect to disputes between airlines and labor unions arising under collective bargaining agreements.

Environmental - Special noise ordinances or agreements restrict the type of aircraft, the timing and the number of flights operated by Alaska and other air carriers at five Los Angeles area airports plus San Diego, Palm Springs, San Francisco and Seattle.

In 1990, Congress passed the Airport Noise and Capacity Act of 1990 (Act). The Act addressed the need to establish a national aviation noise policy and limit the ability of airports and local communities to implement procedures that would interfere with interstate commerce or the national air transportation system. The Act also called for the phase out of Stage II airplanes (generally older aircraft not meeting certain noise emission standards) in the contiguous 48 states by December 31, 1999. The Stage II phase-out provisions of the Act do not apply to aircraft operated solely within the state of Alaska. To implement the phase out within the contiguous 48 states, the FAA has proposed regulations and a timetable. Alaska believes that its current fleet plan will enable it to comply with the FAA's proposed regulations.

Competition

Competition in the air transportation industry is intense. Currently, any domestic air carrier deemed fit by the DOT is allowed to operate scheduled passenger service in the United States. Together, Alaska and Horizon carry less than 2% of all U.S. passenger traffic.

Alaska and Horizon compete in the West Coast, Arizona and Nevada markets with American, America West, Delta, MarkAir, Reno Air, Shuttle by United, Southwest Airlines, United and United Express. Alaska also competes primarily with United, Northwest, Delta and MarkAir in the Lower 48-to-Alaska market. Some of these competitors are substantially larger than Alaska and Horizon, have greater financial resources and have more extensive route systems. Due to its shorthaul markets, Horizon is subject to competition from surface transportation, particularly the private automobile.

Alaska and Horizon integrate their flight schedules to provide the best possible service between any two points served by their systems. Both airlines distinguish themselves from competitors by providing a higher level of customer service. The airlines' excellent service in the form of attention to customer needs, high-quality food and beverage service, more legroom, well-maintained aircraft and other amenities has been recognized by independent studies and surveys of air travelers. Alaska and Horizon offer competitive fares.

Most large U.S. carriers have developed, independently or in partnership with others, large computerized reservation systems (CRS). Due to contractual requirements imposed by CRSs, most travel agencies contract with a single CRS to sell tickets. Airlines, including Alaska and Horizon, are charged industry-set fees to have their flight schedules included in the various CRS displays. These systems are currently the predominant means of distributing airline tickets. In order to reduce anti-competitive practices, the DOT regulates the display of all airline schedules and fares. Alaska is exploring alternatives to existing distribution methods. American Airlines, owner of the SABRE CRS, has filed suit against Alaska to prevent Alaska from reducing its level of display purchased

from SABRE without also doing so in all other CRSs. At Alaska's request, the DOT is seeking comment from interested parties on the subject.

Frequent Flyer Program

All major airlines have developed frequent flyer programs as a way of increasing passenger loyalty. Alaska's Mileage Plan allows members to earn mileage by flying on Alaska, Horizon and other participating airlines, and by using the services of non-airline partners which include a credit card, telephone companies, hotels and car rental agencies. Alaska is paid by non-airline partners for the miles it credits to member accounts. Alaska has the ability to change the Mileage Plan terms, conditions, partners, mileage credits and award levels.

Mileage can be redeemed for free or discounted travel and for other travel industry awards. Upon accumulating the necessary mileage, members notify Alaska of their award selection. Once selected, awards can be changed, subject to a change fee. Over 90% of the flight awards selected are subject to blackout dates and capacity-controlled seating. Currently, miles earned must be redeemed within three years, otherwise they expire.

As of the year end 1994 and 1993, Alaska estimates that 662,000 and 698,000 roundtrip flight awards could have been redeemed by Mileage Plan members who have mileage credits exceeding the free ticket threshold. At December 31, 1994, fewer than 27% of these flight awards were issued and outstanding. Effective January 31, 1995, the threshold for a free round trip domestic award will be increased from 15,000 miles to 20,000 miles.

For the years 1994, 1993 and 1992, approximately 226,000, 188,000 and 174,000 round trip flight awards were redeemed and flown on Alaska and Horizon. These awards represent approximately 5% of the total passenger miles flown for each period.

Alaska maintains a liability for its Mileage Plan obligation which is based on its total miles outstanding, less an estimate for miles which will never be redeemed. The net miles outstanding are allocated between those credited for travel on Alaska, Horizon or other airline partners and those credited for using the services of non-airline partners. Miles credited for travel on Alaska, Horizon or other airline partners are accrued at Alaska's incremental cost of providing the air travel. The incremental cost includes the cost of meals, fuel, reservations and insurance. The incremental cost does not include a contribution to overhead, aircraft cost or profit. A portion of the proceeds from non-airline partners is also deferred. At December 31, 1994 and 1993, the total liability for miles outstanding was \$17.4 million and \$14.7 million, respectively.

Selected Quarterly Consolidated Financial Information (Unaudited)

Selected financial data for each quarter of 1994 and 1993 is as follows (in millions, except per share):

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	1994	1993	1994	1993	1994	1993	1994	1993
Operating revenues	\$280.4	\$250.2	\$330.5	\$277.5	\$386.8	\$323.4	\$318.0	\$277.2
Operating income	(2.9)	(16.8)	24.5	2.1	52.3	20.7	1.2	(22.7)
Net income (loss)	(6.3)	(15.0)	9.7	(3.6)	24.3	8.0	(5.1)	(20.3)
Earnings (loss) per share:								
Primary	(.47)	(1.25)	.72	(.33)	1.81	.60	(.38)	(1.52)
Fully diluted	*	*	.61	*	1.36	.53	*	*

* Anti-dilutive

Results for 4th Quarter 1993 include an after-tax special charge of \$9.8 million to recognize the lower value of the Boeing 727 fleet and the acceleration of its retirement. The fully diluted earnings per share amounts for the second and third quarters differ from those previously reported. The Company changed the

earnings per share calculation to properly reflect the dilution of the investment options that remain outstanding after the 1993 repurchase of convertible preferred stock. The total of the amounts shown as quarterly earnings per share may differ from the amount shown on the Consolidated Statement of Income because the annual computation is made separately and is based upon average number of shares and equivalent shares outstanding for the year.

Employees

Alaska had 6,901 active full-time and part-time employees at December 31, 1994, of which approximately 87% are represented by labor unions. The unions and the number of Alaska employees represented by each as of December 31, 1994 and the amendable dates of existing contracts are outlined below:

Union	Employee Group	Number of Employees	Contract Status
International Association of Machinists and Aerospace Workers	Mechanic, Rampservice and related classifications	1,558	Amendable 9/1/97
	Clerical, Office and Passenger Service	2,154	Amendable 9/30/92 (In negotiation)
Air Line Pilots Association International	Pilots	874	Amendable 12/1/97
Association of Flight Attendants	Flight Attendants	1,335	Amendable 3/14/99
Mexico Workers Association of Air Transport	Mexico Airport Personnel	80	Amendable 4/1/95
Transport Workers	Dispatchers	16	Amendable 4/24/96

Horizon had 2,951 active full-time and part-time employees at December 31, 1994, of which approximately 20% are represented by labor unions.

The unions and the number of Horizon employees represented by each as of December 31, 1994 and the amendable dates of existing contracts are outlined below:

Union	Employee Group	Number of Employees	Contract Status
Transport Workers Union of America	Mechanics and related classifications	275	Amendable 1/1/95 (New contract is waiting to be ratified)
	Dispatchers	16	In negotiation
Association of Flight Attendants	Flight Attendants	249	Amendable 6/15/96
Canadian Brotherhood of Railway, Transport and General Workers	Station personnel in British Columbia	53	Amendable 7/10/95

The Company's labor contracts currently in negotiation are not expected, when finalized, to have a material adverse impact on results of operations.

ITEM 2. PROPERTIES

Aircraft

The following table describes the aircraft operated and their average age at December 31, 1994.

Passenger

Average Age

Aircraft Type	Capacity	Owned	Leased	Total	in Years
Alaska Airlines					
Boeing 737-200C	111	4	4	8	14
Boeing 737-400	140	3	19	22	2
McDonnell Douglas MD-80	140	16	26	42	6
		23	49	72	6
Horizon					
Fairchild Metroliner III	18	5	18	23	9
Dornier 328	30	—	9	9	1
de Havilland Dash 8	37	—	23	23	7
Fokker F-28	62	—	10	10	21
		5	60	65	9

Part II, Item 7., "Management's Discussion and Analysis of Results of Operations and Financial Condition," discusses future orders and options for additional aircraft.

Sixteen of the 23 aircraft owned by Alaska as of December 31, 1994 are subject to liens securing long-term debt. The leased McDonnell Douglas MD-80 aircraft have expiration dates of 1995 to 2013. The B737-400 leases have expiration dates of 2002 to 2004. Horizon's leased Fairchild Metroliner III, de Havilland Dash 8, Fokker F-28 and Dornier 328 aircraft have expiration dates of 1995 to 2001, 1995 to 2006, 1996 to 1997, and 2008 to 2009, respectively. Alaska and Horizon have the option to extend most of the leases for additional periods, or the right to purchase the aircraft at the end of the lease term, usually at the then fair market value of the aircraft. For information regarding obligations under capital leases and long-term operating leases, see Notes to Consolidated Financial Statements.

Ground Facilities and Services

Alaska and Horizon lease ticket counters, gates, cargo and baggage, office space and other support areas at the majority of the airports they serve. Alaska also owns terminal buildings at various Alaska cities and Horizon owns its terminal at the Portland International Airport.

Alaska has centralized operations in several buildings located at or near Seattle-Tacoma International Airport (Sea-Tac) in Seattle, Washington. The owned buildings, including land unless located on leased airport property, include: a three-bay hangar facility with maintenance shops; a flight operations and training center; an air cargo facility; a reservation and office facility; a four-story office building; its corporate headquarters; and two storage warehouses. Alaska also leases a two-bay hangar/office facility at Sea-Tac.

Alaska's other major facilities include: its Anchorage regional headquarters building and Phoenix reservations center; a leased two-bay maintenance facility in Oakland; and a leased hangar/office facility in Anchorage.

Horizon owns its Seattle corporate headquarters building and leases a maintenance facility at the Portland airport.

ITEM 3.LEGAL PROCEEDINGS

In October 1991, Alaska gave notice of termination of its code sharing and frequent flyer relationship with MarkAir, an airline based in the state of Alaska. Both companies have filed suit against one another in connection with that termination alleging breach of contract and other causes of action under state law. In addition, MarkAir claimed that the termination was in violation of Federal Antitrust Laws. MarkAir filed for protection under Chapter 11 of the U.S. Bankruptcy Code in June 1992. In December 1993, MarkAir agreed to dismiss all antitrust claims against the Company. In 1994, the U.S. District Court which had jurisdiction over the case approved the settlement. Discovery continues in a related Alaska state court case pertaining to breach of contract and other state law claims. The Company believes the ultimate resolution of this legal proceeding will not result in a material adverse impact on the financial position or results of operations of the Company.

In December 1992, the U.S. Department of Justice filed suit against most major domestic airlines, including the Company, alleging that they have violated the antitrust laws by conspiring to fix prices for domestic airline tickets in violation of Section 1 of the Sherman Act. During 1994, six of the airlines, including the Company, entered into consent decrees with the U.S. Department of Justice. The agreement requires no refunds or monetary cost to the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Alaska Air Group, Inc., their positions and their respective ages (as of March 1, 1995) are as follows:

Name	Position	Age	Officer Continuously Since
John F. Kelly	Chairman, President and Chief Executive Officer of Alaska Air Group, Inc. and Alaska Airlines, Inc.	50	1981
Marjorie E. Laws	Vice President/Corporate Affairs and Corporate Secretary of Alaska Air Group, Inc. and Alaska Airlines, Inc.	54	1983
Steven G. Hamilton	Vice President/Legal and General Counsel of Alaska Air Group, Inc. and Alaska Airlines, Inc.	55	1988
Harry G. Lehr	Senior Vice President/Planning and Finance of Alaska Air Group, Inc., and Alaska Airlines, Inc.	54	1986

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

As of December 31, 1994, there were 13,400,090 shares of common stock issued and outstanding and 6,183 shareholders of record. The Company also held 3,153,589 treasury shares at a cost of \$71.8 million. In December 1992, the Company suspended the quarterly dividend on the common stock due to the 1992 net loss and the difficult economic environment. Air Group's common stock is listed on the New York Stock Exchange (symbol: ALK).

The following table shows the trading range of Alaska Air Group common stock on the New York Stock Exchange for 1994 and 1993.

	1994		1993	
	High	Low	High	Low
First Quarter	18-7/8	13-5/8	18	15-5/8
Second Quarter	16-1/8	13-3/4	17-7/8	14-1/4
Third Quarter	17-7/8	14-3/8	15	12-1/4
Fourth Quarter	18	13-1/8	17-3/8	12-1/2

ITEM 6. SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

Year Ended December 31	1994	1993	1992	1991	1990
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FINANCIAL DATA (a) (In Millions, Except Per Share)

Operating Revenues

Passenger	\$1,170.2	\$1,002.0	\$1,000.6	\$999.9	\$953.2
Freight, mail and other	145.4	126.3	114.8	104.1	93.8
Total Operating Revenues	1,315.6	1,128.3	1,115.4	1,104.0	1,047.0
Operating Expenses	1,240.6	1,145.1	1,210.2	1,069.4	1,018.6
Operating Income (Loss)	75.0	(16.8)	(94.8)	34.6	28.4
Interest expense, net of interest capitalized	(46.6)	(37.2)	(37.1)	(31.9)	(11.2)
Interest income	7.8	7.1	7.4	11.7	7.3
Other - net	4.8	1.1	(1.2)	1.8	3.4

Income (loss) before

income tax expense and accounting change	41.0	(45.8)	(125.7)	16.2	27.9
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Income (loss) before

accounting change	22.5	(30.9)	(80.3)	10.3	17.2
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Net Income (Loss)	\$ 22.5	\$ (30.9)	\$ (84.8)	\$10.3	\$17.2
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Per Common Share Data:

Average primary

shares outstanding	13.4	13.3	13.3	13.4	13.7
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Primary earnings per share

before accounting change	\$1.68	\$ (2.51)	\$ (6.53)	\$.27	\$.82
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Primary earnings per share(a)	1.68	(2.51)	(6.87)	.27	.82
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Fully diluted

earnings per share(a)	1.62	(b)	(b)	(b)	(b)
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Cash dividends per share			.15	.20	.20
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Book value per share	\$14.27	\$12.51	\$14.76	\$21.50	\$21.23
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Balance Sheet Data:

Working capital (deficit)	\$ (147.1)	\$ (61.3)	\$ (85.2)	\$ (10.9)	\$ (128.3)
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Property and equipment, net	859.3	690.6	790.9	819.8	700.4
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Total assets	1,315.8	1,135.0	1,208.4	1,225.4	1,021.4
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Long-term debt and capital

lease obligations	589.9	525.4	487.8	500.0	281.8
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Redeemable preferred stock			61.2	60.9	60.7
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Shareholders' equity	\$191.3	\$166.8	\$196.7	\$284.4	\$279.8
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Return on average equity(c)	12.6%	(18.4%)	(38.0%)	1.3%	3.6%
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Ratio of earnings

to fixed charges(d)	1.36	.51	(.37)	.97	1.13
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AIRLINE OPERATING DATA

Revenue passengers (000)	12,439	9,189	8,629	7,889	7,274
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Revenue passenger					
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miles (000,000)	8,320	6,074	6,023	5,353	4,851
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Available seat					
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miles (000,000)	13,247	10,412	10,522	9,575	9,099
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Revenue passenger					
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load factor	62.8%	58.3%	57.2%	55.9%	53.3%
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Breakeven passenger

load factor	60.0%	60.3%	63.7%	55.1%	51.8%
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Yield per passenger mile	14.1c	16.5c	16.6c	18.7c	19.6c
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Operating expenses per

available seat mile	9.4c	11.0c	11.5c	11.2c	11.2c
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Average number

of employees(e)	9,043	8,458	8,666	8,081	7,653
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c=cents

(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) Anti-dilutive.

(c) For the 1990-1993 calculations, net income (loss) was reduced for preferred stock dividends and shareholders' equity excluded redeemable preferred stock.

(d) For 1993, 1992 and 1991, earnings are inadequate to cover fixed charges by \$50 million, \$142.1 million and \$2.4 million, respectively.

(e) Full-time equivalents.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Industry Conditions

During 1994, the character of competition changed on the West Coast due to the December 1993 purchase of Morris Air by Southwest Airlines, and the October start-up of Shuttle by United. Low air fares are now a permanent part of the fare structure on the West Coast.

The Company has responded to the changing industry environment by aggressively matching competitors' air fares, increasing flight frequency, and improving utilization of aircraft, facilities, equipment and people.

Results of Operations

1994 COMPARED WITH 1993 Consolidated net income in 1994 was \$22.5 million, or \$1.68 per share (primary) and \$1.62 per share (fully diluted), compared with a net loss of \$30.9 million, or \$2.51 per share, in 1993. The fully diluted calculation is based on 19.6 million shares, which gives effect to the 1993 repurchase of the convertible preferred stock. The results for 1993 include an after-tax special charge of \$9.8 million to recognize the lower value of the Boeing 727 fleet and the acceleration of its retirement. Without such charge, the 1993 net loss would have been \$21.1 million, or \$1.77 per share.

Operating income was \$75.0 million compared to an operating loss of \$16.8 million for 1993. The improved operating results reflect higher operating revenues, and the effects of cost reductions and productivity improvements.

Operating revenues increased 17% to \$1.316 billion. Passenger revenues, which accounted for 89% of total operating revenues, increased 17% on a 37% increase in passenger traffic. Traffic gains were due to a 27% increase in system capacity, lower fares that stimulated traffic throughout most of the system, and improvements in market share. The load factor increased from 58.3% in 1993 to 62.8%. Yields declined 15% to 14.1 cents in 1994. The static value of a one cent movement in yield is approximately \$80 million per year. However, in a dynamic, price-sensitive business, a one cent increase will not necessarily result in a revenue improvement of this magnitude.

Freight and mail revenues increased \$7.5 million or 9% due to a military charter contract in the state of Alaska, increased freight volumes, and increased freight rates, offset by lower mail volumes. The lower mail volumes resulted from Alaska's decision to not bid on certain U.S. mail contracts so that capacity could be made available for higher yielding freight.

Other-net revenues rose by \$11.6 million or 27% due to increased revenues from Alaska's frequent flyer program, maintenance contracts and inflight liquor sales.

Operating Expenses Operating expenses increased 8% to \$1.241 billion on a capacity increase of 27%. For the separate airlines, Alaska's operating expenses increased 7% to \$998.7 million on a 28% increase in capacity, and Horizon's operating expenses increased 14% to \$244.0 million on an 18% increase in capacity. A discussion of operating expenses for the two airlines follows.

Alaska Airlines The table below shows the major operating expense elements on a unit-cost basis for Alaska in 1994 and 1993.

Alaska Airlines	Operating Expenses Per ASM (In Cents)			
	1994	1993	Change	% Change
Wages and benefits	2.67	3.16	(.49)	(16)
Aircraft fuel	1.08	1.31	(.23)	(18)
Aircraft maintenance	.34	.46	(.12)	(26)
Aircraft rent	1.13	1.35	(.22)	(16)
Commissions	.61	.68	(.07)	(10)
Depreciation & amortization	.39	.52	(.13)	(25)
Special charges	—	.16	(.16)	NM
Other	2.05	2.24	(.19)	(8)
Alaska Airlines Total	8.27	9.88	(1.61)	(16)

Alaska's lower unit costs were due to an extensive cost reduction effort and better utilization of aircraft, facilities, equipment and people, as well as a

2% increase in average seats per aircraft. Average daily aircraft utilization increased 26% from 8.2 block hours to 10.3 block hours. Wages and benefits per ASM decreased 16% primarily due to improved productivity. The number of equivalent employees increased 5% while capacity increased 28% and traffic increased 38%. Effective May 1, 1994, Alaska and the Association of Flight Attendants began a new five-year contract, which is modeled after the contract used at Southwest Airlines and which provides flight attendants the opportunity to earn increased wages through increased flying. It also provides a lower starting rate of pay, more flexible work rules and reduced pension expenses.

Fuel expense per ASM decreased 18% due to a 10% decrease in the price of fuel and the continued transition to more fuel efficient aircraft. The average cost per gallon declined 6.9 cents to 59.9 cents in 1994. Lower fuel prices reduced fuel expense by \$15.1 million. Currently, a 1 cent change in fuel prices affects annual fuel costs by approximately \$2.2 million.

Maintenance expense per ASM decreased 26% due to the replacement of older aircraft and due to significant improvements in maintenance programs, techniques and efficiency. With an average age of less than six years at December 31, 1994, Alaska's fleet is believed to be one of the youngest among U.S. jet airlines.

Aircraft rent per ASM decreased 16% primarily due to a substantial increase in utilization, offset by higher rents for new aircraft.

Depreciation and amortization expense per ASM decreased 25% due to the retirement of the 727 fleet and increased utilization of the remaining aircraft.

Other expense per ASM decreased 8% due to lower unit costs for advertising, food, building rentals and personnel expenses.

Horizon Air The table below shows the major operating expense elements on a unit-cost basis for Horizon for 1994 and 1993.

Horizon Air	Operating Expenses Per ASM (In Cents)			
	1994	1993	Change	% Change
Wages and benefits	6.75	7.07	(.32)	(5)
Aircraft fuel	1.84	1.93	(.09)	(5)
Aircraft maintenance	2.33	2.41	(.08)	(3)
Aircraft rent	2.73	2.79	(.06)	(2)
Commissions	1.56	1.65	(.09)	(5)
Depreciation & amortization	.75	.94	(.19)	(20)
Other	4.99	4.96	.03	1
Horizon Air Total	20.95	21.75	(.80)	(4)

Horizon's cost per ASM declined 4% to 20.95 cents due to the acquisition of higher capacity aircraft and cost reduction efforts.

Other Income (Expense) Other Income (Expense) increased \$5.0 million to \$34.0 million. Interest expense was \$9.3 million higher in 1994 due to higher interest rates on variable debt and higher average debt balances. Other-net income increased \$4.1 million due to gains on the early retirement of debt and vendor credits.

1993 COMPARED WITH 1992 The consolidated net loss for 1993 was \$30.9 million, or \$2.51 per share, compared with a net loss of \$84.8 million, or \$6.87 per share, in 1992. The results include an after-tax charge of \$9.8 million in 1993 and \$16.6 million in 1992 for the early retirement of the 727 fleet. In addition, 1992 includes a \$4.6 million charge related to a change in accounting for postretirement benefits. The operating loss for 1993 was \$16.8 million, compared to an operating loss of \$94.8 million for 1992. The improved operating results reflect lower operating expenses.

Operating revenues in 1993 were \$1.128 billion, 1% greater than the \$1.115 billion posted in 1992. Passenger revenues were approximately even with 1992 due to a 1% increase in traffic, offset by a 1% decline in yields. Freight and

mail revenues increased \$6.7 million or 9% due to increased freight and mail rates and increased service in Alaska. Other-net revenues rose \$4.9 million or 13% due to increased revenues from Alaska's frequent flyer program.

Operating expenses decreased 5% to \$1.145 billion. The decrease was primarily due to a cost reduction program initiated during the first quarter 1993. Operating expenses per ASM declined 4% from 11.5 cents to 11.0 cents. Fuel expense per ASM decreased 12% due to the use of more fuel-efficient aircraft and a 3% decrease in the cost of fuel. Maintenance expense per ASM declined 22% due to the replacement of older aircraft. Aircraft rent and depreciation expense per ASM rose 19% due to the addition of new aircraft. Other expenses per ASM decreased 12% due to lower expenditures for food, advertising, promotion, supplies and personnel expenses.

Other Income (Expense) was \$29.0 million in 1993 compared to \$30.9 million in 1992. The decrease was primarily due to lower interest rates on debt, offset by less capitalized interest.

Liquidity and Capital Resources

The table below presents the major indicators of financial condition and liquidity.

	December 31, 1994	December 31, 1993	Change
	(In millions, except ratios and per share amounts)		
Cash and marketable securities	\$104.9	\$ 101.1	\$ 3.8
Working capital (deficit)	(147.1)	(61.3)	(85.8)
Total assets	1,315.8	1,135.0	180.8
Long-term debt	589.9	525.4	64.5
Shareholders' equity	191.3	166.8	24.5
Book value per common share	\$14.27	\$ 12.51	\$ 1.76
Debt/equity ratio	76%:24%	76%:24%	NA

1994 FINANCIAL CHANGES The Company's cash and marketable securities portfolio increased by \$4 million during 1994. Operating activities provided \$144 million of cash in 1994. Additional cash was provided by \$104 million in new long-term debt and \$25 million in short-term borrowings. Cash was used for the purchase of four new MD-83 aircraft, one previously leased B737-400, one used B737-200C aircraft, and other capital expenditures (\$189 million), the repayment of debt (\$71 million), and the repayment of short-term borrowings (\$20 million).

Like many airlines, the Company has a working capital deficit. The deficit increased during 1994 due to the cash purchase of two aircraft and an increase in current portion of capital lease obligations. The existence of a working capital deficit has not in the past impaired the Company's ability to meet its obligations as they become due and it is not expected to do so in the future.

Financing Arrangements During 1994, four MD-83 aircraft were financed under ten-year loan agreements which bear interest at rates which vary based on LIBOR. The principal amount financed was \$104 million. In addition, capital lease obligations increased \$57.9 million due to changes in the lease agreements for two B737-400 aircraft that were previously classified as operating leases.

During early 1995, Alaska's lines of credit (which totalled \$70 million) were replaced with a \$75 million credit facility with commercial banks. Advances under the new facility may either be for up to a 364-day term, or up to a maximum maturity of three years. Borrowings may be used for aircraft acquisitions and other corporate purposes and they bear interest at a rate which varies based on LIBOR.

Commitments During 1994, Alaska took delivery of six new B737-400 aircraft under operating leases and restructured all 20 of its B737-400 aircraft leases. As part of the restructuring, Alaska purchased one of the 20 aircraft in 1994, agreed to purchase one each in 1995 and 1996, and received options to purchase

up to four more of the 20 between 1997 and 1999. The fixed term of the leases was increased from eight years to ten years. As a result of the restructuring, Alaska expects to save more than \$6 million per year over the term of the leases. Also during 1994, Alaska further restructured its aircraft orders with McDonnell Douglas, replacing an order for ten MD-90s plus options with an order for four MD-83s. This restructuring will reduce future capital spending by \$360 million.

During 1994, Horizon took delivery of seven new Dornier 328 aircraft under 15-year operating leases, and five used Fokker F-28 aircraft under three-year operating leases.

At December 31, 1994, the Company had firm orders for 17 aircraft with a total cost of approximately \$293 million as set forth below.

Aircraft	Delivery Period - Firm Orders				
	1995	1996	1997	1998	Total
Dornier 328	1	2	2	6	11
McDonnell Douglas MD-80	2	2	2		6
Total	3	4	4	6	17
Cost (Millions)	\$78	\$85	\$85	\$45	\$293

Operating leases have been completed for the Dornier 328 orders. The Company expects to finance the other aircraft through new long-term debt and internally generated cash.

The Company accrues the costs associated with returning leased aircraft over the lease period. At December 31, 1994, \$26 million was reserved for leased aircraft returns.

Deferred Taxes At December 31, 1994, net deferred tax liabilities were \$19 million, which includes \$82 million of net temporary differences, offset by \$38 million of net operating loss (NOL) carryforwards and \$25 million of Alternative Minimum Tax (AMT) credit carryforwards. The Company believes that all of its deferred tax assets, including the NOL and AMT credit carryforwards, will be realized through the reversal of existing temporary differences or tax planning strategies such as the sale of aircraft.

1993 FINANCIAL CHANGES Cash and marketable securities increased by \$18 million in 1993. Operations generated \$49 million, proceeds from aircraft financing were \$84 million, and short-term borrowings added \$20 million. Cash was used for the repayment of debt (\$79 million), the repurchase of preferred stock (\$33 million), and capital expenditures (\$30 million). During 1993, the Company repurchased all of its outstanding redeemable preferred stock for \$60 million, saving the Company more than \$4 million annually after taxes. The seller provided a \$27 million loan to assist with the stock purchase.

1992 FINANCIAL CHANGES Despite the \$84.8 million net loss, operating activities provided \$20 million of cash in 1992. During 1992, capital spending totaled \$278 million for six MD-83 and two B737-400 aircraft, other equipment and deposits for future flight equipment. These capital expenditures were financed through debt (\$47 million), sale/leasebacks (\$215 million) and internally generated cash.

EFFECT OF INFLATION Inflation and specific price changes do not have a significant effect on the Company's operating revenues, operating expenses and operating income, because such revenues and expenses generally reflect current price levels.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
See Item 14.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

See "Election of Directors," incorporated herein by reference from the definitive Proxy Statement for Air Group's Annual Meeting of Shareholders to be held on May 16, 1995. See "Executive Officers of the Registrant" in Part I following Item 4 for information relating to executive officers.

ITEM 11. EXECUTIVE COMPENSATION

See "Executive Compensation," incorporated herein by reference from the definitive Proxy Statement for Air Group's Annual Meeting of Shareholders to be held on May 16, 1995.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See "Security Ownership of Certain Beneficial Owners and Management," incorporated herein by reference from the definitive Proxy Statement for Air Group's Annual Meeting of Shareholders to be held on May 16, 1995.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See "Transactions with Management and Others," incorporated herein by reference from the definitive Proxy Statement for Air Group's Annual Meeting of Shareholders to be held on May 16, 1995.

PART IV

ITEM 14. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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See Exhibit Index on page 33.

(b) Alaska Air Group did not file any reports on Form 8-K during the fourth quarter of 1994.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.
ALASKA AIR GROUP, INC.

By: /s/ John F. Kelly Date: February 9, 1995
John F. Kelly, Chairman, Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on February 9, 1995 on behalf of the registrant and in the capacities indicated.

/s/ John F. Kelly	Chairman, Chief Executive Officer, President and Director
John F. Kelly	

/s/ Harry G. Lehr Harry G. Lehr	Senior Vice President/Planning and Finance (Principal Financial Officer)
/s/ Bradley D. Tilden Bradley D. Tilden	Controller (Principal Accounting Officer)
/s/ William H. Clapp William H. Clapp	Director
/s/ Ronald F. Cosgrave Ronald F. Cosgrave	Director
/s/ Mary Jane Fate Mary Jane Fate	Director
/s/ Bruce R. Kennedy Bruce R. Kennedy	Director
/s/ R. Marc Langland R. Marc Langland	Director
/s/ Bruce R. McCaw Bruce R. McCaw	Director
/s/ Byron I. Mallott Byron I. Mallott	Director
/s/ Robert L. Parker, Jr. Robert L. Parker, Jr.	Director
/s/ Richard A. Wien Richard A. Wien	Director

CONSOLIDATED BALANCE SHEET
Alaska Air Group, Inc.

ASSETS

As of December 31 (In Thousands)	1994	1993
Current Assets		
Cash and cash equivalents	\$11,605	\$27,179
Marketable securities	93,337	73,970
Receivables - less allowance for doubtful accounts (1994 - \$2,285; 1993 - \$2,621)	70,055	75,274
Inventories and supplies	40,250	41,269
Prepaid expenses and other assets	57,396	56,498
Total Current Assets	272,643	274,190
Property and Equipment		
Flight equipment	776,551	614,717
Other property and equipment	208,502	217,967
Deposits for future flight equipment	52,885	79,765
	1,037,938	912,449
Less accumulated depreciation and amortization	260,001	247,145
	777,937	665,304
Capital leases		
Flight and other equipment	103,076	44,381
Less accumulated amortization	21,676	19,079
	81,400	25,302
Total Property and Equipment - Net	859,337	690,606
Intangible Assets - Subsidiaries	65,671	67,711
Other Assets	118,120	102,447
Total Assets	\$1,315,771	\$1,134,954

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

Alaska Air Group, Inc.

LIABILITIES AND SHAREHOLDERS' EQUITY

As of December 31 (In Thousands)

	1994	1993
Current Liabilities		
Accounts payable	\$48,592	\$45,582
Accrued aircraft rent	43,762	39,119
Other accrued liabilities	59,591	46,679
Accrued wages, vacation pay and payroll taxes	47,364	40,192
Short-term borrowings		
(Interest rate: 1994 - 6.0%; 1993 - 4.25%)	25,000	20,000
Air traffic liability	123,433	108,360
Current portion of long-term debt and capital lease obligations	72,005	35,575
Total Current Liabilities	419,747	335,507
Long-Term Debt and Capital Lease Obligations	589,904	525,418
Other Liabilities and Credits		
Deferred income taxes	28,585	20,998
Deferred income	23,018	25,827
Other liabilities	63,239	60,371
	114,842	107,196
Commitments		
Shareholders' Equity		
Preferred stock, \$1 par value		
Authorized: 5,000,000 shares	-	-
Common stock, \$1 par value		
Authorized: 30,000,000 shares		
Issued: 1994 - 16,553,679 shares		
1993 - 16,495,210 shares	16,554	16,495
Capital in excess of par value	152,756	152,017
Treasury stock, at cost: 1994-3,153,589 shares		
1993 - 3,153,589 shares	(71,807)	(71,807)
Deferred compensation	(4,697)	(5,813)
Retained earnings	98,472	75,941
	191,278	166,833
Total Liabilities and Shareholders' Equity	\$1,315,771	\$1,134,954

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Alaska Air Group, Inc.

Year Ended December 31

(In Thousands except Per Share Amounts)

	1994	1993	1992
Operating Revenues			
Passenger	\$1,170,201	\$1,001,975	\$1,000,618
Freight and mail	91,545	84,048	77,311
Other - net	53,874	42,306	37,449
Total Operating Revenues	1,315,620	1,128,329	1,115,378
Operating Expenses			
Wages and benefits	401,700	368,152	370,567
Aircraft fuel	152,320	142,572	162,768
Aircraft maintenance	68,306	67,438	87,687
Aircraft rent	168,516	154,879	123,732
Commissions	91,850	80,108	86,335
Depreciation and amortization	56,591	58,407	56,757
Special charges	-	15,000	26,000
Other	301,339	258,546	296,373
Total Operating Expenses	1,240,622	1,145,102	1,210,219
Operating Income (Loss)	74,998	(16,773)	(94,841)
Other Income (Expense)			
Interest income	7,779	7,088	7,374
Interest expense	(46,960)	(37,624)	(43,223)
Interest capitalized	353	446	6,102
Loss on sale of assets	(1,016)	(649)	(2,339)
Other - net	5,807	1,700	1,221
	(34,037)	(29,039)	(30,865)
Income (loss) before income tax expense (credit) and accounting change	40,961	(45,812)	(125,706)
Income tax expense (credit)	18,430	(14,894)	(45,436)
Income (loss) before accounting change	22,531	(30,918)	(80,270)
Cumulative effect of accounting change	-	-	(4,567)
Net Income (Loss)	\$22,531	\$ (30,918)	\$ (84,837)
Primary Per Share Amounts:			
Earnings (loss) before accounting change	\$1.68	\$ (2.51)	\$ (6.53)
Cumulative effect of accounting change	-	-	(.34)
Net earnings (loss) per common share	\$1.68	\$ (2.51)	\$ (6.87)
Fully Diluted Earnings Per Share	\$1.62	*	*
Shares used for computation:			
Primary	13,378	13,340	13,309

Fully diluted
* Anti-dilutive

19,598

*

*

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Alaska Air Group, Inc.

(In Thousands)	\$1 Par Value	Common Stock Capital in Excess of Par Value	Treasury Stock at Cost	Deferred Compensation	Retained Earnings	Total
Balances at December 31, 1991	\$16,384	\$150,478	(\$71,807)	(\$14,515)	\$203,907	\$284,447
Net loss for 1992					(84,837)	(84,837)
Cash dividends on common stock (\$.15 per share)					(1,998)	(1,998)
Preferred stock dividends and accretion					(6,688)	(6,688)
Stock issued under stock plans	99	1,367				1,466
Employee Stock Ownership Plans shares allocated				4,334		4,334
Balances at December 31, 1992	16,483	151,845	(71,807)	(10,181)	110,384	196,724
Net loss for 1993					(30,918)	(30,918)
Preferred stock dividends and early redemption premium					(3,525)	(3,525)
Stock issued under stock plans	12	172				184
Employee Stock Ownership Plans shares allocated				4,368		4,368
Balances at December 31, 1993	16,495	152,017	(71,807)	(5,813)	75,941	166,833
Net income for 1994					22,531	22,531
Stock issued under stock plans	59	739				798
Employee Stock Ownership Plans shares allocated				1,116		1,116
Balances at December 31, 1994	\$16,554	\$152,756	(\$71,807)	(\$4,697)	\$98,472	\$191,278

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Alaska Air Group, Inc.

Year Ended December 31 (In Thousands)	1994	1993	1992
Cash and cash equivalents at beginning of year	\$27,179	\$6,880	\$19,086
Cash flows from operating activities:			
Income (loss) before accounting change	22,531	(30,918)	(80,270)
Adjustments to reconcile income to cash:			
Depreciation and amortization	56,591	58,407	56,757
Amortization of airframe and engine overhauls	20,954	29,402	34,265
Special charges	-	15,000	26,000
Loss (gain) on disposition of assets and debt retired	(1,072)	(315)	2,339
Increase (decrease) in deferred income taxes	7,587	(8,113)	(25,797)
Decrease (increase) in accounts receivable	5,219	9,135	(23,118)
Decrease (increase) in other current assets	121	(15,122)	(7,370)
Increase in air traffic liability	15,073	11,569	19,500
Increase in other current liabilities	27,737	1,085	19,826
Interest on zero coupon notes	9,946	9,881	9,203
Leased aircraft return payments and other-net	(20,554)	(31,554)	(11,101)
Net cash provided by operating activities	144,133	48,457	20,234
Cash flows from investing activities:			
Proceeds from disposition of assets	6,504	7,193	793
Purchases of marketable securities	(76,129)	(150,636)	(111,768)
Sales and maturities of marketable securities	56,762	153,217	118,966
Restricted deposits	(5,955)	(4,045)	(3,007)
Flight equipment deposits returned	5,460	2,685	3,321
Additions to flight equipment deposits	(1,085)	(764)	(16,873)
Additions to property and equipment	(187,543)	(29,605)	(261,073)
Payments received on loans to ESOPs	1,313	4,128	4,747
Net cash used in investing activities	(200,673)	(17,827)	(264,894)
Cash flows from financing activities:			
Proceeds from short-term borrowings	25,000	20,000	96,303
Repayment of short-term borrowings	(20,000)	-	(96,303)
Proceeds from sale and leaseback transactions	-	36,500	214,590
Proceeds from issuance of long-term debt	104,000	47,200	84,700
Long-term debt and capital lease payments	(70,920)	(79,375)	(59,904)
Proceeds from issuance of common stock	798	184	1,466
Repurchase of preferred stock	-	(33,375)	-
Cash dividends	-	(2,429)	(8,398)
Gain on debt retirement	2,088	964	-
Net cash provided by (used in) financing activities	40,966	(10,331)	232,454
Net increase (decrease) in cash and cash equivalents	(15,574)	20,299	(12,206)
Cash and cash equivalents at end of year	\$11,605	\$27,179	\$6,880
Supplemental disclosure of cash paid during the year for:			
Interest (net of amount capitalized)	\$44,786	\$33,622	\$38,952
Income taxes (refunds)	2,204	(18,554)	(2,168)
Noncash investing and financing activities:			
1994 - Capital lease obligations of \$57.9 million were incurred due to changes in lease agreements.			

1993 - The preferred stock was repurchased in exchange for a \$27 million note payable and a \$33.4 million cash payment.

1992 - None

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alaska Air Group, Inc.

December 31, 1994

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Alaska Air Group, Inc. (Company or Air Group) and its subsidiaries, the principal subsidiaries being Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon). All significant intercompany transactions are eliminated.

Both subsidiaries operate as airlines. However, each subsidiary's business plan, competition and economic risks differ substantially due to the passenger capacity and range of aircraft operated. Alaska is a major airline, operates an all jet fleet and its average passenger trip is 850 miles. Horizon is a regional airline, operates both jet and turboprop aircraft, and its average passenger trip is 210 miles. See Note 10 for business segment information.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less. They are carried at cost, which approximates market.

Inventories and Supplies

Expendable and repairable aircraft parts, as well as materials and supplies, are stated at average cost. For repairable parts, an allowance for obsolescence is accrued on a straight-line basis over the estimated useful lives of the aircraft. Inventories related to the retired B727 fleet are carried at net realizable value. The allowance at December 31, 1994 and 1993 for all inventories was \$12.1 million and \$8.3 million, respectively.

Property, Equipment and Depreciation

Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives, which are as follows:

Aircraft and other

flight equipment	8-20 years
Buildings	10-30 years
Capitalized leases and	
leasehold improvements	Term of lease
Other equipment	3-15 years

Assets and related obligations for items financed under capital leases are initially recorded at an amount equal to the present value of the future minimum lease payments.

The cost of major airframe overhauls, engine overhauls, and other modifications which extend the life or improve the usefulness of aircraft are capitalized, and amortized over their estimated period of use. Other repair and maintenance costs are expensed when incurred.

Capitalized Interest

Interest is capitalized on flight equipment purchase deposits and ground facilities progress payments as a cost of the related asset and is depreciated over the estimated useful life of the asset. Interest capitalization is suspended when there is a substantial delay in aircraft deliveries.

Intangible Assets-Subsidiaries

The excess of purchase price over the fair value of net assets acquired is recorded as an intangible asset and is amortized over 40 years. Accumulated amortization at December 31, 1994 and 1993 was \$17 million and \$15 million, respectively.

Deferred Income

Deferred income results from the sale and leaseback of aircraft, the receipt of manufacturer or vendor credits, and from the sale of foreign tax benefits. This income is recognized over the term of the applicable agreements.

Passenger Revenues

Passenger revenues are considered earned at the time transportation service is provided. Tickets sold but not yet used are included in air traffic liability.

Frequent Flyer Awards

Alaska operates a frequent flyer award program that provides travel awards to members based on accumulated mileage. The estimated incremental cost of providing free travel is recognized as a liability and reported as expense as miles are accumulated. Alaska also defers recognition of income on a portion of the payments it receives from travel partners associated with its frequent flyer program. The incremental cost liability and deferred partner revenues are relieved as travel awards are used.

Income Taxes

In January 1992, Statement of Financial Accounting Standards No. 109 (FAS 109), "Accounting for Income Taxes," was adopted. FAS 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns.

Earnings Per Share

Primary earnings per share is calculated by dividing net income after reduction for preferred stock dividends by the average number of common shares and dilutive common stock equivalents outstanding. Common stock equivalents result from the assumed exercise of stock options. Fully diluted earnings per share gives effect to the conversion of convertible debt (after elimination of related interest expense, net of income tax effect).

Derivative Financial Instruments

The differential to be paid or received on interest rate swap agreements is accrued as interest rates change and is recognized currently in the income statement. The Company enters into hedge agreements to reduce its exposure to fluctuations in the price of jet fuel. A gain or loss is recorded quarterly if the fuel index average exceeds the ceiling price or falls below the floor price.

Reclassifications

Certain reclassifications have been made in prior years' financial statements to conform to the 1994 presentation.

Note 2. Marketable Securities

Marketable securities are investments that are readily convertible to cash, but whose original maturity dates exceed three months. They are classified as available for sale and consisted of the following at December 31 (in thousands):

	1994	1993
Cost:		
U.S. govt securities	\$78,045	\$66,744
Other	15,292	7,226
	\$93,337	\$73,970
Fair value:		
U.S. govt securities	\$76,558	\$66,665
Other	15,069	7,224
	\$91,627	\$73,889
Gross unrealized holding gains:		
U.S. govt securities	\$ —	\$71
Other	—	3
	\$ —	\$74
Gross unrealized holding losses:		
U.S. govt securities	\$1,487	\$150
Other	223	5

\$1,710

\$155

Of the marketable securities on hand at December 31, 1994, 55% will mature during 1995 and the remainder will mature during 1996.

Based on specific identification of securities sold, the following occurred in 1994 (in thousands):

Proceeds from sales	\$56,762
Gross realized gains	\$ 40
Gross realized losses	\$ 499

The above gains and losses are included in 1994 interest income of \$7.8 million.

Note 3. Other Assets

Other assets consisted of the following at December 31 (in thousands):

	1994	1993
Restricted deposits	\$66,858	\$60,903
Leasehold rights	14,075	16,923
Deferred costs	15,942	16,938
Receivables	21,245	7,683
	\$118,120	\$102,447

Leasehold rights and deferred costs are amortized over the term of the related lease or contract. At December 31, 1994, deferred costs include \$6.2 million of capitalized training costs associated with the B737-400 aircraft. These costs are being amortized over a five-year period which began in April 1992.

Note 4. Long-Term Debt and Capital Lease Obligations

At December 31, 1994 and 1993, long-term debt and capital lease obligations were as follows (in thousands):

	1994	1993
7.4%* notes payable due through 2009	\$375,908	\$308,700
7-3/4% convertible subordinated debentures due 2005-2010	14,354	14,638
6-7/8% convertible subordinated debentures due 2004-2014	54,041	60,181
7-1/4% zero coupon, convertible subordinated notes due 2006	129,369	143,754
Long-term debt	573,672	527,273
Capital lease obligations	88,237	33,720
Less current portion	(72,005)	(35,575)
	\$589,904	\$525,418

* weighted average for 1994

At December 31, 1994, borrowings of \$362.4 million are secured by flight equipment and real property.

During 1994, the Company repurchased \$6.4 million of its 7-3/4% and 6-7/8% convertible subordinated debentures for a \$1.1 million pretax gain. The remaining 7-3/4% and 6-7/8% debentures are convertible into common stock at \$28.25 and \$33.60 per share, respectively, subject to adjustments in certain events. Also, during 1994, the Company repurchased 55,922 of its 7-1/4% notes, which had a book value of \$24.3 million, for a \$1.0 million pretax gain. Each of the remaining notes can be converted into 12.4 shares of common stock. Holders of these notes have a put option to require the Company to purchase each note on April 18, 1996 at their then accreted value of \$490.58. The Company may elect to pay in cash or shares of common stock or in any combination thereof.

At December 31, 1994, Alaska had \$70 million in lines of credit, none of which were being used, with commercial banks. In early 1995, these credit agreements were replaced with a \$75 million credit facility with commercial banks.

Advances under the new facility may either be for up to a 364-day term, or up to a maximum maturity of three years. Borrowings may be used for aircraft acquisitions or other corporate purposes, and they bear interest at a rate which varies based on LIBOR.

Certain Alaska loan agreements contain provisions that require maintenance of specific levels of net worth, leverage and fixed charge coverage, and limit dividends, investments, lease obligations, sales of assets and additional indebtedness. At December 31, 1994, the Company was in compliance with all loan provisions, and under the most restrictive loan provisions, Alaska had \$28.5 million of net worth above the minimum.

During 1994, four MD-83 aircraft were financed with \$104 million in ten-year loans at variable interest rates based on LIBOR. In addition, capital lease obligations increased \$57.9 million due to changes in the lease agreements for two B737-400 aircraft that were previously classified as operating leases.

At December 31, 1994, long-term debt principal payments for the next five years were (in thousands):

1995	\$ 40,762
1996*	\$ 37,621
1997	\$ 34,795
1998	\$ 35,736
1999	\$ 35,967

* Excludes the effect of a put option on the 7-1/4% notes.

Note 5. Commitments

Lease Commitments

Lease contracts for 109 aircraft have remaining lease terms of one to 18 years. The majority of airport and terminal facilities are also leased. Total rent expense was \$196.9 million, \$180.4 million and \$149.7 million, in 1994, 1993 and 1992, respectively. Future minimum lease payments under capital leases and long-term operating leases as of December 31, 1994 are shown below (in thousands):

	Capital Leases	Operating Leases		Total
		Aircraft	Real Property	
1995	\$38,200	\$170,871	\$14,190	\$223,261
1996	33,560	157,983	12,207	203,750
1997	4,140	143,159	10,971	158,270
1998	4,138	134,285	10,556	148,979
1999	4,136	128,775	10,444	143,355
Thereafter	19,068	676,998	36,304	732,370
Total lease payments	103,242	\$1,412,071	\$94,672	\$1,609,985
Less amount representing interest	15,005			
Present value of capital lease payments	\$88,237			

Aircraft Commitments

The Company has firm orders for 11 Dornier 328s to be delivered between 1995 and 1998, and six MD-83s to be delivered between 1995 and 1997. The total amount of these commitments is approximately \$293 million. As of December 31, 1994, deposits related to the future equipment deliveries were \$43.2 million. The manufacturer has agreed to provide lease financing for all of the Dornier 328s. In addition to the ordered aircraft, the Company holds purchase options on 40 Dornier 328s.

Note 6. Stock Plans

Air Group has three stock option plans, which provide for the purchase of Air Group common stock at its market price on the date of grant by certain officers and key employees of Air Group and its subsidiaries. Under the plans, the incentive and nonqualified stock options granted have terms of

up to approximately ten years. Up to half of the options provide for stock appreciation rights.

Changes in the number of shares subject to option are summarized as follows:

	1994	1993	1992
Outstanding, beginning			
of year	861,362	770,420	885,720
Granted(a)	330,200	172,200	43,100
Exercised	(58,469)	(12,600)	(98,400)
Canceled	(88,950)	(68,658)	(60,000)
Outstanding, end			
of year	1,044,143	861,362	770,420
Exercisable, end			
of year(b)	644,843	542,012	450,845
Available for granting			
in future periods	409,000	701,867	805,409
Average price of options:			
Exercised during the			
year	\$13.65	\$14.65	\$14.89
Outstanding at year-			
end	\$17.15	\$17.06	\$17.32

(a) The average price of the options granted in 1994 was \$16.53

(b) Options exercisable at year end 1994 expire between June 1995 and June 2004.

In addition, 2,273,700 shares of common stock are subject to nontransferable investment options held by management employees, for which the Company received \$3.1 million, which is included with other liabilities on the Balance Sheet. These options are subject to mandatory redemption at \$3.1 million in February 1997, and they allow the holder to purchase common stock at \$27 per share until that date.

Note 7. Employee Benefit Plans

Pension Plans

Four defined benefit and five defined contribution retirement plans cover various employee groups of Alaska and Horizon. The defined benefit plans provide benefits based on an employee's term of service and average compensation for a specified period of time before retirement. Pension costs are funded as required by the Employee Retirement Income Security Act of 1974 (ERISA).

The defined benefit plan assets are primarily invested in common stocks and fixed income securities. Plan assets exceeded the accumulated benefit obligation at December 31, 1994 and 1993. The following table sets forth the funded status of the plans at December 31, 1994 and 1993 (in thousands):

	1994	1993
Benefit obligation -		
Vested	\$ 114,861	\$126,341
Nonvested	15,820	12,687
Accumulated benefit		
obligation	\$ 130,681	\$139,028
Plan assets at fair value	\$ 144,102	\$145,974
Projected benefit obligation	147,200	159,529
Plan assets less projected		
benefit obligation	(3,098)	(13,555)
Unrecognized transition asset	(1,374)	(1,658)
Unrecognized prior service cost	3,521	1,576
Unrecognized loss	15,839	26,684
Prepaid pension cost	\$ 14,888	\$13,047

The weighted average discount rate used to determine the projected benefit obligation was 9.0% and 7.9% as of December 31, 1994 and 1993, respectively. The calculation also assumed a 5.2% weighted average rate of increase for future compensation levels for 1994 and 1993. The expected long-term rate of return on plan assets used in 1994 and 1993 was 10%.

Net pension expense for the defined benefit plans included the following components for 1994, 1993 and 1992 (in thousands):

	1994	1993	1992
Service cost (benefits earned during the period)	\$12,351	\$10,041	\$8,395
Interest cost on projected benefit obligation	11,859	10,449	8,883
Actual return on assets	(2,061)	(14,123)	(9,079)
Net amortization and deferral	(10,810)	2,244	(2,171)
Net pension expense	\$ 11,339	\$8,611	\$6,028

The defined contribution plans are deferred compensation plans under section 401(k) of the Internal Revenue Code. Some of these plans require Company matching contributions based on a percentage of participants' contributions. One plan has an Employee Stock Ownership Plan (ESOP) feature. The ESOP owns Air Group common shares which are held in trust for eligible employees. The Company has recorded deferred compensation to reflect the value of the shares not yet allocated to eligible employees' accounts. As these shares are allocated to employees, compensation expense is recorded and deferred compensation is reduced.

Alaska and Horizon also maintain an unfunded, noncontributory benefit plan for certain elected officers. The present value of unfunded benefits for this plan was accrued as of December 31, 1994 and 1993.

Total expense for all pension plans was \$22.5 million, \$19.8 million and \$18.8 million, respectively, in 1994, 1993 and 1992.

Profit Sharing Plans

Alaska and Horizon have employee profit sharing plans. Profit sharing expense for 1994, 1993 and 1992 was \$3.6 million, \$2.3 million and \$1.6 million, respectively.

Other Postretirement Benefits

The Company allows retirees to continue their medical, dental and vision benefits by paying the respective active employee plan premium until age 65. This results in a subsidy to retirees because the premiums received by the Company are less than the actual cost of the retirees' claims.

Effective January 1, 1992, Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," was adopted. The new standard requires that the cost of postretirement employee benefits other than pensions be recognized during an employee's active service period. Prior to 1992, the cost of these benefits was expensed as claims were incurred. The cumulative effect of the accounting change for years prior to January 1, 1992 was an after-tax charge of \$4.6 million.

The following table sets forth the status of the postretirement benefit obligation at December 31, 1994 and 1993 (in thousands):

	1994	1993
Accumulated postretirement benefit obligation (APBO):		
Retirees	\$ 913	\$309
Active plan participants eligible for retirement	1,675	2,193
Active plan participants		

not eligible for retirement	4,933	6,391
Unrecognized prior service cost	(326)	(381)
Unrecognized actuarial gain	3,244	980
Accrued postretirement benefit cost	\$ 10,439	\$9,492

The Company's APBO is unfunded. Net annual postretirement benefit costs for 1994, 1993 and 1992 include the following components (in thousands):

	1994	1993	1992
Service cost - benefits attributed to service during the period	\$682	\$655	\$855
Interest on APBO	596	591	643
Net amortization and deferral	(12)	(38)	—
Net postretirement benefit cost	\$1,266	\$1,208	\$1,498

An 8.5% health care cost trend rate was assumed for 1995. The rate was assumed to decrease by 1/2% annually to 5.5% for 2001 and remain at that level thereafter. Increasing the rate by 1 percentage point in each year would increase the APBO as of December 31, 1994 by \$1.1 million and the net periodic postretirement benefit cost for 1994 by \$228,000. The weighted-average discount rates used in determining the APBO for 1994 and 1993 were 9.0% and 7.9%, respectively.

Note 8. Special Charges

Results for 1993 and 1992 include special charges of \$15 million and \$26 million, respectively, to recognize an impairment of the value of the Boeing B727 fleet. The special charges include reserves for future excess lease costs and the write-down of capitalized overhauls and spare parts to net realizable value.

Note 9. Income Taxes

The components of income tax expense (credit) were as follows (in thousands):

	1994	1993	1992
Current tax expense (credit):			
Federal	\$8,044	\$ (4,907)	\$ (21,057)
State	72	(253)	(1,714)
Total current	8,116	(5,160)	(22,771)
Deferred tax expense (credit):			
Federal	8,032	(8,164)	(19,451)
State	2,282	(1,570)	(3,214)
Total deferred	10,314	(9,734)	(22,665)
Total before accounting change	18,430	(14,894)	(45,436)
Deferred income tax credit cumulative effect of FAS 106			(2,613)
Total tax expense(credit)	\$18,430	\$ (14,894)	\$ (48,049)

The actual income tax expense (credit) reported differs from the "expected" tax expense (credit) (computed by applying the federal corporate tax rate of 35% for 1994 and 1993 and 34% for 1992) as follows (in thousands):

	1994	1993	1992
Income (loss) before income tax	\$40,961	\$ (45,812)	\$ (125,706)
Expected tax expense (credit)	\$14,336	\$ (16,035)	\$ (42,740)
Nondeductible expense	2,386	1,210	1,068
Federal rate change	—	1,016	—
Tax-exempt interest income	—	—	(170)

State income tax	1,531	(1,185)	(3,252)
Other - net	177	100	(342)
Actual tax expense (credit)	\$18,430	\$ (14,894)	\$ (45,436)
Effective tax rate	45.0%	32.5%	36.1%

Deferred income taxes result from temporary differences in the timing of recognition of revenue and expense for tax and financial reporting purposes.

Deferred tax assets and liabilities comprise the following at December 31 (in thousands):

	1994	1993
Excess of tax over book depreciation	\$117,085	\$95,499
Training expense	2,218	3,167
Other - net	1,252	358
Gross deferred tax liabilities	120,555	99,024
Loss carryforward	(38,275)	(43,798)
Alternative minimum tax	(24,502)	(16,346)
Capital leases	(4,507)	(3,615)
Pricing adjustment	(1,190)	(1,083)
Frequent flyer program	(6,518)	(5,576)
Employee benefits	(11,812)	(9,567)
Aircraft maintenance	(7,681)	(8,231)
Gain on sale of assets	(5,456)	(2,125)
Capitalized interest	(1,617)	-
Gross deferred tax assets	(101,558)	(90,341)
Net deferred tax liabilities	\$18,997	\$8,683
Current deferred tax asset	\$ (9,588)	\$ (12,315)
Noncurrent deferred tax liability	28,585	20,998
Net deferred tax liabilities	\$18,997	\$8,683

The book income and temporary differences for 1994 resulted in taxable income of \$12 million, which was offset by net operating losses generated in prior years.

Note 10. Business Segment Information

Financial information for Alaska and Horizon follows (in thousands):

	1994	1993	1992
Operating revenues:			
Alaska	\$ 1,061,594	\$ 906,806	\$ 908,286
Horizon	\$ 256,905	\$ 223,333	\$ 208,149
Operating income (loss):			
Alaska	\$ 62,872	\$ (24,313)	\$ (101,013)
Horizon	\$ 12,922	\$ 8,757	\$ 7,305
Total assets:			
Alaska	\$ 1,244,985	\$ 1,037,546	\$ 1,088,090
Horizon	\$ 152,263	\$ 141,940	\$ 147,076
Depreciation and amortization expense:			
Alaska	\$ 47,684	\$ 48,953	\$ 47,140
Horizon	\$ 8,681	\$ 9,276	\$ 9,564
Capital expenditures:			
Alaska	\$ 173,093	\$ 21,116	\$ 258,556
Horizon	\$ 15,535	\$ 8,800	\$ 16,389

Note 11. Financial Instruments

The estimated fair values of the Company's financial instruments were as follows (in thousands):

December 31, 1994		
	Carrying Amount	Fair Value
Cash and cash equivalents	\$11,605	\$11,605
Marketable securities	93,337	91,627
Restricted deposits	66,858	66,858
Long-term receivables	21,245	21,245
Long-term debt	573,672	549,000

December 31, 1993		
	Carrying Amount	Fair Value
Cash and cash equivalents	\$27,179	\$27,179
Marketable securities	73,970	73,889
Restricted deposits	60,903	75,000
Long-term receivables	7,683	7,683
Long-term debt	527,273	521,000

The fair value of cash equivalents approximates carrying value due to the short maturity of these instruments. The fair value of marketable securities is based on quoted market prices. The fair values of restricted deposits and long-term receivables approximate the carrying amounts. The fair value of publicly traded long-term debt is based on quoted market prices, and the fair value of other debt approximates carrying value.

During 1993, the Company entered into an interest rate swap agreement to reduce the interest expense on a portion of its fixed rate debt. The agreement, which expires in 1996, effectively changes the Company's interest rate on the debt from a fixed rate to a floating rate based on LIBOR. Variable interest payments are paid to a financial institution semi-annually based on a notional principal amount of \$201 million. In 1996, the Company will receive a \$33.2 million payment from the financial institution. At December 31, 1994, \$18.3 million of this amount is shown as a receivable in other assets. The Company is exposed to higher interest payments if LIBOR increases and is exposed to credit loss in the event of nonperformance by the financial institution. Through December 31, 1994, this swap has resulted in a \$1.1 million reduction in interest expense.

The Company enters into hedge agreements to reduce its exposure to fluctuations in the price of jet fuel. The agreements establish a ceiling price and floor price, and they provide for quarterly measurements of the average price of fuel, as determined by an index. The Company records a gain or loss if a quarterly average exceeds the ceiling or falls below the floor. The fuel hedges had no material effect on 1994 operating results. At December 31, 1994, the Company had a fuel hedge agreement in place with a ceiling price of 65 cents covering approximately 50% of the expected fuel usage through July 1995, and a floor price of 44 cents covering approximately 50% of the expected fuel usage through July 1995. At December 31, 1994, the fuel index was at 50 cents.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of Alaska Air Group, Inc.:

We have audited the accompanying consolidated balance sheet of Alaska Air Group, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alaska Air Group, Inc. and subsidiaries as of December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in Item 14(a) is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP
ARTHUR ANDERSEN LLP

Seattle, Washington
January 25, 1995

VALUATION AND QUALIFYING ACCOUNTS
Alaska Air Group, Inc.

Schedule II

(In Thousands)	Beginning Balance	Additions Charged to Expense	(A) Deductions	Ending Balance
Year Ended December 31, 1992				
(a) Reserve deducted from asset to which it applies:				
Allowance for doubtful accounts	\$2,556	\$1,237	\$ (579)	\$3,214
Obsolescence allowance for flight equipment spare parts	\$3,765	\$2,578	\$ -	\$6,343
(b) Reserve recorded as other long-term liabilities:				
Leased aircraft return provision	\$21,529	\$32,230	\$ (13,956)	\$39,803
Year Ended December 31, 1993				
(a) Reserve deducted from asset to which it applies:				
Allowance for doubtful accounts	\$3,214	\$912	\$ (1,505)	\$2,621
Obsolescence allowance for flight equipment spare parts	\$6,343	\$1,994	\$0	\$8,337
(b) Reserve recorded as other long-term liabilities:				
Leased aircraft return provision	\$39,803	\$22,324	\$ (31,394)	\$30,733
Year Ended December 31, 1994				

(a) Reserve deducted from asset to which it applies:				
Allowance for doubtful accounts	\$2,621	\$944	\$(1,280)	\$2,285
Obsolescence allowance for flight equipment spare parts	\$8,337	\$4,401	\$(663)	\$12,075
(b) Reserve recorded as other long-term liabilities:				
Leased aircraft return provision	\$30,733	\$9,007	\$(14,180)	\$25,560
(A) Deduction from reserve for purpose for which reserve was created.				

EXHIBIT INDEX

Certain of the following exhibits have heretofore been filed with the Commission and are incorporated herein by reference from the document described in parenthesis. Certain others are filed herewith.

- 3.(i) Certificate of Incorporation of Alaska Air Group, Inc. as amended through May 20, 1987 (Exhibit 3-01 to 1987 10-K).
- 3.(ii) Bylaws of Alaska Air Group, Inc., as amended through September 14, 1993 (Exhibit 3.(ii) to 1993 10K)
 - 4.1 Indenture dated June 15, 1985, between Alaska Airlines, Inc. and Bankamerica Trust Company of New York, including form of Debenture (Exhibit 4-02 to Registration Statement No. 2-98555).
 - 4.2 Rights Agreement dated as of December 2, 1986 between Alaska Air Group, Inc. and The First National Bank of Boston, as Rights Agent (Exhibit No. 1 to Form 8A filed December 12, 1986).
- 10.1 Lease and Assignment of Sublease Agreement dated February 1, 1979 between Alaska Airlines, Inc. and the Alaska Industrial Development Authority (Exhibit 10-15 to Registration Statement No. 2-70742).
- 10.2 Lease and Assignment and Sublease Agreement dated April 1, 1978 between Alaska Airlines, Inc. and the Alaska Industrial Development Authority (Exhibit 10-16 to Registration Statement No. 2-70742).
- 10.3 Alaska Air Group, Inc. 1975 Stock Option Plan, as amended through May 7, 1991.
- 10.4 Management Incentive Plan (1992 Alaska Air Group, Inc. Proxy Statement).
- 10.5 Loan Agreement dated as of December 1, 1984, between Alaska Airlines, Inc. and the Industrial Development Corporation of the Port of Seattle (Exhibit 10-38 to 1984 10-K).
- 10.6 Alaska Air Group, Inc. 1984 Stock Option Plan, as amended through May 7, 1992.
- 10.7 Supplemental retirement plan arrangement between Horizon Air Industries, Inc. and John F. Kelly (1992 Alaska Air Group, Inc. Proxy Statement).
- 10.8 Alaska Air Group, Inc. 1988 Stock Option Plan, as amended through May 19, 1992 (Registration Statement No. 33-523242).
- 10.9 Purchase Agreement between McDonnell Douglas Corporation and Alaska Airlines, Inc. DAC 88-36-D, dated October 14, 1988 (Exhibit 10-17 to 1988 10-K).
- 10.10 Capital Performance Plan (Exhibit 4.3 to Registration Statement 33-33087).
- #10.11 Purchase Agreement dated March 30, 1990 between McDonnell Douglas Corporation and Alaska Airlines, Inc. for the purchase of up to 40 MD90-30 aircraft (Exhibit 10-13 to 1990 10-K)
- #10.12 Lease Agreement dated January 22, 1990 between International Lease Finance Corporation and Alaska Airlines, Inc. for the lease of a B737-400 aircraft, summaries of 19 substantially identical lease agreements for 19 additional B737-400 aircraft and Letter Agreement #1 dated January 22, 1990 (Exhibit 10-14 to 1990 10-K)
- #10.13 Purchase Agreement dated as of May 15, 1991, between Horizon Air Industries, Inc. and Dornier Luftfahrt GmbH for the purchase of up to 60 Dornier 328 aircraft (Exhibit 10-19 to May 30, 1991 8-K).

#10.14 Amendment dated as of June 25, 1993 to the Purchase Agreement dated as of May 15, 1991, between Horizon Air Industries, Inc. and Dornier Luftfahrt GmbH for the purchase of up to 60 Dornier 328 aircraft (Exhibit 10-19a to Second Quarter 1993 10-Q).

*11 Computation of Earnings Per Common Share.

*12 Calculation of Ratio of Earnings to Fixed Charges and Preferred Dividends.

21 Subsidiaries of the Registrant (Exhibit 22-01 to 1987 10-K).

*23 Consent of Arthur Andersen & Co.

*27 Financial Data Schedule

* Filed herewith.

Confidential treatment was granted as to a portion of this document.

Alaska Air Group, Inc.
Computation of Earnings Per Common Share
(In thousands, except per share)

EXHIBIT 11

	1994	1993	1992
	-----	-----	-----
Primary -			
Income (loss) before accounting change	\$22,531	(\$30,918)	(\$80,270)
Deduct dividends on preferred shares	-	(2,429)	(6,400)
Deduct preferred stock accretion	-	(96)	(288)
	-----	-----	-----
Income (loss) before accounting change applicable to common shares	22,531	(33,443)	(86,958)
Cumulative effect of accounting change	-	-	(4,567)
	-----	-----	-----
Income (loss) applicable to common shares	\$22,531	(\$33,443)	(\$91,525)
	=====	=====	=====
Average number of shares outstanding	13,367	13,340	13,309
Assumed exercise of stock options reduced by the number of shares purchased with the proceeds from exercise of such options	11	-	-
	-----	-----	-----
Common shares outstanding as adjusted	13,378	13,340	13,309
	=====	=====	=====
Earnings (loss) per common share:			
Income (loss) before accounting change	\$1.68	(\$2.51)	(\$6.53)
Cumulative effect of accounting change	-	-	(0.34)
	-----	-----	-----
Net income (loss)	\$1.68	(\$2.51)	(\$6.87)
	=====	=====	=====
Fully Diluted -			
Income (loss) before accounting change	\$22,531	(\$30,918)	(\$80,270)
After tax interest on convertible securities	9,252	10,008	9,573
	-----	-----	-----
Income (loss) before accounting change applicable to common shares	31,783	(20,910)	(70,697)
Cumulative effect of accounting change	-	-	(4,567)
	-----	-----	-----
Income (loss) applicable to common shares	\$31,783	(\$20,910)	(\$75,264)
	=====	=====	=====
Average			
number of shares outstanding	13,367	13,340	13,309
Assumed exercise of stock options	11	12	84
Assumed conversion of 7.75% debentures	512	518	518
Assumed conversion of 6.875% debentures	1,678	1,865	1,983
Assumed conversion of 7.25% zero coupon notes	4,030	4,277	4,277
Assumed conversion of preferred shares	0	0	2,315
	-----	-----	-----
Average shares as adjusted	19,598	20,012	22,486
	=====	=====	=====
Earnings (loss) per common share:			
Income (loss) before accounting change	\$1.62	(\$0.94)	(\$3.14)
Cumulative effect of accounting change	-	-	(0.21)
	-----	-----	-----
Net income (loss)	\$1.62	(\$1.04)	(\$3.35)
	=====	=====	=====
* Anti-dilutive		*	*

Alaska Air Group, Inc.
Calculation of Ratio of Earnings to Fixed Charges
and Preferred Dividends
(In thousands, except ratios)

EXHIBIT 12

	1994	1993	1992	1991	1990
	-----	-----	-----	-----	-----
Earnings:					
Income (loss) before income tax expense and accounting change	\$40,961	(\$45,812)	(\$125,706)	\$16,207	\$27,918
Less: Capitalized interest	(353)	(446)	(6,102)	(8,301)	(9,024)
Add:					
Interest on indebtedness	46,960	37,624	43,223	40,180	20,266
Amortization of debt expense	1,368	690	643	519	440
Portion of rent under long-term operating leases representative of an interest factor	65,618	60,136	49,889	41,327	38,346
	-----	-----	-----	-----	-----
Total Earnings Available for Fixed Charges and Preferred Dividends	\$154,554	\$52,192	(\$38,053)	\$89,932	\$77,946
	=====	=====	=====	=====	=====
Fixed Charges and Preferred Dividends:					
Preferred dividends	-	\$2,429	\$6,400	\$6,383	\$5,753
Times, ratio of income before income tax expense to net income	NA	1.48	1.57	1.57	1.63
	-----	-----	-----	-----	-----
Preferred dividends on pretax basis	NA	3,595	10,048	10,021	9,377
Amortization of preferred stock issuance costs	-	96	288	288	264
Interest	46,960	37,624	43,223	40,180	20,266
Amortization of debt expense	1,368	690	643	519	440
Portion of rent under long-term operating leases representative of an interest factor	65,618	60,136	49,889	41,327	38,346
	-----	-----	-----	-----	-----
Total Fixed Charges and Preferred Dividends	\$113,946				
	=====	=====	=====	=====	=====
	\$102,141	\$104,091	\$92,335	\$68,693	
	=====	=====	=====	=====	=====
Ratio of Earnings to Fixed Charges and Preferred Dividends	1.36	0.51	(0.37)	0.97	1.13
	=====	=====	=====	=====	=====
Coverage deficiency	-	\$49,949	\$142,144	\$2,403	-
	=====	=====	=====	=====	=====

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated January 25, 1995 included in this Form 10-K, into the Company's previously filed Registration Statements, File Numbers 2-96973, 33-22358, and 33-33087.

/s/ ARTHUR ANDERSEN LLP
ARTHUR ANDERSEN LLP

Seattle, Washington
February 15, 1995

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM ALASKA AIR GROUP INC 1994 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

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