

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED  
March 31, 2000 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM  
TO

Commission file No. 1-7259

SOUTHWEST AIRLINES CO.  
(Exact name of registrant as specified in its charter)

TEXAS 74-1563240  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

P.O. Box 36611, Dallas, Texas 75235-1611  
(Address of principal executive offices) (Zip Code)

(214) 792-4000  
(Registrant's telephone number, including area code)

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 the number of shares outstanding of each of the issuer's  
classes of common stock, as of the latest practicable date.

Number of shares of Common Stock outstanding as of the close  
of business on April 26, 2000:

496,228,775

SOUTHWEST AIRLINES CO.  
FORM 10-Q

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Southwest Airlines Co.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands)  
(unaudited)

<TABLE>

<CAPTION>

|                                                 | March 31,<br>2000 | December 31,<br>1999 |
|-------------------------------------------------|-------------------|----------------------|
| <S>                                             | <C>               | <C>                  |
| ASSETS                                          |                   |                      |
| Current assets:                                 |                   |                      |
| Cash and cash equivalents                       | \$542,561         | \$418,819            |
| Accounts receivable                             | 122,123           | 73,448               |
| Inventories of parts and supplies               | 66,534            | 65,152               |
| Deferred income taxes                           | 21,355            | 20,929               |
| Prepaid expenses and other current assets       | 52,892            | 52,657               |
| Total current assets                            | 805,465           | 631,005              |
| Property and equipment:                         |                   |                      |
| Flight equipment                                | 5,884,287         | 5,768,506            |
| Ground property and equipment                   | 751,027           | 742,230              |
| Deposits on flight equipment purchase contracts | 400,698           | 338,229              |
|                                                 | 7,036,012         | 6,848,965            |
| Less allowance for depreciation                 | 1,914,483         | 1,840,799            |
|                                                 | 5,121,529         | 5,008,166            |
| Other assets                                    | 13,039            | 12,942               |
|                                                 | \$5,940,033       | \$5,652,113          |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

|                                                    |             |             |
|----------------------------------------------------|-------------|-------------|
| Accounts payable                                   | \$209,079   | \$156,755   |
| Accrued liabilities                                | 559,953     | 538,896     |
| Air traffic liability                              | 484,279     | 256,942     |
| Income taxes payable                               | 45,768      | -           |
| Current maturities of long-term debt               | 7,254       | 7,873       |
| Total current liabilities                          | 1,306,333   | 960,466     |
| Long-term debt less current maturities             | 868,023     | 871,717     |
| Deferred income taxes                              | 672,656     | 692,342     |
| Deferred gains from sale and leaseback of aircraft | 218,906     | 222,700     |
| Other deferred liabilities                         | 60,897      | 69,100      |
| Stockholders' equity:                              |             |             |
| Common stock                                       | 507,805     | 505,005     |
| Capital in excess of par value                     | 40,668      | 35,436      |
| Retained earnings                                  | 2,456,615   | 2,385,854   |
| Treasury stock at cost                             | (191,870)   | (90,507)    |
| Total stockholders' equity                         | 2,813,218   | 2,835,788   |
|                                                    | \$5,940,033 | \$5,652,113 |

</TABLE>

See accompanying notes.

Southwest Airlines Co.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except per share amounts)  
(unaudited)

<TABLE>

<CAPTION>

|                                                                                             | Three months ended<br>March 31, |             |
|---------------------------------------------------------------------------------------------|---------------------------------|-------------|
|                                                                                             | 2000                            | 1999        |
| <S>                                                                                         | <C>                             | <C>         |
| OPERATING REVENUES:                                                                         |                                 |             |
| Passenger                                                                                   | \$1,199,885                     | \$1,034,359 |
| Freight                                                                                     | 27,066                          | 25,093      |
| Other                                                                                       | 15,696                          | 16,119      |
| Total operating revenues                                                                    | 1,242,647                       | 1,075,571   |
| OPERATING EXPENSES:                                                                         |                                 |             |
| Salaries, wages, and benefits                                                               | 381,489                         | 344,012     |
| Fuel and oil                                                                                | 197,071                         | 85,668      |
| Maintenance materials and repairs                                                           | 93,565                          | 89,491      |
| Agency commissions                                                                          | 37,216                          | 39,081      |
| Aircraft rentals                                                                            | 49,347                          | 49,806      |
| Landing fees and other rentals                                                              | 65,019                          | 57,983      |
| Depreciation                                                                                | 66,698                          | 56,786      |
| Other operating expenses                                                                    | 196,834                         | 186,127     |
| Total operating expenses                                                                    | 1,087,239                       | 908,954     |
| OPERATING INCOME                                                                            | 155,408                         | 166,617     |
| OTHER EXPENSES (INCOME):                                                                    |                                 |             |
| Interest expense                                                                            | 17,223                          | 13,387      |
| Capitalized interest                                                                        | (7,001)                         | (6,984)     |
| Interest income                                                                             | (6,649)                         | (5,535)     |
| Other (gains) losses, net                                                                   | (4,138)                         | 9,647       |
| Total other expenses (income)                                                               | (565)                           | 10,515      |
| INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE          | 155,973                         | 156,102     |
| PROVISION FOR INCOME TAXES                                                                  | 60,330                          | 60,255      |
| NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE                       | 95,643                          | 95,847      |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (Net of Income Taxes of \$14.0 million) | 22,131                          | -           |
| NET INCOME                                                                                  | \$73,512                        | \$95,847    |
| NET INCOME PER SHARE, BASIC BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE      | \$ .19                          | \$ .19      |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE                                         | .04                             | -           |
| NET INCOME PER SHARE, BASIC                                                                 | \$ .15                          | \$ .19      |
| NET INCOME PER SHARE, DILUTED                                                               |                                 |             |
| BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE                                  | \$ .18                          | \$ .18      |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE                                         | .04                             | -           |
| NET INCOME PER SHARE, DILUTED                                                               | \$ .14                          | \$ .18      |
| WEIGHTED AVERAGE SHARES OUTSTANDING:                                                        |                                 |             |
| Basic                                                                                       | 497,157                         | 501,154     |

Diluted 526,356 535,923  
 </TABLE>  
 See accompanying notes.

Southwest Airlines Co.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (in thousands)  
 (unaudited)

|                                                             | Three months ended<br>March 31, |           |
|-------------------------------------------------------------|---------------------------------|-----------|
|                                                             | 2000                            | 1999      |
| <S>                                                         | <C>                             | <C>       |
| NET CASH PROVIDED BY OPERATING<br>ACTIVITIES                | \$415,565                       | \$310,652 |
| INVESTING ACTIVITIES:                                       |                                 |           |
| Net purchases of property and<br>equipment                  | (191,810)                       | (289,096) |
| FINANCING ACTIVITIES:                                       |                                 |           |
| Payments of long-term debt and<br>capital lease obligations | (4,411)                         | (7,413)   |
| Payments of cash dividends                                  | (5,510)                         | (5,001)   |
| Proceeds from Employee stock<br>plans                       | 11,271                          | 17,921    |
| Repurchases of common stock                                 | (101,363)                       | -         |
| NET CASH PROVIDED BY (USED IN)<br>FINANCING ACTIVITIES      | (100,013)                       | 5,507     |
| NET INCREASE IN CASH AND CASH<br>EQUIVALENTS                | 123,742                         | 27,063    |
| CASH AND CASH EQUIVALENTS AT<br>BEGINNING OF PERIOD         | 418,819                         | 378,511   |
| CASH AND CASH EQUIVALENTS AT<br>END OF PERIOD               | \$542,561                       | \$405,574 |
| CASH PAYMENTS FOR:                                          |                                 |           |
| Interest, net of amount<br>capitalized                      | \$12,453                        | \$14,611  |
| Income taxes                                                | \$621                           | \$1,009   |

</TABLE>  
 See accompanying notes.

SOUTHWEST AIRLINES CO.  
 Notes to Condensed Consolidated Financial Statements  
 (unaudited)

1. Basis of presentation - The accompanying unaudited condensed consolidated financial statements of Southwest Airlines Co. (Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The condensed consolidated financial statements for the interim periods ended March 31, 2000 and 1999 include all adjustments (which include only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. Operating results for the three months ended March 31, 2000 are not necessarily indicative of the results that may be expected for the year ended December 31, 2000. For further information, refer to the consolidated financial statements and footnotes thereto included in the Southwest Airlines Co. Annual Report on Form 10-K

for the year ended December 31, 1999.

2. Dividends - During the three month period ended March 31, 2000, dividends of \$.0055 per share were declared on the 497.1 million shares of common stock then outstanding. During the three month period ended March 31, 1999, dividends of \$.005 per share were declared on the 501.9 million shares of common stock then outstanding.

3. Common stock - On May 20, 1999, the Company's Board of Directors declared a three-for-two stock split, distributing 168.0 million shares on July 19, 1999. All per share data presented in the accompanying unaudited condensed consolidated financial statements and notes thereto have been restated for the stock split.

4. Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation. Most notably, this includes the reclassification of \$15.1 million of Other Revenue to Passenger Revenue as a result of the change in accounting principle effective January 1, 2000. See Note 6 for further information.

5. Net income per share - The following table sets forth the computation of basic and diluted net income per share (in thousands except per share amounts):

<TABLE>

<CAPTION>

|                                                                       | Three months ended |          |
|-----------------------------------------------------------------------|--------------------|----------|
|                                                                       | March 31,          |          |
|                                                                       | 2000               | 1999     |
| <S>                                                                   | <C>                | <C>      |
| NUMERATOR:                                                            |                    |          |
| Net income before cumulative effect of change in accounting principle | \$95,643           | \$95,847 |
| Cumulative effect of change in accounting principle                   | 22,131             | -        |
| Net income available to common stockholders                           | \$73,512           | \$95,847 |
| DENOMINATOR:                                                          |                    |          |
| Weighted-average shares outstanding, basic                            | 497,157            | 501,154  |
| Dilutive effect of Employee stock options                             | 29,199             | 34,769   |
| Adjusted weighted-average shares outstanding, diluted                 | 526,356            | 535,923  |
| NET INCOME PER SHARE:                                                 |                    |          |
| Basic, before cumulative effect of change in accounting principle     | \$.19              | \$.19    |
| Cumulative effect of change in accounting principle                   | .04                | -        |
| Basic                                                                 | \$.15              | \$.19    |
| Diluted, before cumulative effect of change in accounting principle   | \$.18              | \$.18    |
| Cumulative effect of change in accounting principle                   | .04                | -        |
| Diluted                                                               | \$.14              | \$.18    |

</TABLE>

6. Accounting Change - Effective January 1, 2000, the Company adopted Staff Accounting Bulletin 101 (SAB 101) issued by the Securities and Exchange Commission in December 1999. As a result of adopting SAB 101, the Company changed the way it recognizes revenue from the sale of flight segment credits to companies participating in its Rapid Rewards frequent flyer program. Prior to the issuance of SAB 101, the Company recorded revenue to "Other revenue" when flight segment credits were sold, consistent with most other major airlines. Beginning January 1, 2000, the Company recognizes "Passenger revenue" when free travel awards are earned and flown. Due to this change, the Company recorded a cumulative adjustment of \$22.1 million (net of income taxes of \$14.0 million) or \$.04 per share, basic and diluted. The impact of adopting SAB 101 on first quarter 2000 was to reduce income before cumulative

effect of change in accounting principle by \$822,000. Net income per share before cumulative effect of change in accounting principle as reported for first quarter 2000 was not affected by the change. The Company also reclassified for comparison purposes, the revenue reported in prior periods related to the sale of flight segment credits from "Other revenue" to "Passenger revenue." Reported and pro forma amounts for 1999 by quarter assuming the change in accounting was applied retroactively are as follows:

<TABLE>

<CAPTION>

| As reported                   | Three months ended (unaudited) |           |           |          | 1999      |
|-------------------------------|--------------------------------|-----------|-----------|----------|-----------|
|                               | March 31                       | June 30   | Sept 30   | Dec 31   |           |
| <S>                           | <C>                            | <C>       | <C>       | <C>      | <C>       |
| Net income                    | \$95,847                       | \$157,757 | \$126,978 | \$93,796 | \$474,378 |
| Net income per share, basic   | \$.19                          | \$.31     | \$.25     | \$.19    | \$.94     |
| Net income per share, diluted | \$.18                          | \$.29     | \$.24     | \$.18    | \$.89     |

| Pro forma                     | Three months ended (unaudited) |           |           |          | 1999      |
|-------------------------------|--------------------------------|-----------|-----------|----------|-----------|
|                               | March 31                       | June 30   | Sept 30   | Dec 31   |           |
| Net income                    | \$94,083                       | \$155,530 | \$127,055 | \$93,076 | \$469,744 |
| Net income per share, basic   | \$.19                          | \$.31     | \$.25     | \$.18    | \$.93     |
| Net income per share, diluted | \$.18                          | \$.29     | \$.24     | \$.17    | \$.88     |

</TABLE>

## Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

### Comparative Consolidated Operating Statistics

Relevant operating statistics for the three months ended March 31, 2000 and 1999 are as follows:

<TABLE>

<CAPTION>

|                                         | Three months ended |            |  |          |
|-----------------------------------------|--------------------|------------|--|----------|
|                                         | March 31,          |            |  |          |
|                                         | 2000               | 1999 *     |  | Change   |
| <S>                                     | <C>                | <C>        |  | <C>      |
| Revenue passengers carried              | 14,389,276         | 12,933,578 |  | 11.3%    |
| Revenue passenger miles (RPMs) (000s)   | 9,453,201          | 8,046,484  |  | 17.5%    |
| Available seat miles (ASMs) (000s)      | 14,153,959         | 12,392,978 |  | 14.2%    |
| Load factor                             | 66.8%              | 64.9%      |  | 1.9 pts. |
| Average length of passenger haul        | 657                | 622        |  | 5.6%     |
| Trips flown                             | 218,615            | 202,546    |  | 7.9%     |
| Average passenger fare                  | \$83.39            | \$79.97    |  | 4.3%     |
| Passenger revenue yield per RPM (cents) | 12.69              | 12.85      |  | (1.2)%   |
| Operating revenue yield per ASM (cents) | 8.78               | 8.68       |  | 1.2%     |
| Operating expenses per ASM (cents)      | 7.68               | 7.33       |  | 4.8%     |

|                                                    |        |        |        |
|----------------------------------------------------|--------|--------|--------|
| Operating expenses per ASM, excluding fuel (cents) | 6.29   | 6.64   | (5.3)% |
| Fuel costs per gallon, excluding fuel tax (cents)  | 81.98  | 39.32  | 108.5% |
| Number of Employees at period-end                  | 27,911 | 26,532 | 5.2%   |
| Size of fleet at period-end                        | 315    | 287    | 9.8%   |

\* Average passenger fare and passenger revenue yield per RPM have been restated for comparison purposes to reflect the reclassifications related to the change in accounting principle.

</TABLE>

#### Material Changes in Results of Operations

Consolidated net income before the cumulative effect of change in accounting principle for the first quarter ended March 31, 2000 was \$95.6 million (\$.18 per share, diluted), as compared to first quarter 1999 net income of \$95.8 million (\$.18 per share, diluted), a decrease of .2 percent. The prior year's net income per share amounts have been restated for the 1999 three-for-two stock split (see Note 3 to the unaudited Condensed Consolidated Financial Statements). The cumulative effect of change in accounting principle for first quarter 2000 was \$22.1 million, net of taxes of \$14.0 million (see Note 6 to the unaudited Condensed Consolidated Financial Statements). Net income, after the cumulative effect of change in accounting principle, for first quarter 2000 was \$73.5 million.

First quarter 2000 consolidated operating revenues increased 15.5 percent compared to first quarter 1999 primarily due to a 16.0 percent increase in passenger revenues. The increase in passenger revenues primarily resulted from an 11.3 percent increase in revenue passengers carried and a 17.5 percent increase in RPMs partially offset by a 1.2 percent decrease in passenger revenue yield per RPM (passenger yield). The slight decrease in passenger yield is primarily due to a 5.6 percent increase in average length of passenger haul compared to first quarter 1999, partially offset by a 4.3 percent increase in average passenger fare.

The increase in RPMs and a 14.2 percent increase in ASMs resulted in a load factor of 66.8 percent, or 1.9 points above first quarter 1999. The increase in ASMs resulted primarily from the net addition of 28 aircraft since first quarter 1999, which represents a 9.8 percent increase in the Company's fleet size. Thus far, load factors in April and bookings for May and June appear to be consistent with or better than those experienced in the same prior year periods. (The immediately preceding sentence is a forward-looking statement which involves uncertainties that could result in actual results differing materially from expected results. Some significant factors include, but may not be limited to, competitive pressure such as fare sales and capacity changes by other carriers, general economic conditions, and variations in advance booking trends.)

Consolidated freight revenues increased 7.9 percent in first quarter 2000 compared to the same 1999 period primarily due to an increase in capacity. Other revenues decreased 2.6 percent in first quarter 2000 primarily due to a decrease in charter revenues. The Company had less aircraft devoted to its charter business in first quarter 2000 in part due to delays in new aircraft deliveries from Boeing. These delays were the result of a 40-day strike beginning in mid-February 2000 by the Society of Professional Engineering Employees in Aerospace. The strike, which ended in late March 2000, has also caused some delays in new aircraft deliveries in early second quarter 2000.

Operating expenses per ASM for first quarter 2000 increased 4.8 percent to \$.0768, compared to \$.0733 for first quarter 1999, primarily due to a significant increase in average jet fuel prices. The average fuel cost per gallon of \$.8198 was more than double first quarter 1999's average cost per gallon of \$.3932. Excluding fuel expense, operating expenses per ASM decreased 5.3 percent in first quarter 2000 compared to first quarter 1999. Unit costs are expected to continue to be adversely affected by higher fuel prices in second quarter 2000 versus second quarter 1999. Excluding fuel, the Company expects a decrease in unit costs in second quarter 2000 compared to second quarter 1999. (The

immediately preceding two sentences are forward-looking statements which involve uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, the largely unpredictable levels of jet fuel prices.)

Southwest Airlines Co.  
Operating Expenses per ASM  
(in cents except percent change)

<TABLE>

<CAPTION>

| <S>                                      | Three months ended       |             | Inc/<br>(Dec)<br><C> | Percent<br>Change<br><C> |
|------------------------------------------|--------------------------|-------------|----------------------|--------------------------|
|                                          | March 31,<br>2000<br><C> | 1999<br><C> |                      |                          |
| Salaries, wages, and benefits            | 2.40                     | 2.44        | (.04)                | (1.6)                    |
| Employee profitsharing and savings plans | .29                      | .34         | (.05)                | (14.7)                   |
| Fuel and oil                             | 1.39                     | .69         | .70                  | 101.4                    |
| Maintenance materials and repairs        | .66                      | .72         | (.06)                | (8.3)                    |
| Agency commissions                       | .26                      | .32         | (.06)                | (18.8)                   |
| Aircraft rentals                         | .35                      | .40         | (.05)                | (12.5)                   |
| Landing fees and other rentals           | .46                      | .47         | (.01)                | (2.1)                    |
| Depreciation                             | .47                      | .46         | .01                  | 2.2                      |
| Other operating expenses                 | 1.40                     | 1.49        | (.09)                | (6.0)                    |
| Total                                    | 7.68                     | 7.33        | .35                  | 4.8                      |

</TABLE>

Salaries, wages, and benefits per ASM decreased 1.6 percent in first quarter 2000 compared to the same 1999 period, primarily due to increases in productivity.

Profitsharing and Employee savings plan expenses per ASM decreased 14.7 percent from first quarter 1999 to first quarter 2000, primarily as a result of earnings available for profitsharing declining in 2000 while capacity continued to increase.

Fuel and oil expense per ASM increased 101.4 percent in first quarter 2000 due to a 108.5 percent increase in the average jet fuel cost per gallon compared to the same 1999 period. The average price paid for jet fuel in first quarter 2000 was \$.8198 per gallon compared to \$.3932 in first quarter 1999, including the effects of hedging activities. The Company's first quarter 2000 and 1999 average jet fuel prices are net of approximately \$3.2 million in gains and \$2.8 million in losses from hedging activities, respectively. As of April 20, 2000, the Company had hedged the majority of its anticipated jet fuel requirements for the remainder of the year. For second quarter 2000, the Company had hedged 39 percent of its requirements with fixed crude oil swaps at an average price of \$26.90 per barrel and capped 46 percent of its requirements with crude oil options at an average of \$26.50 per barrel. For third quarter 2000, the Company had hedged 70 percent of its requirements with fixed crude oil swaps at an average price of \$23.60 per barrel and capped 30 percent of its requirements with crude oil options at an average of \$24.50 per barrel. For fourth quarter 2000, the Company had hedged 70 percent of its requirements with fixed crude oil swaps at an average price of \$22.50 per barrel and capped 30 percent of its requirements with crude oil options at an average of \$23.25 per barrel. Despite these hedge positions, the Company is expecting significantly higher average net jet fuel cost per gallon for second quarter 2000 compared to second quarter 1999. The Company's fuel hedging strategy could result in the Company not fully benefiting from certain jet fuel price declines. (The immediately preceding two sentences are forward-looking statements, which involve uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, the largely unpredictable levels of jet fuel prices.)

Maintenance materials and repairs per ASM decreased 8.3 percent for first quarter 2000 compared to the same prior year period. This decrease was primarily due to a reduction in scheduled engine maintenance related to the Company's 737-200 aircraft. First quarter 1999 was an unusually high period for engine maintenance related to the Company's 737-200 aircraft fleet. The engines on these aircraft are not covered by the Company's maintenance contract with General Electric Engine

Services, Inc.; therefore, repairs are expensed on a time and materials basis.

Agency commissions per ASM decreased 18.8 percent for first quarter 2000 compared to first quarter 1999, primarily due to an increase in direct sales. More than 25 percent of the Company's first quarter 2000 revenues were attributable to direct bookings through the Company's Internet site compared to less than 15 percent in the same prior year period. The increase in Internet revenues contributed to the Company's percentage of commissionable revenues decreasing from 37.8 percent in first quarter 1999 to 31.0 percent in first quarter 2000.

Aircraft rentals per ASM decreased 12.5 percent for first quarter 2000 compared to first quarter 1999 due to a lower percentage of the aircraft fleet being leased.

Landing fees and other rentals per ASM decreased 2.1 percent for first quarter 2000 compared to first quarter 1999. The net decrease was the result of a decrease in landing fees per ASM of 5.0 percent, partially offset by an increase in other rentals per ASM of 1.7 percent. Although landing fees declined on a per ASM basis, they were flat on a per trip basis. The growth in ASMs exceeded the trip growth primarily due to an increase in the average distance per trip flown. Other rental expense per ASM increased primarily due to the Company's expansion of facilities in several airports.

Depreciation expense per ASM increased 2.2 percent for first quarter 2000 compared to first quarter 1999 primarily due to a higher percentage of owned aircraft. Of the 33 aircraft added to the Company's fleet over the past twelve months, 32 have been purchased. This, combined with the retirement of 5 leased aircraft, has increased the Company's percentage of aircraft owned or on capital lease from 65 percent at March 31, 1999 to 70 percent at March 31, 2000.

Other expenses (income) for first quarter 2000 included interest expense, capitalized interest, interest income, and other gains and losses. Interest expense increased in first quarter 2000 compared to first quarter 1999 primarily due to the Company's issuance of \$256 million of long-term debt in fourth quarter 1999. Interest income increased in first quarter 2000 compared to first quarter 1999 primarily due to higher invested cash balances. Cash balances were higher primarily due to strong first quarter 2000 sales. Other gains in first quarter 2000 were primarily due to proceeds received from the favorable conclusion of a lawsuit. Other losses in first quarter 1999 resulted primarily from a write-down associated with the consolidation of certain software development projects.

#### Liquidity and Capital Resources

Net cash provided by operating activities was \$415.6 million for the three months ended March 31, 2000 and \$1,106.6 million for the 12 months then ended. Also, during fourth quarter 1999, additional funds of \$256 million were generated through the issuance of floating rate long-term debt from two separate financing transactions. Cash generated for the 12 months ended March 31, 2000 was primarily used to finance aircraft-related capital expenditures, provide working capital, and repurchase approximately \$191.9 million of the Company's outstanding common stock. The Company began this repurchase program during third quarter 1999. The program has resulted in the repurchase of approximately 11.8 million post-split shares through March 31, 2000 at an average cost of \$16.20 per share.

During the 12 months ended March 31, 2000, net capital expenditures were \$1,070.5 million, which primarily related to the purchase of 28 new 737-700 aircraft, one used 737-700 aircraft, three used 737-300 aircraft, and progress payments for future aircraft deliveries.

The Company's contractual commitments consist primarily of scheduled aircraft acquisitions. As of March 31, 2000, 29 737-700s are scheduled for delivery in the remainder of 2000, 23 in 2001, 21 in 2002, five in 2003, and five in 2004. In addition, the Company has options to purchase up to 62 737-700s during 2003-2006. The Company has the option, which must be exercised two years prior to the contractual delivery date, to substitute 737-600s or 737-800s for the 737-700s scheduled subsequent to 2000. Aggregate funding needed for fixed commitments at March 31, 2000 was approximately \$1,867 million due as follows: \$589 million in 2000; \$520 million in 2001; \$516 million in 2002; \$153 million in 2003; and \$89 million in 2004.



The Company has various options available to meet its capital and operating commitments, including cash on hand at March 31, 2000 of \$542.6 million, internally generated funds, and a revolving credit line with a group of banks of up to \$475 million (none of which had been drawn at March 31, 2000). In addition, the Company will also consider various borrowing or leasing options to maximize earnings and supplement cash requirements.

The Company currently has outstanding shelf registrations for the issuance of \$318.8 million in public debt securities which it may utilize for aircraft financing during 2000 and 2001.

The Company recently announced new service to Albany, New York, beginning May 7, 2000, with daily nonstop service to Baltimore/Washington, Las Vegas, and Orlando. The Company also intends to begin service to at least one additional new city in 2000.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 7A. Quantitative and Qualitative Disclosures About Market Risk in the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

The Company received a statutory notice of deficiency from the Internal Revenue Service (the IRS) in which the IRS proposed to defer deductions claimed by the Company on its federal income tax returns for the taxable years 1989 through 1991 for the costs of certain aircraft inspection and maintenance procedures. The IRS has proposed similar adjustments to the tax returns of numerous other members of the airline industry. In response to the statutory notice of deficiency, the Company filed a petition in the United States Tax court on October 30, 1997, seeking a determination that the IRS erred in disallowing the deductions claimed by the Company and that there is no deficiency in the Company's tax liability for the taxable years in issue. It is expected that the Tax Court's decision will not be entered for several years. Management believes that the final resolution of this controversy will not have a materially adverse effect upon the financial position and results of operations of the Company.

### Item 2. Changes in Securities and Use of Proceeds

#### Recent Sales of Unregistered Securities

During the first quarter of 2000, Herbert D. Kelleher exercised unregistered options to purchase Southwest Airlines Co. Common Stock as follows:

<TABLE>

| <CAPTION>                     |              |                     |
|-------------------------------|--------------|---------------------|
| Number of Shares<br>Purchased | Option Price | Date of<br>Exercise |
| <C>                           | <C>          | <C>                 |
| 854,295                       | \$1.00       | 1/26/2000           |

</TABLE>

The issuance of the above shares to Mr. Kelleher were exempt from the registration provisions of the Securities Act of 1933, as amended (the "Act"), by reason of the provision of Section 4(2) of the Act because, among other things, of the limited number of participants in such transactions and the agreement and representation of Mr. Kelleher that he was acquiring such securities for investment and not with a view to distribution thereof. The certificates representing the shares issued to Mr. Kelleher contain a legend to the effect that such shares are not registered under the Act and may not be transferred except pursuant to a registration statement which has become effective under the Act or to an exemption from such registration. The issuance of such shares was not underwritten.

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

(27) Financial Data Schedule

b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements 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.

SOUTHWEST AIRLINES CO.

May 4, 2000  
Date

/s/ Gary C. Kelly  
Gary C. Kelly  
Vice President - Finance and  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

INDEX TO EXHIBITS

Exhibit  
Number

Exhibit

(27) Financial Data Schedule

<TABLE> <S> <C>

<ARTICLE> 5  
<CIK> 0000092380  
<NAME> SOUTHWEST AIRLINES CO  
<MULTIPLIER> 1000

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