

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 September 30, 2004 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
(State or other jurisdiction of
incorporation or organization)

74-1563240
(IRS Employer
Identification No.)

P.O. Box 36611, Dallas, Texas
(Address of principal executive offices)

75235-1611
(Zip Code)

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

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 by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Exchange Act.) 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 October 12, 2004:

779,583,386

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SOUTHWEST AIRLINES CO.

FORM 10-Q

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

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Southwest Airlines Co.
Condensed Consolidated Balance Sheet
(in millions)
(unaudited)

September 30,
2004

December 31,
2003

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ASSETS

Current assets:

Cash and cash equivalents	\$1,876	\$1,865
Accounts and other receivables	252	132
Inventories of parts and supplies, at cost	112	93
Fuel hedge contracts	558	164
Prepaid expenses and other current assets	74	59
Total current assets	2,872	2,313

Property and equipment, at cost:

Flight equipment	9,742	8,646
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Ground property and equipment	1,175	1,117
Deposits on flight equipment purchase contracts	769	787
	11,686	10,550
Less allowance for depreciation and amortization	3,242	3,107
	8,444	7,443
Other assets	415	122
	\$11,731	\$9,878

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$418	\$405
Accrued liabilities	1,026	650
Air traffic liability	644	462
Current maturities of long-term debt	317	206
Total current liabilities	2,405	1,723
Long-term debt less current maturities	1,606	1,332
Deferred income taxes	1,860	1,420
Deferred gains from sale and leaseback of aircraft	156	168
Other deferred liabilities	200	183
Stockholders' equity:		
Common stock	790	789
Capital in excess of par value	263	258
Retained earnings	4,084	3,883
Accumulated other comprehensive income	520	122
Treasury stock, at cost	(153)	-
Total stockholders' equity	5,504	5,052
	\$11,731	\$9,878

See accompanying notes.

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Southwest Airlines Co. Condensed Consolidated Statement of Income (in millions, except per share amounts) (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
<S>	<C>	<C>	<C>	<C>
OPERATING REVENUES:				
Passenger	\$1,612	\$1,503	\$4,694	\$4,275
Freight	28	23	82	70
Other	34	27	99	75
Total operating revenues	1,674	1,553	4,875	4,420
OPERATING EXPENSES:				
Salaries, wages, and benefits	612	554	1,823	1,657
Fuel and oil	247	214	723	616
Maintenance materials and repairs	113	111	351	321
Agency commissions	-	11	2	36
Aircraft rentals	45	46	134	137
Landing fees and other rentals	104	95	306	276
Depreciation and amortization	108	97	318	285
Other operating expenses	254	240	783	720
Total operating expenses	1,483	1,368	4,440	4,048
OPERATING INCOME	191	185	435	372
OTHER EXPENSES (INCOME):				
Interest expense	21	21	62	71
Capitalized interest	(10)	(8)	(30)	(23)
Interest income	(5)	(6)	(14)	(18)
Other (gains) losses, net	4	7	16	(265)
Total other expenses (income)	10	14	34	(235)
INCOME BEFORE INCOME TAXES	181	171	401	607
PROVISION FOR INCOME TAXES	62	65	143	231
NET INCOME	\$119	\$106	\$258	\$376

NET INCOME PER				
SHARE, BASIC	\$.15	\$.14	\$.33	\$.48
NET INCOME PER				
SHARE, DILUTED	\$.15	\$.13	\$.32	\$.46

WEIGHTED AVERAGE SHARES OUTSTANDING:

Basic	781	784	784	781
Diluted	812	827	815	818

See accompanying notes.

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Southwest Airlines Co.
Condensed Consolidated Statement of Cash Flows
(in millions)
(unaudited)

	Three months ended September 30,	Three months ended September 30,	Nine months ended September 30,	Nine months ended September 30,
	2004	2003	2004	2003
	<C>	<C>	<C>	<C>

<S>

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$119	\$106	\$258	\$376
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	108	97	318	285
Deferred income taxes	60	29	141	177
Amortization of deferred gains on sale and leaseback of aircraft	(4)	(4)	(12)	(12)
Amortization of scheduled airframe inspections & repairs	13	13	40	37
Changes in certain assets and liabilities:				
Accounts and other receivables	(24)	(15)	(74)	32
Other current assets	(21)	(7)	(33)	(15)
Accounts payable and accrued liabilities	111	(72)	393	(20)
Air traffic liability	(15)	(7)	182	156
Income taxes payable	-	(6)	-	5
Other	13	7	(7)	25
Net cash provided by operating activities	360	141	1,206	1,046

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment, net	(496)	(337)	(1,366)	(855)
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CASH FLOWS FROM FINANCING ACTIVITIES:

Issuance of long-term debt	350	-	408	-
Proceeds from Employee stock plans	12	30	52	61
Payments of long-term debt and capital lease obligations	(1)	(1)	(22)	(21)
Payments of cash dividends	(4)	(4)	(14)	(14)
Repurchase of common stock	(110)	-	(246)	-
Other, net	(3)	1	(7)	2
Net cash provided by financing activities	244	26	171	28

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	108	(170)	11	219
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,768	2,204	1,865	1,815
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$1,876	\$2,034	\$1,876	\$2,034

CASH PAYMENTS FOR:

Interest, net of amount capitalized	\$14	\$16	\$31	\$52
Income taxes	\$2	\$49	\$4	\$53

See accompanying notes.

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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 or Southwest) 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 unaudited condensed consolidated financial statements for the interim periods ended September 30, 2004 and 2003, include all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. This includes all normal and recurring adjustments, and other accounting entries as described herein. The Condensed Consolidated Balance Sheet as of December 31, 2003, has been derived from the Company's audited financial statements as of that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Financial results for the Company, and airlines in general, are seasonal in nature. Historically, the Company's second and third fiscal quarters have been more profitable than its first and fourth fiscal quarters. Operating results for the three and nine months ended September 30, 2004, are not necessarily indicative of the results that may be expected for the year ended December 31, 2004. 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, 2003.

2. STOCK-BASED EMPLOYEE COMPENSATION

The Company has stock-based compensation plans covering the majority of its Employee groups, including plans adopted via collective bargaining, a plan covering the Company's Board of Directors, and plans related to employment contracts with certain Executive Officers of the Company. The Company accounts for stock-based compensation utilizing the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and related Interpretations. Accordingly, no compensation expense is recognized for fixed option plans because the exercise prices of Employee stock options equal or exceed the market prices of the underlying stock on the dates of grant.

The following table represents the effect on net income and earnings per share if the Company had applied the fair value based method and recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," to stock-based Employee compensation (in millions, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
<S>	<C>	<C>	<C>	<C>
Net income, as reported	\$119	\$106	\$258	\$376
Add: Stock-based Employee compensation expense included in reported income, net of related tax effects	-	-	-	-
Deduct: Total stock-based Employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(41)	(14)	(63)	(45)
Pro forma net income	\$78	\$92	\$195	\$331
Net income per share				
Basic, as reported	\$.15	\$.14	\$.33	\$.48
Basic, pro forma	\$.10	\$.12	\$.25	\$.42
Diluted, as reported	\$.15	\$.13	\$.32	\$.46
Diluted, pro forma	\$.10	\$.11	\$.24	\$.41

3. DIVIDENDS

During the three month periods ended March 31, 2004, June 30, 2004, and September 30, 2004, dividends of \$.0045 per share were declared on the 784 million, 785 million, and 779 million shares of common stock then outstanding, respectively. During the three month periods ended March 31, 2003, June 30, 2003, and September 30, 2003, dividends of \$.0045 per share

were declared on the 778 million, 780 million, and 784 million shares of common stock then outstanding, respectively.

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4. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share (in millions except per share amounts):

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	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
<S>	<C>	<C>	<C>	<C>
NUMERATOR:				
Net income available to common stockholders	\$119	\$106	\$258	\$376
DENOMINATOR:				
Weighted-average shares outstanding, basic	781	784	784	781
Dilutive effect of Employee stock Options	31	43	31	37
Adjusted weighted-average shares outstanding, diluted	812	827	815	818
NET INCOME PER SHARE:				
Basic	\$.15	\$.14	\$.33	\$.48
Diluted	\$.15	\$.13	\$.32	\$.46

</Table>

5. FINANCIAL DERIVATIVE INSTRUMENTS

Fuel Contracts - Airline operators are inherently dependent upon energy to operate and, therefore, are impacted by changes in jet fuel prices. Jet fuel and oil consumed in the three month periods ended September 30, 2004 and 2003, represented approximately 16.7 percent and 15.6 percent, respectively, of Southwest's operating expenses for those periods. The Company endeavors to acquire jet fuel at the lowest possible prices. Because jet fuel is not traded on an organized futures exchange, liquidity for jet fuel hedging is limited. However, the Company has found effective commodities for hedging jet fuel, primarily crude oil and heating oil. The Company utilizes financial derivative instruments as hedges to decrease its exposure to jet fuel price increases. The Company does not purchase or hold any derivative financial instruments for trading purposes.

The Company utilizes financial derivative instruments for both short-term and long-term time frames. In addition to the significant hedging positions the Company had in place for the first nine months of 2004, the Company also has significant future hedging positions. The Company currently has a mixture of purchased call options, collar structures, and fixed price swap agreements in place to hedge over 80 percent of its remaining 2004 total anticipated jet fuel requirements that effectively cap crude oil-equivalent prices under \$24 per barrel. The Company is also over 80 percent hedged for 2005 with prices capped at approximately \$25 per barrel, 60 percent hedged for 2006 at approximately \$31 per barrel, and over 40 percent hedged for 2007 at approximately \$30 per barrel. As of September 30, 2004, the majority of the

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Company's remaining 2004 hedges are effectively heating oil-based. Beyond 2004, a major portion of the hedge positions are crude oil-based.

The Company accounts for its fuel hedge derivative instruments as cash flow hedges, as defined in Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133). All changes in fair value that are considered to be effective, as defined, are recorded in "Accumulated other comprehensive income" until the underlying jet fuel is consumed. The fair value of the Company's financial derivative instruments at September 30, 2004, was a net asset of approximately \$937 million. The current portion of this net asset, approximately \$558 million, is classified as "Fuel hedge contracts" and the noncurrent portion, approximately \$379 million, is classified in "Other assets" in the Condensed Consolidated Balance Sheet. The fair value of the derivative instruments, depending on the type of instrument, was determined by the use of present value methods or standard option value models with assumptions about commodity prices based on those observed in underlying markets.

During the three months ended September 30, 2004 and 2003, the Company recognized \$131 million and \$30 million in gains in "Fuel and oil" expense, respectively, from hedging activities. During the three months ended September 30, 2004 and 2003, the Company also recognized approximately \$2 million and \$1 million, respectively, of additional income in "Other (gains) losses, net," related to the ineffectiveness of its hedges. The Company

recognized approximately \$6 million and \$7 million of net expense, respectively, related to amounts excluded from the Company's measurements of hedge effectiveness, in "Other (gains) losses, net" during third quarter 2004, and third quarter 2003.

As of September 30, 2004, the Company had approximately \$520 million in unrealized gains, net of tax, in "Accumulated other comprehensive income" related to fuel hedges. Included in this total are approximately \$319 million in net unrealized gains that are expected to be realized in earnings during the twelve months following September 30, 2004.

Interest Rate Swaps - During third quarter 2004, the Company entered into an interest rate swap agreement relating to its \$350 million 5.25% senior unsecured notes due October 1, 2014 (see Note 11). Under the interest rate swap agreement, the Company pays the London InterBank Offered Rate (LIBOR) plus a margin every six months and receives 5.25% every six months on a notional amount of \$350 million until October 1, 2014.

During second quarter 2003, the Company entered into interest rate swap agreements relating to its \$385 million 6.5% senior unsecured notes due March 1, 2012 and \$375 million 5.496% Class A-2 pass-through certificates due November 1, 2006. Under the first interest rate swap agreement, the Company pays LIBOR plus a margin every six months and receives 6.5% every six months on a notional amount of \$385 million until March 1, 2012. Under the second agreement, the Company pays LIBOR plus a margin every six months and receives 5.496% every six months on a notional amount of \$375 million until November 1, 2006.

The Company's interest rate swap agreements qualify as fair value hedges, as defined by SFAS 133. The fair value of the interest rate swap agreements, which are adjusted regularly, are recorded in the Company's balance sheet as

an asset or liability, as necessary, with a corresponding adjustment to the carrying value of the long-term debt. The fair value of the interest rate swap agreements, excluding accrued interest, at September 30, 2004 was a liability of approximately \$12 million. This amount is recorded in "Other deferred liabilities" in the unaudited Condensed Consolidated Balance Sheet. In accordance with fair value hedging, the offsetting entry is an adjustment to decrease the carrying value of long-term debt.

6. COMPREHENSIVE INCOME

Comprehensive income included changes in the fair value of certain financial derivative instruments, which qualify for hedge accounting, and unrealized gains and losses on certain investments. Comprehensive income totaled \$353 million and \$656 million, respectively, for the three and nine months ended September 30, 2004. Comprehensive income totaled \$105 million and \$395 million, respectively, for the three and nine months ended September 30, 2003. The differences between net income and comprehensive income for each of these periods was as follows (in millions):

<Table>		
<Caption>		
	Three months ended September 30,	
	2004	2003
<S>	<C>	<C>
Net income	\$119	\$106
Unrealized gain (loss) on derivative instruments,		
net of deferred taxes of \$146 and \$(1)	234	(2)
Other, net of deferred taxes of \$0 and \$0	-	1
Total other comprehensive income	234	(1)
Comprehensive income	\$353	\$105
	Nine months ended September 30,	
	2004	2003
Net income	\$258	\$376
Unrealized gain (loss) on derivative instruments,		
net of deferred taxes of \$252 and \$12	397	18
Other, net of deferred taxes of \$0 and \$1	1	1
Total other comprehensive income	398	19
Comprehensive income	\$656	\$395
</Table>		

A rollforward of the amounts included in "Accumulated other comprehensive income," net of taxes, is shown below (in millions):

<Table>		
<Caption>		
Accumulated	Fuel	other
	Hedge	comprehensive
	Derivatives	income (loss)
	Other	

<S>	<C>	<C>	<C>
Balance at December 31, 2003	\$123	(\$1)	\$122
2004 changes in value	559	1	560
Reclassification to earnings	(162)	-	(162)
Balance at September 30, 2004	\$520	(\$0)	\$520

7. REVOLVING CREDIT FACILITY

During second quarter 2004, the Company replaced its former revolving credit facilities with a new facility. Under the new facility, the Company can borrow up to \$575 million from a group of banks. The facility expires in April 2007 and is unsecured. At the Company's option, interest on the facility can be calculated on one of several different bases. For most borrowings, Southwest would anticipate choosing a floating rate based upon LIBOR. If fully drawn, the spread over LIBOR would be 75 basis points given Southwest's credit rating at September 30, 2004. The facility also contains a financial covenant requiring a minimum coverage ratio of adjusted pretax income to fixed obligations, as defined. As of September 30, 2004, the Company is in compliance with this covenant, and there are no outstanding amounts borrowed under this facility.

8. CONSOLIDATION OF RESERVATIONS CENTERS

In November 2003, the Company announced the consolidation of its nine Reservations Centers into six, effective February 28, 2004. This decision was made in response to the established shift by Customers to the internet as a preferred way of booking travel. The Company's website, southwest.com, now accounts for more than half of ticket bookings and, as a consequence, demand for phone contact has dramatically decreased. During first quarter 2004, the Company closed its Reservations Centers located in Dallas, Texas, Salt Lake City, Utah, and Little Rock, Arkansas. The Company provided the 1,900 affected Employees at these locations the opportunity to relocate to another of the Company's remaining six centers. Those Employees choosing not to relocate, approximately 55% of the total affected, were offered support packages, which included severance pay, flight benefits, medical coverage, and job-search assistance, depending on length of service with the Company. The total cost associated with the Reservations Center consolidation, recognized in first quarter 2004, was approximately \$18 million. Employee severance and benefit costs were reflected in "Salaries, wages, and benefits," and the majority of other costs were reflected in "Other operating expenses" in the Condensed Consolidated Statement of Income. The breakdown of the costs incurred and a rollforward of the amounts accrued is as follows (in millions):

<S>	Employee bonus pay and benefits <C>	Consolidation of facilities and other charges <C>	Total <C>
Initial charge in first quarter 2004	\$13	\$5	\$18
Non-cash charges	-	-	-
Cash payments	(11)	(4)	(15)
Balance at September 30, 2004	\$2	\$1	\$3

9. AIRCRAFT FINANCINGS

In February 2004 and April 2004, the Company entered into two separate \$29 million two-year notes, utilizing two new 737-700 aircraft as collateral. Both of the notes are non-interest bearing and accrete to face value at maturity at annual rates of 2.9 percent and 3.4 percent, respectively. The proceeds of these borrowings were used to fund the individual aircraft purchases.

10. EMERGENCY WARTIME SUPPLEMENTAL APPROPRIATIONS ACT

On April 16, 2003, the Emergency Wartime Supplemental Appropriations Act (Wartime Act) was signed into law. Among other items, the legislation included a \$2.3 billion government grant for airlines. Southwest received \$271 million as its proportional share of the grant during second quarter 2003. This amount is included in "Other (gains) losses" in the accompanying income statement for the nine months ended September 30, 2003.

11. ISSUANCE OF DEBT

During third quarter 2004, the Company issued \$350 million senior unsecured Notes (Notes) due 2014. The Notes bear interest at 5.25 percent, payable semi-annually in arrears, with the first payment due on April 1, 2005.

Concurrently, the Company entered into an interest-rate swap agreement to convert this fixed-rate debt to a floating rate. See Note 5 for more information on the interest-rate swap agreement. Southwest used the net proceeds from the issuance of the Notes, approximately \$346 million, for general corporate purposes.

12. ACCRUED LIABILITIES

<Table>		
<Caption>		
	September 30, 2004	December 31, 2003
<s>	<c>	<c>
Counterparty fuel hedge deposits	\$ 525	\$ 117
Accrued vacation pay	117	109
Accrued aircraft rent	93	114
Accrued profitsharing and savings plans	72	126
Other	219	184
	\$ 1,026	\$ 650
</Table>		

13. RECENTLY ISSUED ACCOUNTING STANDARDS

During March 2004, the FASB issued an exposure draft of a new standard entitled "Share Based Payment", which would amend SFAS No. 123, "Accounting for Stock Based Compensation," and SFAS No. 95, "Statement of Cash Flows." Among other items, the new standard would require the expensing, in the financial statements, of stock options issued by the Company. The new standard, as proposed, would be effective January 1, 2005, for calendar year companies.

Throughout most of 2004, the FASB has continued to deliberate on different aspects of a new standard, and currently expects to issue a final standard in fourth quarter 2004. Although the Company has not yet completed an analysis to quantify the exact impact the new standard will have on its future financial performance, the disclosures in Note 2 provide detail as to the Company's financial performance as if the Company had applied the fair value based method and recognition provisions of SFAS No. 123 to stock-based Employee compensation to the current reporting periods.

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

Comparative Consolidated Operating Statistics

Relevant Southwest comparative operating statistics for the three and nine months ended September 30, 2004 and 2003 are as follows:

<Table>				
<Caption>				
	Three months ended September 30,			
	2004	2003	Change	
<S>	<C>	<C>	<C>	
Revenue passengers carried	18,334,448	17,243,250	6.3 %	
Enplaned passengers	21,102,752	19,708,171	7.1 %	
Revenue passenger miles (RPMs) (000s)	14,164,101	12,832,340	10.4 %	
Available seat miles (ASMs) (000s)	19,486,103	18,204,357	7.0 %	
Load factor	72.7%	70.5%	2.2 pts	
Average length of passenger haul (miles)	773	744	3.9 %	
Average aircraft stage length (miles)	576	558	3.2 %	
Trips flown	248,981	240,912	3.3 %	
Average passenger fare	\$87.90	\$87.16	0.8 %	
Passenger revenue yield per RPM (cents)	11.38	11.71	(2.8) %	
Operating revenue yield per ASM (cents)	8.59	8.53	0.7 %	
Operating expenses per ASM (cents)	7.61	7.51	1.3 %	
Operating expenses per ASM, excluding fuel (cents)	6.34	6.34	-	
Fuel costs per gallon, excluding fuel tax (cents)	80.3	72.8	10.3 %	
Fuel consumed, in gallons (millions)	306	292	4.8 %	
Number of Employees at period-end	30,657	32,563	(5.9) %	
Size of fleet at period-end	415	385	7.8 %	
</Table>				
<Table>				
<Caption>				

Nine months ended September 30,			
	2004	2003	Change
<S>	<C>	<C>	<C>
Revenue passengers carried	53,193,484	49,384,070	7.7 %
Enplaned passengers	60,921,204	56,324,276	8.2 %
Revenue passenger miles (RPMs) (000s)	40,282,260	36,278,706	11.0 %
Available seat miles (ASMs) (000s)	56,641,218	53,497,254	5.9 %
Load factor	71.1%	67.8%	3.3 pts.
Average length of passenger haul (miles)	757	735	3.0 %
Average aircraft stage length (miles)	572	555	3.1 %
Trips flown	729,836	711,517	2.6 %
Average passenger fare	\$88.23	\$86.56	1.9 %

Passenger revenue yield per RPM (cents)	11.65	11.78	(1.1)%
Operating revenue yield per ASM (cents)	8.61	8.26	4.2 %
Operating expenses per ASM (cents)	7.84	7.57	3.6 %
Operating expenses per ASM, excluding fuel (cents)	6.56	6.42	2.2 %
Fuel costs per gallon, excluding fuel tax (cents)	80.6	71.6	12.6 %
Fuel consumed, in gallons (millions)	891	855	4.2 %
Number of Employees at period-end	30,657	32,563	(5.9)%
Size of fleet at period-end	415	385	7.8 %

Material Changes in Results of Operations

Summary

The airline industry continued to experience significant challenges during third quarter 2004. The price of fuel, an airline's second largest expense after labor, continued its upward trend, with prices approximating \$50 per barrel at the end of the quarter. Although the revenue environment is still weak, the airline industry continued to add significant capacity. Carriers serving the southeastern United States (including Southwest) were also adversely impacted by four major hurricanes during third quarter 2004.

Despite these challenges, the Company profitably increased its capacity by 7.0 percent compared to the prior year. Southwest reported its 54th consecutive quarterly profit during third quarter 2004, and even surpassed the Company's profit in third quarter 2003. The Company's third quarter 2004 net income was \$119 million (\$.15 per share, diluted), an increase of \$13 million, or 12.3 percent, compared to third quarter 2003 net income of \$106 million (\$.13 per share, diluted). Operating income increased \$6 million, or 3.2 percent compared to third quarter 2003.

Although the industry revenue environment is weak, Southwest's revenue growth managed to keep pace with capacity growth. The growth in the Company's fleet and stronger demand stimulated by increased fare sale activity contributed to the increase in revenues; however, yields are under intense pressure as a result of increased competitive capacity.

The Company's third quarter 2004 operating unit cost of 7.61 cents increased 1.3 percent compared to the same prior year period. The Company's hedging program greatly mitigated record-high market fuel prices during third quarter 2004 as hedging gains reduced fuel and oil expense by \$131 million. However, even with the Company's strong hedging position, fuel cost per gallon increased 10.3 percent versus the same prior year period. In its efforts to control fuel expense, the Company is installing Blended Winglets to its Boeing 737-700 aircraft. As of October 13, 2004, Blended Winglets have been installed on 137 of its 737-700s. The Company began receiving -700s with winglets factory-installed from Boeing in August 2004 and expects to have all -700s retrofitted with winglets by March 2005. Southwest expects annual fuel consumption savings of approximately three percent for each 737-700 aircraft outfitted with the winglets.

Excluding fuel, CASM was flat with third quarter 2004 and well below first half 2004, which represents a significant improvement in cost trends. The Company is meeting its cost reduction goals as a result of productivity improvements throughout the Company, and expects fourth quarter 2004 CASM, excluding fuel, to decline from the fourth quarter 2003 performance of 6.51 cents and to be in line with third quarter 2004's 6.34 cents. In addition, because of these productivity improvements, the Company currently expects our 2005 CASM, excluding fuel, to be in line with, or below, 2004 levels.

The Company continues to enhance labor productivity with technology. As a result, the Company has expanded flights while simultaneously decreasing overall headcount. At September 30, 2004, the Company's headcount per aircraft was 74 versus a year-ago level of 85. Items contributing to the reduction in headcount include: shifting ticket distribution to the internet, allowing the Company to decrease its investment in "brick and mortar" reservations centers (see Note 8 to the unaudited condensed consolidated financial statements) and eliminate its travel agency commission; the use of RAPID CHECK-IN kiosks at the airport; the ability to obtain boarding passes via the internet at www.southwest.com; initiatives to re-allocate headcount by offering transfer opportunities to Employees in departments that may be overstaffed to areas where the Company is continuing to grow; and offering a voluntary early out option to all of its Employees, except officers. The Company benefited from the voluntary early out offer this summer, and expects ongoing cost savings to be approximately \$20 million to \$30 million annually. These and other initiatives helped the Company to absorb cost pressures, such as higher wage rates and the increase in fuel prices.

For the nine months ended September 30, 2004, net income was \$258 million (\$.32 per share, diluted), a \$118 million decrease compared to 2003 same period net income of \$376 million (\$.46 per share, diluted). Operating income increased \$63 million, or 16.9 percent compared to the same period of 2003. As disclosed in Note 10 to the condensed consolidated financial statements, results for the nine months ended September 30, 2003, included \$271 million as

"Other gains" from the Emergency Wartime Supplemental Appropriations Act (Wartime Act). The Company believes that excluding the impact of this government grant will enhance comparative analysis of results. The grant was made to stabilize and support the airline industry as a result of the 2003 war with Iraq. The grant was not indicative of the Company's operating performance for 2003, and should not be considered in developing trend analysis for future periods. The following table reconciles results reported in accordance with Generally Accepted Accounting Principles (GAAP) for 2003 with results excluding the impact of the government grant received in that period:

<Table>

<Caption>

SOUTHWEST AIRLINES CO.

RECONCILIATION OF REPORTED AMOUNTS TO NON-GAAP ITEMS (SEE NOTE)

(unaudited)

	Nine months ended September 30,		
(In millions, except per share and per ASM amounts)	2004	2003	Percent Change
<S>	<C>	<C>	<C>
Operating expenses, as reported	\$4,440	\$4,048	
Profitsharing impact of government grant	-	(41)	
Operating expenses, excluding grant impact	\$4,440	\$4,007	10.8
Operating expenses per ASM, as reported	\$.0784	\$.0757	
Profitsharing impact of government grant	-	(.0008)	
Operating expenses per ASM, excluding grant impact	\$.0784	\$.0749	4.7
Operating expenses per ASM excluding fuel, as reported	\$.0656	\$.0642	
Profitsharing impact of government grant	-	(.0008)	
Operating expenses per ASM, excluding fuel and grant impact	\$.0656	\$.0634	3.5
Operating income, as reported	\$435	\$372	
Profitsharing impact of government grant	-	41	
Operating income, excluding grant impact	\$435	\$413	5.3
Net income, as reported	\$258	\$376	
Government grant, net of income taxes and profitsharing	-	(143)	
Net income, excluding grant impact	\$258	\$233	10.7
Net income per share, diluted, as reported	\$.32	\$.46	
Government grant, net of income taxes and profitsharing	-	(.18)	
Net income per share, diluted, excluding grant impact	\$.32	\$.28	14.3

</TABLE>

Excluding the government grant from 2003 results, net income increased \$25 million, or 10.7 percent, and operating income increased \$22 million, or 5.3 percent, for the first nine months of 2004 compared to the prior year. These increases were primarily due to higher revenues, and lower commission expense, which have more than offset higher salaries, wages, and benefits, and higher jet fuel costs.

Comparison of three months ended September 30, 2004, to three months ended September 30, 2003

Revenues

Consolidated operating revenues increased by \$121 million, or 7.8 percent, primarily due to a \$109 million, or 7.3 percent, increase in passenger revenues. The increase in passenger revenues was primarily due to a 10.4 percent increase in revenue passenger miles (RPMs) flown.

Third quarter 2004 capacity, as measured by available seat miles (ASMs), increased 7.0 percent compared to third quarter 2003. The capacity increase resulted from the net addition of 30 aircraft (net of eleven retirements) since the end of third quarter 2003. The third quarter 2004 load factor was 72.7 percent, an increase of 2.2 points compared to 2003. The third quarter 2004 load factor was the highest for any third quarter in the Company's history. The Company also experienced a 6.3 percent increase in revenue passengers carried compared to third quarter 2003.

The third quarter 2004 passenger yield per RPM decreased 2.8 percent to 11.38 cents from 11.71 cents in third quarter 2003. The lower RPM yield was primarily due to a higher mix of discounted fares compared to the prior year resulting from more competitive capacity and increased fare sales in 2004. Passenger revenue yield per ASM increased .2 percent to 8.27 cents compared to

third quarter 2003, as higher load factors slightly offset the decline in RPM yield. The revenue environment has softened since July, and recent trends, along with more competitive capacity, suggest fourth quarter 2004 unit revenue may decline from fourth quarter 2003 unit revenue of 8.29 cents. Although bookings for October 2004 are fine, the Company's RPM yields continue to fall below year ago levels. Thus far, the October 2004 load factor is higher than the October 2003 figure of 63.6 percent. RPM yields are currently running approximately five percent below the same prior year period.

Consolidated freight revenues increased by \$5 million, or 21.7 percent. Approximately half of the increase was due to an increase in the number of cargo shipments. The other half of the increase was due to an increase in mail revenues. Other revenues increased by \$7 million, or 25.9 percent, compared to third quarter 2003 primarily due to a 23.9 percent increase in commissions earned from programs the Company sponsors with certain business partners, such as the Company sponsored Bank One Visa card. The Company expects another year-over-year increase in both freight and other revenues, in fourth quarter 2004.

Operating expenses

To a large extent, changes in operating expenses for airlines are driven by changes in capacity, or ASMs. The following presents Southwest's operating expenses per ASM for the three months ended September 30, 2004 and 2003, followed by explanations of changes on a per-ASM basis:

<Table>

<Caption>

	Three months ended September 30,		Per ASM	Percent
	2004	2003	Change	Change
<s>	<c>	<c>	<c>	<c>
Salaries, wages, and benefits	3.14	3.04	.10	3.3
Fuel and oil	1.27	1.18	.09	7.6
Maintenance materials and repairs	.58	.61	(.03)	(4.9)
Agency commissions	-	.06	(.06)	(100.0)
Aircraft rentals	.23	.25	(.02)	(8.0)
Landing fees and other rentals	.53	.52	.01	1.9
Depreciation	.55	.53	.02	3.8
Other operating expenses	1.31	1.32	(.01)	(0.8)
Total	7.61	7.51	.10	1.3

</table>

Operating expenses per ASM were 7.61 cents, a 1.3 percent increase compared to 7.51 cents for third quarter 2003. The CASM increase was driven primarily by higher labor and fuel costs, partially offset by lower commissions, maintenance expense, and aircraft rentals. Excluding fuel, however, CASM was flat with third quarter 2003 at 6.34 cents per ASM.

Salaries, wages, and benefits expense per ASM increased 3.3 percent, primarily due to higher average wage rates. The Company currently expects continuing wage rate pressures in fourth quarter 2004; however, the Company's continued productivity efforts should substantially offset these increases, barring any unforeseen events.

During second quarter 2004, the Company and the Transport Workers Union Local 556 reached a tentative labor agreement (contract) for the Company's Flight Attendants, which includes both pay increases and the issuance of stock options. During July 2004, a majority of the Company's Flight Attendants ratified the contract, which is for the period from June 1, 2002, to May 31, 2008.

During third quarter 2004, the Company and the Aircraft Mechanics Fraternal Association, representing the Company's Mechanics, agreed to extend the date the current agreement becomes amendable to August 2008. The extension includes both pay raises and the issuance of stock options, and has been ratified by a majority of the Company's Mechanics.

During third quarter 2004, the Company and the International Brotherhood of Teamsters, representing the Company's Flight Simulator Technicians, agreed to extend the date the current agreement becomes amendable to November 2011. The extension includes both pay raises and the issuance of stock options, and has been ratified by a majority of the Company's Simulator Technicians.

Fuel and oil expense per ASM increased 7.6 percent primarily due to an increase in the average jet fuel price per gallon. The average fuel cost per gallon in third quarter 2004 was 80.3 cents, 10.3 percent higher than third quarter 2003, including the effects of hedging activities. For fourth quarter 2004, the Company has fuel hedges in place for over 80 percent of its expected fuel consumption with a combination of derivative instruments that effectively cap prices under \$24 per barrel of crude oil. The majority of the Company's near term hedge positions are in the form of option contracts. During the first nine months of 2004, because of the spike in energy prices and the purchase of additional contracts for future years, the fair values of the Company's fuel hedge contracts have increased significantly. At September 30, 2004, the estimated gross fair value of these contracts was \$937 million. See Note 5 to the unaudited condensed consolidated financial statements for further

discussion of the Company's hedging activities.

Maintenance materials and repairs per ASM decreased 4.9 percent primarily due to a decrease in repair events for aircraft engines. The Company expects fourth quarter 2004 maintenance materials and repairs per ASM to be lower than the third quarter 2004 level, primarily due to less scheduled maintenance activity.

Agency commissions per ASM decreased to zero due to the elimination of commissions paid to travel agents, effective December 15, 2003. For third quarter 2004, approximately 12 percent of revenues were derived through travel agents, 59 percent through the Company's web site at southwest.com, and the remaining portion primarily through the Company's Reservations Centers. Because of the change in commission policy, the Company expects a similar year-over-year comparison for fourth quarter 2004.

Aircraft rentals per ASM decreased 8.0 percent compared to third quarter 2003. The majority of the decrease per ASM was due to the Company's growth occurring with purchased aircraft. All of the aircraft acquired in 2003 are owned by the Company, and all of the aircraft acquired thus far in 2004, except for one, are owned by the Company. The Company currently expects a similar year-over-year decline in aircraft rentals per ASM for fourth quarter 2004.

Landing fees and other rentals per ASM increased 1.9 percent compared to third quarter 2003. Approximately 70 percent of the increase was in landing fees, primarily due to higher rates paid. The remainder of the increase was in other rentals expense, primarily due to the Company's expansion of gate and counter space at several airports. The Company currently expects a similar year-over-year increase in landing fees and other rentals per ASM for fourth quarter 2004.

Depreciation expense per ASM increased 3.8 percent primarily due to an increase in owned aircraft. Only one of the 41 aircraft put into service by the Company over the past twelve months has been leased; the remainder are owned by the Company. This has increased the Company's percentage of aircraft owned or on capital lease to 78.3 percent at September 30, 2004 from 76.9 percent at September 30, 2003.

Other operating expenses per ASM were down slightly compared to third quarter 2003. The Company experienced a comparative increase in security expense, as the 2003 Wartime Act included a four-month moratorium on security fees remitted to the Transportation Security Administration, from June 1, 2003 to September 30, 2003, and fuel sales tax increased due to the substantial increase in fuel prices. These increases were offset, however, by decreases in insurance expense, from lower negotiated rates for 2004, and in advertising expense from lower budgeted spending in 2004. The Company currently expects Other operating expenses per ASM for fourth quarter 2004 to decline from fourth quarter 2004, primarily due to lower planned advertising expense.

Through the 2003 Wartime Act, the federal government has continued to provide supplemental third-party war-risk insurance coverage to commercial carriers for renewable 60-days periods, at substantially lower premiums than prevailing commercial rates and for levels of coverage not available in the commercial market. The government-provided supplemental coverage from the Wartime Act is currently set to expire on December 31, 2004. If such coverage is not extended by the government, the Company could incur substantially higher insurance costs beginning in 2005.

Other

Interest expense was flat compared to third quarter 2003, as a decrease in expense from the Company's October 2003 redemption of \$100 million of senior unsecured 8 3/4% Notes originally issued in 1991 was offset by the September 2004 issuance of \$350 million senior unsecured Notes, and slightly higher floating market interest rates. The majority of the Company's long-term debt is at floating interest rates. See Note 5 to the unaudited condensed consolidated financial statements for more information.

Capitalized interest increased by \$2 million, or 25.0 percent, primarily due to an increase in progress payment balances for future aircraft deliveries.

Interest income decreased by \$1 million, or 16.7 percent, primarily due to a decrease in invested cash balances.

"Other (gains) losses, net" primarily includes amounts recorded in accordance with SFAS 133. See Note 5 to the unaudited condensed consolidated financial statements for more information on the Company's hedging activities. During third quarter 2004, the Company recognized approximately \$6 million of expense related to amounts excluded from the Company's measurements of hedge effectiveness and \$2 million in income related to the ineffectiveness of its hedges. In third quarter 2003, the Company recognized approximately \$7 million of expense related to amounts excluded from the Company's measurements of hedge effectiveness and \$1 million in income related to the ineffectiveness of its hedges.

The Company's effective tax rate decreased to 34.1 percent in third quarter 2004 from 38.1 percent in third quarter 2003 primarily due to a reduction in estimated liabilities for prior year taxes as a result of recent discussions with taxing authorities. The Company currently expects its fourth quarter 2004 effective rate to approximate 37 percent, and its full year 2004 effective tax rate to approximate 36 percent.

Comparison of nine months ended September 30, 2004 to nine months ended September 30, 2003

Revenues

Consolidated operating revenues increased by \$455 million, or 10.3 percent, primarily due to a \$419 million, or 9.8 percent, increase in passenger revenues. The increase in passenger revenues was primarily due to an 11.0 percent increase in revenue passenger miles (RPMs) flown.

Capacity for the first nine months of 2004, as measured by available seat miles (ASMs), increased 5.9 percent compared to the same period of 2003. The capacity increase resulted from the net addition of 30 aircraft (net of eleven retirements) since September 30, 2003. The 2004 load factor was 71.1 percent, an increase of 3.3 points compared to 2003. The Company also experienced a 7.7 percent increase in revenue passengers carried compared to 2003.

Passenger yields per RPM were down 1.1 percent compared to the first nine months of 2003. Stronger year-over-year increases in RPM yields in January and February have been more than offset by lower March - September yields, primarily due to a higher mix of discounted fares compared to the prior year in response to the Company's 2004 fare sales and industry capacity increases. Operating revenue yield per ASM (RASM or unit revenue) increased 4.2 percent to 8.61 cents compared to the first nine months of 2003, primarily due to the increase in load factors.

Consolidated freight revenues increased by \$12 million, or 17.1 percent, due to increases in cargo revenues, primarily from an increase in the number of shipments. Other revenues increased \$24 million, or 32.0 percent, compared to the first nine months of 2003, primarily due to a 37.3 percent increase in commissions earned from programs the Company sponsors with certain business partners, such as the Company sponsored Bank One Visa card.

Operating expenses

To a large extent, changes in operating expenses for airlines are driven by changes in capacity, or ASMs. The following presents Southwest's operating expenses per ASM for the nine months ended September 30, 2004 and 2003, followed by explanations of changes on a per-ASM basis:

<Table>
<Caption>

	Nine months ended		Per ASM	Percent
	September 30,			
	2004	2003	Change	Change
<S>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits	3.22	3.10	.12	3.9
Fuel and oil	1.28	1.15	.13	11.3
Maintenance materials				
and repairs	.62	.60	.02	3.3
Agency commissions	-	.07	(.07)	(100.0)
Aircraft rentals	.24	.26	(.02)	(7.7)
Landing fees and other rentals	.54	.52	.02	3.8
Depreciation	.56	.53	.03	5.7
Other operating expenses	1.38	1.34	.04	3.0
Total	7.84	7.57	.27	3.6

</Table>

Operating expenses per ASM were 7.84 cents, a 3.6 percent increase compared to 7.57 cents for 2003. Excluding the \$41 million increase in profitsharing expense from the receipt of the \$271 million government grant, the 2004 increase in operating expenses per ASM was 4.7 percent, primarily due to higher salaries, wages, and benefits, and higher fuel expense. These and other smaller increases were partially offset by lower commissions expense compared to 2003.

Salaries, wages, and benefits expense per ASM increased 3.9 percent, inclusive of \$41 million in additional expense from the profitsharing impact of the 2003 government grant. Excluding the profitsharing impact of the 2003 government grant, approximately 65 percent of the increase per ASM was due to higher average wage rates, and 25 percent was due to higher benefits costs, primarily health care.

Fuel and oil expense per ASM increased 11.3 percent primarily due to an increase in the average jet fuel price per gallon. The average fuel cost per gallon for the first nine months of 2004 was 80.6 cents, 12.6 percent higher

than 2003, including the effects of hedging activities. See Note 5 to the unaudited condensed consolidated financial statements for further discussion of the Company's hedging activities.

Maintenance materials and repairs per ASM increased 3.3 percent primarily due to an increase in repairs for 737-700 aircraft engines, which are based on a time and materials basis. Expense for these aircraft engines increased due to the growing number of this type of aircraft in the Company's fleet, contributing to an increase in repairs for these aircraft engines.

Agency commissions per ASM decreased to zero, primarily due to the elimination of commissions paid to travel agents, effective December 15, 2003. The Company records commission expense in the period of travel, not the period of sale. Consequently, the Company recognized small amounts of commission expense as all pre-December 15, 2003 commissionable sales were flown. In the first nine months of 2003, approximately 16 percent of passenger revenues were commissionable, based on the Company's previous policy of paying a 5 percent commission to travel agents. For the first nine months of 2004, approximately 13 percent of revenues were derived through travel agents, 58 percent through the Company's web site at southwest.com, and the remaining portion primarily derived through the Company's Reservations Centers.

Aircraft rentals per ASM decreased 7.7 percent compared to the first nine months of 2003 primarily due to the Company's growth occurring with purchased aircraft. All of the aircraft acquired in 2003 are owned by the Company and all of the aircraft acquired thus far in 2004, except for one, are owned by the Company.

Landing fees and other rentals per ASM increased 3.8 percent compared to the first nine months of 2003. Approximately 60 percent of the increase was in other rentals expense primarily due to the Company's expansion of gate and counter space at several airports. The remainder of the increase was in landing fees, primarily due to slightly higher rates paid.

Depreciation expense per ASM increased 5.7 percent primarily due to an increase in owned aircraft. Only one of the 41 aircraft put into service by the Company over the past twelve months has been leased; the remainder are owned by the Company. These additional owned aircraft have increased the Company's percentage of aircraft owned or on capital lease to 78.3 percent at September 30, 2004, from 76.9 percent at September 30, 2003.

Other operating expenses per ASM increased 3.0 percent. Approximately half of the increase was due to higher personnel expense, primarily from retroactive per diem costs associated with the labor contract agreement reached with the Company's Flight Attendants in third quarter 2004. The remainder of the increase was primarily due to higher fuel taxes from the substantial increase in fuel prices.

Other

Interest expense decreased by \$9 million, or 12.7 percent, primarily due to the Company's October 2003 redemption of \$100 million of senior unsecured 8 3/4% Notes originally issued in 1991. In addition, the Company executed two interest-rate swaps in April 2003 to convert a portion of its fixed-rate debt to a lower floating rate. The Company entered into interest rate swap agreements relating to its \$385 million 6.5% senior unsecured notes due March 1, 2012 and \$375 million 5.496% Class A-2 pass-through certificates due November 1, 2006. See Note 5 to the unaudited condensed consolidated financial statements for more information on the Company's hedging activities.

Capitalized interest increased by \$7 million, or 30.4 percent, primarily due to an increase in progress payment balances for future aircraft deliveries.

Interest income decreased by \$4 million, or 22.2 percent, primarily due to a decrease in rates earned on investments.

"Other (gains) losses, net" during 2003 primarily consist of a \$271 million government grant from the Wartime Act. See Note 10 to the unaudited condensed consolidated financial statements for more information on this grant. Also included in 2003 "Other (gains) losses, net" are amounts recorded in accordance with SFAS 133. See Note 5 to the unaudited condensed consolidated financial statements for more information on the Company's hedging activities. In the first nine months of 2004, the Company recognized \$18 million of expense related to amounts excluded from the Company's measurements of hedge effectiveness and \$3 million in income related to the ineffectiveness of its hedges. In the first nine months of 2003, the Company recognized approximately \$21 million of expense related to amounts excluded from the Company's measurements of hedge effectiveness and \$14 million in additional income related to the ineffectiveness of its hedges.

The Company's effective tax rate decreased to 35.7 percent for the first nine months of 2004 from 38.1 percent in 2003, primarily due to a reduction in estimated liabilities for prior year taxes as a result of recent discussions with taxing authorities, and due to lower state income tax rates.

Liquidity and Capital Resources

Net cash provided by operating activities was \$1.2 billion for the nine months ended September 30, 2004, compared to \$1.05 billion in the same prior year period. The increase was primarily due to an increase in Accounts payable and accrued liabilities, primarily from higher counterparty deposits associated with the Company's fuel hedging program. See Item 3, and Notes 5 and 12 to the unaudited condensed consolidated financial statements. Net cash provided by operating activities was \$1.5 billion for the 12 months ended September 30, 2004. Cash generated from operating activities for the 12 months ended September 30, 2004, was primarily used to finance capital expenditures.

Cash flows used in investing activities during the nine months ended September 30, 2004, totaled \$1.4 billion compared to \$855 million in 2003. Investing activities in both years consisted primarily of payments for new 737 - 700 aircraft delivered to the Company and progress payments for future aircraft deliveries. Cash flows used in investing activities for the 12 months ended September 30, 2004 totaled \$1.7 billion.

Net cash generated from financing activities during the nine months ended September 30, 2004, was \$171 million compared to \$28 million generated from financing activities in 2003. The Company generated \$350 million from the September 2004 issuance of senior unsecured Notes due 2014. This was partially offset by cash used in 2004 to repurchase \$246 million of the Company's common stock.

Contractual Obligations and Contingent Liabilities and Commitments

Southwest has contractual obligations and commitments primarily for future purchases of aircraft, payment of debt, and lease arrangements. Following the receipt of 37 new 737-700 aircraft from Boeing in the first nine months of 2004, the Company has 10 737-700 aircraft deliveries for the remainder of 2004. The Company also has firm commitments for the purchase of 34 new 737-700 aircraft to be delivered in 2005. The following table details the Company's current (as of September 30, 2004) firm orders, options, and purchase rights through 2012.

<Table>

<Caption>

	Prior Firm <C>	Schedule Options* <C>
<S>		
2004**	47	-
2005	34	-
2006	23	11
2007	25	29
2008	6	45
2009-2012	-	177
Total	135	262

</Table>

*Includes purchase rights

**Includes 37 aircraft delivered through September 30, 2004

The following table details information on the 415 aircraft in the Company's fleet as of September 30, 2004:

<Table>

<Caption>

737 Type	Seats	Average Age (Yrs)	Number of Aircraft	Number Owned	Number Leased
<S>	<C>	<C>	<C>	<C>	<C>
-200	122	21.9	13	11	2
-300	137	13.4	194	110	84
-500	122	13.4	25	16	9
-700	137	3.3	183	181	2
TOTALS		9.2	415	318	97

</Table>

The Company has the option, which must be exercised two years prior to the contractual delivery date, to substitute -600s or -800s for the -700s. Aggregate funding needed for firm commitments, as of September 30, 2004, was approximately \$2.4 billion, subject to adjustments for inflation, due as follows: \$264 million remaining in 2004, \$896 million in 2005, \$661 million in 2006, \$523 million in 2007, and \$105 million thereafter.

In January 2004, the Company's Board of Directors authorized the repurchase of up to \$300 million of the Company's common stock, utilizing present and anticipated proceeds from the exercise of Employee stock options. Repurchases will be made in accordance with applicable securities laws in the open market or in private transactions from time to time, depending on market conditions. No expiration date was given to this program. During the first nine months of 2004, the Company repurchased approximately 17.0 million of its common shares for a total of approximately \$246 million. See Item 2 of Part II

of this filing for further information.

The Company has various options available to meet its capital and operating commitments, including cash on hand at September 30, 2004, of \$1.9 billion, internally generated funds, and the Company's fully available \$575 million revolving credit facility. The Company will also consider various borrowing or leasing options to maximize earnings and supplement cash requirements.

During third quarter 2004, the Company issued \$350 million senior unsecured Notes (Notes) due 2014. The Notes bear interest at 5.25 percent, payable semi-annually in arrears, with the first payment due on April 1, 2005. See Note 11 to the condensed consolidated financial statements for more information on this transaction.

The Company currently has outstanding shelf registrations for the issuance of up to \$650 million in public debt securities and pass through certificates, which it may utilize for aircraft financings or other purposes in the future.

Forward looking statements

Some statements in this Form 10-Q (or otherwise made by the Company or on the Company's behalf from time to time in other reports, filings with the Securities and Exchange Commission, news releases, conferences, World Wide Web postings or otherwise) which are not historical facts may be "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements about Southwest's estimates, expectations, beliefs, intentions, or strategies for the future, and the assumptions underlying these forward-looking statements. Southwest uses the words "anticipates," "believes," "estimates," "expects," "intends," "forecasts," "may," "will," "should," and similar expressions to identify these forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or the Company's present expectations. Factors that could cause these differences include, but are not limited to:

- Items directly linked to the September 11, 2001, terrorist attacks, such as the adverse impact of new airline and airport security directives on the Company's costs and Customer demand for travel, changes in the Transportation Security Administration's scope for managing U.S. airport security, and the possibility of further terrorist attacks or additional incidents that could cause the public to question the safety and/or efficiency of air travel.
- The availability and cost of war-risk and other aviation insurance, including the federal government's provision of third party war-risk coverage to airlines. The government's coverage has been extended to December 31, 2004, by the Department of Transportation, but there are no assurances that such coverage will be extended beyond that date.
- War or other military actions by the U.S. or others.
- Competitive factors, such as fare sales and capacity decisions by the Company and its competitors, changes in competitors' flight schedules, mergers and acquisitions, codesharing programs, and airline bankruptcies.
- General economic conditions, which could adversely affect the demand for travel in general and consumer ticket purchasing habits, as well as decisions by major freight Customers on how they allocate freight deliveries among different types of carriers.
- Factors that could affect the Company's ability to control its costs, such as the results of Employee labor contract negotiations, Employee hiring and retention rates, costs for health care, the largely unpredictable prices of jet fuel, crude oil, and heating oil, the continued effectiveness of the Company's fuel hedges, changes in the Company's overall fuel hedging strategy, capacity decisions by the Company and its competitors, unscheduled required aircraft airframe or engine repairs and regulatory requirements, changes in commission policy, availability of capital markets, and future financing decisions made by the Company.
- Disruptions to operations due to adverse weather conditions and air traffic control-related constraints.
- Internal failures of technology or large-scale external interruptions in technology infrastructure, such as power, telecommunications, or the internet.

Caution should be taken not to place undue reliance on the Company's forward-looking statements, which represent the Company's views only as of the date this report is filed. The Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As discussed in Note 5 to the unaudited condensed consolidated financial statements, the Company utilizes financial derivative instruments to hedge its exposure to material increases in jet fuel prices. During the first nine months of 2004, because of the spike in energy prices, the fair values of the Company's fuel hedge contracts have increased significantly. At September 30, 2004, the estimated gross fair value of these contracts was \$937 million, compared to \$251 million at December 31, 2003.

Outstanding financial derivative instruments expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements. However, the Company does not expect any of the counterparties to fail to meet their obligations. The credit exposure related to these financial instruments is represented by the fair value of contracts with a positive fair value at the reporting date. To manage credit risk, the Company selects and periodically reviews counterparties based on credit ratings, limits its exposure to a single counterparty, and monitors the market position of the program and its relative market position with each counterparty. At September 30, 2004, the Company had agreements with seven counterparties containing early termination rights and/or bilateral collateral provisions whereby security is required if market risk exposure exceeds a specified threshold amount or credit ratings fall below certain levels. At September 30, 2004, the Company held \$525 million in collateral deposits under these bilateral collateral provisions. These collateral deposits serve to decrease, but not totally eliminate, the credit risk associated with the Company's hedging program. The deposits are included in Accrued liabilities on the unaudited Condensed Consolidated Balance Sheet. See also Note 12 to the unaudited condensed consolidated financial statements.

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, 2003 and Note 5 to the unaudited condensed consolidated financial statements for further information about Market Risk.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the Securities and Exchange Commission (SEC), and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. Based on an evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this report conducted by the Company's management, with the participation of the Chief Executive and Chief Financial Officers, the Chief Executive and Chief Financial Officers believe that these controls and procedures are effective to ensure that the Company is able to collect, process, and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods.

Internal Control over Financial Reporting. During the period covered by this report, there have been no changes in the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to various legal proceedings and claims arising in the ordinary course of business, including, but not limited to, examinations by the Internal Revenue Service (IRS). The IRS regularly examines the Company's federal income tax returns and, in the course thereof, proposes adjustments to the Company's federal income tax liability reported on such returns. It is the Company's practice to vigorously contest those proposed adjustments it deems lacking of merit.

The Company's management does not expect that the outcome in any of its currently ongoing legal proceedings or the outcome of any proposed adjustments presented to date by the IRS, individually or collectively, will have a material adverse effect on the Company's financial condition, results of operations or cash flow.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities (1)

<Table>
<Caption>

(a)	(b)	(c)	(d)
Total number of shares	Average price paid	Total number of shares purchased as part of publicly announced plans	Maximum dollar value that may yet be purchased under the plans

Period <S>	purchased <C>	per share <C>	or programs <C>	or programs <C>
July 1, 2004 through July 31, 2004	1,875,000	\$14.33	1,875,000	\$137,601,762
August 1, 2004 through August 31, 2004	6,002,000	\$13.87	6,002,000	\$54,354,022
September 1, 2004 through September 30, 2004	-	-	-	\$54,354,022
Total(2)	7,877,000		7,877,000	

</Table>

(1) On January 22, 2004, the Company announced a program for the repurchase of up to \$300 million of the Company's common stock, utilizing present and anticipated proceeds from the exercise of Employee stock options. Repurchases will be made in accordance with applicable securities laws in the open market or in private transactions from time to time, depending on market conditions. No expiration date was given to this program.

(2) All shares were purchased pursuant to the publicly announced program.

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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

a) Exhibits

- 10.1 Form of Notice of Grant pursuant to the Registrant's 1996 Incentive Stock Option Plan and 1996 Non-Qualified Stock Option Plan.
- 10.2 Severance Contract between James F. Parker and Southwest Airlines Co., dated as of July 15, 2004.
- 10.3 2004 Employment Contract between Southwest and Herbert D. Kelleher dated as of July 15, 2004.
- 10.4 2004 Employment Contract between Southwest and Gary C. Kelly dated as of July 15, 2004.
- 10.5 2004 Employment Contract between Southwest and Colleen C. Barrett dated as of July 15, 2004.
- 10.6 Supplemental Agreements Nos. 39 and 40 to Purchase Agreement No. 1810, dated January 19, 1994 between The Boeing Company and Southwest.
Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer

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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.

October 15, 2004

By /s/ Laura Wright

Laura Wright
Chief Financial Officer
(Principal Financial and

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EXHIBIT INDEX

Exhibit No.	Description
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Exhibit 10.3	- 2004 Employment Contract between Southwest and Herbert D. Kelleher dated as of July 15, 2004.
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Exhibit 31.1	- Rule 13a-14(a) Certification of Chief Executive Officer
Exhibit 31.2	- Rule 13a-14(a) Certification of Chief Financial Officer
Exhibit 32.1	- Section 1350 Certification of Chief Executive Officer
Exhibit 32.2	- Section 1350 Certification of Chief Financial Officer

SOUTHWEST AIRLINES CO.
1996 INCENTIVE STOCK OPTION PLAN
NOTICE OF GRANT OF INCENTIVE STOCK OPTIONS

Southwest Airlines Co. hereby grants to you (the "Optionee") the right and option (the "Option" or "Options") to purchase shares of the Common Stock of the Company as follows:

Optionee:
Grant Date:
Expiration Date:
Option Price:
Options Granted:
Option Type: Incentive Stock Options
Vesting Terms:
Vesting Schedule:

Optionee understands and agrees that the Option described above is granted in accordance with and subject to the terms and conditions of the Southwest Airlines Co. 1996 Incentive Stock Option Plan (the "Plan") and the applicable terms and conditions accompanying this notice of grant (the "Terms and Conditions").

The Terms and Conditions, together with the Q&A/Prospectus - Understanding Your Incentive Stock Options, are enclosed with this notice of grant. You can request a copy of the Plan, as well as additional copies of the Q&A/Prospectus and Terms and Conditions, by contacting the Company's Stock Option Administration Department.

You are not required to accept these Options, however, by exercising any of these Options you will be deemed to have agreed to the terms and conditions of the Plan and the Terms and Conditions.

Southwest Airlines Co.

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SOUTHWEST AIRLINES CO.
1996 NON-QUALIFIED STOCK OPTION PLAN
NOTICE OF GRANT OF NON-QUALIFIED STOCK OPTIONS

Southwest Airlines Co. hereby grants to you (the "Optionee") the right and option (the "Option" or "Options") to purchase shares of the Common Stock of the Company as follows:

Optionee:
Grant Date:
Expiration Date:
Option Price:
Options Granted:
Option Type: Non-Qualified Stock Options
Vesting Terms:
Vesting Schedule:

Optionee understands and agrees that the Option described above is granted in accordance with and subject to the terms and conditions of the Southwest Airlines Co. 1996 Non-Qualified Stock Option Plan (the "Plan") and the applicable terms and conditions accompanying this notice of grant (the "Terms and Conditions").

The Terms and Conditions, together with the Q&A/Prospectus - Understanding Your Non-Qualified Stock Options, are enclosed with this notice

of grant. You can request a copy of the Plan, as well as additional copies of the Q&A/Prospectus and Terms and Conditions, by contacting the Company's Stock Option Administration Department.

You are not required to accept these Options, however, by exercising any of these Options you will be deemed to have agreed to the terms and conditions of the Plan and the Terms and Conditions.

Southwest Airlines Co.

SEVERANCE CONTRACT

THIS SEVERANCE CONTRACT (hereinafter referred to as this "Agreement"), dated as of July 15, 2004, by and between JAMES F. PARKER (hereinafter referred to as the "Executive"), a resident of Dallas, Texas, and SOUTHWEST AIRLINES CO. (hereinafter referred to as "Southwest", which term shall include its subsidiary companies where the context so admits), a Texas corporation,

W I T N E S S E T H:

WHEREAS the Executive has served as an employee and an executive officer of Southwest since February 1986, and he has also served on the Board of Directors of Southwest since June 2001; and

WHEREAS the Executive desires to resign his offices but to continue his employment with Southwest, and Southwest is agreeable, subject to the terms and conditions of this Agreement, to continuing his employment and to paying him severance compensation in consideration of the Executive's agreements contained herein;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and promises contained herein, Southwest and the Executive agree as follows:

I. RESIGNATION AND CONTINUED EMPLOYMENT

A. RESIGNATION AND CONTINUED EMPLOYMENT. The Executive hereby resigns as an officer and director of Southwest effective as of the commencement of business on the date of this Agreement, and he irrevocably waives any claim that he may have against Southwest, its directors or officers based on or related to such resignation. Notwithstanding such resignation, the Executive shall remain an employee of Southwest through December 31, 2009, and during the period of such employment the Executive shall discharge the consulting obligations set forth in Paragraph II-B of this Agreement. The Executive may elect to terminate his employment at any time prior to January 1, 2010, upon prior notice to Southwest; provided, however, that in such event Southwest shall be relieved of any obligation to make further payments to the Executive under Paragraph III-B hereof and, if the Executive shall do work prior to the second anniversary of the date of this Agreement for any airline that then competes with Southwest, then Southwest shall be entitled to recover all past payments that Southwest shall have made pursuant to Paragraphs III-B and III-C hereof, all as more particularly provided in Paragraph III-G hereof.

II. EXECUTIVE'S OBLIGATIONS

A. NON-DEROGATION, ETC. The Executive agrees that he shall not do or say anything, whether personally or through his attorney, agent or other representative, to, directly or impliedly, derogate Southwest, its business operations or prospects, its properties or any of its officers, directors or employees, whether by way of media interviews, radio or television appearances, letters to editors or others, articles published in the airline trade press or in the general press, Internet chat rooms or otherwise. In addition, the Executive shall provide no assistance or advice to, or discuss any of Southwest's business matters or affairs with, any current or prospective employee of Southwest, whether for a fee or otherwise, unless specifically requested to do so by the Chief Executive Officer or the Chairman of the Board of Directors of Southwest.

B. CONSULTANCY. The Executive agrees that, from time to time during the term of his employment under this Agreement, the Executive shall make himself available at the offices of Southwest, when specifically requested to do so by Southwest, in order to consult with either the Chief Executive Officer of Southwest, or the Chairman of its Board of Directors, as to the business, properties or operations of Southwest, in each case for such reasonable periods of time as either such officer may request. At all times during his employment the Executive shall generally conform to all policies of Southwest as they may apply to an employee of his level of duties and obligations.

C. UNION WORK. The Executive agrees that, at all times prior to January 1, 2010, he shall not personally, or through any representative, intermediary or agent, directly or indirectly provide any advice, assistance or counsel to any union or collective bargaining unit in connection with its representation (or efforts to seek representation) of any group of Employees at Southwest.

III. EXECUTIVE SEVERANCE COMPENSATION

A. SEVERANCE COMPENSATION. In consideration of his agreements set forth in Articles I and II hereof, Southwest shall pay to the Executive the severance compensation set forth in this Article III. All such severance compensation shall be subject to such payroll and withholding deductions as

may be required by law.

B. SEMI-MONTHLY INSTALLMENTS. The Executive shall receive severance compensation consisting of fifty-nine (59) equal semi-monthly installments, each in an amount equal to the Executive's semi-monthly Base Salary (as such term is defined in his Employment Contract referred to in Paragraph III-F below) as in effect on July 15, 2004, commencing with Southwest's next regular payroll date and continuing through its last regular payroll date for December 2006. Thereafter, the Executive shall receive severance compensation consisting of seventy-two (72) equal semi-monthly installments, each in an amount equal to one-half of the Executive's semi-monthly Base Salary as in effect on July 15, 2004, commencing with Southwest's first regular payroll date in January 2007 and continuing through its last regular payroll date for December 2009. In the event that Southwest shall change its payroll practices while payments are owing to the Executive pursuant to this Paragraph III-B, then Southwest shall adjust the timing of its such payments to the Executive so as to insure that he receives equal installment payments no less frequently than monthly.

C. LUMP-SUM PAYMENT. The Executive shall receive a lump-sum severance payment of \$131,250.00, payable on such date in January 2005 as Southwest shall pay its officers their annual performance bonuses (or, in the absence of any such bonus payments next January, on the last business day of January 2005).

D. AIRLINE PASSES. The Executive and his wife, Patricia, shall receive lifetime, positive-space passes for travel on Southwest's scheduled flights, and the Executive shall be eligible for all pass privileges that other airlines make available to Southwest's retirees generally.

E. MEDICAL AND DENTAL EXPENSES. During his term of employment with Southwest, the Executive shall remain eligible to participate in any medical benefit plan or program that Southwest makes available to its employees generally. Upon termination of his employment with Southwest, the Executive shall be eligible to participate in any non-contract retiree medical benefit plan or program that Southwest may then make available to its retirees generally. Southwest shall reimburse the Executive for all of his out-of-pocket expenses (including specifically all premiums and deductibles) that the Executive may incur for himself and his spouse under any such Southwest plan or program prior to January 1, 2010.

F. PRIOR BENEFITS. Nothing contained in this Agreement is intended to diminish or enlarge any compensation or other benefits that may have accrued to the benefit of the Executive in his capacity as an employee, officer or director of Southwest at any time prior to the date of this Agreement, including, without limitation, any deferred compensation payable to him pursuant to this Employment Contract with Southwest dated as of June 19, 2001, it being understood that the Executive shall have no claim on any further Base Salary or Performance Bonus (as such terms are defined in such Employment Contract). The Executive shall be eligible to receive such benefits as he may be entitled to under all profit-sharing, stock purchase, stock option, group insurance and other benefit plans or programs in which he may have participated while employed by Southwest, either prior to or after the date of this Agreement, in each case to the extent of and in accordance with the rules and agreements governing such plans or programs.

G. PAYMENTS UNFUNDED; CONDITION PRECEDENT; CLAWBACK, ETC. The severance compensation provided for in this Article III is provided on an unsecured, unfunded basis and shall be payable solely from the general assets of Southwest. All amounts payable by Southwest pursuant to this Article III shall be paid without notice or demand, and irrespective of the Executive's death or disability; provided, however, that notwithstanding any other provision of this Agreement it shall be a condition precedent to the obligation of Southwest to make any payment under Paragraphs III-B and III-C hereof that each of the following shall be true and accurate at the time of such payment: (i) the Executive's agreements contained in Paragraphs II-A and II-C of this Agreement shall not have been declared to be unenforceable or non-binding on the Executive, in whole or in part, by any court of competent jurisdiction; (ii) the Executive shall not have engaged in any conduct in breach of his agreements contained in Paragraphs II-A and II-C hereof, irrespective of the enforceability of any such agreements at law or in equity; and (iii) at no time prior to January 1, 2010, shall the Executive do work for any airline that then competes with Southwest, whether as an employee or as a consultant, nor shall he provide advice to, nor representation of, any person or entity whose interests are adverse to Southwest in any legal or administrative proceeding. Upon the occurrence at any time of either event described in the preceding clauses (i) and (ii) or, if prior to the second anniversary date of this Agreement (but not thereafter) the Executive shall do work for any airline that then competes with Southwest, in addition to relieving Southwest of any obligation to make any further payments owing under Paragraphs III-B and III-C hereof, Southwest shall be entitled to recover the full amount of all past payments that Southwest shall have made pursuant to Paragraph III-B hereof (but not Paragraph III-C hereof), with interest thereon at a rate of six percent (6%) per annum from the time Southwest shall have made any such payment to the

Executive until its recovery thereof. The Executive shall have no obligation to seek other employment in mitigation of any amount payable to him under this Article III, and he shall have the right, without incurring any penalty hereunder, to accept any other employment that does not (i) violate the provisions of Paragraph II-C hereof or (ii) involve doing work for any airline that then competes with Southwest. After the second anniversary of this Agreement, the Executive may accept employment that involves doing work for an airline that then competes with Southwest, with only the loss of future payments of severance compensation under Paragraph III-B hereof.

IV. MISCELLANEOUS

A. ASSIGNABILITY, ETC. The rights and obligations of Southwest hereunder shall inure to the benefit of and shall be binding upon the successors and assigns of Southwest; provided, however, Southwest's obligations hereunder may not be assigned without the prior approval of the Executive. This Agreement is personal to the Executive and may not be assigned by him; provided, however, the rights of the Executive to receive payments of severance compensation pursuant to Paragraphs III-B and III-C hereof shall inure to the benefit of his heirs and legal representatives.

B. NO WAIVERS. Failure to insist upon strict compliance with any provision hereof shall not be deemed a waiver of such provision or any other provision hereof.

C. AMENDMENTS. This Agreement may not be modified except by an agreement in writing executed by the parties hereto.

D. NOTICES. Any notice required or permitted to be given under this Agreement shall be in writing in the English language and shall be deemed to have been given to the person affected by such notice when personally delivered or when deposited in the United States mail, certified mail, return receipt requested and postage prepaid, and addressed to the party affected by such notice at the address indicated on the signature page hereof.

E. SEVERABILITY. The invalidity or unenforceability of any provision hereof shall not affect the validity or enforceability of any other provision hereof.

F. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original but all of which taken together shall constitute a single instrument.

G. ENTIRE AGREEMENT. This Agreement contains all of the terms and conditions agreed upon by the parties hereto respecting the subject matter hereof, and all other prior agreements, oral or otherwise, regarding the subject matter of this Agreement shall be deemed to be superseded as of the date of this Agreement and not to bind either of the parties hereto.

H. GOVERNING LAW; FORUM SELECTION. This Agreement shall be subject to and governed by the laws of the State of Texas. The parties hereto agree that any action or proceeding arising out of this Agreement shall be subject to the exclusive jurisdiction of the competent courts of the State of Texas sitting in Dallas County, Texas, and of the United States District Court for the Northern District of Texas, irrespective of whether or not at any time after the date hereof the Executive shall relocate his residence to a jurisdiction outside the State of Texas.

IN WITNESS WHEREOF, the Executive has set his hand hereto and Southwest has caused this Agreement to be signed in its corporate name and behalf by one of its officers thereunto duly authorized, all as of the day and year first above written.

SOUTHWEST AIRLINES CO.

By: /s/ Herbert D. Kelleher
Herbert D. Kelleher
Chairman of the Board of Directors

Address: P.O. Box 36611
Dallas, Texas 75235-1611

EXECUTIVE

/s/ James F. Parker
James F. Parker

Address: 5808 Lupton
Dallas, Texas 75225

EMPLOYMENT CONTRACT

THIS EMPLOYMENT CONTRACT (hereinafter referred to as this "Agreement"), dated as of July 15, 2004, by and between HERBERT D. KELLEHER (hereinafter referred to as the "Employee"), a resident of Dallas, Texas, and SOUTHWEST AIRLINES CO. (hereinafter referred to as "Southwest", which term shall include its subsidiary companies where the context so admits), a Texas corporation,

W I T N E S S E T H:

WHEREAS the Employee has served as permanent President and Chief Executive Officer of Southwest since February 1, 1982, initially pursuant to an Employment Contract dated as of February 1, 1982, later pursuant to Employment Contracts dated as of January 1, 1985, as amended, January 1, 1988, January 1, 1992 and January 1, 1996 and most recently pursuant to an Employment Contract dated as of January 1, 2001 (such Employment Contracts being referred to collectively as the "Old Contracts"); and

WHEREAS the Employee and Southwest desire to enter into a successor agreement for the continuing services of the Employee;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and promises contained herein, Southwest and the Employee agree as follows:

I. POSITION, DUTIES AND AUTHORITY

- A. POSITIONS. The Employee shall perform such corporate duties and discharge such corporate responsibilities as are designated by the Board of Directors and, if elected to the Board of Directors of Southwest and so designated annually by the Board, he shall serve as both Chairman of the Board and Chairman of the Executive Committee of the Board without additional compensation hereunder.
- B. DUTIES. The Employee's duties shall include responsibility for overseeing the implementation of Southwest's current and long range business policies and programs and handling such other functions or segments of Southwest's business as may be directed from time to time by the Board of Directors.
- C. AUTHORITY. The Employee shall be vested with all authority reasonably necessary to carry out his duties and responsibilities as set forth in this Article I.
- D. NECESSARY SUPPORT AND ENVIRONMENT. The Employee shall be provided with the secretarial and other support personnel (including a full-time administrative assistant) and general working environment (including a private, furnished office) reasonably necessary for him to carry out his duties and responsibilities as set forth in this Article I.

II. EMPLOYEE'S OBLIGATIONS

- A. TIME AND EFFORTS. During the term of his employment hereunder, the Employee shall devote such time and effort as is required to discharge his duties hereunder.
- B. NON-COMPETITION. The Employee recognizes and understands that in performing the duties and responsibilities of his employment as outlined in this Agreement and pursuant to his employment at Southwest prior to the execution of this Agreement, the Employee has occupied and will occupy a position of trust and confidence, pursuant to which the Employee has developed and acquired and will develop and acquire experience and knowledge with respect to various aspects of the business of Southwest and the manner in which such business is conducted. It is the expressed intent and agreement of the Employee and Southwest that such knowledge and experience shall be used in the furtherance of the business interests of Southwest and not in any manner which would be detrimental to such business interests of Southwest. The Employee therefore agrees that, so long as the Employee is employed pursuant to this Agreement, unless he first secures the consent of the Board of Directors of Southwest, the Employee will not invest, engage or participate in any manner whatsoever, either personally or in any status or capacity (other than as a shareholder of less than one percent [1%] of the capital stock of a publicly owned corporation), in any business or other entity organized for profit engaged in significant competition with Southwest in the conduct of its air carrier operations anywhere in the States of Texas, Louisiana, Oklahoma, New Mexico, Missouri, Arizona, Nevada, California, Arkansas, Alabama, Tennessee, Kentucky, Michigan, Indiana, Ohio, Maryland, Illinois, Utah, Washington, Oregon, Nebraska, Florida, Idaho, Mississippi, New Hampshire, New York, Rhode Island, Connecticut, North Carolina, Virginia and Pennsylvania. Although the Employee and Southwest regard such restrictions as reasonable for the purpose of preserving Southwest and its proprietary rights, in the event that the provisions of this Paragraph II-B should ever be deemed to exceed the time or geographic limitations permitted by applicable laws, then such provisions shall be reformed to the maximum time or geographic limitations permitted by applicable laws.

III. TERM

- A. TERM. This Agreement and the Employee's employment hereunder shall commence and become effective on and as of July 15, 2004. The term of such employment shall expire on July 15, 2007, unless extended by consent of the parties hereto or earlier terminated pursuant to the provisions of Article V.

IV. EMPLOYEE'S COMPENSATION

- A. BASE SALARY. The Employee's annual Base Salary for the years ending July 15, 2005, 2006 and 2007 shall be \$450,000 or such greater amount as shall be determined by the Board of Directors of Southwest. The Employee's Base Salary shall be payable to the Employee in equal semi-monthly installments and shall be subject to such payroll and withholding deductions as may be required by law.
- B. PERFORMANCE BONUS. The Board of Directors of Southwest (or the Compensation Committee thereof) may grant a Performance Bonus to the Employee, in addition to his Base Salary, at such times and in such amounts as such Board (or Committee) may determine.
- C. DEFERRED COMPENSATION. In addition to the Base Salary provided for in Paragraph IV-A above, Southwest shall continue to set aside on its books, as provided in Paragraph IV-C of each of the Old Contracts, a special ledger Deferred Compensation Account (the "Account") for the Employee, and shall credit thereto Deferred Compensation determined as hereinafter provided. (Southwest at its election may fund the payment of Deferred Compensation by setting aside and investing such funds as Southwest may from time to time determine. Neither the establishment of the Account, the crediting of Deferred Compensation thereto, nor the setting aside of any funds shall be deemed to create a trust. Legal and equitable title to any funds set aside shall remain in Southwest, and the Employee shall have no security or other interest in such funds. Any funds so set aside or invested shall remain subject to the claims of the creditors of Southwest, present and future.) For each full or partial calendar year as the Employee shall remain in the employment of Southwest under this Agreement, Deferred Compensation shall accumulate in an amount equal to any contributions (including forfeitures but excluding any elective deferrals actually returned to the Employee) which would otherwise have been made by Southwest on behalf of the Employee to the Southwest Airlines Co. Profitsharing Plan but which exceed maximum annual additions under such Plan on his behalf under federal tax law. If such employment shall terminate prior to December 31 in any calendar year, then Deferred Compensation shall accumulate and be calculated as provided under the terms of Southwest's Profitsharing Plan. The Deferred Compensation credited to the Account (including the Interest hereinafter provided) shall be paid to the Employee (or to the executors or administrators of his estate) at the rate of \$100,000 per calendar year (subject to such payroll and withholding deductions as may be required by law), commencing with the calendar year following the year in which (i) the Employee shall become seventy-six (76) or (ii) the Employee's employment with Southwest shall terminate (whether such termination is under this Agreement or otherwise and whether it is before, on or after the expiration of the initial term set forth in Paragraph III-A above, and irrespective of the cause thereof), whichever shall occur later, and continuing until the entire amount of Deferred Compensation and Interest credited to the Account shall have been paid. Although the total amount of Deferred Compensation ultimately payable to the Employee hereunder shall be computed in accordance with the provisions set forth above, there shall be accrued and credited to the Account, beginning on January 1, 2004 (if not so accrued and credited pursuant to the Old Contracts, and if so accrued and credited, then beginning on January 1, 2005) and continuing annually thereafter, amounts equal to simple interest at the rate of ten percent (10%) per annum, compounded annually ("Interest"), on the accrued and unpaid balance of the Deferred Compensation credited to the Account as of the preceding December 31. The Deferred Compensation and Interest to be paid in any one calendar year shall be paid on the first business day of such calendar year. Notwithstanding the foregoing, in the event of the Employee's death, Southwest, in its sole discretion, shall have the right to pay the unpaid balance of the Deferred Compensation (together with any accrued Interest thereon) to the executors or administrators of the Employee's estate in cash in one lump sum on the first business day of the calendar year next following the calendar year in which the Employee shall have died. No right, title, interest or benefit under this Paragraph IV-C shall ever be liable for or charged with any of the torts or obligations of the Employee or any person claiming under him, or be subject to seizure by any creditor of the Employee or any person claiming under him. Neither the Employee nor any person claiming under him shall have the power to anticipate or dispose of any right, title, interest or benefit under this Paragraph IV-C in any manner until the same shall have been actually distributed by Southwest.
- D. DISABILITY INSURANCE. Southwest shall provide long term disability insurance providing for payment, in the event of disability of the Employee, of \$10,000 per month to age seventy-six (76). Except as to

amounts payable, the terms and conditions of such policy shall be identical, or substantially similar, to the disability insurance provided by Southwest for its other officers as of the date of this Agreement.

- E. MEDICAL AND DENTAL EXPENSES. During the term of this Agreement, the Employee shall remain eligible to participate in any medical benefit plan or program that Southwest makes available to its employees generally. Upon termination of his employment with Southwest, the Employee shall be eligible to participate in any non-contract retiree medical benefit plan or program that Southwest may then make available to its retirees generally. Southwest shall reimburse the Employee for all his out-of-pocket expenses (including specifically all premiums and deductibles) that the Employee may incur for himself and his spouse under any such Southwest plan or program during the term of this Agreement. In addition, Southwest shall reimburse the Employee for all medical and dental expenses paid by the Employee in excess of \$10,000 per calendar year and incurred by his children, their spouses and the Employee's grandchildren, such expenses being deemed to include all amounts paid by the Employee with respect to hospital bills, doctor and dental bills and prescription drugs that are not covered by insurance.
- F. STOCK OPTION GRANT AND AMENDMENTS. Southwest shall grant to the Employee, effective as of the date hereof, ten-year non-qualified options to purchase 200,000 shares of its common stock at a price per share equal to the fair market value thereof at the date hereof, with one-third of such options to be exercisable immediately and one-third to become exercisable on each of July 15, 2005 and July 15, 2006.
- G. OTHER BENEFITS. The Employee shall be eligible to continue to participate in all employee pension, profit-sharing, stock purchase, group insurance and other benefit plans or programs in effect for Southwest managerial employees generally to the extent of and in accordance with the rules and agreements governing such plans or programs, so long as same shall be in effect, with full service credit where relevant for the Employee's prior employment by Southwest. Southwest shall reimburse the Employee for reasonable expenses incurred by him in the performance of his duties and responsibilities hereunder. The Employee shall be entitled to vacation of three (3) weeks per year or such longer period as may be established from time to time by Southwest for its managerial employees generally.

V. TERMINATION PROVISIONS

- A. EXPIRATION OR DEATH. The Employee's employment hereunder shall terminate on July 15, 2007 (or such later date to which the term of this Agreement may be extended by consent of the parties hereto, in either case without prejudice to the Employee's privilege to remain an employee of Southwest thereafter), or upon the Employee's death, whichever shall first occur, without further obligation or liability of either party hereunder, except for Southwest's obligation to pay Deferred Compensation as provided in Paragraph IV-C of this Agreement.
- B. TERMINATION FOR CAUSE. Southwest may terminate the Employee's employment hereunder upon the determination by a majority of its whole Board of Directors that the Employee has willfully failed and refused to perform his duties and to discharge his responsibilities hereunder. Such determination shall be final and conclusive. If the Board of Directors of Southwest makes such determination, Southwest may (a) terminate the Employee's employment, effective immediately or at a subsequent date, or (b) condition his continued employment upon the circumstances and place a reasonable limitation upon the time within which the Employee shall comply with such considerations or requirements. If termination is so effected, Southwest shall have no further liability to the Employee hereunder except for the obligation to pay Deferred Compensation as provided in Paragraph IV-C hereof.
- C. TERMINATION FOR DISABILITY. Southwest may terminate the Employee's employment hereunder on account of any disabling illness, hereby defined to include any emotional or mental disorders, physical diseases or injuries as a result of which the Employee is, for a continuous period of ninety (90) days, unable to perform his duties hereunder. Southwest shall give to the Employee thirty (30) dayss' notice of its intention to effect such termination pursuant to this Paragraph V-C. If, within such notice period, the Employee shall have recovered from his disability sufficiently well to resume performance of his duties (although still undergoing treatment or rehabilitation), Southwest shall not have the right to effect such termination. If such disabling illness occurs as a result of a job-related cause, Southwest shall continue to pay the Employee regular installments of his Base Salary in effect at the time of such termination for the remainder of the term of this Agreement. It is expressly understood and agreed, however, that any obligation of Southwest to continue to pay the Employee his Base Salary pursuant to this Paragraph V-C shall be reduced by the amount of any proceeds of long-term disability insurance provided for the Employee pursuant to Paragraph IV-D above, and shall also be reduced by the amount of the proceeds of any worker's compensation or other benefits which the Employee receives as a result of or growing out of his disabling

illness.

- D. CHANGE OF CONTROL TERMINATION. In the event of any change of control of Southwest, the Employee may, at his option, terminate his employment hereunder by giving to Southwest notice thereof no later than sixty (60) days after the Employee shall have determined or ascertained that such change has occurred, irrespective whether Southwest shall have purported to terminate this Agreement after such event but prior to receipt of such notice. If termination is so effected, no later than the date of such termination Southwest shall pay the Employee as "severance pay" a lump sum equal to (i) \$750,000 plus (ii) an amount equal to the unpaid installments of his Base Salary in effect at the time of such termination for the remaining term of this Agreement. If termination is so effected, Southwest shall have no other further liability to the Employee hereunder except for its obligation to pay Deferred Compensation as provided in Paragraph IV-C above. For purposes of this Paragraph V-D, a "change of control of Southwest" shall be deemed to occur if (i) a third person, including a "group" as determined in accordance with Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of Southwest having twenty percent (20%) or more of the total number of votes that may be cast for the election of directors of Southwest, or (ii) as a result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions (herein called a "Transaction"), the persons who were directors of Southwest before the Transaction shall cease to constitute a majority of the Board of Directors of Southwest or any successor to Southwest.
- E. VOLUNTARY TERMINATION. The Employee's employment hereunder shall terminate forthwith upon his resignation and its acceptance by Southwest, without further obligation or liability of either party hereunder, except for Southwest's obligation to pay Deferred Compensation as provided in Paragraph IV-C above.

VI. MISCELLANEOUS

- A. ASSIGNABILITY, ETC. The rights and obligations of Southwest hereunder shall inure to the benefit of and shall be binding upon the successors and assigns of Southwest; provided, however, Southwest's obligations hereunder may not be assigned without the prior approval of the Employee. This Agreement is personal to the Employee and may not be assigned by him.
- B. NO WAIVERS. Failure to insist upon strict compliance with any provision hereof shall not be deemed a waiver of such provision or any other provision hereof.
- C. AMENDMENTS. This Agreement may not be modified except by an agreement in writing executed by the parties hereto.
- D. NOTICES. Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given to the person affected by such notice when personally delivered or when deposited in the United States mail, certified mail, return receipt requested and postage prepaid, and addressed to the party affected by such notice at the address indicated on the signature page hereof.
- E. SEVERABILITY. The invalidity or unenforceability of any provision hereof shall not affect the validity or enforceability of any other provision hereof.
- F. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original but all of which taken together shall constitute a single instrument.
- G. ENTIRE AGREEMENT. This Agreement contains all of the terms and conditions agreed upon by the parties hereto respecting the subject matter hereof, and all other prior agreements, oral or otherwise, regarding the subject matter of this Agreement shall be deemed to be superseded as of the date of this Agreement and not to bind either of the parties hereto.
- H. GOVERNING LAW. This Agreement shall be subject to and governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the Employee has set his hand hereto and Southwest has caused this Agreement to be signed in its corporate name and behalf by one of its officers thereunto duly authorized all as of the day and year first above written.

SOUTHWEST AIRLINES CO.

By: /s/ Gary C. Kelly
Gary C. Kelly
Vice Chairman and Chief Executive Officer

THE EMPLOYEE

/s/ Herbert D. Kelleher
Herbert D. Kelleher
Address: P.O. Box 36611
Dallas, Texas 75235-1611

EMPLOYMENT CONTRACT

THIS EMPLOYMENT CONTRACT (hereinafter referred to as this "Agreement"), dated as of July 15, 2004, by and between GARY C. KELLY (hereinafter referred to as the "Employee"), a resident of Dallas, Texas, and SOUTHWEST AIRLINES CO. (hereinafter referred to as "Southwest", which term shall include its subsidiary companies where the context so admits), a Texas corporation,

W I T N E S S E T H:

WHEREAS the Employee has served as an executive officer of Southwest for more than the past five years; and

WHEREAS the Employee and Southwest desire to enter into an agreement for the continuing full-time services of the Employee;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and promises contained herein, Southwest and the Employee agree as follows:

I. POSITION, DUTIES AND AUTHORITY

- A. POSITIONS, DUTIES AND RESPONSIBILITIES. The Employee shall serve as Chief Executive Officer of Southwest, and, for so long as he shall be elected to the Board of Directors of Southwest, he shall serve as Vice Chairman of the Board without additional compensation hereunder. The Employee's duties and responsibilities as Chief Executive Officer shall include general oversight of the operational performance of Southwest; managing costs and generating revenues in order to achieve excellent financial performance; representing Southwest to its multitude of exterior constituencies; implementing Southwest's current and long range business policies and programs; handling, or overseeing, major contract negotiations; and, in general, maintaining employee morale and esprit de corps. In addition, he shall perform such other corporate duties and discharge such other corporate responsibilities as are specified in the bylaws of Southwest or are designated from time to time by either the Chairman of the Board of Directors of Southwest or the full Board of Directors.
- B. AUTHORITY. The Employee shall be vested with all authority reasonably necessary to carry out his duties and responsibilities as set forth in this Article I.
- C. NECESSARY SUPPORT AND ENVIRONMENT. The Employee shall be provided with the secretarial and other support personnel (including a full-time administrative assistant) and general working environment (including a private, furnished office) reasonably necessary for him to carry out his duties and responsibilities as set forth in this Article I.

II. EMPLOYEE'S OBLIGATIONS

- A. TIME AND EFFORT. During the term of his employment hereunder, the Employee shall devote such time and effort as is required to perform his duties and to discharge his responsibilities hereunder. The Employee shall generally conform with all policies of Southwest as they apply to a person of his level of duties and responsibilities.
- B. NON-COMPETITION. The Employee recognizes and understands that in performing the duties and responsibilities of his employment as outlined in this Agreement and pursuant to his employment at Southwest prior to the execution of this Agreement, the Employee has occupied and will occupy a position of trust and confidence, pursuant to which the Employee has developed and acquired and will develop and acquire experience and knowledge with respect to various aspects of the business of Southwest and the manner in which such business is conducted. It is the expressed intent and agreement of the Employee and Southwest that such knowledge and experience shall be used in the furtherance of the business interests of Southwest and not in any manner which would be detrimental to such business interests of Southwest. The Employee therefore agrees that, so long as the Employee is employed pursuant to this Agreement, unless he first secures the consent of the Board of Directors of Southwest, the Employee will not invest, engage or participate in any manner whatsoever, either personally or in any status or capacity (other than as a shareholder of less than one percent [1%] of the capital stock of a publicly owned corporation), in any business or other entity organized for profit engaged in significant competition with Southwest in the conduct of its air carrier operations anywhere in the States of Texas, Louisiana, Oklahoma, New Mexico, Missouri, Arizona, Nevada, California, Arkansas, Alabama, Tennessee, Kentucky, Michigan, Indiana, Ohio, Maryland, Illinois, Utah, Washington, Oregon, Nebraska, Florida, Idaho, Mississippi, New Hampshire, New York, Pennsylvania, Rhode Island, Connecticut, North Carolina and Virginia. Although the Employee and Southwest regard such restrictions as reasonable for the purpose of preserving Southwest and its proprietary rights, in the event that the provisions of this Paragraph II-B should ever be deemed to exceed the

time or geographic limitations permitted by applicable laws, then such provisions shall be reformed to the maximum time or geographic limitations permitted by applicable laws.

III. TERM

- A. TERM. This Agreement and the Employee's employment hereunder shall commence and become effective on and as of July 15, 2004. The term of such employment shall expire on July 15, 2007, unless extended by consent of the parties hereto or earlier terminated pursuant to the provisions of Article V.

IV. EMPLOYEE'S COMPENSATION

- A. BASE SALARY. The Employee's annual Base Salary for the years ending July 15, 2005, 2006 and 2007 shall be \$399,722, \$411,714 and \$424,065, respectively. The Employee's Base Salary shall be payable to the Employee in equal semi-monthly installments. The Employee's Base Salary installment payments shall be subject to such payroll and withholding deductions as may be required by law.
- B. PERFORMANCE BONUS. The Board of Directors of Southwest (or the Compensation Committee thereof) may grant a Performance Bonus to the Employee, in addition to his Base Salary, at such times and in such amounts as such Board (or Committee) may determine.
- C. DEFERRED COMPENSATION. In addition to the Base Salary provided for in Paragraph IV-A above, Southwest shall set aside on its books a special ledger Deferred Compensation Account (the "Account") for the Employee, and shall credit thereto Deferred Compensation determined as hereinafter provided. (Southwest at its election may fund the payment of Deferred Compensation by setting aside and investing such funds as Southwest may from time to time determine. Neither the establishment of the Account, the crediting of Deferred Compensation thereto, nor the setting aside of any funds shall be deemed to create a trust. Legal and equitable title to any funds set aside shall remain in Southwest, and the Employee shall have no security or other interest in such funds. Any funds so set aside or invested shall remain subject to the claims of the creditors of Southwest, present and future.) For each full or partial calendar year as the Employee shall remain in the employment of Southwest under this Agreement, Deferred Compensation shall accumulate in an amount equal to any contributions (including forfeitures but excluding any elective deferrals actually returned to the Employee) which would otherwise have been made by Southwest on behalf of the Employee to the Southwest Airlines Co. Profitsharing Plan but which exceed maximum annual additions under such Plan on his behalf under federal tax law. If such employment shall terminate prior to December 31 in any calendar year, then Deferred Compensation shall accumulate and be calculated as provided under the terms of Southwest's Profitsharing Plan. The Deferred Compensation credited to the Account (including the Interest hereinafter provided) shall be paid to the Employee (or to the executors or administrators of his estate) at the rate of \$100,000 per calendar year (subject to such payroll and withholding deductions as may be required by law), commencing with the calendar year following the year in which (i) the Employee shall become sixty-five (65) or (ii) the Employee's employment with Southwest shall terminate (whether such termination is under this Agreement or otherwise and whether it is before, on or after the expiration of the initial term set forth in Paragraph III-A above, and irrespective of the cause thereof), whichever shall occur later, and continuing until the entire amount of Deferred Compensation and Interest credited to the Account shall have been paid. Although the total amount of Deferred Compensation ultimately payable to the Employee hereunder shall be computed in accordance with the provisions set forth above, there shall be accrued and credited to the Account, beginning on January 1, 2005 and continuing annually thereafter, amounts equal to simple interest at the rate of ten percent (10%) per annum, compounded annually ("Interest"), on the accrued and unpaid balance of the Deferred Compensation credited to the Account as of the preceding December 31. The Deferred Compensation and Interest to be paid in any one calendar year shall be paid on the first business day of such calendar year. Notwithstanding the foregoing, in the event of the Employee's death, Southwest, in its sole discretion, shall have the right to pay the unpaid balance of the Deferred Compensation (together with any accrued Interest thereon) to the executors or administrators of the Employee's estate in cash in one lump sum on the first business day of the calendar year next following the calendar year in which the Employee shall have died. No right, title, interest or benefit under this Paragraph IV-C shall ever be liable for or charged with any of the torts or obligations of the Employee or any person claiming under him, or be subject to seizure by any creditor of the Employee or any person claiming under him. Neither the Employee nor any person claiming under him shall have the power to anticipate or dispose of any right, title, interest or benefit under this Paragraph IV-C in any manner until the same shall have been actually distributed by

Southwest.

- D. DISABILITY INSURANCE. Southwest shall provide long term disability insurance providing for payment, in the event of disability of the Employee, of \$10,000 per month to age seventy (70). Except as to amounts payable, the terms and conditions of such policy shall be identical, or substantially similar, to the disability insurance provided by Southwest for its other officers as of the date of this Agreement.
- E. MEDICAL AND DENTAL EXPENSES. During the term of this Agreement, the Employee shall remain eligible to participate in any medical benefit plan or program that Southwest makes available to its employees generally. Upon termination of his employment with Southwest, the Employee shall be eligible to participate in any non-contract retiree medical benefit plan or program that Southwest may then make available to its retirees generally. Southwest shall reimburse the Employee for all his out-of-pocket expenses (including specifically all premiums and deductibles) that the Employee may incur for himself, his spouse and his children under any such Southwest plan or program during the term of this Agreement.
- F. STOCK OPTION GRANT. Southwest shall grant to the Employee, effective as of the date hereof, ten-year non-qualified options to purchase 180,000 shares of its common stock at a price per share equal to the fair market value thereof at the date hereof, with one-third of such options to be exercisable immediately and one-third to become exercisable on each of July 15, 2005 and July 15, 2006.
- G. OTHER BENEFITS. The Employee shall be eligible to continue to participate in all employee pension, profit-sharing, stock purchase, group insurance and other benefit plans or programs in effect for Southwest managerial employees generally to the extent of and in accordance with the rules and agreements governing such plans or programs, so long as same shall be in effect, with full service credit where relevant for the Employee's prior employment by Southwest. Southwest shall reimburse the Employee for reasonable expenses incurred by him in the performance of his duties and responsibilities hereunder. The Employee shall be entitled to vacation of three (3) weeks per year or such longer period as may be established from time to time by Southwest for its managerial employees generally.

V. TERMINATION PROVISIONS

- A. EXPIRATION OR DEATH. The Employee's employment hereunder shall terminate on July 15, 2007 (or such later date to which the term of this Agreement may be extended by consent of the parties hereto, in either case without prejudice to the Employee's privilege to remain an employee of Southwest thereafter), or upon the Employee's death, whichever shall first occur, without further obligation or liability of either party hereunder, except for Southwest's obligation to pay Deferred Compensation as provided in Paragraph IV-C of this Agreement.
- B. TERMINATION FOR CAUSE. Southwest may terminate the Employee's employment hereunder upon the determination by a majority of its whole Board of Directors that the Employee has willfully failed and refused to perform his duties and to discharge his responsibilities hereunder. Such determination shall be final and conclusive. If the Board of Directors of Southwest makes such determination, Southwest may (a) terminate the Employee's employment, effective immediately or at a subsequent date, or (b) condition his continued employment upon the circumstances and place a reasonable limitation upon the time within which the Employee shall comply with such considerations or requirements. If termination is so effected, Southwest shall have no further liability to the Employee hereunder except for the obligation to pay Deferred Compensation as provided in Paragraph IV-C hereof.
- C. TERMINATION FOR DISABILITY. Southwest may terminate the Employee's employment hereunder on account of any disabling illness, hereby defined to include any emotional or mental disorders, physical diseases or injuries as a result of which the Employee is, for a continuous period of ninety (90) days, unable to perform his duties and to discharge his responsibilities hereunder on a full-time basis. Southwest shall give to the Employee thirty (30) days' notice of its intention to effect such termination pursuant to this Paragraph V-C. If, within such notice period, the Employee shall have recovered from his disability sufficiently well to resume performance of his duties and discharge of his responsibilities on a full-time basis (although still undergoing treatment or rehabilitation), Southwest shall not have the right to effect such termination. If such disabling illness occurs as a result of a job-related cause, Southwest shall continue to pay the Employee regular installments of his Base Salary in effect at the time of such termination for the remainder of the term of this Agreement. It is expressly understood and agreed, however, that any obligation of

Southwest to continue to pay the Employee his Base Salary pursuant to this Paragraph V-C shall be reduced by the amount of any proceeds of long-term disability insurance provided for the Employee pursuant to Paragraph IV-D above, and shall also be reduced by the amount of the proceeds of any worker's compensation or other benefits which the Employee receives as a result of or growing out of his disabling illness.

- D. CHANGE OF CONTROL TERMINATION. In the event of any change of control of Southwest, the Employee may, at his option, terminate his employment hereunder by giving to Southwest notice thereof no later than sixty (60) days after the Employee shall have determined or ascertained that such change has occurred, irrespective whether Southwest shall have purported to terminate this Agreement after such event but prior to receipt of such notice. If termination is so effected, no later than the date of such termination Southwest shall pay the Employee as "severance pay" a lump sum equal to (i) \$750,000 plus (ii) an amount equal to the unpaid installments of his Base Salary in effect at the time of such termination for the remaining term of this Agreement. If termination is so effected, Southwest shall have no other further liability to the Employee hereunder except for its obligation to pay Deferred Compensation as provided in Paragraph IV-C above. For purposes of this Paragraph V-D, a "change of control of Southwest" shall be deemed to occur if (i) a third person, including a "group" as determined in accordance with Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of Southwest having twenty percent (20%) or more of the total number of votes that may be cast for the election of directors of Southwest, or (ii) as a result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions (herein called a "Transaction"), the persons who were directors of Southwest before the Transaction shall cease to constitute a majority of the Board of Directors of Southwest or any successor to Southwest.
- E. VOLUNTARY TERMINATION. The Employee's employment hereunder shall terminate forthwith upon his resignation and its acceptance by Southwest, without further obligation or liability of either party hereunder, except for Southwest's obligation to pay Deferred Compensation as provided in Paragraph IV-C above.

VI. MISCELLANEOUS

- A. ASSIGNABILITY, ETC. The rights and obligations of Southwest hereunder shall inure to the benefit of and shall be binding upon the successors and assigns of Southwest; provided, however, Southwest's obligations hereunder may not be assigned without the prior approval of the Employee. This Agreement is personal to the Employee and may not be assigned by him.
- B. NO WAIVERS. Failure to insist upon strict compliance with any provision hereof shall not be deemed a waiver of such provision or any other provision hereof.
- C. AMENDMENTS. This Agreement may not be modified except by an agreement in writing executed by the parties hereto.
- D. NOTICES. Any notice required or permitted to be given under this Agreement shall be in writing in the English language and shall be deemed to have been given to the person affected by such notice when personally delivered or when deposited in the United States mail, certified mail, return receipt requested and postage prepaid, and addressed to the party affected by such notice at the address indicated on the signature page hereof.
- E. SEVERABILITY. The invalidity or unenforceability of any provision hereof shall not affect the validity or enforceability of any other provision hereof.
- F. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original but all of which taken together shall constitute a single instrument.
- G. ENTIRE AGREEMENT. This Agreement contains all of the terms and conditions agreed upon by the parties hereto respecting the subject matter hereof, and all other prior agreements, oral or otherwise, regarding the subject matter of this Agreement shall be deemed to be superseded as of the date of this Agreement and not to bind either of the parties hereto.
- H. GOVERNING LAW. This Agreement shall be subject to and governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the Employee has set his hand hereto and Southwest has caused this Agreement to be signed in its corporate name and behalf by

one of its officers thereunto duly authorized, all as of the day and year first above written.

SOUTHWEST AIRLINES CO.

By: /s/ Herbert D. Kelleher
Herbert D. Kelleher
Chairman of the Board of Directors

THE EMPLOYEE

/s/ Gary C. Kelly
Gary C. Kelly

Address: P.O. Box 36611
Dallas, Texas 75235-1611

EMPLOYMENT CONTRACT

THIS EMPLOYMENT CONTRACT (hereinafter referred to as this "Agreement"), dated as of July 15, 2004, by and between COLLEEN C. BARRETT (hereinafter referred to as the "Employee"), a resident of Dallas, Texas, and SOUTHWEST AIRLINES CO. (hereinafter referred to as "Southwest", which term shall include its subsidiary companies where the context so admits), a Texas corporation,

W I T N E S S E T H:

WHEREAS the Employee has served Southwest since March 1978 in various executive capacities, most recently as President and Corporate Secretary pursuant to an Employment Contract dated as of June 19, 2001 (hereinafter referred to as the "Old Contract"); and

WHEREAS the Employee and Southwest desire to enter into an agreement for the continuing full-time services of the Employee;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and promises contained herein, Southwest and the Employee agree as follows:

I. POSITION, DUTIES AND AUTHORITY

- A. POSITIONS, DUTIES AND RESPONSIBILITIES. The Employee shall serve as President of Southwest, and, for so long as she shall be elected to the Board of Directors of Southwest, she shall serve as a member of the Board without additional compensation hereunder. Further, she shall continue to serve as Corporate Secretary of Southwest, without additional compensation hereunder, until such time as the Board of Directors elects otherwise. The Employee's duties and responsibilities as President shall include managing the Customer and Employee relations and functions of Southwest; achieving excellent Customer and employee service quality; preserving the Southwest servant leader culture; assisting the Chief Executive Officer in implementing Southwest's current and long range business policies and programs; and, in general, maintaining employee morale and esprit de corps. In addition, she shall perform such other corporate duties and discharge such other corporate responsibilities as are specified in the bylaws of Southwest or are designated from time to time by any of the Chairman of the Board of Directors of Southwest, the Chief Executive Officer or the full Board of Directors.
- B. AUTHORITY. The Employee shall be vested with all authority reasonably necessary to carry out her duties and responsibilities as set forth in this Article I.
- C. NECESSARY SUPPORT AND ENVIRONMENT. The Employee shall be provided with the secretarial and other support personnel (including a full-time administrative assistant) and general working environment (including a private, furnished office) reasonably necessary for her to carry out her duties and responsibilities as set forth in this Article I.

II. EMPLOYEE'S OBLIGATIONS

- A. TIME AND EFFORT. During the term of her employment hereunder, the Employee shall devote such time and effort as is required to perform her duties and to discharge her responsibilities hereunder. The Employee shall generally conform with all policies of Southwest as they apply to a person of her level of duties and responsibilities.
- B. NON-COMPETITION. The Employee recognizes and understands that in performing the duties and responsibilities of her employment as outlined in this Agreement and pursuant to her employment at Southwest prior to the execution of this Agreement, the Employee has occupied and will occupy a position of trust and confidence, pursuant to which the Employee has developed and acquired and will develop and acquire experience and knowledge with respect to various aspects of the business of Southwest and the manner in which such business is conducted. It is the expressed intent and agreement of the Employee and Southwest that such knowledge and experience shall be used in the furtherance of the business interests of Southwest and not in any manner which would be detrimental to such business interests of Southwest. The Employee therefore agrees that, so long as the Employee is employed pursuant to this Agreement, unless she first secures the consent of the Board of Directors of Southwest, the Employee will not invest, engage or participate in any manner whatsoever, either personally or in any status or capacity (other than as a shareholder of less than one percent [1%] of the capital stock of a publicly owned corporation), in any business or other entity organized for profit engaged in significant competition with Southwest in the conduct of its air carrier operations anywhere in the States of Texas, Louisiana, Oklahoma, New Mexico, Missouri, Arizona, Nevada, California, Arkansas,

Alabama, Tennessee, Kentucky, Michigan, Indiana, Ohio, Maryland, Illinois, Utah, Washington, Oregon, Nebraska, Florida, Idaho, Mississippi, New Hampshire, New York, Rhode Island, Connecticut, North Carolina, Virginia and Pennsylvania. Although the Employee and Southwest regard such restrictions as reasonable for the purpose of preserving Southwest and its proprietary rights, in the event that the provisions of this Paragraph II-B should ever be deemed to exceed the time or geographic limitations permitted by applicable laws, then such provisions shall be reformed to the maximum time or geographic limitations permitted by applicable laws.

III. TERM

- A. TERM. This Agreement and the Employee's employment hereunder shall commence and become effective on and as of July 15, 2004. The term of such employment shall expire on July 15, 2007, unless extended by consent of the parties hereto or earlier terminated pursuant to the provisions of Article V.

IV. EMPLOYEE'S COMPENSATION

- A. BASE SALARY. The Employee's annual Base Salary for the years ending July 15, 2005, 2006 and 2007 shall be \$347,584, \$358,012 and \$368,752, respectively. The Employee's Base Salary shall be payable to the Employee in equal semi-monthly installments. The Employee's Base Salary installment payments shall be subject to such payroll and withholding deductions as may be required by law.
- B. PERFORMANCE BONUS. The Board of Directors of Southwest (or the Compensation Committee thereof) may grant a Performance Bonus to the Employee, in addition to her Base Salary, at such times and in such amounts as such Board (or Committee) may determine.
- C. DEFERRED COMPENSATION. In addition to the Base Salary provided for in Paragraph IV-A above, Southwest shall continue to set aside on its books, as provided in Paragraph IV-C of the Old Contract, a special ledger Deferred Compensation Account (the "Account") for the Employee, and shall credit thereto Deferred Compensation determined as hereinafter provided. (Southwest at its election may fund the payment of Deferred Compensation by setting aside and investing such funds as Southwest may from time to time determine. Neither the establishment of the Account, the crediting of Deferred Compensation thereto, nor the setting aside of any funds shall be deemed to create a trust. Legal and equitable title to any funds set aside shall remain in Southwest, and the Employee shall have no security or other interest in such funds. Any funds so set aside or invested shall remain subject to the claims of the creditors of Southwest, present and future.) For each full or partial calendar year as the Employee shall remain in the employment of Southwest under this Agreement, Deferred Compensation shall accumulate in an amount equal to any contributions (including forfeitures but excluding any elective deferrals actually returned to the Employee) which would otherwise have been made by Southwest on behalf of the Employee to the Southwest Airlines Co. Profitsharing Plan but which exceed maximum annual additions under such Plan on her behalf under federal tax law. If such employment shall terminate prior to December 31 in any calendar year, then Deferred Compensation shall accumulate and be calculated as provided under the terms of Southwest's Profitsharing Plan. The Deferred Compensation credited to the Account (including the Interest hereinafter provided) shall be paid to the Employee (or to the executors or administrators of her estate) at the rate of \$100,000 per calendar year (subject to such payroll and withholding deductions as may be required by law), commencing with the calendar year following the year in which (i) the Employee shall become sixty-five (65) or (ii) the Employee's employment with Southwest shall terminate (whether such termination is under this Agreement or otherwise and whether it is before, on or after the expiration of the initial term set forth in Paragraph III-A above, and irrespective of the cause thereof), whichever shall occur later, and continuing until the entire amount of Deferred Compensation and Interest credited to the Account shall have been paid. Although the total amount of Deferred Compensation ultimately payable to the Employee hereunder shall be computed in accordance with the provisions set forth above, there shall be accrued and credited to the Account, beginning on January 1, 2005 and continuing annually thereafter, amounts equal to simple interest at the rate of ten percent (10%) per annum, compounded annually ("Interest"), on the accrued and unpaid balance of the Deferred Compensation credited to the Account as of the preceding December 31. The Deferred Compensation and Interest to be paid in any one calendar year shall be paid on the first business day of such calendar year. Notwithstanding the foregoing, in the event of the Employee's death, Southwest, in its sole discretion, shall have the right to pay the unpaid balance of the Deferred Compensation (together with any accrued Interest thereon) to the executors or administrators of the Employee's estate in cash in one lump sum on the first business day of the calendar year next following the calendar year in which the Employee

shall have died. No right, title, interest or benefit under this Paragraph IV-C shall ever be liable for or charged with any of the torts or obligations of the Employee or any person claiming under her, or be subject to seizure by any creditor of the Employee or any person claiming under her. Neither the Employee nor any person claiming under her shall have the power to anticipate or dispose of any right, title, interest or benefit under this Paragraph IV-C in any manner until the same shall have been actually distributed by Southwest.

- D. **DISABILITY INSURANCE.** Southwest shall provide long term disability insurance providing for payment, in the event of disability of the Employee, of \$10,000 per month to age seventy (70). Except as to amounts payable, the terms and conditions of such policy shall be identical, or substantially similar, to the disability insurance provided by Southwest for its other officers as of the date of this Agreement.
- E. **MEDICAL AND DENTAL EXPENSES.** During the term of this Agreement, the Employee shall remain eligible to participate in any medical benefit plan or program that Southwest makes available to its employees generally. Upon termination of her employment with Southwest, the Employee shall be eligible to participate in any non-contract retiree medical benefit plan or program that Southwest may then make available to its retirees generally. Southwest shall reimburse the Employee for all her out-of-pocket expenses (including specifically all premiums and deductibles) that the Employee may incur under any such Southwest plan or program during the term of this Agreement.
- F. **STOCK OPTION GRANT.** Southwest shall grant to the Employee, effective as of the date hereof, ten-year non-qualified options to purchase 150,000 shares of its common stock at a price per share equal to the fair market value thereof at the date hereof, with one-third of such options to be exercisable immediately and one-third to become exercisable on each of July 15, 2005 and July 15, 2006.
- G. **OTHER BENEFITS.** The Employee shall be eligible to continue to participate in all employee pension, profit-sharing, stock purchase, group insurance and other benefit plans or programs in effect for Southwest managerial employees generally to the extent of and in accordance with the rules and agreements governing such plans or programs, so long as same shall be in effect, with full service credit where relevant for the Employee's prior employment by Southwest. Southwest shall reimburse the Employee for reasonable expenses incurred by her in the performance of her duties and responsibilities hereunder. The Employee shall be entitled to vacation of three (3) weeks per year or such longer period as may be established from time to time by Southwest for its managerial employees generally.

V. TERMINATION PROVISIONS

- A. **EXPIRATION OR DEATH.** The Employee's employment hereunder shall terminate on July 15, 2007 (or such later date to which the term of this Agreement may be extended by consent of the parties hereto, in either case without prejudice to the Employee's privilege to remain an employee of Southwest thereafter), or upon the Employee's death, whichever shall first occur, without further obligation or liability of either party hereunder, except for Southwest's obligation to pay Deferred Compensation as provided in Paragraph IV-C of this Agreement.
- B. **TERMINATION FOR CAUSE.** Southwest may terminate the Employee's employment hereunder upon the determination by a majority of its whole Board of Directors that the Employee has willfully failed and refused to perform her duties and to discharge her responsibilities hereunder. Such determination shall be final and conclusive. If the Board of Directors of Southwest makes such determination, Southwest may (a) terminate the Employee's employment, effective immediately or at a subsequent date, or (b) condition her continued employment upon the circumstances and place a reasonable limitation upon the time within which the Employee shall comply with such considerations or requirements. If termination is so effected, Southwest shall have no further liability to the Employee hereunder except for the obligation to pay Deferred Compensation as provided in Paragraph IV-C hereof.
- C. **TERMINATION FOR DISABILITY.** Southwest may terminate the Employee's employment hereunder on account of any disabling illness, hereby defined to include any emotional or mental disorders, physical diseases or injuries as a result of which the Employee is, for a continuous period of ninety (90) days, unable to perform her duties and to discharge her responsibilities hereunder on a full-time basis. Southwest shall give to the Employee thirty (30) days' notice of its intention to effect such termination pursuant to this Paragraph V-C. If, within such notice period, the Employee shall have recovered from her disability sufficiently well to resume performance of her duties and discharge of her responsibilities on a full-time basis (although still undergoing treatment or rehabilitation), Southwest shall not have

the right to effect such termination. If such disabling illness occurs as a result of a job-related cause, Southwest shall continue to pay the Employee regular installments of her Base Salary in effect at the time of such termination for the remainder of the term of this Agreement. It is expressly understood and agreed, however, that any obligation of Southwest to continue to pay the Employee her Base Salary pursuant to this Paragraph V-C shall be reduced by the amount of any proceeds of long-term disability insurance provided for the Employee pursuant to Paragraph IV-D above, and shall also be reduced by the amount of the proceeds of any worker's compensation or other benefits which the Employee receives as a result of or growing out of her disabling illness.

- D. CHANGE OF CONTROL TERMINATION. In the event of any change of control of Southwest, the Employee may, at her option, terminate her employment hereunder by giving to Southwest notice thereof no later than sixty (60) days after the Employee shall have determined or ascertained that such change has occurred, irrespective whether Southwest shall have purported to terminate this Agreement after such event but prior to receipt of such notice. If termination is so effected, no later than the date of such termination Southwest shall pay the Employee as "severance pay" a lump sum equal to (i) \$750,000 plus (ii) an amount equal to the unpaid installments of her Base Salary in effect at the time of such termination for the remaining term of this Agreement. If termination is so effected, Southwest shall have no other further liability to the Employee hereunder except for its obligation to pay Deferred Compensation as provided in Paragraph IV-C above. For purposes of this Paragraph V-D, a "change of control of Southwest" shall be deemed to occur if (i) a third person, including a "group" as determined in accordance with Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of Southwest having twenty percent (20%) or more of the total number of votes that may be cast for the election of directors of Southwest, or (ii) as a result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions (herein called a "Transaction"), the persons who were directors of Southwest before the Transaction shall cease to constitute a majority of the Board of Directors of Southwest or any successor to Southwest.
- E. VOLUNTARY TERMINATION. The Employee's employment hereunder shall terminate forthwith upon her resignation and its acceptance by Southwest, without further obligation or liability of either party hereunder, except for Southwest's obligation to pay Deferred Compensation as provided in Paragraph IV-C above.

VI. MISCELLANEOUS

- A. ASSIGNABILITY, ETC. The rights and obligations of Southwest hereunder shall inure to the benefit of and shall be binding upon the successors and assigns of Southwest; provided, however, Southwest's obligations hereunder may not be assigned without the prior approval of the Employee. This Agreement is personal to the Employee and may not be assigned by her.
- B. NO WAIVERS. Failure to insist upon strict compliance with any provision hereof shall not be deemed a waiver of such provision or any other provision hereof.
- C. AMENDMENTS. This Agreement may not be modified except by an agreement in writing executed by the parties hereto.
- D. NOTICES. Any notice required or permitted to be given under this Agreement shall be in writing in the English language and shall be deemed to have been given to the person affected by such notice when personally delivered or when deposited in the United States mail, certified mail, return receipt requested and postage prepaid, and addressed to the party affected by such notice at the address indicated on the signature page hereof.
- E. SEVERABILITY. The invalidity or unenforceability of any provision hereof shall not affect the validity or enforceability of any other provision hereof.
- F. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original but all of which taken together shall constitute a single instrument.
- G. ENTIRE AGREEMENT. This Agreement contains all of the terms and conditions agreed upon by the parties hereto respecting the subject matter hereof, and all other prior agreements, oral or otherwise, regarding the subject matter of this Agreement shall be deemed to be superseded as of the date of this Agreement and not to bind either of the parties hereto.

H. GOVERNING LAW. This Agreement shall be subject to and governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the Employee has set her hand hereto and Southwest has caused this Agreement to be signed in its corporate name and behalf by one of its officers thereunto duly authorized, all as of the day and year first above written.

SOUTHWEST AIRLINES CO.

By: /s/ Herbert D. Kelleher
Herbert D. Kelleher
Chairman of the Board of Directors

THE EMPLOYEE

/s/ Colleen C. Barrett
Colleen C. Barrett

Address: P.O. Box 36611
Dallas, Texas 75235-1611

Supplemental Agreement No. 39

to

Purchase Agreement No. 1810

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of July 30, 2004, by and between THE BOEING COMPANY, a Delaware corporation with principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with principal offices in Dallas, Texas (Buyer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 1810 dated January 19, 1994, relating to Boeing Model 737-7H4 aircraft (the Agreement) and;

WHEREAS, Buyer has agreed to exercise one (1) November 2005 Block U Option Aircraft (as Block T-W Aircraft) and;

WHEREAS, Boeing agreed to provide the Performance Guarantees applicable to the 737-4H4 Aircraft equipped with winglets at the time of delivery and;

WHEREAS, Boeing has completed necessary qualification testing on PRC Desoto CA7000AX/CA7700BX exterior paint system primer to lift the existing certain warranty restrictions on the all affected Aircraft and;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Agreement as follows:

***Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

1. The Table of Contents of the Agreement is deleted in its entirety and a new Table of Contents is attached hereto and incorporated into the Agreement by this reference.

2. Table 1 is deleted in its entirety and replaced by a new Table 1 which is attached hereto and is incorporated into the Agreement by this reference.

3. Table 2 is deleted in its entirety and replaced by a new Table 2 which is attached hereto and is incorporated into the Agreement by this reference.

<Page>

NOTE - Buyer now has forty-one (41) 'banked' Rollover Option Aircraft as a result of the option exercises covered by Supplemental Agreement No. 21, 23, 24, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38 and 39 that may be converted to Option Aircraft at a future date subject to the terms of Letter Agreement No. 6-1162-RLL-933R19.

4. Attachment A to Letter Agreement No. 6-1162-JMG-669R2 is replaced by updated Attachment A attached hereto.

5. Letter No. 6-1162-NIW-889 entitled "Warranty on Exterior Color Schemes and Markings for YA143 and On" attached hereto is administratively incorporated into the Purchase Agreement by this reference.

6. Letter No. 6-1162-NIW-890 entitled "Performance Guarantees - 737-7H4 Aircraft with Winglets Installed in Production" attached hereto is incorporated into the Purchase Agreement by this reference.

7. All references in the Letter Agreements associated with Purchase Agreement No. 1810 shall be deemed to refer to the purchase by Buyer of two hundred seventy-seven (277) Model 737-7H4 Aircraft, Forty-six (46) Model 737-7H4 Option Aircraft and two hundred seventeen (217) Model 737-7H4 Rollover Option Aircraft, to the extent such reference is not specifically addressed herein.

8. The Advance Payments due upon signing assuming execution of this

*** for the November 2005 aircraft

Buyer will pay the ***directly to Boeing on or before Friday, July 30, 2004.

The Agreement will be deemed to be supplemented to the extent herein provided and as so supplemented will continue in full force and effect.

EXECUTED IN DUPLICATE as of the day and year first above written.

THE BOEING COMPANY

SOUTHWEST AIRLINES CO.

By: /s/ Nobuko Wiles
By: /s/Laura Wright

Its: Attorney-In-Fact
Its: Chief Financial Officer

P.A. No. 1810
K/SWA
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4.	Taxes	4-1	
5.	Payment	5-1	
6.	Excusable Delay	6-1	
7.	Changes to the Detail Specification	7-1	SA-1
8.	Federal Aviation Requirements and Certificates and Export License	8-1	
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Table 1 to
Purchase Agreement No. 1810
Aircraft Information Table

	Base Aircraft Price	Special Features	Aircraft Basic Price	Base Year Dollars
<S>	<C>	<C>	<C>	<C>
Block A, B, C, D & E Aircraft	***	***	***	July 1992
Block F & G Aircraft	***	***	***	July 1992
Block H Aircraft	***	***	***	July 1992
Block I Aircraft	***	***	***	July 1992
Block J Aircraft	***	***	***	July 1992
Block K Aircraft	***	***	***	July 1992
Block K-W Aircraft	***	***	***	July 1992
Block L Aircraft	***	***	***	July 1992
Block T Aircraft	***	***	***	July 1999
Block T-W Aircraft	***	***	***	July 1999

</Table>

Block K-W Aircraft: Block K airplanes with production winglets installation
Block T-W Aircraft: Block T airplanes with production winglets installation

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Delivery Date	Number of Aircraft	Aircraft Block	Escalation Estimate Adv Payment Base Price Per A/P
<S>	<C>	<C>	<C>
Dec-2000	2	E	***
Jan-2001	1	E	***
Feb-2001	1	E	***
Mar-2001	2	E	***
Jun-2001	3	E	***
Sep-2001	3	E	***
Oct-1998	1	F	***
Nov-1998	2	F	***
Dec-1998	2	F	***
Mar-1999	2	G	***
Jun-1999	2	H	***
Jul-1999	1	H	***
Aug-1999	1	H	***
Sep-1999	2	H	***
Oct-1999	1	H	***
Mar-2000	1	H	***
Apr-2000	2	H	***
Sep-2000	1	H	***

Oct-2000	2	H	***
Mar-2001	2	H	***
Apr-2001	1	H	***
Oct-2001	3	H	***
Nov-2001	2	I	***
Dec-2001	1	I	***
Jan-2002	1	I	***
Mar-2002	4	I	***
Apr-2002	2	I	***
Dec-2002	2	I	***
May-2003	1	I	***
Jun-2003	2	I	***
Jul-2003	1	I	***
Aug-2003	1	I	***
Sep-2003	3	I	***
Nov-2002	1	J	***
Dec-2002	1	J	***
Nov-2003	2	J	***
Dec-2003	2	J	***
Mar-2004	1	J	***
Mar-2004	1	K	***
Apr-2004	3	K	***
May-2004	1	K	***
Jun-2004	2	K	***
Jul-2004	2	K	***
Sep-2004	1	K-W	***
Oct-2004	4	K-W	***
Oct-1999	1	L	***
Nov-1999	2	L	***
Dec-1999	1	L	***
Jun-2000	3	L	***
Jul-2000	3	L	***
Sep-2000	1	L	***
Oct-2000	1	L	***
Nov-2000	4	L	***
Dec-2000	1	L	***
Jan-2001	1	L	***
Feb-2001	1	L	***
Jul-2001	1	L	***
Sep-2001	1	L	***
Oct-2001	1	L	***
Mar-2003	2	L	***
Jul-2003	1	L	***
Aug-2003	2	L	***
Nov-2001	1	T	***
Feb-2002	1	T	***
Jan-2004	2	T	***
Feb-2004	1	T	***
Apr-2004	3	T	***
May-2004	1	T	***
Jun-2004	6	T	***
Jul-2004	2	T	***
Aug-2004	6	T-W	***
Sep-2004	4	T-W	***
Oct-2004	0	T-W	***
Nov-2004	3	T-W	***
Dec-2004	3	T-W	***
Jan-2005	5	T-W	***
Feb-2005	3	T-W	***
Mar-2005	4	T-W	***
Apr-2005	4	T-W	***
May-2005	2	T-W	***
Jun-2005	4	T-W	***
Jul-2005	2	T-W	***
Aug-2005	2	T-W	***
Sep-2005	3	T-W	***
Oct-2005	2	T-W	***
Nov-2005	2	T-W	***
Dec-2005	1	T-W	***
Feb-2006	4	T-W	***
May-2006	3	T-W	***
Jun-2006	4	T-W	***
Jul-2006	1	T-W	***
Aug-2006	3	T-W	***
Sep-2006	3	T-W	***
Nov-2006	2	T-W	***
Dec-2006	2	T-W	***
Jan-2007	2	T-W	***
Feb-2007	3	T-W	***
Mar-2007	2	T-W	***
Apr-2007	2	T-W	***
May-2007	2	T-W	***
Jun-2007	2	T-W	***
Jul-2007	2	T-W	***
Aug-2007	2	T-W	***

Sep-2007	2	T-W	***
Oct-2007	2	T-W	***
Nov-2007	2	T-W	***
Dec-2007	2	T-W	***
Jan-2008	1	T-W	***
Feb-2008	1	T-W	***
Mar-2008	1	T-W	***
Apr-2008	1	T-W	***
May-2008	1	T-W	***
Jun-2008	1	T-W	***

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Table 2 to Purchase Agreement No. 1810
(Letter Agreement No. 6-1162-RLL-933R19)
Option Aircraft Information Table

Price Description of Option Aircraft:

	Base Aircraft Price	Special Features	Aircraft Basic Price	Base Year Dollars
<S>	<C>	<C>	<C>	<C>
Block U Option Aircraft (without Winglets)	***	***	***	July 1999
Block U-W Option Aircraft (with Winglets)	***	***	***	July 1999

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Delivery of Rollover Option Aircraft:

Year of Delivery	Number of Option Aircraft	Option Aircraft Block
<S>	<C>	<C>
2007	Twenty (20)	Q
2008	Twenty (20)	R
2009	Six (6)	S
2009- 2012	One Hundred Seventy-One (171)	V

Remaining Option
Aircraft: 46
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Aircraft Delivery Mo. & Yr.	Number of Option Aircraft	Option Aircraft Block	Adv Payment Base Price Per Option Aircraft	Option Exercise
<S>	<C>	<C>	<C>	<C>
Jan-2006	1	U-W	***	September 1, 2004
Mar-2006	3	U-W	***	November 1, 2004
Apr-2006	2	U-W	***	December 1, 2004
May-2006	2	U-W	***	January 1, 2005
Jun-2006	1	U-W	***	February 1, 2005
Jul-2006	2	U-W	***	March 1, 2005
Oct-2006	1	U-W	***	June 1, 2005
Apr-2007	1	U-W	***	December 1, 2005
May-2007	1	U-W	***	January 1, 2006
Jun-2007	1	U-W	***	February 1, 2006
Jul-2007	1	U-W	***	March 1, 2006

Aug-2007	1	U-W	***	April 1, 2006
Sep-2007	1	U-W	***	May 1, 2006
Oct-2007	1	U-W	***	June 1, 2006
Nov-2007	1	U-W	***	July 1, 2006
Dec-2007	1	U-W	***	August 1, 2006
Jan-2008	2	U-W	***	September 1, 2006
Feb-2008	3	U-W	***	October 1, 2006
Mar-2008	2	U-W	***	November 1, 2006
Apr-2008	2	U-W	***	December 1, 2006
May-2008	2	U-W	***	January 1, 2007
Jun-2008	2	U-W	***	February 1, 2007
Jul-2008	2	U-W	***	March 1, 2007
Aug-2008	2	U-W	***	April 1, 2007
Sep-2008	2	U-W	***	May 1, 2007
Oct-2008	2	U-W	***	June 1, 2007
Nov-2008	2	U-W	***	July 1, 2007
Dec-2008	2	U-W	***	August 1, 2007

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6-1162-NIW-889

Southwest Airlines Co.
P.O. Box 36611 - Love Field
Dallas, Texas 75235

Subject: Warrantly on Exterior Color Schemes and Markings for YA143 and

Very truly yours,

THE BOEING COMPANY

/s/ Nobuko Wiles

Shinko Wiles
Regional Director
Aircraft Contracts

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PA 1810
6-1162-NIW-0890

Southwest Airlines Co.
P.O. Box 36611 - Love Field
Dallas, Texas 75235

Subject: ***

Very truly yours,

THE BOEING COMPANY

By /s/ Nobuko Wiles

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date July 30, 2004

SOUTHWEST AIRLINES CO.

By /s/Laura Wright

Its Chief Financial Officer

P.A. No. 2281

Attachment to Letter Agreement

No. 6-1162-NIW-890

Equipped with Winglets and CFM56-7B24 Engines

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Attachment to Letter Agreement
No. 6-1162-NIW-890
Equipped with Winglets and CFM56-7B24 Engines
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2.4.3

P.A. No. 1810
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Attachment to Letter Agreement
No. 6-1162-NIW-890
Equipped with Winglets and CFM56-7B24 Engines
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No. 6-1162-NIW-890
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Equipped with Winglets and CFM56-7B24 Engines
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Supplemental Agreement No. 40

to

Purchase Agreement No. 1810

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of September 24, 2004, by and between THE BOEING COMPANY, a Delaware corporation with principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with principal offices in Dallas, Texas (Buyer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 1810 dated January 19, 1994, relating to Boeing Model 737-7H4 aircraft (the Agreement) and;

WHEREAS, Buyer has agreed to exercise one (1) January 2006 Block U Option Aircraft (as Block T-W Aircraft) and;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Agreement as follows:

1. The Table of Contents of the Agreement is deleted in its entirety and a new Table of Contents is attached hereto and incorporated into the Agreement by this reference.

2. Table 1 is deleted in its entirety and replaced by a new Table 1 which is attached hereto and is incorporated into the Agreement by this reference.

***Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

3. Table 2 is deleted in its entirety and replaced by a new Table 2 which

is attached hereto and is incorporated into the Agreement by this reference.

NOTE - Buyer now has forty-two (42) 'banked' Rollover Option Aircraft as a result of the option exercises covered by Supplemental Agreement No. 21, 23, 24, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39 and 40 that may be converted to Option Aircraft at a future date subject to the terms of Letter Agreement No. 6-1162-RLL-933R19.

4. Attachment A to Letter Agreement No. 6-1162-JMG-669R2 is replaced by updated Attachment A attached hereto.

<Page>

5. All references in the Letter Agreements associated with Purchase Agreement No. 1810 shall be deemed to refer to the purchase by Buyer of two hundred seventy-eight (278) Model 737-7H4 Aircraft, Forty-five (45) Model 737-7H4 Option Aircraft and two hundred seventeen (217) Model 737-7H4 Rollover Option Aircraft, to the extent such reference is not specifically addressed herein.

8. The Advance Payments due upon signing assuming execution of this Supplemental Agreement on or before September 30, 2004 are:

*** for the January 2006 aircraft

Buyer will pay the *** directly to Boeing on or before Thursday, September 30, 2004.

The Agreement will be deemed to be supplemented to the extent herein provided and as so supplemented will continue in full force and effect.

EXECUTED IN DUPLICATE as of the day and year first above written.

THE BOEING COMPANY

SOUTHWEST AIRLINES CO.

By: /s/ Nobuko Wiles

By:/s/ Laura Wright

Its: Attorney-In-Fact

Its:Chief Financial Officer

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C	Customer Support Document		
D	Price Adjustments Due to Economic Fluctuations - Aircraft		SA-13
E	Buyer Furnished Equipment Provisions Document		
F	Defined Terms Document		

LETTER AGREEMENTS

1810-1	Waiver of Aircraft Demonstration Flight
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			SA Number <C>
<S> RESTRICTED LETTER AGREEMENTS			
6-1162-RLL-932R2	Promotional Support		SA-13
6-1162-RLL-933R19	Option Aircraft		SA-28
6-1162-RLL-934R3	Disclosure of Confidential Information		SA-14

6-1162-RLL-935R1	Performance Guarantees	SA-1
6-1162-NIW-890	***-	SA-39
6-1162-RLL-936R4	Certain Contractual Matters	SA-4
6-1162-RLL-937	Alternate Advance Payment Schedule	
6-1162-RLL-938	***	
6-1162-RLL-939R1	Certification Flight Test Aircraft	SA-1
6-1162-RLL-940R1	Training Matters	SA-1
6-1162-RLL-941R2	Other Matters	SA-13
6-1162-RLL-942	Open Configuration Matters	
6-1162-RLL-943R1	Substitution Rights	SA-6
6-1162-RLL-944	Airframe Maintenance Material Cost Protection Program	
6-1162-RLL-945	Comparison of 737-7H4 and 737-3H4 Block Fuel Burn	
6-1162-RLL-1855R3	Additional Contractual Matters	SA-4
6-1162-RLL-1856	***	SA-1
6-1162-RLL-1857	Service Ready Validation Program Field Test	SA-1
6-1162-RLL-1858R1	Escalation Matters	SA-4
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<S>		SA Number
RESTRICTED LETTER AGREEMENTS		<C>
6-1162-RLL-2036	Amortization of Costs for Customer Unique Changes	SA-1
6-1162-RLL-2037	Reconciliation of the Aircraft Basic Price	SA-1
6-1162-RLL-2073	Maintenance Training Matters	SA-1
6-1162-KJJ-054	Business Matters	SA-13
6-1162-KJJ-055R1	Structural Matters	SA-25
6-1162-KJJ-056	Noise and Emission Matters	SA-13
6-1162-KJJ-057	Product Development Matters	SA-13
6-1162-KJJ-058	Additional Substitution Rights	SA-13
6-1162-KJJ-150	Flight Control Computer & Mode Control Panel Spares Matter	SA-14
6-1162-MSA-185R3	Delivery Change Contractual Matters	SA-21
6-1162-JMG-669R2	Special Matters	SA-36
6-1162-JMG-747R1	***	SA-36
6-1162-CHL-217	Rescheduled Flight Test Aircraft	SA-32
6-1162-NIW-606R1	***	SA-36
6-1162-NIW-640	***	SA-35
6-1162-NIW-889	Warranty - Exterior Color Schemes	SA-39

and Markings for YA143 and on

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Table 1 to
Purchase Agreement No. 1810
Aircraft Information Table

	Base Aircraft Price	Special Features	Aircraft Basic Price	Base Year Dollars
<S>	<C>	<C>	<C>	<C>
Block A, B, C, D & E Aircraft	***	***	***	July 1992
Block F & G Aircraft	***	***	***	July 1992
Block H Aircraft	***	***	***	July 1992
Block I Aircraft	***	***	***	July 1992
Block J Aircraft	***	***	***	July 1992
Block K Aircraft	***	***	***	July 1992
Block K-W Aircraft	***	***	***	July 1992
Block L Aircraft	***	***	***	July 1992
Block T Aircraft	***	***	***	July 1999
Block T-W Aircraft	***	***	***	July 1999

</Table>

Block K-W Aircraft: Block K airplanes with production winglets installation

Block T-W Aircraft: Block T airplanes with production winglets installation

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Delivery	Number of	Aircraft	Escalation Estimate Adv Payment Base Price Per A/P
Date	Aircraft	Block	
<S>	<C>	<C>	<C>
Dec-2000	2	E	***
Jan-2001	1	E	***
Feb-2001	1	E	***
Mar-2001	2	E	***
Jun-2001	3	E	***
Sep-2001	3	E	***
Oct-1998	1	F	***
Nov-1998	2	F	***
Dec-1998	2	F	***
Mar-1999	2	G	***
Jun-1999	2	H	***
Jul-1999	1	H	***
Aug-1999	1	H	***
Sep-1999	2	H	***
Oct-1999	1	H	***
Mar-2000	1	H	***
Apr-2000	2	H	***
Sep-2000	1	H	***
Oct-2000	2	H	***
Mar-2001	2	H	***
Apr-2001	1	H	***
Oct-2001	3	H	***
Nov-2001	2	I	***
Dec-2001	1	I	***
Jan-2002	1	I	***
Mar-2002	4	I	***
Apr-2002	2	I	***
Dec-2002	2	I	***
May-2003	1	I	***
Jun-2003	2	I	***
Jul-2003	1	I	***
Aug-2003	1	I	***
Sep-2003	3	I	***
Nov-2002	1	J	***
Dec-2002	1	J	***
Nov-2003	2	J	***
Dec-2003	2	J	***
Mar-2004	1	J	***
Mar-2004	1	K	***
Apr-2004	3	K	***
May-2004	1	K	***
Jun-2004	2	K	***
Jul-2004	2	K	***
Sep-2004	1	K-W	***
Oct-2004	4	K-W	***
Oct-1999	1	L	***
Nov-1999	2	L	***
Dec-1999	1	L	***
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Jun-2000	3	L	***
Jul-2000	3	L	***
Sep-2000	1	L	***
Oct-2000	1	L	***
Nov-2000	4	L	***
Dec-2000	1	L	***
Jan-2001	1	L	***
Feb-2001	1	L	***
Jul-2001	1	L	***
Sep-2001	1	L	***
Oct-2001	1	L	***
Mar-2003	2	L	***
Jul-2003	1	L	***
Aug-2003	2	L	***
Nov-2001	1	T	***

Feb-2002	1	T	***
Jan-2004	2	T	***
Feb-2004	1	T	***
Apr-2004	3	T	***
May-2004	1	T	***
Jun-2004	6	T	***
Jul-2004	2	T	***
Aug-2004	6	T-W	***
Sep-2004	4	T-W	***
Oct-2004	0	T-W	***
Nov-2004	3	T-W	***
Dec-2004	3	T-W	***
Jan-2005	5	T-W	***
Feb-2005	3	T-W	***
Mar-2005	4	T-W	***
Apr-2005	4	T-W	***
May-2005	2	T-W	***
Jun-2005	4	T-W	***
Jul-2005	2	T-W	***
Aug-2005	2	T-W	***
Sep-2005	3	T-W	***
Oct-2005	2	T-W	***
Nov-2005	2	T-W	***
Dec-2005	1	T-W	***
Jan-2006	1	T-W	***
Feb-2006	4	T-W	***
May-2006	3	T-W	***
Jun-2006	4	T-W	***
Jul-2006	1	T-W	***
Aug-2006	3	T-W	***
Sep-2006	3	T-W	***
Nov-2006	2	T-W	***
Dec-2006	2	T-W	***
Jan-2007	2	T-W	***
Feb-2007	3	T-W	***
Mar-2007	2	T-W	***
Apr-2007	2	T-W	***
May-2007	2	T-W	***
Jun-2007	2	T-W	***
Jul-2007	2	T-W	***
Aug-2007	2	T-W	***
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Sep-2007	2	T-W	***
Oct-2007	2	T-W	***
Nov-2007	2	T-W	***
Dec-2007	2	T-W	***
Jan-2008	1	T-W	***
Feb-2008	1	T-W	***
Mar-2008	1	T-W	***
Apr-2008	1	T-W	***
May-2008	1	T-W	***
Jun-2008	1	T-W	***
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Table 2 to Purchase Agreement No. 1810
(Letter Agreement No. 6-1162-RLL-933R19)
Option Aircraft Information Table

Price Description of Option Aircraft:

	Base Aircraft Price	Special Features	Aircraft Basic Price	Base Year Dollars
<S>	<C>	<C>	<C>	<C>
Block U Option Aircraft (without Winglets)	***	***	***	July 1999
Block U-W Option Aircraft (with Winglets)	***	***	***	July 1999

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Delivery of Rollover Option Aircraft:

Year of Delivery	Number of Option Aircraft	Option Aircraft Block
<S>	<C>	<C>
2007	Twenty (20)	Q
2008	Twenty (20)	R
2009	Six (6)	S
2009- 2012	One Hundred Seventy-One (171)	V

Remaining Option
Aircraft:

45

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Aircraft Delivery Mo. & Yr.	Number of Option Aircraft	Option Aircraft Block	Adv Payment Base Price Per Option Aircraft	Option Exercise
<S>	<C>	<C>	<C>	<C>
Mar-2006	3	U-W	***	November 1, 2004
Apr-2006	2	U-W	***	December 1, 2004
May-2006	2	U-W	***	January 1, 2005
Jun-2006	1	U-W	***	February 1, 2005
Jul-2006	2	U-W	***	March 1, 2005
Oct-2006	1	U-W	***	June 1, 2005
Apr-2007	1	U-W	***	December 1, 2005
May-2007	1	U-W	***	January 1, 2006
Jun-2007	1	U-W	***	February 1, 2006
Jul-2007	1	U-W	***	March 1, 2006
Aug-2007	1	U-W	***	April 1, 2006
Sep-2007	1	U-W	***	May 1, 2006
Oct-2007	1	U-W	***	June 1, 2006
Nov-2007	1	U-W	***	July 1, 2006
Dec-2007	1	U-W	***	August 1, 2006
Jan-2008	2	U-W	***	September 1, 2006
Feb-2008	3	U-W	***	October 1, 2006
Mar-2008	2	U-W	***	November 1, 2006
Apr-2008	2	U-W	***	December 1, 2006
May-2008	2	U-W	***	January 1, 2007
Jun-2008	2	U-W	***	February 1, 2007
Jul-2008	2	U-W	***	March 1, 2007
Aug-2008	2	U-W	***	April 1, 2007
Sep-2008	2	U-W	***	May 1, 2007
Oct-2008	2	U-W	***	June 1, 2007
Nov-2008	2	U-W	***	July 1, 2007
Dec-2008	2	U-W	***	August 1, 2007

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Southwest Airlines Co.
Attachment A to 6-1162-JMG-669R2

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CERTIFICATION

I, Gary C. Kelly, Chief Executive Officer and Vice Chairman of the Board of Directors of Southwest Airlines Co., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southwest Airlines Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 15, 2004

By: /s/ Gary C. Kelly
Gary C. Kelly
Chief Executive Officer and
Vice Chairman of the Board
of Directors

CERTIFICATION

I, Laura H. Wright, Chief Financial Officer of Southwest Airlines Co., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southwest Airlines Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation ; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 15, 2004

By: /s/ Laura H. Wright
Laura H. Wright
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Southwest Airlines Co. (the "Company") for the period ended September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary C. Kelly, Chief Executive Officer and Vice Chairman of the Board of Directors of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 15, 2004

By /s/ Gary C. Kelly
Gary C. Kelly
Chief Executive Officer and
Vice Chairman of the Board
of Directors

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Southwest Airlines Co. (the "Company") for the period ended September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laura H. Wright, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 15, 2004

By /s/ Laura H. Wright
 Laura H. Wright
 Chief Financial Officer