

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1999 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
(I.R.S. 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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock (\$1.00 par value)	New York Stock Exchange, Inc.
Common Share Purchase Rights	New York Stock Exchange, Inc.

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

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

Aggregate market value of Common Stock held by nonaffiliates as of February 29, 2000:

\$9,045,708,531

Number of shares of Common Stock outstanding as of the close of business on February 29, 2000:

497,413,174 shares

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for Annual Meeting of
Shareholders, May 17, 2000: PART III

PART I

ITEM 1. BUSINESS

DESCRIPTION OF BUSINESS

Southwest Airlines Co. ("Southwest") is a major domestic airline that provides primarily shorthaul, high-frequency, point-to-point, low-fare service. Southwest was incorporated in Texas and commenced Customer Service on June 18, 1971 with three Boeing 737 aircraft serving three Texas cities - Dallas, Houston, and San Antonio.

At yearend 1999, Southwest operated 312 Boeing 737 aircraft and provided service to 56 airports in 55 cities in 29 states throughout the United States. Southwest commenced service to Islip, New York in March 1999, Raleigh-Durham, North Carolina in June 1999, Hartford, Connecticut in October 1999, and will commence service to Albany, New York in May 2000.

Based on data for 1999, Southwest Airlines is the 4th largest carrier in the United States based on domestic passengers boarded and second largest based on departures.

The business of the Company is somewhat seasonal. Quarterly operating income and, to a lesser extent, revenues tend to be lower in the first quarter (January 1 - March 31).

FUEL

The cost of fuel is an item having significant impact on the Company's operating results. The Company's average cost of jet fuel per gallon for scheduled carrier service over the past five years was as follows:

<TABLE>

<S>		<C>
	1995	\$.55
	1996	\$.65
	1997	\$.62
	1998	\$.46
	1999	\$.53

</TABLE>

In January 2000, jet fuel prices averaged approximately \$.78 per gallon, including gains from hedging activities. The Company is unable to predict the extent of future fuel cost changes. The Company has standard industry arrangements with major fuel suppliers. Standard industry fuel contracts do not provide material protection against price increases or for assured availability of supplies. Although market conditions can significantly impact the price of jet fuel, at present these conditions have not resulted in an inadequate supply of jet fuel.

Prior to 1999, the Company's principal hedging program utilized the purchase of crude oil call options at a nominal premium and at volumes of up to 30 percent of its quarterly fuel requirements. However, in order to provide greater protection against increasing fuel costs, the Company significantly increased its hedging activities during the first half of 1999. During the second half of 1999, the Company did not have a significant portion of its fuel purchases hedged. As of February 24, 2000, the Company had hedged its exposure to fuel price increases for approximately 57 percent and 85 percent for first and second quarter 2000, respectively, and 100 percent for the third and fourth quarters. For more discussion of current fuel costs, the impact of these costs on the Company's operations, and the effect of hedging transactions, see Management's Discussion and Analysis of Financial Condition and Results of Operations.

REGULATION

Economic. The Dallas Love Field section of the International Air Transportation Competition Act of 1979, as amended in 1997 (commonly known as the "Wright Amendment"), as it affects Southwest's scheduled service, provides that no common carrier may provide scheduled passenger air transportation for compensation between Love Field and one or more points outside Texas, except that an air carrier may transport individuals by air on a flight between Love Field and one or more points within the states of Alabama, Arkansas, Kansas, Louisiana, Mississippi, New Mexico, Oklahoma, and Texas if (a) "such air carrier does not offer or provide any through service or ticketing with another air carrier" and (b) "such air carrier does not offer for sale transportation to or from, and the flight or aircraft does not serve, any point which is outside any such states." Southwest does not interline or offer joint fares with any other air carrier. The Wright Amendment does not restrict Southwest's intrastate Texas flights or its air service from points other than Love Field.

The Department of Transportation ("DOT") has significant regulatory jurisdiction over passenger airlines. Unless exempted, no air carrier may furnish air transportation over any route without a DOT certificate of authorization, which does not confer either exclusive or proprietary rights. The Company's certificates are unlimited in duration and permit the Company to operate among any points within the United States, its territories and possessions, except as limited by the Wright Amendment, as do the certificates

of all other U.S. carriers. DOT may revoke such certificates, in whole or in part, for intentional failure to comply with any provisions of subchapter IV of the Federal Aviation Act of 1958, or any order, rule or regulation issued thereunder or any term, condition or limitation of such certificate; provided that, with respect to revocation, the certificate holder has first been advised of the alleged violation and has been given a reasonable time to effect compliance.

DOT prescribes uniform disclosure standards regarding terms and conditions of carriage, and prescribes that terms incorporated into the Contract of Carriage by reference are not binding upon passengers unless notice is given in accordance with its regulations.

Safety. The Company is subject to the jurisdiction of the Federal Aviation Administration ("FAA") with respect to its aircraft maintenance and operations, including equipment, ground facilities, dispatch, communications, flight training personnel, and other matters affecting air safety. To ensure compliance with its regulations, the FAA requires airlines to obtain operating, airworthiness, and other certificates, which are subject to suspension or revocation for cause. The Company has obtained such certificates. The FAA, acting through its own powers or through the appropriate U. S. Attorney, also has the power to bring proceedings for the imposition and collection of fines for violation of the Federal Air Regulations.

The Company is subject to various other federal, state, and local laws and regulations relating to occupational safety and health, including Occupational Safety and Health Administration (OSHA) and Food and Drug Administration (FDA) regulations.

Environmental. Certain airports, including San Diego, Burbank, and Orange County, have established airport restrictions to limit noise, including restrictions on aircraft types to be used and limits on the number of hourly or daily operations or the time of such operations. In some instances, these restrictions have caused curtailments in service or increases in operating costs, and such restrictions could limit the ability of Southwest to expand its operations at the affected airports. Local authorities at other airports may consider adopting similar noise regulations, but such regulations are subject to the provisions of the Airport Noise and Capacity Act of 1990 and regulations promulgated thereunder.

Operations at John Wayne Airport, Orange County, California, are governed by the Airport's Phase 2 Commercial Airline Access Plan and Regulation (the "Plan"). Pursuant to the Plan, each airline is allocated total annual seat capacity to be operated at the airport, subject to renewal/reallocation on an annual basis. Service at this airport may be adjusted annually to meet these requirements.

The Company is subject to various other federal, state, and local laws and regulations relating to the protection of the environment, including the discharge or disposal of materials such as chemicals, hazardous waste, and aircraft deicing fluid. Potential future regulatory developments pertaining to such things as control of engine exhaust emissions from ground support equipment and prevention of leaks from underground aircraft fueling systems could increase operating costs in the airline industry. The Company does not believe, however, that such environmental regulatory developments will have a material impact on the Company's capital expenditures or otherwise adversely effect its operations, operating costs, or competitive position. Additionally, in conjunction with airport authorities, other airlines, and state and local environmental regulatory agencies, the Company is undertaking voluntary investigation or remediation of soil or groundwater contamination at several airport sites. While the full extent of any contamination at such sites and the parties responsible for such contamination have not been determined, the Company does not believe that any environmental liability associated with such sites will have a material adverse effect on operations, costs, or profitability.

Customer Service Commitment. During 1999, the airline transportation industry faced possible legislation dealing with certain customer service practices. As a compromise with Congress, the industry, working with the Air Transport Association, responded by adopting and filing with the DOT written plans disclosing how it would commit to improving performance. Southwest Airlines formalized its dedication to Customer satisfaction by adopting its Customer Service Commitment, a comprehensive plan which embodies the Mission Statement of Southwest Airlines: dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit. The Customer Service Commitment can be reviewed by clicking on "About SWA" at www.southwest.com. Congress is expected to monitor the effects of the industry's plans, and there can be no assurance that legislation will not be

proposed in the future to regulate airline practices.

MARKETING AND COMPETITION

Southwest focuses principally on point-to-point, rather than hub-and-spoke, service in shorthaul markets with frequent, conveniently timed flights, and low fares. For example, Southwest's average aircraft trip length in 1999 was 465 miles with an average duration of approximately 1.5 hour. At yearend, Southwest served approximately 280 one-way nonstop city pairs.

Southwest's point-to-point route system, as compared to hub-and-spoke, provides for more direct nonstop routings for shorthaul customers and, therefore, minimizes connections, delays, and total trip time. Southwest focuses on nonstop, not connecting, traffic. As a result, approximately 76 percent of the Company's Customers fly nonstop. In addition, Southwest serves many conveniently-located satellite or downtown airports such as Dallas Love Field, Houston Hobby, Chicago Midway, Baltimore-Washington International, Burbank, Manchester, Oakland, San Jose, Providence, Ft. Lauderdale/Hollywood and Long Island airports, which are typically less congested than other airlines' hub airports and enhance the Company's ability to sustain high Employee productivity and reliable ontime performance. This operating strategy also permits the Company to achieve high asset utilization. Aircraft are scheduled to minimize the amount of time the aircraft is at the gate, currently less than 25 minutes, thereby reducing the number of aircraft and gate facilities that would otherwise be required. Southwest does not interline with other airlines, nor have any commuter feeder relationships.

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Southwest employs a very simple fare structure, featuring low, unrestricted, unlimited, everyday coach fares. The Company operates only one aircraft type, the Boeing 737, which simplifies scheduling, maintenance, flight operations, and training activities.

In January 1995, Southwest was the first major airline to introduce a Ticketless travel option, eliminating the need to print a paper ticket altogether. Southwest also entered into an arrangement with SABRE, the computer reservation system in which Southwest has historically participated to a limited extent, providing for ticketing and automated booking on Southwest in a very cost-effective manner. In 1996, Southwest began offering Ticketless travel through the Company's home page on the Internet's World Wide Web at <http://www.southwest.com>. At the end of 1999, approximately 80% of Southwest's Customers chose the Ticketless travel option. In January 2000, approximately 25% of Southwest's passenger revenues came through its Internet site.

The airline industry is highly competitive as to fares, frequent flyer benefits, routes, and service, and some carriers competing with the Company have greater financial resources, larger fleets, and wider name recognition. Several of the Company's larger competitors offer low-cost, shorthaul service in markets served by the Company, which represents a more direct threat in Southwest's market niche. Certain major United States airlines have established marketing alliances with each other, including Northwest Airlines/Continental Airlines, American Airlines/Alaska Airlines, and Continental Airlines/America West Airlines. Profit levels in the air transport industry are highly sensitive to changes in operating and capital costs and the extent to which competitors match an airline's fares and services. The profitability of a carrier in the airline industry is also impacted by general economic trends.

The Company is also subject to varying degrees of competition from surface transportation in its shorthaul markets, particularly the private automobile. In shorthaul air services that compete with surface transportation, price is a competitive factor, but frequency and convenience of scheduling, facilities, transportation safety, and Customer Service may be of equal or greater importance to many passengers.

INSURANCE

The Company carries insurance of types customary in the airline industry and at amounts deemed adequate to protect the Company and its property and to comply both with federal regulations and certain of the Company's credit and lease agreements. The policies principally provide coverage for public and passenger liability, property damage, cargo and baggage liability, loss or damage to aircraft, engines, and spare parts, and workers' compensation.

FREQUENT FLYER AWARDS

Southwest's frequent flyer program, Rapid Rewards, is based on trips flown rather than mileage. Rapid Rewards Customers earn a flight credit for each one-way trip flown or two flight credits for each round trip flown. Rapid Rewards Customers can also receive flight credits by using the services of

non-airline partners, which include credit card partners, a telephone company, car rental agencies, hotels, and the Southwest Airlines First USA(R) Visa card. Rapid Rewards offers two types of travel awards. The Rapid Rewards Award Ticket ("Award Ticket") offers one free roundtrip travel award to any Southwest destination after the accumulation of 16 flight credits within a consecutive twelve-month period. The Rapid Rewards Companion Pass ("Companion Pass") is granted after flying 50 roundtrips (or 100 one-way trips) on Southwest within a consecutive twelve-month period. The Companion Pass offers unlimited free roundtrip travel to any Southwest destination for a companion of the qualifying Rapid Rewards member. In order for the companion to use this pass, the Rapid Rewards member must purchase a ticket or use an Award Ticket. Additionally, the Rapid Rewards member and companion must travel together on the same flight.

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Trips flown are valid for flight credits toward Award Tickets and Companion Passes for twelve months only; Award Tickets and Companion Passes are automatically generated when earned by the Customer rather than allowing the Customer to bank trip credits indefinitely and Award Tickets and Companion Passes are valid for one year with an automatic expiration date. "Black out" dates apply during peak holiday periods.

The Company also sells flight credits to business partners including credit card companies, phone companies, hotels, and car rental agencies. These flight credits may be redeemed for Award Tickets having the same program characteristics as those earned by flying.

Customers redeemed approximately 1,248,000, 927,000 and 782,000 Award Tickets and flights on Companion Passes during 1999, 1998 and 1997 respectively. The amount of free travel award usage as a percentage of total Southwest revenue passengers carried was 4.3 percent in 1999, 3.5 percent in 1998 and 3.1 percent in 1997. The number of Award Tickets outstanding at December 31, 1999 and 1998 was approximately 846,000 and 688,000, respectively. These numbers do not include partially earned Award Tickets. The Company currently does not have a system to accurately estimate partially earned Award Tickets. However, these partially earned Award Tickets may equal approximately 45 to 55 percent of the current outstanding Award Tickets. Since the inception of Rapid Rewards in 1987, approximately, 14 percent of all Award Tickets have expired without being used. The number of Companion Passes for Southwest outstanding at December 31, 1999 and 1998 was approximately 32,000 and 21,000, respectively. The Company currently estimates that 3 to 4 trips will be redeemed per outstanding Companion Pass. The Company's frequent flyer program has not had a material impact on its results of operations or financial condition.

The Company accounts for its frequent flyer program obligations by recording a liability for the estimated incremental cost of flight awards the Company expects to be redeemed (except for credits sold to business partners). This method recognizes an average incremental cost to provide roundtrip transportation to one additional passenger. The estimated incremental cost associated with a flight awards does not include any contribution to overhead or profit. The estimated incremental costs include direct passenger costs such as fuel, food and other operational costs. The incremental cost is accrued at the time an award is earned and revenue is subsequently recognized, at the amount accrued, when the free travel award is used. For credits sold to business partners prior to January 1, 2000 revenue was recognized when the credits were sold. Subsequent to January 1, 2000, Southwest does not accrue incremental cost for the expected redemption of free travel awards for credits sold to business partners since revenue from the sale of these credits is deferred until the credits are utilized as part of an Award Ticket. The liability for free travel awards earned but not used at December 31, 1999 and 1998 was not material.

EMPLOYEES

At December 31, 1999, Southwest had 27,653 active employees, consisting of 8,916 flight, 1,316 maintenance, 14,017 ground customer and fleet service and 3,404 management, accounting, marketing, and clerical personnel.

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Southwest has ten collective bargaining agreements covering approximately 83 percent of its employees. The following table sets forth the Company's employee groups and collective bargaining status:

<TABLE>
<CAPTION>

Employee Group -----	Represented by -----	Agreement amendable on -----
<S> Customer Service and Reservations	<C> International Association of Machinists and Aerospace Workers, AFL-CIO ("IAM")	<C> November 2002
Flight Attendants	Transportation Workers of America, AFL-CIO ("TWU")	May 2002
Ramp, Operations and Provisioning	TWU	December 1999 (in negotiations)
Pilots	Southwest Airlines Pilots' Association ("SWAPA")	September 2004
Flight Dispatchers	Southwest Airlines Employee Association	November 2009
Appearance Technicians	International Brotherhood of Teamsters ("Teamsters")	August 2000
Stock Clerks	Teamsters	August 2000
Mechanics	Teamsters	August 2001
Flight Simulator Technicians	Teamsters	October 2000
Flight/Ground School Instructors and Flight Crew Training Instructors	Southwest Airlines Professional Instructors Association	December 2010

</TABLE>

ITEM 2. PROPERTIES

AIRCRAFT

Southwest operated a total of 312 Boeing 737 aircraft as of December 31, 1999, of which 96 and 7 were under operating and capital leases, respectively. The remaining 209 aircraft were owned.

Southwest was the launch customer for the Boeing 737-700 aircraft, one of the newest generation of the Boeing 737 aircraft type. The first 737-700 aircraft was delivered in December 1997 and entered revenue service in January 1998. At December 31, 1999, Southwest had 57 737-700 aircraft in service.

In total, at December 31, 1999, the Company had 85 firm orders to purchase Boeing 737 Aircraft as follows:

<TABLE>
<CAPTION>

Type ----	Seats ----	2000 ----	2001 ----	2002 ----	2003 ----	2004 ----
<S> <C>	<C>	<C>	<C>	<C>	<C>	<C>
737-700	137	31	23	21	5	5

</TABLE>

The Company also has 62 options for deliveries in 2003 through 2006.

The average age of the Company's fleet at December 31, 1999 was 8.2 years.

GROUND FACILITIES AND SERVICES

Southwest leases terminal passenger service facilities at each of the airports it serves to which it has added various leasehold improvements. The Company leases land on a long-term basis for its maintenance centers located at Dallas Love Field, Houston Hobby, and Phoenix Sky Harbor, its training center near Love Field, which houses five 737 simulators, and its corporate headquarters, also located near Love Field. The maintenance, training center, and corporate headquarters buildings on these sites were built and are owned by Southwest. At December 31, 1999, the Company operated nine reservation centers. The reservation centers located in Little Rock, Arkansas; Chicago, Illinois; Albuquerque, New Mexico; and Oklahoma City, Oklahoma occupy leased space. The

Company owns its Dallas, Texas; Houston, Texas; Phoenix, Arizona; Salt Lake City, Utah; and San Antonio, Texas reservation centers.

The Company performs substantially all line maintenance on its aircraft and provides ground support services at most of the airports it serves. However, the Company has arrangements with certain aircraft maintenance firms for major component inspections and repairs for its airframes and engines, which comprise the majority of the annual maintenance costs.

ITEM 3. LEGAL PROCEEDINGS

The Company received a statutory notice of deficiency from the Internal Revenue Service (the "IRS") in which the IRS proposed to disallow deductions claimed by the Company on its federal income tax returns for the taxable years 1989 through 1991 for the costs of certain aircraft inspection and maintenance procedures. The IRS has proposed similar adjustments to the tax returns of numerous other members of the airline industry. In response to the statutory notice of deficiency, the Company filed a petition in the United States Tax Court on October 30, 1997, seeking a determination that the IRS erred in disallowing the deductions claimed by the Company and that there is no deficiency in the Company's tax liability for the taxable years in issue. The Company cannot predict when the Tax Court's decision will be entered. Management believes that the final resolution of this controversy will not have a materially adverse effect upon the financial condition or results of operations of the Company. This forward-looking statement is based on management's current understanding of the relevant law and facts; it is subject to various contingencies including the views of legal counsel, changes in the IRS' position, the potential cost and risk associated with litigation, and the actions of the IRS, judges and juries.

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

None to be reported.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Southwest, their positions, and their respective ages (as of March 1, 2000) are as follows:

<TABLE>
<CAPTION>

NAME ----	POSITION -----	AGE ---	EXECUTIVE OFFICER CONTINUOUSLY SINCE -----
<S>	<C>	<C>	<C>
Herbert D. Kelleher	Chairman of the Board, President, and Chief Executive Officer	68	1967
Colleen C. Barrett	Executive Vice President-Customers and Corporate Secretary	55	1978
John G. Denison	Executive Vice President- Corporate Services	55	1986
James C. Wimberly	Executive Vice President, Chief Operations Officer	47	1985
Gary C. Kelly	Vice President-Finance, Chief Financial Officer	44	1986
James F. Parker	Vice President-General Counsel	53	1986
Ron Ricks	Vice President-Governmental Affairs	50	1986
Dave Ridley	Vice President-Ground Operations	47	1998
Joyce C. Rogge	Vice President - Marketing	42	1997
Elizabeth P. Sartain	Vice President - People	45	1999

</TABLE>

Executive officers are elected annually at the first meeting of

Southwest's Board of Directors following the annual meeting of shareholders or appointed by the President pursuant to Board authorization.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

No applicable disclosure.

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PART II

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

Southwest's common stock is listed on the New York Stock Exchange and is traded under the symbol LUV. The high and low sales prices of the common stock on the Composite Tape and the quarterly dividends per share paid on the common stock, as adjusted for the August 1998 and July 1999 three-for-two stock splits, were:

<TABLE>
<CAPTION>

PERIOD -----	DIVIDEND -----	HIGH ----	LOW ---
<S>	<C>	<C>	<C>
1999			
1st Quarter	\$.00500	\$22.92	\$14.92
2nd Quarter	0.00550	23.58	19.54
3rd Quarter	0.00550	22.29	14.38
4th Quarter	0.00550	18.81	15.00
1998			
1st Quarter	\$.00445	\$14.28	\$10.22
2nd Quarter	0.00445	13.81	11.22
3rd Quarter	0.00500	15.58	11.46
4th Quarter	0.00500	15.83	10.21

</TABLE>

As of February 29, 2000, there were 10,548 holders of record of the Company's common stock.

RECENT SALES OF UNREGISTERED SECURITIES

During 1999, Herbert D. Kelleher, President and Chief Executive Officer, exercised unregistered options to purchase Southwest Common Stock as follows (the numbers have not been adjusted for the subsequent stock split):

<TABLE>
<CAPTION>

Number of Shares Purchased -----	Exercise Price -----	Date of Exercise -----
<S>	<C>	<C>
303,750	\$1.00	1/15/99
75,938	\$1.32	1/15/99

</TABLE>

The issuance of the above options and shares to Mr. Kelleher were deemed exempt from the registration provisions of the Securities Act of 1933, as amended (the "Act"), by reason of the provision of Section 4(2) of the Act because, among other things, of the limited number of participants in such transactions and the agreement and representation of Mr. Kelleher that he was acquiring such securities for investment and not with a view to distribution thereof. The certificates representing the shares issued to Mr.

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Kelleher contain a legend to the effect that such shares are not registered under the Act and may not be transferred except pursuant to a registration statement which has become effective under the Act or to an exemption from such registration. The issuance of such shares was not underwritten.

ITEM 6. SELECTED FINANCIAL DATA

The following financial information for the five years ended December 31, 1999 has been derived from the Company's consolidated financial statements. This information should be read in conjunction with the Consolidated Financial Statements and related notes thereto included elsewhere herein.

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31, (1)				
	1999	1998	1997	1996	
	----	----	----	----	
<S>	<C>	<C>	<C>	<C>	<C>
FINANCIAL DATA:					
(in thousands except per share amounts)					
Operating revenues.....	\$4,735,587	\$4,163,980	\$3,816,821	\$3,406,170	
\$2,872,751					
Operating expenses.....	3,954,011	3,480,369	3,292,585	3,055,335	
2,559,220	-----	-----	-----	-----	-----
Operating income.....	781,576	683,611	524,236	350,835	
313,531					
Other expenses (income), net.....	7,965	(21,501)	7,280	9,473	
8,391	-----	-----	-----	-----	-----
Income before income taxes.....	773,611	705,112	516,956	341,362	
305,140					
Provision for income taxes.....	299,233	271,681	199,184	134,025	
122,514	-----	-----	-----	-----	-----
Net income	\$ 474,378	\$ 433,431	\$ 317,772	\$ 207,337	\$
182,626	=====	=====	=====	=====	
Net income per share, basic(1).....	\$.94	\$.87	\$.64	\$.42	\$
.38					
Net income per share, diluted(1).....	\$.89	\$.82	\$.62	\$.41	\$
.37					
Cash dividends per common share(1)....	\$.0215	\$.0189	\$.0147	\$.0130	\$
.0119					
Total assets at period-end.....	\$5,652,113	\$4,715,996	\$4,246,160	\$3,723,479	
\$3,256,122					
Long-term obligations at period-end....	\$ 871,717	\$ 623,309	\$ 628,106	\$ 650,226	\$
661,010					
Stockholders' equity at period-end....	\$2,835,788	\$2,397,918	\$2,009,018	\$1,648,312	
\$1,427,318					
OPERATING DATA:					
Revenue passengers carried.....	57,500,213	52,586,400	50,399,960	49,621,504	
44,785,573					
Revenue passenger miles (RPMs) (000s)..	36,479,322	31,419,110	28,355,169	27,083,483	
23,327,804					
Available seat miles (ASMs) (000s)....	52,855,467	47,543,515	44,487,496	40,727,495	
36,180,001					
Load factor (2).....	69.0%	66.1%	63.7%	66.5%	
64.5%					
Average length of passenger haul (miles)	634	597	563	546	
521					
Trips flown.....	846,823	806,822	786,288	748,634	
685,524					
Average passenger fare.....	\$ 78.25	\$ 75.38	\$ 72.21	\$ 65.88	\$
61.64					
Passenger revenue yield per RPM.....	12.33 (cent)	12.62 (cent)	12.84 (cent)	12.07 (cent)	
11.83 (cent)					
Operating revenue yield per ASM.....	8.96 (cent)	8.76 (cent)	8.58 (cent)	8.36 (cent)	
7.94 (cent)					
Operating expenses per ASM.....	7.48 (cent)	7.32 (cent)	7.40 (cent)	7.50 (cent)	
7.07 (cent)					
Fuel cost per gallon (average).....	52.71 (cent)	45.67 (cent)	62.46 (cent)	65.47 (cent)	
55.22 (cent)					
Number of Employees at year-end.....	27,653	25,844	23,974	22,944	
19,933					
Size of fleet at year-end (3).....	312	280	261	243	
224					

</TABLE>

- (1) On May 20, 1999 the Company's Board of Directors declared a three for two stock split on the Company's Common Stock, distributed on July 19, 1999. Except as specifically noted elsewhere, all share and per share data in this annual report have been restated to give effect to the stock split, as well as prior stock splits previously disclosed.
- (2) Revenue passenger miles divided by available seat miles.
- (3) Includes leased aircraft.

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

YEAR IN REVIEW

In 1999, Southwest posted a profit for the 27th consecutive year. The Company posted record operating revenues; record operating income; the highest operating profit margin since 1981 of 16.5 percent; and a record load factor of 69.0 percent. The Company also experienced a record annual profit for the eighth consecutive year. We experienced strong revenue growth and continued strong demand for our product. Fuel prices in fourth quarter 1999 rose to their highest levels since 1991.

At the end of 1999, Southwest served 55 cities in 29 states. We targeted the East Coast for our 1999 expansion, adding service to Islip, New York, on Long Island in March 1999, Raleigh-Durham, North Carolina, in June 1999, and Hartford, Connecticut, in October 1999 and have been very pleased with the results in each of these new Southwest cities. The Company recently announced plans to commence service to Albany, New York, in May 2000 and will begin serving at least one other new city in 2000. In addition, we plan to continue to add flights between cities we already serve.

Capacity is expected to grow approximately 12 percent in 2000 with the net addition of at least 30 aircraft. The Company will purchase 31 new Boeing 737-700s scheduled for delivery during the year and has agreed to a long-term lease arrangement to acquire another 737-700 in March of 2000. In addition, two of the Company's older 737-200s are scheduled for retirement during the year.

RESULTS OF OPERATIONS

1999 COMPARED WITH 1998 The Company's consolidated net income for 1999 was \$474.4 million (\$.89 per share, diluted), as compared to the corresponding 1998 amount of \$433.4 million (\$.82 per share, diluted), an increase of 9.4 percent. The prior years' earnings per share amounts have been restated for the 1999 three-for-two stock split (see Note 8 to the Consolidated Financial Statements). Operating income increased 14.3 percent for 1999 to \$781.6 million.

OPERATING REVENUES Consolidated operating revenues increased 13.7 percent in 1999 primarily due to a 13.5 percent increase in passenger revenues. The increase in passenger revenues was primarily due to a 9.3 percent increase in revenue passengers carried and a 16.1 percent increase in revenue passenger miles (RPMs). The passenger revenue yield per RPM decreased 2.3 percent to \$.1233 for 1999 primarily due to an increase in average length of passenger haul of 6.2 percent partially offset by a 3.8 percent increase in average passenger fare. The Company expects the trend toward gradually increasing lengths of passenger haul to continue in 2000. (The immediately preceding sentence is a forward-looking statement involving uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, competitive responses from other air carriers and general economic conditions.)

The 16.1 percent increase in RPMs in 1999 exceeded the 11.2 percent increase in available seat miles (ASMs), resulting in an increase in load factor from 66.1 percent in 1998 to 69.0 percent in 1999. The 1999 ASM growth resulted from the net addition of 32 aircraft during the year. Favorable load factor and revenue trends continued in January 2000. The load factor for January 2000 was 60.1 percent, up .9 points from January 1999's load factor of 59.2 percent.

Freight revenues increased 4.6 percent in 1999 compared to 1998 primarily due to added capacity and modest rate increases. Other revenues increased 31.0 percent in 1999 compared to 1998. Approximately 54 percent of the increase was due to increased revenues from the sale of flight segment credits to marketing partners in the Company's Rapid Rewards frequent flyer program, and approximately 33 percent of the increase was due to an increase in charter revenue. Beginning January 1, 2000, the Company will change its method of accounting for the sale of flight segment credits. See Recent Accounting Developments in Note 1 to the Consolidated Financial Statements.

OPERATING EXPENSES Consolidated operating expenses for 1999 were \$3,954.0 million, compared to \$3,480.4 million in 1998, an increase of 13.6 percent, compared to the 11.2 percent increase in capacity. Operating expenses per ASM increased 2.2 percent in 1999 primarily due to a 15.4 percent increase in average jet fuel prices. Excluding fuel expense, operating expenses per ASM for 1999 increased 0.8 percent.

Based on current trends, unit costs are expected to continue to reflect year over year unfavorable comparisons in first quarter 2000 as a result of higher jet fuel prices. Excluding jet fuel costs, the Company is expecting nonfuel unit cost declines in first quarter 2000 compared to first quarter 1999. (The immediately preceding two sentences are forward-looking statements involving uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, the largely unpredictable levels of jet fuel prices and any unscheduled required aircraft airframe or engine repairs.)

Operating expenses per ASM for 1999 and 1998 were as follows:

<TABLE>
<CAPTION>
OPERATING EXPENSES PER ASM

	1999	1998	Increase (Decrease)	Percent Change
<S>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits	2.39 (cent)	2.35 (cent)	.04 (cent)	1.7%
Employee profitsharing and savings plans	.36	.35	.01	2.9
Fuel and oil	.93	.82	.11	13.4
Maintenance materials and repairs	.70	.64	.06	9.4
Agency commissions	.30	.33	(.03)	(9.1)
Aircraft rentals	.38	.43	(.05)	(11.6)
Landing fees and other rentals	.46	.45	.01	2.2
Depreciation	.47	.47	--	--
Other	1.49	1.48	.01	0.7
Total	7.48 (cent)	7.32 (cent)	.16 (cent)	2.2%

</TABLE>

Salaries, wages, and benefits per ASM increased 1.7 percent in 1999. This increase resulted primarily from increases in benefits costs, specifically workers' compensation and health care expense.

Employee profitsharing and savings plans expense per ASM increased slightly due to higher earnings available for profitsharing.

Fuel and oil expenses per ASM increased 13.4 percent in 1999, primarily due to a 15.4 percent increase from 1998 in the average jet fuel cost per gallon. The average price paid for jet fuel in 1999 was \$.5271, including the effects of hedging activities, compared to \$.4567 in 1998. The Company's 1999 average jet fuel price is net of approximately \$14.8 million in gains from hedging activities. Hedging activities in 1998 were not significant. For fourth quarter 1999, the average cost per gallon increased 54.5 percent to \$.6713 compared to \$.4346 in fourth quarter 1998, including the effects of hedging activities. As

of February 24, 2000, the Company had hedged its exposure to fuel price increases with combinations of purchased crude oil call options, crude oil collars, and/or fixed price swap agreements approximating the following percentages of 2000 anticipated fuel requirements: 57 percent for first quarter; 85 percent for second quarter; 100 percent for third quarter; and 100 percent for fourth quarter. However, the Company is expecting significantly higher jet fuel prices for first quarter 2000 compared to first quarter 1999 due to the historically low prices experienced in first quarter 1999. (The immediately preceding sentence is a forward-looking statement involving uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, the largely unpredictable levels of jet fuel prices.) In January 2000, jet fuel prices averaged approximately \$.78 per gallon, including gains from hedging activities. The average cost of jet fuel in January 1999 was \$.3812 per gallon.

Maintenance materials and repairs per ASM increased 9.4 percent in 1999 compared to 1998. Routine heavy maintenance or airframe inspections and repairs represented approximately 74 percent of the increase, while engine inspection and repair costs represented approximately 25 percent of the increase. The increase in airframe inspections and repairs was due primarily to a heavier volume of routine airframe checks scheduled for 1999 versus 1998. Further, a portion of the Company's scheduled airframe checks was outsourced in 1999 as the volume of work exceeded the available internal headcount and facilities necessary to perform such maintenance. In 1998, the Company performed all of this type of routine heavy maintenance internally; thus, the majority of these costs was reflected in salaries and wages. The increases in engine inspection and repair costs were primarily related to the Company's 737-200 aircraft. The Company's 737-200 aircraft engine inspections and repairs are performed on a time and materials basis and are not covered by the Company's power-by-the-hour engine maintenance contract with General Electric Engine Services, Inc. The 737-200 aircraft experienced an increase both in the number of engine inspections and repairs and the average cost per repair. Currently, we expect no material change in unit cost for maintenance materials and repairs in 2000 versus 1999. (The immediately preceding sentence is a forward-looking statement involving uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, any unscheduled required aircraft airframe or engine repairs.)

Agency commissions per ASM decreased 9.1 percent in 1999 compared to 1998, primarily due to a decrease in the percentage of commissionable sales to 34.8 percent of total sales in 1999 compared to 39.8 percent in 1998. Based on recent trends, the Company expects agency commissions to decrease on a per ASM basis in 2000. (The immediately preceding sentence is a forward-looking statement involving uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, changes in passenger revenue levels and/or consumer ticket purchasing habits.)

Aircraft rentals per ASM decreased 11.6 percent in 1999 compared to 1998, primarily due to a lower percentage of the aircraft fleet being leased. Approximately 30.8 percent of the Company's aircraft fleet were under operating lease at December 31, 1999, compared to 35.4 percent at December 31, 1998.

Depreciation expense per ASM was flat for 1999 compared to 1998. Although the Company owned a higher percentage of its aircraft fleet in 1999 versus 1998, unit cost was flat due to a change in the estimated useful lives of the Company's Boeing 737-300/-500 aircraft from 20 years to 23 years. See Note 2 to the Consolidated Financial Statements. This change in accounting estimate was made January 1, 1999, and resulted in a decrease to depreciation expense of approximately \$25.7 million for 1999. As the Company's fleet ownership percentage continues to increase in 2000 compared to 1999, the Company anticipates an increase in depreciation expense per ASM. (The immediately preceding sentence is a forward-looking statement involving uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, a change in the Company's aircraft financing strategy.)

Other operating expenses per ASM increased 0.7 percent in 1999 compared to 1998. This increase was primarily due to increased credit card processing costs resulting from a higher percentage of the Company's ticket sales purchased with credit cards.

OTHER "Other expenses (income)" included interest expense, capitalized interest, interest income, and other gains and losses. Interest expense decreased 3.8 percent in 1999 primarily due to the February 1998 redemption of \$100 million of senior unsecured 9 1/4% Notes originally issued in February

1991. Capitalized interest increased 22.2 percent in 1999 as a result of higher 1999 progress payment balances for scheduled future aircraft deliveries. Interest income for 1999 decreased 18.9 percent primarily due to lower invested cash balances. Other losses in 1999 resulted primarily from a write-down associated with the consolidation of certain software development projects. Other gains in 1998 primarily consisted of contractual penalties received from Boeing due to delays in the delivery of 737-700 aircraft.

INCOME TAXES The provision for income taxes, as a percentage of income before taxes, increased slightly to 38.68 percent in 1999 from 38.53 percent in 1998.

1998 COMPARED WITH 1997 The Company's consolidated net income for 1998 was \$433.4 million (\$.82 per share, diluted), as compared to the corresponding 1997 amount of \$317.8 million (\$.62 per share, diluted), an increase of 36.4 percent. Both of the earnings per share amounts have been restated for the 1999 three-for-two stock split (see Note 8 to the Consolidated Financial Statements).

OPERATING REVENUES Consolidated operating revenues increased by 9.1 percent in 1998, compared to 1997, primarily from an 8.9 percent increase in passenger revenues. The increase in passenger revenues was primarily a result of a 10.8 percent increase in revenue passenger miles (RPMs) offset by a 1.7 percent decrease in passenger revenue yield per RPM. While Southwest's passenger revenues increased 8.9 percent in 1998, the RPM yield decline resulted from higher load factors, a 6.0 percent increase in passenger trip lengths, and higher federal excise taxes on domestic tickets.

The 10.8 percent increase in RPMs in 1998 exceeded the 6.9 percent increase in available seat miles (ASMs), resulting in an increase in load factor from 63.7 percent in 1997 to 66.1 percent in 1998. The 1998 ASM growth resulted from the net addition of 19 aircraft during the year.

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Freight revenues increased 3.9 percent in 1998 compared to 1997, which fell short of the 6.9 percent increase in ASMs for the same period. United States mail revenue declined 2.5 percent in 1998 and 9.4 percent for fourth quarter 1998 as the postal service shifted business away from commercial carriers. Other air freight revenues increased 8.5 percent in 1998 due to increased capacity.

Other revenues increased 22.7 percent in 1998 to \$101.7 million, compared to \$82.9 million in 1997. This increase was primarily due to increased revenues from the sale of flight segment credits to companies participating in the Company's Rapid Rewards frequent flyer program.

OPERATING EXPENSES Consolidated operating expenses for 1998 were \$3,480.4 million, compared to \$3,292.6 million in 1997, an increase of 5.7 percent, compared to the 6.9 percent increase in capacity. Operating expenses per ASM decreased 1.1 percent in 1998, compared to 1997, primarily due to a 26.9 percent decrease in average jet fuel cost per gallon. The decrease in average jet fuel prices was offset by a \$36.1 million increase in Employee profitsharing and savings plan contributions and an increase in maintenance costs primarily due to unusually low aircraft engine inspection and repair costs in the first half of 1997.

Salaries, wages, and benefits per ASM increased 4.0 percent in 1998. This increase resulted primarily from a 6.9 percent increase in 1998 average salary and benefits cost per Employee. The increase in average salary and benefits cost per Employee primarily is due to higher effective wage rates, lower productivity in 1998 caused by Boeing aircraft delivery delays, and increased health care and workers' compensation costs.

Employee profitsharing and savings plans expense per ASM increased 16.7 percent in 1998, primarily due to higher earnings available for profitsharing.

Fuel and oil expenses per ASM decreased 26.1 percent in 1998, primarily due to a 26.9 percent decrease from 1997 in the average jet fuel cost per gallon. The average price paid for jet fuel in 1998 was \$.4567 compared to \$.6246 in 1997.

Maintenance materials and repairs per ASM increased 10.3 percent in 1998, compared to 1997, primarily as a result of an unusually low number of aircraft engine inspections and repairs in the first six months of 1997.

Agency commissions per ASM decreased 5.7 percent in 1998, when compared to 1997, primarily due to a decrease in the percentage of commissionable sales.

Aircraft rentals per ASM decreased 4.4 percent in 1998, compared to 1997, primarily due to a lower percentage of the aircraft fleet being leased.

Depreciation expense per ASM increased 6.8 percent in 1998, compared to 1997, primarily due to a higher percentage of the aircraft fleet being owned.

Other operating expenses per ASM increased 2.1 percent in 1998, compared to 1997, primarily due to increased costs resulting from the Year 2000 remediation program and increased revenue-related costs such as credit card processing and communications, partially offset by lower insurance costs.

OTHER "Other expenses (income)" included interest expense, capitalized interest, interest income, and other gains and losses. Interest expense decreased \$7.2 million in 1998 primarily due to the February 1998 redemption of \$100 million of senior unsecured 9 1/4% Notes originally issued in February 1991. Capitalized interest increased \$5.8 million in 1998 as a result of higher 1998 progress payment balances. Interest income for 1998 decreased primarily due to lower invested cash balances. Other gains in 1998 primarily included contractual penalties due from Boeing as a result of aircraft delivery delays.

INCOME TAXES The provision for income taxes, as a percentage of income before taxes, was unchanged from 1997 to 1998.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$1,001.7 million in 1999 compared to \$886.1 million in 1998. Also, during fourth quarter 1999, additional funds of \$256 million were generated from two separate financing transactions. See Note 5 to the Consolidated Financial Statements for further information on these borrowings. Cash generated in 1999 was primarily used to finance aircraft-related capital expenditures and provide working capital.

During 1999, net capital expenditures were \$1,167.8 million, which primarily related to the purchase of 32 new 737-700 aircraft, four used 737-300 aircraft, five used 737-200 aircraft, and progress payments for future aircraft deliveries. The five 737-200 aircraft were previously on lease by the Company prior to being purchased.

At December 31, 1999, capital commitments of the Company primarily consisted of scheduled aircraft acquisitions and related flight equipment. As of December 31, 1999, Southwest had 85 new 737-700s on firm order, including 31 to be delivered in 2000, with options to purchase another 62 737-700s during 2003-2006. Aggregate funding required for firm commitments approximated \$1,965.7 million through the year 2004, of which \$687.9 million related to 2000. See Note 3 to the Consolidated Financial Statements for further information on commitments.

On September 23, 1999, the Company announced its Board of Directors had authorized the repurchase of up to \$250 million of the Company's common stock. 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, and may be discontinued at any time. As of December 31, 1999, 5.6 million shares had been repurchased at a total cost of \$90.5 million.

The Company has various options available to meet its capital and operating commitments, including cash on hand at December 31, 1999, of \$418.8 million, internally generated funds, and a revolving credit line with a group of banks of up to \$475 million (none of which had been drawn at December 31, 1999). In addition, the Company will also consider various borrowing or leasing options to maximize earnings and supplement cash requirements.

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

MARKET RISK

Southwest has interest rate risk in that it holds floating rate debt instruments and has commodity price risk in that it must purchase jet fuel to operate its aircraft fleet. To the extent the Company does not have hedges in place, jet fuel will be purchased at prevailing market prices. Southwest also has market sensitive instruments in the form of the types of hedges it utilizes to decrease its exposure to jet fuel price increases in addition to its debt instruments. The Company also operates 103 aircraft under operating and capital leases. However, leases are not considered market sensitive financial instruments and, therefore, are not included in the interest rate sensitivity analysis below. Commitments related to leases are disclosed in Note 6 to the Consolidated Financial Statements. The Company does not purchase or hold any derivative financial instruments for trading purposes.

Airline operators are inherently dependent upon energy to operate and, therefore, are impacted by changes in jet fuel prices. Jet fuel consumed in 1999 and 1998 represented approximately 12.5 and 11.2 percent of Southwest's operating expenses, respectively. Southwest endeavors to acquire jet fuel at the lowest prevailing prices possible.

Prior to December 1998, the Company hedged its exposure to jet fuel market price risk primarily with purchased, "out of the money," crude oil call options. In December 1998, in order to take advantage of historically low jet fuel prices, Southwest increased its fuel hedging activity by entering into fixed price swap agreements hedging approximately 77 percent and 56 percent of its jet fuel needs in first and second quarter 1999, respectively. In January 1999, the Company increased its hedging position for second quarter 1999 to 74 percent. During the second half of 1999, the Company did not have a significant portion of its fuel purchases hedged as futures prices were substantially higher than then-current prices.

Since mid-1999, energy markets and prices have changed radically. As a result, the Company has adjusted its hedge strategy. The Company utilizes financial derivative instruments for both short-term and long-term time frames when it appears the Company can take advantage of market conditions. At December 31, 1999, the Company had a mixture of purchased crude oil call options and fixed price swap agreements in place to hedge approximately 10.1 percent of its 2000 total anticipated jet fuel requirements. The Company had also entered into fixed price swap agreements to hedge a small percentage of its 2001 and 2005 anticipated requirements. See Note 7 to the Consolidated Financial Statements. In January and February 2000, the Company increased its hedging position by adding fixed price swap agreements and crude oil collars. As of February 24, 2000, the Company's total positions were approximately 57 percent for first quarter 2000, 85 percent for second quarter 2000, 100 percent for third quarter 2000, 100 percent for fourth quarter 2000, 50 percent for first quarter 2001, 50 percent for second quarter 2001, and 20 percent for third quarter 2001. The Company's fuel hedging strategy could result in the Company not fully benefiting from certain fuel price declines.

The fair values of outstanding fixed price swap agreements and purchased crude oil call options related to the Company's jet fuel market price risk at December 31, 1999 and 1998, and during the year ended 1998, were not material. For 1999, the Company realized approximately \$14.8 million in gains from hedging activities. A hypothetical ten percent increase or decrease in the underlying fuel-related commodity prices from the December 31, 1999, prices would correspondingly change the fair value of the derivative commodity instruments in place and their related cash flows by approximately \$3 million.

Airline operators are also inherently capital intensive, as the vast majority of the Company's assets are aircraft, which are long lived. The Company's strategy is to capitalize itself conservatively and grow capacity steadily and profitably. While Southwest does use financial leverage, it has maintained a strong balance sheet and "A-" or equivalent credit ratings on its senior unsecured fixed-rate debt with three rating agencies (Standard & Poor's, Moody's, and Duff & Phelps). The Company's Aircraft Secured Notes (\$200 million) do not give rise to significant fair value risk but do give rise to interest rate risk because these borrowings are effectively floating-rate debt. The Company's \$56 million in secured borrowings completed in 1999 does not give rise to significant fair value risk because these borrowings are also floating-rate debt. Although there is interest rate risk associated with these

secured borrowings, the risk is somewhat mitigated by the fact that the Company may prepay this debt on any of the semi-annual principal and interest payment dates. See Note 5 to the Consolidated Financial Statements for more information on these 1999 borrowings.

As disclosed in Note 5 to the Consolidated Financial Statements, the Company had outstanding senior unsecured notes totaling \$500 million at December 31, 1999, and at December 31, 1998. These long-term notes represent only 10.0 percent and 12.1 percent of total noncurrent assets at December 31, 1999 and 1998, respectively. The unsecured long-term debt currently has an average maturity of nine years at fixed rates averaging 8.3 percent at December 31, 1999, which is comparable to average rates prevailing over the last ten years. The Company does not have significant exposure to changing interest rates on its unsecured long-term debt because the interest rates are fixed and the financial leverage is modest.

Additionally, the Company does not have significant exposure to changing interest rates on invested cash, which was \$419 million and \$379 million at December 31, 1999 and 1998, respectively. The Company invests available cash in certificates of deposit and investment grade commercial paper that have maturities of three months or less. As a result, the interest rate market risk implicit in these investments at December 31, 1999, is low, as the investments mature within three months. The Company has not undertaken any additional actions to cover interest rate market risk and is not a party to any other interest rate market risk management activities.

A hypothetical ten percent change in market interest rates over the next year would not have a material effect on the fair value of the Company's debt instruments or its short-term cash investments. See Note 7 to the Consolidated Financial Statements for further information on the fair value of the Company's financial instruments. Because of the floating rate nature of the Company's secured borrowings, a ten percent change in market interest rates as of December 31, 1999, would correspondingly change the Company's earnings and cash flows by approximately \$1.4 million in 2000. However, a ten percent change in market rates would not impact the Company's earnings or cash flow associated with the Company's publicly traded fixed-rate debt or its cash investments.

IMPACT OF THE YEAR 2000

The Company has completed all significant aspects of its Year 2000 project. The Company's Year 2000 project encompassed information technology systems as well as embedded technology assets along with assessments of material third-party relationships and associated risks.

All of the Company's internal systems and software, including virtually all software and services provided by third parties, appropriately handled the Year 2000 date changeover and the Company's

operations were also unaffected. While the Company has experienced no Year 2000 related disruptions to date, there are remaining risks associated with the Year 2000 issue and the Company continues to monitor possible future implications of Year 2000 issues. Based on currently available information, management believes that Year 2000 related disruptions, if any, will not have a material adverse effect on the Company's financial condition or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Management's Discussion and Analysis of Financial Condition and

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF ERNST & YOUNG LLP
 INDEPENDENT AUDITORS
 THE BOARD OF DIRECTORS AND SHAREHOLDERS
 SOUTHWEST AIRLINES CO.

We have audited the accompanying consolidated balance sheets of Southwest Airlines Co. as of December 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southwest Airlines Co. at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

/s/ Ernst & Young LLP

Dallas, Texas
 January 18, 2000

SOUTHWEST AIRLINES CO.
 CONSOLIDATED BALANCE SHEET

<TABLE>
 <CAPTION>

(In thousands except per share amounts)	DECEMBER 31,	
	1999	1998
	-----	-----
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 418,819	\$ 378,511
Accounts receivable	73,448	88,799
Inventories of parts and supplies, at cost	65,152	50,035
Deferred income taxes (Note 11)	20,929	20,734
Prepaid expenses and other current assets	52,657	36,076
	-----	-----
Total current assets	631,005	574,155
Property and equipment, at cost (Notes 3, 5, and 6):		
Flight equipment	5,768,506	4,709,059
Ground property and equipment	742,230	720,604
Deposits on flight equipment purchase contracts	338,229	309,356
	-----	-----
	6,848,965	5,739,019
Less allowance for depreciation	1,840,799	1,601,409
	-----	-----
	5,008,166	4,137,610
Other assets	12,942	4,231
	-----	-----
	\$ 5,652,113	\$ 4,715,996
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 156,755	\$ 157,415
Accrued liabilities (Note 4)	535,024	477,448
Air traffic liability	256,942	200,078
Current maturities of long-term debt (Note 5)	7,873	11,996
Other current liabilities	3,872	3,716
	-----	-----
Total current liabilities	960,466	850,653
Long-term debt less current maturities (Note 5)	871,717	623,309
Deferred income taxes (Note 11)	692,342	549,207
Deferred gains from sale and leaseback of aircraft	222,700	238,412
Other deferred liabilities	69,100	56,497

Commitments and contingencies (Notes 3, 6, and 11)

Stockholders' equity (Notes 8 and 9):

Common stock, \$1.00 par value: 1,300,000 shares authorized;
505,005 and 335,904 shares issued in 1999

and 1998, respectively

Capital in excess of par value

Retained earnings

Treasury stock, at cost: 5,579 and 5,402 shares in
1999 and 1998, respectively

505,005	335,904
35,436	89,820
2,385,854	2,044,975
(90,507)	(72,781)
-----	-----
2,835,788	2,397,918
-----	-----
\$ 5,652,113	\$ 4,715,996
=====	=====

Total stockholders' equity

</TABLE>

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF INCOME

<TABLE>

<CAPTION>

(In thousands except per share amounts)

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
	-----	-----	-----
<S>	<C>	<C>	<C>
OPERATING REVENUES:			
Passenger	\$ 4,499,360	\$ 3,963,781	\$ 3,639,193
Freight	102,990	98,500	94,758
Other	133,237	101,699	82,870
	-----	-----	-----
Total operating revenues	4,735,587	4,163,980	3,816,821
OPERATING EXPENSES:			
Salaries, wages, and benefits (Note 10)	1,455,237	1,285,942	1,136,542
Fuel and oil	492,415	388,348	494,952
Maintenance materials and repairs	367,606	302,431	256,501
Agency commissions	156,419	157,766	157,211
Aircraft rentals	199,740	202,160	201,954
Landing fees and other rentals	242,002	214,907	203,845
Depreciation (Note 2)	248,660	225,212	195,568
Other operating expenses	791,932	703,603	646,012
	-----	-----	-----
Total operating expenses	3,954,011	3,480,369	3,292,585
	-----	-----	-----
OPERATING INCOME	781,576	683,611	524,236
OTHER EXPENSES (INCOME):			
Interest expense	54,145	56,276	63,454
Capitalized interest	(31,262)	(25,588)	(19,779)
Interest income	(25,200)	(31,083)	(36,616)
Other (gains) losses, net	10,282	(21,106)	221
	-----	-----	-----
Total other expenses (income)	7,965	(21,501)	7,280
	-----	-----	-----
INCOME BEFORE INCOME TAXES	773,611	705,112	516,956
PROVISION FOR INCOME TAXES (NOTE 11)	299,233	271,681	199,184
	-----	-----	-----
NET INCOME	\$ 474,378	\$ 433,431	\$ 317,772
	=====	=====	=====

NET INCOME PER SHARE, BASIC (NOTES 8, 9, AND 12)	\$.94	\$.87	\$.64
	=====	=====	=====
NET INCOME PER SHARE, DILUTED (NOTES 8, 9, AND 12)	\$.89	\$.82	\$.62
	=====	=====	=====

</TABLE>

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31, 1999, 1998, AND 1997				
	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TREASURY STOCK	
(In thousands except per share amounts)					
TOTAL					
<S>	<C>	<C>	<C>	<C>	
<C>					
Balance at December 31, 1996	\$ 145,112	\$ 181,650	\$ 1,321,550	\$ --	\$
1,648,312					
Three-for-two stock split (Note 8)	73,578	(73,578)	--	--	
--					
Issuance of common stock upon exercise of executive stock options and pursuant to Employee stock option and purchase plans (Note 9)	2,517	37,818	--	--	
40,335					
Tax benefit of options exercised	--	9,806	--	--	
9,806					
Cash dividends, \$.0147 per share	--	--	(7,207)	--	
(7,207)					
Net income - 1997	--	--	317,772	--	
317,772					
Balance at December 31, 1997	221,207	155,696	1,632,115	--	
2,009,018					
Three-for-two stock split (Note 8)	111,894	(111,894)	--	--	
--					
Purchase of shares of treasury stock (Note 8)	--	--	--	(100,000)	
(100,000)					
Issuance of common and treasury stock upon exercise of executive stock options and pursuant to Employee stock option and purchase plans (Note 9)	2,803	24,434	(10,184)	27,219	
44,272					
Tax benefit of options exercised	--	21,584	--	--	
21,584					
Cash dividends, \$.0189 per share	--	--	(10,387)	--	
(10,387)					
Net income - 1998	--	--	433,431	--	
433,431					
Balance at December 31, 1998	335,904	89,820	2,044,975	(72,781)	
2,397,918					
Three-for-two stock split (Note 8)	167,954	(89,878)	(78,076)	--	
--					
Purchase of shares of treasury stock (Note 8)	--	--	--	(90,507)	
(90,507)					
Issuance of common and treasury stock upon exercise of executive					

stock options and pursuant to Employee stock option and purchase plans (Note 9)	1,147	7,811	(45,134)	72,781	
36,605					
Tax benefit of options exercised	--	27,683	--	--	
27,683					
Cash dividends, \$.0215 per share (10,289)	--	--	(10,289)	--	
Net income - 1999	--	--	474,378	--	
474,378					
-----	-----	-----	-----	-----	--

Balance at December 31, 1999	\$ 505,005	\$ 35,436	\$ 2,385,854	\$ (90,507)	\$
2,835,788	=====	=====	=====	=====	
=====					

</TABLE>

See accompanying notes.

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SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands) 1997	YEARS ENDED DECEMBER 31,		
	1999	1998	
-----	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 474,378	\$ 433,431	\$
317,772			
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	248,660	225,212	
195,568			
Deferred income taxes	142,940	108,335	
81,711			
Amortization of deferred gains on sale and leaseback of aircraft	(15,172)	(15,251)	
(15,414)			
Amortization of scheduled airframe inspections & repairs	28,949	22,763	
20,540			
Changes in certain assets and liabilities:			
Accounts receivable	15,421	(12,269)	
(3,090)			
Other current assets	(31,698)	1,589	
6,243			
Accounts payable and accrued liabilities	64,335	53,194	
8,751			
Air traffic liability	56,864	46,737	
(4,757)			
Other current liabilities	156	19,293	
(4,204)			
Other	16,877	3,101	
7,468			
-----	-----	-----	-----
Net cash provided by operating activities	1,001,710	886,135	
610,588			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(1,167,834)	(947,096)	
(688,927)			
-----	-----	-----	-----
Net cash used in investing activities	(1,167,834)	(947,096)	
(688,927)			
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt	255,600	--	
98,764			
Payment of long-term debt and capital lease obligations	(12,107)	(118,859)	

(12,665)			
Payment of cash dividends	(10,842)	(9,284)	
(6,593)			
Proceeds from Employee stock plans	64,288	44,272	
40,335			
Repurchase of common stock	(90,507)	(100,000)	
--			
	-----	-----	-----
Net cash provided by (used in) financing activities	206,432	(183,871)	
119,841			
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND			
CASH EQUIVALENTS	40,308	(244,832)	
41,502			
CASH AND CASH EQUIVALENTS AT			
BEGINNING OF PERIOD	378,511	623,343	
581,841			
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT			
END OF PERIOD	\$ 418,819	\$ 378,511	\$
623,343			
	=====	=====	
=====			
CASH PAYMENTS FOR:			
Interest, net of amount capitalized	\$ 26,604	\$ 33,384	\$
42,372			
Income taxes	\$ 131,968	\$ 147,447	\$
107,066			

</TABLE>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION Southwest Airlines Co. (Southwest) is a major domestic airline that primarily provides shorthaul, high-frequency, point-to-point, low-fare service. The consolidated financial statements include the accounts of Southwest and its wholly owned subsidiaries (the Company). All significant intercompany balances and transactions have been eliminated. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Certain prior year amounts have been restated to conform to the current year presentation.

CASH AND CASH EQUIVALENTS Cash equivalents consist of certificates of deposit and investment grade commercial paper issued by major corporations and financial institutions. Cash and cash equivalents are highly liquid and have original maturities of three months or less. Cash and cash equivalents are carried at cost, which approximates market value.

INVENTORIES Inventories of flight equipment expendable parts, materials, and supplies are carried at average cost. These items are charged to expense when issued for use.

PROPERTY AND EQUIPMENT Depreciation is provided by the straight-line method to estimated residual values over periods ranging from 20 to 25 years for flight equipment and 3 to 30 years for ground property and equipment. See Note 2 for further information on aircraft depreciation. Property under capital leases and related obligations are recorded at an amount equal to the present value of future minimum lease payments computed on the basis of the Company's incremental borrowing rate or, when known, the interest rate implicit in the lease. Amortization of property under capital leases is on a straight-line basis over the lease term and is included in depreciation expense. The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows to be generated by those assets are less than the carrying amounts of those assets.

AIRCRAFT AND ENGINE MAINTENANCE The cost of scheduled engine inspections and repairs and routine maintenance costs for aircraft and engines are charged to maintenance expense as incurred. Scheduled airframe inspections and repairs, known as "D" checks, are generally performed every ten years. Costs related to "D" checks are capitalized and amortized over the estimated period benefited, presently the least of ten years, time until the next "D" check, or the remaining life of the aircraft. Modifications that significantly enhance the operating performance or extend the useful lives of aircraft or engines are capitalized and amortized over the remaining life of the asset.

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REVENUE RECOGNITION Passenger revenue is recognized when transportation is provided. Tickets sold but not yet used are included in "Air traffic liability," which includes estimates that are evaluated and adjusted periodically. Any adjustments resulting therefrom are included in results of operations for the periods in which the evaluations are completed.

FREQUENT FLYER PROGRAM The Company accrues the estimated incremental cost of providing free travel awards earned under its Rapid Rewards frequent flyer program. The Company also sells flight segment credits and related services to companies participating in its Rapid Rewards frequent flyer program. The revenue related to the sale of flight segment credits is recognized when the credits are sold (see Recent Accounting Developments).

ADVERTISING The Company expenses the costs of advertising as incurred. Advertising expense for the years ended December 31, 1999, 1998, and 1997 was \$137.7 million, \$119.7 million, and \$113.0 million, respectively.

STOCK-BASED EMPLOYEE COMPENSATION Pursuant to Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation, the Company accounts for stock-based compensation plans utilizing the provisions of Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees and related Interpretations. See Note 9.

DERIVATIVE FINANCIAL INSTRUMENTS The Company utilizes purchased crude oil call options and fixed price swap agreements to hedge a portion of its exposure to fuel price increases. The cost of purchased crude oil call options and gains and losses on fixed price swap agreements, including those terminated or settled early, are deferred and charged or credited to fuel expense in the same month that the underlying fuel being hedged is used. The Company recognized gains of \$14.8 million in 1999 from hedging activities. The gains are recorded as a reduction of fuel and oil expense. Gains and losses on hedging transactions for 1998 and 1997 were not material.

In 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities. In 1999, the FASB issued SFAS 137, which delayed the effective date of SFAS 133 by one year. SFAS 133 is required to be adopted in years beginning after June 15, 2000. SFAS 133 permits early adoption as of the beginning of any fiscal quarter after its issuance. The Company expects to adopt the new Statement effective January 1, 2001. SFAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what the effect of SFAS 133 will be on the earnings and financial position of the Company.

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RECENT ACCOUNTING DEVELOPMENTS In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101 (SAB 101), Revenue Recognition in Financial Statements. This statement gives specific guidance and clarification on the conditions that must be met before an entity may recognize revenue. SAB 101 must be adopted no later than the first fiscal quarter of the fiscal year beginning after December 15, 1999. The Company will adopt SAB 101 effective January 1, 2000, and change its method of accounting used to recognize revenue for the sale of flight segment credits to companies participating in its Rapid Rewards frequent flyer program. Prior to the issuance of SAB 101, the Company recorded revenue to Other Revenue when flight segment credits were sold, which is a commonly used method of accounting within the airline industry. However, in accordance with SAB 101, revenue received from the sale of flight segment credits and associated with future travel will be deferred and recognized as the ultimate free travel awards are flown. Also as part of this change, this revenue will be classified as Passenger Revenue in the Company's Consolidated Statement of Income.

As of January 1, 2000, the cumulative effect of this accounting change will reduce first quarter 2000 net income by approximately \$22.1 million (net of provision for income taxes of approximately \$14.0 million). Adopting this new method of accounting for 1999, 1998, and 1997, would have produced the following pro forma results: Net income would have been reduced by \$3.9 million, \$5.0 million, and \$5.5 million, respectively (net of provision for income taxes and profitsharing of approximately \$2.5 million, \$3.1 million, and \$3.5 million, respectively). Earnings per share, basic and diluted, would have been reduced by \$.01 per share for each year, except 1999 basic earnings per share would not change. However, while pro forma amounts will be presented in future financial statements, these years will not be restated.

2. CHANGE IN ACCOUNTING ESTIMATE

Effective January 1, 1999, the Company revised the estimated useful lives of its 737-300 and -500 aircraft from 20 years to 23 years. This change was the result of the Company's assessment of the remaining useful lives of the aircraft based on the manufacturer's design lives, the Company's increased average aircraft stage (trip) length, and the Company's previous experience. The effect of this change was to reduce depreciation expense approximately \$25.7 million and increase net income \$.03 per diluted share for the year ended December 31, 1999.

3. COMMITMENTS

The Company's contractual purchase commitments consist primarily of scheduled aircraft acquisitions. Thirty-one 737-700 aircraft are scheduled for delivery in 2000, 23 in 2001, 21 in 2002, five in 2003, and five in 2004. In addition, the Company has options to purchase up to 62 737-700s during 2003-2006. The Company has the option, which must be exercised two years prior to the contractual delivery date, to substitute 737-600s or 737-800s for the 737-700s scheduled subsequent to 2001. Aggregate funding needed for fixed commitments is approximately \$1,965.7 million, subject to adjustments for inflation, due as follows: \$687.9 million in 2000, \$520.1 million in 2001, \$515.8 million in 2002, \$152.8 million in 2003, and \$89.1 million in 2004.

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4. ACCRUED LIABILITIES

<TABLE>

<CAPTION>

(In thousands)	1999	1998
	-----	-----
<S>	<C>	<C>
Employee profitsharing and savings plans (Note 10)	\$ 138,566	\$ 123,195
Aircraft rentals	131,219	121,868
Vacation pay	62,937	54,781
Other	202,302	177,604
	-----	-----
	\$ 535,024	\$ 477,448
	=====	=====

</TABLE>

5. LONG-TERM DEBT

<TABLE>

<CAPTION>

(In thousands)	1999	1998
	-----	-----
<S>	<C>	<C>
9.4% Notes due 2001	\$ 100,000	\$ 100,000
8 3/4% Notes due 2003	100,000	100,000
Aircraft Secured Notes due 2004	200,000	--
8% Notes due 2005	100,000	100,000
7 7/8% Notes due 2007	100,000	100,000
French Credit Agreements	55,844	--
7 3/8% Debentures due 2027	100,000	100,000
Capital leases (Note 6)	123,834	133,190
Other	1,886	4,481
	-----	-----
	881,564	637,671
Less current maturities	7,873	11,996
Less debt discount	1,974	2,366
	-----	-----
	\$ 871,717	\$ 623,309

</TABLE>

In fourth quarter 1999, the Company issued \$200 million of floating rate Aircraft Secured Notes, due 2004. The Notes are funded by a bank through a commercial paper conduit program and are secured by eight aircraft. Interest rates on the Notes are based on the conduit's actual commercial paper rate, plus fees, for each period and are expected to average approximately LIBOR plus 36 basis points, over the term of the Notes. Interest is payable monthly and the Company can prepay the Notes in whole or in part prior to maturity.

Also in fourth quarter 1999, the Company entered into two identical 13-year floating rate financing arrangements, whereby it effectively borrowed a total of \$56 million from French banking partnerships. For presentation purposes, the Company has classified these identical borrowings as one \$56 million transaction. The effective rate of interest over the 13-year term of the loans is LIBOR plus 32 basis points. Principal and interest are payable semi-annually on June 30 and

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December 31 for each of the loans and the Company may terminate the arrangements in any year on either of those dates, with certain conditions. The Company has pledged two aircraft as collateral for the entire transaction.

On February 28, 1997, the Company issued \$100 million of senior unsecured 7 3/8% Debentures due March 1, 2027. Interest is payable semi-annually on March 1 and September 1. The Debentures may be redeemed, at the option of the Company, in whole at any time or in part from time to time, at a redemption price equal to the greater of the principal amount of the Debentures plus accrued interest at the date of redemption or the sum of the present values of the remaining scheduled payments of principal and interest thereon, discounted to the date of redemption at the comparable treasury rate plus 20 basis points, plus accrued interest at the date of redemption.

On March 7, 1995, the Company issued \$100 million of senior unsecured 8% Notes due March 1, 2005. Interest is payable semi-annually on March 1 and September 1. The Notes are not redeemable prior to maturity.

On September 9, 1992, the Company issued \$100 million of senior unsecured 7 7/8% Notes due September 1, 2007. Interest is payable semi-annually on March 1 and September 1. The Notes are not redeemable prior to maturity.

During 1991, the Company issued \$100 million of senior unsecured 9.4% Notes and \$100 million of senior unsecured 8 3/4% Notes due July 1, 2001 and October 15, 2003, respectively. Interest on the Notes is payable semi-annually. The Notes are not redeemable prior to maturity.

In addition to the credit facilities described above, Southwest has an unsecured Bank Credit Agreement with a group of banks that permits Southwest to borrow through May 6, 2002, on a revolving credit basis, up to \$475 million. Interest rates on borrowings under the Credit Agreement can be, at the option of Southwest, the greater of the agent bank's prime rate or the federal funds rate plus .5 percent, .17 percent over LIBOR, or a fixed rate offered by the banks at the time of borrowing. The commitment fee is .08 percent per annum. There were no outstanding borrowings under this agreement, or prior similar agreements, at December 31, 1999 or 1998.

6. LEASES

Total rental expense for operating leases charged to operations in 1999, 1998, and 1997 was \$318.2 million, \$305.2 million, and \$296.5 million, respectively. The majority of the Company's terminal operations space, as well as 96 aircraft, was under operating leases at December 31, 1999. The amounts applicable to capital leases included in property and equipment were:

<TABLE>

<CAPTION>

(In thousands)

	1999	1998
<S>	<C>	<C>
Flight equipment	\$ 164,957	\$ 230,486
Less accumulated depreciation	85,722	133,073
	\$ 79,235	\$ 97,413

</TABLE>

Future minimum lease payments under capital leases and noncancelable operating leases with initial or remaining terms in excess of one year at December 31, 1999, were:

<TABLE>
<CAPTION>

(In thousands)	CAPITAL LEASES	OPERATING LEASES
<S>	<C>	<C>
2000	\$ 16,871	\$ 278,328
2001	17,391	261,419
2002	17,561	235,601
2003	17,750	210,667
2004	17,650	186,500
After 2004	102,399	1,832,541
Total minimum lease payments	189,622	\$ 3,005,056
Less amount representing interest	65,788	
Present value of minimum lease payments	123,834	
Less current portion	4,384	
Long-term portion	\$ 119,450	

</TABLE>

The aircraft leases generally can be renewed, at rates based on fair market value at the end of the lease term, for one to five years. Most aircraft leases have purchase options at or near the end of the lease term at fair market value, but generally not to exceed a stated percentage of the lessor's defined cost of the aircraft.

7. FINANCIAL INSTRUMENTS

The Company has historically utilized purchased crude oil call options and fixed price swap agreements to hedge a portion of its exposure to fuel price increases. During 1999, the Company recognized gains of \$14.8 million from hedging activities. At December 31, 1999, the Company had hedged positions in place to limit its exposure to fuel price increases at the following levels:

<TABLE>
<CAPTION>

PERIOD	APPROXIMATE % OF EXPECTED REQUIREMENTS HEDGED	APPROXIMATE GALLONS HEDGED	TYPE OF HEDGE INSTRUMENT
<S>	<C>	<C>	<C>
First Quarter 2000	27%	63.0 million	options
Second Quarter 2000	--	--	--
Third Quarter 2000	5%	13.7 million	swaps
Fourth Quarter 2000	10%	26.3 million	swaps
First Quarter 2001	9%	23.1 million	swaps

</TABLE>

The fair value of these agreements at December 31, 1999, representing the amount the Company would receive if the agreements were settled early, was not material.

Any outstanding call options or fixed swap agreements expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements, but 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 risks, the Company selects 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 December 31, 1999, the Company had an agreement with one counterparty containing a bilateral collateral provision whereby cash deposits are required if market risk exposure exceeds a specified threshold amount. Neither the Company nor the counterparty exceeded the threshold amount at December 31, 1999. The Company is in the process of negotiating similar agreements with other counterparties.

The Company does not hold or issue any financial instruments for trading purposes.

The carrying amounts and estimated fair values of the Company's long-term debt at December 31, 1999, were as follows:

<TABLE>
<CAPTION>

(In thousands)	CARRYING VALUE	FAIR VALUE
<S>	<C>	<C>
9.4% Notes due 2001	\$100,000	\$103,330
8 3/4% Notes due 2003	100,000	104,160
Aircraft Secured Notes due 2004	200,000	200,000
8% Notes due 2005	100,000	101,460
7 7/8% Notes due 2007	100,000	100,730
French Credit Agreements	55,844	55,844
7 3/8% Debentures due 2027	100,000	92,680

The estimated fair values of the Company's long-term debt were based on quoted market prices. The carrying values of all other financial instruments approximate their fair value.

8. COMMON STOCK

The Company has one class of common stock. Holders of shares of common stock are entitled to receive dividends when and if declared by the Board of Directors and are entitled to one vote per share on all matters submitted to a vote of the shareholders.

At December 31, 1999, the Company had common stock reserved for issuance pursuant to Employee stock benefit plans (97.9 million shares) and upon exercise of rights (602.9 million shares) pursuant to the Common Stock Rights Agreement, as amended (Agreement).

Pursuant to the Agreement, each outstanding share of the Company's common stock is accompanied by one common share purchase right (Right). Each Right entitles its holder to

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purchase one additional share of common stock at an exercise price of \$4.94 and is exercisable only in the event of a proposed takeover, as defined by the Agreement. The Company may redeem the Rights at \$.0033 per Right prior to the time that 15 percent of the common stock has been acquired by a person or group. If the Company is acquired, as defined in the Agreement, each Right will entitle its holder to purchase for \$4.94 that number of the acquiring company's or the Company's common shares, as provided in the Agreement, having a market value of two times the exercise price of the Right. The Rights will expire no later than July 30, 2006.

On September 25, 1997, the Company's Board of Directors declared a three-for-two stock split, distributing 73.6 million shares on November 26, 1997. On July 22, 1998, the Company's Board of Directors declared a three-for-two stock split, distributing 111.9 million shares on August 20, 1998. On May 20, 1999, the Company's Board of Directors declared a three-for-two stock split, distributing 168.0 million shares on July 19, 1999. Unless otherwise stated, all per share data presented in the accompanying consolidated financial statements and notes thereto have been restated to give effect to the stock splits.

During third quarter 1998, the Company completed a \$100 million common stock repurchase program, resulting in the repurchase of 7.3 million shares at an average cost of \$13.65 per share. All of the acquired shares were subsequently reissued under the Employee stock option and purchase plans.

As of September 23, 1999, the Company's Board of Directors authorized the Company to repurchase up to \$250 million of its outstanding common stock. As of December 31, 1999, this program had resulted in the repurchase of 5.6 million shares at an average cost of \$16.22 per share. All of the acquired shares are held as common stock in treasury, less shares reissued under the Employee stock option and purchase plans. When treasury shares are reissued, the Company uses a first-in, first-out method and the excess of repurchase cost over reissuance price, if any, is treated as a reduction of retained earnings.

9. STOCK PLANS

At December 31, 1999, the Company had eight stock-based compensation plans and other stock options outstanding, which are described below. The Company applies APB 25 and related Interpretations in accounting for its stock-based compensation. Accordingly, no compensation expense is recognized for its fixed option plans because the exercise prices of the Company's Employee stock options

equal or exceed the market prices of the underlying stock on the dates of grant. Compensation expense for other stock options is not material.

The Company has seven fixed option plans. Under the 1991 Incentive Stock Option Plan, the Company may grant options to key Employees for up to 30.4 million shares of common stock. Under the 1991 Non-Qualified Stock Option Plan, the Company may grant options to key Employees and non-employee directors for up to 2.5 million shares of common stock. All

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options granted under these plans have ten-year terms and vest and become fully exercisable at the end of three, five, or ten years of continued employment, depending upon the grant type.

Under the 1995 Southwest Airlines Pilots' Association Non-Qualified Stock Option Plan (SWAPA Plan), the Company may grant options to Pilots for up to 60.8 million shares of common stock. An initial grant of approximately 49.2 million shares was made on January 12, 1995, at an option price of \$5.93 per share, which exceeded the market price of the Company's stock on that date. Options granted under the initial grant vest in ten annual increments of ten percent. On September 1 of each year of the agreement beginning in 1996, additional options will be granted to Pilots who become eligible during that year. Additional options granted on September 1, 1999, 1998, and 1997, vest in five annual increments of 20.0 percent, six annual increments of 16.7 percent, and seven annual increments of 14.3 percent, respectively. Options under all grants must be exercised prior to January 31, 2007, or within a specified time upon retirement or termination.

Under the 1996 Incentive Stock Option Plan, the Company may grant options to key Employees for up to 20.3 million shares of common stock. Under the 1996 Non-Qualified Stock Option Plan, the Company may grant options to key Employees and non-employee directors for up to 1.9 million shares of common stock. All options granted under these plans have ten-year terms and vest and become fully exercisable at the end of three, five, or ten years of continued employment, depending upon the grant type.

Under the 1998 Southwest Airlines Employee Association Non-Qualified Stock Option Plan (SAEA Plan), the Company may grant options to Dispatchers for up to 1.6 million shares of common stock. An initial grant of 1.1 million shares was made on September 10, 1998, at an option price of \$13.08 per share, which exceeded the market price of the Company's stock on that date. Options granted under the initial grant vest in annual increments of varying percentages, depending on seniority level, through 2006. On December 1 of each year of the agreement beginning in 1998 and through December 1, 2008, additional options will be granted to Dispatchers who become eligible during that year. No options were granted on December 1, 1998 or 1999. Options under all grants must be exercised prior to June 30, 2012, or within a specified time upon retirement or termination.

Under the 1999 Southwest Airlines Professional Instructors' Association Non-Qualified Stock Option Plan (SWAPIA Plan), the Company may grant options to Professional Instructors for up to 525,000 shares of common stock. An initial grant of approximately 229,500 shares was made on May 20, 1999, at an option price of \$22.60 per share, which exceeded the market price of the Company's stock on that date. Options granted under the initial grant vest in ten annual increments of ten percent. On January 1 of each year of the agreement beginning in 2001, additional options will be granted to Professional Instructors who become eligible during that year. Options under all grants must be exercised prior to June 30, 2012, or within a specified time upon retirement or termination.

Under all fixed option plans, except the SWAPA, SAEA, and SWAPIA Plans, the exercise price of each option equals the market price of the Company's stock on the date of grant. Under the

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SWAPA, SAEA, and SWAPIA Plans, for additional options granted each September 1, December 1, and January 1, respectively, the exercise price will be equal to 105 percent of the fair value of such stock on the date of the grant.

Information regarding the Company's seven fixed stock option plans, as adjusted for stock splits, is summarized below:

<TABLE>
<CAPTION>

INCENTIVE PLANS		NON-QUALIFIED PLANS	
AVERAGE		AVERAGE	

(In thousands, except exercise prices)	OPTIONS	EXERCISE PRICE	OPTIONS	EXERCISE PRICE
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Outstanding December 31, 1996	21,046	\$ 4.90	50,639	\$ 5.94
Granted - Incentive Plans	5,524	6.45	--	--
Granted - SWAPA Plan	--	--	1,984	8.79
Granted - Other Non-Qualified Plans	--	--	327	6.45
Exercised	(2,592)	4.02	(3,987)	5.90
Surrendered	(1,507)	6.48	(223)	6.04
	-----		-----	
Outstanding December 31, 1997	22,471	5.27	48,740	6.06
Granted - Incentive Plans	4,108	11.81	--	--
Granted - SWAPA Plan	--	--	1,354	12.91
Granted - SAEA Plan	--	--	1,107	13.08
Granted - Other Non-Qualified Plans	--	--	384	11.79
Exercised	(3,541)	4.18	(3,782)	6.05
Surrendered	(1,252)	7.01	(371)	6.63
	-----		-----	
Outstanding December 31, 1998	21,786	6.59	47,432	6.46
Granted - Incentive Plans	3,064	17.56	--	--
Granted - SWAPA Plan	--	--	1,306	17.52
Granted - SAEA Plan	--	--	--	--
Granted - SWAPIA Plan	--	--	230	22.60
Granted - Other Non-Qualified Plans	--	--	303	17.46
Exercised	(3,197)	4.55	(2,313)	6.31
Surrendered	(1,102)	8.14	(440)	7.07
	-----		-----	
Outstanding December 31, 1999	20,551	\$ 8.46	46,518	\$ 6.92
	=====		=====	
Exercisable December 31, 1999	5,279	\$ 6.86	22,174	\$ 6.50
Available for granting in future periods	15,981		9,279	

The following table summarizes information about stock options outstanding under the seven fixed option plans at December 31, 1999:

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<TABLE>
<CAPTION>

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	OPTIONS OUTSTANDING AT 12/31/99	WTD-AVERAGE REMAINING CONTRACTUAL LIFE	WTD-AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE AT 12/31/99	WTD-AVERAGE EXERCISE PRICE
RANGE OF EXERCISE PRICES	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
\$ 1.78 TO \$ 2.31	3,182	1.1 yrs	\$ 1.85	1,664	\$ 1.92
\$ 3.36 TO \$ 3.57	606	2.1 yrs	3.56	245	3.57
\$ 5.57 TO \$ 8.06	50,132	6.8 yrs	6.13	22,246	6.06
\$ 8.80 TO \$13.08	8,484	8.1 yrs	11.48	2,633	11.26
\$15.72 TO \$22.60	4,665	8.6 yrs	17.80	665	17.73
	-----			-----	
\$ 1.78 TO \$22.60	67,069	6.7 yrs	\$ 7.40	27,453	\$ 6.57
	=====			=====	

</TABLE>

The Company has granted options to purchase the Company's common stock related to employment contracts with the Company's president and chief executive officer. Depending upon the grant, these options have terms of ten years from the date of grant or ten years from the date exercisable and vest and become fully exercisable over three or four years. No options were granted in 1999, 1998, or 1997. At December 31, 1999, 1998, and 1997, total options of 5.0 million, 5.5 million, and 5.9 million were outstanding, respectively. At December 31, 1999, total options of 4.5 million were exercisable at exercise prices ranging from \$1.00 to \$6.96 per share. Options for 570,000, 342,000, and 531,000 shares were exercised in 1999, 1998, and 1997, respectively.

Under the 1991 Employee Stock Purchase Plan (ESPP), at December 31, 1999, the Company is authorized to issue up to a balance of 1.3 million shares of common stock to Employees of the Company at a price equal to 90 percent of the market value at the end of each purchase period. Common stock purchases are paid for through periodic payroll deductions. Participants under the plan received 649,000 shares in 1999, 677,000 shares in 1998, and 990,000 shares in 1997 at average prices of \$16.24, \$11.63, and \$7.11, respectively.

Pro forma information regarding net income and net income per share is required by SFAS 123 and has been determined as if the Company had accounted for its

Employee stock-based compensation plans and other stock options under the fair value method of SFAS 123. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants under the fixed option plans in 1999, 1998, and 1997, respectively: dividend yield of .12 percent, .16 percent, and .22 percent; expected volatility of 35.66 percent, 38.20 percent, and 38.23 percent; risk-free interest rate of 6.68 percent, 4.66 percent, and 5.80 percent; and expected lives of 5.0 years for all periods. Assumptions for the stock options granted to the Company's president and chief executive officer were the same as for the fixed option plans except for the weighted-average expected lives of 8.0 years.

The weighted-average fair value of options granted under the fixed option plans, except the SAEA and SWAPIA Plans, during 1999, 1998, and 1997 was \$7.45, \$4.78, and \$2.72,

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respectively, for the incentive plans; \$6.79, \$4.76, and \$3.41, respectively, for the SWAPA Plan; and \$7.39, \$4.77, and \$2.72, respectively, for other non-qualified plans. The weighted-average fair value of options granted in 1998 under the SAEA Plan was \$4.83. The weighted-average fair value of options granted in 1999 under the SWAPIA Plan was \$8.81. The weighted-average fair value of each purchase right under the ESPP granted in 1999, 1998, and 1997, which is equal to the ten percent discount from the market value of the common stock at the end of each purchase period, was \$1.75, \$1.29, and \$0.79, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price volatility. Because the Company's Employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its Employee stock options.

For purposes of pro forma disclosures, the estimated fair value of stock-based compensation plans and other options is amortized to expense primarily over the vesting period. The Company's pro forma net income and net income per share is as follows:

<TABLE> <CAPTION> - - - - -				
(In thousands except per share amounts)	1999	1998	1997	
	-----	-----	-----	
<S>	<C>	<C>	<C>	
NET INCOME:				
As reported	\$ 474,378	\$ 433,431	\$ 317,772	
Pro forma	\$ 459,669	\$ 421,097	\$ 306,553	
NET INCOME PER SHARE, BASIC:				
As reported	\$.94	\$.87	\$.64	
Pro forma	\$.91	\$.84	\$.62	
NET INCOME PER SHARE, DILUTED:				
As reported	\$.89	\$.82	\$.62	
Pro forma	\$.86	\$.79	\$.60	
</TABLE>				

As required, the pro forma disclosures above include only options granted since January 1, 1995. Consequently, the effects of applying SFAS 123 for providing pro forma disclosures may not be representative of the effects on reported net income for future years until all options outstanding are included in the pro forma disclosures.

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10. EMPLOYEE PROFITSHARING AND SAVINGS PLANS

Substantially all of Southwest's Employees are members of the Southwest Airlines Co. Profitsharing Plan. Total profitsharing expense charged to operations in 1999, 1998, and 1997 was \$138.3 million, \$120.7 million, and \$91.3 million, respectively.

The Company sponsors Employee savings plans under Section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time Employees. The amount of matching contributions varies by Employee group. Company contributions generally vest over five years with credit for prior years' service granted.

Company matching contributions expensed in 1999, 1998, and 1997 were \$53.7 million, \$46.4 million, and \$39.7 million, respectively.

11. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred tax assets and liabilities at December 31, 1999 and 1998, are as follows:

<TABLE> <CAPTION>		

(In thousands)	1999	1998
	-----	-----
<S>	<C>	<C>
DEFERRED TAX LIABILITIES:		
Accelerated depreciation	\$ 782,341	\$ 641,673
Scheduled airframe maintenance	47,168	40,073
Other	110,638	95,485
	-----	-----
Total deferred tax liabilities	940,147	777,231
DEFERRED TAX ASSETS:		
Deferred gains from sale and leaseback of aircraft	101,960	107,157
Capital and operating leases	64,704	61,275
Other	102,070	80,326
	-----	-----
Total deferred tax assets	268,734	248,758
	-----	-----
Net deferred tax liability	\$ 671,413	\$ 528,473
	=====	=====

</TABLE>

The provision for income taxes is composed of the following:

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<TABLE> <CAPTION>			

(In thousands)	1999	1998	1997
	-----	-----	-----
<S>	<C>	<C>	<C>
CURRENT:			
Federal	\$ 137,393	\$ 143,989	\$ 102,938
State	18,900	19,357	14,535
	-----	-----	-----
Total current	156,293	163,346	117,473
DEFERRED:			
Federal	128,984	96,237	75,990
State	13,956	12,098	5,721
	-----	-----	-----
Total deferred	142,940	108,335	81,711
	-----	-----	-----
	\$ 299,233	\$ 271,681	\$ 199,184
	=====	=====	=====

</TABLE>

The Company received a statutory notice of deficiency from the Internal Revenue Service (IRS) in July 1995 in which the IRS proposed to disallow deductions claimed by the Company on its federal income tax returns for the taxable years 1989 through 1991 for the costs of certain aircraft inspection and maintenance procedures. The IRS has proposed similar adjustments to the tax returns of numerous other members of the airline industry. In response to the statutory notice of deficiency, the Company filed a petition in the United States Tax Court on October 30, 1997, seeking a determination that the IRS erred in disallowing the deductions claimed by the Company and there is no deficiency in the Company's tax liability for the taxable years in issue. It is expected that the Tax Court's decision will not be entered for several years. Management believes the final resolution of this controversy will not have a material adverse effect upon the financial position or results of operations of the Company.

The effective tax rate on income before income taxes differed from the federal income tax statutory rate for the following reasons:

<TABLE> <CAPTION>	

(In thousands)	1999	1998	1997
<S>	<C>	<C>	<C>
Tax at statutory			
U.S. tax rates	\$ 270,764	\$ 246,789	\$ 180,935
Nondeductible items	6,664	5,099	5,893
State income taxes, net of federal benefit	21,356	20,445	13,166
Other, net	449	(652)	(810)
Total income tax provision	\$ 299,233	\$ 271,681	\$ 199,184

</TABLE>

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12. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

<TABLE>			
<CAPTION>			
(In thousands except per share amounts)	1999	1998	1997
<S>	<C>	<C>	<C>
NUMERATOR:			
Net income, available to common stockholders	\$ 474,378	\$ 433,431	\$ 317,772
DENOMINATOR:			
Weighted-average shares outstanding, basic	503,065	500,013	492,947
Dilutive effect of Employee stock options	32,862	29,736	18,836
Adjusted weighted-average shares outstanding, diluted	535,927	529,749	511,783
NET INCOME PER SHARE:			
Basic	\$ 0.94	\$ 0.87	\$ 0.64
Diluted	\$ 0.89	\$ 0.82	\$ 0.62

</TABLE>

The Company has excluded 259,700, and 1,141,355 shares from its calculations of dilutive earnings per share in 1999 and 1997, respectively, as they represent antidilutive stock options for the respective periods presented. There were no antidilutive stock options in 1998.

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QUARTERLY FINANCIAL DATA (UNAUDITED) (IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>				
<CAPTION>				
	THREE MONTHS ENDED			
1999	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
<S>	<C>	<C>	<C>	<C>
Operating revenues	\$1,075,571	\$1,220,432	\$1,235,166	\$1,204,481
Operating income	166,617	254,331	206,463	154,165
Income before income taxes	156,102	256,598	207,949	152,962
Net income	95,847	157,757	126,978	93,796
Net income per share, basic	.19	.31	.25	.19

Net income per share, diluted	.18	.29	.24	.18
-------------------------------	-----	-----	-----	-----

<TABLE>
<CAPTION>

1998	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
<S>	<C>	<C>	<C>	<C>
Operating revenues	\$942,653	\$1,078,841	\$1,094,830	\$1,047,656
Operating income	111,693	208,548	203,919	159,451
Income before income taxes	114,057	216,547	211,055	163,453
Net income	70,008	133,393	129,645	100,385
Net income per share, basic	.14	.27	.26	.20
Net income per share, diluted	.13	.25	.24	.19

ITEM 9. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

See "Election of Directors" incorporated herein by reference, from pages 1-3 of the definitive Proxy Statement for Southwest's Annual Meeting of Shareholders to be held May 17, 2000. See "Executive Officers of the Registrant" in Part I following Item 4 for information relating to executive officers.

ITEM 11. EXECUTIVE COMPENSATION

See "Compensation of Executive Officers," incorporated herein by reference, from pages 7-12 of the definitive Proxy Statement for Southwest's Annual Meeting of Shareholders to be held May 17, 2000.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See "Voting Securities and Principal Shareholders," incorporated herein by reference, from pages 7-12 of the definitive Proxy Statement for Southwest's Annual Meeting of Shareholders to be held May 17, 2000.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See "Election of Directors" incorporated herein by reference, from pages 1-3 of the definitive Proxy Statement for Southwest's Annual Meeting of Shareholders to be held May 17, 2000.

PART IV

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

- (a)
- Financial Statements:
The financial statements included in Item 8 above are filed as part of this annual report.
 - Financial Statement Schedules:
There are no financial statement schedules filed as part of this annual report, since the required information is included in the consolidated financial statements, including the notes thereto, or the circumstances requiring inclusion of such schedules are not present.
 - Exhibits:
 - Restated Articles of Incorporation of Southwest (incorporated by reference to Exhibit 4.1 to Southwest's Registration Statement on Form S-3 (File No. 33-52155)); Amendment to

Restated Articles of Incorporation of Southwest (incorporated by reference to Exhibit 4.1 to Southwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 (File No. 1-7259)); Amendment to Restated Articles of Incorporation of Southwest (incorporated by reference to Exhibit 4.1 to Southwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File No. 1-7259)); Amendment to Restated Articles of Incorporation of Southwest (incorporated by reference to Exhibit 4.2 to Southwest's Registration Statement on Form S-8 (File No. 333-82735)).

- 3.2 Bylaws of Southwest, as amended through March 2000.
- 4.1 Restated Credit Agreement dated May 6, 1997, between Southwest and Bank of America National Trust and Savings Association, and the other banks named therein, and such banks. (incorporated by reference to Exhibit 4.1 to Southwest's Annual Report on Form 10-K for

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the year ended December 31, 1997 (File No. 1-7259)); First Amendment to Competitive Advance and Revolving Credit Facility Agreement dated August 7, 1998 (incorporated by reference to Exhibit 4.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-7259)); Second Amendment to Competitive Advance and Revolving Credit Facility Agreement dated January 20, 1999 (incorporated by reference to Exhibit 4.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-7259)).

- 4.2 Specimen certificate representing Common Stock of Southwest (incorporated by reference to Exhibit 4.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 1-7259)).
- 4.3 Indenture dated as of December 1, 1985 between Southwest and MBank Dallas, N.A., Trustee, relating to an unlimited amount of Debt Securities (incorporated by reference to Exhibit 4.1 of Southwest's Current Report on Form 8-K dated February 26, 1986 (File No. 1-7259)) and First Supplemental Indenture dated as of January 21, 1988, substituting MTrust Corp, National Association, as Trustee, thereunder (incorporated by reference to Exhibit 4.3 on Southwest's Annual Report on Form 10-K for the year ended December 31, 1987 (File 1-7259)).
- 4.4 Amended and Restated Rights Agreement dated July 18, 1996 between Southwest and Continental Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to Exhibit 1, Southwest's Registration Statement on Form 8-A/A dated August 12, 1996 (File No. 1-7259)).
- 4.5 Indenture dated as of June 20, 1991 between Southwest Airlines Co. and Bank of New York, successor to NationsBank of Texas, N.A. (formerly NCNB Texas National Bank), Trustee (incorporated by reference to Exhibit 4.1 to Southwest's Current Report on Form 8-K dated June 24, 1991 (File No. 1-7259)).
- 4.6 Indenture dated as of February 25, 1997 between the Company and U.S. Trust Company of Texas, N.A. (incorporated by reference to Exhibit 4.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-7259)).

Southwest is not filing any other instruments evidencing any indebtedness because the total amount of securities authorized under any single such instrument does not exceed 10% of its total consolidated assets. Copies of such instruments will be furnished to the Securities and Exchange Commission upon request.

- 10.1 Purchase Agreement No. 1810, dated January 19, 1994 between The Boeing Company and Southwest (incorporated by reference to Exhibit 10.4 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)); Supplemental Agreement No. 1. (incorporated by reference to Exhibit 10.3 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-7259)); Supplemental Agreements No. 2, 3 and 4 (incorporated by reference to Exhibit 10.2 to Southwest's Annual Report on form 10-K for the year ended December 31, 1997 (File No. 1-7259)); Supplemental Agreements

Nos. 5, 6, and 7; (incorporated by reference to Exhibit 10.1 to Southwest's Annual Report on form 10-K for the year ended December 31, 1998 (File No. 1-7259)); Supplemental Agreements Nos. 8, 9, and 10.

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.

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The following exhibits filed under paragraph 10 of Item 601 are the Company's compensation plans and arrangements.

- 10.2 Form of Executive Employment Agreement between Southwest and certain key employees pursuant to Executive Service Recognition Plan (incorporated by reference to Exhibit 28 to Southwest Quarterly Report on Form 10-Q for the quarter ended June 30, 1987 (File No. 1-7259)).
- 10.3 1992 stock option agreements between Southwest and Herbert D. Kelleher (incorporated by reference to Exhibit 10.8 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).
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- 10.11 1996 Incentive Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-20275)).
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- 22 Subsidiaries of Southwest (incorporated by reference to Exhibit 22 to Southwest's Annual Report on form 10-K for the year ended December 31, 1997 (File No. 1-7259)).
- 23 Consent of Ernst & Young LLP, Independent Auditors.
- 27 Financial Data Schedule.

A copy of each exhibit may be obtained at a price of 15 cents per page, \$10.00 minimum order, by writing to: Director of Investor Relations, Southwest Airlines Co., P.O. Box 36611, Dallas, Texas 75235-1611.

(b) There were no Form 8-K's filed during the fourth quarter of 1999.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and 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.

March 16, 2000

By /s/ Gary C. Kelly

Gary C. Kelly
Vice President-Finance,
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on March 16, 2000 on behalf of the registrant and in the capacities indicated.

<TABLE>

<CAPTION>

Signature -----	Capacity -----
<S>	<C>
/s/ Herbert D. Kelleher ----- Herbert D. Kelleher	Chairman of the Board of Directors, President and Chief Executive Officer
/s/ Gary C. Kelly ----- Gary C. Kelly	Vice President-Finance (Chief Financial and Accounting Officer)
/s/ Samuel E. Barshop ----- Samuel E. Barshop	Director
/s/ Gene H. Bishop ----- Gene H. Bishop	Director
/s/ C. Webb Crockett ----- C. Webb Crockett	Director
/s/ William P. Hobby, Jr. ----- William P. Hobby, Jr.	Director
/s/ Travis C. Johnson ----- Travis C. Johnson	Director
/s/ R. W. King ----- R. W. King	Director
/s/ Walter M. Mischer, Sr. ----- Walter M. Mischer, Sr.	Director
/s/ June M. Morris ----- June M. Morris	Director

</TABLE>

INDEX TO EXHIBITS

by reference to Exhibit 4.1 to Southwest's Registration Statement on Form S-3 (File No. 33-52155)); Amendment to Restated Articles of Incorporation of Southwest (incorporated by reference to Exhibit 4.1 to Southwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 (File No. 1-7259)); Amendment to Restated Articles of Incorporation of Southwest (incorporated by reference to Exhibit 4.1 to Southwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File No. 1-7259)); Amendment to Restated Articles of Incorporation of Southwest (incorporated by reference to Exhibit 4.2 to Southwest's Registration Statement on Form S-8 (File No. 333-82735)).

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(b) There were no Form 8-K's filed during the fourth quarter of 1999.

BYLAWS

(as amended through March 16, 2000)

of

SOUTHWEST AIRLINES CO.

Dallas, Texas

SOUTHWEST AIRLINES CO.

BYLAWS

ARTICLE I

IDENTIFICATION AND OFFICES

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

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

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

ARTICLE II

THE SHAREHOLDERS

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

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

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

Section 4. Notice of Meetings: Written or printed notice of all shareholders' meetings stating the place, day and hour, and, in the case of a special meeting, the purpose or purposes

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for which the meeting is called, shall be delivered not less than ten (10) days nor more than sixty (60) days before the date of the meeting, either personally or by mail, by or at the direction of the officer or person calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the shareholder at his address as it appears on the stock transfer books of the corporation, with postage thereon prepaid.

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

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

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

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

Section 8. Quorum: The holders of a majority of the shares entitled to vote (counting for such purposes all abstentions and broker nonvotes), represented in person or by proxy, shall constitute a quorum at meetings of the shareholders, except as otherwise provided in the Articles of Incorporation. If, however, such quorum shall be not present or represented at a meeting of the shareholders, the holders of a majority of the shares entitled to vote thereat,

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and represented in person or by proxy, shall have power to recess the meeting from time to time, without notice other than power to recess the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such recessed meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally convened had a quorum been present. Shareholders present at a duly organized meeting with a quorum present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 9. Voting at Meetings:

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

(b) Each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders, except to the extent that the voting rights of shares of any class or series are limited or denied by the Articles of Incorporation, or as otherwise provide by law. No shareholder shall have the right of cumulative voting.

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

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

Section 11. Inspectors of Election: The chairman of each meeting of shareholders shall appoint one or more persons to act as inspectors of election. The inspectors of election shall report to the meeting the number of shares of each class and series of stock, and of all

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classes, represented either in person or by proxy. The inspectors of election shall oversee the vote of the shareholders for the election of directors and for any other matters that are put to a vote of shareholders at the meeting; receive a ballot evidencing votes cast by the proxy committee of the Board of Directors; judge the qualifications of shareholders voting; collect, count, and report the results of ballots cast by any shareholders voting in person; and perform such other duties as may be required by the chairman of the meeting or the shareholders.

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

Section 13. Notice of Shareholder Nominees: Nominations of persons for election to the Board of Directors of the corporation may be made at a meeting of shareholders (i) by or at the direction of the Board of Directors or (ii) by any shareholder of the corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 13. Nominations by shareholders shall be made pursuant to timely notice in writing to the Secretary of the corporation. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the corporation not less than sixty (60) days nor more than ninety (90) days prior to the meeting; provided,

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however, that in the event that less than thirty (30) days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended

(including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (b) as to the shareholder giving the notice (i) the name and address, as they appear on the corporation's books, of such shareholder and (ii) the number of shares of the corporation which are beneficially owned by such shareholder. At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the corporation that information required to be set forth in a shareholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in these Bylaws. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

ARTICLE III

BOARD OF DIRECTORS

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

Section 2. Number; Term of Office; Qualifications: The number of directors of the corporation shall be determined from time to time by resolution of the Board of Directors, but no decrease in such number shall have the effect of shortening the term of any incumbent director. At each annual meeting of shareholders, the shareholders shall elect directors to hold office until the next succeeding annual meeting, except in case of the classification of directors as provided in these Bylaws. Each director shall hold office for the term for which he is elected and until his successor shall have been elected and qualified or until his earlier death, retirement, resignation, or removal for cause in accordance with the provisions of these Bylaws. Directors need not be residents of the State of Texas or shareholders of the corporation, but they must be less than seventy (70) years of age at the time of election and they must have been nominated in accordance with the procedures set forth in these Bylaws in order to be eligible for election as directors.

Section 3. Classification of Directors: Effective at the time of the annual meeting of shareholders in 1990, in lieu of electing the whole number of directors annually, the directors

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shall be divided into three classes, Class I, Class II and Class III, each class to be as nearly equal in number as possible, and the remainder of this Section 3 shall be effective. Each director shall serve for a term ending on the date of the third annual meeting of shareholders following the annual meeting at which such director was elected; provided, however, that each initial director in Class I shall hold office until the first annual meeting of shareholders after his election; each initial director in Class II shall hold office until the second annual meeting of shareholders after his election; and each initial director in Class III shall hold office until the third annual meeting of shareholders after his election. In the event of any increase or decrease in the authorized number of directors, (i) each director then serving as such shall nevertheless continue as a director of the class of which he is a member until the expiration of his current term or until his prior death, retirement, resignation, or removal for cause in accordance with the provisions of these Bylaws, and (ii) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors so as to maintain such classes as nearly equal in number as possible.

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

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

the remaining term of the other members of the class to which he has been designated in accordance with the provisions of these Bylaws.

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

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

Section 7. First Meeting: The first meeting of each newly elected Board shall be held immediately following the shareholders' meeting at which the directors are elected and at the place at which such annual meeting is held, or the directors may meet at such time and place

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as shall be fixed by the consent in writing of the directors. No notice of such meeting shall be necessary to the newly elected directors in order to legally constitute the meeting provided a quorum shall be present.

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

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

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

Section 11. Quorum: A majority of the number of directors shall constitute a quorum for the transaction of business at any meeting thereof. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by law or the Articles of Incorporation or these bylaws. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

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

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

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ARTICLE IV

OFFICERS

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

Section 2. Election: The Board of Directors at its first meeting after the annual meeting of the shareholders may elect a Chairman of the Board from among its members and shall elect a President, a Vice President, a Secretary, an

Assistant Secretary, a Treasurer, and an Assistant Treasurer, none of whom need to be a member of the Board.

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

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

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

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

Section 7. The President: The President shall be the chief executive officer of the corporation; in the absence of the Chairman of the Board or if there be no Chairman of the Board, he shall preside at all meetings of the shareholders and directors; shall be ex officio a member of all standing committees; and shall see that all orders and resolutions of the Board of Directors are carried into effect. The President may execute deeds, conveyances, notes, bonds, and other contracts either or without the attestation of the Secretary required thereon and either with or without the seal of the corporation.

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

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

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

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

Section 12. The Assistant Treasurers: The Assistant Treasurers, in the

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

ARTICLE V

CERTIFICATES REPRESENTING SHARES

Section 1. Form and Issuance: The certificates representing shares of the corporation of each class or series shall be in such form as approved by resolution of the Boards of Directors and as may be required by law and shall be numbered and entered in the stock records of the corporation as they are issued. They shall show the holder's name and number of shares and shall be signed by the Chairman of the Board, if any, or the President and the Secretary of the corporation, and may be sealed with the seal of the corporation or a facsimile thereof. The signatures of the Chairman of the Board or President and of the Secretary upon a certificate may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer at the date of its issuance. No certificate shall be issued for any share until the consideration therefor, fixed as provided by law, has been fully paid.

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

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

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

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

ARTICLE VI

NOTICES

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

therein, shall be deemed equivalent to the giving of such notice.

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

ARTICLE VII

GENERAL PROVISIONS

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

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

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

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

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

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

ARTICLE VIII

INDEMNIFICATION

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

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

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

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

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

Section 5. Nonexclusivity of Rights: The right to indemnification and the advancement and payment of expenses conferred in this Article VIII shall not be exclusive of any other right which a director or officer or other person

indemnified pursuant to Section 3 of this Article VIII may have or hereafter acquire under any law (common or statutory), provision of the Articles of Incorporation or these Bylaws, agreement, vote of shareholders or disinterested directors or otherwise.

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

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

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

Supplemental Agreement No. 8

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 March 20, 1999, by and between THE BOEING COMPANY, a Delaware corporation with its principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with its principal offices in City of Dallas, State of 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 the option to purchase six (6) additional Option Aircraft and to accelerate delivery of those Option Aircraft from July 2006 (2) and October 2006 four (4) to June 2000 three (3), July 2000 one (1) and August 2000 two (2);

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

- - - - -

PURSUANT TO 17 CFR, 240.246-2, 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.

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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. Article 1, entitled "Subject Matter of Sale," paragraph 1.1 entitled "The Aircraft" is deleted in its entirety and replaced by a new paragraph 1.1 revised to reflect one hundred thirty-six (136) Aircraft. Such new page 1-1 is attached hereto and incorporated into the Agreement by this reference.
3. Article 2, entitled "Delivery, Title and Risk of Loss," paragraph 2.1, entitled "Time of Delivery," is deleted in its entirety and replaced by a new paragraph 2.1 revised to add three (3) Block "L" Aircraft for delivery in June 2000, to add one (1) Block "L" Aircraft for delivery in July 2000 and to add two (2) Block "L" Aircraft for delivery in August 2000. Such new pages 2-1, 2-2 and 2-3 are attached hereto and incorporated into the Agreement by this reference.
4. Article 3, entitled "Price of Aircraft", paragraph 3.4 entitled "Advance Payment Base Price," subparagraph 3.4.1 entitled "Advance Payment Base Price" is revised by adding Advance Payment Base Prices for the Block "L" June 2000, July 2000 and August 2000 Aircraft. Such new pages 3-1, 3-2, 3-3 and 3-4 are attached hereto and incorporated into the Agreement by this reference.
5. Letter Agreement No. 6-1162-RLL-933R6 entitled "Option Aircraft" is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-933R7 attached hereto and incorporated herein by this reference. The third paragraph is revised to refer to fifty-two (52) Rollover Option Aircraft. Article 2 entitled "Delivery of Rollover Option Aircraft," paragraph 2.1 is revised to change the quantity of Rollover Option Aircraft from eighteen (18) to twelve (12) in the year 2009; paragraph 2.2 and subparagraphs 2.2.1 and 2.2.2 are revised by changing the quantity of Rollover Option Aircraft from fifty-eight (58) to fifty-two (52).

6. All references in the Letter Agreements associated with Purchase Agreement No. 1810 shall be deemed to refer to the purchase by Buyer of one hundred thirty-six (136) Model 737-7H4 Aircraft, sixty-two (62) Model 737-7H4 Option Aircraft and fifty-two (52) Model 737-7H4 Rollover Option Aircraft, to the extent such reference is not specifically addressed herein.

7. Concurrent with execution of this Supplemental Agreement, Buyer will pay to Boeing ***. Such amount reflects the difference in advance payments due as a result of the exercise of the Option to purchase six Aircraft and the deposits due for six Rollover Option Aircraft converted to Option Aircraft.

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/ DAWN S. FOSTER

By: /s/ LAURA WRIGHT

Its: ATTORNEY-IN-FACT

Its: TREASURER

PURCHASE AGREEMENT

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 Aircraft

Purchase Agreement Number 1810

*** PURSUANT TO 17 CFR, 240.246-2, 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.

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6-1162-RLL-933R7	Option Aircraft	SA-8
6-1162-RLL-934R1	Disclosure of Confidential Information	SA-1
6-1162-RLL-935R1	Performance Guarantees	SA-1
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
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6-1162-RLL-945	Comparison of 737-7H4 and 737-3H4 Block Fuel Burn	
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		SA Number -----
RESTRICTED LETTER AGREEMENTS - -----		
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PURCHASE AGREEMENT NO. 1810

Relating to

BOEING MODEL 737-7H4 AIRCRAFT

This Agreement is entered into as of January 19th 1994, by and between The Boeing Company, a Delaware corporation, with its principal office in Seattle, Washington (Boeing), and Southwest Airlines Co., a Texas corporation, with its principal office in the City of Dallas, State of Texas (Buyer).

Accordingly, Boeing and Buyer agree as follows:

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ARTICLE 1. Subject Matter of Sale.

1.1 The Aircraft. Subject to the terms and conditions of this Agreement, Boeing will manufacture and deliver to Buyer and Buyer will purchase and accept delivery from Boeing of one hundred thirty-six (136) Boeing Model 737-7H4 aircraft (the Aircraft) manufactured in accordance with Boeing Detail Specification D6-38808-1, dated October 30, 1996, as described in Exhibit A, as modified from time to time in accordance with this Agreement (Detail Specification).

1.2 Additional Goods and Services. In connection with the sale of the Aircraft, Boeing will also provide to Buyer certain other things under this Agreement, including data, documents, training and services, all as described in this Agreement.

1.3 Performance Guarantees. Any performance guarantees applicable to the Aircraft will be expressly included in this Agreement. Where performance guarantees are included in this Agreement other than within the Detail Specification, such guarantees will be treated as being incorporated in the Detail Specification by this reference.

1.4 Defined Terms. For ease of use, certain terms are treated as defined terms in this Agreement. Such terms are identified with a capital letter and set forth and/or defined in Exhibit F.

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ARTICLE 2. Delivery, Title and Risk of Loss.

2.1 Time of Delivery. The Aircraft will be delivered to Buyer by Boeing, assembled and ready for flight and Buyer will accept delivery of the Aircraft, in accordance with the following schedule:

<TABLE>
<CAPTION>

Month and Year of Delivery -----		Quantity of Aircraft -----	
<S>		<C>	
		Block A Aircraft -----	
October 1997		Two (2)	
November 1997		Two (2)	
		Block B Aircraft -----	

January 1998	Two (2)
February 1998	Three (3)
March 1998	Two (2)
April 1998	Two (2)
May 1998	Two (2)
June 1998	One (1)
July 1998	Two (2)
September 1998	Two (2)

Block C Aircraft

February 1999	Four (4)
May 1999	Four (4)
July 1999	Four (4)
August 1999	One (1)
September 1999	Three (3)

Block D Aircraft

November 1999	Two (2)
December 1999	One (1)
January 2000	One (1)
March 2000	Four (4)
July 2000	Four (4)
September 2000	Three (3)

Block E Aircraft

January 2001	Three (3)
March 2001	Three (3)
July 2001	Three (3)
September 2001	Three (3)

</TABLE>

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<TABLE>

<S>

<C>

<C>

<C>

Block F Aircraft

October 1998	One (1)
November 1998	Two (2)
December 1998	Two (2)

Block G Aircraft

March 1999	Two (2)
------------	---------

Block H Aircraft

June 1999	Two (2)
July 1999	One (1)
August 1999	One (1)
September 1999	Two (2)
October 1999	One (1)
April 2000	Three (3)
October 2000	Three (3)
April 2001	Three (3)
October 2001	Three (3)

Block I Aircraft

January 2002	Four (4)
March 2002	Four (4)
April 2002	Two (2)
July 2002	Four (4)
October 2002	Four (4)

Block J Aircraft

January 2003	Four (4)
March 2003	One (1)

Block K Aircraft

April 2004	Two (2)
July 2004	Three (3)

</TABLE>

<TABLE>		<C>	
<S>	<C>	<C>	<C>
		Block L Aircraft	

	October 1999		One (1)
	November 1999		Two (2)
	December 1999		One (1)
	June 2000		Three (3)
	July 2000		One (1)
	August 2000		Two (2)
	November 2000		Two (2)
	December 2000		One (1)
	July 2001		One (1)
	September 2001		One (1)
	October 2001		One (1)
	September 2002		Three (3)
</TABLE>			

2.2 Notice of Target Delivery Date. Boeing will give Buyer notice of the Target Delivery Date of the Aircraft approximately 30 days prior to the scheduled month of delivery.

2.3 Notice of Delivery Date. If Boeing gives Buyer at least 7 days' notice of the delivery date of the Aircraft, and an Aircraft delivery is delayed beyond such delivery date due to the responsibility of Buyer, Buyer will reimburse Boeing for all costs incurred by Boeing as a result of such delay, including amounts for storage, insurance, Taxes, preservation or protection of the Aircraft and interest on payments due.

2.4 Place of Delivery. The Aircraft will be delivered at an airport facility selected by Boeing in the State of Washington, unless mutually agreed otherwise.

2.5 Title and Risk of Loss. Title to and risk of loss of an Aircraft will pass from Boeing to Buyer upon delivery of such Aircraft, but not prior thereto.

2.6 Bill of Sale. Upon delivery of an Aircraft Boeing will deliver to Buyer a bill of sale conveying good title to such Aircraft, free of all liens, claims, charges and encumbrances of every kind whatsoever, and such other appropriate documents of title as Buyer may reasonably request.

ARTICLE 3. Price of Aircraft.

3.1 Definitions.

3.1.1 Special Features are the features incorporated in Exhibit A which have been selected by Buyer.

3.1.2 Base Aircraft Price is the Aircraft Basic Price excluding the price of Special Features.

3.1.3 Aircraft Basic Price is comprised of the Base Aircraft Price and the price of the Special Features.

3.1.4 Economic Price Adjustment is the adjustment to the Aircraft Basic Price (Base Aircraft and Special Features) as calculated pursuant to Exhibit D.

3.1.5 Aircraft Price is the total amount Buyer is to pay for the Aircraft at the time of delivery.

3.2 Aircraft Basic Price ***.

The Aircraft Basic Price, expressed in July 1992 dollars, is set forth below:

<TABLE>			
<CAPTION>			
<S>		<C>	
Block A, B, C, D & E Aircraft Block F & G		Base Aircraft Price ***	Aircraft Basic Price ***
		Special Features <C> ***	Aircraft Basic Price <C> ***

Aircraft	***	***	***
Block H			
Aircraft	***	***	***
Block I			
Aircraft	***	***	***
Block J			
Aircraft	***	***	***
Block K			
Aircraft	***	***	***
Block L Aircraft			
	***	***	***

</TABLE>

3.3 Aircraft Price. The Aircraft Price will be established at the time of delivery of such Aircraft to Buyer and will be the sum of:

3.3.1 the Aircraft Basic Price, which is *** for the Block A, B, C, D and E Aircraft, *** for the Block F and G Aircraft, *** for the Block H Aircraft, *** for the

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Block I Aircraft, *** for the Block J Aircraft, *** for the Block K Aircraft and *** for the Block L Aircraft; plus

3.3.2 the Economic Price Adjustments for the Aircraft Basic Price, as calculated pursuant to the formulas set forth in Exhibit D (Price Adjustments Due to Economic Fluctuations - Aircraft); plus

3.3.3 other price adjustments made pursuant to this Agreement or other written agreements executed by Boeing and Buyer.

3.4 Advance Payment Base Price.

3.4.1 Advance Payment Base Price. For advance payment purposes, the following estimated delivery prices of the Aircraft (Advance Payment Base Price) have been established, using currently available forecasts of the escalation factors used by Boeing as of the date of signing this Agreement. The Advance Payment Base Price of each Aircraft is set forth below:

<TABLE>
<CAPTION>

Month and Year of Scheduled Delivery -----	Advance Payment Base Price per Aircraft -----
<S> <C> Block A Aircraft *** -----	
October 1997	***
November 1997	***
Block B Aircraft *** -----	
January 1998	***
February 1998	***
March 1998	***
April 1998	***
May 1998	***
June 1998	***
July 1998	***
September 1998	***
Block C Aircraft *** -----	
February 1999	***
May 1999	***
July 1999	***
August 1999	***
September 1999	***

</TABLE>

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Block D Aircraft ***

<TABLE>

<S>			<C>
	November 1999		***
	December 1999		***
	January 2000		***
	March 2000		***
	July 2000		***
	September 2000		***
	Block E Aircraft ***		

	January 2001		***
	March 2001		***
	July 2001		***
	September 2001		***
	Block F Aircraft ***		

	October 1998		***
	November 1998		***
	December 1998		***
	Block G Aircraft ***		

	March 1999		***
	Block H Aircraft ***		

	June 1999		***
	July 1999		***
	August 1999		***
	September 1999		***
	October 1999		***
	April 2000		***
	October 2000		***
	April 2001		***
	October 2001		***
	Block I Aircraft ***		

	January 2002		***
	March 2002		***
	April 2002		***
	July 2002		***
	October 2002		***
	Block J Aircraft ***		

	January 2003		***
	March 2003		***

</TABLE>

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	Block K Aircraft ***		

<TABLE>			
<S>	<C>	<C>	<C>
	April 2004		***
	July 2004		***
	Block L Aircraft ***		

	October 1999		***
	November 1999		***
	December 1999		***
	June 2000		***
	July 2000		***
	August 2000		***
	November 2000		***
	December 2000		***
	July 2001		***
	September 2001		***
	October 2001		***
	September 2002		***

</TABLE>

3.4.2 Adjustment of Advance Payment Base Prices - Long-Lead Aircraft. For Aircraft scheduled for delivery 36 months or more after the date of this Agreement, the Advance Payment Base Prices appearing in Article 3.4.1 will be used to determine the amount of the first advance payment to be made by

Buyer on the Aircraft. No later than 25 months before the scheduled month of delivery of each affected Aircraft, Boeing will increase or decrease the Advance Payment Base Price of such Aircraft as required to reflect the effects of (i) any adjustments in the Aircraft Basic Price pursuant to this Agreement and (ii) the then-current forecasted escalation factors used by Boeing. Boeing will provide the adjusted Advance Payment Base Prices for each affected Aircraft to Buyer, and the advance payment schedule will be considered amended to substitute such adjusted Advance Payment Base Prices.

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

Subject: Letter Agreement No. 6-1162-RLL-933R7 to
Purchase Agreement No. 1810 -
Option Aircraft

This Letter Agreement amends Purchase Agreement No. 1810 dated as of January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 aircraft (Aircraft).

All terms used and not defined herein will have the same meaning as in the Agreement.

In consideration of the purchase by Buyer of the Aircraft, Boeing hereby agrees to manufacture and sell to Buyer sixty-two (62) additional Model 737-7H4 aircraft as described in paragraph 1 of Attachment A hereto (Option Aircraft) and fifty-two (52) Model 737-7H4 Rollover Option Aircraft (Rollover Option Aircraft), subject to the terms and conditions set forth below.

1. Delivery of Option Aircraft.

The Option Aircraft will be delivered to Buyer during or before the months set forth in the following schedule:

- - - - -
*** PURSUANT TO 17 CFR, 240.246-2, 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.

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<TABLE>
<CAPTION>

Month and Year of Delivery -----	Number of Option Aircraft -----	Option Aircraft Block -----
<S>	<C>	<C>
March 2003	Three (3)	M
April 2003	Two (2)	M
July 2003	Four (4)	M
October 2003	Four (4)	M
January 2004	Four (4)	N
March 2004	One (1)	N
April 2004	One (1)	N
August 2004	Two (2)	N
September 2004	Three (3)	N
October 2004	Two (2)	N

</TABLE>

<TABLE>

<CAPTION>

Month and Year of Delivery -----	Number of Option Aircraft -----	Option Aircraft Block -----
<S>	<C>	<C>
January 2005	Four (4)	O
March 2005	Four (4)	O
April 2005	Two (2)	O
July 2005	Four (4)	O
October 2005	Four (4)	O
January 2006	Four (4)	P
March 2006	Four (4)	P
April 2006	Two (2)	P
July 2006	Four (4)	P
October 2006	Four (4)	P

</TABLE>

2. Delivery of Rollover Option Aircraft.

2.1 The Rollover Option Aircraft will be delivered to Buyer during or before the years set forth in the following schedule:

<TABLE>

<CAPTION>

Year of Delivery -----	Number of Option Aircraft -----	Option Aircraft Block -----
<S>	<C>	<C>
2007	Twenty (20)	Q
2008	Twenty (20)	R
2009	Twelve (12)	S

</TABLE>

2.2 The fifty-two (52) Rollover Option Aircraft are offered to Buyer subject to the following conditions:

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2.2.1 Buyer can exercise any fifty-two (52) of the sixty-two (62) Option Aircraft, and will be offered a Rollover Option Aircraft for each option aircraft exercised up to and including fifty-two (52).

2.2.2 Conversely to Article 2.2.1 above, if Buyer does not exercise a minimum of fifty-two (52) Option Aircraft, one Rollover Option Aircraft will be deleted for each Option Aircraft not exercised by Buyer.

2.2.3 When Buyer exercises one or more Option Aircraft, Boeing will offer the same quantity of Rollover Option Aircraft to Buyer in the years identified in Article 2.1 above.

2.2.4 The Rollover Option Aircraft delivery month offered by Boeing to Buyer will be at least 24 months from the Option exercise date of the corresponding option.

2.2.5 When Boeing offers the Rollover Option Aircraft to Buyer, Buyer will accept such Rollover Option Aircraft by wire transferring \$100,000 to Boeing. In the event Buyer exercises its option to purchase the Rollover Option Aircraft, such application will be in accordance with Article 4.1 herein.

3. Price.

3.1 The advance payment base prices of the Option Aircraft set forth below and in paragraph 2.1 of Attachment A represent the estimated delivery prices of the Option Aircraft. The Option Aircraft pricing elements and associated pricing terms and conditions are given in Attachment A.

3.2 Price and escalation provisions for Model 737-7H4 aircraft delivering after 2002, are not currently available. The estimated Advance Payment Base Prices shown in paragraph 3.3 below and in paragraph 2.1 of Attachment A are based on currently available price and escalation provisions. As price and escalation provisions become available for Model 737-7H4 aircraft delivering after 2002, such price and escalation provisions will be

appropriately applied to the applicable Option Aircraft.

For additional information relating to price and escalation provisions applicable to Option Aircraft delivering after 2002 refer to paragraphs 2.2 and 3.2 of Attachment A.

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3.3 The Advance Payment Base Prices of the Option Aircraft indicated below do include an amount for special features in addition to those specifically described in Attachment A but do not include any amount for items of Buyer Furnished Equipment (BFE). An estimate for typical special features is *** per Aircraft (expressed in 1992 STE dollars) and for BFE is *** per Aircraft (expressed in delivery year dollars).

<TABLE>
<CAPTION>

Month and Year of Delivery -----	Advance Payment Base Price per Option Aircraft -----
<S>	<C>
	Block M Aircraft*** -----
March 2003	
April 2003	
July 2003	
October 2003	
	Block N Aircraft*** -----
January 2004	
March 2004	
April 2004	
August 2004	
September 2004	
October 2004	
	Block O Aircraft*** -----
January 2005	
March 2005	
April 2005	
July 2005	
October 2005	
	Block P Aircraft*** -----
January 2006	
March 2006	
April 2006	
July 2006	
October 2006	

</TABLE>

3.4 The Option Aircraft purchase price will be the applicable basic price thereof at the time of Option Aircraft delivery adjusted in accordance with Boeing's Aircraft escalation provisions contained in the definitive agreement to purchase the Option Aircraft. The purchase price will include the price for Seller Purchased Equipment (SPE) if Buyer has

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elected to change Buyer Furnished Equipment (BFE) to SPE.

4. Option Aircraft Payment.

4.1 In consideration of the granting of the option as set forth herein, on or before the date Boeing and Buyer enter into a definitive agreement to purchase the Aircraft, Buyer will pay a deposit to Boeing of \$100,000 for each Option Aircraft (Deposit). In the event Buyer exercises its option herein, the amount of the Deposit will be credited against the first advance payment due for

such Option Aircraft pursuant to the advance payment schedule set forth in paragraph 3 of Attachment A. The Deposits for the Option Aircraft will be refunded to Buyer, without interest, if the parties do not enter into a definitive Agreement for the Aircraft.

In the event that, after the parties enter into a definitive agreement to purchase the Aircraft, Buyer does not exercise its option to purchase the Option Aircraft pursuant to the terms and conditions set forth herein, Boeing will be entitled to retain the Deposits for the Option Aircraft except as provided in paragraphs 6 herein.

4.2 Advance payments in the amount of 30% of the advance payment base price will be payable on the Option Aircraft in accordance with paragraph 3 of Attachment A. The remainder of the Option Aircraft purchase price is due at the time of delivery of the Option Aircraft.

5. Option Exercise.

5.1 To exercise its Option, Buyer will give written or telegraphic notice thereof to Boeing on or before eighteen (18) months prior to the first day of the delivery month of each Option Aircraft.

In such notice Buyer will select the Option Model type, and the applicable delivery positions.

5.2 It is understood and agreed that Boeing may accelerate the option exercise dates specified above if Boeing must make production decisions which are dependent on Buyer's decision to buy the Option Aircraft. If Boeing elects to accelerate the option exercise dates, Boeing will do so by giving written or telegraphic notice thereof to Buyer. Such notice will specify the revised option exercise dates, which will not be earlier than 30 days after the date of

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transmittal of such notice, and the Option Aircraft delivery positions affected by such revision. If Buyer fails to exercise its option for any Option Aircraft affected by such revised dates, the Deposit applicable to such Option Aircraft will be promptly refunded, with interest, to Buyer. The interest rate for calculation of the interest associated with such refund is the rate of two percent (2%) below the Citibank base rate in effect from time to time during the period the option deposit is held by Boeing.

6. Contract Terms.

It is understood that Boeing and Buyer will use their best efforts to enter into a definitive agreement for the Option Aircraft within thirty (30) days after Buyer exercises an option to purchase Option Aircraft pursuant to paragraph 5 covering the detailed terms and conditions for the sale of such Option Aircraft.

Such definitive agreement will include the terms and conditions contained herein together with the terms and conditions, not inconsistent herewith, contained in Boeing's then-current standard form of purchase agreement for the sale of Model 737-700 aircraft in effect as of the date of option exercise and such additional terms and conditions as may be mutually agreed upon. In the event the parties have not entered into such an agreement within the time period contemplated herein, either party may, exercisable by written or telegraphic notice given to the other within thirty (30) days after such period, terminate the purchase of such Option Aircraft.

7. Termination of Option to Purchase.

Either Boeing or Buyer may terminate the option to purchase an Option Aircraft if any of the following events are not accomplished by the respective dates contemplated in this letter agreement, or in the Agreement, as the case may be:

(i) termination of the purchase of the Aircraft under the Agreement for any reason;

(ii) payment by Buyer of the Deposit with respect to an Option Aircraft pursuant to paragraph 4.1 herein;

(iii) exercise of an option to purchase an Option Aircraft pursuant to the terms hereof. Any termination of an option to purchase by Boeing which is based on the termination of the purchase of

Southwest Airlines Co.
6-1162-RLL-933R7 Page 7

Aircraft under the Agreement will be on a one-for-one basis, for each Aircraft so terminated.

Any cancellation of an option to purchase which is based on failure to make the required Deposit or to exercise the option to purchase shall only apply to the Option Aircraft so canceled.

Termination of an option to purchase provided by this letter agreement will be caused by either party giving written notice to the other within 10 days after the applicable date. Upon receipt of such notice, all rights and obligations of the parties with respect to an Option Aircraft for which the option to purchase has been terminate will thereupon terminate.

If termination is result of a revision of an option exercise date by Boeing pursuant to paragraph 5.2, Boeing will promptly refund to Buyer, without interest, any payments received from Buyer, including the Deposit, with respect to the Option Aircraft for which the option is terminated. If termination is for any other reason, Boeing will promptly refund to Buyer, without interest, any payments received from Buyer with respect to the affected Option Aircraft, except the Deposit, which Buyer may apply to any model Boeing aircraft purchased by Buyer from Boeing at a future date.

8. Confidential Treatment. Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the

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Southwest Airlines Co.
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information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement No. 6-1162-RLL-934R1.

Very truly yours,

THE BOEING COMPANY

By: /s/ DAWN S. FOSTER

Its: ATTORNEY-IN-FACT

ACCEPTED AND AGREED TO this

date: March 30, 1999

SOUTHWEST AIRLINES CO.

By: /s/ LAURA WRIGHT

Its: TREASURER

Attachments

Model 737-7H4 Aircraft

1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft is described by Boeing Detail Specification D6-38808-1, Dated October 30 ,1996.

1.2 Changes. The Detail Specification will be revised to include:

(1) Changes applicable to the basic Model 737-700 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of a definitive agreement to purchase the Option Aircraft.

(2) Changes mutually agreed upon.

(3) Changes required to obtain a Standard Certificate of Airworthiness.

(4) To provide sufficient Option Aircraft manufacturing and procurement lead time it is necessary for Boeing and Buyer to reach final agreement on the Option Aircraft configuration, including BFE/SPE vendor selection fifteen (15) months prior to delivery of each Option Aircraft. If such items are not resolved by the indicated dates, Boeing reserves the right to amend this letter agreement:

(i) to adjust the scheduled delivery of the Option Aircraft to a later time period and,

(ii) to make such other changes as are appropriate and consistent with the revised Option Aircraft deliveries.

1.3 Effect of Changes. Changes to the Detail Specification incorporated pursuant to the provisions of the clauses above will include the effects of such changes upon Option Aircraft weight, balance, design and performance. Performance guarantees for the Option Aircraft which are mutually acceptable to the parties will be included in the definitive agreement for the Option Aircraft.

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2. Price Description

2.1 Price Elements Per Aircraft

<TABLE>
<CAPTION>

	1	2	3	
	-	-	-	
AIRCRAFT	AIRCRAFT &			ADV. PMT.
DELIVERY	ESTIMATED SPECIAL		ESTIMATED	BASE PRICE
MO. & YR.	FEATURES PRICE	ESTIMATED	ESCALATION	(Elements)
- - - - -	(JULY 1992\$)	ESCALATION	SHARING	1 + 2 + 3
<S>	<C>	<C>	<C>	<C>
BLOCK M				
- - - - -				
March 2003	***	***	-***	***
April 2003	***	***	-***	***
July 2003	***	***	-***	***
October 2003	***	***	-***	***

BLOCK N
- - - - -

January 2004	***	***	----	***
March 2004	***	***	----	***
April 2004	***	***	----	***
August 2004	***	***	----	***
September 2004	***	***	----	***
October 2004	***	***	----	***

BLOCK O
- -----

January 2005	***	***	----	***
March 2005	***	***	----	***
April 2005	***	***	----	***
July 2005	***	***	----	***
October 2005	***	***	----	***

BLOCK P
- -----

January 2006	***	***	----	***
March 2006	***	***	----	***
April 2006	***	***	----	***
July 2006	***	***	----	***
October 2006	***	***	----	***

</TABLE>

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2. Price Description. (Continued)

2.2 Price Adjustments For Option Aircraft Delivering From
March 2003 through December 2009.

2.2.1 Special Features. The price for Special Features incorporated in the Option Aircraft Detail Specification will be adjusted to Boeing's then-current prices for such features as of the date of execution of the definitive agreement for the Option Aircraft.

2.2.2 Escalation Adjustments. For escalation provisions applicable to Option Aircraft delivering after 2002, see paragraph 2.2.6 below.

2.2.3 Base Price Adjustments for FAA Changes. The Aircraft Basic Price of the Option Aircraft will be adjusted for any FAA mandated changes incorporated into the Aircraft.

2.2.4 Price Adjustments for Changes. Boeing may adjust the Aircraft Basic Price and the Advance Payment Base Price for any changes mutually agreed upon subsequent to the date that Buyer and Boeing enter into a definitive agreement for the Option Aircraft.

2.2.5 Base Price Adjustments. The Aircraft Basic Price of the Option Aircraft will be adjusted to Boeing's then-current prices as of the date of execution of the definitive agreement for the Option Aircraft in accordance with the agreement reached below. The Aircraft Basic Price starting point for options delivering in 2003 is *** (July 1992 STE), for options delivering in 2004 is *** (July 1992 STE), for options delivering in 2005 through 2009 is *** (July 1992 STE). Such Aircraft Basic Price may increase in accordance with paragraphs 2.2.1, 2.2.2, 2.2.3 and 2.2.4. For any other changes to the Aircraft Basic Price, Boeing may increase the Aircraft Basic Price by a maximum of *** (July 1992 STE) for Aircraft delivering in 2005 and by a maximum of *** (July 1992 STE) per year or portion thereof starting in January 2006.

2.2.6 Prices for Long Lead Time Aircraft. Boeing has not established escalation provisions for Model 737-700 aircraft for delivery 2003 and after. Such escalation provisions (i) will be incorporated into the Option Aircraft definitive agreement when such information is available and (ii) will be the then-current escalation provisions applicable to the same model aircraft and engines delivering in the same time period as the Option Aircraft. The resulting revisions to the definitive agreement will

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include but not be limited to, adjustment of the Aircraft Basic Price of the Option Aircraft, the Advance Payment Base Price, the Aircraft escalation provisions and the advance payment amounts due on the Option Aircraft.

2.2.7 BFE to SPE. An estimate of the total price for items of Buyer Furnished Equipment (BFE) changed to Seller Purchased Equipment (SPE) pursuant to the Configuration Specification is included in the Option Aircraft price build-up. The purchase price of the Option Aircraft will be adjusted by the price charged to Boeing for such items plus 10% of such price. If all BFE except developmental avionics is converted to SPE, Boeing will waive the 10% fee.

3. Advance Payment Schedules, Prices and Adjustments.

3.1 Buyer will pay to Boeing advance payments for the Option Aircraft on the dates and in the amounts determined below.

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<TABLE>
<CAPTION>

Amount Due per Aircraft	

(Percentage times	
Advance Payment Base Price)	
Due Date of Payment	
- - - - -	
<S>	<C>
Deposit	100,000 (if applicable)
18 months prior to the first day of the scheduled delivery month of the Aircraft	15% (less the Deposit if any)
12 months prior to the first day of the scheduled delivery month of the Aircraft	5%
9 months prior to the first day of the scheduled delivery month of the Aircraft	5%
6 months prior to the first day of the scheduled delivery month of the Aircraft	5%

Total	30%

</TABLE>

Any advance payments that would be past due as of the date of signing the definitive purchase agreement for the Option Aircraft in accordance with the above schedule are due and payable on such date.

3.2 Option Aircraft advance payment base prices will be increased or decreased, as appropriate, at the time of signing of the definitive purchase agreement for the Option Aircraft, using the then-current forecasted aircraft escalation factors used by Boeing, to determine the amount of the advance payments to be made by Buyer on the Option Aircraft.

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PRICE ADJUSTMENT DUE TO
ECONOMIC FLUCTUATIONS
AIRCRAFT PRICE ADJUSTMENT
(July 1992 Base Price)

1. Formula.

The Aircraft Price Adjustment will be determined at the time of Aircraft delivery in accordance with the following formula:

$$Pa = (P) (L + M - 1)$$

Where:

Pa = Aircraft Price Adjustment.

$$L = .65 \times \frac{ECI}{116.2}$$

$$M = .35 \times \frac{ICI}{115.9}$$

P = Aircraft Basic Price (as set forth in Article 3.2 of this Agreement).

ECI = A value using the "Employment Cost Index for workers in aerospace manufacturing" (aircraft manufacturing, standard industrial classification code 3721, compensation, base month and year June 1989 = 100), as released by the Bureau of Labor Statistics, U.S. Department of Labor on a quarterly basis for the months of March, June, September and December, calculated as follows: A three-month arithmetic average value (expressed as a decimal and rounded to the nearest tenth) will be determined using the months set forth in the table below for the applicable Aircraft, with the released Employment Cost Index value described above for the month of March also being used for the months of January and February; the value for June also used for April and May; the value for September also used for July and August; and the value for December also used for October and November.

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ICI = The three-month arithmetic average of the released monthly values for the Industrial Commodities Index as set forth in the "Producer Prices and Price Index" (Base Year 1982 = 100) as released by the Bureau of Labor Statistics, U.S. Department of Labor values (expressed as a decimal and rounded to the nearest tenth) for the months set forth in the table below for the applicable Aircraft.

In determining the value of L, the ratio of ECI divided by 116.2 will be expressed as a decimal rounded to the nearest ten-thousandth and then multiplied by .65 with the resulting value also expressed as a decimal and rounded to the nearest ten-thousandth.

In determining the value of M, the ratio of ICI divided by 115.9 will be expressed as a decimal rounded to the nearest ten-thousandth and then multiplied by .35 with the resulting value also expressed as a decimal and rounded to the nearest ten-thousandth.

<TABLE>
<CAPTION>

Month of Scheduled Aircraft Delivery	Months to be Utilized in Determining the Value of ECI and ICI
- - - - -	- - - - -
<S>	<C>
January	June B, July B, Aug. B
February	July B, Aug. B, Sept. B
March	Aug. B, Sept. B, Oct. B
April	Sept. B, Oct. B, Nov. B

May	Oct.	B, Nov.	B, Dec.	B
June	Nov.	B, Dec.	B, Jan.	D
July	Dec.	B, Jan.	D, Feb.	D
August	Jan.	D, Feb.	D, Mar.	D
September	Feb.	D, Mar.	D, Apr.	D
October	Mar.	D, Apr.	D, May	D
November	Apr.	D, May	D, June	D
December	May	D, June	D, July	D

The following definitions of B and D will apply:

B = The calendar year before the year in which the scheduled month of delivery as set forth in Paragraph 1 occurs.

D = The calendar year during which the scheduled month of delivery as set forth in Paragraph 1 occurs.

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2. If at the time of delivery of an Aircraft Boeing is unable to determine the Aircraft Price Adjustment because the applicable values to be used to determine the ECI and ICI have not been released by the Bureau of Labor Statistics, then:

2.1 The Aircraft Price Adjustment, to be used at the time of delivery of each of the Aircraft, will be determined by utilizing the escalation provisions set forth above. The values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to scheduled Aircraft delivery will be used to determine the ECI and ICI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Aircraft Price Adjustment. If no values have been released for an applicable month, the provisions set forth in Paragraph 2.2 below will apply. If prior to delivery of an Aircraft the U.S. Department of Labor changes the base year for determination of the ECI or ICI values as defined above, such rebased values will be incorporated in the Aircraft Price Adjustment calculation. The payment by Buyer to Boeing of the amount of the Purchase Price for such Aircraft, as determined at the time of Aircraft delivery, will be deemed to be the payment for such Aircraft required at the delivery thereof.

2.2 If prior to delivery of an Aircraft the U.S. Department of Labor substantially revises the methodology used for the determination of the values to be used to determine the ECI and ICI values (in contrast to benchmark adjustments or other corrections of previously released values), or for any reason has not released values needed to determine the applicable Aircraft Price Adjustment, the parties will, prior to delivery of any such Aircraft, select a substitute for such values from data published by the Bureau of Labor Statistics or other similar data reported by non-governmental United States organizations, such substitute to lead in application to the same adjustment result, insofar as possible, as would have been achieved by continuing the use of the original values as they may have fluctuated during the applicable time period. Appropriate revision of the formula will be made as required to reflect any substitute values. However, if within 24 months from delivery of the Aircraft the Bureau of Labor Statistics should resume releasing values for the months needed to determine the Aircraft Price Adjustment, such values will be used to determine any increase or decrease in the Aircraft Price Adjustment for the Aircraft from that determined at the time of delivery of such Aircraft.

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2.3 In the event escalation provisions are made non-enforceable or otherwise rendered null and void by any agency of the United States Government, the parties agree, to the extent they may lawfully do so, to equitably adjust the Purchase Price of any affected Aircraft to reflect an allowance for increases or decreases in labor compensation and material costs occurring since February, 1992, which is consistent with the applicable provisions of paragraph 1 of this Exhibit D.

3. For the calculations herein, the values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to scheduled Aircraft delivery will be used to determine the ECI and ICI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Aircraft Price Adjustment.

Note: Any rounding of a number, as required under this Exhibit D with respect to escalation of the airframe price, will be accomplished as follows: if the first digit of the portion to be dropped from the number to be rounded is five or greater, the preceding digit will be raised to the next higher number.

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EXHIBIT 10.1

Supplemental Agreement No. 9

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 April 29, 1999, by and between THE BOEING COMPANY, a Delaware corporation with its principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with its principal offices in City of Dallas, State of 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 the option to purchase six (6) additional Option Aircraft and to accelerate delivery of those Option Aircraft from July 2006 (2) and October 2006 four (4) to September 2000 (1), October 2000 (1), November 2000 (1), December 2000 (1), January 2001 (1) and February 2001 (1);

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

*** PURSUANT TO 17 CFR, 240.246-2, 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.

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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. Article 1, entitled "Subject Matter of Sale," paragraph 1.1 entitled "The Aircraft" is deleted in its entirety and replaced by a new paragraph 1.1 revised to reflect one hundred forty-two (142) Aircraft. Such new page 1-1 is attached hereto and incorporated into the Agreement by this reference.

3. Article 2, entitled "Delivery, Title and Risk of Loss," paragraph 2.1, entitled "Time of Delivery," is deleted in its entirety and replaced by a new paragraph 2.1 revised to add six (6) Block "L" Aircraft for delivery in September 2000 (1), October 2000 (1), November 2000 (1), December 2000 (1), January 2001 (1) and February 2001 (1). Such new pages 2-1, 2-2 and 2-3 are attached hereto and incorporated into the Agreement by this reference.

4. Article 3, entitled "Price of Aircraft", paragraph 3.4 entitled "Advance

 *** PURSUANT TO 17 CFR, 240.246-2, 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.

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Number

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D	Price Adjustments Due to Economic Fluctuations - Aircraft	
E	Buyer Furnished Equipment Provisions Document	
F	Defined Terms Document	

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Number

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<S>	<C>
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</TABLE>

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PURCHASE AGREEMENT NO. 1810

Relating to

BOEING MODEL 737-7H4 AIRCRAFT

This Agreement is entered into as of January 19th 1994, by and between The Boeing Company, a Delaware corporation, with its principal office in Seattle, Washington (Boeing), and Southwest Airlines Co., a Texas corporation, with its principal office in the City of Dallas, State of Texas (Buyer).

Accordingly, Boeing and Buyer agree as follows:

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ARTICLE 1. Subject Matter of Sale.

1.1 The Aircraft. Subject to the terms and conditions of this Agreement, Boeing will manufacture and deliver to Buyer and Buyer will purchase and accept delivery from Boeing of one hundred forty-two (142) Boeing Model 737-7H4 aircraft (the Aircraft) manufactured in accordance with Boeing Detail Specification D6-38808-1, dated October 30, 1996, as described in Exhibit A, as modified from time to time in accordance with this Agreement (Detail Specification).

1.2 Additional Goods and Services. In connection with the sale of the Aircraft, Boeing will also provide to Buyer certain other things under this Agreement, including data, documents, training and services, all as described in this Agreement.

1.3 Performance Guarantees. Any performance guarantees applicable to the Aircraft will be expressly included in this Agreement. Where performance guarantees are included in this Agreement other than within the Detail Specification, such guarantees will be treated as being incorporated in the Detail Specification by this reference.

1.4 Defined Terms. For ease of use, certain terms are treated as defined terms in this Agreement. Such terms are identified with a capital letter and set forth and/or defined in Exhibit F.

ARTICLE 2. Delivery, Title and Risk of Loss.

2.1 Time of Delivery. The Aircraft will be delivered to Buyer by Boeing, assembled and ready for flight and Buyer will accept delivery of the Aircraft, in accordance with the following schedule:

<TABLE> <CAPTION> Month and Year of Delivery -----		Quantity of Aircraft -----	
Block A Aircraft -----			
<S>		<C>	
October 1997		Two (2)	
November 1997		Two (2)	
</TABLE>			
<TABLE> <CAPTION>			
Block B Aircraft -----			
<S>		<C>	
January 1998		Two (2)	
February 1998		Three (3)	
March 1998		Two (2)	
April 1998		Two (2)	
May 1998		Two (2)	
June 1998		One (1)	
July 1998		Two (2)	
September 1998		Two (2)	
</TABLE>			
<TABLE> <CAPTION>			
Block C Aircraft -----			
<S>		<C>	
February 1999		Four (4)	
May 1999		Four (4)	
July 1999		Four (4)	
August 1999		One (1)	
September 1999		Three (3)	
</TABLE>			
<TABLE> <CAPTION>			
Block D Aircraft -----			
<S>		<C>	
November 1999		Two (2)	
December 1999		One (1)	
January 2000		One (1)	
March 2000		Four (4)	
July 2000		Four (4)	
September 2000		Three (3)	
</TABLE>			
<TABLE> <CAPTION>			
Block E Aircraft -----			
<S>		<C>	
January 2001		Three (3)	
March 2001		Three (3)	
July 2001		Three (3)	
September 2001		Three (3)	
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<CAPTION>

Block F Aircraft

<S>

October 1998
November 1998
December 1998
</TABLE>

<C>

One (1)
Two (2)
Two (2)

<TABLE>

<CAPTION>

Block G Aircraft

<S>

March 1999
</TABLE>

<C>

Two (2)

<TABLE>

<CAPTION>

Block H Aircraft

<S>

June 1999
July 1999
August 1999
September 1999
October 1999
April 2000
October 2000
April 2001
October 2001
</TABLE>

<C>

Two (2)
One (1)
One (1)
Two (2)
One (1)
Three (3)
Three (3)
Three (3)
Three (3)

<TABLE>

<CAPTION>

Block I Aircraft

<S>

January 2002
March 2002
April 2002
July 2002
October 2002
</TABLE>

<C>

Four (4)
Four (4)
Two (2)
Four (4)
Four (4)

<TABLE>

<CAPTION>

Block J Aircraft

<S>

January 2003
March 2003
</TABLE>

<C>

Four (4)
One (1)

<TABLE>

<CAPTION>

Block K Aircraft

<S>

April 2004
July 2004
</TABLE>

<C>

Two (2)
Three (3)

<TABLE>

<CAPTION>

Block L Aircraft

<S>

October 1999
November 1999
December 1999
June 2000
July 2000
August 2000
September 2000
October 2000
November 2000
December 2000
January 2001
February 2001
July 2001
September 2001
October 2001
September 2002
</TABLE>

<C>

One (1)
Two (2)
One (1)
Three (3)
One (1)
Two (2)
One (1)
One (1)
Three (3)
Two (2)
One (1)
One (1)
One (1)
One (1)
One (1)
Three (3)

2.2 Notice of Target Delivery Date. Boeing will give Buyer notice of the Target Delivery Date of the Aircraft approximately 30 days prior to the scheduled month of delivery.

2.3 Notice of Delivery Date. If Boeing gives Buyer at least 7 days' notice of the delivery date of the Aircraft, and an Aircraft delivery is delayed beyond such delivery date due to the responsibility of Buyer, Buyer will reimburse Boeing for all costs incurred by Boeing as a result of such delay, including amounts for storage, insurance, Taxes, preservation or protection of the Aircraft and interest on payments due.

2.4 Place of Delivery. The Aircraft will be delivered at an airport facility selected by Boeing in the State of Washington, unless mutually agreed otherwise.

2.5 Title and Risk of Loss. Title to and risk of loss of an Aircraft will pass from Boeing to Buyer upon delivery of such Aircraft, but not prior thereto.

2.6 Bill of Sale. Upon delivery of an Aircraft Boeing will deliver to Buyer a bill of sale conveying good title to such Aircraft, free of all liens, claims, charges and encumbrances of every kind whatsoever, and such other appropriate documents of title as Buyer may reasonably request.

ARTICLE 3. Price of Aircraft.

3.1 Definitions.

3.1.1 Special Features are the features incorporated in Exhibit A which have been selected by Buyer.

3.1.2 Base Aircraft Price is the Aircraft Basic Price excluding the price of Special Features.

3.1.3 Aircraft Basic Price is comprised of the Base Aircraft Price and the price of the Special Features.

3.1.4 Economic Price Adjustment is the adjustment to the Aircraft Basic Price (Base Aircraft and Special Features) as calculated pursuant to Exhibit D.

3.1.5 Aircraft Price is the total amount Buyer is to pay for the Aircraft at the time of delivery.

3.2 Aircraft Basic Price.

The Aircraft Basic Price, expressed in July 1992 dollars, is set forth below:

<TABLE>			
<CAPTION>			
<S>	Base Aircraft Price <C>	Special Features <C>	Aircraft Basic Price <C>
Block A, B, C, D & E Aircraft	\$ ***	\$ ***	\$ ***
Block F & G Aircraft	\$ ***	\$ ***	\$ ***
Block H Aircraft	\$ ***	\$ ***	\$ ***
Block I Aircraft	\$ ***	\$ ***	\$ ***
Block J Aircraft	\$ ***	\$ ***	\$ ***
Block K Aircraft	\$ ***	\$ ***	\$ ***
Block L Aircraft	\$ ***	\$ ***	\$ ***
</TABLE>			

3.3 Aircraft Price. The Aircraft Price will be established at the time of delivery of such Aircraft to Buyer and will be the sum of:

3.3.1 the Aircraft Basic Price, which is *** for the Block A, B, C, D and E Aircraft, *** for the Block F and G Aircraft, *** for the Block H Aircraft, *** for the

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Block I Aircraft, *** for the Block J Aircraft, *** for the Block K Aircraft and *** for the Block L Aircraft; plus

3.3.2 the Economic Price Adjustments for the Aircraft Basic Price, as calculated pursuant to the formulas set forth in Exhibit D (Price Adjustments Due to Economic Fluctuations - Aircraft); plus 3.3.3 other price adjustments made pursuant to this Agreement or other written agreements executed by Boeing and Buyer.

3.4 Advance Payment Base Price.

3.4.1 Advance Payment Base Price. For advance payment purposes, the following estimated delivery prices of the Aircraft (Advance Payment Base Price) have been established, using currently available forecasts of the escalation factors used by Boeing as of the date of signing this Agreement. The Advance Payment Base Price of each Aircraft is set forth below:

<TABLE>	
<CAPTION>	
Month and Year of Scheduled Delivery	Advance Payment Base Price per Aircraft
-	-----
Block A Aircraft ***	

<S>	<C>
October 1997	
November 1997	
</TABLE>	
<TABLE>	
<CAPTION>	
Block B Aircraft ***	

<S>	<C>
January 1998	
February 1998	
March 1998	
April 1998	
May 1998	
June 1998	
July 1998	
September 1998	
</TABLE>	
<TABLE>	
<CAPTION>	
Block C Aircraft ***	

<S>	<C>
February 1999	
May 1999	
July 1999	
August 1999	
September 1999	
</TABLE>	
<TABLE>	
<CAPTION>	
Block D Aircraft ***	

<S>	<C>
November 1999	
December 1999	
January 2000	
March 2000	
July 2000	
September 2000	
</TABLE>	

<TABLE>
<CAPTION>
Block E Aircraft ***

<S> <C>
January 2001
March 2001
July 2001
September 2001
</TABLE>

<TABLE>
<CAPTION>
Block F Aircraft ***

<S> <C>
October 1998
November 1998
December 1998
</TABLE>

<TABLE>
<CAPTION>
Block G Aircraft ***

<S> <C>
March 1999
</TABLE>

<TABLE>
<CAPTION>
Block H Aircraft ***

<S> <C>
June 1999
July 1999
August 1999
September 1999
October 1999
April 2000
October 2000
April 2001
October 2001
</TABLE>

<TABLE>
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Block I Aircraft ***

<S> <C>
January 2002
March 2002
April 2002
July 2002
October 2002
</TABLE>

<TABLE>
<CAPTION>
Block J Aircraft ***

<S> <C>
January 2003
March 2003
</TABLE>

<TABLE>
<CAPTION>
Block K Aircraft ***

<S> <C>
April 2004
July 2004
</TABLE>

3.4.2 Adjustment of Advance Payment Base Prices - Long-Lead Aircraft. For Aircraft scheduled for delivery 36 months or more after the date of this Agreement, the Advance Payment Base Prices appearing in Article 3.4.1 will be used to determine the amount of the first advance payment to be made by Buyer on the Aircraft. No later than 25 months before the scheduled month of delivery of each affected Aircraft, Boeing will increase or decrease the Advance Payment Base Price of such Aircraft as required to reflect the effects of (i) any adjustments in the Aircraft Basic Price pursuant to this Agreement and (ii) the then-current forecasted escalation factors used by Boeing. Boeing will provide the adjusted Advance Payment Base Prices for each affected Aircraft to Buyer, and the advance payment schedule will be considered amended to substitute such adjusted Advance Payment Base Prices.

The Option Aircraft will be delivered to Buyer during or before the months set forth in the following schedule:

*** PURSUANT TO 17 CFR, 240.246-2, 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.

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<TABLE>
<CAPTION>

Month and Year of Delivery	Number of Option Aircraft	Option Aircraft Block
<S>	<C>	<C>
March 2003	Three (3)	M
April 2003	Two (2)	M
July 2003	Four (4)	M
October 2003	Four (4)	M
January 2004	Four (4)	N
March 2004	One (1)	N
April 2004	One (1)	N
August 2004	Two (2)	N
September 2004	Three (3)	N
October 2004	Two (2)	N

<TABLE>
<CAPTION>

Month and Year of Delivery	Number of Option Aircraft	Option Aircraft Block
<S>	<C>	<C>
January 2005	Four (4)	O
March 2005	Four (4)	O
April 2005	Two (2)	O
July 2005	Four (4)	O
October 2005	Four (4)	O
January 2006	Four (4)	P
March 2006	Four (4)	P
April 2006	Two (2)	P
July 2006	Four (4)	P
October 2006	Four (4)	P

2. Delivery of Rollover Option Aircraft.

2.1 The Rollover Option Aircraft will be delivered to Buyer during or before the years set forth in the following schedule:

<TABLE>
<CAPTION>

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

2.2 The forty-six (46) Rollover Option Aircraft are offered to Buyer subject to the following conditions:

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2.2.1 Buyer can exercise any forty-six (46) of the sixty-two (62) Option Aircraft, and will be offered a Rollover Option Aircraft for each option aircraft exercised up to and including forty-six (46).

2.2.2 Conversely to Article 2.2.1 above, if Buyer does not exercise a minimum of forty-six (46) Option Aircraft, one Rollover Option Aircraft will be deleted for each Option Aircraft not exercised by Buyer.

2.2.3 When Buyer exercises one or more Option Aircraft, Boeing will offer the same quantity of Rollover Option Aircraft to Buyer in the years identified in Article 2.1 above.

2.2.4 The Rollover Option Aircraft delivery month offered by Boeing to Buyer will be at least 24 months from the Option exercise date of the corresponding option.

2.2.5 When Boeing offers the Rollover Option Aircraft to Buyer, Buyer will accept such Rollover Option Aircraft by wire transferring \$100,000 to Boeing. In the event Buyer exercises its option to purchase the Rollover Option Aircraft, such application will be in accordance with Article 4.1 herein.

3. Price.

3.1 The advance payment base prices of the Option Aircraft set forth below and in paragraph 2.1 of Attachment A represent the estimated delivery prices of the Option Aircraft. The Option Aircraft pricing elements and associated pricing terms and conditions are given in Attachment A.

3.2 Price and escalation provisions for Model 737-7H4 aircraft delivering after 2002, are not currently available. The estimated Advance Payment Base Prices shown in paragraph 3.3 below and in paragraph 2.1 of Attachment A are based on currently available price and escalation provisions. As price and escalation provisions become available for Model 737-7H4 aircraft delivering after 2002, such price and escalation provisions will be appropriately applied to the applicable Option Aircraft.

For additional information relating to price and escalation provisions applicable to Option Aircraft delivering after 2002 refer to paragraphs 2.2 and 3.2 of Attachment A.

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3.3 The Advance Payment Base Prices of the Option Aircraft indicated below do include an amount for special features in addition to those specifically described in Attachment A but do not include any amount for items of Buyer Furnished Equipment (BFE). An estimate for typical special features is \$ *** per Aircraft (expressed in 1992 STE dollars) and for BFE is \$ *** per Aircraft (expressed in delivery year dollars).

<TABLE>

<CAPTION>

Month and Year
of Delivery

Advance Payment Base
Price per Option Aircraft

- - - - -

- - - - -

Block M Aircraft

- - - - -

<S>

<C>

March 2003

April 2003

July 2003

October 2003

</TABLE>

<TABLE>

<CAPTION>

Block N Aircraft

- - - - -

<S>

<C>

January 2004

March 2004

April 2004	***
August 2004	***
September 2004	***
October 2004	***

<TABLE>
<CAPTION>

Block O Aircraft

<S>	<C>	
January 2005		***
March 2005		***
April 2005		***
July 2005		***
October 2005		***

<TABLE>
<CAPTION>

Block P Aircraft

<S>	<C>	
January 2006		***
March 2006		***
April 2006		***
July 2006		***
October 2006		***

3.4 The Option Aircraft purchase price will be the applicable basic price thereof at the time of Option Aircraft delivery adjusted in accordance with Boeing's Aircraft escalation provisions contained in the definitive agreement to purchase the Option Aircraft. The purchase price will include the price for Seller Purchased Equipment (SPE) if Buyer has elected to change Buyer Furnished Equipment (BFE) to SPE.

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4. Option Aircraft Payment.

4.1 In consideration of the granting of the option as set forth herein, on or before the date Boeing and Buyer enter into a definitive agreement to purchase the Aircraft, Buyer will pay a deposit to Boeing of \$100,000 for each Option Aircraft (Deposit). In the event Buyer exercises its option herein, the amount of the Deposit will be credited against the first advance payment due for such Option Aircraft pursuant to the advance payment schedule set forth in paragraph 3 of Attachment A. The Deposits for the Option Aircraft will be refunded to Buyer, without interest, if the parties do not enter into a definitive Agreement for the Aircraft.

In the event that, after the parties enter into a definitive agreement to purchase the Aircraft, Buyer does not exercise its option to purchase the Option Aircraft pursuant to the terms and conditions set forth herein, Boeing will be entitled to retain the Deposits for the Option Aircraft except as provided in paragraphs 6 herein.

4.2 Advance payments in the amount of 30% of the advance payment base price will be payable on the Option Aircraft in accordance with paragraph 3 of Attachment A. The remainder of the Option Aircraft purchase price is due at the time of delivery of the Option Aircraft.

5. Option Exercise.

5.1 To exercise its Option, Buyer will give written or telegraphic notice thereof to Boeing on or before eighteen (18) months prior to the first day of the delivery month of each Option Aircraft.

In such notice Buyer will select the Option Model type, and the applicable delivery positions.

5.2 It is understood and agreed that Boeing may accelerate the option exercise dates specified above if Boeing must make production decisions which are dependent on Buyer's decision to buy the Option Aircraft. If Boeing elects to accelerate the option exercise dates, Boeing will do so by giving written or

telegraphic notice thereof to Buyer. Such notice will specify the revised option exercise dates, which will not be earlier than 30 days after the date of

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transmittal of such notice, and the Option Aircraft delivery positions affected by such revision. If Buyer fails to exercise its option for any Option Aircraft affected by such revised dates, the Deposit applicable to such Option Aircraft will be promptly refunded, with interest, to Buyer. The interest rate for calculation of the interest associated with such refund is the rate of two percent (2%) below the Citibank base rate in effect from time to time during the period the option deposit is held by Boeing.

6. Contract Terms.

It is understood that Boeing and Buyer will use their best efforts to enter into a definitive agreement for the Option Aircraft within thirty (30) days after Buyer exercises an option to purchase Option Aircraft pursuant to paragraph 5 covering the detailed terms and conditions for the sale of such Option Aircraft.

Such definitive agreement will include the terms and conditions contained herein together with the terms and conditions, not inconsistent herewith, contained in Boeing's then-current standard form of purchase agreement for the sale of Model 737-700 aircraft in effect as of the date of option exercise and such additional terms and conditions as may be mutually agreed upon. In the event the parties have not entered into such an agreement within the time period contemplated herein, either party may, exercisable by written or telegraphic notice given to the other within thirty (30) days after such period, terminate the purchase of such Option Aircraft.

7. Termination of Option to Purchase.

Either Boeing or Buyer may terminate the option to purchase an Option Aircraft if any of the following events are not accomplished by the respective dates contemplated in this letter agreement, or in the Agreement, as the case may be:

(i) termination of the purchase of the Aircraft under the Agreement for any reason;

(ii) payment by Buyer of the Deposit with respect to an Option Aircraft pursuant to paragraph 4.1 herein;

(iii) exercise of an option to purchase an Option Aircraft pursuant to the terms hereof. Any termination of an option to purchase by Boeing which is based on the termination of the purchase of

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Aircraft under the Agreement will be on a one-for-one basis, for each Aircraft so terminated.

Any cancellation of an option to purchase which is based on failure to make the required Deposit or to exercise the option to purchase shall only apply to the Option Aircraft so canceled.

Termination of an option to purchase provided by this letter agreement will be caused by either party giving written notice to the other within 10 days after the applicable date. Upon receipt of such notice, all rights and obligations of the parties with respect to an Option Aircraft for which the option to purchase has been terminate will thereupon terminate.

If termination is result of a revision of an option exercise date by Boeing pursuant to paragraph 5.2, Boeing will promptly refund to Buyer, without interest, any payments received from Buyer, including the Deposit, with respect to the Option Aircraft for which the option is terminated. If termination is for

any other reason, Boeing will promptly refund to Buyer, without interest, any payments received from Buyer with respect to the affected Option Aircraft, except the Deposit, which Buyer may apply to any model Boeing aircraft purchased by Buyer from Boeing at a future date.

8. Confidential Treatment. Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the

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information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement No. 6-1162-RLL-934R1.

Very truly yours,

THE BOEING COMPANY

By /S/ DAWN S. FOSTER

Its ATTORNEY-IN-FACT

ACCEPTED AND AGREED TO this

date: April 29, 1999

SOUTHWEST AIRLINES CO.

By /S/ LAURA WRIGHT

Its TREASURER

Attachments

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Attachment A to
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Page 1

Model 737-7H4 Aircraft

1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft is described by Boeing Detail Specification D6-38808-1, Dated October 30, 1996.

1.2 Changes. The Detail Specification will be revised to include:

(1) Changes applicable to the basic Model 737-700 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of a definitive agreement to purchase the Option Aircraft.

(2) Changes mutually agreed upon.

(3) Changes required to obtain a Standard Certificate of Airworthiness.

(4) To provide sufficient Option Aircraft manufacturing and procurement lead time it is necessary for Boeing and Buyer to reach final agreement on the Option Aircraft configuration, including BFE/SPE vendor selection fifteen (15) months prior to delivery of each Option Aircraft. If such

items are not resolved by the indicated dates, Boeing reserves the right to amend this letter agreement:

(i) to adjust the scheduled delivery of the Option Aircraft to a later time period and,

(ii) to make such other changes as are appropriate and consistent with the revised Option Aircraft deliveries.

1.3 Effect of Changes. Changes to the Detail Specification incorporated pursuant to the provisions of the clauses above will include the effects of such changes upon Option Aircraft weight, balance, design and performance. Performance guarantees for the Option Aircraft which are mutually acceptable to the parties will be included in the definitive agreement for the Option Aircraft.

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Page 2

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2. Price Description

2.1 Price Elements Per Aircraft

<TABLE>

<CAPTION>

	1	2	3	
	-	-	-	
AIRCRAFT DELIVERY MO. & YR.	AIRCRAFT & ESTIMATED SPECIAL FEATURES PRICE (JULY 1992\$)	ESTIMATED ESCALATION	ESTIMATED ESCALATION SHARING	ADV. PMT. BASE PRICE (Elements) 1 + 2 + 3
- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
<S>	<C>	<C>	<C>	<C>
BLOCK M				
- - - - -				
March 2003	\$ ***	***	***	***
April 2003	\$ ***	***	***	***
July 2003	\$ ***	***	***	***
October 2003	\$ ***	***	***	***
BLOCK N				
- - - - -				
January 2004	\$ ***	***	***	***
March 2004	\$ ***	***	***	***
April 2004	\$ ***	***	***	***
August 2004	\$ ***	***	***	***
September 2004	\$ ***	***	***	***
October 2004	\$ ***	***	***	***
BLOCK O				
- - - - -				
January 2005	\$ ***	***	***	***
March 2005	\$ ***	***	***	***
April 2005	\$ ***	***	***	***
July 2005	\$ ***	***	***	***
October 2005	\$ ***	***	***	***
BLOCK P				
- - - - -				
January 2006	\$ ***	***	***	***
March 2006	\$ ***	***	***	***
April 2006	\$ ***	***	***	***
July 2006	\$ ***	***	***	***
October 2006	\$ ***	***	***	***
</TABLE>				

Continued Next Page...

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Attachment A to
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Page 3

2. Price Description. (Continued)

2.2 Price Adjustments For Option Aircraft Delivering From March 2003 through December 2009.

2.2.1 Special Features. The price for Special Features incorporated in the Option Aircraft Detail Specification will be adjusted to Boeing's then-current prices for such features as of the date of execution of the definitive agreement for the Option Aircraft.

2.2.2 Escalation Adjustments. For escalation provisions applicable to Option Aircraft delivering after 2002, see paragraph 2.2.6 below.

2.2.3 Base Price Adjustments for FAA Changes. The Aircraft Basic Price of the Option Aircraft will be adjusted for any FAA mandated changes incorporated into the Aircraft.

2.2.4 Price Adjustments for Changes. Boeing may adjust the Aircraft Basic Price and the Advance Payment Base Price for any changes mutually agreed upon subsequent to the date that Buyer and Boeing enter into a definitive agreement for the Option Aircraft.

2.2.5 Base Price Adjustments. The Aircraft Basic Price of the Option Aircraft will be adjusted to Boeing's then-current prices as of the date of execution of the definitive agreement for the Option Aircraft in accordance with the agreement reached below. The Aircraft Basic Price starting point for options delivering in 2003 is \$ *** (July 1992 STE), for options delivering in 2004 is \$ *** (July 1992 STE), for options delivering in 2005 through 2009 is \$ *** (July 1992 STE). Such Aircraft Basic Price may increase in accordance with paragraphs 2.2.1, 2.2.2, 2.2.3 and 2.2.4. For any other changes to the Aircraft Basic Price, Boeing may increase the Aircraft Basic Price by a maximum of \$ *** (July 1992 STE) for Aircraft delivering in 2005 and by a maximum of \$ *** (July 1992 STE) per year or portion thereof starting in January 2006.

2.2.6 Prices for Long Lead Time Aircraft. Boeing has not established escalation provisions for Model 737-700 aircraft for delivery 2003 and after. Such escalation provisions (i) will be incorporated into the Option Aircraft definitive agreement when such information is available and (ii) will be the then-current escalation provisions applicable to the same model aircraft and engines delivering in the same time period as the Option Aircraft. The resulting revisions to the definitive agreement will

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Attachment A to
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Page 4

include but not be limited to, adjustment of the Aircraft Basic Price of the Option Aircraft, the Advance Payment Base Price, the Aircraft escalation provisions and the advance payment amounts due on the Option Aircraft.

2.2.7 BFE to SPE. An estimate of the total price for items of Buyer Furnished Equipment (BFE) changed to Seller Purchased Equipment (SPE) pursuant to the Configuration Specification is included in the Option Aircraft price build-up. The purchase price of the Option Aircraft will be adjusted by the price charged to Boeing for such items plus 10% of such price. If all BFE except developmental avionics is converted to SPE, Boeing will waive the 10% fee.

3. Advance Payment Schedules, Prices and Adjustments.

3.1 Buyer will pay to Boeing advance payments for the Option Aircraft on the dates and in the amounts determined below.

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Page 5

<TABLE>
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Amount Due per Aircraft (Percentage times Advance Payment Base Price)	
Due Date of Payment - -----	
<S> Deposit	<C> \$100,000 (if applicable)
18 months prior to the first day of the scheduled delivery month of the Aircraft	15% (less the Deposit if any)
12 months prior to the first day of the scheduled delivery month of the Aircraft	5%
9 months prior to the first day of the scheduled delivery month of the Aircraft	5%
6 months prior to the first day of the scheduled delivery month of the Aircraft	5%

Total	30%

</TABLE>

Any advance payments that would be past due as of the date of signing the definitive purchase agreement for the Option Aircraft in accordance with the above schedule are due and payable on such date.

3.2 Option Aircraft advance payment base prices will be increased or decreased, as appropriate, at the time of signing of the definitive purchase agreement for the Option Aircraft, using the then-current forecasted aircraft escalation factors used by Boeing, to determine the amount of the advance payments to be made by Buyer on the Option Aircraft.

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Page 1

PRICE ADJUSTMENT DUE TO
ECONOMIC FLUCTUATIONS
AIRCRAFT PRICE ADJUSTMENT
(July 1992 Base Price)

1. Formula.

The Aircraft Price Adjustment will be determined at the time of Aircraft delivery in accordance with the following formula:

$$Pa = (P) (L + M - 1)$$

Where:

Pa = Aircraft Price Adjustment.

$$L = \frac{.65 \times ECI}{116.2}$$

$$M = \frac{.35 \times \text{ICI}}{115.9}$$

P = Aircraft Basic Price (as set forth in Article 3.2 of this Agreement).

ECI = A value using the "Employment Cost Index for workers in aerospace manufacturing" (aircraft manufacturing, standard industrial classification code 3721, compensation, base month and year June 1989 = 100), as released by the Bureau of Labor Statistics, U.S. Department of Labor on a quarterly basis for the months of March, June, September and December, calculated as follows: A three-month arithmetic average value (expressed as a decimal and rounded to the nearest tenth) will be determined using the months set forth in the table below for the applicable Aircraft, with the released Employment Cost Index value described above for the month of March also being used for the months of January and February; the value for June also used for April and May; the value for September also used for July and August; and the value for December also used for October and November.

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Page 3

2. If at the time of delivery of an Aircraft Boeing is unable to determine the Aircraft Price Adjustment because the applicable values to be used to determine the ECI and ICI have not been released by the Bureau of Labor Statistics, then:

2.1 The Aircraft Price Adjustment, to be used at the time of delivery of each of the Aircraft, will be determined by utilizing the escalation provisions set forth above. The values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to scheduled Aircraft delivery will be used to determine the ECI and ICI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Aircraft Price Adjustment. If no values have been released for an applicable month, the provisions set forth in Paragraph 2.2 below will apply. If prior to delivery of an Aircraft the U.S. Department of Labor changes the base year for determination of the ECI or ICI values as defined above, such rebased values will be incorporated in the Aircraft Price Adjustment calculation. The payment by Buyer to Boeing of the amount of the Purchase Price for such Aircraft, as determined at the time of Aircraft delivery, will be deemed to be the payment for such Aircraft required at the delivery thereof.

2.2 If prior to delivery of an Aircraft the U.S. Department of Labor substantially revises the methodology used for the determination of the values to be used to determine the ECI and ICI values (in contrast to benchmark adjustments or other corrections of previously released values), or for any reason has not released values needed to determine the applicable Aircraft Price Adjustment, the parties will, prior to delivery of any such Aircraft, select a substitute for such values from data published by the Bureau of Labor Statistics or other similar data reported by non-governmental United States organizations, such substitute to lead in application to the same adjustment result, insofar as possible, as would have been achieved by continuing the use of the original values as they may have fluctuated during the applicable time period. Appropriate revision of the formula will be made as required to reflect any substitute values. However, if within 24 months from delivery of the Aircraft the Bureau of Labor Statistics should resume releasing values for the months needed to determine the Aircraft Price Adjustment, such values will be used to determine any increase or decrease in the Aircraft Price Adjustment for the Aircraft from that determined at the time of delivery of such Aircraft.

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Page 4

2.3 In the event escalation provisions are made non-enforceable or otherwise rendered null and void by any agency of the United States Government, the parties agree, to the extent they may lawfully do so, to equitably adjust the Purchase Price of any affected Aircraft to reflect an allowance for increases or decreases in labor compensation and material costs occurring since February, 1992, which is consistent with the applicable provisions of paragraph 1 of this Exhibit D.

3. For the calculations herein, the values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to scheduled Aircraft delivery will be used to determine the ECI and ICI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Aircraft Price Adjustment.

Note: Any rounding of a number, as required under this Exhibit D with respect to escalation of the airframe price, will be accomplished as follows: if the first digit of the portion to be dropped from the number to be rounded is five or greater, the preceding digit will be raised to the next higher number.

EXHIBIT 10.1

Supplemental Agreement No. 10

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 August 2, 1999, by and between THE BOEING COMPANY, a Delaware corporation with its principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with its principal offices in City of Dallas, State of 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 accelerate one Block H Aircraft from April 2000 to March 2000;

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

*** PURSUANT TO 17 CFR, 240.246-2, 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.

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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. Article 2, entitled "Delivery, Title and Risk of Loss," paragraph 2.1, entitled "Time of Delivery," is deleted in its entirety and replaced by a new paragraph 2.1 revised to add one (1) Block H Aircraft delivering in March 2000 and to change the quantity of Block H Aircraft delivering in April 2000 from three (3) to two (2). Such new pages 2-1, 2-2 and 2-3 are attached hereto and incorporated into the Agreement by this reference.

3. Article 3, entitled "Price of Aircraft", paragraph 3.4 entitled "Advance Payment Base Price," subparagraph 3.4.1 entitled "Advance Payment Base Price" is revised by adding an Advance Payment Base Price for the Block H Aircraft delivering in March 2000. Such new pages 3-1, 3-2, 3-3 and 3-4 are attached hereto and incorporated into the Agreement by this reference.

4. All references in the Letter Agreements associated with Purchase Agreement No. 1810 shall be deemed to refer to the purchase by Buyer of one hundred forty-two (142) Model 737-7H4 Aircraft, sixty-two (62) Model 737-7H4 Option Aircraft and forty-six (46) Model 737-7H4 Rollover Option Aircraft, to the extent such reference is not specifically addressed herein.

5. Within three (3) business days of execution of this Supplemental Agreement, Boeing will refund to Buyer ***. Such amount reflects the difference in advance payments due as a result of the acceleration of one (1) Block H Aircraft from April 2000 to March 2000.

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

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

THE BOEING COMPANY

SOUTHWEST AIRLINES CO.

By: /s/ DAWN S. FOSTER

By: /s/ LAURA WRIGHT

Its: ATTORNEY-IN-FACT

ITS: TREASURER

P.A. No. 1810
K/SWA

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PURCHASE AGREEMENT

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 Aircraft

Purchase Agreement Number 1810

*** PURSUANT TO 17 CFR, 240.246-2, 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.

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P.A. No. 1810 15-2
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<S>	<C>	
EXHIBITS		
- - - - -		
A	Aircraft Configuration	SA-1
B	Product Assurance Document	SA-1
C	Customer Support Document	
D	Price Adjustments Due to Economic Fluctuations - Aircraft	
E	Buyer Furnished Equipment Provisions Document	
F	Defined Terms Document	

1810-1	Waiver of Aircraft Demonstration Flight
--------	---

15-3

<TABLE>
<CAPTION>

15-4

<TABLE>
<CAPTION>

		SA
		Number

<S>	<C>	<C>

Relating to

Accordingly, Boeing and Buyer agree as follows:

2.1 Time of Delivery. The Aircraft will be delivered to Buyer by Boeing, assembled and ready for flight and Buyer will accept delivery of the Aircraft, in accordance with the following schedule:

<S>

October 1997	Two (2)
November 1997	Two (2)

Block B Aircraft

January 1998	Two (2)
February 1998	Three (3)
March 1998	Two (2)
April 1998	Two (2)
May 1998	Two (2)
June 1998	One (1)
July 1998	Two (2)
September 1998	Two (2)

Block C Aircraft

February 1999	Four (4)
May 1999	Four (4)
July 1999	Four (4)
August 1999	One (1)
September 1999	Three (3)

Block D Aircraft

November 1999	Two (2)
December 1999	One (1)
January 2000	One (1)
March 2000	Four (4)
July 2000	Four (4)
September 2000	Three (3)

Block E Aircraft

January 2001	Three (3)
March 2001	Three (3)
July 2001	Three (3)
September 2001	Three (3)

</TABLE>

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<TABLE>
<S>

<C>
Block F Aircraft

<C>

October 1998	One (1)
November 1998	Two (2)
December 1998	Two (2)

Block G Aircraft

March 1999	Two (2)
------------	---------

Block H Aircraft

June 1999	Two (2)
July 1999	One (1)
August 1999	One (1)
September 1999	Two (2)
October 1999	One (1)
March 2000	One (1)
April 2000	Two (2)
October 2000	Three (3)
April 2001	Three (3)
October 2001	Three (3)

Block I Aircraft

January 2002	Four (4)
March 2002	Four (4)
April 2002	Two (2)
July 2002	Four (4)
October 2002	Four (4)

Block J Aircraft

January 2003	Four (4)
March 2003	One (1)

Block K Aircraft

April 2004	Two (2)
July 2004	Three (3)

</TABLE>

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<TABLE>
<S>

<C>
Block L Aircraft

<C>

October 1999	One (1)
November 1999	Two (2)
December 1999	One (1)
June 2000	Three (3)
July 2000	One (1)
August 2000	Two (2)
September 2000	One (1)
October 2000	One (1)
November 2000	Three (3)
December 2000	Two (2)
January 2001	One (1)
February 2001	One (1)
July 2001	One (1)
September 2001	One (1)
October 2001	One (1)
September 2002	Three (3)

</TABLE>

2.2 Notice of Target Delivery Date. Boeing will give Buyer notice of the Target Delivery Date of the Aircraft approximately 30 days prior to the scheduled month of delivery.

2.3 Notice of Delivery Date. If Boeing gives Buyer at least 7 days' notice of the delivery date of the Aircraft, and an Aircraft delivery is delayed beyond such delivery date due to the responsibility of Buyer, Buyer will reimburse Boeing for all costs incurred by Boeing as a result of such delay, including amounts for storage, insurance, Taxes, preservation or protection of the Aircraft and interest on payments due.

2.4 Place of Delivery. The Aircraft will be delivered at an airport facility selected by Boeing in the State of Washington, unless mutually agreed otherwise.

2.5 Title and Risk of Loss. Title to and risk of loss of an Aircraft will pass from Boeing to Buyer upon delivery of such Aircraft, but not prior thereto.

2.6 Bill of Sale. Upon delivery of an Aircraft Boeing will deliver to Buyer a bill of sale conveying good title to such Aircraft, free of all liens, claims, charges and encumbrances of every kind whatsoever, and such other appropriate documents of title as Buyer may reasonably request.

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ARTICLE 3. Price of Aircraft.

3.1 Definitions.

3.1.1 Special Features are the features incorporated in Exhibit A which have been selected by Buyer.

3.1.2 Base Aircraft Price is the Aircraft Basic Price excluding the price of Special Features.

3.1.3 Aircraft Basic Price is comprised of the Base Aircraft Price and the price of the Special Features.

3.1.4 Economic Price Adjustment is the adjustment to the Aircraft Basic Price (Base Aircraft and Special Features) as calculated pursuant to Exhibit D.

3.1.5 Aircraft Price is the total amount Buyer is to pay for the Aircraft at the time of delivery.

3.2 Aircraft Basic Price.

The Aircraft Basic Price, expressed in July 1992 dollars, is set forth below:

<TABLE>

<CAPTION>

	Base Aircraft Price -----	Special Features -----	Aircraft Basic Price -----
<S>	<C>	<C>	<C>
Block A, B, C, D & E Aircraft	\$***	\$***	\$***

Block F & G Aircraft	\$***	\$***	\$***
Block H Aircraft	\$***	\$***	\$***
Block I Aircraft	\$***	\$***	\$***
Block J Aircraft	\$***	\$***	\$***
Block K Aircraft	\$***	\$***	\$***
Block L Aircraft	\$***	\$***	\$***

</TABLE>

3.3 Aircraft Price. The Aircraft Price will be established at the time of delivery of such Aircraft to Buyer and will be the sum of:

3.3.1 the Aircraft Basic Price, which is (\$*** for the Block A, B, C, D and E Aircraft, (\$*** for the Block F and G Aircraft, (\$*** for the Block H Aircraft, (\$*** for the Block I Aircraft, (\$*** for the Block J

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Aircraft, (\$*** for the Block K Aircraft and (\$*** for the Block L Aircraft; plus

3.3.2 the Economic Price Adjustments for the Aircraft Basic Price, as calculated pursuant to the formulas set forth in Exhibit D (Price Adjustments Due to Economic Fluctuations - Aircraft); plus

3.3.3 other price adjustments made pursuant to this Agreement or other written agreements executed by Boeing and Buyer.

3.4 Advance Payment Base Price.

3.4.1 Advance Payment Base Price. For advance payment purposes, the following estimated delivery prices of the Aircraft (Advance Payment Base Price) have been established, using currently available forecasts of the escalation factors used by Boeing as of the date of signing this Agreement. The Advance Payment Base Price of each Aircraft is set forth below:

<TABLE> <CAPTION>			
Month and Year of Scheduled Delivery -----		Advance Payment Base Price per Aircraft -----	
<S>		<C>	
		Block A Aircraft -----	
October 1997		\$***	
November 1997		\$***	
		Block B Aircraft -----	
January 1998		\$***	
February 1998		\$***	
March 1998		\$***	
April 1998		\$***	
May 1998		\$***	
June 1998		\$***	
July 1998		\$***	
September 1998		\$***	

</TABLE>

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<TABLE> <S>		<C>	
		Block C Aircraft -----	
February 1999		\$***	
May 1999		\$***	
July 1999		\$***	

August 1999
September 1999

\$***
\$***

Block D Aircraft

November 1999
December 1999
January 2000
March 2000
July 2000
September 2000

\$***
\$***
\$***
\$***
\$***
\$***

Block E Aircraft

January 2001
March 2001
July 2001
September 2001

\$***
\$***
\$***
\$***

Block F Aircraft

October 1998
November 1998
December 1998

\$***
\$***
\$***

Block G Aircraft

March 1999

\$***

Block H Aircraft

June 1999
July 1999
August 1999
September 1999
October 1999
March 2000
April 2000
October 2000
April 2001
October 2001

\$***
\$***
\$***
\$***
\$***
\$***
\$***
\$***
\$***
\$***

</TABLE>

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<TABLE>
<S>

<C>
Block I Aircraft

<C>

January 2002
March 2002
April 2002
July 2002
October 2002

\$***
\$***
\$***
\$***
\$***

Block J Aircraft

January 2003
March 2003

\$***
\$***

Block K Aircraft

April 2004
July 2004

\$***
\$***

Block L Aircraft

October 1999
November 1999
December 1999

\$***
\$***
\$***

June 2000	\$***
July 2000	\$***
August 2000	\$***
September 2000	\$***
October 2000	\$***
November 2000	\$***
December 2000	\$***
January 2001	\$***
February 2001	\$***
July 2001	\$***
September 2001	\$***
October 2001	\$***
September 2002	\$***

</TABLE>

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3.4.2 Adjustment of Advance Payment Base Prices - Long-Lead Aircraft. For Aircraft scheduled for delivery 36 months or more after the date of this Agreement, the Advance Payment Base Prices appearing in Article 3.4.1 will be used to determine the amount of the first advance payment to be made by Buyer on the Aircraft. No later than 25 months before the scheduled month of delivery of each affected Aircraft, Boeing will increase or decrease the Advance Payment Base Price of such Aircraft as required to reflect the effects of (i) any adjustments in the Aircraft Basic Price pursuant to this Agreement and (ii) the then-current forecasted escalation factors used by Boeing. Boeing will provide the adjusted Advance Payment Base Prices for each affected Aircraft to Buyer, and the advance payment schedule will be considered amended to substitute such adjusted Advance Payment Base Prices.

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CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Forms S-8 Nos. 333-20275, 33-48178, 33-57327, 33-40652, 33-40653, 333-64431, 333-67627, 333-67631, 333-82735, and 333-89303, and Forms S-3 Nos. 333-29257 and 33-59113) of Southwest Airlines Co. and in the related Prospectuses of our report dated January 18, 2000, with respect to the consolidated financial statements of Southwest Airlines Co. included in this Annual Report (Form 10-K) for the year ended December 31, 1999.

ERNST & YOUNG LLP

/s/ Ernst & Young LLP

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Dallas, Texas
March 24, 2000

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