

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED
June 30, 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 ☒ 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 July 31, 2000:

498,567,401

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>

	June 30, 2000	December 31, 1999
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$636,650	\$418,819
Accounts receivable	117,550	73,448
Inventories of parts and supplies	70,127	65,152

Deferred income taxes	21,498	20,929
Prepaid expenses and other current assets	53,365	52,657
Total current assets	899,190	631,005
Property and equipment:		
Flight equipment	6,191,771	5,768,506
Ground property and equipment	757,677	742,230
Deposits on flight equipment purchase contracts	390,415	338,229
	7,339,863	6,848,965
Less allowance for depreciation	1,992,549	1,840,799
	5,347,314	5,008,166
Other assets	12,920	12,942
	\$6,259,424	\$5,652,113

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$199,442	\$156,755
Accrued liabilities	642,008	538,896
Air traffic liability	427,076	256,942
Income taxes payable	54,756	-
Current maturities of long-term debt	3,875	7,873
Total current liabilities	1,327,157	960,466
Long-term debt less current maturities	868,121	871,717
Deferred income taxes	763,345	692,342
Deferred gains from sale and leaseback of aircraft	215,111	222,700
Other deferred liabilities	76,145	69,100
Stockholders' equity:		
Common stock	507,897	505,005
Capital in excess of par value	42,103	35,436
Retained earnings	2,624,070	2,385,854
Treasury stock at cost	(164,525)	(90,507)
Total stockholders' equity	3,009,545	2,835,788
	\$6,259,424	\$5,652,113

See accompanying notes.

</TABLE>

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

<TABLE>

<CAPTION>

	Three months ended June 30,		Six months ended June 30,	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
OPERATING REVENUES:				
Passenger	\$1,415,958	\$1,177,282	\$2,615,843	\$2,211,640
Freight	27,968	25,186	55,034	50,279
Other	16,749	17,964	32,445	34,084
Total operating revenues	1,460,675	1,220,432	2,703,322	2,296,003
OPERATING EXPENSES:				
Salaries, wages, and benefits	422,247	368,573	803,736	712,585
Fuel and oil	197,608	102,982	394,679	188,650
Maintenance materials and repairs	90,311	85,145	183,876	174,636
Agency commissions	41,310	40,201	78,526	79,282
Aircraft rentals	49,023	49,898	98,370	99,704
Landing fees and other rentals	64,982	60,708	130,001	118,691
Depreciation	68,523	59,542	135,221	116,328
Other operating expenses	212,113	199,052	408,947	385,179
Total operating expenses	1,146,117	966,101	2,233,356	1,875,055
OPERATING INCOME	314,558	254,331	469,966	420,948
OTHER EXPENSES (INCOME):				
Interest expense	17,442	13,295	34,665	26,682
Capitalized interest	(6,905)	(9,109)	(13,906)	(16,093)
Interest income	(10,511)	(6,838)	(17,160)	(12,373)
Other (gains) losses, net	3,667	385	(471)	10,032
Total other expenses (income)	3,693	(2,267)	3,128	8,248
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	310,865	256,598	466,838	412,700
PROVISION FOR INCOME TAXES	120,243	98,841	180,573	159,096

NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	190,622	157,757	286,265	253,604
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (Net of Income Taxes of \$14.0 million)	-	-	22,131	-
NET INCOME	\$190,622	\$157,757	\$264,134	\$253,604

NET INCOME PER SHARE, BASIC BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$.38	\$.31	\$.57	\$.50
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	-	-	.04	-
NET INCOME PER SHARE, BASIC	\$.38	\$.31	\$.53	\$.50

NET INCOME PER SHARE, DILUTED BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$.36	\$.29	\$.54	\$.47
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	-	-	.04	-
NET INCOME PER SHARE, DILUTED	\$.36	\$.29	\$.50	\$.47

WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	497,295	503,531	497,226	502,349
Diluted	528,713	539,059	527,534	537,497

See accompanying notes.

</TABLE>

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

<TABLE>

<CAPTION>

	Six months ended June 30,	
	2000	1999
<S>	<C>	<C>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$811,538	\$673,138
INVESTING ACTIVITIES:		
Net purchases of property and equipment	(496,020)	(568,790)
FINANCING ACTIVITIES:		
Payments of long-term debt and capital lease obligations	(7,790)	(10,572)
Payments of cash dividends	(8,247)	(10,542)
Proceeds from Employee stock plans	25,947	25,890
Repurchases of common stock	(107,597)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(97,687)	4,776
NET INCREASE IN CASH AND CASH EQUIVALENTS	217,831	109,124
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	418,819	378,511
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$636,650	\$487,635
CASH PAYMENTS FOR:		
Interest, net of amount capitalized	\$16,362	\$11,408
Income taxes	\$21,328	\$29,244

See accompanying notes.

</TABLE>

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 June 30, 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 and six month periods ended June 30, 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 periods ended June 30, 2000 and March 31, 2000, dividends of \$.0055 per share were declared on the 497.7 million and 497.1 million shares of common stock then outstanding, respectively. During the three month periods ended June 30, 1999 and March 31, 1999, dividends of \$.0055 per share and \$.005 per share were declared, respectively, on the 503.6 million and 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 \$17.1 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		Six months ended	
	June 30,		June 30,	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
NUMERATOR:				
Net income before cumulative effect of change in accounting principle	\$190,622	\$157,757	\$286,265	\$253,604
Cumulative effect of change in accounting principle	-	-	22,131	-
Net income available to common stockholders	\$190,622	\$157,757	\$264,134	\$253,604
DENOMINATOR:				
Weighted-average shares outstanding, basic	497,295	503,531	497,226	502,349
Dilutive effect of Employee stock options	31,418	35,528	30,308	35,148
Adjusted weighted-average shares outstanding, diluted	528,713	539,059	527,534	537,497
NET INCOME PER SHARE:				
Basic, before cumulative effect of change in accounting principle	\$.38	\$.31	\$.57	\$.50
Cumulative effect of change in accounting principle	-	-	.04	-
Basic	\$.38	\$.31	\$.53	\$.50
Diluted, before cumulative effect of change in accounting principle	\$.36	\$.29	\$.54	\$.47
Cumulative effect of change in accounting principle	-	-	.04	-
Diluted	\$.36	\$.29	\$.50	\$.47

</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 2000. 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 in first quarter 2000 of \$22.1 million (net of income taxes of \$14.0 million) or \$.04 per share, basic and diluted. The second quarter 2000 impact of adopting SAB 101 was to reduce net income by \$1.9 million. Excluding the impact of the change, basic and diluted net income per share for second quarter 2000 would have been \$.39 and \$.36, respectively. 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."

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

Comparative Consolidated Operating Statistics

Relevant operating statistics for the three and six months ended June 30, 2000 and 1999 are as follows:

<TABLE>

<CAPTION>

	Three months ended June 30,			Six months ended June 30,		
	2000	1999*	Change	2000	1999*	Change
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue passengers carried	16,501,441	14,816,803	11.4%	30,890,717	27,750,381	11.3%
Revenue passenger miles (RPMs) (000s)	10,954,767	9,471,014	15.7%	20,407,968	17,517,498	16.5%
Available seat miles (ASMs) (000s)	14,744,769	12,947,815	13.9%	28,898,727	25,340,794	14.0%
Load factor	74.3%	73.1%	1.2pts.	70.6%	69.1%	1.5pts.
Average length of passenger haul (miles)	664	639	3.9%	661	631	4.8%
Trips flown	223,643	210,029	6.5%	442,258	412,575	7.2%
Average passenger fare	\$85.81	\$79.46	8.0%	\$84.68	\$79.70	6.2%
Passenger revenue yield per RPM (cents)	12.93	12.43	4.0%	12.82	12.63	1.5%
Operating revenue yield per ASM (cents)	9.91	9.43	5.1%	9.35	9.06	3.2%
Operating expenses per ASM (cents)	7.77	7.46	4.2%	7.73	7.40	4.5%
Operating expenses per ASM, excluding fuel (cents)	6.43	6.67	(3.6)%	6.36	6.65	(4.4)%
Fuel costs per gallon, excluding fuel tax (cents)	78.02	44.36	75.9%	79.95	41.92	90.7%
Number of Employees at period-end	27,828	26,818	3.8%	27,828	26,818	3.8%
Size of fleet at period-end	324	294	10.2%	324	294	10.2%

* 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>

Operating expenses per ASM for the three and six months ended June 30, 2000 and 1999 are as follows (in cents except percent change):

<TABLE>

<CAPTION>

Three months ended			Six months ended		
June 30,			June 30,		
		Percent			Percent
2000	1999	Change	2000	1999	Change

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits	2.38	2.39	(.4)	2.39	2.41	(.8)
Employee profitsharing and savings plans	.48	.46	4.3	.38	.39	(2.6)
Fuel and oil	1.34	.80	67.5	1.37	.74	85.1
Maintenance materials and repairs	.61	.66	(7.6)	.64	.69	(7.2)
Agency commissions	.28	.31	(9.7)	.27	.31	(12.9)
Aircraft rentals	.33	.39	(15.4)	.34	.39	(12.8)
Landing fees and other rentals	.44	.47	(6.4)	.45	.47	(4.3)
Depreciation	.46	.46	-	.47	.46	2.2
Other operating expenses	1.45	1.52	(4.6)	1.42	1.54	(7.8)
Total	7.77	7.46	4.2	7.73	7.40	4.5

</TABLE>

Material Changes in Results of Operations

Comparison of Three Months Ended June 30, 2000 to Three Months Ended June 30, 1999

Consolidated net income for the second quarter ended June 30, 2000 was \$190.6 million, an increase of 20.8 percent compared to 1999. Diluted net income per share was \$.36 compared to \$.29 in 1999. Operating income for second quarter 2000 was \$314.6 million, an increase of 23.7 percent compared to 1999.

Second quarter 2000 consolidated operating revenues increased 19.7 percent primarily due to a 20.3 percent increase in passenger revenues. The increase in passenger revenues primarily resulted from the Company's capacity growth coupled with an industry-wide strong demand for commercial air travel. The Company experienced an 11.4 percent increase in revenue passengers carried, a 15.7 percent increase in RPMs, and a 4.0 percent increase in passenger revenue yield per RPM (passenger yield). The increase in passenger yield is primarily due to an 8.0 percent increase in average passenger fare, partially offset by a 3.9 percent increase in average length of passenger haul.

The increase in RPMs and a 13.9 percent increase in ASMs resulted in a load factor of 74.3 percent, or 1.2 points above second quarter 1999. The increase in ASMs resulted primarily from the net addition of 30 aircraft since second quarter 1999, which represents a 10.2 percent increase in the Company's fleet size. Thus far, load factors in July appear to be consistent with or better than those experienced in July 1999. Bookings for August and September are also good and we presently anticipate positive year over year unit revenue comparisons again in third quarter 2000. (The immediately preceding two sentences are forward-looking statements, which involve 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 11.0 percent primarily due to an increase in capacity. Other revenues decreased 6.8 percent primarily due to a decrease in commercial charter revenue. The Company had less aircraft devoted to its charter business compared to 1999 due to the strong demand for scheduled passenger service.

Operating expenses per ASM increased 4.2 percent to \$.0777, compared to \$.0746 for second quarter 1999, primarily due to a significant increase in average jet fuel prices. The average fuel cost per gallon was 75.9 percent higher than second quarter 1999's average cost per gallon. Excluding fuel expense, operating expenses per ASM decreased 3.6 percent. As detailed below, the Company has hedged almost all of its anticipated fuel consumption for second half 2000 at prices well below market prices as of July 26, 2000. As a result, the Company expects lower average jet fuel cost per gallon in second half 2000 than it reported in first half 2000. Excluding fuel, the Company expects lower unit costs again in third quarter 2000 versus 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.)

Salaries, wages, and benefits per ASM decreased slightly, as increases in productivity were partially offset by an increase in Employee benefit costs, primarily health care expense. Profitsharing and Employee savings plan expenses per ASM increased 4.3 percent, primarily due to the increase in earnings available for profitsharing.

Fuel and oil expense per ASM increased 67.5 percent due to a 75.9 percent increase in the average jet fuel cost per gallon compared to 1999. The average price paid for jet fuel in second quarter 2000 was \$.7802 per gallon compared to \$.4436 in 1999, including the effects of hedging activities. The Company's second quarter 2000 and 1999 average jet fuel prices are net of approximately \$3.1 million and \$10.5 million in gains from hedging activities, respectively. As of July 26, 2000, the Company had crude oil and/or heating oil hedge positions in place for 2000 and 2001 as follows:

<TABLE>

<CAPTION>

Period	Type of hedge instrument	Approximate jet fuel gallons hedged (millions)	Average price of hedge instruments (crude oil - per barrel)	Approximate percentage of expected requirements hedged
<S>	<C>	<C>	<C>	<C>
Third Quarter 2000	swaps	131.3	\$23.05	51%
	options/other	112.3	\$26.89	43%
	Total	243.6		94%
Fourth Quarter 2000	swaps	183.8	\$22.47	70%
	options/other	78.7	\$23.25	30%
	Total	262.5		100%
First Quarter 2001	swaps	146.4	\$22.27	56%
	options/other	61.1	\$25.00	24%
	Total	207.5		80%
Second Quarter 2001	swaps	162.3	\$21.73	60%
	options/other	54.2	\$24.44	20%
	Total	216.5		80%
Third Quarter 2001	swaps	142.8	\$21.64	50%
	options/other	86.1	\$22.15	30%
	Total	228.9		80%
Fourth Quarter 2001	swaps	146.6	\$21.85	51%
	options/other	84.0	\$20.00	29%
	Total	230.6		80%

</TABLE>

As of July 26, 2000, the unrealized gains from these hedging activities were \$22.9 million and \$26.0 million for third and fourth quarter 2000, respectively. Despite these hedge positions, the Company is expecting higher average net jet fuel cost per gallon for third quarter 2000 compared to third quarter 1999. The Company's fuel hedging strategy could result in the Company not fully benefiting from lower jet fuel prices related to crude oil price declines below prices implicit in the hedge instruments. (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 7.6 percent primarily due to a decrease in the amount of outsourced routine heavy maintenance. The number of airframe inspections and repairs was unusually high in 1999. Due to the heavy volume of work required in 1999, the Company did not have sufficient internal resources to perform the necessary checks and repairs. Consequently, a large portion of this type of maintenance was outsourced. In 2000, the number of scheduled airframe inspections and repairs has decreased enabling the Company to perform the majority of the work internally; thus, the majority of the labor costs related to these inspections and repairs are reflected in salaries and wages. The Company also had a decrease in engine maintenance related to its 737-200 aircraft fleet as 1999 was also an unusually high period for engine maintenance on these aircraft; however, this decrease was offset by increases in several other miscellaneous maintenance expenses.

Agency commissions per ASM decreased 9.7 percent, primarily due to an increase in direct sales. In second quarter 2000, approximately 30 percent of the Company's revenues were attributable to direct bookings through the Company's Internet site compared to approximately 16 percent in the same prior year period. The increase in Internet revenues contributed to the Company's percentage of commissionable revenues decreasing from 34.1 percent in 1999 to 29.2 percent in 2000.

Aircraft rentals per ASM decreased 15.4 percent due to a lower percentage of the aircraft fleet being leased.

Landing fees and other rentals per ASM decreased 6.4 percent primarily as a result of a decrease in gross landing fees per ASM of 7.6 percent (excluding landing fee adjustments from prior periods), partially offset by a slight increase in other rentals. Although gross landing fees declined on a per ASM basis, they were basically 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 operating expenses per ASM decreased 4.6 percent due primarily due to Company-wide cost reduction efforts in areas such as supplies, optional training, communication costs, etc., which were in response to high fuel costs.

Other expenses (income) include interest expense, capitalized interest, interest income, and other gains and losses. Interest expense increased approximately 31.2 percent due primarily to the Company's issuance of \$256 million of long-term debt in fourth quarter 1999. Capitalized interest decreased 24.2 percent primarily as a result of lower 2000 progress payment balances for scheduled future aircraft deliveries compared to 1999 and lower interest rates. Interest income increased 53.7 percent primarily due to higher invested cash balances.

Comparison of Six Months Ended June 30, 2000 to Six Months Ended June 30, 1999

Consolidated net income before the cumulative effect of change in accounting principle for the six months ended June 30, 2000 was \$286.3 million (\$.54 per share, diluted), an increase of 12.9 percent compared to 1999. The cumulative effect of change in accounting principle for 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 change in accounting principle, for 2000 was \$264.1 million. Diluted net income per share, after consideration of the accounting change, was \$.50 compared to \$.47 in 1999. Operating income was \$470.0 million, an increase of 11.6 percent compared to 1999.

Consolidated operating revenues increased 17.7 percent primarily due to an 18.3 percent increase in passenger revenues. The increase in passenger revenues primarily resulted from the Company's capacity growth coupled with an industry-wide strong demand for commercial air travel. The Company experienced an 11.3 percent increase in revenue passengers carried, a 16.5 percent increase in RPMs, and a 1.5 percent increase in passenger revenue yield per RPM (passenger yield). The increase in passenger yield is primarily due to a 6.2 percent increase in average passenger fare, partially offset by a 4.8 percent increase in average length of passenger haul.

The increase in RPMs exceeded a 14.0 percent increase in ASMs resulting in a load factor of 70.6 percent, or 1.5 points above the same prior year period. The increase in ASMs resulted primarily from the net addition of 30 aircraft since second quarter 1999, which represents a 10.2 percent increase in the Company's fleet size.

Consolidated freight revenues increased 9.5 percent primarily due to an increase in capacity. Other revenues decreased 4.8 percent primarily due to a decrease in commercial charter revenue. The Company had less aircraft devoted to its charter business compared to 1999 primarily due to the strong demand for scheduled passenger service.

Operating expenses per ASM increased 4.5 percent to \$.0773, compared to \$.0740 for 1999, primarily due to a significant increase in average jet fuel prices. The average fuel cost per gallon was almost double 1999's average cost per gallon. Excluding fuel expense, operating expenses per ASM decreased 4.4 percent.

Salaries, wages, and benefits per ASM decreased slightly, as increases in productivity were partially offset by an increase in Employee benefit costs, primarily health care and workers' compensation expenses. Profitsharing and Employee savings plan expenses per ASM decreased slightly, primarily as a result of the Company's capacity increasing faster than the increase in earnings available for profitsharing.

Fuel and oil expense per ASM increased 85.1 percent due to a

90.7 percent increase in the average jet fuel cost per gallon compared to 1999. The average price paid for jet fuel in 2000 was \$.7995 per gallon compared to \$.4192 in 1999, including the effects of hedging activities. The Company's 2000 and 1999 average jet fuel prices are net of approximately \$6.3 million and \$7.7 million in gains from hedging activities, respectively. See comparison of second quarter 2000 to second quarter 1999 for a schedule of the Company's fuel hedging positions for the remainder of 2000 and 2001.

Maintenance materials and repairs per ASM decreased 7.2 percent primarily because of a decrease in 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 12.9 percent, primarily due to an increase in direct sales. More than 28 percent of the Company's 2000 revenues were attributable to direct bookings through the Company's Internet site compared to less than 16 percent in the same prior year period. The increase in Internet revenues contributed to the Company's percentage of commissionable revenues decreasing from 35.8 percent in 1999 to 30.0 percent in 2000.

Aircraft rentals per ASM decreased 12.8 percent due to a lower percentage of the aircraft fleet being leased.

Landing fees and other rentals per ASM decreased 4.3 percent primarily as a result of a decrease in gross landing fees per ASM of 6.7 percent (excluding landing fee adjustments from prior periods), partially offset by a slight increase in other rentals. Although gross landing fees declined on a per ASM basis, they were basically 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.

Depreciation expense per ASM increased 2.2 percent primarily due to a higher percentage of owned aircraft. Of the 36 aircraft added to the Company's fleet over the past twelve months, 35 have been purchased. This, combined with the retirement of 6 leased aircraft, has increased the Company's percentage of aircraft owned or on capital lease from 66 percent at June 30, 1999 to 71 percent at June 30, 2000.

Other operating expenses per ASM decreased 7.8 percent primarily due to Company-wide cost reduction efforts in areas such as supplies, advertising, optional training, communication costs, etc., which were in response to high fuel costs.

Other expenses (income) include interest expense, capitalized interest, interest income, and other gains and losses. Interest expense increased 29.9 percent due primarily to the Company's issuance of \$256 million of long-term debt in fourth quarter 1999. Capitalized interest decreased 13.6 percent primarily as a result of lower interest rates. Interest income increased 38.7 percent primarily due to higher invested cash balances. Other losses in the first half of 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 \$811.5 million for the six months ended June 30, 2000 and \$1,140.1 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 June 30, 2000 was primarily used to finance aircraft-related capital expenditures, provide working capital, and to repurchase approximately \$198.1 million of the Company's outstanding common stock. The Company began this repurchase program during third quarter 1999. Through June 30, 2000, the program resulted in the repurchase of approximately 12.2 million shares at an average cost of \$16.27 per share.

During the 12 months ended June 30, 2000, net capital expenditures were \$1,095.1 million, which primarily related to the purchase of 32 new 737-700 aircraft, one used 737-700 aircraft, two used 737-300 aircraft, and progress payments for future aircraft deliveries.

The Company's contractual commitments consist primarily

of scheduled aircraft acquisitions. During the second quarter 2000, the Company announced a new aircraft order with Boeing that could result in the future purchase of up to 290 new Next-Generation 737 aircraft for delivery between 2002 and 2012. The order includes commitments for 94 firm deliveries, 25 options, and up to 171 purchase rights for Next-Generation 737 aircraft. This new order is in addition to the Company's existing orders from Boeing. In total, as of June 30, 2000, 21 737-700s are scheduled for delivery in the remainder of 2000, 21 in 2001, 31 in 2002, 13 in 2003, 29 in 2004, and 52 during the period 2005 to 2007. In addition, the Company has options to purchase up to 87 737-700s during 2003-2008 and purchase rights for up to 217 additional aircraft during 2007-2012. 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 2001. Aggregate funding needed for fixed commitments at June 30, 2000 was approximately \$4,777 million due as follows: \$555 million in 2000; \$749 million in 2001; \$912 million in 2002; \$472 million in 2003; \$641 million in 2004; and \$1,448 million thereafter.

The Company has various options available to meet its capital and operating commitments, including cash on hand at June 30, 2000 of \$636.7 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 June 30, 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 began new service to Albany, New York, on May 7, 2000, with daily nonstop service to Baltimore/Washington, Las Vegas, and Orlando.

The Company recently announced new service to Buffalo, New York, beginning October 8, 2000, with daily nonstop service to Baltimore/Washington, Las Vegas, Phoenix, and Orlando.

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 (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

None

Item 3. Defaults upon Senior Securities

None

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

The Company's Annual Meeting of Shareholders was held in Dallas, Texas on Wednesday, May 17, 2000. The following matters were voted on at the meeting:

(i) The following nominees were elected to the Company's Directors to hold office for a term expiring in 2003. Herbert D. Kelleher: 432,462,325 shares voted for; and 2,796,137 shares withheld. June M. Morris: 432,796,488 shares voted for; and 3,461,974 shares withheld.

(ii) A shareholder proposal related to the Shareholder right to vote on Poison Pills was considered. 206,291,771 shares were voted for the proposal; 129,656,202 shares were voted against the proposal; 4,500,110 shares abstained from voting.

(iii) A shareholder floor proposal related to the corporate governance practices was defeated. 0 shares were voted for the proposal, 435,258,462 shares were voted against the proposal; and 0 shares abstained from voting.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

- (1) Bylaws of Southwest, as amended through May 2000
- (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.

August 2, 2000
Date

/s/ Gary C. Kelly
Gary C. Kelly
Vice President - Finance and

Chief Financial Officer
(Principal Financial and
Accounting Officer)

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BYLAWS

(as amended through May 17, 2000)

of

SOUTHWEST AIRLINES CO.

Dallas, Texas

SOUTHWEST AIRLINES CO.

BYLAWS

ARTICLE I

IDENTIFICATION AND OFFICES

Section 1. Name: The name of the corporation is SOUTHWEST AIRLINES CO.

Section 2. Principal Business Office: The principal business office of the corporation shall be in Dallas, Texas.

Section 3. Other Offices: The corporation may also have offices at such other places within or without the State of Texas as the Board of Directors may from time to time determine or the business of the corporation may require.

ARTICLE II

THE SHAREHOLDERS

Section 1. Place of Meetings: All meetings of the shareholders for the election of directors shall be held at the principal executive offices of the corporation in Dallas, Texas, or at such other place as may be designated by the Board of Directors of the corporation. Meetings of the shareholders for any other purpose may be held at such time and place, within or without the State of Texas, as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual Meetings: Annual meetings of shareholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors. At each annual meeting, the shareholders shall elect a Board of Directors and transact such other business as may be properly brought before the meeting.

Section 3. Special Meetings: Special meetings of the shareholders may be called by the President and shall be called by the Secretary upon written request, stating the purpose or purposes therefor, by a majority of the whole Board of Directors or by the holders of at least ten (10) percent (or such greater percentage not exceeding a majority as may be specified in the Articles of Incorporation) of all of the shares entitled to vote at the meeting.

Section 4. Notice of Meetings: Written or printed notice of all shareholders' meetings stating the place, day and hour, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (10) days nor more than sixty (60) days before the date of the meeting, either personally or by mail, by or at the direction of the officer or person calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the shareholder at his address as it appears on the stock transfer books of the corporation, with postage thereon prepaid.

Section 5. Purpose of Special Meetings: Business transacted at all special meetings of shareholders shall be confined to the purposes stated in the notice thereof.

Section 6. Fixing Record Date: For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive a distribution by the corporation (other than a distribution involving a purchase or redemption by the

corporation of any of its own shares) or a share dividend or in order to make a determination of shareholders for any other purpose, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than sixty (60) days, and, in the case of a meeting of shareholders, not less than ten (10) days, prior to the date on which the particular action requiring such determination of shareholders is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or vote at a meeting of shareholders, or shareholders entitled to receive a distribution by the corporation (other than a distribution involving a purchase or redemption by the corporation of any of its own shares) or a share dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such distribution or share dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this Section, such determination shall apply to any adjournment thereof.

Section 7. Voting List: The officer or agent having charge of the stock transfer books for the shares of the corporation, shall make, at least ten (10) days before each meeting of shareholders, a complete list of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each, which list, for a period of ten (10) days prior to such meeting, shall be kept on file at the registered office of the corporation and shall be subject to inspection by any shareholder at any time during usual business hours; such list shall also be produced and be kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original stock transfer books shall be prima facie evidence as to who are the shareholders entitled to examine such list or transfer books or to vote at any meeting of shareholders.

Section 8. Quorum: The holders of a majority of the shares entitled to vote (counting for such purposes all abstentions and broker nonvotes), represented in person or by proxy, shall constitute a quorum at meetings of the shareholders, except as otherwise provided in the Articles of Incorporation. If, however, such quorum shall be not present or represented at a meeting of the shareholders, the holders of a majority of the shares entitled to vote thereat, and represented in person or by proxy, shall have power to recess the meeting from time to time, without notice other than power to recess the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such recessed meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally convened had a quorum been present. Shareholders present at a duly organized meeting with a quorum present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 9. Voting at Meetings:

(a) With respect to any matter other than the election of directors or a matter for which the affirmative vote of the holders of a specified portion of the shares entitled to vote is required by the Texas Business Corporation Act, the act of the shareholders shall be the affirmative vote of the holders of a majority of the shares entitled to vote on, and voted for or against, the matter at a meeting of shareholders at which a quorum is present; provided that, for purposes of this sentence, all abstentions and broker nonvotes shall not be counted as voted either for or against such matter. With respect to the election of directors, directors shall be elected by a plurality of the votes cast by the holders of shares entitled to vote in the election of directors at a meeting of shareholders at which a quorum is present; provided, that abstentions and broker nonvotes shall not be counted as votes cast either for or against any nominee for director.

(b) Each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders, except to the extent

that the voting rights of shares of any class or series are limited or denied by the Articles of Incorporation, or as otherwise provide by law. No shareholder shall have the right of cumulative voting.

(c) A shareholder may vote either in person or by proxy executed in writing by the shareholder or by his duly authorized attorney in fact. No proxy shall be valid after eleven (11) months from the date of its execution unless otherwise provided in the proxy. Each proxy shall be revocable unless the proxy form conspicuously states that the proxy is irrevocable and the proxy is coupled with an interest.

Section 10. Actions by Shareholders Without a Meeting: Any action required by law to be taken at a meeting of the shareholders, or any action which may be taken at a meeting of the shareholders, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof.

Section 11. Inspectors of Election: The chairman of each meeting of shareholders shall appoint one or more persons to act as inspectors of election. The inspectors of election shall report to the meeting the number of shares of each class and series of stock, and of all classes, represented either in person or by proxy. The inspectors of election shall oversee the vote of the shareholders for the election of directors and for any other matters that are put to a vote of shareholders at the meeting; receive a ballot evidencing votes cast by the proxy committee of the Board of Directors; judge the qualifications of shareholders voting; collect, count, and report the results of ballots cast by any shareholders voting in person; and perform such other duties as may be required by the chairman of the meeting or the shareholders.

Section 12. Notice of Shareholder Business: At an annual meeting of shareholders, only such business shall be conducted as shall have been brought before the meeting (i) by or at the direction of the Board of Directors or (ii) by any shareholder of the corporation who complies with the notice procedures set forth in this Section 12. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation, not less than sixty (60) days nor more than ninety (90) days prior to the meeting; provided, however, that in the event that less than thirty (30) days' notice or prior public disclosure of the date of the meeting is given or made to the shareholders, notice by the shareholder to be timely must be received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting the following information: (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; (b) the name and address, as they appear on the corporation's books, of the shareholder proposing such business; (c) the number of shares of the corporation which are beneficially owned by the shareholder; and (d) any material interest of the shareholder in such business. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 12. The chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 12, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 12, a shareholder seeking to have a proposal included in the corporation's proxy statement shall comply with the requirements of Regulation 14A under the Securities Exchange Act of 1934, as amended (including, but not limited to, Rule 14a-8 or its successor provision).

Section 13. Notice of Shareholder Nominees: Nominations of persons for election to the Board of Directors of the corporation may be made at a meeting of shareholders (i) by or

at the direction of the Board of Directors or (ii) by any shareholder of the corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 13. Nominations by shareholders shall be made pursuant to timely notice in writing to the Secretary of the corporation. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the corporation not less than sixty (60) days nor more than ninety (90) days prior to the meeting; provided, however, that in the event that less than thirty (30) days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (b) as to the shareholder giving the notice (i) the name and address, as they appear on the corporation's books, of such shareholder and (ii) the number of shares of the corporation which are beneficially owned by such shareholder. At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the corporation that information required to be set forth in a shareholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in these Bylaws. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

ARTICLE III

BOARD OF DIRECTORS

Section 1. Management: The business and affairs of the corporation shall be managed by a Board of Directors.

Section 2. Number; Term of Office; Qualifications: The number of directors of the corporation shall be determined from time to time by resolution of the Board of Directors, but no decrease in such number shall have the effect of shortening the term of any incumbent director. At each annual meeting of shareholders, the shareholders shall elect directors to hold office until the next succeeding annual meeting, except in case of the classification of directors as provided in these Bylaws. Each director shall hold office for the term for which he is elected and until his successor shall have been elected and qualified or until his earlier death, retirement, resignation, or removal for cause in accordance with the provisions of these Bylaws. Directors need not be residents of the State of Texas or shareholders of the corporation, but they must have been nominated in accordance with the procedures set forth in these Bylaws in order to be eligible for election as directors. Each director must retire no later than the first annual meeting of shareholders following his or her 72nd birthday.

Section 3. Classification of Directors: Effective at the time of the annual meeting of shareholders in 1990, in lieu of electing the whole number of directors annually, the directors shall be divided into three classes, Class I, Class II and Class III, each class to be as nearly equal in number as possible, and the remainder of this Section 3 shall be effective. Each director shall serve for a term ending on the date of the third annual meeting of shareholders following the annual meeting at which such director was elected; provided, however, that each initial director in Class I shall hold office until the first annual meeting of shareholders after his election; each initial director in Class II shall hold office until the second annual meeting of shareholders after his election; and each initial director in Class III shall hold office until the third annual meeting of shareholders

after his election. In the event of any increase or decrease in the authorized number of directors, (i) each director then serving as such shall nevertheless continue as a director of the class of which he is a member until the expiration of his current term or until his prior death, retirement, resignation, or removal for cause in accordance with the provisions of these Bylaws, and (ii) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors so as to maintain such classes as nearly equal in number as possible.

Section 4. Vacancies; Increases in the Number of Directors: Any vacancy occurring in the Board of Directors may be filled in accordance with the following paragraph of this Section 4 or may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office.

Any vacancy occurring in the Board of Directors or any directorship to be filled by reason of an increase in the number of directors (i) may be filled by election at an annual or special meeting of shareholders called for that purpose or (ii) may be filled by the Board of Directors; provided that, with respect to any directorship to be filled by the Board of Directors by reason of an increase in the number of directors (a) such directorship shall be for a term of office continuing only until the next election of one or more directors by shareholders and (b) the Board of Directors may not fill more than two such directorships during the period between any two successive annual meetings of shareholders. If the Board of Directors is classified, any director elected at an annual or special meeting of shareholders to fill a directorship created by reason of an increase in the number of directors shall be elected for a term coterminous with the remaining term of the other members of the class to which he has been designated in accordance with the provisions of these Bylaws.

Section 5. Removal: At any meeting of shareholders called expressly for that purpose, any director may be removed, but only for cause, by vote of the holders of a majority of the shares then entitled to vote for the election of directors.

Section 6. Place of Meeting: Meetings of the Board of Directors, regular or special, may be held either within or without the State of Texas.

Section 7. First Meeting: The first meeting of each newly elected Board shall be held immediately following the shareholders' meeting at which the directors are elected and at the place at which such annual meeting is held, or the directors may meet at such time and place as shall be fixed by the consent in writing of the directors. No notice of such meeting shall be necessary to the newly elected directors in order to legally constitute the meeting provided a quorum shall be present.

Section 8. Regular Meetings: Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by resolution of the Board of Directors.

Section 9. Special Meetings: Special meetings of the Board of Directors may be called by the President on two days' notice to each director, either personally, by telephone, by mail, or by telegram. Special meetings shall be called by the President, or by the Secretary, in like manner and on like notice on the written request of the majority of the whole Board of Directors.

Section 10. Purpose of Meetings: Neither the purpose of, nor the business to be transacted at, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

Section 11. Quorum: A majority of the number of directors shall constitute a quorum for the transaction of business at any meeting thereof. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by law or the Articles of Incorporation or these bylaws. If a quorum shall not be

present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 12. Committee of Directors: The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, including an "Executive Committee," each committee to consist of one or more of the directors of the corporation, which, to the extent provided in said resolution, shall have and may exercise all of the authority of the Board of Directors in the business and affairs of the corporation, except where action of the Board is mandatorily required by law, and may have power to authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. Such committees shall keep regular minutes of their proceedings and report the same to the Board when required.

Section 13. Action Without Meeting: Any action required or permitted to be taken at a meeting of the Board of Directors or any committee may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all the members of the Board of Directors or committee, as the case may be. Such consent shall have the same force and effect as a unanimous vote at a meeting. The signed consent, or a signed copy, shall be placed in the minute book.

ARTICLE IV

OFFICERS

Section 1. Number and Designation: The officers of the corporation shall consist of a President, a Vice President, a Secretary, an Assistant Secretary, a Treasurer, an Assistant Treasurer, and, if the Board of Directors so elects, a Chairman of the Board. Any two or more offices may be held by the same person, except that the President and Secretary shall not be the same person.

Section 2. Election: The Board of Directors at its first meeting after the annual meeting of the shareholders may elect a Chairman of the Board from among its members and shall elect a President, a Vice President, a Secretary, an Assistant Secretary, a Treasurer, and an Assistant Treasurer, none of whom need to be a member of the Board.

Section 3. Other Officers: The President may appoint such other officers and agents as he may deem necessary for the efficient and successful conduct of the business of the corporation, but none of such other officers and agents shall be given a contract of employment unless such is first approved by the Board of Directors.

Section 4. Term of Office and Removal: The officers, agents, or members of any committees of the corporation elected or appointed by the Board of Directors shall hold office until their successors are chosen and qualify in their stead; provided, that any such officer, agent, or member of such committees may be removed at any time by the majority vote of the whole Board of Directors whenever in its sole judgment the best interests of the corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer or agent appointed by the President may be removed at any time by majority vote of the whole Board of Directors or by the President. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 5. Compensation: The salaries of all officers of the corporation shall be fixed by, or at the direction of, the Board of Directors or its Compensation Committee.

Section 6. The Chairman of the Board: If elected, the Chairman of the Board shall preside at all meetings of the shareholders and directors; and he shall have such other powers and duties as the Board of Directors shall prescribe.

Section 7. The President: The President shall be the chief executive officer of the corporation; in the absence of the Chairman of the Board or if there be no Chairman of the Board, he shall preside at all meetings of the shareholders

and directors; shall be ex officio a member of all standing committees; and shall see that all orders and resolutions of the Board of Directors are carried into effect. The President may execute deeds, conveyances, notes, bonds, and other contracts either or without the attestation of the Secretary required thereon and either with or without the seal of the corporation.

Section 8. Vice Presidents: The Vice Presidents, in the order of their rank and seniority in office, in the absence or disability of the President shall perform the duties and exercise the powers of the President, and shall perform such other duties as the Board of Directors shall prescribe.

Section 9. The Secretary: The Secretary shall attend all meetings of the Board of Directors and all meetings of the shareholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the shareholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or President, under whose supervision he shall be; he shall keep the seal the corporation and, when authorized by the Board, affix the same to any instrument requiring it and, when so affixed, it shall be attested by his signature or by the signature of the Treasurer or an Assistant Secretary or Assistant Treasurer.

Section 10. The Assistant Secretaries: The Assistant Secretaries, in order of their seniority in office, shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties as the Board of Directors shall prescribe.

Section 11. The Treasurer: The Treasurer shall have supervision over the corporate funds and securities and shall keep or cause to be kept full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit or cause to be deposited all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the Board of Directors, shall disburse the funds of the corporation as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the President and directors, at the regular meetings of the Board, or whenever they may require it, an account of all the transactions under his supervision as Treasurer and of the financial condition of the corporation. If required by the Board of Directors, the Treasurer and persons acting under this supervision shall give the corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board for the faithful performance of their duties and for the restoration to the corporation, in case of their death, resignation, retirement, or removal from office, of all books, papers, vouchers, money, and other property of whatever kind in their possession or under their control belonging to the corporation.

Section 12. The Assistant Treasurers: The Assistant Treasurers, in the order of their seniority in office, shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties as the Board of Directors shall prescribe.

ARTICLE V

CERTIFICATES REPRESENTING SHARES

Section 1. Form and Issuance: The certificates representing shares of the corporation of each class or series shall be in such form as approved by resolution of the Boards of Directors and as may be required by law and shall be numbered and entered in the stock records of the corporation as they are issued. They shall show the holder's name and number of shares and shall be signed by the Chairman of the Board, if any, or the President and the Secretary of the corporation, and may be sealed with the seal of the corporation or a facsimile thereof. The signatures of the Chairman of the Board or President and of the Secretary upon a certificate may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such

certificate is issued, it may be issued by the corporation with the same effect as if he were such officer at the date of its issuance. No certificate shall be issued for any share until the consideration therefor, fixed as provided by law, has been fully paid.

Section 2. Fractional Shares: The corporation may, but shall not be obligated to, issue a certificate for a fractional share, and the Board of Directors may, in lieu thereof, arrange for the disposition thereof by those entitled thereto, pay the fair value in cash or issue scrip in registered or bearer form which shall entitle the holder to receive a certificate for a full share only upon the surrender of such scrip aggregating a full share. A certificate for a fractional share shall, but scrip shall not, unless otherwise provided herein, entitle the holder to exercise voting rights, to receive dividends, or to participate in any of the assets of the corporation in the event of liquidation. Such scrip if issued shall become void if not exchanged for certificates representing full shares within one year after its issue, or such scrip may be subject to the condition that the shares for which it is exchangeable may be sold by the corporation and the proceeds thereof distributed to the holders of such scrip, and the same may be subject to any other conditions which the Board of Directors may deem advisable.

Section 3. Lost, Stolen, or Destroyed Certificates. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of the fact by the person claiming the certificate of stock to be lost, stolen, or destroyed, and by such other persons as may have knowledge of the pertinent facts with reference thereto. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion, and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate or certificates, or his legal representative, to make proof of loss, theft, or destruction in such manner as it shall require and/or give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 4. Transfer of Shares: Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment, or authority to transfer, and upon payment of all taxes as may be imposed by law, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction upon its books.

Section 5. Registered Shareholders: The corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Texas.

ARTICLE VI

NOTICES

Section 1. Waiver in Writing: Whenever any notice is required to be given any shareholder or director under the provisions of the law or the Articles of Incorporation or these Bylaws, a waiver thereof in writing signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

Section 2. Waiver by Attendance: Attendance of a director or a shareholder, whether in person or by proxy, at any meeting shall constitute a waiver of notice of such meeting, except where such director or shareholder attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

ARTICLE VII

GENERAL PROVISIONS

Section 1. Dividends and Reserves: Dividends upon the shares of the corporation, subject to the provisions, if any, of the Articles of Incorporation, may in the exercise of its discretion be declared by the Board of Directors at any regular or special meeting, to the extent permitted by law. Dividends may be paid in cash, in property, or in shares of the corporation. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 2. Fiscal Year: The fiscal year of the corporation shall be fixed by resolution of the Board of Directors.

Section 3. Seal: The corporate seal shall have inscribed therein the name of the corporation and shall be in such form as may be approved by the Board of Directors. Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or otherwise reproduced.

Section 4. Amendments to Bylaws: All of the powers of this corporation, insofar as the same may be lawfully vested by these Bylaws in the Board of Directors, are hereby conferred upon the Board of Directors of this corporation. In furtherance and not in limitation of that power, the Board of Directors may amend or repeal these Bylaws, or adopt new bylaws, unless (i) such power shall be reserved exclusively to the shareholders in whole or part by the Articles of Incorporation or the laws of Texas or (ii) the shareholders in amending, repealing or adopting a particular bylaw shall have expressly provided that the Board of Directors may not amend or repeal that bylaw. Unless the Articles of Incorporation or a bylaw adopted by the shareholders shall provide otherwise as to all or some portion of the corporation's bylaws, the shareholders may amend, repeal, or adopt (but only by the affirmative vote of the holders of not less than eighty (80) percent of the then outstanding shares of capital stock of the corporation entitled to vote with respect thereto) the corporation's bylaws even though the bylaws may also be amended, repealed, or adopted by the Board of Directors.

Section 5. Preferred Shareholders: The provisions of Sections 12 and 13 of Article II and of Sections 2, 3, 4 and 5 of Article III are subject to the rights of any holders of any class or series of stock having a preference over the Common Stock of the corporation as to dividends or upon liquidation to elect directors under specified circumstances.

Section 6. Action With Respect to Securities of Other Corporations: Unless otherwise directed by the Board of Directors, the chief executive officer shall have power to vote and otherwise act on behalf of the corporation, in person or by proxy, at any meeting of shareholders of, or with respect to any action of shareholders of, any other corporation in which the corporation may hold securities and otherwise to exercise any and all rights and powers which the corporation may possess by reason of its ownership of securities in such other corporation.

ARTICLE VIII

INDEMNIFICATION

Section 1. Right to Indemnification: Subject to the limitations and conditions as provided in this Article VIII, each person who was or is made a party to, or is threatened to be made a party to, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitral or investigative (hereinafter

called a "proceeding"), or any appeal in such a proceeding or any inquiry or investigation that could lead to such a proceeding, by reason of the fact that he (or a person of whom he is the legal representative) is or was a director or officer of the corporation (or while a director or officer of the corporation is or was serving at the request of the corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent, or similar functionary of another foreign or domestic corporation, partnership, joint venture, proprietorship, trust, employee benefit plan, or other enterprise) shall be indemnified by the corporation to the fullest extent permitted by the Texas Business Corporation Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said law permitted the corporation to provide prior to such amendment) against judgments, penalties (including excise and similar taxes and punitive damages), fines, settlements and reasonable expenses (including, without limitation, court costs and attorneys' fees) actually incurred by such person in connection with such proceeding, appeal, inquiry or investigation, and indemnification under this Article VIII shall continue as to a person who has ceased to serve in the capacity which initially entitled such person to indemnity hereunder; provided, however, that in no case shall the corporation indemnify any such person (or the legal representative of any such person) otherwise than for his reasonable expenses, in respect of any proceeding (i) in which such person shall have been finally adjudged by a court of competent jurisdiction (after exhaustion of all appeals therefrom) to be liable on the basis that personal benefit was improperly received by him, whether or not the benefit resulted from an action taken in such person's official capacity, or (ii) in which such person shall have been found liable to the corporation; and provided, further, that the corporation shall not indemnify any such person for his reasonable expenses actually incurred in connection with any proceeding in which he shall have been found liable for willful or intentional misconduct in the performance of his duty to the corporation. The rights granted pursuant to this Article VIII shall be deemed contract rights, and no amendment, modification or repeal of this Article VIII shall have the effect of limiting or denying any such rights with respect to actions taken or proceedings arising prior to any such amendment, modification or repeal. it is expressly acknowledged that the indemnification provided in this Article VIII could involve indemnification for negligence or under theories of strict liability.

Section 2. Advance Payment: The right to indemnification conferred in this Article VIII shall include the right to be paid or reimbursed by the corporation the reasonable expenses incurred by a person of the type entitled to be indemnified under Section 1 who was, or is threatened to be made a named defendant or respondent in a proceeding, in advance of the final disposition of the proceeding and without any determination as to the person's ultimate entitlement to indemnification; provided, however, that the payment of such expenses incurred by any such person in advance of the final disposition of a proceeding shall be made only upon delivery to the corporation of a written affirmation by such person of his good faith belief that he has met the standard of conduct necessary for indemnification under this Article VIII and a written undertaking, by or on behalf of such person, to repay all amounts so advanced if it shall be ultimately determined that such person is not entitled to be indemnified under this Article VIII or otherwise.

Section 3. Indemnification of Employees and Agents: The corporation, by adoption of a resolution of the Board of Directors, may indemnify and advance expenses to an employee or agent of the corporation to the same extent and subject to the same conditions under which it may indemnify and advance expenses to directors and officers under this Article VIII; and the corporation may so indemnify and advance expenses to persons who are not or were not directors, officers, employees, or agents of the corporation but who are or were serving at the request of the corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent, or similar functionary of another foreign or domestic corporation, partnership, joint venture, proprietorship, trust, employee benefit plan, or other enterprise against any liability asserted against him and incurred by him in such a capacity or arising out of his status as such a person to the same extent that it may indemnify and advance expenses to

directors and officers under this Article VIII.

Section 4. Appearance as a Witness: Notwithstanding any other provision of this Article VIII, the corporation may pay or reimburse expenses incurred by a director or officer in connection with his appearance as a witness or his other participation in a proceeding at a time when he is not a named defendant or respondent in the proceeding.

Section 5. Nonexclusivity of Rights: The right to indemnification and the advancement and payment of expenses conferred in this Article VIII shall not be exclusive of any other right which a director or officer or other person indemnified pursuant to Section 3 of this Article VIII may have or hereafter acquire under any law (common or statutory), provision of the Articles of Incorporation or these Bylaws, agreement, vote of shareholders or disinterested directors or otherwise.

Section 6. Insurance: The corporation may purchase and maintain insurance, at its expense, to protect itself and any person who is or was serving as a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent, or similar functionary of another foreign or domestic corporation, partnership, joint venture, proprietorship, employee benefit plan, trust, or other enterprise against any expense, liability, or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability, or loss under this Article VIII.

Section 7. Shareholder Notification: To the extent required by law, any indemnification of or advance of expenses to a director or officer in accordance with this Article VIII shall be reported in writing to the shareholders with or before the notice or waiver of notice of the next shareholders' meeting or with or before the next submission to shareholders of a consent to action without a meeting and, in any case, within the 12-month period immediately following the date of the indemnification or advance.

Section 8. Savings Clause: If this Article VIII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nevertheless indemnify and advance expenses to each director, officer, and other person indemnified pursuant to this Article VIII to the extent permitted by any applicable portion of this Article VIII that shall not have been invalidated.