

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, 2000 or

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

For the transition period from _____ to _____

Commission File No. 1-7259

SOUTHWEST AIRLINES CO.

(Exact name of registrant as specified in its charter)

TEXAS

74-1563240

(State or other jurisdiction of
incorporation or organization)

(I.R.S. employer
identification no.)

P.O. BOX 36611

DALLAS, TEXAS

75235-1611

(Address of principal executive offices)

(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 ☐

Aggregate market value of Common Stock held by nonaffiliates as of
January 12, 2001:

\$15,330,276,800

Number of shares of Common Stock outstanding as of the close of business on
January 12, 2001:

505,028,269 shares

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for Annual Meeting of
Shareholders, May 16, 2001:

PART III

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. ☐

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 2000, Southwest operated 344 Boeing 737 aircraft and provided service to 58 airports in 57 cities in 29 states throughout the United States. Southwest commenced service to Albany, New York and Buffalo, New York in May and October 2000, respectively, and to West Palm Beach, Florida in January 2001. Southwest will discontinue service to San Francisco International Airport in March 2001, relocating the 14 flights per day from that airport to Oakland and San Jose, California.

Based on data for second quarter 2000 (the latest available data), Southwest Airlines is the 4th largest carrier in the United States based on domestic passengers boarded and the largest based on scheduled domestic 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 over the past five years was as follows:

<TABLE>
<CAPTION>

YEAR	COST (Millions)	AVERAGE PRICE PER GALLON	PERCENT OF OPERATING EXPENSES
----	-----	-----	-----
<S>	<C>	<C>	<C>
1996	\$484.7	\$.65	15.9%
1997	\$495.0	\$.62	15.0%
1998	\$388.3	\$.46	11.2%
1999	\$492.4	\$.53	12.5%
2000	\$804.4	\$.79	17.4%

</TABLE>

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of Southwest's fuel hedging activities.

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." The Wright Amendment does not restrict flights operated with aircraft having 56 or fewer passenger seats. 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

2

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 the Company's 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 2000 was 492 miles with an average duration of approximately 1.5 hours. At yearend, Southwest served approximately 306 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 77 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 approximately 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.

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 2000, approximately 80% of Southwest's

3

Customers chose the Ticketless travel option. In December 2000 approximately 39% of Southwest's passenger revenues came through its Internet site, which has become a vital part of the Company's distribution strategy.

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. During 2000, two of our competitors, UAL Corporation and USAirways, Inc., entered into a merger agreement and in January 2001, AMR Corp. announced a plan to purchase the assets of Trans World Airlines, along with certain assets of USAirways, Inc. If those acquisitions are concluded, competition in the airline industry could be significantly altered. 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 segment credit for each one-way trip flown or two credits for each round trip flown. Rapid Rewards Customers can also receive flight segment 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 segment 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.

Trips flown are valid for flight segment 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 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.

4

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

Customers redeemed approximately 1,571,000, 1,248,000 and 927,000 Award Tickets and flights on Companion Passes during 2000, 1999 and 1998 respectively. The amount of free travel award usage as a percentage of total Southwest revenue passengers carried was 4.9 percent in 2000, 4.3 percent in 1999 and 3.5 percent in 1998. The number of Award Tickets outstanding at December 31, 2000 and 1999 was approximately 985,000 and 846,000, 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 75 percent or more 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, 2000 and 1999 was approximately 41,000 and 32,000, 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 flight segment credits sold to business partners). This method recognizes an average incremental cost to provide roundtrip transportation to one additional passenger. The estimated incremental cost includes direct passenger costs such as fuel, food and other operational costs, but does not include any contribution to overhead or profit. 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 flight segment credits sold to business partners prior to January 1, 2000 revenue was recognized when the credits were sold. Beginning January 1, 2000, revenue from the sale of flight segment credits and associated with future travel is deferred and recognized when the ultimate free travel award is flown or the credits expire unused. Accordingly, Southwest does not accrue incremental cost for the expected redemption of free travel awards for credits sold to business partners. The liability for free travel awards earned but not used at December 31, 2000 and 1999 was not material.

EMPLOYEES

At December 31, 2000, Southwest had 29,274 active employees, consisting of 9,610 flight, 1,414 maintenance, 14,560 ground customer and fleet service and 3,690 management, accounting, marketing, and clerical personnel.

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:

5

<TABLE>

<CAPTION>

EMPLOYEE GROUP -----	REPRESENTED BY -----	AGREEMENT AMENDABLE ON -----
<S> Customer Service and Reservations	<C> International Association of Machinists and Aerospace Workers, AFL-CIO	<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	September 2004
Flight Dispatchers	Southwest Airlines Employee Association	November 2009

Aircraft Appearance Technicians	International Brotherhood of Teamsters ("Teamsters")	February 2009
Stock Clerks	Teamsters	August 2008
Mechanics	Teamsters	August 2001
Flight Simulator Technicians	Teamsters	November 2008
Flight/Ground School Instructors and Flight Crew Training Instructors	Southwest Airlines Professional Instructors Association	December 2010

ITEM 2. PROPERTIES

AIRCRAFT

Southwest operated a total of 344 Boeing 737 aircraft as of December 31, 2000, of which 94 and seven were under operating and capital leases, respectively. The remaining 243 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, 2000, Southwest had 92 Boeing 737-700 aircraft in service.

In total, at December 31, 2000, the Company had firm orders and options to purchase Boeing 737 Aircraft as follows:

FIRM ORDERS AND OPTIONS TO PURCHASE BOEING 737-700 AIRCRAFT

<TABLE> <CAPTION>				
	DELIVERY YEAR -----	FIRM ORDERS -----	OPTIONS -----	ROLLING OPTIONS -----
<S>	<C>	<C>	<C>	<C>
	2001	25		
	2002	27		
	2003	13	13	
	2004	29	13	
	2005	5	18	
	2006	22	18	
	2007	25		20
	2008-2012		25	197
	TOTALS	146	87	217

</TABLE>

The Company currently intends to retire its fleet of 33 Boeing 737-200 aircraft over the next five years.

The average age of the Company's fleet at December 31, 2000 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, 2000, 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 defer deductions claimed by the Company on its federal income tax returns for the taxable years 1989 through 1991 for the costs of certain aircraft inspection and maintenance procedures. In defense of the 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 notice of deficiency received by the Company stemmed from an industry-wide challenge by the IRS of the long standing practice of currently expensing aircraft inspection and maintenance costs, and similar adjustments have been proposed by the IRS to the tax returns of numerous other members of the airline industry. In response to this challenge, the Air Transport Association of America, the airline industry's trade association, since late 1996 has been in discussions with the Treasury Department and the national office of the IRS regarding the issuance of unpublished guidance confirming the industry's practice of expensing the subject inspection and maintenance costs. On December 21, 2000, the national office of the IRS published a revenue ruling in which it concluded that aircraft inspection and maintenance substantially the same as that in issue in the Company's Tax Court suit is currently deductible as an ordinary and necessary business expense. Counsel for the company and the IRS soon will engage in discussions in an attempt to resolve the controversy in conformity with the IRS' revenue ruling and without the necessity of further litigation. 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.

7

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Southwest, their positions, and their respective ages (as of January 1, 2001) are as follows:

<TABLE>

<CAPTION>

NAME ----	POSITION -----	AGE ---
<S>	<C>	<C>
Herbert D. Kelleher	Chairman of the Board, President, and Chief Executive Officer	69
Colleen C. Barrett	Executive Vice President-Customers and Corporate Secretary	56
John G. Denison	Executive Vice President- Corporate Services	56
James C. Wimberly	Executive Vice President, Chief Operations Officer	48
Gary C. Kelly	Vice President-Finance, Chief Financial Officer	45
Ross Holman	Vice President - Systems	49
James F. Parker	Vice President-General Counsel	54
Ron Ricks	Vice President-Governmental Affairs	51
Dave Ridley	Vice President-Ground Operations	48
Joyce C. Rogge	Vice President - Marketing	43
Elizabeth P. Sartain	Vice President - People	46

</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. Each of the above individuals has worked for Southwest Airlines Co. for more than the past five years, except Ross Holman, who joined the Company in March 1998. Prior to that time, Mr. Holman was Chief Information Officer of PageNet since 1996.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities and Exchange Act of 1934 requires the Company's officers and directors to file reports of ownership and changes in ownership in Company Common Stock with the Securities and Exchange Commission and the New York Stock Exchange. During 2000, one report involving the sale of 2,500 shares of Southwest Common Stock was filed four days late by Joyce Rogge.

8

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 July 1999 three-for-two stock split, 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
2000			
1st Quarter	\$.00550	\$20.88	\$15.00
2nd Quarter	0.00550	22.75	18.56
3rd Quarter	0.00550	25.00	19.13
4th Quarter	0.00550	34.99	23.63
</TABLE>			

As of December 29, 2000, there were 10,223 holders of record of the Company's common stock.

RECENT SALES OF UNREGISTERED SECURITIES

During 2000, Herbert D. Kelleher, President and Chief Executive Officer, exercised unregistered options to purchase Southwest Common Stock as follows:

<TABLE> <CAPTION>		
NUMBER OF SHARES PURCHASED	EXERCISE PRICE	DATE OF EXERCISE
- - - - -	- - - - -	- - - - -
<S>	<C>	<C>
854,295	\$1.00	January 27, 2000
</TABLE>		

The issuances 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. Kelleher contain a legend to the effect that such shares are not registered under the Act and may not

9

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, 2000 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. The Company has declared a 3-for-2 stock split payable February 15, 2001. Share and per share information in this Report has not been adjusted for the effect of this 2001 stock split.

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
<S>	<C>	<C>	<C>
FINANCIAL DATA:			
(in thousands except per share amounts)			
Operating revenues	\$ 5,649,560	\$ 4,735,587	\$ 4,163,980
Operating expenses	4,628,415	3,954,011	3,480,369
Operating income	1,021,145	781,576	683,611
Other expenses(income), net	3,781	7,965	(21,501)
Income before income taxes	1,017,364	773,611	705,112
Provision for income taxes	392,140	299,233	271,681
Net income	\$ 625,224 (3)	\$ 474,378	\$ 433,431
Net income per share, basic	\$ 1.25 (3)	\$.94	\$.87
Net income per share, diluted	\$ 1.18 (3)	\$.89	\$.82
Cash dividends per common share	\$.022	\$.0215	\$.0189
Total assets at period-end	\$ 6,669,572	\$ 5,653,703	\$ 4,715,996
Long-term obligations at period-end	\$ 760,992	\$ 871,717	\$ 623,309
Stockholders' equity at period-end	\$ 3,451,320	\$ 2,835,788	\$ 2,397,918
OPERATING DATA:			
Revenue passengers carried	63,678,261	57,500,213	52,586,400
Revenue passenger miles (RPMs) (000s)	42,215,162	36,479,322	31,419,110
Available seat miles (ASMs) (000s)	59,909,965	52,855,467	47,543,515
Load factor (1)	70.5%	69.0%	66.1%
Average length of passenger haul (miles)	663	634	597
Trips flown	903,754	846,823	806,822
Average passenger fare	\$ 85.87	\$ 79.35	\$ 76.26
Passenger revenue yield per RPM	12.95(cent)	12.51(cent)	12.76(cent)
Operating revenue yield per ASM	9.43(cent)	8.96(cent)	8.76(cent)
Operating expenses per ASM	7.73(cent)	7.48(cent)	7.32(cent)
Fuel cost per gallon (average)	78.69(cent)	52.71(cent)	45.67(cent)
Number of Employees at year-end	29,274	27,653	25,844
Size of fleet at year-end (2)	344	312	280

<CAPTION>

	YEARS ENDED DECEMBER 31,	
	1997	1996
<S>	<C>	<C>
FINANCIAL DATA:		
(in thousands except per share amounts)		
Operating revenues	\$ 3,816,821	\$ 3,406,170
Operating expenses	3,292,585	3,055,335
Operating income	524,236	350,835
Other expenses(income), net	7,280	9,473
Income before income taxes	516,956	341,362
Provision for income taxes	199,184	134,025
Net income	\$ 317,772	\$ 207,337
Net income per share, basic	\$.64	\$.42
Net income per share, diluted	\$.62	\$.41
Cash dividends per common share	\$.0147	\$.0130
Total assets at period-end	\$ 4,246,160	\$ 3,723,479
Long-term obligations at period-end	\$ 628,106	\$ 650,226
Stockholders' equity at period-end	\$ 2,009,018	\$ 1,648,312
OPERATING DATA:		
Revenue passengers carried	50,399,960	49,621,504
Revenue passenger miles (RPMs) (000s)	28,355,169	27,083,483
Available seat miles (ASMs) (000s)	44,487,496	40,727,495
Load factor (1)	63.7%	66.5%
Average length of passenger haul (miles)	563	546
Trips flown	786,288	748,634
Average passenger fare	\$ 72.81	\$ 66.20
Passenger revenue yield per RPM	12.94(cent)	12.13(cent)
Operating revenue yield per ASM	8.58(cent)	8.36(cent)
Operating expenses per ASM	7.40(cent)	7.50(cent)

Fuel cost per gallon (average)	62.46 (cent)	65.47 (cent)
Number of Employees at year-end	23,974	22,944
Size of fleet at year-end (2)	261	243

</TABLE>

- -----
- (1) Revenue passenger miles divided by available seat miles.
- (2) Includes leased aircraft.
- (3) Excludes cumulative effect of accounting change of \$22.1 million (\$.04 per share).

10

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

YEAR IN REVIEW

Southwest posted a profit for the 28th consecutive year and a record annual profit for the ninth consecutive year. This excellent financial performance was achieved despite the highest jet fuel prices since 1990. Operating revenues and operating income were the highest in the Company's history. Southwest's margin performance was the best in 20 years with an operating margin of 18.1 percent and net profit margin (before the cumulative effect of a change in accounting principle) of 11.1 percent. The Company's revenue growth and continued strong demand for our product were evident through our achievement of a record 2000 load factor (revenue passenger miles divided by available seat miles) of 70.5 percent and record load factors in three of the four calendar quarters of 2000.

At the end of 2000, Southwest served 57 cities in 29 states. We continued our East Coast expansion in 2000, adding service to Albany, New York, in May 2000, and Buffalo, New York, in October 2000 and have been very pleased with the results in each of these new Southwest cities. The Company recently announced plans to commence service to West Palm Beach, Florida in January 2001 and will begin service to at least one other new city in 2001. In addition, we plan to continue to add flights and additional frequencies between cities we already serve.

Capacity is expected to grow approximately 11 percent in 2001 with the net addition of 21 aircraft. The Company will acquire 25 new Boeing 737-700s scheduled for delivery during the year and plans to retire four of the Company's older 737-200s.

RESULTS OF OPERATIONS

2000 COMPARED WITH 1999 The Company's consolidated income for 2000 before the cumulative effect of a change in accounting principle was \$625.2 million (\$1.18 per share, diluted), an increase of 31.8 percent. The cumulative change in accounting principle, related to the adoption of SEC Staff Accounting Bulletin No. 101, was \$22.1 million, net of taxes of \$14.0 million (see Note 2 to the Consolidated Financial Statements). Net income, after the cumulative change in accounting principle, was \$603.1 million. Diluted net income per share, after consideration of the accounting change, was \$1.14 compared to \$.89 in 1999. Operating income was \$1,021.1 million, an increase of 30.7 percent compared to 1999.

OPERATING REVENUES Consolidated operating revenues increased 19.3 percent primarily due to a 19.8 percent increase in passenger revenues. The increase in passenger revenues primarily resulted from the Company's increased capacity, strong demand for commercial air travel, and excellent marketing and revenue management. The Company experienced a 10.7 percent increase in revenue passengers carried, a 15.7 percent increase in revenue passenger miles (RPMs), and a 3.6 percent increase in passenger revenue yield per RPM (passenger yield). The increase in passenger yield was primarily due to an 8.2 percent increase in average passenger fare, partially offset by a 4.6

11

percent increase in average length of passenger haul. The increase in average passenger fare was primarily due to modest fare increases taken combined with a higher mix of full-fare passengers.

The increase in RPMs exceeded a 13.3 percent increase in available seat miles (ASMs) resulting in a load factor of 70.5 percent, or 1.5 points above the prior year. The increase in ASMs resulted primarily from the net addition of 32 aircraft during the year. Thus far, load factors in January 2001 have exceeded those experienced in January 2000. Bookings for February and March are also good

and we presently anticipate positive year-over-year unit revenue (operating revenues divided by ASMs) comparisons again in first quarter 2001, although we do not expect to match the fourth quarter 2000 year-over-year unit revenue growth rate of 7.8 percent. (The immediately preceding two sentences are forward-looking statements, which involve uncertainties that could result in actual results differing materially from expected results. Some significant factors include, but may not be limited to, competitive pressure such as fare sales and capacity changes by other carriers, general economic conditions, operational disruptions as a result of bad weather, industry consolidation, air traffic control related difficulties, the impact of labor issues, and variations in advance booking trends.)

Freight revenues increased 7.5 percent primarily due to an increase in capacity. Other revenues, which consist primarily of charter revenues, increased 1.2 percent. This increase was less than the Company's increase in capacity primarily due to the Company's decision to utilize more of its aircraft to satisfy the strong demand for scheduled service and, therefore, make fewer aircraft available for charters.

OPERATING EXPENSES Consolidated operating expenses for 2000 increased 17.1 percent, compared to the 13.3 percent increase in capacity. Operating expenses per ASM increased 3.3 percent to \$.0773, compared to \$.0748 in 1999, primarily due to an increase in average jet fuel prices. The average fuel cost per gallon in 2000 was \$.7869, which was the highest annual average fuel cost per gallon experienced by the Company since 1984. Excluding fuel expense, operating expenses per ASM decreased 2.6 percent.

Operating expenses per ASM for 2000 and 1999 were as follows:

12

<TABLE>
<CAPTION>

	2000	1999	Increase (Decrease)	Percent Change
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits	2.41(cent)	2.39(cent)	.02(cent)	.8 %
Employee retirement plans	.40	.36	.04	11.1
Fuel and oil	1.34	.93	.41	44.1
Maintenance materials and repairs	.63	.70	(.07)	(10.0)
Agency commissions	.27	.30	(.03)	(10.0)
Aircraft rentals	.33	.38	(.05)	(13.2)
Landing fees and other rentals	.44	.46	(.02)	(4.3)
Depreciation	.47	.47	--	--
Other	1.44	1.49	(.05)	(3.4)
	----	----	----	----
Total	7.73(cent)	7.48(cent)	.25(cent)	3.3 %
	====	====	===	====

</TABLE>

Salaries, wages, and benefits per ASM increased slightly, as increases in productivity in several of the Company's operational areas were more than offset by higher benefits costs, primarily workers' compensation expense, and increases in average wage rates within certain workgroups.

The Company's Ramp, Operations, and Provisioning Agents are subject to an agreement with the Transport Workers Union of America, (TWU), which became amendable in December 1999. Southwest is currently in negotiations with TWU for a new contract. The Company's Mechanics are subject to an agreement with the International Brotherhood of Teamsters (the Teamsters), which becomes amendable in August 2001.

Retirement plans expense per ASM increased 11.1 percent, primarily due to the increase in Company earnings available for profitsharing.

Fuel and oil expense per ASM increased 44.1 percent, primarily due to a 49.3 percent increase in the average jet fuel cost per gallon. The average price per gallon of jet fuel in 2000 was \$.7869 compared to \$.5271 in 1999, including the effects of hedging activities. The Company's 2000 and 1999 average jet fuel prices are net of approximately \$113.5 million and \$14.8 million in gains from hedging activities, respectively. As detailed in Note 7 to the Consolidated Financial Statements, the Company has hedges in place for the majority of its anticipated fuel consumption in 2001 at prices below market prices as of December 31, 2000. Including estimated hedging gains and considering current market prices and the anticipated impact of the adoption of Statement of Financial Accounting Standards No. 133 (SFAS 133) (see Recent Accounting Developments in Note 1 to the Consolidated Financial Statements), we are forecasting our first quarter 2001 average fuel price per gallon to be no higher than first quarter 2000's average price per gallon of \$.82. (The immediately preceding sentence is a forward-looking statement which involves 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 the effectiveness of the Company's hedges.)

13

Maintenance materials and repairs per ASM decreased 10.0 percent primarily because of a decrease in engine maintenance expense for the Company's 737-200 aircraft fleet as 1999 was an unusually high period for engine maintenance on these aircraft. The -200 engine repairs are expensed on a time and materials basis. These engine repairs represented approximately 75 percent of the total decrease, while a decrease in airframe inspections and repairs per ASM represented the majority of the remaining total decrease. The decrease in airframe inspections and repairs was primarily due to a greater amount of this work being performed internally versus 1999, when a large portion of this type of work was outsourced. Therefore, in 2000, a larger portion of the cost of these repairs is reflected in salaries and wages. Currently, we do not expect a significant increase in unit cost for maintenance materials and repairs in first quarter 2001 versus first quarter 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, any unscheduled required aircraft airframe or engine repairs and regulatory requirements.)

Agency commissions per ASM decreased 10.0 percent, primarily due to a decrease in commissionable revenue. Approximately 31 percent of the Company's 2000 revenues were attributable to direct bookings through the Company's Internet site compared to approximately 19 percent in the prior year. The increase in Internet revenues contributed to the Company's percentage of commissionable revenues decreasing from 34.6 percent in 1999 to 29.1 percent in 2000. The Company recently announced a change in its commission rate policy. Beginning January 1, 2001, the Company will decrease the commission it pays to travel agents from ten percent to eight percent for ticketless bookings, and from ten percent to five percent for paper ticket bookings. The Company will continue to pay no commission on internet agency bookings. Based on the policy change, the Company expects agency commissions to decrease on a per-ASM basis in 2001. (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 consumer ticket purchasing habits.)

Aircraft rentals decreased 13.2 percent primarily due to a lower percentage of the aircraft fleet being leased. Approximately 27.3 percent of the Company's aircraft were under operating lease at December 31, 2000, compared to 30.8 percent at December 31, 1999. Based on the Company's current new aircraft delivery schedule and scheduled aircraft retirements for 2001, we expect a decline in aircraft rental expense per ASM in 2001. (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 the Company's current schedule for purchase and/or retirement of aircraft.)

Landing fees and other rentals per ASM decreased 4.3 percent primarily as a result of a decrease in landing fees per ASM of 6.7 percent, partially offset by a slight increase in other rentals. Although landing fees declined on a per-ASM basis, they were basically flat on a per-trip basis. The growth in ASMs exceeded the trip growth primarily due to a 5.8 percent increase in stage length (the average distance per aircraft trip flown).

14

Other operating expenses per ASM decreased 3.4 percent primarily due to Company-wide cost reduction efforts. The Company also reduced its advertising expense 9.5% per ASM, taking advantage of our national presence, increasing brand awareness, and strong Customer demand.

OTHER "Other expenses (income)" included interest expense, capitalized interest, interest income, and other gains and losses. Interest expense increased 29.1 percent due primarily to the Company's issuance of \$256 million of long-term debt in fourth quarter 1999. Capitalized interest decreased 11.9 percent primarily as a result of lower 2000 progress payment balances for scheduled future aircraft deliveries compared to 1999. Interest income increased 59.0 percent primarily due to higher invested cash balances and higher rates of return. Other losses in 1999 resulted primarily from a write-down associated with the consolidation of certain software development projects.

INCOME TAXES The provision for income taxes, as a percentage of income before taxes, decreased slightly to 38.54 percent in 2000 from 38.68 percent in 1999.

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. Operating income increased 14.3 percent to \$781.6 million.

OPERATING REVENUES Consolidated operating revenues increased 13.7 percent primarily due to a 13.8 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 RPMs. The passenger yield decreased 2.0 percent to \$.1251 primarily due to an increase in average length of passenger haul of 6.2 percent partially offset by a 4.1 percent increase in average passenger fare.

The 16.1 percent increase in RPMs exceeded the 11.2 percent increase in 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.

Freight revenues increased 4.6 percent compared to 1998 primarily due to added capacity and modest rate increases. Other revenues increased 26.2 percent primarily due to an increase in charter revenue.

OPERATING EXPENSES Consolidated operating expenses increased 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 .8 percent.

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.

15

Retirement plans expense per ASM increased slightly due to higher earnings available for profitsharing.

Fuel and oil expenses per ASM increased 13.4 percent primarily due to a 15.4 percent increase 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.

Maintenance materials and repairs expense 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 were 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.

Agency commissions per ASM decreased 9.1 percent primarily due to a decrease in the percentage of commissionable revenues to 34.8 percent of total revenues in 1999 compared to 39.8 percent in 1998. The decrease in percentage of commissionable revenues was primarily due to the growth in tickets purchased via the Company's website from approximately 8 percent in 1998 to approximately 19 percent in 1999.

Aircraft rentals per ASM decreased 11.6 percent 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.

Other operating expenses per ASM increased .7 percent 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 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 as a result of higher progress payment balances for scheduled future aircraft deliveries. Interest income 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.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$1.3 billion in 2000 compared to \$1.0 billion in 1999. The increase in operating cash flows was primarily due to the increase in operating income. Cash generated in 2000 was primarily used to finance aircraft-related capital expenditures, provide working capital, and repurchase approximately 6.7 million shares of Company stock.

During 2000, net capital expenditures were \$1.1 billion, which primarily related to the purchase of 33 new and one used 737-700 aircraft, and progress payments for future aircraft deliveries.

At December 31, 2000, capital commitments of the Company primarily consisted of scheduled aircraft acquisitions and related flight equipment. As of December 31, 2000, Southwest had 146 new 737-700s on firm order through 2007, including 25 to be delivered in 2001. The Company also has options to purchase another 87 737-700s during 2003-2008 and purchase rights for an additional 217 737-700s during 2007-2012. Aggregate funding required for firm commitments approximated \$4.0 billion through the year 2007, of which \$668.3 million relates to 2001. 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 are 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, 2000, in aggregate, 12.2 million shares had been repurchased at a total cost of \$199.2 million, of which \$108.7 million was completed in 2000.

The Company has various options available to meet its capital and operating commitments, including cash on hand at December 31, 2000, of \$523 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, 2000). In addition, the Company will also consider various borrowing or leasing options to maximize earnings and supplement cash requirements.

The Company currently has outstanding shelf registrations for the issuance of \$318.8 million of public debt securities, which it may utilize for aircraft financings in 2001 and 2002.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT 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. The Company purchases jet fuel at prevailing market prices, but seeks to minimize its average jet fuel cost through execution of a documented hedging strategy. Southwest has market sensitive instruments in the form of the types of hedges it utilizes to decrease its exposure to jet fuel price increases and with fixed rate debt instruments. The Company also operates 101 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 and oil consumed in 2000 and 1999 represented approximately 17.4 and 12.5 percent of Southwest's operating expenses, respectively. Southwest endeavors to acquire jet fuel at the lowest prevailing prices possible. Because jet fuel is not traded on an organized futures exchange, liquidity for hedging is limited. However, the Company has found that crude oil contracts and heating oil contracts are

effective commodities for hedging jet fuel.

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, 2000, the Company had a mixture of purchased call options, collar structures, and fixed price swap agreements in place to hedge approximately 80 percent of its 2001 total anticipated jet fuel requirements, approximately 32 percent of its 2002 total anticipated jet fuel requirements, and a small portion of its 2005 total anticipated jet fuel requirements. As of December 31, 2000, nearly all of the Company's 2001 hedges, and the majority of its 2002 hedges, are effectively heating oil-based positions. All remaining hedge positions are crude oil-based positions. The amounts related to all the Company's fuel hedge positions contained in the Consolidated Balance Sheet at December 31, 2000 was \$22.5 million, which represents the aggregate net premium cost paid for option and/or collar agreements. This amount is classified as prepaid expense in current assets. The Company's fuel hedging strategy could result in the Company not fully benefiting from certain jet fuel price declines. See Note 7 to the Consolidated Financial Statements for further detail on the Company's financial derivative instruments. Also see Recent Accounting Developments in Note 1 to the Consolidated Financial Statements regarding the new accounting requirements for financial derivative instruments effective January 1, 2001.

The fair values of outstanding financial derivative instruments related to the Company's jet fuel market price risk at December 31, 2000, including amounts contained in the Consolidated Balance Sheet at December 31, 2000, was approximately \$98.3 million. A hypothetical ten

18

percent increase or decrease in the underlying fuel-related commodity prices from the December 31, 2000, prices would correspondingly change the fair value of the derivative commodity instruments in place and their related cash flows up to approximately \$2.4 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 conservatively and grow capacity steadily and profitably. While the Company uses financial leverage, it has maintained a strong balance sheet and an "A" credit rating on its senior unsecured fixed-rate debt with Standard & Poor's and a "A-" or equivalent credit ratings with two other rating agencies (Moody's and Fitch). The Company's Aircraft Secured Notes (\$200 million) and French Credit Agreements (\$54 million) do not give rise to significant fair value risk but do give rise to interest rate risk because these borrowings are 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 borrowings.

As disclosed in Note 5 to the Consolidated Financial Statements, the Company had outstanding senior unsecured notes totaling \$500 million at December 31, 2000 and 1999. These long-term notes represent only 8.6 percent and 10.0 percent of total noncurrent assets at December 31, 2000 and 1999, respectively. The unsecured long-term debt currently has an average maturity of 8.1 years at fixed rates averaging 8.3 percent at December 31, 2000, 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 \$523 million and \$419 million at December 31, 2000 and 1999, respectively. The Company invests available cash in certificates of deposit and investment grade commercial paper that generally have maturities of three months or less. As a result, the interest rate market risk implicit in these investments at December 31, 2000, is low, as the investments generally 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 material 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, 2000, would correspondingly change the Company's earnings and cash flows by approximately \$1.1 million in 2001. 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.

19

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SOUTHWEST AIRLINES CO.
CONSOLIDATED BALANCE SHEETS

<TABLE>

<CAPTION>

(In thousands, except per share amounts)

	DECEMBER 31,	
	2000	1999
	-----	-----
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 522,995	\$ 418,819
Accounts and other receivables (Note 7)	138,070	75,038
Inventories of parts and supplies, at cost	80,564	65,152
Deferred income taxes (Note 11)	28,005	20,929
Prepaid expenses and other current assets	61,902	52,657
	-----	-----
Total current assets	831,536	632,595
Property and equipment, at cost (Notes 3, 5, and 6):		
Flight equipment	6,831,913	5,768,506
Ground property and equipment	800,718	742,230
Deposits on flight equipment purchase contracts	335,164	338,229
	-----	-----
	7,967,795	6,848,965
Less allowance for depreciation	2,148,070	1,840,799
	-----	-----
	5,819,725	5,008,166
Other assets	18,311	12,942
	-----	-----
	\$ 6,669,572	\$ 5,653,703
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 312,716	\$ 266,735
Accrued liabilities (Note 4)	499,874	430,506
Air traffic liability	377,061	256,942
Current maturities of long-term debt (Note 5)	108,752	7,873
	-----	-----
Total current liabilities	1,298,403	962,056
Long-term debt less current maturities (Note 5)	760,992	871,717
Deferred income taxes (Note 11)	852,865	692,342
Deferred gains from sale and leaseback of aircraft	207,522	222,700
Other deferred liabilities	98,470	69,100
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; 507,897 and 505,005 shares issued in 2000 and 1999, respectively	507,897	505,005
Capital in excess of par value	103,780	35,436
Retained earnings	2,902,007	2,385,854
Treasury stock, at cost: 3,735 and 5,579 shares in 2000 and 1999, respectively	(62,364)	(90,507)
	-----	-----
Total stockholders' equity	3,451,320	2,835,788
	-----	-----
	\$ 6,669,572	\$ 5,653,703
	=====	=====

</TABLE>

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENTS OF INCOME

<TABLE>

<CAPTION>

(In thousands, except per share amounts)

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
OPERATING REVENUES:			
Passenger	\$ 5,467,965	\$ 4,562,616	\$ 4,010,029

Freight	110,742	102,990	98,500
Other	70,853	69,981	55,451
	-----	-----	-----
Total operating revenues	5,649,560	4,735,587	4,163,980
OPERATING EXPENSES:			
Salaries, wages, and benefits (Note 10)	1,683,689	1,455,237	1,285,942
Fuel and oil	804,426	492,415	388,348
Maintenance materials and repairs	378,470	367,606	302,431
Agency commissions	159,309	156,419	157,766
Aircraft rentals	196,328	199,740	202,160
Landing fees and other rentals	265,106	242,002	214,907
Depreciation (Note 2)	281,276	248,660	225,212
Other operating expenses	859,811	791,932	703,603
	-----	-----	-----
Total operating expenses	4,628,415	3,954,011	3,480,369
	-----	-----	-----
OPERATING INCOME	1,021,145	781,576	683,611
OTHER EXPENSES (INCOME):			
Interest expense	69,889	54,145	56,276
Capitalized interest	(27,551)	(31,262)	(25,588)
Interest income	(40,072)	(25,200)	(31,083)
Other (gains) losses, net	1,515	10,282	(21,106)
	-----	-----	-----
Total other expenses (income)	3,781	7,965	(21,501)
	-----	-----	-----
INCOME BEFORE TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	1,017,364	773,611	705,112
PROVISION FOR INCOME TAXES (NOTE 11)	392,140	299,233	271,681
	-----	-----	-----
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	625,224	474,378	433,431
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF INCOME TAXES (NOTE 2)	(22,131)	--	--
	-----	-----	-----
NET INCOME	\$ 603,093	\$ 474,378	\$ 433,431
	=====	=====	=====
NET INCOME PER SHARE, BASIC BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$ 1.25	\$.94	\$.87
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(.04)	--	--
	-----	-----	-----
NET INCOME PER SHARE, BASIC (NOTE 8, 9, AND 12)	\$ 1.21	\$.94	\$.87
	=====	=====	=====
NET INCOME PER SHARE, DILUTED BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$ 1.18	\$.89	\$.82
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(.04)	--	--
	-----	-----	-----
NET INCOME PER SHARE, DILUTED (NOTE 8, 9, AND 12)	\$ 1.14	\$.89	\$.82
	=====	=====	=====

</TABLE>

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998				
	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TREASURY STOCK	TOTAL
	-----	-----	-----	-----	-----
(In thousands, except per share amounts)					
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 stock pursuant to Employee stock 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 pursuant to Employee stock 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					
Purchase of shares of treasury stock (Note 8)	--	--	--	(108,674)	
(108,674)					
Issuance of common and treasury stock pursuant to Employee stock plans (Note 9)	2,892	6,667	(75,952)	136,817	
70,424					
Tax benefit of options exercised	--	61,677	--	--	
61,677					
Cash dividends, \$.0220 per share	--	--	(10,988)	--	
(10,988)					
Net income - 2000	--	--	603,093	--	
603,093					
---	-----	-----	-----	-----	-----
Balance at December 31, 2000	\$ 507,897	\$ 103,780	\$ 2,902,007	\$ (62,364)	\$
3,451,320					
=====	=====	=====	=====	=====	

</TABLE>

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 603,093	\$ 474,378	\$ 433,431
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	281,276	248,660	225,212
Deferred income taxes	153,447	142,940	108,335
Amortization of deferred gains on sale and leaseback of aircraft	(15,178)	(15,172)	(15,251)
Amortization of scheduled airframe inspections & repairs	36,328	28,949	22,763
Income tax benefit from Employee stock option exercises	61,677	27,683	21,584
Changes in certain assets and liabilities:			
Accounts and other receivables	(63,032)	13,831	(12,269)
Other current assets	(24,657)	(31,698)	1,589
Accounts payable and accrued liabilities	129,438	66,081	50,903
Air traffic liability	120,119	56,864	46,737
Other	15,775	16,877	3,101
	-----	-----	-----
Net cash provided by operating activities	1,298,286	1,029,393	886,135

CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(1,134,644)	(1,167,834)	(947,096)
	-----	-----	-----
Net cash used in investing activities	(1,134,644)	(1,167,834)	(947,096)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt	--	255,600	--
Payments of long-term debt and capital lease obligations	(10,238)	(12,107)	(118,859)
Payments of cash dividends	(10,978)	(10,842)	(9,284)
Proceeds from Employee stock plans	70,424	36,605	44,272
Repurchases of common stock	(108,674)	(90,507)	(100,000)
	-----	-----	-----
Net cash provided by (used in) financing activities	(59,466)	178,749	(183,871)
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	104,176	40,308	(244,832)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	418,819	378,511	623,343
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 522,995	\$ 418,819	\$ 378,511
	=====	=====	=====
CASH PAYMENTS FOR:			
Interest, net of amount capitalized	\$ 36,946	\$ 26,604	\$ 33,384
Income taxes	\$ 150,000	\$ 131,968	\$ 147,447

</TABLE>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION Southwest Airlines Co. (Southwest) is a major domestic airline that provides primarily 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 accounting principles generally accepted in the United States 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 generally 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 generally 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, the 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.

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 for 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. Prior to 2000, revenue from the sale of flight segment credits was recognized when the credits were sold. However, beginning January 1, 2000, funds received from the sale of flight segment credits and associated with future travel is deferred and recognized as "Passenger revenue" when the ultimate free travel awards are flown or the credits expire unused (see Note 2).

ADVERTISING The Company expenses the costs of advertising as incurred. Advertising expense for the years ended December 31, 2000, 1999, and 1998 was \$141.3 million, \$137.7 million, and \$119.7 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.

FINANCIAL DERIVATIVE INSTRUMENTS The Company utilizes a variety of derivative instruments, including both crude oil and heating oil based derivatives, to hedge a portion of its exposure to jet fuel price increases. These instruments consist primarily of purchased call options, collar structures, and fixed price swap agreements. The net cost paid for option premiums 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 jet fuel being hedged is used. Hedging gains and losses are recorded as a reduction of fuel and oil expense. Beginning January 1, 2001, the Company will adopt Statement of Financial Accounting Standards No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities which will change the way it accounts for financial derivative instruments. See Recent Accounting Developments.

RECENT ACCOUNTING DEVELOPMENTS In 1998, the Financial Accounting Standards Board (FASB) issued SFAS 133. SFAS 133, as amended, is required to be adopted in fiscal years beginning after June 15, 2000. The Company will adopt SFAS 133 effective January 1, 2001. SFAS 133 will require the Company to record all derivatives on its balance sheet at fair value. Derivatives that are not designated as hedges must be adjusted to fair value through income. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives that are considered to be effective, as defined, will either offset the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or will be recorded in other comprehensive income until the hedged item is recorded in earnings. Any portion of a change in a derivative's fair value that is considered to be ineffective, as defined, may have to be immediately recorded in

earnings. Any portion of a change in a derivative's fair value that the Company has elected to exclude from its measurement of effectiveness, such as the change in time value of option contracts, will be recorded in earnings.

The Company will account for its fuel hedge derivative instruments as cash flow hedges, as defined. Although the fair value of the Company's derivative instruments fluctuates daily, as of January 1, 2001, the fair value of the Company's fuel hedge derivative instruments was approximately \$98.3 million, of which approximately \$75.8 million was not recorded in the Consolidated Balance Sheet. The \$75.8 million will be recorded as an asset on the Company's balance sheet as part of the transition adjustment related to the Company's adoption of SFAS 133. The offset to this balance sheet adjustment will be an increase to "Accumulated other comprehensive income", a component of stockholders' equity. The portion of the transition adjustment in "Accumulated other comprehensive income" that relates to 2001 hedge positions, based on fair value as of January 1, 2001, is approximately \$73.9 million and will be reclassified into earnings during 2001. The remainder of the transition amount will be reclassified to earnings in periods subsequent to 2001. The Company believes the adoption of SFAS 133 will result in more volatility in its financial statements than in the past.

Effective January 1, 2000, the Company adopted Staff Accounting Bulletin 101 (SAB 101) issued by the Securities and Exchange Commission in December 1999. As a result of adopting SAB 101, the Company changed the way it recognizes revenue from the sale of flight segment credits to companies participating in its Rapid Rewards frequent flyer program. Prior to the issuance of SAB 101, the Company recorded revenue to "Other revenue" when flight segment credits were sold, consistent with most other major airlines. Beginning January 1, 2000, the Company recognizes "Passenger revenue" when free travel awards resulting from the flight segment credits sold are earned and flown or credits expire unused. Due to this change, the Company recorded a cumulative adjustment in first quarter 2000 of \$22.1 million (net of income taxes of \$14.0 million) or \$.04 per share, basic and diluted. The impact in 2000 of adopting SAB 101 was to reduce net income, before the cumulative effect of accounting change, by \$4.6 million. Excluding the impact of the change, basic and diluted net income per share for 2000, before the cumulative effect of accounting change, would have been \$1.26 and \$1.19, respectively. The Company also reclassified for comparison purposes the revenue reported in prior periods related to the sale of flight segment credits from "Other revenue" to "Passenger revenue."

Adopting this new method of accounting for 1999 and 1998 would have produced the following pro forma results (in thousands, except per share amounts):

26

<TABLE>

<CAPTION>

As reported, before the cumulative effect of accounting change

	2000	1999	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Net income	\$ 625,224	\$ 474,378	\$ 433,431
Net income per share, basic	\$ 1.25	\$.94	\$.87
Net income per share, diluted	\$ 1.18	\$.89	\$.82

<CAPTION>

Pro forma, before the cumulative effect of accounting change

	2000	1999	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Net income	\$ 625,224	\$ 470,439	\$ 428,449
Net income per share, basic	\$ 1.25	\$.94	\$.86
Net income per share, diluted	\$ 1.18	\$.88	\$.81

</TABLE>

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. Twenty-five 737-700 aircraft are scheduled for delivery in 2001, 27 in 2002, 13 in 2003, 29 in 2004, five in 2005, and 47 thereafter. In addition, the Company has options to purchase up to 87 737-700s during 2003-2008 and purchase rights for an additional 217 737-700s during 2007-2012. The Company has the option, which must be exercised two years prior to the contractual delivery date, to substitute 737-600s or 737-800s for the 737-700s scheduled subsequent to 2001. Aggregate funding needed for firm commitments is approximately \$4.0 billion, subject to adjustments for inflation, due as follows: \$668.3 million in 2001, \$766.3 million in 2002, \$472.2 million in 2003, \$640.7 million in 2004, \$379.4 million in 2005, and \$1.0 billion thereafter.

27

4. ACCRUED LIABILITIES

<TABLE>

<CAPTION>

(In thousands)

	2000	1999
	-----	-----
<S>	<C>	<C>
Retirement plans (Note 10)	\$180,340	\$138,566
Aircraft rentals	117,302	131,219
Vacation pay	72,115	62,937

Other	130,117	97,784
	-----	-----
	\$499,874	\$430,506
	=====	=====

</TABLE>

5. LONG-TERM DEBT

<TABLE> <CAPTION> (In thousands)		
	2000	1999
	-----	-----
<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	200,000
8% Notes due 2005	100,000	100,000
7 7/8% Notes due 2007	100,000	100,000
French Credit Agreements	54,243	55,844
7 3/8% Debentures due 2027	100,000	100,000
Capital leases (Note 6)	117,083	123,834
Other	--	1,886
	-----	-----
	871,326	881,564
Less current maturities	108,752	7,873
Less debt discount	1,582	1,974
	-----	-----
	\$760,992	\$871,717
	=====	=====

</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 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 50 basis points, LIBOR plus 17 basis points, or a fixed rate offered by the banks at the time of borrowing. The commitment fee is 8 basis points per annum. There were no outstanding borrowings under this agreement, or prior similar agreements, at December 31, 2000 and 1999.

6. LEASES

Total rental expense for operating leases charged to operations in 2000, 1999, and 1998 was \$330.7 million, \$318.2 million, and \$305.2 million, respectively. The majority of the Company's terminal operations space, as well as 94 aircraft, were under operating leases at December 31, 2000. The amounts applicable to capital leases included in property and equipment were:

<TABLE> <CAPTION> (In thousands)		
	2000	1999
	-----	-----
<S>	<C>	<C>
Flight equipment	\$164,909	\$164,957
Less accumulated depreciation	92,763	85,722
	-----	-----
	\$ 72,146	\$ 79,235
	=====	=====

Future minimum lease payments under capital leases and noncancelable operating leases with initial or remaining terms in excess of one year at December 31, 2000, were:

29

<TABLE> <CAPTION> (In thousands)		
	CAPITAL LEASES	OPERATING LEASES
	-----	-----
<S>	<C>	<C>
2001	\$ 17,391	\$ 274,564
2002	17,561	262,142
2003	17,750	237,627
2004	17,650	213,782
2005	23,507	203,385
After 2005	78,891	1,701,793
	-----	-----
Total minimum lease payments	172,750	\$2,893,293
		=====
Less amount representing interest	55,667	

Present value of minimum lease payments	117,083	
Less current portion	6,829	

Long-term portion	\$ 110,254	
	=====	

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 utilizes a variety of financial derivative instruments to hedge a portion of its exposure to jet fuel price increases. During 2000 and 1999, the Company recognized gains of \$113.5 million and \$14.8 million, respectively, from hedging activities. At December 31, 2000, approximately \$49.9 million was due from third parties, and accordingly, is included in "Accounts and other receivables" in the accompanying Consolidated Balance Sheet. For further details of the Company's fuel hedge positions at December 31, 2000, see Quantitative and Qualitative Disclosures about Market Risk and Recent Accounting Developments in Note 1. The fair value of the Company's financial derivative instruments at December 31, 2000, was approximately \$98.3 million.

Any outstanding financial derivative instruments 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, 2000, the Company had an agreement with two counterparties containing bilateral collateral provisions whereby cash deposits are required if market risk exposure exceeds a specified threshold amount. Neither the Company nor the

counterparties exceeded the threshold amount at December 31, 2000. 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, 2000 were as follows:

<TABLE>		
<CAPTION>		
(In thousands)	CARRYING VALUE	FAIR VALUE
	-----	-----
<S>	<C>	<C>
8 3/4% Notes due 2003	\$100,000	\$104,854
Aircraft Secured Notes due 2004	200,000	200,000
8% Notes due 2005	100,000	104,143
7 7/8% Notes due 2007	100,000	102,620
French Credit Agreements	54,243	54,243
7 3/8% Debentures due 2027	100,000	92,092
</TABLE>		

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, 2000, the Company had common stock reserved for issuance pursuant to Employee stock benefit plans (101.2 million shares) and upon exercise of rights (179.4 million shares) pursuant to the Common Share Purchase 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 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 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 share and per share data presented in the accompanying consolidated financial statements and notes thereto have been restated to give effect to these 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 Employee stock plans.

On 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, 2000, this program had resulted in the repurchase of 12.2 million shares at an average cost of \$16.28 per share. All of the acquired shares are held as common stock in treasury, less shares reissued under 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.

On January 18, 2001, the Company's Board of Directors declared a three-for-two stock split, payable to shareholders of record at the close of business on January 26, 2001, and also increased the quarterly dividend. Shares will be distributed on February 15, 2001. The dividend will be adjusted to \$.0045 per share quarterly on the increased number of shares outstanding. The share and per

share data presented in the accompanying consolidated financial statements and notes thereto has not been restated to give effect to this pending 2001 stock split.

9. STOCK PLANS

At December 31, 2000, the Company had twelve 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 eleven fixed option plans that cover various Employee groups. Under these plans, the Company may grant up to 127 million shares of common stock, of which 24.6 million shares were available for granting in future periods as of December 31, 2000. Under plans covered by collective bargaining agreements, options granted to Employees generally have terms similar to the term of, and vest in annual increments over the remaining life of, the respective collective bargaining agreement. Options granted to Employees not covered by collective bargaining agreements have ten-year terms and vest and become fully exercisable over three, five, or ten years of continued employment, depending upon the grant type.

Aggregated information regarding the Company's eleven fixed stock option plans, as adjusted for stock splits, is summarized below:

32

<TABLE>
<CAPTION>

	COLLECTIVE BARGAINING PLANS		OTHER EMPLOYEE PLANS	
		AVERAGE EXERCISE PRICE		AVERAGE EXERCISE PRICE
(In thousands, except exercise prices)	OPTIONS		OPTIONS	
<S>	<C>	<C>	<C>	<C>
Outstanding December 31, 1997	47,211	\$ 6.08	24,000	\$ 5.29
Granted	2,461	12.98	4,492	11.81
Exercised	(3,462)	6.00	(3,861)	4.38
Surrendered	(271)	6.17	(1,352)	7.07
Outstanding December 31, 1998	45,939	6.45	23,279	6.60
Granted	1,536	17.55	3,367	18.28
Exercised	(2,218)	6.20	(3,292)	4.67
Surrendered	(408)	6.49	(1,134)	8.34
Outstanding December 31, 1999	44,849	6.48	22,220	6.92
Granted	3,138	27.34	7,936	20.79
Exercised	(5,263)	6.70	(4,944)	5.20
Surrendered	(457)	7.73	(974)	13.00
Outstanding December 31, 2000	42,267	\$ 8.39	24,238	\$12.99
Exercisable December 31, 2000	21,881	7.01	5,957	9.31
Available for granting in future periods	7,974		16,658	

The following table summarizes information about stock options outstanding under the eleven fixed option plans at December 31, 2000:

<TABLE>
<CAPTION>

OPTIONS OUTSTANDING		OPTIONS EXERCISABLE
OPTIONS	WTD-AVERAGE	OPTIONS

RANGE OF EXERCISE PRICES	OUTSTANDING AT 12/31/00	REMAINING CONTRACTUAL LIFE	WTD-AVERAGE EXERCISE PRICE	EXERCISABLE AT 12/31/00	WTD-AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
\$ 1.78 TO \$ 2.32	675	.1 yrs	\$ 1.90	675	\$ 1.90
\$ 3.35 TO \$ 3.58	321	1.2 yrs	3.55	141	3.53
\$ 5.00 TO \$ 8.07	43,476	5.8 yrs	6.13	22,261	6.06
\$ 8.75 TO \$13.09	7,216	7.1 yrs	11.47	2,920	11.24
\$15.15 TO \$22.61	6,505	8.2 yrs	16.96	1,387	17.22
\$23.18 TO \$34.20	8,312	8.8 yrs	24.95	654	27.35
	-----			-----	
\$ 1.78 TO \$34.20	66,505	6.4 yrs	\$10.07	27,838	\$ 7.51
	-----			-----	

</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 2000, 1999, or 1998. At December 31, 2000, 1999, and 1998, total options of 4.1 million, 5.0 million, and 5.5 million were outstanding, respectively. At December 31, 2000, total options of 4.1 million were exercisable at exercise prices ranging from \$1.00 to \$6.96 per share. Options for 854,000, 570,000, and 342,000 shares were exercised in 2000, 1999, and 1998, respectively.

Under the 1991 Employee Stock Purchase Plan (ESPP), as amended, at December 31, 2000, the Company is authorized to issue up to a remaining balance of 5.9 million shares of common stock

33

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 686,000 shares in 2000, 649,000 shares in 1999, and 677,000 shares in 1998 at average prices of \$20.01, \$16.24, and \$11.63, 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 2000, 1999, and 1998, respectively: dividend yield of .10 percent, .12 percent, and .16 percent; expected volatility of 34.87 percent, 35.66 percent, and 38.20 percent; risk-free interest rate of 5.04 percent, 6.68 percent, and 4.66 percent; expected lives of 6.0 years for 2000, and 5.0 years for 1999 and 1998.

The fair value of options granted under the fixed option plans during 2000 ranged from \$6.70 to \$14.69. The fair value of options granted under the fixed option plans during 1999 ranged from \$6.26 to \$8.81. The fair value of options granted under the fixed option plans during 1998 ranged from \$4.41 to \$4.97. The weighted-average fair value of each purchase right under the ESPP granted in 2000, 1999, and 1998, which is equal to the ten percent discount from the market value of the common stock at the end of each purchase period, was \$2.22, \$1.75, and \$1.29, 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 are as follows:

34

<TABLE>

<CAPTION>

(In thousands except per share amounts)

	2000	1999	1998
<S>	<C>	<C>	<C>

NET INCOME:			
As reported	\$ 603,093	\$ 474,378	\$ 433,431
Pro forma	\$ 583,707	\$ 461,875	\$ 421,097
NET INCOME PER SHARE, BASIC:			
As reported	\$ 1.21	\$.94	\$.87
Pro forma	\$ 1.17	\$.92	\$.84
NET INCOME PER SHARE, DILUTED:			
As reported	\$ 1.14	\$.89	\$.82
Pro forma	\$ 1.11	\$.87	\$.79

</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.

10. EMPLOYEE RETIREMENT PLANS

The Company has defined contribution plans covering substantially all of Southwest's Employees. The Southwest Airlines Co. Profitsharing Plan is a money purchase defined contribution plan and Employee stock purchase plan. The Company also sponsors Employee savings plans under section 401(k) of the Internal Revenue Code, which include Company matching contributions. The 401(k) plans cover substantially all Employees. Contributions under all defined contribution plans are based primarily on Employee compensation and performance of the Company.

Company contributions to all retirement plans expensed in 2000, 1999, and 1998 were \$241.5 million, \$192.0 million, and \$167.1 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, 2000 and 1999, are as follows:

35

<TABLE>			
<CAPTION>			
(In thousands)	2000	1999	
	-----	-----	
<S>	<C>	<C>	
DEFERRED TAX LIABILITIES:			
Accelerated depreciation	\$1,049,791	\$ 862,620	
Scheduled airframe maintenance	71,519	52,890	
Other	23,805	24,637	
	-----	-----	
Total deferred tax liabilities	1,145,115	940,147	
DEFERRED TAX ASSETS:			
Deferred gains from sale and leaseback of aircraft	107,686	113,611	
Capital and operating leases	77,151	72,554	
Other	135,418	82,569	
	-----	-----	
Total deferred tax assets	320,255	268,734	
	-----	-----	
Net deferred tax liability	\$ 824,860	\$ 671,413	
	=====	=====	

</TABLE>

The provision for income taxes is composed of the following:

<TABLE>				
<CAPTION>				
(In thousands)	2000	1999	1998	
	-----	-----	-----	
<S>	<C>	<C>	<C>	
CURRENT:				
Federal	\$ 197,875	\$ 137,393	\$ 143,989	
State	26,671	18,900	19,357	
	-----	-----	-----	
Total current	224,546	156,293	163,346	
DEFERRED:				
Federal	151,694	128,984	96,237	
State	15,900	13,956	12,098	
	-----	-----	-----	
Total deferred	167,594	142,940	108,335	
	-----	-----	-----	
	\$ 392,140	\$ 299,233	\$ 271,681	

</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. On December 21, 2000, the national office of the IRS published a revenue ruling in which it concluded that aircraft inspection and maintenance, substantially the same as that in issue in the Company's Tax Court suit, is currently deductible as an ordinary and necessary business expense. Counsel for the Company and the IRS soon will engage in discussions in an attempt to resolve the controversy in conformity with the IRS revenue ruling and without the necessity of further litigation. Management believes the final

36

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)	2000	1999	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Tax at statutory			
U.S. tax rates	\$ 356,077	\$ 270,764	\$ 246,789
Nondeductible items	6,801	6,664	5,099
State income taxes,			
net of federal benefit	27,671	21,356	20,445
Other, net	1,591	449	(652)
	-----	-----	-----
Total income			
tax provision	\$ 392,140	\$ 299,233	\$ 271,681
	=====	=====	=====

</TABLE>

37

12. NET INCOME PER SHARE

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

<TABLE>

<CAPTION>

(In thousands except per share amounts)	2000	1999	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
NUMERATOR:			
Net income before cumulative effect			
of change in accounting principle	\$625,224	\$474,378	\$433,431
Cumulative effect of change in			
accounting principle	22,131	--	--
	-----	-----	-----
Net income	\$603,093	\$474,378	\$433,431
	=====	=====	=====
DENOMINATOR:			
Weighted-average shares			
outstanding, basic	499,078	503,065	500,013
Dilutive effect of Employee			
stock options	31,800	32,862	29,736
	-----	-----	-----
Adjusted weighted-average			
shares outstanding, diluted	530,878	535,927	529,749
	=====	=====	=====

NET INCOME PER SHARE:

Basic before cumulative effect			
of change in accounting principle	\$ 1.25	\$.94	\$.87
Cumulative effect of change			

in accounting principle	.04	--	--
	-----	-----	-----
Basic earnings per share	\$ 1.21	\$.94	\$.87
	=====	=====	=====
Diluted before cumulative effect of change in accounting principle	\$ 1.18	\$.89	\$.82
Cumulative effect of change in accounting principle	.04	--	--
	-----	-----	-----
Diluted earnings per share	\$ 1.14	\$.89	\$.82
	=====	=====	=====

</TABLE>

The Company has excluded 7.8 million and 4.5 million shares from its calculations of diluted net income per share in 2000 and 1999, respectively, as they represent antidilutive stock options for the respective periods presented. There were no antidilutive stock options in 1998.

38

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, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. 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, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, in 2000 the Company changed its method of accounting for the sale of flight segment credits.

ERNST & YOUNG LLP
/s/ Ernst & Young LLP

Dallas, Texas
January 18, 2001

39

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

<TABLE>
<CAPTION>

	THREE MONTHS ENDED			
	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
	-----	-----	-----	-----
1999				
- - - -				
<S>	<C>	<C>	<C>	<C>
Operating revenues	\$1,075,571	\$1,220,432	\$1,235,166	\$1,204,418
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

<CAPTION>

2000	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
------	----------	---------	----------	---------

<S>	<C>	<C>	<C>	<C>
Operating revenues	\$1,242,647	\$1,460,675	\$1,478,834	\$1,467,404
Operating income	155,408	314,558	300,109	251,070
Income before income taxes	155,973	310,865	301,073	249,453
Net income	95,643(1)	190,622	184,298	154,661
Net income per share, basic	.19(1)	.38	.37	.31
Net income per share, diluted	.18(1)	.36	.35	.29

</TABLE>

(1) Excludes cumulative effect of accounting change of \$22.1 million (\$.04 per share).

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

See "Election of Directors" incorporated herein by reference from the definitive Proxy Statement for Southwest's Annual Meeting of Shareholders to be held May 16, 2001. See "Executive Officers of the Registrant" in Part I following Item 4 for information relating to executive officers.

40

ITEM 11. EXECUTIVE COMPENSATION

See "Compensation of Executive Officers," incorporated herein by reference from the definitive Proxy Statement for Southwest's Annual Meeting of Shareholders to be held May 16, 2001.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See "Voting Securities and Principal Shareholders," incorporated herein by reference from the definitive Proxy Statement for Southwest's Annual Meeting of Shareholders to be held May 16, 2001.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See "Election of Directors" incorporated herein by reference from the definitive Proxy Statement for Southwest's Annual Meeting of Shareholders to be held May 16, 2001.

PART IV

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

- (a)
1. Financial Statements:
The financial statements included in Item 8 above are filed as part of this annual report.
 2. 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.
 3. Exhibits:
 - 3.1 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 May 2000 (incorporated by reference to Exhibit 1 to Southwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (File No. 1-7259)).

- 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 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)).

41

- 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 (incorporated by reference to Exhibit 10.1 to Southwest's Annual Report on form 10-K for the year ended December 31, 1999 (File No. 1-7259)); Supplemental Agreements Nos. 11, 12, 13 and 14 (incorporated by reference to Exhibit 10.1 to Southwest's Quarterly Report on form 10-Q for the quarter ended September 30, 2000 (File No. 1-7259)).

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.

The following exhibits filed under paragraph 10 of Item 601

are the Company's compensation plans and arrangements.

42

- 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)).
- 10.4 1996 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, 1996 (File No. 1-7259)).
- 10.5 1991 Incentive Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 33-40652)).
- 10.6 1991 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 33-40652)).
- 10.7 1991 Employee Stock Purchase Plan as amended September 21, 2000 (incorporated by reference to Exhibit 4 to Amendment No. 1 to Registration Statement on Form S-8 (file No. 333-40653)).
- 10.8 Southwest Airlines Co. Profit Sharing Plan.
- 10.9 Southwest Airlines Co. 401(k) Plan (incorporated by reference to Exhibit 10.14 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).
- 10.10 Southwest Airlines Co. 1995 SWAPA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.14 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 1-7259)).
- 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)).
- 10.12 1996 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 333-20275)).
- 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.

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) The following reports on Form 8-K were filed during the fourth quarter of 2000.

None to be reported.

43

SIGNATURES

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

SOUTHWEST AIRLINES CO.

January 24, 2001

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 January 24, 2001 on behalf of the registrant and in the capacities indicated.

<TABLE>

<CAPTION>

Signature -----	Capacity -----
<S> /s/ Herbert D. Kelleher ----- Herbert D. Kelleher	<C> 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
----- Gene H. Bishop	Director
----- C. Webb Crockett	Director
/s/ William H. Cunningham ----- William H. Cunningham	Director
/s/ William P. Hobby, Jr. ----- William P. Hobby, Jr.	Director
/s/ Travis C. Johnson ----- Travis C. Johnson	Director
----- R. W. King	Director
----- June M. Morris	Director

</TABLE>

INDEX TO EXHIBITS

<TABLE>

<CAPTION>

EXHIBIT

NUMBER -----	DESCRIPTION -----
-----------------	----------------------

<S> 3.1	<C> 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 (incorporated by reference to Exhibit 1 to Southwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (File No. 1-7259)).
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 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)).

</TABLE>

E-1

<TABLE>
<CAPTION>
EXHIBIT

NUMBER	DESCRIPTION
--------	-------------

<S>	<C> 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 Nos. 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 (incorporated by reference to Exhibit 10.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-7259)); Supplemental Agreements Nos. 11, 12, 13 and 14 (incorporated by reference to Exhibit 10.1 to Southwest's Quarterly Report on form 10-Q for the quarter ended September 30, 2000 (File No. 1-7259)).

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.

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)).
10.4	1996 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, 1996 (File No. 1-7259)).
10.5	1991 Incentive Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 33-40652)).
10.6	1991 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 33-40652)).
10.7	1991 Employee Stock Purchase Plan as amended September 21, 2000 (incorporated by reference to Exhibit 4 to Amendment No. 1 to Registration Statement on Form S-8 (File No. 333-40653)).
10.8	Southwest Airlines Co. Profit Sharing Plan.

E-2

<TABLE>
<CAPTION>
EXHIBIT

NUMBER	DESCRIPTION
- - - - -	- - - - -
<S>	<C>
10.9	Southwest Airlines Co. 401(k) Plan (incorporated by reference to Exhibit 10.14 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).
10.10	Southwest Airlines Co. 1995 SWAPA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.14 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 1-7259)).
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)).
10.12	1996 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 333-20275)).
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.

E-3

SOUTHWEST AIRLINES CO.

PROFIT SHARING PLAN

SOUTHWEST AIRLINES CO.

PROFIT SHARING PLAN

TABLE OF CONTENTS

<TABLE>
<CAPTION>

	Page

<S>	<C>
ARTICLE I PURPOSE.....	1
ARTICLE II DEFINITIONS AND CONSTRUCTION.....	2
2.1 Definitions	2
2.2 Construction	8
ARTICLE III ELIGIBILITY AND PARTICIPATION.....	8
3.1 Eligibility Requirements.....	8
3.2 Notification of Eligibility.....	9
3.3 Reentry of Prior Members.....	9
ARTICLE IV CONTRIBUTIONS.....	10
4.1 Company Contributions.....	10
ARTICLE V ADJUSTMENT OF INDIVIDUAL ACCOUNTS.....	11
5.1 Individual Accounts.....	11
5.2 Method of Adjustment.....	12
ARTICLE VI ALLOCATIONS.....	13
6.1 Company Contribution.....	13
6.2 Allocation of Forfeitures.....	13
6.3 Notification to Members.....	14
6.4 Maximum Annual Addition to Account or Benefit.....	14
ARTICLE VII RETIREMENT.....	16
7.1 Normal or Late Retirement.....	16
7.2 Benefit 16	
ARTICLE VIII DEATH.....	16
8.1 Designation of Beneficiary.....	16
8.2 Benefit	17
8.3 No Beneficiary	17
ARTICLE IX DISABILITY.....	18
9.1 Benefit	18
ARTICLE X TERMINATION OF EMPLOYMENT AND FORFEITURES.....	18
10.1 Eligibility and Benefits.....	18
10.2 Time of Payment.....	19

</TABLE>

<TABLE>
<CAPTION>

	Page

<S>	<C>
10.3 Forfeitures	19
10.4 Forfeiture for Cause.....	19
ARTICLE XI WITHDRAWALS.....	20
11.1 Withdrawals	20
ARTICLE XII INVESTMENT OF THE TRUST FUND.....	21
12.1 [deleted]	21
12.2 Member Direction of Investment.....	21
12.3 Conversion of Investments.....	22
ARTICLE XIII ADMINISTRATION.....	23
13.1 Appointment of Committee.....	23

13.2 Committee Powers and Duties.....	24
13.3 Duties and Powers of the Plan Administrator.....	25
13.4 Rules and Decisions.....	26
13.5 Committee Procedures.....	26
13.6 Authorization of Benefit Payments.....	26
13.7 Payment of Expenses.....	26
13.8 Indemnification of Members of the Committee.....	27
ARTICLE XIV NOTICES.....	27
14.1 Notice to Trustee.....	27
14.2 Subsequent Notices.....	27
14.3 Reliance upon Notice.....	27
ARTICLE XV BENEFIT PAYMENTS.....	28
15.1 Method of Payment.....	28
15.2 Time of Payment.....	28
15.3 Cash Out Distribution.....	32
15.4 Minority or Disability Payments.....	33
15.5 Distributions Under Domestic Relations Orders.....	33
15.6 Direct Rollover of Eligible Rollover Distributions.....	35
ARTICLE XVI TRUSTEE.....	36
16.1 Appointment of Trustee.....	36
16.2 Appointment of Investment Manager.....	36
16.3 Responsibility of Trustee and Investment Manager.....	37
16.4 Bonding of Trustee and Investment Manager.....	37
ARTICLE XVII AMENDMENT AND TERMINATION OF PLAN.....	38
17.1 Amendment of Plan.....	38
17.2 Termination of Plan.....	39
17.3 Suspension and Discontinuance of Contributions.....	39
17.4 Liquidation of Trust Fund.....	39
17.5 Consolidation or Merger.....	40

</TABLE>

<TABLE>
<CAPTION>

	Page

<S>	<C>
ARTICLE XVIII GENERAL PROVISIONS.....	40
18.1 No Employment Contract.....	40
18.2 Manner of Payment.....	40
18.3 Nonalienation of Benefits.....	41
18.4 Titles for Convenience Only.....	41
18.5 Validity of Plan.....	41
18.6 Plan Binding	42
18.7 Return of Contributions.....	42
18.8 Missing Members or Beneficiaries.....	42
18.9 Voting Rights	43
18.10 Acquisition Loans.....	45
18.11 Preretirement Diversification Rights.....	46
18.12 Qualified Military Service.....	48
ARTICLE XIX TOP-HEAVY RULES.....	49
19.1 Definitions	49
19.2 Determination of Top-Heavy Status.....	50
19.3 Minimum Company Contribution.....	51
19.4 Minimum Vesting.....	52
ARTICLE XX FIDUCIARY PROVISIONS.....	53
20.1 General Allocation of Duties.....	53
20.2 Fiduciary Duty	53
20.3 Fiduciary Liability.....	54
20.4 Co-Fiduciary Liability.....	54
20.5 Delegation and Allocation.....	54

</TABLE>

SOUTHWEST AIRLINES CO.
PROFIT SHARING PLAN

PREAMBLE

WHEREAS, SOUTHWEST AIRLINES CO., a corporation formed under the laws of the State of Texas (the "Company") has previously adopted a plan and trust designated as the Southwest Airlines Co. Profit Sharing Plan (the "Prior Plan"), effective January 1, 1973, which was subsequently amended and restated in its

entirety, effective January 1, 1986, and again amended and restated in its entirety, effective January 1, 1991, as amended from time to time thereafter;

WHEREAS, the Company now desires to continue the plan by again amending and restating the Prior Plan for compliance with the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, and subsequent legislation, and to incorporate amendments which have previously been made to the plan;

NOW, THEREFORE, in consideration of the premises and to carry out the purposes and intent as set forth above, the Prior Plan is hereby restated and amended in its entirety, superseded and replaced by this Plan, effective January 1, 1996, except as otherwise specifically provided herein. There will be no gap or lapse in time or effect between such plans, and the existence of a qualified plan and trust shall be continuous and uninterrupted.

The terms and conditions of this restated Plan are as follows:

ARTICLE I

Purpose

The purpose of this Plan is to reward Employees of the Company for their loyal and faithful service, to provide the Employees with a retirement benefit, and to provide funds for their beneficiaries in the event of death or disability. The Plan is designed to invest primarily in

qualifying employer securities, as such term is defined in Section 4975(e)(7) of the Code, and is thus formally designated as an employee stock ownership plan and a money purchase defined contribution plan. The benefits provided by this Plan will be paid from a Trust Fund established by the Company and will be in addition to the benefits Employees are entitled to receive under any other programs of the Company and under the Social Security Act.

This Plan and the separate related Trust forming a part hereof are established and shall be maintained for the exclusive benefit of the Members hereunder and their Beneficiaries. No part of the Trust Fund can ever revert to the Company, except as hereinafter provided, or be used for or diverted to purposes other than the exclusive benefit of the Members of this Plan and their Beneficiaries.

ARTICLE II

Definitions and Construction

2.1 Definitions: Where the following words and phrases appear in this Plan, they shall have the respective meanings set forth below, unless their context clearly indicates to the contrary:

(a) Affiliate: A member of a controlled group of corporations (as defined in Section 414(b) of the Code), a group of trades or businesses (whether or not incorporated) which are under common control (as defined in Section 414(c) of the Code), or an affiliated service group (as defined in Section 414(m) of the Code) of which the Company is a member, or any entity otherwise required to be aggregated with the Company pursuant to Section 414(o) of the Code and the regulations issued thereunder.

(b) Allocation Date: The date on which Company Contributions and forfeitures are to be allocated, such date to be the last day of each Plan Year.

(c) Annual Compensation: The total amounts paid by the Company or any Eligible Affiliate to an Employee as remuneration for personal services rendered during each Plan Year, including expense allowances (to the extent includible in the gross income of the Employee) and any amounts not includible in the gross income of the Employee pursuant to Sections 125 or 402(g)(1) of the Code, but excluding director's fees, expense reimbursements and nontaxable expense allowances, prizes and awards, items of imputed income contributions made by the Company under this Plan or any

other employee benefit plan or program it maintains, such as group insurance, hospitalization or like benefits, amounts realized or recognized from qualified or nonqualified stock options or when restricted stock or property held by the Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture, and amounts, if any, paid to an Employee in lieu of a Company Contribution to this Plan in the event that such Company

Contribution would constitute an annual addition, as defined in Section 415(c)(2) of the Code, in excess of the limitations under Section 415(c) of the Code. Annual Compensation shall include amounts otherwise includible, as provided above, which are paid by the Company or an Eligible Affiliate to the Employee through another person, pursuant to the common paymaster provisions of Sections 3121(s) and 3306(p) of the Code.

The Annual Compensation of each Member or former Member taken into account under the Plan for any Plan Year shall not exceed \$150,000, as adjusted by the Secretary of the Treasury for increases in the cost of living at the time and in the manner set forth in Section 401(a)(17)(B) of the Code. Furthermore, for purposes of an allocation under the Plan based on Annual Compensation, Annual Compensation shall only include amounts actually paid to an Employee during the period he is a Member of the Plan.

(d) Beneficiary: A person designated by a Member or former Member to receive benefits hereunder upon the death of such Member or former Member.

(e) Break in Service: An Employee shall have a Break in Service for each Plan Year in which he completes less than 501 Hours of Service with the Company or an Eligible Affiliate unless he is on a leave of absence authorized by the Company or an Eligible Affiliate in accordance with its leave policy.

(f) Code: The Internal Revenue Code of 1986, as amended.

(g) Committee: The persons who may be appointed to administer the Plan in accordance with Article XIII.

(h) Common Stock: The common stock of the Company.

(i) Company: Southwest Airlines Co., or its successor or successors.

(j) Company Contributions: Contributions which are made by the Company for each Plan Year pursuant to the provisions of Section 4.1 hereof.

(k) Deductible Contributions: A Member's voluntary contributions, if any, to the Plan, made prior to January 1, 1987 and deductible by such Member for federal income tax purposes in accordance with Section 219 of the Internal Revenue Code, as then in effect.

(l) Deductible Contribution Account: A separate subaccount to which is credited a Member's Deductible Contributions, if any, and any earnings attributable thereto, adjusted to reflect any withdrawals, distributions or investment losses attributable thereto.

3

(m) Disability: A physical or mental condition which, in the judgment of the Committee, totally and presumably permanently prevents the Employee from engaging in any substantial gainful employment with the Company or an Eligible Affiliate. A determination of Disability shall be based upon competent medical evidence satisfactory to the Committee. The Committee shall apply the rules with respect to Disability uniformly and consistently to all Employees in similar circumstances.

(n) Effective Date: January 1, 1996, except as otherwise specifically provided herein.

(o) Employee: Any person who is receiving remuneration for personal services rendered to the Company or any Eligible Affiliate, or who would be receiving such remuneration except for an authorized leave of absence; provided, however, that any individual whose conditions of employment are governed by a collective bargaining agreement between the Company and a labor union shall not be considered an Employee unless the collective bargaining agreement provides for coverage of such individual under the Plan. In no event shall any individual employed by TranStar Airlines or any other Affiliate or subsidiary of the Company be considered an Employee unless such Affiliate or subsidiary has specifically been designated by the Company as an Eligible Affiliate. Notwithstanding the foregoing, individuals whose conditions of employment are governed by a collective bargaining agreement which does not provide for coverage of such individual under the Plan shall nonetheless be deemed to be an Employee for purposes of crediting service pursuant to the provisions of subsections 2.1(t), (gg) and (kk) hereunder.

The term "Employee" shall also include any "leased employee," as such term is defined below, deemed to be an employee of an Employer or any Affiliate as provided in Sections 414(n) or (o) of the Code. The term "leased employee" means any person (other than an employee of the recipient) who, pursuant to an agreement between the recipient and any other person ("leasing organization"), has performed services for the recipient (or for the recipient and related persons determined in accordance with Section 414(n)(6) of the Code) on a substantially full-time basis for a period of at least one year, and such services are performed under primary direction or control by the recipient. Contributions or benefits provided by the leasing organization that are attributable to services performed for the recipient shall be treated as provided by the recipient. Notwithstanding the foregoing, a leased employee shall not be considered an employee of the recipient if: (i) such employee is covered by a money purchase pension plan that provides: (1) a nonintegrated employer contribution rate of at least ten percent (10%) of compensation, as defined in Section 415(c)(3) of the Code, but including amounts contributed pursuant to a salary reduction agreement that are excludable from the employee's gross income under Section 125, Section 402(e)(3), Section 402(h)(1)(B), or Section 403(b) of the Code, immediate vesting; and (ii) leased employees do not constitute more than twenty percent (20%) of the recipient's nonhighly compensated work force.

(p) Employer Savings Account: A separate subaccount to which is credited a Member's Company Contributions and forfeitures, if any, and any earnings attributable

4

thereto, adjusted to reflect any withdrawals, distributions or investment losses attributable thereto.

(q) Entry Date: January 1st of each year.

(r) ERISA: The Employee Retirement Income Security Act of 1974, as amended.

(s) Fund or Trust Fund: All assets of whatsoever kind or nature held from time to time by the Trustee in the Trust forming a part of this Plan, without distinction as to income and principal and without regard to source, i.e., allocations, Company contributions, earnings, forfeitures or gifts.

(t) Hour of Service: An Hour of Service shall include all hours for which pay is received or for which an Employee is entitled to payment, whether worked or not, plus service credit on the basis of the number of his regularly scheduled working hours for any other period of absence for which the Employee is paid or entitled to payment and which is authorized by the Company in accordance with its uniform leave policy for vacation, holiday, sick leave, illness, Disability, layoff, military service or civic duty. In no event shall credit for the number of Hours of Service attributable to a single continuous period for which no duties are performed exceed 501. Service credit shall also be given for each other leave of absence authorized by the Company for which the Employee is paid or entitled to payment.

Hours of Service shall be computed on an equivalency basis, whereby for each month during which an Employee would be credited with at least one Hour of Service (or, in the case of flight attendants or pilots, one trip), such Employee shall be credited with one hundred ninety (190) Hours of Service.

These hours must be credited to Employees in the computation period during which the duties were performed, or, if no duties were performed, during which the applicable period of absence occurred, and not when paid, if different. Credit must also be given, without duplicating any hours described above, for each hour for which back pay, irrespective of mitigation of damages, has been awarded or agreed to by the Company or any Eligible Affiliate. These hours must be credited in the computation period or periods to which the award or agreement pertains rather than that in which the payment, award or agreement was made.

In determining the number of Hours of Service to be credited to an Employee in the case of a payment which is made or due to an Employee under the provisions of the paragraphs above, the Committee shall apply the rules set forth in Department of Labor Regulations 2530.200b-2(b) and (c), which rules are incorporated into and made a part of this Plan by reference.

Effective for Plan Years beginning after 1984, for purposes of determining whether an Employee has incurred a Break in Service as

defined in Section 2.1(e), the Committee shall credit an Employee with Hours of Service during absence from work for maternity or paternity reasons which would otherwise have been credited to such

5

Employee but for such absence. For purposes of this Plan, an Employee shall be deemed to be on maternity or paternity leave if the Employee's absence from work is (1) by reason of the pregnancy of the Employee, (2) by reason of the birth of a child of the Employee, (3) by reason of the placement of a child with the Employee in connection with the adoption of such child by the Employee, or (4) for purposes of caring for such child for a period beginning immediately following such birth or placement. The Hours of Service credited under this paragraph shall be limited to the lesser of (1) the number necessary to prevent the Employee from incurring a Break in Service or (2) 501 Hours of Service. Hours of Service credited under this paragraph shall be credited in the Plan Year in which the absence begins, but if the Employee does not need those Hours of Service to prevent a Break in Service in the Plan Year in which the absence began, then they shall be credited in the immediately following Plan Year.

Hours of Service during the period prior to January 1, 1976 shall be determined from whatever records may be reasonably accessible to the Company and, if such records are insufficient, the Company may make whatever calculations are necessary to approximate Hours of Service for such period in a manner uniformly applicable to all Employees similarly situated. These provisions shall be construed by resolving any questions or ambiguities in favor of crediting Employees with Hours of Service.

(u) Individual Account: The account or record maintained by the Committee showing the monetary value of the individual interest in the Trust Fund of each Member, former Member and Beneficiary.

(v) Investment Managers: The qualified and acting Investment Managers, as defined in ERISA, who under this Plan may be appointed by the Company to invest and manage Plan assets as fiduciaries.

(w) Member: An Employee who has met the eligibility requirements for participation in this Plan, as set forth in Article III hereof.

(x) Named Fiduciary: The Committee shall be the Named Fiduciary designated to manage the operation and administration of the Plan.

(y) Nondeductible Contributions: A Member's voluntary contributions, if any, to the Plan, made prior to January 1, 1987, which are not deductible by such Member for federal income tax purposes.

(z) Nondeductible Contribution Account: A separate subaccount to which is credited a Member's Nondeductible Contributions, if any, and any earnings attributable thereto, adjusted to reflect any withdrawals, distributions or investment losses attributable thereto.

(aa) Normal Retirement Date: The date on which a Member attains the age of fifty-nine and one-half (59 1/2) years.

(bb) Plan: Southwest Airlines Co. Profit Sharing Plan, as amended from time to time.

6

(cc) Plan Administrator: Such person or persons as designated by the Committee, which shall be the Committee unless and until it designates such other person or persons.

(dd) Plan Year: The annual period beginning January 1st and ending December 31st, both dates inclusive of each year.

(ee) Prior Plan: The Southwest Airlines Co. Profit Sharing Plan, effective January 1, 1973, as heretofore amended and restated from time to time.

(ff) Retirement: Termination of employment after a Member has reached his Normal Retirement Date. Retirement shall be considered as commencing on the day immediately following a Member's last day of employment.

(gg) Service: A period or periods of employment by an Employee used in determining eligibility for Plan participation or in determining the amount of benefits. If the Company is a member of a controlled group of corporations (as defined in Section 414(b) of the Code), is one of a group of trades or businesses (whether or not incorporated) which are under common control (as defined in Section 414(c) of the Code), is a member of an affiliated service group (as defined in Section 414(m) of the Code) or is otherwise required to be aggregated with any entity pursuant to Section 414(o) of the Code and the regulations issued thereunder, then Service shall include any employment with any such Affiliate from and after the date such entity becomes an Affiliate, including Service prior to the Effective Date.

(hh) Trust: Southwest Airlines Co. Profit Sharing Trust, as amended from time to time, the Trust established to hold and invest contributions made under the Plan and Prior Plan for the exclusive benefit of the Members included in the Plan from which the benefits will be distributed.

(ii) Trustee: The qualified and acting Trustee under the Trust, who shall be the fiduciary designated to invest and manage the Plan assets, other than those which may be managed exclusively by an Investment Manager, and to operate and administer the Trust Fund.

(jj) Valuation Date: Each business day on which the financial markets are open for trading activity.

(kk) Vesting Service: Vesting Service is the period of employment used in determining eligibility for benefits. A year of Vesting Service shall be granted for each Plan Year in which an Employee has completed 1,000 or more Hours of Service with the Company or an Affiliate, subject to the following exceptions:

(i) Vesting Service prior to January 1, 1973 shall be excluded.

(ii) Vesting Service completed after December 31, 1972 and prior to January 1, 1976 shall be excluded if such service would have been disregarded under the break in service rules of the Prior Plan, as then in effect. For this

7

purpose, break in service rules are those rules which result in the loss of prior vesting because of service termination or failure to complete a required period of service within a specified time.

(iii) In the case of an Employee who has a Break in Service, his years of Vesting Service before such Break in Service shall not be taken into account until he has completed a year of Vesting Service following his reemployment. Prior to January 1, 1985, in the case of an Employee who has any Break in Service, all years of Vesting Service incurred after such Break shall be disregarded for purposes of measuring years of Vesting Service before such Break. However, effective January 1, 1985, and thereafter, in the case of an Employee who has five (5) or more consecutive Breaks in Service, all years of Vesting Service incurred after such Breaks in Service will be disregarded for purposes of measuring years of Vesting Service before such Breaks in Service.

(iv) Prior to January 1, 1985, if an Employee who does not have any nonforfeitable right to his Employer Savings Account incurs a period of consecutive Breaks in Service that equals or exceeds the aggregate number of years of Vesting Service incurred before such period, then all of his prior years of Vesting Service before such period shall no longer be credited to him. However, effective January 1, 1985, and thereafter, if an Employee who does not have any nonforfeitable right to his Employer Savings Account incurs a period of consecutive Breaks in Service that equals or exceeds the greater of (1) five or (2) the aggregate number of years of Vesting Service incurred before such period, then all of his prior years of Vesting Service before such period shall no longer be credited to him.

(ll) Eligible Affiliate: An Affiliate, the employees of which the Company has specifically designated as being eligible to participate in the Plan.

2.2 Construction: The masculine gender, where appearing in the Plan, shall be deemed to include the feminine gender, unless the context clearly

indicates to the contrary. The words "hereof," "herein," "hereunder," and other similar compounds of the word "here" shall mean and refer to the entire Plan, not to any particular provision or section. The Plan and Trust shall each form a part of the other by reference and terms shall be used therein interchangeably.

ARTICLE III

Eligibility and Participation

3.1 Eligibility Requirements: Every Employee on the Effective Date, who was a Member in the Prior Plan on the day before the Effective Date, shall continue to be a Member in

8

the Plan. Every other Employee shall be eligible to become a Member in the Plan as of the first Entry Date concurrent with or next following his employment commencement date or the date on which his employer became an Eligible Affiliate, whichever is later. The employment commencement date is the first day for which an Employee is entitled to be credited hereunder with an Hour of Service. Non-resident aliens who receive no earned income from the Company which constitutes income from sources within the United States shall not be eligible to participate in the Plan.

3.2 Notification of Eligibility: The Committee shall promptly notify in writing each Employee of his qualification as a Member and shall furnish each new Member a copy of such explanation of the Plan as the Committee shall provide for that purpose. Any Employee who is eligible to become a Member may elect to participate in the Plan upon the date on which he first becomes eligible by executing and filing with the Committee, prior to or upon such date, an application form furnished by the Committee. An Employee who does not become a Member on the date on which he first becomes eligible may become a Member on any subsequent Entry Date by executing and filing with the Committee, prior to or upon such date, an application form furnished by the Committee.

3.3 Reentry of Prior Members: An Employee who terminates employment after becoming a Member hereunder shall be eligible to participate immediately upon his completion of one Hour of Service following his reemployment by the Company or an Eligible Affiliate. An Employee who terminates employment after satisfying the requirements of Section 3.1 hereof, but prior to the first Entry Date following the satisfaction of such requirements, shall be eligible to participate immediately upon his completion of one Hour of Service following his

9

reemployment by the Company or an Eligible Affiliate, or, if later, the first Entry Date following the satisfaction of such requirements.

ARTICLE IV

Contributions

4.1 Company Contributions: For each Plan Year, the Company shall contribute to the Trust Fund a contribution for each Member and former Member who is entitled to have a contribution made on his behalf for such Plan Year, as set forth in Section 6.1 hereof. The contribution made on behalf of each Member and former Member so entitled shall be that uniform percentage (but in no event less than one-tenth of one percent (.1%)) of the Annual Compensation of each such Member and former Member that is cumulatively equal to 15% of ANP, with such cumulative amount reduced by the contribution made to the Southwest Airlines Co. Deferred Compensation Plan for Pilots for such Plan Year pursuant to section 3.2 thereof.

For purposes of the foregoing, ANP is the operating profit of the Company for such Plan Year. As used herein, the term 'operating profit' of the Company for any Plan Year shall mean its income for such Plan Year before income taxes, derived in accordance with generally accepted accounting principles, and as set forth in the Company's audited statement of income included in the annual report to shareholders, before provision for any contribution to this Plan, excluding (1) nonoperating and non-recurring gains or losses not arising from the Company's usual business operations, including gains or losses from the sale or exchange of capital assets, as set forth in the Company's audited statement of income, and (2) profits or losses incurred by TranStar or any separately definable division of the Company; provided, however that notwithstanding the foregoing, profits and losses incurred by Morris Air Corporation shall be taken into account for Plan Years beginning after December 31, 1993. In no event shall the

Company Contribution for a Plan Year exceed the total amount deductible as a Plan contribution for such Plan Year under the applicable provisions of the Code.

The contribution shall be made either (1) in cash, (2) in Common Stock having a fair market value equal to the amount of the contribution, or (3) in cash and Common Stock having an aggregate fair market value equal to the amount of the contribution. The fair market value of any Common Stock contributed shall be based on the mean of the reported high and low sales prices of Common Stock on the New York Stock Exchange-Composite Tape on the day of the contribution to the Plan; except however, if the Company acquires Common Stock on the open market and contributes it to the Plan immediately following the settlement date, then the fair market value of the contribution shall be equal to the cost paid by the Company for the Common Stock, including commissions and other expenses which the Trustee would incur in the acquisition of Common Stock if the Trustee acquired the Common Stock directly. Any portion of the contribution made in Common Stock may be made in the form of authorized but unissued shares or shares previously issued and reacquired by the Company.

Company Contributions shall be added to and become a part of the Trust Fund, and, as of each Allocation Date, shall be credited to the Individual Accounts of the Members, as provided in Section 6.1 hereof.

ARTICLE V

Adjustment of Individual Accounts

5.1 Individual Accounts: The Committee shall establish an Individual Account for each Member showing the monetary value of the individual interest in the Trust Fund of each Employee, former Employee and Beneficiary. The Individual Account of each Member shall be composed of an Employer Savings Account, to which Company Contributions and forfeitures, if

11

any, shall be credited. In addition, if a Member was at any time prior to the Effective Date a member of the Prior Plan who, prior to January 1, 1987, made voluntary Deductible Contributions or Nondeductible Contributions, his Individual Account shall include a Deductible Contribution Account and/or Nondeductible Contribution Account, as applicable. Such accounts are primarily for accounting purposes and do not require a segregation of the Trust Fund, except as otherwise provided herein.

5.2 Method of Adjustment: As of each Valuation Date, before any restoration of accounts as required pursuant to Section 15.3 hereof and before taking into account the contributions of the Company and forfeitures for the period since the last preceding Valuation Date, the Committee or the Trustee, as directed by the Committee, shall value the assets of each investment fund and adjust the Individual Accounts of all Members who have elected to participate in such investment fund as follows:

(a) The Committee shall determine the market value of the investment fund, including the effect of expenses of administration and other charges against such investment fund since the last Valuation Date.

(b) The Committee shall determine the total aggregate value of all Individual Accounts participating in the investment fund as shown in its records as of the prior Valuation Date. The Individual Account balances of Employees, former Employees and Beneficiaries shall be reduced by any amounts paid to them from the investment fund since the last Valuation Date.

(c) The Committee shall then adjust the value of each Individual Account participating in the investment fund by crediting each Individual Account with its proportion of the difference between (a) and (b) if (a) is the larger or charging it with its proportion of the difference between (a) and (b) if (b) is larger; the proportion to be so credited or charged to each Individual Account shall be calculated by multiplying the difference between (a) and (b) by a fraction, the numerator of which is the then value of said Individual Account and the denominator of which is the then aggregate value of all Individual Accounts participating in such investment fund.

12

ARTICLE VI

Allocations

6.1 Company Contribution: As of each Allocation Date, but after any adjustment of Individual Accounts, as provided in Section 5.2, and other applicable provisions herein, the Committee shall credit the Company Contribution, as described in Section 4.1 hereof, for the Plan Year ending with said Allocation Date to the Individual Accounts of all Members and former Members, except those Members and former Members who: (a) failed to complete at least 1,000 Hours of Service during such Plan Year or (b) terminated employment prior to the Allocation Date and who do not have any nonforfeitable right to a benefit hereunder.

6.2 Allocation of Forfeitures: If a Member or former Member forfeits a portion of his Individual Account as provided in Section 10.3 hereof, then said forfeited amount shall be used first to restore the Individual Accounts of rehired Members, as required under Section 15.3 hereof. Any remaining forfeitures shall be allocated as soon as practicable following the Plan Year in which said forfeiture occurs among the Individual Accounts of the Members and former Members who are eligible to have a Company contribution credited on their behalf for such Plan Year, as set forth in Section 6.1 hereof. The amount of the forfeiture allocated under this Section 6.2 to the Individual Account of such Member or former Member shall be in the proportion that his Annual Compensation for the Plan Year in which the allocation occurs bears to the total Annual Compensation for such Plan Year of all such Members and former Members.

If a Member or former Member who does not have any nonforfeitable right to his Individual Account terminates his employment and thereby forfeits his Individual Account, then in the event such Member or former Member is reemployed before he has incurred five (5) or more

13

consecutive Breaks in Service, his Individual Account which was forfeited shall be restored by the Company at the time of his reemployment.

6.3 Notification to Members: At least annually, the Committee shall advise each Member, former Member and Beneficiary for whom an Individual Account is held hereunder of the then balance in such account.

6.4 Maximum Annual Addition to Account or Benefit:

(a) Limitations. If the Employer maintains this Plan and one or more other qualified defined contribution plans, the Annual Additions (as defined in subsection (b) below) allocated under this Plan to any Member's Individual Account shall be limited in accordance with the allocation provisions of this subsection 6.4(a).

The amount of the Annual Additions which may be allocated under this Plan to the Individual Account of any Member as of any Allocation Date, together with Annual Additions allocated on behalf of any such Member under any other defined contribution plan of the Employer for the Limitation Year (as defined in subsection (b) below) in which such Allocation Date occurs, shall not exceed the Maximum Permissible DC Amount (as defined in subsection (b) below), based upon Annual Compensation up to such Allocation Date for such Limitation Year.

If the Annual Additions allocated on behalf of a Member or former Member under this Plan and any other defined contribution plan of the Employer are to be reduced as of any Allocation Date as a result of exceeding the limitations described in the next preceding two paragraphs, such reduction shall be, to the extent required, effected by first reducing the Annual Additions to be allocated on behalf of such Member or former Member under this Plan as of such Allocation Date.

If as a result of the first three paragraphs of this subsection 6.4(a) the allocation of Annual Additions under this Plan is to be reduced, such reduction shall be allocated to a suspense account as of such Allocation Date and held therein until the next succeeding Allocation Date on which Company Contributions and forfeitures could be allocated under the provisions of the Plan, at which time such reduction shall be allocated and reallocated to the Individual Accounts of Members hereunder (in accordance with the provisions of Section 6.1 hereof and subject to the limitations of this Section 6.4) before any Company Contributions may be made to the Plan for the limitation year ending on such Allocation Date. In the event of termination of the Plan, the suspense account shall revert to the Company to the extent it may not be allocated to any Individual Account. If a suspense account is in existence at any time during a Limitation Year pursuant to this Section, it will not participate in the allocation of the Trust Fund's investment gains and losses.

14

(b) Definitions Applicable to Section 6.4. For purposes of Section 6.4, the following definitions shall apply:

(1) Annual Additions: Annual Additions are the sum of the following amounts allocated on behalf of a Member or former Member for a Limitation Year:

(i) all Employer contributions;

(ii) all forfeitures;

(iii) all Employee contributions; and

(iv) amounts allocated after March 31, 1984, to an individual medical benefit account, as defined in Code Section 415(l)(2) which is part of a pension or annuity plan maintained by the Employer, and amounts derived from contributions paid or accrued after December 31, 1985, in taxable years ending after such date, which are attributable to post-retirement medical benefits allocated to the separate account of a key employee (as defined in Code Section 419(d)(3)) under a welfare benefit plan (as defined in Code Section 419(e) maintained by the Employer.

The Annual Additions for any Limitation Year beginning before January 1, 1987, shall not be recomputed to treat all Employee Contributions as Annual Additions.

(2) Employer: Employer shall mean, in addition to the Company (as defined in Section 2.1(i) hereof, all members of a controlled group of corporations (as defined in Section 414(b) of the Code as modified by Section 415(h)), all commonly controlled trades or businesses (as defined in Section 414(c) as modified by Section 415(h)) or affiliated service groups (as defined in Section 414(m)) of which the Company is a part, and any other entity required to be aggregated with the Company pursuant to regulations under Section 414(o) of the Code.

(3) Limitation Year: The Limitation Year shall be the twelve (12) consecutive month period ending on the last day of December or any other twelve (12) consecutive month period for all qualified plans of the Company pursuant to a written resolution the Company adopts.

(4) Maximum Permissible DC Amount: The Maximum Permissible DC Amount for a given Limitation Year is equal to the lesser of (i) 25% of Annual Compensation (excluding contributions made by the Employer pursuant to a salary reduction agreement under a plan subject to Code Section 401(k) or Code Section 125) for such Limitation Year or (ii) \$30,000. Effective January 1, 1998, the Maximum Permissible DC Amount for a given Limitation Year is equal to the lesser of (i) 25% of Annual Compensation for such Limitation Year or (ii) \$30,000. If a short Limitation Year is created because of an amendment changing

15

the Limitation Year to a different twelve (12) consecutive month period, the \$30,000 referred to in the previous sentence is multiplied by a fraction, the numerator of which is equal to the number of months in the short Limitation Year and the denominator of which is twelve.

ARTICLE VII

Retirement

7.1 Normal or Late Retirement: A Member, upon reaching his Normal Retirement Date for the purposes of this Plan, shall be one hundred percent (100%) vested in his Individual Account and such amount contained therein shall be nonforfeitable. If a Member continues in the employment of the Company beyond his Normal Retirement Date, he shall continue to participate in the Plan.

7.2 Benefit: Upon Retirement (whether normal or late Retirement in accordance with Section 7.1), a Member shall be entitled to the entire amount to the credit of his Individual Account as of the Valuation Date concurrent with or next following his date of Retirement, including his portion, if any, of Company

Contributions and forfeitures allocated after his date of Retirement, adjusted for earnings and losses, if any, which accrue to the Valuation Date immediately preceding the date of distribution, if later. Upon his Retirement under this Article VII, a Member shall receive the benefits to which he is entitled at the time and in the manner provided in Article XV hereof.

ARTICLE VIII

Death

8.1 Designation of Beneficiary: Each Member and former Member may, from time to time, designate one or more Beneficiaries and alternate Beneficiaries to receive benefits pursuant to this Article in the event of the death of such Member or former Member. Such designation shall be made in writing upon a form provided by the Committee and shall only be

16

effective when filed with the Committee. The last such designation filed with the Committee shall control.

If a Member is married, his spouse shall automatically be his Beneficiary; provided, however, a Beneficiary other than his spouse may be designated if (1) his spouse consents in writing to such designation, the consent acknowledges the effect of such designation and the designation is witnessed by a member of the Committee or a notary public, or (2) it is established to the satisfaction of the Committee that there is sufficient reason why the consent may not be obtained.

8.2 Benefit: Subject to the requirements of Section 18.11 hereof, upon the death of a Member or former Member, his designated Beneficiary shall be entitled to the entire amount to the credit of his Individual Account as of the Valuation Date concurrent with or next following his date of death, including his portion, if any, of Company Contributions and forfeitures allocated after the date of his death, adjusted for earnings and losses, if any, which accrue to the Valuation Date immediately preceding the date of distribution, if later. Payment shall be made at the time and in the manner provided in Article XV hereof.

8.3 No Beneficiary: If a Member or former Member dies without a designated Beneficiary surviving him, or if all his Beneficiaries die before receiving the payment to which they are entitled, then any amounts to which such Member, former Member or Beneficiary is entitled hereunder shall be paid to his estate.

For the purpose of this Plan, the production of a certified copy of the death certificate of any Employee or other person shall be sufficient evidence of death, and the Committee shall be fully protected in relying thereon. In the absence of such proof, the Committee may rely upon such other evidence of death as it deems necessary or advisable.

17

ARTICLE IX

Disability

9.1 Benefit: In the event of the Disability of a Member or former Member, he shall be entitled to the entire amount to the credit of his Individual Account as of the Valuation Date concurrent with or next following the date on which his termination of employment occurs as a result of his Disability, including his portion, if any, of Company Contributions and forfeitures allocated after the date of his termination of employment, adjusted for earnings and losses, if any, which accrue to the Valuation Date immediately preceding the date of distribution, if later. Payments shall be made at the time and in the manner provided in Article XV hereof.

ARTICLE X

Termination of Employment and Forfeitures

10.1 Eligibility and Benefits: If a Member's employment with the Company and all Eligible Affiliates shall terminate for any reason other than his Retirement Under Article VII, death under Article VIII, or Disability under Article IX, such Member shall be entitled to all of his Nondeductible Contribution Account and Deductible Contribution Account and to a percentage of the amount in his Employer Savings Account as of the Valuation Date concurrent with or next following the date on which his termination of employment occurs, including his portion, if any, of Company Contributions and forfeitures allocated after the date of his termination of employment, adjusted for earnings and losses, if any, which accrue to the Valuation Date immediately preceding the

date of distribution, if later. The percentage of a Member's Employer Savings Account to which he is entitled shall be determined in accordance with the following schedule:

18

<TABLE>
<CAPTION>

Completed Years of Vesting Service -----	Percentage Payable -----
Less than 5 years	0%
5 years or more	100%

</TABLE>

The vesting schedule set forth above shall only apply to Members who have at least one (1) Hour of Service after December 31, 1988.

The provisions of this Section shall be subject to the provisions of Section 17.3 hereof, which shall be given full effect.

10.2 Time of Payment: The amount to which a Member shall be entitled under Section 10.1 shall be paid to him at the time and in the manner provided in Article XV hereof.

10.3 Forfeitures: A Member to whom Section 10.1 is applicable shall forfeit that portion of the amount in his Individual Account to which he is not entitled under Section 10.1 and the amount thus forfeited shall remain in the Trust Fund and shall be allocated pursuant to the provisions of Section 6.2. A Member who does not have any nonforfeitable right to his Individual Account shall be deemed to have received a cashout distribution pursuant to Section 15.3 hereof, and shall forfeit the amount in such Individual Account in the Plan Year in which his termination of employment occurs.

10.4 Forfeiture for Cause: In the event a Member who has not completed at least five (5) years of Vesting Service is discharged due to his dishonest or criminal act (proven by conclusive evidence to the unanimous satisfaction of the Committee) or due to embezzlement, fraud, or dishonesty against and damaging to the Company whereby the reasons for such discharge are confirmed by resolution of the board of directors or other governing authority of the Company, the entire amount credited to the benefit of such Member in his Company Matching Contribution Account shall be forfeited and neither he nor his Beneficiary shall be

19

entitled to any benefit hereunder with respect to such amounts. Likewise, any amounts credited, but not distributed, to the Employer Savings Account of a former Member who has not completed at least five (5) years of Vesting Service shall be forfeited upon the discovery of any embezzlement, fraud or dishonesty of such former Member against and damaging to the Company. Notwithstanding the foregoing, in the event the Plan is top-heavy for any Plan Year pursuant to Section 19.2 hereof, the provisions of Section 19.4 shall supersede this Section 10.4 and shall be controlling for all purposes hereunder.

ARTICLE XI

Withdrawals

11.1 Withdrawals:

(a) Nondeductible and Deductible Contribution Accounts. Effective as of any Valuation Date, a Member may, upon prior written notice to the Committee within the time period established by the Committee for such elections, elect to withdraw from his Nondeductible and Deductible Contribution Accounts any or all of the balance thereof, as of such Valuation Date. If a Member timely elects such a withdrawal, distribution shall be made as soon as practicable following such Valuation Date.

(b) Employer Savings Account. Subject to the requirements of Section 18.11 hereof, on or after the date on which he attains Normal Retirement Age, a Member who remains employed by the Company or any Eligible Affiliate shall have the right at any one time prior to the close of any Plan Year to elect in writing, within the time period established by the Committee for such elections, to withdraw all, but not less than all, of his vested interest (determined pursuant to Section 10.1 hereof, without regard to Articles VII, VIII or IX hereof, as if he had terminated his employment as of the end of such Plan Year

for a reason other than Disability, Retirement or death) in his Employer Savings Account as of the end of such Plan Year. A Member who makes an election under this subsection (b) shall be entitled to have credited to his Employer Savings Account his allocable share of the Company Contributions and forfeitures for the Plan Year in which the election is made. An electing Member's vested interest shall be distributed to him in one lump sum within ninety (90) days after the close of the Plan Year in which such election is made, or, if later, the date as of which the value of the Member's Employer Savings Account is finally determined. Partial payment may be made, however, prior to that date in the sole and absolute discretion of the Committee; provided, however, in no event shall any partial payment be made if full payment would be made to the Member in more than one taxable year. A Member who makes an election under this subsection (b) shall be prohibited from participating further in the Plan (and no Company Contributions or forfeitures shall be allocated to his Employer Savings Account) until the first day of

20

the first Plan Year beginning one year after the end of the Plan Year in which the Member's election under this subsection (b) was made.

ARTICLE XII

Investment of the Trust Fund

12.1 [deleted]:

12.2 Member Direction of Investment: Each Member shall have the right to direct the Committee to instruct the Trustee to invest any whole percentage, up to one hundred percent (100%), of such Member's current Company Contributions and forfeitures in one or more of such investment media as the Committee may designate from time to time. The Committee shall be authorized at any time and from time to time to modify, alter, delete or add to the funds available for investment at the direction of a Member. In the event a modification occurs, the Committee shall notify those Members whom the Committee, in its sole and absolute discretion, determines are affected by the change, and shall give such persons such additional time as is determined by the Committee to designate the manner and percentage in which amounts invested in those funds thereby affected shall be invested.

The Committee shall not be obligated to substitute funds of similar investment criteria for existing funds, nor shall it be obligated to continue the types of investments presently available to the Members. Nothing contained herein shall constitute any action by the Committee as a direction of investment of the assets or an attempt to control such direction.

Any Member, on or before his entry into the Plan, within the time period established by the Committee, may designate the manner and the percentage in which the Member desires the Trustee to invest his current Company Contributions and forfeitures, pursuant to the provisions set forth above, which designation shall continue in effect until revoked or modified by the Member. If a Member fails to designate the investment of his current Company Contributions

21

and forfeitures on or before his entry into the Plan, or if a Member wishes to change such designation, the Member may make such designation or change, within the time period established by the Committee, to become effective for all such future contributions and forfeitures, and such designation or change shall continue in effect until revoked by the Member in accordance with this Plan.

In the event the nature of any fund shall, in the opinion of the Committee, change, then the Committee shall notify those Members who the Committee, in its sole and absolute discretion, determines are affected by the change, who shall have a reasonable period of time, as determined by the Committee, to designate the manner and the percentages in which amounts invested in those funds affected by the change shall be invested.

Any amounts not directed by a Member for investment shall be invested in the fund or funds designated by the Committee, in its sole and absolute discretion. The provisions of this Section 12.2 shall be subject to such administrative rules as may be established by the Committee. All investment designations shall be made in the manner prescribed by the Committee.

The Committee shall maintain separate subaccounts in the name of each Member within his Individual Account to reflect such Member's accrued benefit attributable to his directed investment in the above investment media.

12.3 Conversion of Investments:

(a) Member's Individual Account. Effective as of any Valuation Date, within the time period prior thereto established by the Committee, and subject to any restrictions on transfer imposed under particular investment funds, a Member may, pursuant to guidelines established by the Committee, direct the Committee to instruct the Trustee to convert any whole percentage, up to one hundred percent (100%), of the amount in such Member's Individual Account which is invested in any of the investment media set forth in Section 12.2 hereof into one or more other of such investment media. Such direction

22

shall be effective as soon as practicable following the date of receipt by the Committee of such direction to convert.

(b) Conversion Directions. A direction to convert by any eligible Member shall be irrevocable and shall be made in the manner prescribed by the Committee within the time period established by the Committee. Any conversion of investments pursuant to this Section 12.3 shall not affect a Member's direction of investments with respect to his future contributions and forfeitures pursuant to Section 12.2.

(c) Direction of Spouse. If a Member's spouse who is not a Member in this Plan acquires an interest in a Member's Individual Account pursuant to a qualified domestic relations order, then the Member's spouse may direct the Committee to convert the investment of the interest to which such spouse is thus entitled in the same manner and at the same time as the Member may direct a conversion of investments, as provided above. If such spouse becomes a Member of the Plan, the spouse shall be entitled to convert such investments in accordance with the rights of Members in the Plan.

If such spouse becomes a Member of the Plan, the spouse shall be entitled to convert such investments in accordance with the rights of Members in the Plan.

(d) Miscellaneous. The Committee is authorized to establish such other rules and regulations, including adding additional times to convert investments, as it determines are necessary to carry out the provisions of Sections 12.2 and 12.3, the specific dates of conversion to be determined by the Committee, and all earnings on the Member's investments after such dates shall be allocated in accordance with the Member's Employer Savings Account, as adjusted on such dates. The Committee shall be authorized to modify the allocations of earnings, provided such change is made on a reasonable and nondiscriminatory basis.

ARTICLE XIII

Administration

13.1 Appointment of Committee: The Plan shall be administered by a Committee consisting of at least three or more persons who shall be appointed by and serve at the pleasure of the board of directors of the Company. All usual and reasonable expenses of the Committee shall be paid by the Trustee out of the principal or income of the Trust and, to the extent not so paid, shall be paid by the Company. The members of the Committee shall not receive compensation with respect to their services for the Committee. The members of the Committee may serve without bond or security for the performance of their duties hereunder unless

23

applicable law makes the furnishing of such bond or security mandatory or unless required by the Company. Any member of the Committee may resign by delivering his written resignation to the Company and to the other members of the Committee.

13.2 Committee Powers and Duties: The Committee shall have such powers as may be necessary to discharge its duties hereunder, including, but not by way of limitation, the following powers and duties:

(a) to construe and interpret the Plan, decide all questions of eligibility and determine the amount, manner and time of payment of any benefits hereunder;

(b) to prescribe procedures to be followed by distributees in obtaining benefits;

(c) to make a determination as to the right of any person to a benefit and to afford any person dissatisfied with such determination the right to a hearing thereon;

(d) to receive from the Company, Eligible Affiliates, and from Members such information as shall be necessary for the proper administration of the Plan;

(e) to delegate to one or more of the members of the Committee the right to act in its behalf in all matters connected with the administration of the Plan and Trust;

(f) to receive and review reports of the financial condition and of the receipts and disbursements of the Trust Fund from the Trustee;

(g) to appoint or employ for the Plan any agents it deems advisable, including, but not limited to, legal counsel; and

(h) to take any and all further actions from time to time as the Committee, in its sole and absolute discretion, shall deem necessary for the proper administration of the Plan.

The Committee shall have no power to add to, subtract from or modify any of the terms of the Plan, nor to change or add to any benefits provided by the Plan, nor to waive or fail to apply any requirements of eligibility for benefits under the Plan. The Committee shall have full and absolute discretion in the exercise of each and every aspect of its authority under this Plan, including without limitation, all of the rights, powers and authorities specified in this Section 13.2 and, if applicable, in Section 13.3 hereof.

24

A majority of the members of the Committee shall constitute a quorum for the transaction of business. No action of the Committee shall be taken except upon a majority vote of the Committee members, other than as described in subparagraph (e) above. An individual shall not vote or decide upon any matter relating solely to himself or vote in any case in which his individual right or claim to any benefit under the Plan is particularly involved. If, in any case in which a Committee member is so disqualified to act, and the remaining members cannot agree, the board of directors of the Company will appoint a temporary substitute member to exercise all the powers of the disqualified member concerning the matter in which he is disqualified.

13.3 Duties and Powers of the Plan Administrator: The Plan Administrator shall have such powers as may be necessary to discharge his duties hereunder, including, but not by way of limitation, the following powers and duties:

(a) to file with the Secretary of Labor the annual report, plan description, summary plan description, and other pertinent documents which may be requested by the Secretary;

(b) to file with the Secretary of Labor such terminal and supplementary reports as may be necessary in the event of the termination of the Plan;

(c) to furnish each Member, former Member and each Beneficiary receiving benefits hereunder a summary plan description explaining the Plan;

(d) to furnish any Member, former Member or Beneficiary, who requests in writing, statements indicating such Member's, former Member's or Beneficiary's total accrued benefits and nonforfeitable benefits, if any;

(e) to furnish to a Member a statement containing information contained in a registration statement required by Section 6057(a)(2) of the Code;

(f) to maintain all records necessary for verification of information required to be filed with the Secretary of Labor;

(g) to allocate the assets of the Plan available to provide benefits to Members in the event the Plan should terminate; and

(h) to report to the Trustee all available information regarding the amount of benefits payable to each Member, the computations with respect to the allocation of

25

assets, and any other information which the Trustee may require in order to terminate the Plan.

13.4 Rules and Decisions: The Committee may adopt such rules as it deems necessary or desirable. All rules and decisions of the Committee shall be uniformly and consistently applied to all Employees in similar circumstances. The Committee is required to provide a notice in writing to any person whose claim for benefits under the Plan has been denied, setting forth the specific reasons for such denial. The Committee shall adopt rules or procedures to carry out the intent of this Section and to provide a basis for a full and fair review by the Committee of the decision denying the claim and provide such person with an opportunity to supply any evidence he has to sustain the claim.

13.5 Committee Procedures: The Committee may adopt such bylaws as it deems desirable. The Committee shall elect one of its members as chairman. The Committee shall advise the Trustee of such election in writing. The Committee shall keep a record of all meetings and forward all necessary communications to the Trustee.

13.6 Authorization of Benefit Payments: The Committee shall issue directions to the Trustee concerning all benefits which are to be paid from the Trust Fund pursuant to the provisions of the Plan. The Committee shall keep on file, in such manner as it may deem convenient or proper, all reports from the Trustee.

13.7 Payment of Expenses: All expenses incident to the administration, termination or protection of the Plan and Trust, including but not limited to, actuarial, legal, accounting, and Trustee's fees, shall be paid by the Trustee from the Trust Fund and, until paid, shall constitute a first and prior claim and lien against the Trust Fund. To the extent such expenses are not paid by the Trustee from the Trust Fund, they shall be paid by the Company.

26

13.8 Indemnification of Members of the Committee: The Company shall, to the maximum extent permitted under the Company's bylaws, indemnify the members of the Committee against liability or loss sustained by them by an act or failure to act in their capacity as members of the Committee.

ARTICLE XIV

Notices

14.1 Notice to Trustee: As soon as practicable after a Member ceases to be in the employ of the Company for any of the reasons set forth in Articles VII through X, inclusive, the Committee shall give written notice to the Trustee, which notice shall include such of the following information and directions as are necessary or advisable under the circumstances:

- (a) name and address of the Member;
- (b) name and address of the Beneficiary or Beneficiaries in case of a Member's death;
- (c) amount to which Member is entitled in case of termination of employment pursuant to Article X; and
- (d) manner and amount of payments to be made pursuant to Article XV.

If a former Member dies, the Committee shall give a like notice to the Trustee, but only if the Committee learns of his death.

14.2 Subsequent Notices: At any time and from time to time after giving the notice as provided for in Section 14.1, the Committee may modify such original notice or any subsequent notice by means of a further written notice or notices to the Trustee; but, any action theretofore taken or payments theretofore made by the Trustee pursuant to a prior notice shall not be affected by a subsequent notice.

14.3 Reliance upon Notice: Upon receipt of any notice as provided in this Article, the Trustee shall promptly take whatever action and make whatever payments are called for therein,

27

it being intended that the Trustee may rely upon the information and directions in such notice absolutely and without question. However, the Trustee may call to the attention of the Committee any error or oversight which the Trustee believes

to exist in any notice.

ARTICLE XV

Benefit Payments

15.1 Method of Payment: As soon as practicable after a Member, former Member or Beneficiary is entitled to receive benefits hereunder, as provided in Articles VII, VIII, IX or X and this Article XV, the Committee shall give written notice to the Trustee. Such benefits shall be paid to the Member, former Member or his Beneficiary in a lump sum. Any benefit payable hereunder will be paid in cash or in whole shares of Common Stock, as elected by the Member, former Member or Beneficiary; provided, however, that such benefit shall in any event be paid in whole shares of Common Stock to the extent that such Member's, former Member's or Beneficiary's Individual Account is invested in Common Stock, pursuant to Article XII hereof. Any fractional shares of Common Stock shall be converted to, and paid, in cash.

15.2 Time of Payment: Distribution of a Member's benefits shall commence as soon as administratively practicable, but in no event later than one (1) year, after the Valuation Date coincident with or immediately following the date on which a Member, former Member or Beneficiary shall become entitled to receive a benefit hereunder. Notwithstanding the foregoing, if the nonforfeitable portion of a Member's or former Member's Individual Account exceeds (or at the time of any prior distribution exceeded) Three Thousand Five Hundred and No/100 Dollars (\$3,500.00) in Plan Years beginning prior to January 1, 1998, or Five Thousand and No/100 Dollars (\$5,000.00) for Plan Years beginning on or after January 1, 1998, no distributions may commence without the consent of the Member or former Member until he

28

attains age sixty-two (62). The Committee shall notify the Member or former Member of the right to defer any distribution until the date on which he attains age sixty-two (62). Such notification shall be provided no less than thirty (30) days and no more than ninety (90) days prior to the annuity starting date. The annuity starting date is the first day of the first period for which a benefit is paid hereunder. Notwithstanding the foregoing, the consent of the Member or former Member shall not be required to the extent that a distribution is required to satisfy Section 415 of the Code. In addition, upon termination of this Plan, if the Plan does not then offer an annuity option, the Member's or former Member's Individual Account may, without his consent, be distributed to the Member or former Member or transferred to another defined contribution plan maintained by an Affiliate.

Distributions shall be made no later than the required beginning date, which, effective January 1, 1997, is April 1st of the calendar year following the later of: (a) the calendar year in which a Member attains age 70 1/2, or (b) the calendar year in which a Member retires; provided that if a Member is a Five Percent (5%) Owner (as such term is defined in Section 19.1 hereof), then the required beginning date is April 1st of the calendar year following the calendar year in which such Member attains age 70 1/2. Subject to the provisions of Section 18.11 hereof, distribution of the entire Individual Account of a Member who attains age 70 1/2 on or after September 15, 2000 shall be made in a single lump sum on or before such Member's required beginning date.

In the case of a Member who is a Five Percent (5%) Owner, subject to the requirements of Section 18.11 hereof, the minimum installment distribution required for the calendar year immediately preceding such Member's required beginning date must be made on or before his required beginning date, and the minimum installment distribution for other calendar years,

29

including the minimum installment distribution for the calendar year in which the Member's required beginning date occurs, must be made on or before December 31 of such calendar year. All minimum distributions required under this Article XV shall be determined and made in accordance with the applicable Treasury Regulations under Section 401(a)(9) of the Code, including the minimum distribution incidental benefit requirement of Section 1.401(a)(9)2 of the Treasury Regulations. Neither the life expectancy of the Member nor that of his spouse may be recalculated for purposes of determining minimum distributions. If minimum distributions have commenced to a Five Percent (5%) Owner, such that payments are being made over the life expectancy of the Member, and he dies before his entire interest has been distributed, then the remaining portion of such interest shall be distributed at least as rapidly as under the method of distribution being used as of the date of his death, but in no event later than one (1) year after the Valuation Date coincident with or immediately following his death. On the other hand, if such Member dies before the distribution of any of his benefits has begun, then his entire interest will be distributed no later than one (1) year after the Valuation Date coincident with or immediately

following his death. If the designated Beneficiary is such Member's surviving spouse and such surviving spouse dies after the Member, but before payments to such surviving spouse begin, then the provisions of the preceding sentence shall be applied as if the surviving spouse were the Member. Furthermore, if the designated Beneficiary is the surviving spouse of the Member, then distributions to such surviving spouse will not be required to begin earlier than the later of: (a) December 31 of the calendar year immediately following the calendar year of the Member's death and (b) December 31 of the calendar year in which the Member would have attained age 70 1/2. Distribution of benefits is considered to have begun, for purposes of this paragraph, on the required beginning date; provided that if such Member's designated Beneficiary is his surviving

30

spouse, and such surviving spouse dies after the Member but before payments to such surviving spouse have begun, then distribution of benefits is considered to have begun on the date distribution to the surviving spouse is required to begin pursuant to the provisions of this paragraph. Any amount paid to the child of such Member will be treated as if it had been paid to the surviving spouse if the amount becomes payable when the child reaches the age of majority.

In the case of a Member who attains age 70 1/2 prior to September 15, 2000, subject to the requirements of Section 18.11 hereof, such Member shall continue to be eligible to receive any benefits commencing after such Member has attained age 70 1/2 and prior to April 1 of the calendar year following the calendar year in which such Member attains age 70 1/2 in the form of minimum installment distributions under the rules of the preceding paragraph.

Notwithstanding any provision herein to the contrary, any Member who attains age 70 1/2 in a calendar year after 1995 and prior to September 15, 2000, may irrevocably elect, in the manner established by the Committee, by April 1 of the calendar year following the year in which the Member attains age 70 1/2 (or by December 31, 1997 in the case of a Member who attains age 70 1/2 in 1996) to defer distributions until April 1 of the calendar year following the calendar year in which the Member retires. If no such election is made, the Member will begin receiving distributions by April 1 of the calendar year following the year in which the Member attains age 70 1/2 (or by December 31, 1997 in the case of a Member who attains age 70 1/2 in 1996). Furthermore, any Member who attains age 70 1/2 in a calendar year prior to 1996 may irrevocably elect, in the manner established by the Committee, to stop distributions and recommence distributions as of April 1 of the calendar year following the calendar year in which such Member retires. In such event, there shall be no new annuity starting date upon such recommencement.

31

Unless a Member or former Member elects otherwise, in writing, no distribution hereunder shall start later than 60 days after the close of the Plan Year in which the last to occur of the following occurs:

- (a) the Member or former Member attains Normal Retirement Age,
- (b) the 10th anniversary of the year in which the Member or former Member commenced participation in the Plan, or
- (c) the Member or former Member terminates service with the Company.

15.3 Cash Out Distribution: If a Member or former Member who has received a distribution of his benefits hereunder on or before the last day of the second Plan Year following the year in which his termination of employment occurs has forfeited a portion of his Individual Account, then in the event such Member or former Member is subsequently rehired by the Company or an Eligible Affiliate prior to the date on which he incurs five (5) consecutive Breaks in Service, he shall be entitled to repay, at any time prior to the earlier of: (i) the date which is five (5) years after the first date on which he is subsequently reemployed by the Company or Eligible Affiliate and (ii) the date on which he incurs five (5) consecutive Breaks in Service, the amount of the distribution to him from his Individual Account. Upon such repayment, the rehired Member's or former Member's Individual Account shall be credited with the exact amount which was nonvested at the time of termination. In the event a rehired Member or former Member who has received a distribution hereunder does not timely repay such distribution from his Individual Account, as provided above, then the amount he forfeited at the time of his termination of employment pursuant to the terms of Section 10.3 hereof shall remain forfeited. His prior years of Vesting Service shall be taken into account, however, for purposes of determining his vested interest in contributions following reemployment. If a Member or former Member who does not have any nonforfeitable right to his Individual Account and thus is

deemed to have received a cashout distribution, pursuant to the provisions of Section 10.3 hereof, is subsequently reemployed by the Company or an Eligible Affiliate and five (5) consecutive Breaks in Service have not occurred, then upon such reemployment, the rehired Member's or former Member's Individual Account shall be credited with the exact amount which was nonvested at the time of termination.

15.4 Minority or Disability Payments: During the minority or Disability of any person entitled to receive benefits hereunder, the Committee may direct the Trustee to make payments due such person directly to him or to his spouse or a relative or to any individual or institution having custody of such person. Neither the Committee nor the Trustee shall be required to see to the application of payments so made, and the receipt of the payee (including the endorsement of a check or checks) shall be conclusive as to all interested parties.

15.5 Distributions Under Domestic Relations Orders: Nothing contained in this Plan shall prevent the Trustee, in accordance with the direction of the Committee, from complying with the provisions of a qualified domestic relations order (as defined in Section 414(p) of the Code). Effective July 20, 2000, the Plan specifically permits distribution to an alternate payee under a qualified domestic relations order at any time, irrespective of whether the Member or former Member has attained his earliest retirement age under the Plan, as defined in Section 414(p) of the Code; provided, however, that a distribution to an alternate payee prior to the Member or former Member's attainment of earliest retirement age is available only if: (1) the order specifies distribution at that time or permits an agreement between the Plan and the alternate payee to authorize an earlier distribution; (2) the order specifies such distribution to be in the form of a single, lump-sum payment; and (3) if the amount to which the alternate payee is entitled under the Plan exceeds \$5,000, and the order so requires, the alternate payee consents to

any distribution occurring prior to the Member or former Member's attainment of earliest retirement age. Nothing in this Section 15.5 gives a Member or former Member a right to receive distribution at a time otherwise not permitted under the Plan nor does it permit the alternate payee to receive a form of payment not otherwise permitted under the Plan.

The Plan Administrator shall establish reasonable procedures to determine the qualified status of a domestic relations order. Upon receiving a domestic relations order, the Plan Administrator shall promptly notify the Member or former Member and any alternate payee named in the order, in writing, of the receipt of the order and the Plan's procedures for determining the qualified status of the order. Within a reasonable period of time after receiving the domestic relations order, the Plan Administrator shall determine the qualified status of the order and shall notify the Member or former Member and each alternate payee, in writing, of its determination. The Plan Administrator shall provide notice under this paragraph by mailing to the individual's address specified in the domestic relations order, or in a manner consistent with Department of Labor regulations. The Plan Administrator may treat as qualified any domestic relations order entered prior to January 1, 1985, irrespective of whether it satisfies all the requirements described in Section 414(p) of the Code.

If any portion of an Individual Account is payable during the period the Plan Administrator is making its determination of the qualified status of the domestic relations order, the Committee shall direct the Trustee to segregate the amounts that are payable into a separate account and to invest the segregated account solely in fixed income investments. If the Plan Administrator determines the order is a qualified domestic relations order within eighteen (18) months of receiving the order, the Committee shall direct the Trustee to distribute the segregated account in accordance with the order. If the Plan Administrator does not make its determination

of the qualified status of the order within eighteen (18) months after receiving the order, the Committee shall direct the Trustee to distribute the segregated account in the manner in which the Plan would otherwise distribute if the order did not exist and shall apply the order prospectively if the Plan Administrator later determines the order is a qualified domestic relations order.

To the extent it is not inconsistent with the provisions of the qualified domestic relations order, the Committee may direct the Trustee to invest any amount that is subject to being paid to an alternate payee pursuant to said order into a segregated subaccount or separate account and to invest the

account in federally insured, interest-bearing savings account(s) or time deposit(s) (or a combination of both), or in other fixed income investments. A segregated subaccount shall remain a part of the Trust, but it alone shall share in any income it earns, and it alone shall bear any expense or loss it incurs.

The Trustee shall make any payments or distributions required under this Section 15.5 by separate benefit checks or other separate distribution to the alternate payee(s).

15.6 Direct Rollover of Eligible Rollover Distributions: An individual who is entitled to a benefit hereunder, the distribution of which would qualify as an eligible rollover distribution (as defined in Section 401(a)(31)(C) of the Code) may, in lieu of receiving any payment or payments from the Plan, direct the Trustee to transfer all or any of such payment or payments or any portion directly to the trustee of one or more eligible retirement plans (as defined in Section 401(a)(31)(D) of the Code). Such election must be made on a form provided by the Committee for that purpose and received by the Committee no later than the date established by the Committee preceding the date on which the distribution is to occur. Any election made pursuant to this Section 15.6 may be revoked at any time prior to the date established by the Committee

35

preceding the date on which the distribution is to occur. If an individual who is so entitled has not elected a direct rollover within the time and in the manner set forth above, such distributee shall be deemed to have affirmatively waived a direct rollover. A distributee who wishes to elect a direct rollover shall provide to the Committee, within the time and in the manner prescribed by the Committee, such information as the Committee shall reasonably request regarding the eligible retirement plan or plans to which the payment or payments are to be transferred. The Committee shall be entitled to rely on the information so provided, and shall not be required to independently verify such information. The Committee shall be entitled to delay the transfer of any payment or payments pursuant to this Section 15.6 until it has received all of the information which it has requested in accordance with this Section 15.6.

ARTICLE XVI

Trustee

16.1 Appointment of Trustee: A Trustee (or Trustees) shall be appointed by the Committee to administer the Trust Fund. The Trustee shall serve at the pleasure of the Committee and shall have such rights, powers and duties as are provided to a Trustee under ERISA for the investment of assets and for the administration of the Trust Fund.

16.2 Appointment of Investment Manager: An Investment Manager (or Investment Managers) may be appointed by the Committee to manage (including the power to acquire and dispose of) any part or all of the assets of the Trust Fund. The Investment Manager shall serve at the pleasure of the Committee, and shall have the rights, powers and duties provided to a named fiduciary under ERISA for the investment of the assets assigned to it. (The Investment Manager may be referred to from time to time hereafter as "he," "they," or "it," or may be referred to in

36

the singular or plural, but all such references shall be to the then acting Investment Manager or Investment Managers serving hereunder.)

16.3 Responsibility of Trustee and Investment Manager: All contributions under this Plan shall be paid to and held by the Trustee. The Trustee shall have responsibility for the investment and reinvestment of the Trust Fund except with respect to the management of those assets specifically delegated to the Investment Manager and those funds invested pursuant to the provisions of Section 15.5. The Investment Manager shall have exclusive management and control of the investment and/or reinvestment of the assets of the Trust Fund assigned to it in writing by the Trustee. All property and funds of the Trust Fund, including income from investments and from all other sources, shall be retained for the exclusive benefit of Members or former Members, as provided herein, and shall be used to pay benefits to Members or former Members or their Beneficiaries, or to pay expenses of administration of the Plan and Trust Fund to the extent not paid by the Company.

This Plan and the related Trust are intended to allocate to each fiduciary the individual responsibilities of the prudent execution of the functions assigned to each. None of the allocated responsibilities or any other responsibility shall be shared by the fiduciaries or the Trustee unless such sharing shall be provided for by a specific provision in this Plan or related Trust.

16.4 Bonding of Trustee and Investment Manager: Neither the Trustee nor the Investment Manager shall be required to furnish any bond or security for the performance of their powers and duties hereunder unless the applicable law makes the furnishing of such bond or security mandatory.

37

ARTICLE XVII

Amendment and Termination of Plan

17.1 Amendment of Plan: The Company may, without the assent of any other party, make from time to time any amendment or amendments to this Plan which do not cause any part of the Trust Fund to be used for, or diverted to, any purpose other than the exclusive benefit of Members or former Members of the Plan. Any such amendment shall be by a written instrument executed by the Company, and shall become effective as of the date specified in such instrument. Notwithstanding the foregoing, no amendment to the Plan shall be effective to the extent that it has the effect of decreasing a Member's or former Member's accrued benefit, except as provided in Section 412(c)(8) of the Code. For purposes of the preceding sentence, an amendment which has the effect of decreasing a Member's or former Member's Individual Account or eliminating an optional form of benefit, with respect to benefits attributable to service prior to such amendment shall be treated as reducing an accrued benefit. If any amendment changes the vesting schedules set forth in Sections 10.1 or 19.4, then a Member's or former Member's nonforfeitable percentage in his Individual Account because of a change to the vesting schedule shall not be less than his nonforfeitable percentage computed under the vesting schedule in effect prior to the amendment. Furthermore, if any amendment changes the vesting schedules set forth in Sections 10.1 or 19.4, then each Member or former Member having at least three (3) Years of Vesting Service may elect to be governed under the vesting schedules set forth in the Plan without regard to the amendment. The Member or former Member must file his written election with the Committee within sixty (60) days after receipt of a copy of the amendment. The Committee shall furnish the Member or former Member with a copy of the amendment and with notice of the time within which his election must be returned to the Committee.

38

17.2 Termination of Plan: The Company may at any time, effective as specified, terminate the Plan by resolution of its board of directors. A certified copy of such resolution shall be delivered to the Trustee.

17.3 Complete Discontinuance of Contributions: In the event the Company decides it is impossible or inadvisable for it to continue to make its contributions as provided in Article IV, it shall have the power by appropriate resolution to either:

- (a) discontinue its contributions to the Plan; or
- (b) terminate the Plan.

A complete discontinuance of contributions by the Company shall not constitute a formal termination of the Plan and shall not preclude later contributions, but all Individual Accounts of Members or former Members not theretofore fully vested shall be and become 100% vested and nonforfeitable in the respective Members or former Members, irrespective of the provisions of Sections 10.1 or 19.4. In such event, Employees who become eligible to enter the Plan subsequent to the discontinuance shall receive no benefit, and no additional benefits shall accrue to any of such Employees unless such contributions are resumed. After the date of a complete discontinuance of contributions, the Trust shall remain in existence as provided in this Section 17.3, and the provisions of the Plan and Trust shall remain in force as may be necessary in the sole and absolute discretion of the Committee.

17.4 Liquidation of Trust Fund: Upon termination or partial termination of the Plan, the Individual Accounts of all Members, former Members and Beneficiaries shall thereupon be and become fully vested and nonforfeitable. Thereupon, the Trustee shall convert the Trust Fund to cash after deducting all charges and expenses. The Committee shall then adjust the balances of all Individual Accounts, as provided in Section 5.2. Thereafter, the Trustee shall distribute the

39

amount to the credit of each affected Member, former Member and Beneficiary, in accordance with the provisions of Article XV hereof.

17.5 Consolidation or Merger: This Plan shall not be merged or

consolidated with, nor shall any assets or liabilities be transferred to, any other plan, unless the benefits payable on behalf of each Member or former Member if the Plan were terminated immediately after such action would be equal to or greater than the benefits to which such Member or former Member would have been entitled if this Plan had been terminated immediately before such action. The Trustee shall not accept a direct transfer of assets from a plan subject to the requirements of Section 417 of the Code.

ARTICLE XVIII

General Provisions

18.1 No Employment Contract: Nothing contained in this Plan shall be construed as giving any person whomsoever any legal or equitable right against the Committee, the Company, its stockholders, officers or directors or against the Trustee, except as the same shall be specifically provided for in this Plan. Nor shall anything in this Plan give any Member, former Member or other Employee the right to be retained in the service of the Company or an Eligible Affiliate and the employment of all persons by the Company or an Eligible Affiliate shall remain subject to termination by the Company or such Eligible Affiliate to the same extent as if this Plan had never been executed.

18.2 Manner of Payment: Wherever and whenever it is herein provided for payments or distributions to be made, whether in money or otherwise, said payments or distributions shall be made directly into the hands of the Member or former Member, his Beneficiary, his administrator, executor or guardian, or an alternate payee pursuant to Section 15.5 herein, as the

40

case may be. A deposit to the credit of a person entitled to payment in any bank or trust company selected by such person shall be deemed payment into his hands, and provided further that in the event any person otherwise entitled to receive any payment or distribution shall be a minor or an incompetent, such payment or distribution may be made to his guardian or other person as may be determined by the Committee.

18.3 Nonalienation of Benefits: Subject to Code Section 414(p) and Section 15.5 herein relating to qualified domestic relations orders, the interest of any Member, former Member or Beneficiary hereunder shall not be subject in any manner to any indebtedness, judgment, process, creditors' bills, attachments, garnishment, levy, execution, seizure or receivership, nor shall such interest be in any manner reduced or affected by any transfer, assignment, conveyance, sale, encumbrance, act, omission, or mishap, voluntary or incidental, anticipatory or otherwise, of or to said Member, former Member or Beneficiary, and they and any of them shall have no right or power to transfer, convey, assign, sell or encumber said benefits and their interest therein, legal or equitable, during the existence of this Plan. Notwithstanding the foregoing, no provision of this Plan shall preclude the enforcement of a Federal tax levy made pursuant to Section 6331 of the Code or collection by the United States on a judgment resulting from an unpaid tax assessment.

18.4 Titles for Convenience Only: Titles of the Articles and Sections hereof are for convenience only and shall not be considered in construing this Plan. Also words used in the singular or the plural may be construed as though in the plural or singular where they would so apply.

18.5 Validity of Plan: This Plan and each of its provisions shall be construed and their validity determined by the laws of the State of Texas, and all provisions hereof shall be

41

administered in accordance with the laws of said State, provided that in case of conflict, the provisions of ERISA shall control.

18.6 Plan Binding: This Plan shall be binding upon the successors and assigns of the Company and the Trustee and upon the heirs and personal representatives of those individuals who become Members hereunder.

18.7 Return of Contributions: This Plan and the related Trust are designed to qualify under Sections 401(a) and 501(a) of the Code. Anything contained herein to the contrary notwithstanding, if the initial determination letter is issued by the District Director of Internal Revenue to the effect that this Plan and related Trust hereby created, or as amended prior to the receipt of such letter, do not meet the requirements of Section 401(a) and 501(a) of the Code, the Company shall be entitled at its option to withdraw all contributions theretofore made, in which event the Plan and Trust shall then terminate.

Each contribution to the Plan is specifically conditioned on the deductibility of such contribution under the Code. The Trustee, upon written

request from the Company, shall return to the Company the amount of the Company's contribution made as a result of a mistake of fact or the amount of the Company's contribution disallowed as a deduction under Section 404 of the Code. Such return of contribution must be made within one (1) year after (a) the Company made the contribution by mistake of fact or (b) the disallowance of the contribution as a deduction. The amount of contribution subject to being returned hereunder shall not be increased by any earnings attributable to the contribution, but such amount subject to being returned shall be decreased by any losses attributable to it.

18.8 Missing Members or Beneficiaries: Each Member shall file with the Committee from time to time in writing a mailing address and any change of mailing address for himself and

42

his designated Beneficiary. Any communication, statement or notice addressed to a Member or Beneficiary at the last mailing address filed with the Committee, or if no such address is filed with the Committee, then at his last mailing address as shown on the Company's records, shall be binding on the Member or his Beneficiary for all purposes of the Plan. The Committee shall not be required to search for or locate a Member or Beneficiary. If the Committee notifies any Member or Beneficiary that he is entitled to a distribution and also notifies him of the provisions of this Section 18.8 (or makes reasonable effort to so notify such Member or Beneficiary by certified letter, return receipt requested, to the last known address, or such other further diligent effort, including consultation with the Internal Revenue Service or the Social Security Administration, to ascertain the whereabouts of such Member or Beneficiary as the Committee deems appropriate) and the Member or Beneficiary fails to claim his distributive share or make his whereabouts known to the Committee within three years thereafter, the distributive share of such Member or Beneficiary will be forfeited and reallocated according to Section 6.2. However, if the Member or his Beneficiary should, thereafter, make a proper claim for such share, it shall be distributed to him.

18.9 Voting Rights:

(a) Each Member shall be entitled to direct the Trustee as to the manner in which any Common Stock allocated to said Member's Accounts shall be voted. The Committee shall furnish to each Member a proxy adequate for such purpose. The Trustee shall vote specifically in accordance with each Member's instructions to the extent of such Member's whole shares and shall, to the extent possible, vote the combined fractional shares of such Members in such manner as to reflect the Members' expressed desires. To the extent permitted under ERISA, the Trustee shall vote shares of Common Stock with respect to which it does not receive instructions and shares of Common Stock which have not been allocated to Members' Accounts under the Plan in the same proportion as are voted the shares of Common Stock held under the Plan with respect to which instructions were received by the Trustee from Members.

(b) Notwithstanding anything to the contrary contained in the Plan, if a cash tender offer or exchange offer for shares of Common Stock is made, Common Stock allocated to each Member's accounts under the Plan shall be tendered or exchanged by

43

the Trustee pursuant to such cash tender offer or exchange offer only in accordance with the written instructions and directions of such Member to the Trustee to so tender or exchange. If a cash tender offer or exchange offer for shares of Common Stock is made, the Trustee shall use its best efforts to take those steps reasonably necessary to furnish information to, and allow decision by, each Member with respect to such cash tender offer or exchange offer and the shares of Common Stock allocated to such Member's accounts under the Plan in substantially the same manner as would be available to holders of Common Stock generally, and, in that connection, the Trustee shall:

(1) Inform each Member as to the existence of such cash tender offer or exchange offer;

(2) Transmit to each Member as soon as practicable such written information, explanation and other materials relative to such cash tender offer or exchange offer as are made available by the Company or by the persons or entities making such cash tender offer or exchange offer to the holders of shares of Common Stock generally;

(3) Request detailed written instructions and

directions from each Member as to whether to tender or exchange the shares of Common Stock allocated to such Member's accounts under the Plan and as to the time and manner of such tender or exchange, if so instructed and directed; and

(4) Use its best efforts to effect on a nondiscriminatory basis the tender or exchange of Common Stock held under the Plan with respect to such cash tender offer or exchange offer solely in accordance with written instructions and directions received from Members. If written instructions or directions are not timely received from a Member, the shares of Common Stock allocated to his accounts under the Plan shall not be tendered or exchanged pursuant to such cash tender offer or exchange offer.

For purposes of this subparagraph (b), the term cash tender offer shall include a tender offer for, or request or invitation for tenders of, shares of Common Stock in exchange for cash, as made to the Plan or to holders of shares of Common Stock generally; the term exchange offer shall include a tender offer for, or request or invitation for tenders of, any shares of Common Stock in exchange for any consideration other than for all cash, as made to the Plan or to holders of shares of Common Stock generally.

(c) If any shares of Common Stock held under the Plan are tendered or exchanged pursuant to a cash tender offer or exchange offer in accordance with subparagraph (b) above, any cash proceeds obtained by the Trustee in connection therewith shall be temporarily invested in such short term investments as the Trustee may determine, until such time as such temporarily invested cash proceeds are reinvested in Common Stock. Any other property obtained by the Trustee pursuant to an exchange offer shall be temporarily held in kind by the Trustee, until such time as such temporarily held property is sold and the proceeds therefrom are reinvested in Common Stock.

44

18.10 Acquisition Loans. An Acquisition Loan is an installment obligation incurred by the Trustee in connection with the purchase of Common Stock. The Trustee may incur Acquisition Loans from time to time to finance (i) the acquisition of Common Stock by the Trust, or (ii) the repayment of a prior Acquisition Loan. Each Acquisition Loan shall be for a specific term, shall bear a reasonable rate of interest, and shall not be payable on demand except in the event of default. If the lender with respect to an Acquisition Loan is a disqualified person, as defined in section 4975(e)(2) of the Code, the Acquisition Loan must provide that Trust assets will be transferred upon default only upon and to the extent of the failure of the Trust to meet the repayment schedule of the Acquisition Loan.

(a) Financed Shares. Shares of Common Stock acquired by the Trustee with the proceeds of an Acquisition Loan shall be described as "Financed Shares." Except as provided in section 409(1) of the Code, Treas. Reg. Section 54.4975-7(b) (9) and (10), or as otherwise provided by applicable law, no shares acquired by the Trustee with the proceeds of an Acquisition Loan may be subject to a put, call or other option or buy-sell or similar arrangement while held by and when distributed from the Plan.

(b) Collateral. An Acquisition Loan may be secured by a collateral pledge of the Financed Shares so acquired and any other Trust assets which are a permissible security within the provisions of Treas. Reg. Section 54.4975-7(b). No other assets of the Trust may be pledged as collateral for an Acquisition Loan, and no lender shall have recourse against any other Trust assets.

(c) Loan Payment. Repayment of principal and interest on any Acquisition Loan shall be made by the Trustee from annual Company Contributions made pursuant to subsection 4.1 and, to the extent permitted by applicable law, may also be made from the following sources:

(i) cash dividends on Financed Shares held in the Loan Suspense Account (as defined below) and earnings, if any, thereon; and

(ii) in the event of the sale of Financed Shares, the proceeds of such sale.

(d) Release of Financed Shares. Financed Shares shall initially be credited to a "Loan Suspense Account" and shall be transferred for allocation to the Individual Accounts of Members as payments are made on the Acquisition Loan by the Trustee, and any pledge of Financed Shares must, and shall be deemed to, provide for the

The number of Financed Shares to be released from the Loan Suspense Account for allocation to Members' Individual Accounts as of each Allocation Date, shall equal the number of Financed Shares held in the Loan Suspense Account immediately prior to such Allocation Date multiplied by a fraction, the numerator of which is equal to the payments of principal and interest (or principal only, if the requirements of the Treasury Regulations under Code Section 4975 are met and the Plan Administrator so elects) on the Acquisition Loan for the period ending on such date, and the denominator of which is equal to the sum of the numerator plus the total projected payments of principal and interest (or principal only, if the requirements of the Treasury Regulations under Code Section 4975 are met and the Plan Administrator so elects) on the Acquisition Loan over the future years of the Acquisition Loan.

(e) Allocation of Financed Shares. The released Financed Shares shall be allocated to the Individual Accounts of eligible Members in accordance with the provisions of Section 6.1 hereof.

18.11 Preretirement Diversification Rights. If a Member attains age fifty-five (55) and has ten (10) years of participation in the Plan (hereinafter referred to as a "Qualified Member"), notwithstanding the provisions of Section 15.1 hereof, the following rules shall apply to any distribution made under the Plan to or on behalf of such Qualified Member.

(a) Annuity Distributions to Qualified Members. The Committee shall direct the Trustee to distribute such Member's benefits held in a Qualified Member's Individual Account in the form of a qualified joint and survivor annuity, unless the Qualified Member has a valid waiver election (described in Section 18.11(b) hereof) in effect. A qualified joint and survivor annuity is an immediate annuity (a) which is payable for the life of the Qualified Member, with, if the Qualified Member is married on the annuity starting date, as defined below, a survivor annuity for the life of the Qualified Member's surviving spouse which is not less than fifty percent (50%) of the amount of the annuity payable during the joint lives of the Qualified Member and his spouse, and (b) which is the actuarial equivalent of a single annuity for the life of the Qualified Member. On or before the annuity starting date (the first day of the first period for which the Qualified Member would receive an amount as an annuity or in any other form), the Committee shall direct the Trustee to pay the Qualified Member's benefits in a lump sum, in lieu of a qualified joint and survivor annuity, if the Qualified Member's vested Individual Account is not greater than \$3,500 for Plan Years beginning prior to January 1, 1998, or \$5,000 for Plan Years beginning on or after January 1, 1998.

If a Qualified Member who is married dies prior to commencement of payment of his benefits, the Committee shall direct the Trustee to distribute the Qualified Member's Individual Account, as calculated under Article VIII, to the Qualified Member's surviving spouse in the form of a preretirement survivor annuity, unless the Qualified Member has a valid waiver election (as described in Section 18.11(c) hereof) in effect. A preretirement survivor annuity is an annuity which is payable for the life of the Qualified

Member's surviving spouse. The surviving spouse may elect to have the preretirement survivor annuity distributed within a reasonable period after the Qualified Member's death. The Committee shall direct the Trustee to pay the Qualified Member's Individual Account in a lump sum, in lieu of a preretirement survivor annuity, if the Qualified Member's Individual Account is not greater than \$3,500 for Plan Years beginning prior to January 1, 1998, or \$5,000 for Plan Years beginning on or after January 1, 1998.

The Committee is not required to distribute any survivor annuity described herein to the spouse of a Qualified Member unless the Qualified Member and his spouse were married throughout the one-year period ending on the earlier of the Qualified Member's annuity starting date or the Qualified Member's death; provided, however, this exception shall not apply if the Qualified Member marries within one year before the annuity starting date and has been married for at least a one-year period ending on or before the date of the Qualified Member's death.

If the Qualified Member has in effect a valid waiver election regarding the qualified joint and survivor annuity or the preretirement

survivor annuity, the Committee shall direct the Trustee to distribute the Participant's Individual Account in accordance with Section 15.1. Furthermore, the Qualified Member's surviving spouse may elect the form of payment described in Section 15.1 in lieu of the preretirement survivor annuity. For purposes of applying this Section 18.11, the Committee shall treat a former spouse as the Qualified Member's spouse or surviving spouse to the extent required under a qualified domestic relations order.

(b) Waiver Election - Qualified Joint and Survivor Annuity. Within a reasonable period of time (no less than thirty (30) days and no more than ninety (90) days) before the Qualified Member's annuity starting date, the Committee shall provide the Qualified Member a written explanation of the terms and conditions of the qualified joint and survivor annuity, the Qualified Member's right to make, and the effect of, an election to waive the joint and survivor form of benefit, the rights of a married Qualified Member's spouse regarding the waiver election and the Qualified Member's right to make, and the effect of, a revocation of a waiver election.

A Qualified Member's waiver election is not valid unless:

(1) the Qualified Member makes the waiver election within the ninety (90) day period ending on his annuity starting date;

(2) the Qualified Member's spouse (to whom the survivor annuity is payable under the qualified joint and survivor annuity) has consented in writing to the waiver election, the spouse's consent acknowledges the effect of the election, and a notary public or a Committee member (or its representative) witnesses the spouse's consent; and

(3) unless the spouse is the Qualified Member's sole primary Beneficiary, the spouse consents to the Qualified Member's Beneficiary designation or to any change in the Qualified Member's Beneficiary Designation.

47

Additionally, a Qualified Member's waiver of the qualified joint and survivor annuity shall not be effective unless the election designates a form of benefit payment which may not be changed without spousal consent (or the spouse expressly permits designations by the Qualified Member without any further spousal consent).

The Committee may accept as valid a waiver election which does not satisfy the spousal consent requirements described in paragraphs (2) and (3) above if the Committee establishes that the Qualified Member does not have a spouse, the Committee is not able to locate the Qualified Member's spouse, or other circumstances prescribed by Treasury Department regulations.

Any consent by a spouse obtained under this Section (or the establishment that the consent of a spouse may not be obtained) shall be effective only with respect to such spouse. A consent that permits designations by the Qualified Member without any requirement of further consent by such spouse must acknowledge that the spouse has the right to limit consent to a specific Beneficiary, and a specific form of benefit where applicable, and that the spouse voluntarily elects to relinquish either or both of such rights. A revocation of a prior waiver may be made by a Qualified Member without the consent of the spouse at any time before the commencement of benefits. The number of revocations shall not be limited. No consent obtained under this Section shall be valid unless the Qualified Member has received an explanation of the terms and conditions of the qualified joint and survivor annuity, as provided herein.

(c) Waiver Election - Preretirement Survivor Annuity. The Committee shall provide each Qualified Member, within a reasonable period after the Member becomes a Qualified Member, a written explanation of the terms and conditions of the preretirement survivor annuity, the Qualified Member's right to make, and the effect of, an election to waive the preretirement survivor annuity, the rights of the Qualified Member's spouse regarding the waiver election and the Qualified Member's right to make, and the effect of, a revocation of a waiver election.

For purposes of applying this subsection, a reasonable period is the end of the two-year period beginning one year prior to the date on which the Member becomes a Qualified Member, and ending one year after that date.

A Qualified Member's waiver election of the preretirement survivor annuity is not valid unless the election satisfies the spousal consent requirements described in Section 18.11(b).

18.12 Qualified Military Service. Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Section 414 (u) of the Code.

48

ARTICLE XIX

Top-Heavy Rules

19.1 Definitions: For purposes of applying the provisions of this Article XIX:

(a) "Key Employee" shall mean, as of any Determination Date (as defined below), any Employee or former Employee who, at any time during the Plan Year (which includes the Determination Date) or during the preceding four Plan Years, is (i) an officer having Annual Compensation greater than fifty percent (50%) of the amount in effect under Section 415(b)(1)(A) of the Code for any such Plan Year, (ii) one of the ten Employees having Annual Compensation of more than the limitation in effect under Section 415(c)(1)(A) of the Code and owning the largest interests in the Company, (iii) a Five Percent (5%) Owner of the Company, or (iv) a One Percent (1%) Owner of the Company who has Annual Compensation of more than \$150,000. The constructive ownership rules of Section 318 of the Code will apply to determine ownership in the Company. The Committee will make the determination of who is a Key Employee in accordance with Section 416(i)(1) of the Code and the regulations under that Code Section. The Beneficiary of a Key Employee shall be treated as a Key Employee for purposes of determining whether this Plan is top-heavy.

(b) "Non-Key Employee" is an Employee who does not meet the definition of Key Employee.

(c) "Required Aggregation Group" means:

(1) Each qualified plan of the Company or an Affiliated Entity (as defined below) in which at least one (1) Key Employee participates or participated at any time during the Plan Year which includes the Determination Date, or during the preceding four Plan Years (regardless of whether the plan has terminated); and

(2) Any other qualified plan of the Company which enables a plan described in (1) to meet the requirements of Section 401(a)(4) or Section 410 of the Code.

(d) "Permissive Aggregation Group" is the Required Aggregation Group plus any other qualified plans maintained by the Company, but only if such group would satisfy in the aggregate the requirements of Section 401(a)(4) and Section 410 of the Code. The Committee shall determine which plans to take into account in determining the Permissive Aggregation Group.

(e) "Determination Date" for any Plan Year is the Allocation Date of the preceding Plan Year or, in the case of the first Plan Year of the Plan, the Allocation Date of that Plan Year.

49

(f) "Five Percent (5%) Owner" is any person who owns more than five percent (5%) of the outstanding stock of the Company or stock possessing more than five percent (5%) of the total combined voting power of all stock of the Company.

(g) "One Percent (1%) Owner" is any person who owns more than one percent (1%) of the outstanding stock of the Company or stock possessing more than one percent (1%) of the total combined voting power of all stock of the Company.

(h) "Affiliated Entity" shall mean all the members of (i) a controlled group of corporations as defined in Section 414(b) of the Code; (ii) a commonly controlled group of trades or businesses (whether or not incorporated) as defined in Section 414(c) of the Code; (iii) an affiliated service group as defined in Section 414(m) of the Code of

which the Company is a part; or (iv) a group of entities required to be aggregated pursuant to Section 414(o) of the Code and the regulations issued thereunder.

19.2 Determination of Top-Heavy Status: The Plan is top-heavy for a Plan Year if the top-heavy ratio as of the Determination Date (as defined in Section 19.1 above) exceeds sixty percent (60%). The top-heavy ratio is a fraction, the numerator of which is the sum of the present value of the Individual Accounts of all Key Employees (as defined in Section 19.1 above) as of the Determination Date, the contributions for all Key Employees that are due as of the Determination Date, and distributions made to all Key Employees within the five (5) year period immediately preceding the Determination Date, and the denominator of which is a similar sum determined for all Employees in the Plan. If an Employee has not performed any services for the Company or an Eligible Affiliate at any time during the five (5) year period ending on the Determination Date, any amount in the Individual Account of such Employee shall not be taken into account. The Committee shall calculate the top-heavy ratio without regard to any Non-Key Employee (as defined in Section 19.1 above) who was formerly a Key Employee. The Committee shall calculate the top-heavy ratio, including the extent to which it must take into account distributions, rollovers and transfers, in accordance with Section 416 of the Code and the regulations under that Code Section.

50

If the Company maintains other qualified plans (including a simplified employee pension plan) this Plan is top-heavy only if it is part of the Required Aggregation Group (as defined in Section 19.1 above), and the top-heavy ratio for both the Required Aggregation Group and the Permissive Aggregation Group (as defined in Section 19.1 above) exceeds sixty percent (60%). The Committee will calculate the top-heavy ratio in the same manner as required by the first paragraph of this Section 19.2, taking into account all plans within the aggregation group. The Committee shall calculate the present value of accrued benefits and the other amounts the Committee must take into account, under defined benefit plans or simplified employee pension plans included within the group in accordance with the terms of those plans, Section 416 of the Code and the regulations under that Code Section. The Committee shall calculate the top-heavy ratio with reference to the Determination Dates that fall within the same calendar year.

19.3 Minimum Company Contribution: Notwithstanding anything contained herein to the contrary, for any Plan Year in which this Plan is determined to be top-heavy pursuant to Section 19.2 hereof, each Non-Key Employee who is an eligible Member shall be entitled to a supplemental contribution equal to three percent (3%) of such Non-Key Employee's Annual Compensation, reduced by the amount of Qualified Nonelective Contributions, if any, allocated to a Member's Salary Reduction Contribution Account under the Southwest Airlines Co. 401(k) Plan for the applicable Plan Year. For purposes of this Section 19.3, an eligible Member is a Non-Key Employee who is employed by the Company on the last day of the applicable Plan Year.

The percentage referred to in the preceding paragraph shall not exceed the percentage of Annual Compensation at which Company contributions are made or allocated under this Plan and all other qualified defined contribution plans maintained by the Company, including Salary

51

Reduction Contributions under the Southwest Airlines Co. 401(k) Plan, to the Key Employee for whom such percentage is the largest; provided, however, this sentence shall not apply if the Plan is required to be included in an Aggregation Group and enables a defined benefit plan required to be included in such group to meet the requirements of Code Sections 401(a)(4) or 410. If the minimum allocation is made for a Non-Key Employee pursuant to another qualified plan maintained by the Company, then the minimum allocation requirement will be considered satisfied for purposes of this Plan.

19.4 Minimum Vesting: For any Plan Year for which the Plan is top-heavy beginning after December 31, 1983, the Committee shall calculate the percentage of the amount in a Member's Employer Savings Account which is vested and nonforfeitable according to a schedule which is no less rapid than the following:

<TABLE>
<CAPTION>

Completed Years of Service

Percentage Payable

<S>
Less than 2 years

<C>
0%

2 years but less than 3 years	20%
3 years but less than 4 years	40%
4 years but less than 5 years	60%
5 years but less than 6 years	80%
6 years or more	100%

</TABLE>

If the above schedule is less rapid than the vesting schedule which is applicable under Section 10.1 at the time when the Plan becomes top-heavy, then the schedule under Section 10.1 shall apply. The Committee shall apply the vesting schedule set forth above to a Member who earns at least one (1) Hour of Service after such schedule becomes effective. If the top-heavy status of the Plan changes so that there is a shift between the vesting schedules set forth above and set forth in Section 10.1, then a Plan amendment will be deemed to have occurred so that the provisions of Section 17.1 of the Plan become applicable.

52

ARTICLE XX

Fiduciary Provisions

20.1 General Allocation of Duties: Each fiduciary with respect to the Plan shall have only those specific powers, duties, responsibilities and obligations as are specifically given him under the Plan. The board of directors of the Company shall have the sole responsibility for authorizing its contributions under the Plan. The Company shall have the sole authority to appoint and remove the members of the Committee and to amend or terminate this Plan, in whole or in part. The Committee shall have the sole authority to appoint and remove the Trustee and Investment Managers. However, neither the board nor the Committee shall be liable for any acts or omissions of the Trustee or Investment Manager or be under any obligation to invest or otherwise manage any assets of the Trust Fund which are subject to the management of the Trustee or Investment Manager. Except as otherwise specifically provided, the Committee shall have the sole responsibility for the administration of the Plan, which responsibility is specifically described herein. Except as otherwise specifically provided, the Trustee shall have the sole responsibility for the administration, investment and management of the assets held under the Plan. It is intended under the Plan that each fiduciary shall be responsible for the proper exercise of its own powers, duties, responsibilities and obligations hereunder and shall not be responsible for any act or failure to act of another fiduciary, except to the extent provided by law or as specifically provided herein.

20.2 Fiduciary Duty: Each fiduciary under the Plan shall discharge its duties and responsibilities with respect to the Plan:

(a) solely in the interest of the Members of the Plan, for the exclusive purpose of providing benefits to such Members and their Beneficiaries, and defraying reasonable expenses of administering the Plan;

53

(b) with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;

(c) by diversifying the investments of the Plan so as to minimize the risk of large losses, unless under the circumstances it is prudent not to do so; and

(d) in accordance with the documents and instruments governing the Plan insofar as such documents and instruments are consistent with applicable law.

20.3 Fiduciary Liability: A fiduciary shall not be liable in any way for any acts or omissions constituting a breach of fiduciary responsibility occurring prior to the date it becomes a fiduciary or after the date it ceases to be a fiduciary.

20.4 Co-Fiduciary Liability: A fiduciary shall not be liable for any breach of fiduciary responsibility by another fiduciary unless:

(a) it participates knowingly in, or knowingly undertakes to conceal, an act or omission of such other fiduciary, knowing such act or omission is a breach;

(c) having knowledge of a breach by such other fiduciary, it fails to make reasonable efforts under the circumstances to remedy the breach.

54

SOUTHWEST AIRLINES CO.

Herbert D. Kelleher, President

12/11/00

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, 333-89303, 333-46560, 333-52388, 333-52390, 333-53610, and 333-53616, and Forms S-3 Nos. 333-38257 and 33-59113) of Southwest Airlines Co. and in the related Prospectuses of our report dated January 18, 2001, 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, 2000.

ERNST & YOUNG LLP

/s/ Ernst & Young LLP

Dallas, Texas
January 24, 2001