

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, 2001 or

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

For the transition period from _____ to _____

Commission File No. 1-7259

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

TEXAS
(State or other jurisdiction of
incorporation or organization)

74-1563240
(I.R.S. employer
identification no.)

P.O. BOX 36611
DALLAS, TEXAS
(Address of principal executive offices)

75235-1611
(Zip Code)

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

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

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

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

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Aggregate market value of Common Stock held by nonaffiliates as of
December 31, 2001:

\$14,155,000,000

Number of shares of Common Stock outstanding as of the close of
business on December 31, 2001:

766,773,730 shares

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for Annual Meeting of
Shareholders, May 15, 2002:

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 year-end 2001, Southwest operated 355 Boeing 737 aircraft and provided service to 59 airports in 58 cities in 30 states throughout the United States. Southwest commenced service to West Palm Beach, Florida in January 2001 and to Norfolk, Virginia in October 2001. In March 2001, Southwest discontinued service to San Francisco International Airport.

Based on data for second quarter 2001 (the latest available data), Southwest Airlines is the 4th largest carrier in the United States based on domestic passengers boarded and the second 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).

RECENT DEVELOPMENTS

On September 11, 2001, terrorists hijacked and used two American Airlines, Inc. aircraft and two United Air Lines, Inc. aircraft in terrorist attacks on the United States ("terrorist attacks"). As a result of these terrorist attacks, the Federal Aviation Administration ("FAA") immediately suspended all commercial airline flights on the morning of September 11. The Company resumed flight activity on September 14 and was operating its normal pre-September 11 flight schedule by September 18, 2001. From September 11 until the Company resumed flight operations on September 14, Southwest canceled approximately 9,000 flights. Although flight operations were suspended, the Company continued to incur nearly all of its normal operating expenses (with the exception of certain direct trip-related expenditures such as fuel, landing fees, etc.). Once the Company resumed operations, revenues were severely impacted and ticket refund activity increased. In fourth quarter 2001, revenues recovered sufficiently for the Company to report a profit. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

On September 22, 2001, President Bush signed into law the Air Transportation Safety and System Stabilization Act ("Stabilization Act"). The Stabilization Act provides for up to \$5 billion in cash grants and \$10 billion in loan guarantees to qualifying U.S. airlines and freight carriers to compensate for direct and incremental losses, as defined in the Stabilization Act, associated with the terrorist attacks. The Stabilization Act also provides for other items such as protection against certain insurance coverage increases, delaying payments of excise taxes, and certain protections against lawsuits for the airlines directly involved in the attacks. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of the cash grants provided by the Stabilization Act.

In response to the decrease in demand for air travel since the terrorist attacks, the Company has modified its schedule for future aircraft deliveries and the timing of its future capital expenditure commitments. See "Properties - Aircraft" and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for further discussion of the Company's long-term commitments for aircraft.

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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>
	1997	\$495.0	\$.62	15.0%
	1998	\$388.3	\$.46	11.2%
	1999	\$492.4	\$.53	12.5%
	2000	\$804.4	\$.79	17.4%
	2001	\$770.5	\$.71	15.6%
</Table>				

From October 1, 2001 through December 31, 2001, the average price per gallon was \$.6030. 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 public convenience and necessity, 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 or regulation issued thereunder or any term of such certificate; provided that, with respect to revocation, the certificate holder has first been advised of the alleged violation and fails to comply after being given a reasonable time to do so.

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.

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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.

Security. On November 19, 2001, President Bush signed into law the Aviation and Transportation Security Act ("Security Act"). The Security Act generally provides for enhanced aviation security measures. The Security Act established a new Transportation Security Administration ("TSA") within the Department of Transportation to be headed by the new Under Secretary of Transportation for Security with supervision by the new Transportation Security Oversight Board. The TSA is to assume the aviation security functions previously residing in the FAA and assume the passenger screening contracts at U.S. airports by February 17, 2002. The TSA will provide for the screening of all passengers and property, including cargo and baggage, which will be performed by federal employees by November 19, 2002. The Security Act also requires that a system be in operation to screen all checked baggage at U.S. airports by January 18, 2002; Southwest has complied with this requirement. Beginning February 1, 2002, a \$2.50 per enplanement security fee is imposed on passengers (maximum of \$5.00 per one-way trip), with authority granted to the TSA to impose additional fees on air carriers if necessary to cover additional federal aviation security costs.

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

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

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

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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 customer service practices.

MARKETING AND COMPETITION

Southwest focuses principally on point-to-point, rather than hub-and-spoke, service in markets with frequent, conveniently timed flights and low fares. For example, Southwest's average aircraft trip stage length in 2001 was 514 miles with an average duration of approximately 1.5 hours. At year-end, Southwest served approximately 344 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 Customers and, therefore, minimizes connections, delays, and total trip time. Southwest focuses on nonstop, not connecting, traffic. As a result, approximately 75 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 are 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 relatively simple fare structure, featuring low, unrestricted, unlimited, everyday coach fares, as well as even lower fares available on a restricted basis. 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 at <http://www.southwest.com>. For the year ended December 31, 2001, approximately 85 percent of Southwest's Customers chose the Ticketless travel option. For the year ended December 31, 2001, approximately 40 percent 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. 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. In 2001, AMR Corp., parent of American Airlines, completed its acquisition of the assets of Trans World Airlines.

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Immediately after the terrorist acts of September 11, and in the face of weak demand for air service, most major carriers (not including Southwest) announced significant service reductions, grounded aircraft and furloughed employees. Southwest's competitors have reduced service in several markets served by Southwest. Some carriers have sought relief from certain financial obligations and may seek additional protection from such obligations in bankruptcy. On the other hand, some of the Company's competitors may qualify for federal loan guarantees authorized by the Stabilization Act. Enhanced security measures have had, and will continue to have, a significant impact on the airport experience for passengers. Security requirements are still evolving on a daily basis; however, to date, they have not impacted Southwest's aircraft utilization. It is currently not possible to assess the impact of these events on airline competition.

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 security procedures, 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.

After the September 11 terrorist attacks, the Company's insurers provided notice that coverage for aircraft damage and for liability due to war and terrorist activities would be canceled in seven days. In both cases, new coverage was made available at significantly higher rates. The Company has purchased the new coverage, which in the case of the third party liability insurance contains a new sub-limit of \$50 million. Pursuant to authority granted in the Stabilization Act, the FAA has supplemented this insurance until March 21, 2002 with a third party liability policy covering losses in excess of \$50 million. Further, the FAA has reimbursed the Company for the increased cost of its insurance for the month of October 2001. While the FAA has authority to provide reimbursement of premiums for a period of 180 days from September 11, there is no assurance that any further reimbursements will be forthcoming.

The Company's existing insurance policies for war and terrorism coverage continue to contain a seven day cancellation clause which the insurers may invoke at any time. There is also no assurance that the FAA will be authorized to continue to provide insurance for third party terrorism and war risk coverage in excess of \$50 million after March 21, 2002.

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 a telephone company, car rental agencies, hotels, and credit card partners, including 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.

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 1.7 million, 1.6 million and 1.2 million Award Tickets and flights on Companion Passes during 2001, 2000 and 1999, respectively. The amount of free travel award usage as a percentage of total Southwest revenue passengers carried was 5.4 percent in 2001, 4.9 percent in 2000 and 4.3 percent in 1999. The number of Award Tickets outstanding at December 31, 2001 and 2000 was approximately 1,296,000 and 985,000, 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 80 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, 2001 and 2000 was approximately 48,000 and 41,000, respectively. The Company currently estimates that 3 to 4 trips will be redeemed per outstanding Companion Pass.

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, 2001 and 2000 was not material.

EMPLOYEES

At December 31, 2001, Southwest had 31,580 active employees, consisting of 10,710 flight, 1,600 maintenance, 15,020 ground customer and fleet service and 4,250 management, accounting, marketing, and clerical personnel.

Southwest has ten collective bargaining agreements covering approximately 82 percent of its employees. The following table sets forth the Company's employee groups and collective bargaining status:

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<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")	June 2002
Ramp, Operations and Provisioning	TWU	June 2006

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	In Negotiations
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 355 Boeing 737 aircraft as of December 31, 2001, of which 92 and 7 were under operating and capital leases, respectively. The remaining 256 aircraft were owned.

Southwest was the launch customer for the Boeing 737-700 aircraft, 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, 2001, Southwest had 106 Boeing 737-700 aircraft in service.

In total, at December 31, 2001, the Company had firm orders and options to purchase Boeing 737 Aircraft as follows:

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FIRM ORDERS AND OPTIONS TO PURCHASE BOEING 737-700 AIRCRAFT*

<Table> <Caption>			
DELIVERY YEAR	FIRM ORDERS	OPTIONS	ROLLING OPTIONS
-----	-----	-----	-----
<S>	<C>	<C>	<C>
2002	11		
2003	21		
2004	23	13	
2005	24	20	
2006	22	20	
2007	25	9	20
2008-2012	6	25	197
	---	---	---
TOTALS	132	87	217
	===	===	===

*Of the 32 Firm Orders indicated for 2002 and 2003, 19 aircraft are to be acquired from a special purpose trust (rather than Boeing). The balance of 13 Firm Orders in those years, as well as the remaining aircraft orders described in the above table, are directly with The Boeing Company. See Footnote 4 to the Consolidated Financial Statements.

The Company currently intends to retire its fleet of 30 Boeing 737-200 aircraft over the next four years.

The average age of the Company's fleet at December 31, 2001 was 8.75 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, 2001, 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 aircraft maintenance costs.

ITEM 3. LEGAL PROCEEDINGS

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. 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.

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On December 21, 2000, the national office of the IRS published a revenue ruling in which it concluded that aircraft inspection and maintenance is currently deductible as an ordinary and necessary business expense. In accordance with the revenue ruling, the IRS conceded the proposed adjustments to the deductions claimed by the Company for aircraft inspection and maintenance expense, and on June 1, 2001, a decision was entered by the Tax Court holding that there is no deficiency in income tax for the taxable years 1989 through 1991.

The IRS similarly proposed to disallow deductions claimed by the Company on its federal income tax returns for the taxable years 1992 through 1994 primarily related to the costs of certain aircraft inspection and maintenance expenses. During 2001, the IRS conceded the proposed adjustments to the deductions claimed for aircraft inspection and maintenance expenses. Management believes the final resolution of this controversy will not have a material adverse effect upon the financial position or results of operations of the Company.

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

None to be reported.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Southwest, their positions, and their respective ages (as of January 1, 2002) are as follows:

<Table> <Caption>			
NAME	POSITION	AGE	
----	-----	---	
<S>	<C>	<C>	
James F. Parker	Vice Chairman of the Board and Chief Executive Officer	55	
Colleen C. Barrett	Director, President and Chief Operating Officer	57	
Donna D. Conover	Executive Vice President- Customer Service	48	
Gary C. Kelly	Executive Vice President and Chief Financial Officer	46	
James C. Wimberly	Executive Vice President- Chief Operations Officer	48	
Joyce C. Rogge	Senior Vice President - Marketing	44	
Ross Holman	Vice President - Systems	50	
Ron Ricks	Vice President-Governmental Affairs	52	
Dave Ridley	Vice President-Ground Operations	48	
</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 2001, one report involving the acquisition of 2,550 shares of Southwest Common Stock was filed five days late by Gene H. Bishop, a member of the Board of Directors.

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 February 2001 three-for-two stock split, were:

<Table>				
<Caption>				
PERIOD	DIVIDEND	HIGH	LOW	
-----	-----	----	---	
<S>	<C>	<C>	<C>	
2000				
1ST QUARTER	\$0.00367	\$ 13.92	\$ 10.00	
2ND QUARTER	0.00367	15.17	12.38	
3RD QUARTER	0.00367	16.67	12.75	
4TH QUARTER	0.00367	23.33	15.75	
2001				
1ST QUARTER	\$0.00450	\$ 23.27	\$ 16.00	
2ND QUARTER	0.00450	20.03	16.55	
3RD QUARTER	0.00450	20.23	11.25	
4TH QUARTER	0.00450	20.00	14.52	
</Table>				

As of December 31, 2001, there were 11,324 holders of record of the Company's common stock.

RECENT SALES OF UNREGISTERED SECURITIES

During 2001, 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>
512,582	\$ 1.00	January 2, 2001
380,845	\$ 1.00	January 2, 2001
400,619	\$ 3.358	January 2, 2001
</Table>		

*These numbers do not take into account the February 2001 three-for-two stock split.

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 "Securities Act"), by reason of the provision of Section 4(2) of the Securities 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 Securities Act and may not be transferred except pursuant

to a registration statement which has become effective under the Securities 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, 2001 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. Share and per share information in this Report has been adjusted for the effect of the February 2001 three-for-two stock split.

<Table>					
<Caption>					
	YEARS ENDED DECEMBER 31,				
-----	-----	-----	-----	-----	-----
	2001	2000	1999	1998	
1997	-----	-----	-----	-----	---
<S>	<C>	<C>	<C>	<C>	<C>

FINANCIAL DATA:

(in thousands except per share amounts)					
Operating revenues	\$ 5,555,174	\$ 5,649,560	\$ 4,735,587	\$ 4,163,980	\$
3,816,821					
Operating expenses	4,924,052	4,628,415	3,954,011	3,480,369	
3,292,585					
-----	-----	-----	-----	-----	---
Operating income	631,122	1,021,145	781,576	683,611	
524,236					
Other expenses (income), net	(196,537)	3,781	7,965	(21,501)	
7,280					
-----	-----	-----	-----	-----	---
Income before income taxes	827,659	1,017,364	773,611	705,112	
516,956					
Provision for income taxes	316,512	392,140	299,233	271,681	
199,184					
-----	-----	-----	-----	-----	---
Net income	\$ 511,147	\$ 625,224 (3)	\$ 474,378	\$ 433,431	\$
317,772					
=====	=====	=====	=====	=====	
Net income per share, basic	\$.67	\$.84 (3)	\$.63	\$.58	\$
.43					
Net income per share, diluted	\$.63	\$.79 (3)	\$.59	\$.55	\$
.41					
Cash dividends per common share	\$.0180	\$.0147	\$.0143	\$.0126	\$
.0098					
Total assets at period-end	\$ 8,997,141	\$ 6,669,572	\$ 5,653,703	\$ 4,715,996	\$
4,246,160					
Long-term obligations at period-end	\$ 1,327,158	\$ 760,992	\$ 871,717	\$ 623,309	\$
628,106					
Stockholders' equity at period-end	\$ 4,014,053	\$ 3,451,320	\$ 2,835,788	\$ 2,397,918	\$
2,009,018					
OPERATING DATA:					
Revenue passengers carried	64,446,773	63,678,261	57,500,213	52,586,400	
50,399,960					
Revenue passenger miles (RPMs) (000s)	44,493,916	42,215,162	36,479,322	31,419,110	
28,355,169					
Available seat miles (ASMs) (000s)	65,295,290	59,909,965	52,855,467	47,543,515	
44,487,496					
Load factor (1)	68.1%	70.5%	69.0%	66.1%	
63.7%					
Average length of passenger haul (miles) ..	690	663	634	597	
563					
Trips flown	940,426	903,754	846,823	806,822	
786,288					
Average passenger fare	\$ 83.46	\$ 85.87	\$ 79.35	\$ 76.26	\$
72.81					
Passenger revenue yield per RPM	12.09c.	12.95c.	12.51c.	12.76c.	
12.94c.					
Operating revenue yield per ASM	8.51c.	9.43c.	8.96c.	8.76c.	
8.58c.					
Operating expenses per ASM	7.54c.	7.73c.	7.48c.	7.32c.	
7.40c.					
Fuel cost per gallon (average)	70.86c.	78.69c.	52.71c.	45.67c.	
62.46c.					
Number of Employees at year-end	31,580	29,274	27,653	25,844	
23,974					
Size of fleet at year-end (2)	355	344	312	280	
261					

</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 (\$.03 per share).

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

YEAR IN REVIEW

In 2001, Southwest posted a profit for the 29th consecutive year in one of the

most challenging operating environments the air travel industry has ever faced. During the year, Southwest also increased our domestic market share, made enhancements that will improve our Customer Service, and ended the year with more Employees and aircraft than we had when we began the year. Despite the onset of a recession early in 2001 and the September 11, 2001 terrorist attacks against the United States (the terrorist attacks), Southwest was profitable in each quarter of the year, including the third and fourth quarters after excluding federal grants recognized in these quarters under the Air Transportation Safety and System Stabilization Act (the Act). (See Note 3 to the Consolidated Financial Statements for further details on the terrorist attacks and the Act.) Although we were unable to match some of the Company's record-setting performance levels reached in 2000, our business strategy - primarily short haul, high frequency, low fare, point-to-point, high quality Customer Service - continued to serve us well during some difficult times in 2001.

In 2001, we continued to maintain our cost advantage over our industry while the recession and events of September 11 put downward pressure on revenues. In response to uncertainties following September 11 and the precipitous drop in demand for air travel, Southwest amended its agreement with The Boeing Company to defer aircraft deliveries (see Note 4 to the Consolidated Financial Statements) but did not ground airplanes, reduce service, or furlough Employees. Following the temporary FAA shutdown of U.S. air space following the terrorist attacks, load factors have steadily improved to somewhat normal, average historical levels. However, these load factors have resulted from significant fare discounting, which continues to result in year-over-year declines in passenger revenue yields per RPM (passenger yields) and operating revenue yields per ASM.

As we begin 2002, in addition to the difficult revenue environment for commercial airlines, the Company is faced with increased war risk insurance and passenger security costs resulting from continually evolving security laws and directives. In response to the terrorist attacks, the airline industry has worked diligently with Congress, the DOT, the FAA, and law enforcement officials to enhance security. During fourth quarter 2001, the Company was able to offset these additional costs because of lower jet fuel prices and through internal cost reduction initiatives implemented following the terrorist attacks. However, there can be no assurance the Company will be able to continue to offset future cost increases resulting from the changing commercial airline environment. (The immediately preceding sentence is a forward-looking statement that involves uncertainties that could result in actual results differing materially from expected results. Some significant factors include, but may not be limited to, additional laws or directives that could increase the Company's costs or result in changes to the Company's operations, etc.)

During 2001, we began service to two new cities, West Palm Beach, Florida, and Norfolk, Virginia, while also discontinuing service to San Francisco International Airport due to airport congestion. We have been pleased with the initial results in both of the new Southwest cities. Prior to September 11, the Company also continued to add flights between cities already served. Southwest ended 2001 serving 58 cities in 30 states. Immediately following the terrorist attacks, Southwest suspended fleet growth. However, by the end of the year, Southwest had announced plans for modest growth to resume in early 2002.

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Currently, available seat mile (ASM) capacity is expected to grow approximately 3.5 percent in 2002 with the planned net addition of at least 8 aircraft. The Company will place in service at least 11 new Boeing 737-700s scheduled for delivery during the year and will retire three of the Company's older 737-200s. (The immediately preceding sentences are forward-looking statements that involve uncertainties that could result in actual results differing materially from expected results. Some significant factors include, but may not be limited to, future capacity decisions made by the Company, demand for air travel, changes in the Company's aircraft retirement schedule, etc.)

RESULTS OF OPERATIONS

2001 COMPARED WITH 2000 The Company's consolidated net income for 2001 was \$511.1 million (\$.63 per share, diluted), as compared to 2000 net income, before the cumulative effect of change in accounting principle, of \$625.2 million (\$.79 per share, diluted), a decrease of 18.2 percent. The prior years' net income per share amounts have been restated for the 2001 three-for-two stock split (see Note 11 to the Consolidated Financial Statements). Consolidated results for 2001 included \$235 million in gains that the Company recognized from grants under the Act and special pre-tax charges of approximately \$48 million arising from the terrorist attacks (see Note 3 to the Consolidated Financial Statements). Excluding the grant and special charges related to the terrorist attacks, net income for 2001 was \$412.9 million (\$.51 per share, diluted). The cumulative effect of change in accounting principle for 2000 was \$22.1 million, net of taxes of \$14.0 million (see Note 2 to the Consolidated Financial Statements). Net income and net income per share, diluted, after the cumulative change in accounting principle, for 2000, were \$603.1 million and \$.76, respectively.

Operating income for 2001 was \$631.1 million, a decrease of 38.2 percent compared to 2000.

Following the terrorist attacks, all U.S. commercial flight operations were suspended for approximately three days. However, the Company continued to incur nearly all of its normal operating expenses (with the exception of certain direct trip-related expenditures such as fuel, landing fees, etc.). The Company cancelled approximately 9,000 flights before resuming flight operations on September 14, although we did not resume our normal pre-September 11 flight schedule until September 18, 2001. Once the Company did resume operations, load factors and passenger yields were severely impacted, and ticket refund activity increased. The Company estimates that from September 11 through September 30, it incurred operating losses in excess of \$130 million.

The effects of the terrorist attacks continued to be felt throughout fourth quarter 2001. The Company's operating income during fourth quarter 2001 was \$37.1 million, a decrease of 85.2 percent compared to fourth quarter 2000. Without consideration of any federal grant under the Act the Company expects to recognize in first quarter 2002 (see Note 3 to the Consolidated Financial Statements), it is not yet known whether the Company will be profitable in first quarter 2002, due to uncertain economic conditions and the difficult airline industry revenue environment.

OPERATING REVENUES Consolidated operating revenues decreased 1.7 percent due primarily to a 1.6 percent decrease in passenger revenues. The decrease in passenger revenues was a direct result of the terrorist attacks. Because of the terrorist attacks, fluctuations in passenger revenue can best be explained by discussing the year in two distinct time periods: January through August, 2001, and September through December, 2001.

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From January through August, 2001, passenger revenues were approximately 8.7 percent higher than the same period in 2000 due primarily to an increase in capacity, as measured by ASMs, of 11.6 percent. The capacity increase was due to the addition of 14 aircraft during 2001 (all prior to September 11) and was partially offset by a decrease of 1.9 percent in passenger yield. Passenger yields decreased as a result of fare discounting by the Company and the airline industry in general as the United States economy weakened throughout the year. The Company's load factor (RPMs divided by ASMs) over this time period was 71.2 percent, compared to 71.7 percent for the same period in 2000.

From September through December, 2001, passenger revenues were approximately 21.7 percent lower than the same period of 2000. Capacity increased 4.0 percent and the Company's load factor fell to 62.0 percent, compared to 68.2 percent during the same period of 2000. Passenger yields were 17.2 percent lower during this period versus the same period of 2000 due to aggressive fare sales following the terrorist attacks.

For the full year, the Company experienced a 1.2 percent increase in revenue passengers carried, a 5.4 percent increase in revenue passenger miles (RPMs), and a 9.0 percent increase in ASMs. The Company's load factor for 2001 was off 2.4 points to 68.1 percent and there was a 6.7 percent decrease in 2001 passenger yield.

Load factors in January 2002 continued to trail those experienced in January 2001. Additionally, passenger yields remain significantly below prior year levels. As a result, the Company expects first quarter 2002 revenue per available seat mile to continue to fall below first quarter 2001 levels. (The immediately preceding sentence is a forward-looking statement, which involves uncertainties that could result in actual results differing materially from expected results. Some significant factors include, but may not be limited to, additional incidents that could cause the public to question the safety and/or efficiency of air travel, competitive pressure such as fare sales and capacity changes by other carriers, general economic conditions, operational disruptions as a result of bad weather, the impact of labor issues, and variations in advance booking trends.) See Note 1 to the Consolidated Financial Statements for further information on the Company's revenue recognition policy.

As a result of weak economic conditions throughout 2001, consolidated freight revenues decreased 17.6 percent. There were decreases in both the number of freight shipments and revenue per shipment. Following the September 11, 2001 terrorist attacks, the United States Postal Service made the decision to shift a portion of the mail that commercial carriers had previously carried to freight carriers. As a result of this decision, the Company expects to experience a decrease in freight revenues during at least the first half of 2002 when compared to 2001. (The immediately preceding sentence is a forward-looking statement, which involves uncertainties that could result in actual results differing materially from expected results. Some significant factors include, but may not be limited to, general economic conditions, subsequent shifts in business by the United States Postal Service, and capacity changes by other carriers.) Other revenues increased 20.3 percent due primarily to an increase in commissions earned from programs the Company sponsors with certain business partners, such as the Company sponsored First USA Visa card.

OPERATING EXPENSES Consolidated operating expenses for 2001 increased 6.4 percent, compared to the 9.0 percent increase in capacity. Operating expenses per ASM decreased 2.5 percent to \$.0754, compared to \$.0773 in 2000, due primarily to a decrease in average jet fuel prices. The average fuel cost per gallon in 2001 was \$.7086, 10.0 percent lower than the average cost per gallon in 2000 of \$.7869. Excluding fuel expense, operating expenses per ASM decreased .3 percent.

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Operating expenses per ASM for 2001 and 2000 were as follows:

<Table> <Caption>				
	2001	2000	Increase (decrease)	Percent change
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits	2.51c.	2.41c.	.10c.	4.1%
Employee retirement plans	.33	.40	(.07)	(17.5)
Fuel and oil	1.18	1.34	(.16)	(11.9)
Maintenance materials and repairs	.61	.63	(.02)	(3.2)
Agency commissions	.16	.27	(.11)	(40.7)
Aircraft rentals	.29	.33	(.04)	(12.1)
Landing fees and other rentals	.48	.44	.04	9.1
Depreciation	.49	.47	.02	4.3
Other	1.49	1.44	.05	3.5
	-----	-----	-----	-----
Total	7.54c.	7.73c.	(.19)c.	(2.5)%
	=====	=====	=====	=====

Approximately 59 percent of the increase in Salaries, wages, and benefits per ASM was due to increases in salaries and wages from higher average wage rates within certain workgroups and increased headcount due in part to the increased security requirements following the September terrorist attacks. The remaining 41 percent of the increase in Salaries, wages, and benefits per ASM was due to higher benefits costs, primarily health care costs.

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 2000. The Company reached an agreement with the TWU, which was ratified by its membership in June 2001. The new contract becomes amendable in June 2006.

The Company's Mechanics are subject to an agreement with the International Brotherhood of Teamsters (the Teamsters), which became amendable in August 2001. Southwest is currently in negotiations with the Teamsters for a new contract.

The Company's Flight Attendants are subject to an agreement with the TWU, which becomes amendable in June 2002. The Company's Customer Service and Reservations Agents are subject to an agreement with the International Association of Machinists and Aerospace Workers, which becomes amendable in November 2002.

Employee retirement plans expense per ASM decreased 17.5 percent, due primarily to the decrease in Company earnings available for profitsharing. The decrease in earnings more than offset an increase in expense due to a 4th quarter amendment made to the Company's profitsharing plan. This amendment enabled the Company to take into consideration federal grants under the Act and special charges resulting from the terrorist attacks in the calculation of profitsharing.

Fuel and oil expense per ASM decreased 11.9 percent, due primarily to a 10.0 percent decrease in the average jet fuel cost per gallon. The average cost per gallon of jet fuel in 2001 was \$.7086 compared to \$.7869 in 2000, including the effects of hedging activities. The Company's 2001 and 2000 average jet fuel prices are net of approximately \$79.9 million and \$113.5 million in gains from hedging activities, respectively. The Company's 2001 hedging gains were calculated according to the requirements of Statement of Financial Accounting Standards No. 133, as amended (SFAS 133), which the Company

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adopted January 1, 2001. See Note 2 and Note 9 to the Consolidated Financial Statements. As detailed in Note 9 to the Consolidated Financial Statements, the Company has hedges in place for approximately 60 percent of its anticipated fuel consumption in 2002. Considering current market prices and the continued effectiveness of the Company's fuel hedges, we are forecasting our first quarter 2002 average fuel cost per gallon to be below first quarter 2001's average fuel cost per gallon of \$.7853. The majority of the Company's near term hedge positions are in the form of option contracts, which should enable the Company

to continue to benefit to a large extent from a decline in jet fuel prices. (The immediately preceding two sentences are forward-looking statements, which involve uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, the largely unpredictable levels of jet fuel prices, the continued effectiveness of the Company's fuel hedges, and changes in the Company's overall fuel hedging strategy.)

Maintenance materials and repairs per ASM decreased 3.2 percent. This decrease was due primarily to the Company's capacity growth exceeding the increase in expense. Virtually all of the Company's 2001 capacity growth versus the prior year was accomplished with new aircraft, most of which have not yet begun to incur any meaningful repair costs. The decrease in engine expense was partially offset by an increase in expense for airframe inspections and repairs. In addition to an increase in the number of airframe inspections and repairs, the cost per event increased compared to 2000. Currently, the Company expects an increase in maintenance materials and repairs expense per ASM in first quarter 2002 versus first quarter 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, any unscheduled required aircraft airframe or engine repairs and regulatory requirements.)

Agency commissions per ASM decreased 40.7 percent, due primarily to a change in the Company's commission rate policy. Effective January 1, 2001, the Company reduced the commission rate paid to travel agents from ten percent to eight percent for Ticketless bookings, and from ten percent to five percent for paper ticket bookings. Effective October 15, 2001, the Company reduced the commission paid to travel agents to five percent (with no cap), regardless of the type of ticket sold. Due to this most recent commission policy change in October 2001, we expect agency commissions to show a year-over-year decrease in first quarter 2002 on a per-ASM basis. (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 per ASM decreased 12.1 percent due primarily to a lower percentage of the aircraft fleet being leased. Approximately 25.9 percent of the Company's aircraft were under operating lease at December 31, 2001, compared to 27.3 percent at December 31, 2000. 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 2002. (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 increased 9.1 percent primarily as a result of the Company's expansion of facilities at several airports, including Baltimore-Washington International Airport and Chicago Midway Airport. As a result of the terrorist attacks, most other major airlines have reduced their

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flight schedules and/or have retired aircraft early due to the decrease in demand for air travel. Since Southwest has not reduced the number of flights it offers, the Company expects that the airport costs it shares with other airlines on the basis of relative flights landed or passengers carried, such as landing fees and common space rentals, will increase on a per-ASM basis in future periods. In fourth quarter 2001, landing fees and other rentals per ASM increased 21.4 percent. The Company currently expects a similar year-over-year increase in first quarter 2002. (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 competitors' flight schedules, demand for air travel, etc.)

Depreciation expense per ASM increased 4.3 percent due primarily to the growth in the Company's aircraft fleet prior to the September 11, 2001 terrorist attacks. The Company had received delivery of 14 new 737-700 aircraft prior to September 11, bringing the percentage of owned aircraft in the Company's fleet to 74.1 percent by the end of 2001 compared to 72.7 percent at the end of 2000.

Other operating expenses per ASM increased 3.5 percent due primarily to a significant increase in passenger liability, aircraft hull, and third party liability insurance costs following the terrorist attacks. The Company's insurance carriers cancelled their war risk and terrorism insurance policies following the terrorist attacks and reinstated such coverage at significantly higher rates than before. Although the Company was reimbursed for a portion of the higher rates by the federal government for one month during fourth quarter 2001, we have assumed no further reimbursements. As a result, the Company currently expects continued year-over-year increases in insurance costs for the near term future, including first quarter 2002. (The immediately preceding

sentence is a forward-looking statement involving uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, the financial stability of companies offering insurance policies to the airline industry, the level of competition within the insurance industry, etc.)

OTHER "Other expenses (income)" included interest expense, capitalized interest, interest income, and other gains and losses. Interest expense was flat compared to the prior year. Following the terrorist attacks, the Company borrowed the full \$475 million available under its revolving credit facility and issued \$614.3 million in long-term debt in the form of Pass-Through Certificates (see Note 7 to the Consolidated Financial Statements.) The increase in expense caused by these borrowings was offset by a decrease in interest rates on the Company's floating rate debt and the July 2001 redemption of \$100 million of unsecured notes. Based on the Company's recent borrowings, we expect interest expense to be higher on a year-over-year basis in first quarter 2002. (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, subsequent financing decisions made by the Company.) Capitalized interest decreased 25.3 percent primarily as a result of lower 2001 progress payment balances for scheduled future aircraft deliveries compared to 2000. The lower progress payments were due in part to the deferral of Boeing 737 aircraft firm orders and options following the terrorist attacks. Interest income increased 6.2 percent due primarily to higher invested cash balances, partially offset by lower rates of return. Other gains in 2001 resulted primarily from \$235 million received as the Company's share of government grant funds under the Act provided to offset the Company's direct and incremental losses following the terrorist attacks, through the end of 2001. The Company expects to receive up to an additional \$50 million in 2002, but determined that due to some uncertainties regarding the amount to be received, accrual of any amounts in 2001 as a receivable was not proper. (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

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to, subsequent modifications or amendments to the Act, interpretations of the meaning of direct and incremental losses, and changes in the government's expected schedule of distributing grant funds, etc.) See Note 3 to the Company's Consolidated Financial Statements for further discussion of the Act and grants from the government.

INCOME TAXES The provision for income taxes, as a percentage of income before taxes, decreased slightly to 38.24 percent in 2001 from 38.54 percent in 2000. The decrease resulted primarily from lower effective state tax rates in 2001.

2000 COMPARED WITH 1999 The Company's consolidated net income for 2000 before the cumulative effect of a change in accounting principle was \$625.2 million (\$.79 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. Net income per share, diluted, after consideration of the accounting change, was \$.76 compared to \$.59 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 due primarily 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 RPMs, and a 3.6 percent increase in passenger yield. The increase in passenger yield was due primarily to an 8.2 percent increase in average passenger fare, partially offset by a 4.6 percent increase in average length of passenger haul. The increase in average passenger fare was due primarily to modest fare increases combined with a higher mix of full-fare passengers.

The increase in RPMs exceeded a 13.3 percent increase in 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.

Freight revenues increased 7.5 percent due primarily 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 due primarily 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, due primarily 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.

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.

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

Fuel and oil expense per ASM increased 44.1 percent, due primarily 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.

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. Engine repairs for the Company's 737-200 aircraft 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 decrease. The decrease in airframe inspections and repairs was due primarily 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 was reflected in salaries and wages.

Agency commissions per ASM decreased 10.0 percent, due primarily 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.

Aircraft rentals decreased 13.2 percent due primarily 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.

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 due primarily to a 5.8 percent increase in stage length (the average distance per aircraft trip flown).

Other operating expenses per ASM decreased 3.4 percent due primarily to Company-wide cost reduction efforts. The Company also reduced its advertising expense 9.5 percent 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 due primarily 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.

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LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$1.5 billion in 2001 compared to \$1.3 billion in 2000. The increase in operating cash flows was due primarily to the deferral of approximately \$186 million in tax payments until January 2002, as provided for in the Act, which more than offset the decrease in net income. Net cash provided by financing activities was \$1.3 billion in 2001 compared to a

net use of \$59.5 million in 2000. Financing cash flows were generated from borrowings the Company made from its \$475 million revolving credit facility and the issuance of \$614.3 million in long-term debt. These borrowings were partially offset by the redemption of \$100 million unsecured notes in 2001. See Note 6 and Note 7 to the Consolidated Financial Statements for more information on these financing activities. Cash generated in 2001 was primarily used to finance aircraft-related capital expenditures and provide working capital.

During 2001, net capital expenditures were \$1.0 billion, which primarily related to the purchase of 14 new 737-700 aircraft delivered to the Company, 11 new 737-700 aircraft the Company has effectively purchased via a special purpose trust (the Trust), and progress payments for future aircraft deliveries. See Note 4 to the Consolidated Financial Statements for more information on the Trust. The Company's contractual commitments consist primarily of scheduled aircraft acquisitions. As a result of the terrorist attacks, the Company was able to modify its future aircraft delivery dates through the amendment of our purchase contract with The Boeing Company and through the creation of the Trust. Through the Trust, as of December 31, 2001, Southwest will take delivery and place in service 11 new 737-700 aircraft in 2002 and eight new 737-700 aircraft in 2003. Excluding aircraft scheduled to be delivered from the Trust, as of December 31, 2001, the Company has no new 737-700 aircraft deliveries scheduled for 2002, 13 in 2003, 23 in 2004, 24 in 2005, 22 in 2006, 25 in 2007, and 6 in 2008. The Company also has a total of 87 purchase options for new 737-700 aircraft for years 2004 through 2008 and purchase rights for an additional 217 737-700s during 2007-2012. In total, Southwest's Trust deliveries, firm orders, options, and purchase rights through 2012 are at 436 aircraft. 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. The following table provides details regarding the Company's contractual cash obligations subsequent to December 31, 2001:

<Table>
<Caption>

CONTRACTUAL CASH OBLIGATIONS BY YEAR (IN MILLIONS)							
	2002	2003	2004	2005	2006	BEYOND 5 YEARS	TOTAL
	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Long-term debt (1)	\$ 40	\$ 130	\$ 232	\$ 142	\$ 541	\$ 291	\$1,376
Short-term borrowings	475	--	--	--	--	--	475
Operating lease commitments	290	275	243	217	185	1,590	2,800
Aircraft purchase commitments (2)	319	689	685	719	641	622	3,675
	-----	-----	-----	-----	-----	-----	-----
Total Contractual cash obligations	\$1,124	\$1,094	\$1,160	\$1,078	\$1,367	\$2,503	\$8,326
	=====	=====	=====	=====	=====	=====	=====

</Table>

(1) Includes amounts classified as interest for capital lease obligations

(2) Includes amounts payable to the Trust - see Note 4 to the Consolidated Financial Statements.

The Company has various options available to meet its capital and operating commitments, including cash on hand at December 31, 2001 of \$2.28 billion and internally generated funds. In addition, the Company will also consider various borrowing or leasing options to maximize earnings and supplement cash requirements. The Company believes it has access to a wide variety of financing arrangements because of its excellent credit ratings and modest leverage.

The Company currently has outstanding shelf registrations for the issuance of \$704 million of public debt securities, which it may utilize for aircraft financings in 2002 and 2003.

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, 2001, in aggregate, 18.3 million shares had been repurchased at a total cost of \$199.2 million, of which \$108.7 million was completed in 2000. No shares were repurchased in 2001.

ITEM 7A. QUALITATIVE AND QUANTITATIVE 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 fixed rate debt instruments and derivative instruments used to hedge its

exposure to jet fuel price increases. The Company also operates 99 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 8 to the Consolidated Financial Statements. The Company does not purchase or hold any derivative financial instruments for trading purposes. See Note 2 to the Consolidated Financial Statements for information on the Company's accounting for its hedging program and Note 9 to the Consolidated Financial Statements for further detail on the Company's financial derivative instruments.

The fair values of outstanding financial derivative instruments related to the Company's jet fuel market price risk at December 31, 2001 were a net liability of approximately \$19.4 million, which is classified in accrued liabilities in the Consolidated Balance Sheet. The fair values of the derivative instruments, depending on the type of instrument, were determined by the use of present value methods or standard option value models with assumptions about commodity prices based on those observed in underlying markets. An immediate ten percent increase or decrease in underlying fuel-related commodity prices from the December 31, 2001 prices would correspondingly change the fair value of the commodity derivative instruments in place by approximately \$55 million. Changes in the related commodity derivative instrument cash flows may change by more or less than this amount based upon further fluctuations in futures prices as well as related income tax effects. This sensitivity analysis uses industry standard valuation models and holds all inputs constant at December 31, 2001 levels, except underlying futures prices.

Airline operators are inherently capital intensive, as the vast majority of the Company's assets are expensive 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 Fitch ratings agencies, and a "Baa1" or equivalent credit rating with Moody's rating agency. The Company's Aircraft Secured Notes and French Credit Agreements 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 7 to the Consolidated Financial Statements for more information on these borrowings. As disclosed in Note 7 to the Consolidated Financial Statements, the Company had outstanding senior unsecured notes totaling \$400 million at December 31, 2001. Also, as disclosed in Note 7, the Company issued \$614.3 million in long-term debt in November 2001 in the form of Pass-Through Certificates (Certificates), which are secured by aircraft the Company owns. The total of the Company's long-term unsecured notes represented only 6.2 percent of total noncurrent assets at December 31, 2001. The unsecured long-term debt currently has a weighted-average maturity of 9.0 years at fixed rates averaging 7.6 percent at December 31, 2001, which is comparable to average rates prevailing over the last ten years. The Certificates bear interest at a combined weighted-average rate of 5.8 percent. The Company does not have significant exposure to changing interest rates on its unsecured long-term debt or its Certificates because the interest rates are fixed and the financial leverage is modest.

The Company also has some risk associated with changing interest rates due to the short term nature of its invested cash, which was \$2.28 billion at December 31, 2001. The Company invests available cash in certificates of deposit and investment grade commercial paper that generally have maturities of three months or less; therefore, the returns earned on these investments parallel closely with floating interest rates. 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 as of December 31, 2001 would not have a material effect on the fair value of the Company's fixed rate debt instruments. See Note 9 to the Consolidated Financial Statements for further information on the fair value of the Company's financial instruments. A change in market interest rates could, however, have a corresponding effect on the Company's earnings and cash flows associated with its Aircraft Secured Notes, French Credit Agreements, and invested cash because of the floating rate nature of these items. Assuming floating market rates in effect as of December 31, 2001 were held constant throughout a twelve month period, a hypothetical ten percent change in those rates would correspondingly change the Company's net earnings and cash flows associated with these items by approximately \$2.1 million. 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 Certificates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SOUTHWEST AIRLINES CO.
CONSOLIDATED BALANCE SHEETS

<Table>

<Caption>

(In thousands, except per share amounts)

	DECEMBER 31,	
	2001	2000
	-----	-----
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,279,861	\$ 522,995
Accounts and other receivables	71,283	138,070
Inventories of parts and supplies, at cost	70,561	80,564
Deferred income taxes	46,400	28,005
Prepaid expenses and other current assets	52,114	61,902
	-----	-----
Total current assets	2,520,219	831,536
Property and equipment, at cost:		
Flight equipment	7,534,119	6,831,913
Ground property and equipment	899,421	800,718
Deposits on flight equipment purchase contracts	468,154	335,164
	-----	-----
	8,901,694	7,967,795
Less allowance for depreciation	2,456,207	2,148,070
	-----	-----
	6,445,487	5,819,725
Other assets	31,435	18,311
	-----	-----
	\$ 8,997,141	\$ 6,669,572
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 504,831	\$ 312,716
Accrued liabilities	547,540	499,874
Air traffic liability	450,407	377,061
Aircraft purchase obligations	221,840	--
Short-term borrowings	475,000	--
Current maturities of long-term debt	39,567	108,752
	-----	-----
Total current liabilities	2,239,185	1,298,403
Long-term debt less current maturities	1,327,158	760,992
Deferred income taxes	1,058,143	852,865
Deferred gains from sale and leaseback of aircraft	192,342	207,522
Other deferred liabilities	166,260	98,470
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$1.00 par value: 2,000,000 shares authorized; 766,774 and 507,897 shares issued in 2001 and 2000, respectively	766,774	507,897
Capital in excess of par value	50,409	103,780
Retained earnings	3,228,408	2,902,007
Accumulated other comprehensive income (loss)	(31,538)	--
Treasury stock, at cost: 3,735 shares in 2000	--	(62,364)
	-----	-----
Total stockholders' equity	4,014,053	3,451,320
	-----	-----
	\$ 8,997,141	\$ 6,669,572
	=====	=====

</Table>

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENTS OF INCOME

<Table>

<Caption>

(In thousands, except per share amounts)	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
<S>	<C>	<C>	<C>
OPERATING REVENUES:			
Passenger	\$ 5,378,702	\$ 5,467,965	\$ 4,562,616
Freight	91,270	110,742	102,990
Other	85,202	70,853	69,981
Total operating revenues	5,555,174	5,649,560	4,735,587
OPERATING EXPENSES:			
Salaries, wages, and benefits	1,856,288	1,683,689	1,455,237
Fuel and oil	770,515	804,426	492,415
Maintenance materials and repairs	397,505	378,470	367,606
Agency commissions	103,014	159,309	156,419
Aircraft rentals	192,110	196,328	199,740
Landing fees and other rentals	311,017	265,106	242,002
Depreciation	317,831	281,276	248,660
Other operating expenses	975,772	859,811	791,932
Total operating expenses	4,924,052	4,628,415	3,954,011
OPERATING INCOME	631,122	1,021,145	781,576
OTHER EXPENSES (INCOME):			
Interest expense	69,827	69,889	54,145
Capitalized interest	(20,576)	(27,551)	(31,262)
Interest income	(42,562)	(40,072)	(25,200)
Other (gains) losses, net	(203,226)	1,515	10,282
Total other expenses (income)	(196,537)	3,781	7,965
INCOME BEFORE TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	827,659	1,017,364	773,611
PROVISION FOR INCOME TAXES	316,512	392,140	299,233
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	511,147	625,224	474,378
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF INCOME TAXES	--	(22,131)	--
NET INCOME	\$ 511,147	\$ 603,093	\$ 474,378
NET INCOME PER SHARE, BASIC BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$.67	\$.84	\$.63
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	--	(.03)	--
NET INCOME PER SHARE, BASIC	\$.67	\$.81	\$.63
NET INCOME PER SHARE, DILUTED BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$.63	\$.79	\$.59
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	--	(.03)	--
NET INCOME PER SHARE, DILUTED	\$.63	\$.76	\$.59

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<Table>
<Caption>

YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

(In thousands, except per share amounts)	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK
--	--------------	--------------------------------	-------------------	---	----------------

TOTAL						
	-----	-----	-----	-----	-----	-
<S>	<C>	<C>	<C>	<C>	<C>	
<C>						
Balance at December 31, 1998 2,397,918	\$ 335,904	\$ 89,820	\$ 2,044,975	\$ --	\$ (72,781)	\$
Three-for-two stock split	167,954	(89,878)	(78,076)	--	--	
--						
Purchase of shares of treasury stock (90,507)	--	--	--	--	(90,507)	
Issuance of common and treasury stock pursuant to Employee stock plans	1,147	7,811	(45,134)	--	72,781	
36,605						
Tax benefit of options exercised	--	27,683	--	--	--	
27,683						
Cash dividends, \$.0143 per share	--	--	(10,289)	--	--	
(10,289)						
Net income - 1999	--	--	474,378	--	--	
474,378						
	-----	-----	-----	-----	-----	-
Balance at December 31, 1999 2,835,788	505,005	35,436	2,385,854	--	(90,507)	
Purchase of shares of treasury stock (108,674)	--	--	--	--	(108,674)	
Issuance of common and treasury stock pursuant to Employee stock plan	2,892	6,667	(75,952)	--	136,817	
70,424						
Tax benefit of options exercised	--	61,677	--	--	--	
61,677						
Cash dividends, \$.0147 per share	--	--	(10,988)	--	--	
(10,988)						
Net income - 2000	--	--	603,093	--	--	
603,093						
	-----	-----	-----	-----	-----	-
Balance at December 31, 2000 3,451,320	507,897	103,780	2,902,007	--	(62,364)	
Three-for-two stock split	253,929	(136,044)	(117,885)	--	--	
--						
Issuance of common and treasury stock pursuant to Employee stock plans	4,948	28,982	(52,753)	--	62,364	
43,541						
Tax benefit of options exercised	--	53,691	--	--	--	
53,691						
Cash dividends, \$.0180 per share	--	--	(14,108)	--	--	
(14,108)						
Net income - 2001	--	--	511,147	--	--	
511,147						
Other comprehensive income (loss)	--	--	--	(31,538)	--	
(31,538)						
	-----	-----	-----	-----	-----	-
Balance at December 31, 2001 4,014,053	\$ 766,774	\$ 50,409	\$ 3,228,408	\$ (31,538)	\$ --	\$
	=====	=====	=====	=====	=====	
=====						

</Table>

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<Table>
<Caption>

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
(In thousands)			
<S>	<C>	<C>	<C>

CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 511,147	\$ 603,093	\$ 474,378
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	317,831	281,276	248,660
Deferred income taxes	207,922	153,447	142,940
Amortization of deferred gains on sale and leaseback of aircraft	(15,180)	(15,178)	(15,172)
Amortization of scheduled airframe inspections and repairs	43,121	36,328	28,949
Income tax benefit from Employee stock option exercises	53,691	61,677	27,683
Changes in certain assets and liabilities:			
Accounts and other receivables	66,787	(63,032)	13,831
Other current assets	(9,027)	(24,657)	(31,698)
Accounts payable and accrued liabilities	202,506	129,438	66,081
Air traffic liability	73,346	120,119	56,864
Other	32,464	15,775	16,877
	-----	-----	-----
Net cash provided by operating activities	1,484,608	1,298,286	1,029,393
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(997,843)	(1,134,644)	(1,167,834)
	-----	-----	-----
Net cash used in investing activities	(997,843)	(1,134,644)	(1,167,834)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt	614,250	--	255,600
Payments of long-term debt and capital lease obligations	(110,600)	(10,238)	(12,107)
Payments of cash dividends	(13,440)	(10,978)	(10,842)
Proceeds from revolving credit facility	475,000	--	--
Proceeds from trust arrangement	266,053	--	--
Proceeds from Employee stock plans	43,541	70,424	36,605
Repurchases of common stock	--	(108,674)	(90,507)
Other, net	(4,703)	--	--
	-----	-----	-----
Net cash provided by (used in) financing activities	1,270,101	(59,466)	178,749
	-----	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,756,866	104,176	40,308
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	522,995	418,819	378,511
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,279,861	\$ 522,995	\$ 418,819
	=====	=====	=====
CASH PAYMENTS FOR:			
Interest, net of amount capitalized	\$ 47,682	\$ 36,946	\$ 26,604
Income taxes	\$ 65,905	\$ 150,000	\$ 131,968

</Table>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001

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 Tickets sold are initially deferred as "Air traffic liability". Passenger revenue is recognized when transportation is provided. "Air traffic liability" primarily represents tickets sold for future travel dates and estimated refunds, or exchanges, of tickets sold for past travel dates. Estimated refunds and exchanges, including the underlying assumptions, are evaluated each reporting period with resulting adjustments included in "Passenger revenue". Factors which may affect estimated refunds include, but may not be limited to, the Company's refund policy, the mix of refundable and non-refundable fares, and fare sale activity. The Company's estimation techniques have been consistently applied from year to year; however, as with any estimates, actual refund and

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exchange activity may vary from estimated amounts. The Company believes it is unlikely that materially different estimates would be reported under different assumptions or conditions.

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, 2001, 2000, and 1999 was \$147.6 million, \$141.3 million, and \$137.7 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 12.

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. Prior to 2001, the net cost paid for option premiums and gains and losses on all financial derivative instruments, including those terminated or settled early, were deferred and charged or credited to fuel expense in the same month that the underlying jet fuel being hedged was used. However, beginning January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities", as amended, which changed the way it accounts for financial derivative instruments. See Note 2 and Note 9.

RECENT ACCOUNTING DEVELOPMENTS During 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations", which is effective for financial statements issued for fiscal years beginning after June 15, 2002. The pronouncement addresses the recognition and re-measurement of obligations associated with the retirement of tangible

long-lived assets. On October 3, 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which is effective for financial statements issued for fiscal years beginning after December 15, 2001. SFAS 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and applies to all long-lived assets (including discontinued operations). The Company does not expect these standards to have a material impact on future financial statements or results of operations.

2. ACCOUNTING CHANGES

Effective January 1, 2001, the Company adopted SFAS 133. SFAS 133 requires the Company to record all financial derivative instruments on its balance sheet at fair value. Derivatives that are not designated as

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hedges must be adjusted to fair value through income. If a derivative is designated as a hedge, depending on the nature of the hedge, changes in its fair value that are considered to be effective, as defined, either offset the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or are recorded in "Accumulated other comprehensive income (loss)" 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, is recorded immediately in "Other (gains) losses, net" in the Consolidated Statement of Income. Any portion of a change in a derivative's fair value that the Company elects to exclude from its measurement of effectiveness is required to be recorded immediately in earnings.

Under the rules established by SFAS 133, the Company has alternatives in accounting for its financial derivative instruments. The Company primarily uses financial derivative instruments to hedge its exposure to jet fuel price increases and accounts for these derivatives as cash flow hedges, as defined. In accordance with SFAS 133, the Company must comply with detailed rules and strict documentation requirements prior to beginning hedge accounting. As required by SFAS 133, the Company assesses the effectiveness of each of its individual hedges on a quarterly basis. The Company also examines the effectiveness of its entire hedging program on a quarterly basis utilizing statistical analysis. This analysis involves utilizing regression and other statistical analysis which compare changes in the price of jet fuel to changes in the prices of the commodities used for hedging purposes (crude oil and heating oil). If these statistical techniques do not produce results within certain predetermined confidence levels, the Company could lose its ability to utilize hedge accounting, which could cause the Company to recognize all gains and losses on financial derivative instruments in earnings in the periods following the determination that the Company no longer qualified for hedge accounting. This could, in turn, depending on the materiality of periodic changes in derivative fair values, increase the volatility of the Company's future earnings.

Upon adoption of SFAS 133, the Company recorded the fair value of its fuel derivative instruments in the Consolidated Balance Sheet and a deferred gain of \$46.1 million, net of tax, in "Accumulated other comprehensive income (loss)". See Note 10 for further information on Comprehensive income. During 2001, the Company recognized approximately \$8.2 million as a net expense in "Other (gains) losses, net", related to the ineffectiveness of its hedges. During 2001, the Company recognized approximately \$17.5 million of net expense, related to amounts excluded from the Company's measurements of hedge effectiveness, in "Other (gains) losses, (net)". The 2001 adoption of SFAS 133 has resulted in more volatility in the Company's financial statements than in the past due to the changes in market values of its derivative instruments and some ineffectiveness that has been experienced in its fuel hedges. See Note 9 for further information on the Company's derivative instruments.

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 in "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 flown or credits expire unused. Due to this change, the Company recorded a cumulative effect charge in first quarter 2000 of \$22.1 million (net of income taxes of \$14.0 million) or \$.03 per share, basic and diluted. Adopting this method of accounting for 1999 would have reduced the Company's Net income by \$3.9 million or \$.01 per basic share. Net income per share, diluted, would not have changed.

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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 per share, diluted, by \$.02 for the year ended December 31, 1999.

3. FEDERAL GRANTS AND SPECIAL CHARGES RELATED TO TERRORIST ATTACKS

On September 11, 2001, terrorists hijacked and used two American Airlines, Inc. aircraft and two United Air Lines, Inc. aircraft in terrorist attacks on the United States (terrorist attacks). As a result of these terrorist attacks, the Federal Aviation Administration (FAA) immediately suspended all commercial airline flights on the morning of September 11. The Company resumed flight activity on September 14 and was operating its normal pre-September 11 flight schedule by September 18, 2001. From September 11 until the Company resumed flight operations on September 14, Southwest cancelled approximately 9,000 flights.

On September 22, 2001, President Bush signed into law the Air Transportation Safety and System Stabilization Act (the Act). The Act provides for up to \$5 billion in cash grants to qualifying U.S. airlines and freight carriers to compensate for direct and incremental losses, as defined in the Act, from September 11, 2001 through December 31, 2001, associated with the terrorist attacks. Each airline's total eligible grant is being determined based on that airline's percentage of ASMs during August 2001 to total eligible carriers' ASMs for August 2001, less an undetermined amount set aside for eligible carriers that provide services not measured by ASMs. The Department of Transportation (DOT) will make the final determination of the amount of eligible direct and incremental losses incurred by each airline. Direct and incremental losses, while defined generally in the Act, are subject to interpretation by the DOT. Lastly, final applications for grants must be accompanied by Agreed Upon Procedures reports from independent accountants and may be subject to additional audit or review by the DOT and Congress.

During third quarter and fourth quarter 2001, the Company recognized in "Other gains" approximately \$235 million from grants under the Act. The Company believes its actual direct and incremental losses related to the September 11 terrorist attacks will exceed the total amount for which the Company will be ultimately eligible. The Company may recognize up to approximately \$50 million in additional amounts during 2002 from the Act upon completion and approval of the final application based on the DOT's final interpretations of the Act. However, due to many uncertainties regarding the interpretation of the Act, the Company believed that recognizing gains in excess of the \$235 million in 2001 was not appropriate.

In addition, the Company recorded special charges of \$48 million in 2001 arising from the terrorist attacks. Total special charges included a \$30 million reduction in "Passenger revenue" resulting from refunds of nonrefundable fares, \$13 million in charges to "Other operating expenses" for write-downs of various assets due to impairment, and other charges that are included in "Other (gains) losses, net".

4. COMMITMENTS

In response to the decrease in demand for air travel since the terrorist attacks, the Company modified its schedule for future aircraft deliveries and the timing of its future capital expenditure commitments. In November 2001, Southwest entered into a trust arrangement with a special purpose entity (the Trust) and assigned its purchase agreement with Boeing to the Trust with respect to 19 Boeing 737-700 aircraft originally scheduled to be delivered from September 2001 through April 2002. Southwest subsequently entered into a purchase agreement with the Trust to purchase the aircraft at new delivery dates from January 2002 through April 2003. As of December 31, 2001, the Trust has purchased a total of eleven completed aircraft, and the remaining eight aircraft will be purchased by the Trust from Boeing when the aircraft are completed in 2002. Southwest has the option to accelerate purchases from the Trust at any time.

Although Southwest does not have legal title to the assets of the Trust and has not guaranteed the liabilities of the Trust, Southwest does exercise certain rights of ownership over the Trust assets. Consequently, the assets (i.e., "Flight equipment" and "Deposits on flight equipment purchase contracts") and associated liabilities (i.e., "Aircraft purchase obligations") of the Trust have been recorded in the accompanying Consolidated Balance Sheet as of December 31, 2001.

The Company's contractual purchase commitments consist primarily of scheduled aircraft acquisitions. Excluding the aircraft acquired or to be acquired by the Trust, the Company has contractual purchase commitments with Boeing for no 737-700 aircraft deliveries in 2002, 13 scheduled for delivery in 2003, 23 in

2004, 24 in 2005, 22 in 2006, and 31 thereafter. In addition, the Company has options to purchase up to 87 737-700s during 2004-2008 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. Including the amounts associated with the Trust that are included as liabilities in the Company's Consolidated Balance Sheet as of December 31, 2001, aggregate funding needed for firm commitments is approximately \$3.7 billion, subject to adjustments for inflation, due as follows: \$319 million in 2002, \$689 million in 2003, \$685 million in 2004, \$719 million in 2005, \$641 million in 2006, and \$622 million thereafter.

5. ACCRUED LIABILITIES

<Table> <Caption> (In thousands)		
	2001	2000
	-----	-----
<S>	<C>	<C>
Retirement plans (Note 13)	\$ 147,110	\$ 180,340
Aircraft rentals	120,554	117,302
Vacation pay	83,105	72,115
Other	196,771	130,117
	-----	-----
	\$ 547,540	\$ 499,874
	=====	=====

</Table>

6. SHORT-TERM BORROWINGS

In September 2001, the Company borrowed the full \$475 million available under its unsecured revolving credit line with a group of banks. Borrowings under the credit line bear interest at six-month LIBOR plus 17 basis points and amounts are repayable on or before May 6, 2002. The interest rate (approximately 3.26%

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as of December 31, 2001), however, may change based on changes in the Company's credit rating. The Company intends to repay the borrowings in full prior to the due date with either cash on hand or proceeds from the issuance of long-term debt securities. The full \$475 million is classified as a current liability in the Consolidated Balance Sheet at December 31, 2001. There were no outstanding borrowings under this agreement at December 31, 2000.

7. LONG-TERM DEBT

<Table> <Caption> (In thousands)		
	2001	2000
	-----	-----
<S>	<C>	<C>
9.4% Notes due 2001	\$ --	\$ 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
Pass Through Certificates	614,250	--
7 7/8% Notes due 2007	100,000	100,000
French Credit Agreements	52,310	54,243
7 3/8% Debentures due 2027	100,000	100,000
Capital leases (Note 8)	109,268	117,083
	-----	-----
	1,375,828	871,326
Less current maturities	39,567	108,752
Less debt discount and issue costs	9,103	1,582
	-----	-----
	\$1,327,158	\$ 760,992
	=====	=====

</Table>

On October 30, 2001, the Company issued \$614.3 million Pass Through Certificates consisting of \$150.0 million 5.1% Class A-1 certificates, \$375.0 million 5.5% Class A-2 certificates, and \$89.3 million 6.1% Class B certificates. A separate trust was established for each class of certificates. The trusts used the proceeds from the sale of certificates to acquire equipment notes, which were issued by Southwest on a full recourse basis. Payments on the equipment notes held in each trust will be passed through to the holders of certificates of such trust. The equipment notes were issued for each of 29 Boeing 737-700 aircraft owned by Southwest and are secured by a mortgage on such aircraft. Interest on the equipment notes held for the certificates is payable semiannually, beginning May 1, 2002. Beginning May 1, 2002, principal payments on the equipment notes held for the Class A-1 certificates are due semiannually until the balance of the certificates mature on May 1, 2006. The entire principal of the equipment notes for the Class A-2 and Class B certificates are scheduled for payment on

November 1, 2006.

In July 2001, the Company redeemed \$100 million of senior unsecured 9.4% Notes originally issued in 1991.

In fourth quarter 1999, the Company issued \$200 million of floating rate Aircraft Secured Notes (the 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.

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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.

During 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.

During 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 8 3/4% Notes due October 15, 2003. Interest on the Notes is payable semi-annually. The Notes are not redeemable prior to maturity.

The net book value of the assets pledged as collateral for the Company's secured borrowings, primarily aircraft and engines, was \$958.0 million at December 31, 2001.

As of December 31, 2001, aggregate annual principal maturities for the five-year period ending December 31, 2006 were \$40 million in 2002, \$130 million in 2003, \$232 million in 2004, \$142 million in 2005, \$541 million in 2006, and \$291 million thereafter.

8. LEASES

Total rental expense for operating leases charged to operations in 2001, 2000, and 1999 was \$358.6 million, \$330.7 million, and \$318.2 million, respectively. The majority of the Company's terminal operations space, as well as 92 aircraft, were under operating leases at December 31, 2001. The amounts applicable to capital leases included in property and equipment were:

<Table>		
<Caption>		
(In thousands)	2001	2000
- -----	-----	-----
<S>	<C>	<C>
Flight equipment	\$ 165,085	\$ 164,909
Less accumulated depreciation	99,801	92,763
	-----	-----
	\$ 65,284	\$ 72,146
	=====	=====
</Table>		

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Future minimum lease payments under capital leases and noncancelable operating leases with initial or remaining terms in excess of one year at December 31, 2001, were:

<Table> <Caption> (In thousands)			CAPITAL LEASES	OPERATING LEASES
-----			-----	-----
<S>			<C>	<C>
2002	\$	17,562		\$ 290,378
2003		17,751		275,013
2004		17,651		242,483
2005		23,509		217,170
2006		13,379		185,125
After 2006		65,395		1,589,559
			-----	-----
Total minimum lease payments		155,247		\$2,799,728
				=====
Less amount representing interest		45,979		

Present value of minimum lease payments		109,268		
Less current portion		8,692		

Long-term portion	\$	100,576		
			=====	
</Table>				

The aircraft leases generally can be renewed at rates based on fair market value at the end of the lease term for one to five years. Most aircraft leases have purchase options at or near the end of the lease term at fair market value, generally limited to a stated percentage of the lessor's defined cost of the aircraft.

9. DERIVATIVE AND FINANCIAL INSTRUMENTS

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 2001, 2000, and 1999 represented approximately 15.6, 17.4 percent, and 12.5 percent of Southwest's operating expenses, respectively. The Company endeavors to acquire jet fuel at the lowest possible prices. Because jet fuel is not traded on an organized futures exchange, liquidity for hedging is limited. However, the Company has found that both crude oil and heating oil contracts are effective commodities for hedging jet fuel. The Company has financial derivative instruments in the form of the types of hedges it utilizes to decrease its exposure to jet fuel price increases. The Company does not purchase or hold any derivative financial instruments for trading purposes.

The Company utilizes financial derivative instruments for both short-term and long-term time frames when it appears the Company can take advantage of market conditions. At December 31, 2001, the Company had a mixture of purchased call options, collar structures, and fixed price swap agreements in place to hedge approximately 60 percent of its 2002 total anticipated jet fuel requirements, approximately 47 percent of its 2003 total anticipated jet fuel requirements, and a small portion of its 2004-2005 total anticipated jet fuel requirements. As of December 31, 2001, the majority of the Company's 2002 hedges are effectively heating oil-based positions in the form of option contracts. All remaining hedge positions are crude oil-based positions.

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During 2001, 2000, and 1999, the Company recognized gains in "Fuel and oil" expense of \$79.9 million, \$113.5 million, and \$14.8 million, respectively, from hedging activities. At December 31, 2001 and 2000, approximately \$8.2 million and \$49.9 million, respectively, was due from third parties from expired derivative contracts, and accordingly, are included in "Accounts and other receivables" in the accompanying Consolidated Balance Sheet. The Company accounts for its fuel hedge derivative instruments as cash flow hedges, as defined. Therefore, all changes in fair value that are considered to be effective are recorded in "Accumulated other comprehensive income (loss)" until the underlying jet fuel is consumed. The fair value of the Company's financial derivative instruments at December 31, 2001, was a net liability of approximately \$19.4 million and is classified as "Accrued liabilities" in the Consolidated Balance Sheet. The fair value of the derivative instruments, depending on the type of instrument, was determined by the use of present value methods or standard option value models with assumptions about commodity prices based on those observed in underlying markets.

As of December 31, 2001, the Company had approximately \$31.1 million in unrealized losses, net of tax, in "Accumulated other comprehensive income (loss)" related to fuel hedges. Included in this total are approximately \$22.2 million in net unrealized losses that are expected to be realized in earnings during 2002. Upon the adoption of SFAS 133 on January 1, 2001, the Company recorded unrealized fuel hedge gains of \$46.1 million, net of tax, of which \$45.5 million was realized in earnings during 2001.

Outstanding financial derivative instruments expose the Company to credit loss

in the event of nonperformance by the counterparties to the agreements. However, the Company does not expect any of the counterparties to fail to meet their obligations. The credit exposure related to these financial instruments is represented by the fair value of contracts with a positive fair value at the reporting date. To manage credit risk, the Company selects and periodically reviews counterparties based on credit ratings, limits its exposure to a single counterparty, and monitors the market position of the program and its relative market position with each counterparty. At December 31, 2001, the Company had agreements with five counterparties containing early termination rights and/or bilateral collateral provisions whereby security is required if market risk exposure exceeds a specified threshold amount or credit rating falls below certain levels. Neither the Company nor the counterparties exceeded such threshold amounts at December 31, 2001. The Company is in the process of negotiating similar agreements with other counterparties.

The carrying amounts and estimated fair values of the Company's long-term debt at December 31, 2001 were as follows:

<Table> <Caption> (In thousands)		
	CARRYING VALUE	FAIR VALUE
	-----	-----
<S>	<C>	<C>
8 3/4% Notes due 2003	\$ 100,000	\$ 106,954
Aircraft Secured Notes due 2004	200,000	200,000
8% Notes due 2005	100,000	107,602
Pass Through Certificates	614,250	605,839
7 7/8% Notes due 2007	100,000	108,455
French Credit Agreements	52,310	52,310
7 3/8% Debentures due 2027	100,000	96,150

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.

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10. COMPREHENSIVE INCOME

Comprehensive income includes changes in the fair value of certain financial derivative instruments, which qualify for hedge accounting, and unrealized gains and losses on certain investments. Comprehensive income totaled \$479.6 million for 2001. The difference between Net income and Comprehensive income for 2001 is as follows:

<Table> <Caption> (In thousands)		2001

<S>	<C>	
Net income	\$ 511,147	
Unrealized (loss) on derivative instruments, net of deferred taxes of \$(20,719)	(31,063)	
Other, net of deferred taxes of \$(320)	(475)	

Total other comprehensive income (loss)	(31,538)	

Comprehensive income	\$ 479,609	=====

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

<Table> <Caption>			
(In thousands)	Fuel hedge derivatives	Other	Accumulated other comprehensive income (loss)
	-----	-----	-----
<S>	<C>	<C>	<C>
Balance at December 31, 2000	\$ --	\$ --	\$ --
January 1, 2001 transition adjustment	46,089	--	46,089
2001 changes in fair value	(31,665)	(475)	(32,140)
Reclassification to earnings	(45,487)	--	(45,487)
	-----	-----	-----
Balance at December 31, 2001	\$ (31,063)	\$ (475)	\$ (31,538)
	=====	=====	=====

11. 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, 2001, the Company had common stock reserved for issuance pursuant to Employee stock benefit plans (140.3 million shares authorized of which 40.2 million shares have not yet been granted) and upon exercise of rights (323.0 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 \$.0022 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

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defined in the Agreement, each Right will entitle its holder to purchase for \$3.29 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 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. On January 18, 2001, the Company's Board of Directors declared a three-for-two stock split, distributing 253.9 million shares on February 15, 2001. 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.

On September 23, 1999, the Company's Board of Directors authorized the repurchase of up to \$250 million of its outstanding common stock. This program to date has resulted in the repurchase of 18.3 million shares at an average cost of \$10.85 per share between October 1999 and December 2000. No shares were repurchased in 2001. All of these acquired shares were subsequently reissued under Employee stock plans.

12. STOCK PLANS

At December 31, 2001, the Company had twelve stock-based compensation plans, excluding a plan covering the Company's Board of Directors and plans related to employment contracts with certain Executive Officers of the Company. 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.

Of the Company's twelve stock-based compensation plans, eleven are fixed option plans that cover various Employee groups. Under these plans, the Company may grant up to 141 million shares of common stock, of which 32.4 million shares were available for granting in future periods as of December 31, 2001. 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:

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<Table>
<Caption>

(In thousands, except exercise prices)	COLLECTIVE BARGAINING PLANS		OTHER EMPLOYEE PLANS	
	OPTIONS	AVERAGE EXERCISE PRICE	OPTIONS	AVERAGE EXERCISE PRICE

<S>	<C>	<C>	<C>	<C>
Outstanding December 31, 1998	68,909	\$ 4.30	34,919	\$ 4.40
Granted	2,304	11.70	5,051	12.19
Exercised	(3,327)	4.13	(4,938)	3.11
Surrendered	(612)	4.33	(1,701)	5.56

Outstanding December 31, 1999	67,274	4.32	33,331	4.61

Granted	4,707	18.23	11,904	13.86
Exercised	(7,895)	4.47	(7,416)	3.47
Surrendered	(686)	5.15	(1,461)	8.67
	-----		-----	
Outstanding December 31, 2000	63,400	5.59	36,358	8.66
Granted	1,665	19.05	4,022	18.75
Exercised	(4,166)	4.48	(4,135)	4.77
Surrendered	(349)	8.71	(1,394)	10.87
	-----		-----	
Outstanding December 31, 2001	60,550	\$ 6.05	34,851	\$ 10.20
	=====		=====	
Exercisable December 31, 2001	38,483	\$ 5.15	10,696	\$ 9.20
Available for granting in future periods	10,741		21,634	

The following table summarizes information about stock options outstanding under the eleven fixed option plans at December 31, 2001:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
-----				-----	
	WTD-AVERAGE				
	REMAINING				
RANGE OF EXERCISE PRICES	AT 12/31/01 (000'S)	CONTRACTUAL LIFE	WTD-AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE AT 12/31/01 (000'S)	WTD-AVERAGE EXERCISE
PRICE					
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
\$ 2.23 TO \$ 3.35	79	.8 yrs	\$ 2.40	70	\$ 2.42
\$ 3.71 TO \$ 5.38	59,035	4.9 yrs	4.08	36,973	4.04
\$ 5.85 TO \$ 8.73	9,850	6.1 yrs	7.64	4,554	7.47
\$10.10 TO \$15.07	8,829	7.2 yrs	11.32	3,023	11.46
\$15.25 TO \$22.81	17,556	8.0 yrs	17.36	4,553	17.23
\$23.92 TO \$23.93	52	10.3 yrs	23.93	6	23.93
	-----			-----	
\$ 2.23 TO \$23.93	95,401	5.7 yrs	\$ 7.57	49,179	\$ 6.03
	=====			=====	

Under the amended 1991 Employee Stock Purchase Plan (ESPP), at December 31, 2001, the Company is authorized to issue up to a remaining balance of 7.8 million shares of common stock to Employees of the Company at a price equal to 90 percent of the market value at the end of each purchase period. Common stock purchases are paid for through periodic payroll deductions. Participants under the plan received 1,025,000 shares in 2001, 1,029,000 shares in 2000, and 974,000 shares in 1999 at average prices of \$16.42, \$13.34, and \$10.83, 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

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weighted-average assumptions used for grants under the fixed option plans in 2001, 2000, and 1999, respectively: dividend yield of .065 percent, .10 percent, and .12 percent; expected volatility of 34.80 percent, 34.87 percent, and 35.66 percent; risk-free interest rate of 4.46 percent, 5.04 percent, and 6.68 percent; and expected lives ranging from 5 years to 6 years, depending upon the type of grant.

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.

The fair value of options granted under the fixed option plans during 2001 ranged from \$5.69 to \$9.11. The fair value of options granted under the fixed option plans during 2000 ranged from \$4.47 to \$9.79. The fair value of options granted under the fixed option plans during 1999 ranged from \$4.17 to \$5.87. The weighted-average fair value of each purchase right under the ESPP granted in 2001, 2000, and 1999, which is equal to the ten percent discount from the market value of the common stock at the end of each purchase period, was \$1.82, \$1.48,

and \$1.17, respectively.

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:

<Table> <Caption> (In thousands except per share amounts)			
	2001	2000	1999

NET INCOME:			
<S>	<C>	<C>	<C>
As reported	\$ 511,147	\$ 603,093	\$ 474,378
Pro forma	\$ 485,946	\$ 583,707	\$ 461,875
NET INCOME PER SHARE, BASIC:			
As reported	\$.67	\$.81	\$.63
Pro forma	\$.64	\$.78	\$.61
NET INCOME PER SHARE, DILUTED:			
As reported	\$.63	\$.76	\$.59
Pro forma	\$.61	\$.74	\$.58
</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.

13. 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

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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 2001, 2000, and 1999 were \$214.6 million, \$241.5 million, and \$192.0 million, respectively.

14. 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, 2001 and 2000, are as follows:

<Table> <Caption> (In thousands)		
	2001	2000

<S>	<C>	<C>
DEFERRED TAX LIABILITIES:		
Accelerated depreciation	\$ 1,246,009	\$ 1,049,791
Scheduled airframe maintenance	89,292	71,519
Other	31,770	23,805
	-----	-----
Total deferred tax liabilities	1,367,071	1,145,115
DEFERRED TAX ASSETS:		
Deferred gains from sale and leaseback of aircraft	101,755	107,686
Capital and operating leases	76,990	77,151
Accrued employee benefits	83,450	80,050
State taxes	37,715	28,843
Other	55,418	26,525
	-----	-----
Total deferred tax assets	355,328	320,255
	-----	-----
Net deferred tax liability	\$ 1,011,743	\$ 824,860
	=====	=====
</Table>		

The provision for income taxes is composed of the following:

<Table>
<Caption>

(In thousands)	2001	2000	1999
<S>	<C>	<C>	<C>
CURRENT:			
Federal	\$ 98,378	\$ 197,875	\$ 137,393
State	10,212	26,671	18,900
	-----	-----	-----
Total current	108,590	224,546	156,293
DEFERRED:			
Federal	187,296	151,694	128,984
State	20,626	15,900	13,956
	-----	-----	-----
Total deferred	207,922	167,594	142,940
	-----	-----	-----
	\$ 316,512	\$ 392,140	\$ 299,233
	=====	=====	=====

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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. 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 is currently deductible as an ordinary and necessary business expense. In accordance with the revenue ruling, the IRS conceded the proposed adjustments to the deductions claimed by the Company for aircraft inspection and maintenance expense, and on June 1, 2001, a decision was entered by the Tax Court holding that there is no deficiency in income tax for the taxable years 1989 through 1991.

The IRS similarly proposed to disallow deductions claimed by the Company on its federal income tax returns for the taxable years 1992 through 1994 primarily related to the costs of certain aircraft inspection and maintenance expenses. During 2001 the IRS conceded the proposed adjustments to the deductions claimed for aircraft inspection and maintenance expenses. Management believes the final resolution of this controversy will not have a material adverse effect upon the financial position or results of operations of the Company.

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

(In thousands)	2001	2000	1999
<S>	<C>	<C>	<C>
Tax at statutory			
U.S. tax rates	\$ 289,681	\$ 356,077	\$ 270,764
Nondeductible items	7,318	6,801	6,664
State income taxes,			
net of federal benefit	20,045	27,671	21,356
Other, net	(532)	1,591	449
	-----	-----	-----
Total income			
tax provision	\$ 316,512	\$ 392,140	\$ 299,233
	=====	=====	=====

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15. NET INCOME PER SHARE

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

(In thousands except per share amounts)	2001	2000	1999
<S>	<C>	<C>	<C>
NUMERATOR:			
Net income before cumulative effect			
of change in accounting principle	\$ 511,147	\$ 625,224	\$ 474,378
Cumulative effect of change in			
accounting principle	--	(22,131)	--
	-----	-----	-----

Net income	\$ 511,147	\$ 603,093	\$ 474,378
	=====	=====	=====
DENOMINATOR:			
Weighted-average shares outstanding, basic	762,973	748,617	754,598
Dilutive effect of Employee stock options	44,142	47,699	49,293
	-----	-----	-----
Adjusted weighted-average shares outstanding, diluted	807,115	796,316	803,891
	=====	=====	=====
NET INCOME PER SHARE:			
Basic before cumulative effect of change in accounting principle	\$.67	\$.84	\$.63
Cumulative effect of change in accounting principle	--	(.03)	--
	-----	-----	-----
Net income per share, basic	\$.67	\$.81	\$.63
	=====	=====	=====
Diluted before cumulative effect of change in accounting principle	\$.63	\$.79	\$.59
Cumulative effect of change in accounting principle	--	(.03)	--
	-----	-----	-----
Net income per share, diluted	\$.63	\$.76	\$.59
	=====	=====	=====

</Table>

The Company has excluded 5.7 million, 11.7 million, and 6.7 million shares from its calculations of net income per share, diluted, in 2001, 2000, and 1999, respectively, as they represent antidilutive stock options for the respective periods presented.

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REPORT OF 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, 2001 and 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. 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, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, in 2001 the Company changed its method of accounting for derivative financial instruments and in 2000 the Company changed its method of accounting for the sale of flight segment credits.

ERNST & YOUNG LLP

Dallas, Texas
January 16, 2002

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2000	THREE MONTHS ENDED			
	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	.13 (1)	.26	.25	.21
Net income per share, diluted	.12 (1)	.24	.23	.19

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2001				
	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
<S>	<C>	<C>	<C>	<C>
Operating revenues	\$ 1,428,617	\$ 1,553,785	\$ 1,335,125	\$ 1,237,647
Operating income	210,157	290,862	92,986	37,117
Income before income taxes	196,502	287,451	245,870	97,836
Net income	121,045	175,633	150,964	63,505
Net income per share, basic	.16	.23	.20	.08
Net income per share, diluted	.15	.22	.19	.08

(1) Excludes cumulative effect of accounting change of \$22.1 million (\$.03 per share, basic and diluted).

ITEM 9. CHANGES IN 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 15, 2002. See "Executive Officers of the Registrant" in Part I following Item 4 for information relating to executive officers.

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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 15, 2002.

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 15, 2002.

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 15, 2002.

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)); Amendment to Restated Articles of Incorporation of Southwest (incorporated by reference to Exhibit 3.1 to Southwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (File No. 1-7259)).
- 3.2 Bylaws of Southwest, as amended through May 2001 (incorporated by reference to Exhibit 3.2 to Southwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (File No. 1-7259)).
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(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 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)); Amendment No. 1 to Rights Agreement dated March 15, 2001 (incorporated by reference to Exhibit 1 to Form 8-A Amendment No. 3 dated April 25, 2001 (File No. 1-7529)).
- 4.4 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)).
- 4.5 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)); Supplemental Agreements Nos. 15, 16, 17, 18 and 19 (incorporated by reference to Exhibit 10.1 to Southwest's Quarterly Report on form 10-Q for the quarter ended September 30, 2001 (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.

- 10.2 Aircraft Acquisition and Sale Agreement dated as of November 13, 2001 among The Amor Trust, Wilmington Trust Company, Wells Fargo Bank Northwest, National Association and Southwest (incorporated by reference to Exhibit 10.2 to Southwest's Quarterly Report on form 10-Q for the quarter ended September 30, 2001 (File No. 1-7259)).

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

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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.

- 10.4 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)).
- 10.5 1992 stock option agreements between Southwest and Herbert D. Kelleher (incorporated by reference to Exhibit 10.8 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).
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- 10.8 1991 Incentive Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 33-40652)).
- 10.9 1991 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 33-40652)).
- 10.10 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)).
- 10.11 Southwest Airlines Co. Profit Sharing Plan (incorporated by reference to Exhibit 10.8 to Southwest's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 1-729)); Amendment No. 1 to Southwest Airlines Co. Profit Sharing Plan.
- 10.12 Southwest Airlines Co. 401(k) Plan.
- 10.13 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)).
- 10.14 1996 Incentive Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-20275)).

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- 10.15 1996 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 333-20275)).

10.16 Employment Agreement dated as of June 19, 2001 between Southwest and James F. Parker.

10.17 Employment Agreement dated as of June 19, 2001 between Southwest and Colleen C. Barrett.

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 2001.

On October 3, 2001, Southwest filed a Current Report on Form 8-K for the purpose of filing the Company's October 3, 2001 press release reporting September 2001 traffic results as Exhibit 99.1.

On October 29, 2001, Southwest filed a Current Report on Form 8-K to file, under Item 7-Financial Statements and Exhibits, certain documents related to its Registration Statement on Form S-3 (File No. 333- 71392).

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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 30, 2002

By /s/ Gary C. Kelly

Gary C. Kelly
Executive Vice President,
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 30, 2002 on behalf of the registrant and in the capacities indicated.

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Signature -----	Capacity -----
<S> /s/ Herbert D. Kelleher ----- Herbert D. Kelleher	<C> Chairman of the Board of Directors
/s/ James F. Parker ----- James F. Parker	Chief Executive Officer and Director
/s/ Colleen C. Barrett ----- Colleen C. Barrett	President, Chief Operating Officer and Director
/s/ Gary C. Kelly ----- Gary C. Kelly	Executive Vice President and Chief Financial Officer (Chief Financial and Accounting Officer)
/s/ Samuel E. Barshop ----- Samuel E. Barshop	Director
----- Gene H. Bishop	Director
/s/ C. Webb Crockett ----- C. Webb Crockett	Director

/s/ William H. Cunningham	Director

William H. Cunningham	
/s/ William P. Hobby, Jr.	Director

William P. Hobby, Jr.	
/s/ Travis C. Johnson	Director

Travis C. Johnson	
/s/ R. W. King	Director

R. W. King	
/s/ June M. Morris	Director

June M. Morris	

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INDEX TO EXHIBITS

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EXHIBIT
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DESCRIPTION

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23	Consent of Ernst & Young LLP, Independent Auditors.
</Table>	

AMENDMENT NO. 1 TO THE
SOUTHWEST AIRLINES CO. PROFIT SHARING PLAN

Pursuant to the authority of the Board of Directors of Southwest Airlines Co., and the provisions of Article XVII thereof, the Southwest Airlines Co. Profit Sharing Plan is hereby amended effective as of November 15, 2001 in the following respects only:

1. Article II, Subsection 2.1(c), is hereby amended to read as follows:

"(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. Notwithstanding the foregoing, for purposes of determining Annual Compensation for the 2001 Plan Year, Annual Compensation shall include the value of the number of hours (or, in the case of flight attendants and pilots, the value of the number of trips) donated by an Employee to the Company pursuant to the "Pledge to LUV" program, provided that inclusion of such additional amounts will not cause the Plan to fail to meet the requirements of Section 401(a)(4) 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 attributable to the period an Employee is a Member of the Plan."

2. Article IV, Section 4.1, the second paragraph, is hereby amended to read as follows:

"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 or 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 or disclosed in the notes thereto, 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. Notwithstanding the foregoing, 'operating profit' shall be adjusted to take into account any special pre-tax gains resulting from cash grants under the Air Transportation Safety and System Stabilization Act of 2001, net of special charges arising from the events of September 11, 2001, including, but not limited to, charges resulting from refunds, write-downs of various assets due to impairment, and the deferral of aircraft firm orders and options."

IN WITNESS WHEREOF, and as conclusive evidence of the adoption of the foregoing instrument comprising Amendment No. 1 to the Southwest Airlines Co. Profit Sharing Plan, the Company has caused these presents to be duly executed in its name and behalf by its proper officers thereunto duly authorized the 15th day of November, 2001.

SOUTHWEST AIRLINES CO.

ATTEST:

/s/ DEBORAH ACKERMAN

Deborah Ackerman
Assistant Secretary

By: /s/ JAMES F. PARKER

James F. Parker
Chief Executive Officer

STATE OF TEXAS)
)
COUNTY OF DALLAS)

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this 28th day of December, 2001, personally appeared James. F. Parker, to me known to be the individual person who subscribed the name of SOUTHWEST AIRLINES CO., as its Chief Executive Officer, to the foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed and the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, the day and year last above written.

/s/ MICHELLE LUSK

Notary Public in and for the State
of Texas

My Commission Expires:

7/5/02

SOUTHWEST AIRLINES CO.

401(k) PLAN

SOUTHWEST AIRLINES CO.
401 (k) PLAN

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SOUTHWEST AIRLINES CO.
401(k) PLAN

PREAMBLE

WHEREAS, SOUTHWEST AIRLINES CO., a corporation formed under the laws of the State of Texas (the "Company") has previously adopted a profit sharing plan and trust designated as the Southwest Airlines Co. Profit Sharing Plan, effective as of January 1, 1973, which was subsequently amended and restated in its entirety, effective as of January 1, 1986, and which was again amended and restated in its entirety, effective as of January 1, 1991, to comply with the Tax Reform Act of 1986 and subsequent legislation and to continue the cash or deferred feature of the plan as a separate Plan (the "Prior Plan"); and

WHEREAS, the Company now desires to again amend and restate the Prior Plan in its entirety for compliance with the Uruguay Round Agreements Act ("GATT"), the Uniformed Services Employment and Reemployment Rights Act of 1994 ("USERRA"), the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, and subsequent legislation and to incorporate amendments that have previously been made (hereinafter referred to as the "Plan");

NOW, THEREFORE, in consideration of the premises and to carry out the purposes and intent as set forth above, effective as of January 1, 1997, except as otherwise specifically provided herein, the Prior Plan is hereby restated and amended in its entirety, superseded and replaced by this Plan, and the Company does hereby adopt this restated Plan for the benefit of its eligible employees. There will be no gap or lapse in time or effect between such plans, and the existence of a qualified plan shall be continuous and uninterrupted.

The terms and conditions of this 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 help the Employees accumulate funds for their later years, and to provide funds for their Beneficiaries in the event of death or disability. 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 Annual Additions (as defined in subsection 6.5(b) hereof) are to be allocated to the

Individual Accounts of the Members of the Plan, such date to be the last day of each Plan Year.

(c) Annual Compensation: The total amounts paid by the Company to an Employee as remuneration for personal services rendered during each Plan Year including any amounts not includable in the gross income of the Employee pursuant to Sections 125, 402(e)(3), 403(b), 457 or 402(h)(1)(B) (and effective January 1, 1998, 132(f)(4)) of the Code and expense allowances (to the extent includable in the gross income of the Employee), but excluding director's fees, expense reimbursements and nontaxable expense allowances, prizes and awards, (effective September 16, 1999, 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 the Southwest Airlines Co. Profit Sharing 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 includable, as provided above, that are paid by the Company to the Employee through another person, pursuant to the common paymaster provisions of Sections 3121(s) and 3306(p) of the Code.

Effective January 1, 1999, 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. If a Plan Year consists of fewer than twelve (12) months, then the \$150,000 limitation will be multiplied by a fraction, the numerator of which is the number of months in the Plan Year, and the denominator of which is twelve (12). 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.

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(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 fewer than 501 Hours of Service with the Company unless he is on a leave of absence authorized by the Company 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 Matching Contributions: Contributions that may be made by the Company for any Plan Year on behalf of a Member who has elected to receive Salary Reduction Contributions for such Plan Year as provided in Section 4.2 hereof. Company Matching Contributions shall be determined on behalf of Members whose conditions of employment are governed by a collective bargaining agreement between the Company and a labor union in accordance with the terms of such collective bargaining agreement, as then in effect, and shall be determined on behalf of Members whose conditions of employment are not so governed in the sole and absolute discretion of the board of directors of the Company.

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

(l) 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. 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.

(m) Effective Date: January 1, 1997, except as otherwise specifically provided herein.

(n) Employee: Any person who is receiving remuneration for personal services rendered to the Company, 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

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event shall any individual employed by TranStar Airlines or any other Affiliate or subsidiary of the Company be considered an Employee. Notwithstanding the foregoing, individuals whose conditions of employment are governed by a collective bargaining agreement that 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(s), (ii) and (mm) 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 the primary direction of 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, (2) immediate participation, and (3) full and immediate vesting; and (ii) leased employees do not constitute more than twenty percent (20%) of the recipient's nonhighly compensated work force.

(o) Entry Date: January 1, April 1, July 1 and October 1 of each year.

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

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

(r) Highly Compensated Employee: The term Highly Compensated Employee includes highly compensated active employees and highly compensated former employees. A highly compensated active employee includes any Employee who performs Service for the Company during the determination year and who, during the look-back year received compensation from the Company in excess of \$80,000 (as adjusted pursuant to Section 415(d) of the Code). The term Highly Compensated Employee also includes Employees who are Five Percent (5%) Owners (as defined in Section 19.1(f) hereof) at any time during the look-back year or determination year. For purposes of this Section 2.1(s), the determination year shall be the Plan Year. The look-back year shall be the twelve-month period immediately preceding the determination

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year. For purposes of this Section 2.1(r), the term "compensation" shall have the same meaning as set forth in Section 415(c)(3) of the Code.

A highly compensated former employee includes any Employee who separated from service (or was deemed to have separated from service) prior to the determination year, performs no Service for the Company during the determination year, and was a highly compensated active

employee for either the separation year or any determination year ending on or after the Employee's 55th birthday. The determination of the identity of Highly Compensated Employees will be made in accordance with Section 414(q) of the Code and the regulations thereunder.

(s) 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, 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. 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 that 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 2530.200 b-2(b) and (c), which rules are incorporated into and made a part of this Plan by reference.

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 that would otherwise have been credited to such Employee but for such absence. For purposes of this Plan, an Employee shall be deemed to be on maternity or paternity leave if the

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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.

(t) 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.

(u) 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.

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

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

(x) Normal Retirement Date: The date on which a Member attains the age of sixty (60) years.

(y) Plan: Southwest Airlines Co. 401(k) Plan, as amended from time to time.

(z) 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.

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

(bb) Prior Plan: The Southwest Airlines Co. 401(k) Plan, effective January 1, 1991, as heretofore amended and restated from time to time.

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(cc) Qualified Nonelective Contributions: Contributions which may, at the election of the Company, be made to the Plan by the Company in an amount necessary to assure the Plan's compliance with the deferral percentage test described in Section 4.5 hereof or the contribution percentage test described in Section 4.6 hereof.

(dd) 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.

(ee) Rollover Contributions: Contributions that may be made to the Plan by a Member or Employee, as provided in Section 4.7 hereof.

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

(gg) Salary Reduction Contributions: Contributions made to the Plan by the Company, at the election of a Member, in lieu of cash compensation, pursuant to a salary reduction agreement, as provided in Section 4.1 hereof.

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

(ii) 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 member of such controlled group of corporations, such group of trades or businesses under common control, such affiliated service group, or such other entity required to be so aggregated, including Service prior to the Effective Date.

(jj) Trust: Southwest Airlines Co. 401(k) Trust, as amended from time to time, which was established to hold and invest Salary Reduction Contributions, Company Matching Contributions, and Qualified Nonelective Contributions, if any, 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.

(kk) 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 that may be managed exclusively by an Investment Manager, and to operate and administer the Trust Fund.

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

(mmm) 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, 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 purpose, break in service rules are those rules that 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) 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 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. 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 Company Matching Contribution 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 Company Matching Contribution 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.

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.

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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 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. 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 that constitutes income from sources within the United States shall not be eligible to participate in the Plan. A person who is not treated as an Employee on the Company's books and records (such as a person who as a matter of practice is treated by the Company as an independent contractor, but who is later determined to be an Employee as a matter of fact) shall not be an eligible Employee during any part of a Plan Year in which such person was not treated as an Employee despite any retroactive recharacterization.

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. Re-entry 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. 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 reemployment by the Company, or if later, the first Entry Date following the satisfaction of such requirements.

ARTICLE IV Contributions

4.1. Salary Reduction Contributions: Each Member may elect to have contributed on his behalf to the Trust Fund, on a pre-tax basis, any whole percentage of his Annual Compensation which is not less than one percent (1%) and which does not exceed fifteen percent (15%); provided, however, such amount may not exceed Seven Thousand Dollars (\$7,000.00), indexed for increases in the cost of living as provided in Section 402(g) (5) of the Code, in any taxable year of such Member. Salary Reduction Contributions shall be elected pursuant to a salary deferral election, in accordance with Section 5.3 hereof. Salary Reduction Contributions are at all times one hundred percent (100%) vested and nonforfeitable. Salary Reduction Contributions made on behalf of a Member shall be added to the Trust Fund as soon as

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practicable after deduction from a Member's paycheck and shall be credited to the Individual Account of the Member as of each Valuation Date, as provided in Section 6.1.

4.2. Company Matching Contributions: The Company may, as provided below, contribute to the Trust Fund a Company Matching Contribution. Company Matching Contributions shall be determined on behalf of Members whose conditions of employment are governed by a collective bargaining agreement between the Company and a labor union in accordance with the terms of such collective bargaining agreement, as then in effect, and shall be determined on behalf of Members whose conditions of employment are not so governed, in the sole and absolute discretion of the board of directors of the Company. If a Company Matching Contribution is made, such Contribution will equal a specified percentage of the Member's Salary Reduction Contributions, not to exceed the specific dollar amount set forth in the collective bargaining agreement, if applicable, or otherwise established by the board of directors of the Company. Company Matching Contributions shall be added to the Trust Fund as soon as practicable after deduction of the applicable Salary Reduction Contributions from a Member's paycheck and credited, as of each Valuation Date, to the Company Matching Contribution Account of each Member who has elected to have Salary Reduction Contributions made to the Trust Fund on his behalf during the applicable period.

4.3. Qualified Nonelective Contributions: The Company may, for each Plan Year, contribute to the Trust Fund Qualified Nonelective Contributions. Qualified Nonelective Contributions are at all times one hundred percent (100%) vested and nonforfeitable. Qualified Nonelective 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 6.2.

4.4. Seven Thousand Dollar (\$7,000.00) Test: If a Member's Salary Reduction Contributions hereunder should exceed Seven Thousand Dollars (\$7,000.00), indexed for increases in the cost of living as set forth in Section 402(g) (5) of the Code, in any taxable year of the Member, the excess (with earnings thereon) shall be distributed to the Member. If the Member also participates in another elective deferral program (within the meaning of Section 402(g) (3) of the Code), and if when aggregating his elective deferrals under all such programs an excess of deferral contributions arises under the dollar limitation in Code Section 402(g) with respect to such Member, the Member shall, no later than March 1st following the close of the Member's taxable year, notify the Committee as to the portion of such excess deferrals to be allocated to this Plan, and such excess so allocated to this Plan (with earnings thereon) shall be distributed to the Member. In the event there is a loss allocable to an excess deferral, any distribution to a member as required by this Section shall be no greater than the lesser of: (a) the value of the Member's Salary Reduction Contribution Account or (b) the Member's excess deferrals for the Plan Year. Any distribution under this Section shall be made to the Member no later than the April 15th immediately following the close of the Member's taxable year for which such excess deferrals were made.

4.5. Deferral Percentage Test: As soon as administratively feasible after the end of each Plan Year (or other applicable period), the Committee shall determine:

(a) The "deferral percentage" for each Employee who is then eligible for Salary Reduction Contributions, which in the case of a Highly Compensated Employee, shall be the ratio of the amount of such Highly Compensated Employee's Salary Reduction Contributions for such Plan Year to the Highly Compensated Employee's compensation (as defined in Section 2.1(r) hereof) for such Plan Year and which, in the case of an Employee who is not a Highly Compensated Employee, shall be the ratio of the amount of such Employee's Salary Reduction Contributions for the prior Plan Year to such Employee's compensation (as defined in Section 2.1(r) hereof) for the prior Plan Year;

(b) The "highly compensated deferral percentage," which shall be the average of the "deferral percentages" for all Highly Compensated Employees then eligible for Salary Reduction Contributions; and

(c) The "nonhighly compensated deferral percentage," which shall be the average of the "deferral percentages" for all Employees then eligible for Salary Reduction Contributions who were not included in the "highly compensated deferral percentage" in (b) above.

In no event shall the "highly compensated deferral percentage" exceed the greater of: (1) a deferral percentage equal to one and one-fourth (1-1/4) times the "nonhighly compensated deferral percentage" or (2) a deferral percentage equal to two (2) times the "nonhighly compensated deferral percentage," but not more than two (2) percentage points greater than the "nonhighly compensated deferral percentage," or such lesser amount as the Secretary of Treasury may prescribe to prevent the multiple use of this alternative limitation, as set forth in Section 1.401(m)-2(b) of the Treasury Regulations. In the event that multiple use of the alternative limitation occurs with respect to any Plan Year, then either the "highly compensated contribution percentage," as defined in Section 4.5 hereof, or the "highly compensated deferral percentage," as defined above, shall be reduced, such reduction and the Highly Compensated Employees to whom such reduction shall apply to be determined by the Committee in accordance with Section 1.401(m)-2(c) of the Treasury Regulations. If the above deferral percentage test would otherwise be violated as of the end of the Plan Year, then subject to satisfaction of the conditions described in Section 401(k)-1(b)(5) of the Treasury Regulations, the "deferral percentage," as defined in (a) above, shall instead be the ratio of the sum of the Employee's Salary Reduction Contributions, Qualified Nonelective Contributions, if any, and to the extent necessary to satisfy the deferral percentage test, Company Matching Contributions for the applicable Plan Year to the Employee's compensation (as defined in Section 2.1(s) hereof) for the applicable Plan Year. Any Company Matching Contributions so utilized to satisfy the deferral percentage test shall at all times be one hundred percent (100%) vested and nonforfeitable and shall be excluded from consideration for purposes of the contribution percentage test described in Section 4.6. If after consideration of Qualified Nonelective Contributions, if any, and applicable Company Matching Contributions, as described above, the deferral percentage test would still be violated as of the end of the Plan Year, then notwithstanding any other provision hereof, every Salary Reduction Contribution included in the "highly compensated deferral percentage" for a Member whose deferral percentage is greater than the permitted maximum shall be revoked to the extent necessary to comply with such deferral percentage test, and the amount of such Salary Reduction Contribution, to the extent

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revoked, shall constitute an "excess contribution" to be distributed to such Member (with earnings thereon) no later than the last day of the Plan Year following the Plan Year for which such contribution was made. Excess contributions are allocated to the Highly Compensated Employees with the largest amounts of Employer contributions that are taken into account in calculating the deferral percentage test for the Plan Year in which the excess arose, beginning with the Highly Compensated Employee with the largest amount of such Employer contributions and continuing in descending order until all excess contributions have been allocated. For purposes of the preceding sentence, the "largest" amount is determined after distribution of any amounts distributed hereunder pursuant to Section 4.4 hereof. In the event there is a loss allocable to an excess contribution, any distribution to a Member as required by this Section shall be no greater than the lesser of: (a) the value of the Member's Salary Reduction Contribution Account or (b) the Member's excess contribution for the Plan Year during which such excess contribution was made.

If a Highly Compensated Employee participates in two (2) or more plans maintained by the Company or any Affiliate that are subject to the deferral percentage test, then such Employee's deferral percentage shall be determined by aggregating his participation in all such plans. In addition, if the Company maintains two (2) or more plans subject to the deferral percentage test and such plans are treated as a single plan for purposes of the coverage requirements for qualified plans under Code Section 410(b), then such plans are treated as a single plan for purposes of the deferral percentage test.

4.6. Contribution Percentage Test: As soon as administratively feasible

after each Plan Year (or other applicable period), the Committee shall determine:

(a) The "contribution percentage" for each Employee who is then eligible to receive Company Matching Contributions, which in the case of a Highly Compensated Employee, shall be the ratio of the sum of such Employee's Company Matching Contributions for such Plan Year to the Highly Compensated Employee's compensation (as defined in Section 2.1(r) hereof) for such Plan Year, and which in the case of an Employee who is not a Highly Compensated Employee, shall be the ratio of the amount of such Employee's Company Matching Contributions for the prior Plan Year to such Employee's compensation (as defined in Section 2.1(r) hereof) for the prior Plan Year;

(b) The "highly compensated contribution percentage," which shall be the average of the "contribution percentages" for all eligible Highly Compensated Employees; and

(c) The "nonhighly compensated contribution percentage," which shall be the average of the "contribution percentages" for all Employees then eligible who were not included in the "highly compensated contribution percentage" in (b) above.

In no event shall the "highly compensated contribution percentage" exceed the greater of: (1) a contribution percentage equal to one and one-fourth (1-1/4) times the "nonhighly compensated contribution percentage" or (2) a contribution percentage equal to two (2) times the "nonhighly compensated contribution percentage," but not more than two (2) percentage points greater than the "nonhighly compensated contribution percentage," or such lesser amount as the

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Secretary of Treasury may prescribe to prevent the multiple use of this alternative limitation as set forth in Section 1.401(m)-2(b) of the Treasury Regulations. In the event that multiple use of the alternative limitation occurs with respect to any Plan Year, then either the "highly compensated deferral percentage," as defined in Section 4.5 hereof, or the "highly compensated contribution percentage," as defined above, shall be reduced, such reduction and the Highly Compensated Employees to whom such reduction shall apply to be determined by the Committee in accordance with Section 1.401(m)-2(c) of the Treasury Regulations. If the above contribution percentage test would otherwise be violated as of the end of the Plan Year, then subject to satisfaction of the conditions described in Section 1.401(m)-1(b)(5) of the Treasury Regulations, the "contribution percentage," as defined in (a) above, shall instead be the ratio of the sum of the Employee's Company Matching Contributions, Qualified Nonelective Contributions, if any, and to the extent necessary to satisfy the contribution percentage test, Salary Reduction Contributions for the applicable Plan Year to the Employee's compensation (as defined in Section 2.1(s) hereof) for the applicable Plan Year. Any Salary Reduction Contributions or Qualified Nonelective Contributions so utilized to satisfy the contribution percentage test shall be excluded from consideration for purposes of the deferral percentage test described in Section 4.5. If after consideration of applicable Salary Reduction Contributions and Qualified Nonelective Contributions, if any, as described above, the contribution percentage test would still be violated as of the end of the Plan Year, then notwithstanding any other provision hereof, every Company Matching Contribution included in the "highly compensated contribution percentage" for a Member whose contribution percentage is greater than the permitted maximum shall automatically be revoked to the extent necessary to comply with such contribution percentage test and the amount of such contribution, to the extent revoked, shall constitute an "excess aggregate contribution" to be distributed to such Member (with earnings thereon) or forfeited, if applicable, no later than the last day of the Plan Year following the Plan Year for which such contribution was made. Excess aggregate contributions are allocated to the Highly Compensated Employees with the largest amounts of Employer contributions taken into account in calculating the contribution percentage test for the Plan Year in which the excess arose, beginning with the Highly Compensated Employee with the largest amount of such Employer contributions and continuing in descending order until all excess aggregate contributions have been allocated. For purposes of the preceding sentence, the "largest amount" is determined after first determining required distributions under Section 4.4 hereof, and then determining excess contributions under Section 4.5. In the event there is a loss allocable to an excess aggregate contribution, any distribution to a Member as required by this Section shall be no greater than the lesser of: (a) the value of the Member's Company Matching Contribution Account or (b) the Member's excess aggregate contribution for the Plan Year.

If a Highly Compensated Employee participates in two (2) or more plans maintained by the Company or any Affiliate that are subject to the contribution percentage test, then such Employee's contribution percentage shall be determined by aggregating his participation in all such plans. In addition, if the Company maintains two (2) or more plans subject to the contribution percentage test and such plans are treated as a single plan for purposes of the coverage requirements for qualified plans under either Code Section 410(b) or

401(a)(4), then such plans are treated as a single plan for purposes of the contribution percentage test.

4.7. Rollover Contributions: Any Member who has received a distribution of his entire interest in a plan that meets the requirements of Section 401(a) of the Code may, in

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accordance with procedures approved by the Committee, contribute cash to the Trust Fund only in an amount equal to such distribution, provided that the following conditions are met:

(a) The transfer occurs on or before the 60th day following his receipt of such distribution, or if such distribution has previously been deposited in an individual retirement account (as defined in Section 408 of the Code), such distribution has been so deposited no earlier than July 1, 1987, and the transfer occurs on or before the 60th day following his receipt of such distribution from the individual retirement account;

(b) If the amount contributed is transferred directly from the other plan without first having been deposited in an individual retirement account, the maximum amount of such transfer shall be the fair market value of that portion of the distribution that would be includible in gross income if not so transferred (determined without regard to Section 402(c) of the Code); and

(c) If the amount contributed has previously been deposited in an individual retirement account, then the amount transferred must equal the entire amount in the individual retirement account.

The Committee shall develop such procedures, and may require such information from a Member desiring to make such a transfer, as it deems necessary or desirable to determine that the proposed transfer will meet the requirements of this Section. Upon approval by the Committee, the amount transferred shall be deposited in the Trust and shall be credited, as of the Valuation Date next following such transfer, to a Rollover Contribution Account for the Member.

An Employee, prior to satisfying the eligibility conditions of the Plan, as set forth in Section 3.1 hereof, may make a Rollover Contribution to the Trust Fund to the same extent and in the same manner as a Member. If an Employee makes a Rollover Contribution to the Trust Fund prior to satisfying the Plan's eligibility conditions, the Committee and Trustee shall treat the Employee as a Member for all purposes of the Plan except for purposes of sharing in Company Matching Contributions, Salary Reduction Contributions, or Qualified Nonelective Contributions under the Plan until he actually becomes a Member. If the Employee terminates employment prior to becoming a Member, the Trustee will distribute his Rollover Contribution Account to him in accordance with the provisions of Article XV hereof as if such Employee were a Member of the Plan.

Each Member's Rollover Contribution Account shall be 100% vested and nonforfeitable at all times and shall share in asset adjustments pursuant to Section 5.2 herein, but shall not share in Company contributions. Upon termination of employment, the total amount of a Member's Rollover Contribution Account shall be distributed in accordance with Article XV 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 a Company Matching Contribution Account, to which Company Matching

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Contributions, if any, shall be credited, a Salary Reduction Contribution Account, to which Salary Reduction Contributions and Qualified Nonelective Contributions, if any, shall be credited, and, if applicable, a Rollover Contribution Account. 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 contributions of the Company 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.

5.3. Salary Deferral Elections: Each Member who desires to make Salary Reduction Contributions shall indicate such intent by making an election to be effective as of the Entry Date on which he becomes a Member of the Plan. Such election must be made prior to the applicable Entry Date and shall be effective for each payroll period thereafter until modified or amended, as provided below.

The terms of such election shall evidence the Member's intent to have the Company withhold from his compensation each payroll period a whole percentage of his Annual Compensation, which is not less than one percent (1%) and does not exceed fifteen percent (15%), and which does not exceed the limitations of Article IV. In furtherance of such election, the Company will make a contribution to the Trust Fund on behalf of the Member for each payroll period in an amount equal to the total amount by which the Member's Annual Compensation from the Company was reduced during such payroll period pursuant to such election.

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Notwithstanding the above, salary deferral elections shall be governed by the following general guidelines:

(a) A salary deferral election shall apply to each payroll period during which such election is in effect. Upon termination of employment, such election will become void.

(b) A Member may revoke his salary deferral election at any time upon advance notice to the Committee, within the time period established by the Committee, and thus discontinue all future withholding thereafter. Following such a revocation, a Member may elect to resume withholding effective as of the first day of the payroll period next following the payroll period in which the revocation occurs, or as of the first day of any payroll period thereafter. A resumption of withholding following the revocation of a salary deferral election may be made only upon advance notice to the Committee, within the time period established by the Committee, and in the manner prescribed by the Committee. A Member may increase the percentage to be withheld from his Annual Compensation or decrease the percentage to be withheld from his Annual Compensation upon advance notice to the Committee, within the time period established by the Committee, and in the manner prescribed by the Committee, such increase or decrease to be effective as of the first day of the payroll period next following the timely receipt by the Committee of such notice.

(c) The Company may unilaterally amend or revoke a salary deferral election with any Member at any time, if the Company determines that such revocation or amendment is necessary to insure that a Member's Annual Additions, as defined in subsection 6.5(b) hereof, for any Plan Year will not exceed the limitations of Article VI or to insure that the requirements of Section 401(k) of the Code have been satisfied with respect to the amount which may be withheld and contributed on behalf of a Highly Compensated Employee.

ARTICLE VI Allocations

6.1. Salary Reduction, Company Matching, and Rollover Contributions: Salary Reduction Contributions and Company Matching Contributions shall be credited to the Individual Accounts of the Members and former Members, as of each Valuation Date, in accordance with each Member's or former Member's salary deferral election and the Company Matching Contribution, if any, made with respect to such Salary Reduction Contributions. Rollover Contributions shall be credited to the Individual Accounts of Members as provided in Section 4.7 hereof.

6.2. Qualified Nonelective Contributions: 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 allocate Qualified Nonelective Contributions, if any, for the Plan Year ending with said Allocation Date to the Individual Accounts of all Members and former Members who are not Highly Compensated Employees for the Plan Year. The amount of the contribution allocated under this Section 6.2 to the Individual Account of each such Member or

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former Member shall be in the proportion that his Annual Compensation bears to the total Annual Compensation of all such Members and former Members.

6.3. Forfeitures: If a Member or former Member forfeits a portion of his Individual Account as provided in Section 10.3 hereof, such 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 used to reduce the Company Matching Contribution. 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 consecutive Breaks in Service, his Individual Account that was forfeited shall be restored by the Company at the time of his reemployment.

6.4. 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.

6.5. Maximum Annual Addition to Account or Benefit:

(a) Limitations. If the Employer maintains, or has ever maintained, 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 6.5(a).

The amount of the Annual Additions that 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 such other defined contribution plan of the Employer as of such Allocation Date.

If as a result of the first three paragraphs of this subsection 6.5(a) the allocation of Annual Additions under this Plan is to be reduced, such reduction shall be made as follows:

(1) To the extent permitted under applicable Treasury Regulations, the amount of such reduction consisting of Salary Reduction Contributions, and

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earnings attributable thereto, shall be paid to the Member or former Member as soon as administratively feasible.

(2) If an excess amount still exists after applying subparagraph (1), the excess amount shall be allocated to a suspense account as of such Allocation Date and held therein until the next succeeding Valuation Date or Dates on which Company Matching Contributions or Qualified Nonelective Contributions, if any, may be allocated under the provisions of the Plan, at which time such excess amount shall be used to reduce such Company Matching Contributions and Qualified Nonelective Contributions, if any. In the event of termination of the Plan, the suspense account shall revert to the Company.

(3) 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.

(b) Definitions Applicable to Section 6.5. For purposes of Section 6.5, 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) forfeitures, if any;

(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 419A(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. Nothing in this definition of Annual Additions shall be construed as requiring the allocation of forfeitures to the Individual Accounts of Members, former Members, or Beneficiaries rather than to reduce Company Matching Contributions, as provided in Section 6.3 hereof.

(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

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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 compensation or (ii) \$30,000. For purposes of this subparagraph (b)(4), compensation shall mean compensation as defined in Section 3401(a) of the Code and all other payments of compensation to an Employee by the Company (in the course of the Company's trade or business) for which the Company is required to furnish the Employee a written statement under Sections 6041(d), 6051(a)(3), and 6052 of the Code without regard to any rules under Section 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed. For Limitation Years beginning after December 31, 1997, compensation shall include any amounts not includable in the gross income of an Employee pursuant to Sections 125, 132(f)(4), 402(e)(3), 403(b), 457, or 402(h)(1)(B) of the Code applicable to such Limitation Year. If a short Limitation Year is created because of an amendment changing the Limitation Year to a different twelve (12) consecutive month period, the \$30,000 referred to above 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 Qualified Nonelective Contributions allocated after his date of Retirement, adjusted for earnings and losses, if any, that 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.

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ARTICLE VIII Death

8.1. Death of Participant: Upon the death of a Participant while employed by the Company, such Participant's Individual Account shall thereupon become one hundred percent (100%) vested, and the amount contained therein shall be nonforfeitable.

8.2. 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 be effective only 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. Notwithstanding the foregoing, divorce after the filing of a designation or designations that name the spouse as beneficiary shall be deemed to revoke such designation or designations if written notice of such divorce is received by the Committee before payment has been made in accordance with existing designation or designations on file with the Committee.

8.3. Benefit: 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 Qualified Nonelective Contributions allocated after the date of his death, adjusted for earnings and losses, if any, that 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.

8.4. 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.

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ARTICLE IX Disability

9.1. Disability: If a Participant's employment with the Company terminates as a result of his Disability, such Participant's Individual Account shall thereupon become one hundred percent (100%) vested, and the amount contained therein shall be nonforfeitable.

9.2. 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 Qualified Nonelective Contributions allocated after the date of his termination of employment, adjusted for earnings and losses, if any, that 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:

(a) Salary Reduction, Rollover and Qualified Nonelective Contributions. If a Member's employment with the Company 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 Salary Reduction Contribution Account and all of his Rollover Contribution 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 Salary Reduction Contributions and Qualified Nonelective Contributions allocated after the date of his termination of employment, adjusted for earnings and losses, if any, that accrue to the Valuation Date immediately preceding the date of distribution, if later.

(b) Company Matching Contributions. In addition, such Member shall be entitled to a percentage of the amount in his Company Matching Contribution 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 Matching Contributions allocated after the date of his termination of employment, adjusted for earnings and losses, if any, that accrue to the Valuation Date immediately preceding the date of distribution, if later. The percentage of a Member's Company Matching Contribution Account to which he is entitled shall be determined in accordance with the following schedule:

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<Table>
<Caption>

Completed Years of Vesting Service -----	Percentage Payable -----
<S>	<C>
Less than 1 year	0%
1 year but less than 2 years	20%
2 years but less than 3 years	40%
3 years but less than 4 years	60%
4 years but less than 5 years	80%
5 years or more	100%

</Table>

The provisions of this paragraph (b) 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 be used to reduce Company Matching Contributions pursuant to the provisions of Section 6.3. 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. A Member who receives a cashout distribution in accordance with the provisions of Section 15.3 hereunder shall forfeit that portion of his Individual Account to which he is not entitled under Section 10.1 in the Plan Year in which the cashout distribution occurs. A Member who is entitled to a portion of his Individual Account but who is not one hundred percent (100%) vested in such Individual Account and who does not receive a cashout distribution under Section 15.3, shall forfeit that portion of his Individual Account to which he is not entitled under Section 10.1 in the Plan Year in which he incurs five (5) consecutive Breaks in Service.

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 entitled to any benefit hereunder with respect to such amounts. Likewise, any amounts credited, but not distributed, to the Company Matching Contribution 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 10.1 shall supercede this Section 10.4 and shall be controlling for all purposes hereunder.

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ARTICLE XI
Withdrawals and Loans

11.1. Loans to Members: Subject to such rules and regulations as may from time to time be promulgated by the Committee, the Committee upon application of a Member may, in its sole and absolute discretion, direct the Trustee to make a loan or loans to such Member from his Rollover Contribution Account, and upon depletion of the funds in his Rollover Contribution Account, from his Salary Reduction Contribution Account upon such terms as the Committee deems appropriate, subject to the following requirements.

The maximum amount that may be loaned is the lesser of (i) \$50,000.00, reduced as provided below, or (ii) one-half of the sum of the value of the Member's Rollover Contribution Account and the value of the Member's Salary Reduction Contribution Account as of the Valuation Date next preceding the date on which the Committee receives the Member's loan application. The \$50,000.00 limitation shall be reduced by the excess (if any) of:

(a) the highest outstanding balance of loans from the Plan to the Member during the one-year period ending on the day before the date on which such loan was made, over

(b) the outstanding balance of loans from the Plan to the Member on the date on which such loan was made.

The minimum amount that may be loaned is the sum of: (i) One Thousand and No/100 Dollars (\$1,000.00) and (ii) an amount equal to the Plan's loan administration fee in effect on the date on which the loan is made. Only one loan from the Plan per calendar year may be approved for any Member, and no more than one such loan may be outstanding at any time. Loans shall be granted by the Committee in a uniform and nondiscriminatory manner. Each loan shall bear a reasonable rate of interest and be adequately secured and shall by its terms require repayment in no later than five years, unless such loan is used to acquire any dwelling unit that within a reasonable time is to be used (determined at the time the loan is made) as a principal residence of the Member. All loans shall be repaid pro rata to the applicable account from which the loan proceeds were paid pursuant to a salary deduction procedure established by the Company unless the Member is on an authorized leave of absence or transfers to a location that does not participate in a salary deduction procedure, in which case payment shall be made to the principal office of the Company by check.

All loans to Members granted under this provision are to be considered a directed investment of such Member. The loan shall remain an asset of the Trust, but to the extent of the outstanding balance of any such loan at any time, the Rollover Contribution Account and, if applicable, Salary Reduction Contribution Account of the Member to whom such loan is made alone shall share in any interest paid on such loan and alone shall bear any expense or loss incurred in connection with such loan. The Trustee may retain any principal or interest paid on any such loan in an interest-bearing segregated account held on behalf of the Member to whom such loan is made until the Trustee deems it appropriate to add such amounts to a Member's Rollover Contribution Account, and if applicable, Salary Reduction Contribution Account. Each loan applicant shall receive a clear statement of the charges involved in each loan transaction.

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This statement shall include the dollar amount and annual interest rate of the finance charge. Any outstanding loan or loans to a Member shall, if not paid when due, be liquidated out of the interest of such Member; provided, however, that no such liquidation shall occur prior to the time a Member is entitled to receive a distribution under Article VII, VIII, IX or X hereof or a withdrawal under Section 11.2(b) hereof. No distribution shall be made to any Member or former Member, or to a Beneficiary or Beneficiaries, or the estate of a Member unless and until all unpaid loans to such Member, together with interest, have been liquidated, as described above, or paid in full.

11.2. Withdrawals:

(a) Financial Hardship. A Member may, upon the approval of the Committee, withdraw on account of financial hardship any portion of his Rollover Contribution Account and upon depletion of the funds in his Rollover Contribution Account, any portion of his Salary Reduction Contribution Account other than amounts attributable to Qualified Nonelective Contributions, if any, and income on such Member's Salary Reduction Contributions and Qualified Nonelective Contributions, if any. A Member may not withdraw, on account of hardship, amounts in his Company Matching Contribution Account. A Member who wishes to request a hardship withdrawal shall file with the Committee a written request for withdrawal on a form provided by the Committee. The Committee shall adopt uniform and nondiscriminatory rules regarding the granting of such requests and shall evaluate hardship requests made under this Section. Financial hardship means an immediate and heavy financial need of the Member for which funds are not reasonably available from other

resources of the Member. If approved by the Committee, any withdrawal for financial hardship may not exceed the amount deemed necessary to meet the immediate financial need created by the hardship, including any amounts necessary to pay any federal, state, or local income taxes or penalties reasonably anticipated to result from the withdrawal. Furthermore, the Committee shall not approve the request of any Member for a hardship withdrawal unless the Member has theretofore made all withdrawals, other than hardship withdrawals, and has theretofore obtained all loans permitted under all plans maintained by the Company. The determination of whether a Member suffers sufficient hardship to justify the granting of his written request and of the amount permitted to be withdrawn under this Section shall be made in the sole and absolute discretion of the Committee after a full review of the Member's written request and evidence presented by the Member showing financial hardship.

A distribution will generally be treated as necessary to satisfy a financial hardship if the Committee relies upon the Member's written representation, unless the Committee has actual knowledge to the contrary that the hardship cannot reasonably be relieved:

- (1) through reimbursement or compensation by insurance or otherwise;
- (2) by liquidation of the Member's assets;
- (3) by cessation of Salary Reduction Contributions under the Plan; or

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- (4) by other distributions or nontaxable (determined at the time of the loan) loans from plans maintained by the Company, or any other employer of such Member, or by borrowing from commercial sources on reasonable commercial terms in an amount sufficient to satisfy the financial hardship.

Upon a Member's receipt of a withdrawal for financial hardship, such Member shall be prohibited from making Salary Reduction Contributions for a period of at least twelve (12) months, beginning on the date on which the hardship withdrawal is made. A Member may elect to resume Salary Reduction Contributions as of the first day of any payroll period following the last day of such twelve (12) month period by filing a new salary deferral election within the time period prior to the first day of such payroll period established by the Committee. Upon a Member's resumption of Salary Reduction Contributions, the maximum amount of such contributions that may be made on such Member's behalf for his taxable year following the taxable year in which the hardship withdrawal is made, is the applicable dollar limit for such following taxable year under Section 4.4 hereof, reduced by the amount of Salary Reduction Contributions made on his behalf for his taxable year in which the hardship withdrawal is made.

Expenses that may warrant approval of a Member's request for a hardship withdrawal include:

- (1) Medical expenses described in Section 213(d) of the Code incurred by the Member, the Member's spouse, or any dependents of the Member (as defined in Section 152 of the Code) or necessary for those persons to obtain medical care described in Section 213(d) of the Code and not reimbursed or reimbursable by insurance;
- (2) Expenses (excluding mortgage payments) incurred to purchase a principal residence of the Member;
- (3) Payment of tuition, related educational fees, and room and board expenses for the next twelve (2) months of post-secondary education for the Member, his or her spouse, or children or dependents, as defined above;
- (4) Payments necessary to prevent the eviction of the Member from his principal residence or foreclosure on the mortgage of the Member's principal residence; or
- (5) Such other expenses as the Committee may determine to be within the intent of this Section.

(b) Attainment of Age 59-1/2. On or after the date on which he attains age fifty-nine and one-half (59-1/2), a Member who remains employed by the Company 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 (including the amount of any then outstanding loan from the Plan), 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

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such Plan Year for a reason other than Disability, Retirement or death) in his Individual 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 Individual Account his allocable share, if any, of the Company Matching Contributions, Qualified Nonelective Contributions, and Salary Reduction Contributions 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 his Individual Account is finally determined. Partial payment may be made, however, prior to such 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 for the Plan Year next following the Plan Year in which such election is made (and no Company Matching Contributions, Qualified Nonelective Contributions, or Salary Reduction Contributions shall be allocated to his Individual Account) until the first day of 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. Member Direction of Investment:

(a) Investment of Contributions. Each Member shall have the right, within the guidelines established by the Committee, to direct the Committee to instruct the Trustee to invest all or any portion of the contributions made by or on behalf of such Member in such investment funds as may be designated by the Committee from time to time. The Committee shall direct the Trustee as to the investment funds in which Members may invest. The Committee may determine to offer as investment funds any investment fund, program, or other vehicle that is suitable as a proper and permissible investment of contributions made to a retirement plan qualified pursuant to Section 401(a) of the Code.

(b) Modification of Investment Media. 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.

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(c) Investment Direction. Any Member, on or before 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 contributions, 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 contributions 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 future contributions as soon as practicable following the date of receipt by the Committee of such designation or change, and such designation or change shall continue in effect until revoked by the Member.

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 12.1 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.

12.2. 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 who has an account balance in his Individual Account in excess of any loan receivables from such 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 such amount in his Individual Account (in excess of such loan receivables), which is invested in any of the investment media set forth in Section 12.1 hereof, into one or more other of such investment media. Such direction 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 12.2 shall not affect a Member's direction of investments with respect to his future contributions pursuant to Section 12.1.

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(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.

(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 12.1 and 12.2, 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 Individual Accounts, 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 may be paid in whole or in part by the Company, and any expenses not paid by the Company shall be paid by the Trustee out of the principal or income of the Trust. 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 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 and from Members such information as shall be necessary for the proper administration of the Plan;

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(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.

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 Internal Revenue Service (and, effective for Plan Years beginning on or after January 1, 1999, the Secretary of Labor) the annual report, and with the Internal Revenue Service such other documents as may be requested by the Internal Revenue Service from time to time;

(b) to file with the Secretary of Labor such documents as may be requested by the Secretary of Labor from time to time;

(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;

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(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 any government agency;

(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 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 Company, or if not paid by the Company, 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.

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.

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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 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 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, 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 that 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.

15.2. Time of Payment: Distribution shall be made 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 Three Thousand Five Hundred and No/100 Dollars (\$3,500.00) in Plan Years beginning before January

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1, 1998, or Five Thousand and No/100 Dollars (\$5,000.00) in Plan Years beginning on or after January 1, 1998, no distributions may commence without the consent of the Member or former Member until he attains age sixty-two (62). Such consent must be obtained within the ninety (90) day period ending on the date of distribution. 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 include a general description of the material features, and an explanation of the relative values of, the optional forms of benefit available under the Plan in a manner that would satisfy the notice requirements of Section 417(a)(3) of the Code, and shall be provided no less than thirty (30) days and no more than ninety (90) days prior to the date of distribution. 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 or Sections 401(k)(8) or 401(m)(6) 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. Furthermore, if a distribution is one to which Sections 401(a)(11) and 417 of the Code do not apply, such distribution may commence less than thirty (30) days after the notice required under Section 1.411(a)-11(c) of the Treasury Regulations is given, provided that: (i) the Committee clearly informs the Member that he has a right to a period of at least thirty (30) days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option), and (ii) the Member, after receiving the notice, affirmatively elects a distribution.

Distribution shall be made no later than the required beginning date, which is April 1st of the calendar year following the later of: (a) the calendar year in which a Member or former Member attains age 70 1/2 or (b) the calendar year in which the Member retires; provided that if a Member or former Member is a Five Percent (5%) Owner (as defined in Section 19.1(f) hereof), then the required beginning date is April 1st of the calendar year following the calendar year in which such Member or former Member attains age 70 1/2. Effective as of the date on which this restated Plan is adopted, distribution of a Member's entire Individual Account shall be made in a single lump sum on or before such Member's or former Member's required beginning date. In the case of a Member who attains age 70 1/2 prior to the date on which this restated Plan is adopted, the minimum distribution required for the calendar year immediately preceding the Member's or former Member's required beginning date must be made on or before his required beginning date. The minimum distribution for other calendar years, including the minimum distribution for the calendar year in which the Member's or former 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.

Notwithstanding any provision herein to the contrary, any Member or former Member who attains age 70 1/2 in a calendar year after 1995 and prior to the date on which this restated Plan is adopted, may irrevocably elect, in the manner established by the Committee, by April 1 of the calendar year following the year in which the Member or former Member attains age 70 1/2 (or by December 31, 1997 in the case of a Member or former Member who attains age 70 1/2 in

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1996) to defer distributions until April 1 of the calendar year following the calendar year in which the Member or former Member retires. If no such election is made, the Member or former Member will begin receiving distributions by the April 1 of the calendar year following the year in which the Member or former Member attains age 70 1/2 (or by December 31, 1997 in the case of a Member or former Member who attains age 70 1/2 in 1996). Furthermore, any Member or former 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 the April 1 of the calendar year following the calendar year in which such Member or former Member retires.

If distributions have commenced so that payments are being made over

the life of the Member or former 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 year after the Valuation Date coincident with or immediately following his death. On the other hand, if a Member or former Member dies before the distribution of any of his benefits has begun, then his entire interest will be distributed no later than one year after the Valuation Date coincident with or immediately following his death. If the designated Beneficiary is the Member's or former Member's surviving spouse and such surviving spouse dies after the Member or former Member, but before payment to such surviving spouse is made, then the provisions of the preceding sentence shall be applied as if the surviving spouse were the Member or former Member. Furthermore, if the designated Beneficiary is the surviving spouse of the Member or former Member, then distribution to such surviving spouse will not be required earlier than the later of: (a) December 31 of the calendar year immediately following the calendar year of the Member's or former Member's death and (b) December 31 of the calendar year in which the Member or former 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 a Member's or former Member's designated Beneficiary is his surviving spouse, and such surviving spouse dies after the Member or former 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 a Member or former 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. 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

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Account, then in the event such Member or former Member is subsequently rehired by the Company 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 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 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

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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 a 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 such term is hereinafter defined, may, in lieu of receiving any payment or payments from the Plan, direct the Trustee to transfer all or any portion of such payment or payments directly to the trustee of an "eligible retirement plan" as such term is hereinafter defined. For purposes of this Section 15.6, the term "eligible rollover distribution" is defined as any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Code Section 401(a)(9); the portion

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of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); and any hardship distribution described in Code Section 401(k)(B)(i)(IV). For purposes of this Section 15.6, the term "eligible

retirement plan" is defined as an individual retirement account described in Code Section 408(a), an individual retirement annuity described in Code Section 408(b), an annuity plan described in Code Section 403(a), and a qualified trust described in Code Section 401(a) that accepts the distributee's "eligible rollover distribution," or in the case of an eligible rollover distribution to the surviving spouse, an individual retirement account or individual retirement annuity). 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 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 that 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 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

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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.

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 that 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 schedule set forth in Section 10.1, 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 schedule set forth in Section 10.1, then each Member or former Member having at least three (3) Years of Vesting Service may elect to be governed under the vesting schedule 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.

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. Suspension and 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:

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

Suspension shall be a temporary cessation of contributions and shall not constitute or require a termination of the Plan. Such a suspension which has not ripened into a complete discontinuance shall not constitute or require a termination of the Plan or Trust or any vesting of Individual Accounts, other than as prescribed by the provisions of Section 10.1. 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 Section 10.1. 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 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, and the employment of all persons by the Company shall remain subject to termination by the Company to the same extent as if this Plan had never been executed.

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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 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; provided, however, that a Participant may assign or pledge his vested interest in the Fund as security for a loan made pursuant to the provisions of Section 11.1 hereof. 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 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.

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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 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 applied to reduce the Company Matching Contribution. However, if the Member or his Beneficiary should, thereafter, make a proper claim for such share, it shall be distributed to him.

18.9. Qualified Military Service: Notwithstanding any provision of this Plan to the contrary, effective December 12, 1994, contributions, benefits, and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.

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 of the Company 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 of the Company 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 in 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

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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.

(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

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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 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.

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 (as determined under 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 his Salary Reduction Contribution Account 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 Plan Year.

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

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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;

(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;

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(b) by its failure to comply with Section 404(a)(1) of ERISA in the administration of its specific responsibilities which give rise to its status as a fiduciary, it has enabled such other fiduciary to commit a breach; or

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

20.5. Delegation and Allocation: The Committee may appoint subcommittees, individuals, or any other agents as it deems advisable and may delegate to any of such appointees any or all of the powers and duties of the Committee. Such appointment and delegations must clearly specify the powers and duties delegated. Upon such appointment and delegation, the delegating Committee members shall have no liability for the acts or omissions of any such delegate, as long as the delegating Committee members do not violate their fiduciary responsibility in making or continuing such delegation.

IN WITNESS WHEREOF, Southwest Airlines Co. has caused its corporate seal to be affixed hereto and these presents to be duly executed in its name and behalf by its proper officers thereunto duly authorized this 16th day of November, 2001.

SOUTHWEST AIRLINES CO.

ATTEST:

/s/ DEBORAH ACKERMAN

Assistant Secretary

By: /s/ JAMES F. PARKER

James F. Parker, Chief Executive Officer

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STATE OF TEXAS)
COUNTY OF DALLAS)

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this 16th day of November, 2001, personally appeared James F. Parker, to me known to be the individual person who subscribed the name of SOUTHWEST AIRLINES CO., as its Chief Executive Officer, to the foregoing instrument and acknowledged to me that he executed the same as his free and

voluntary Act and deed and the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, the day and year last above written.

/s/ LINDA SIMMONS

Notary Public in and for the
State of Texas

My Commission Expires:

12/11/01

EMPLOYMENT CONTRACT

THIS EMPLOYMENT CONTRACT (hereinafter referred to as this "Agreement"), dated as of June 19, 2001, by and between JAMES F. PARKER (hereinafter referred to as the "Employee"), a resident of Dallas, Texas, and SOUTHWEST AIRLINES CO. (hereinafter referred to as "Southwest", which term shall include its subsidiary companies where the context so admits), a Texas corporation,

WITNESSETH:

WHEREAS the Employee has served as Vice President-General Counsel of Southwest since February 1986; and

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

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

I. POSITION, DUTIES AND AUTHORITY

- A. POSITIONS, DUTIES AND RESPONSIBILITIES. The Employee shall serve as Chief Executive Officer of Southwest, and, for so long as he shall be elected to the Board of Directors of Southwest, he shall serve as Vice Chairman of the Board without additional compensation hereunder. The Employee's duties and responsibilities as Chief Executive Officer shall include general oversight of the operational performance of Southwest; managing costs and generating revenues in order to achieve excellent financial performance; representing Southwest to its multitude of exterior constituencies; implementing Southwest's current and long range business policies and programs; handling, or overseeing, major contract negotiations; and, in general, maintaining employee morale and esprit de corps. In

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addition, he shall perform such other corporate duties and discharge such other corporate responsibilities as are specified in the bylaws of Southwest or are designated from time to time by either the Chairman of the Board of Directors of Southwest or the full Board of Directors.

- B. AUTHORITY. The Employee shall be vested with all authority reasonably necessary to carry out his duties and responsibilities as set forth in this Article I.
- C. NECESSARY SUPPORT AND ENVIRONMENT. The Employee shall be provided with the secretarial and other support personnel (including a full-time administrative assistant) and general working environment (including a private, furnished office) reasonably necessary for him to carry out his duties and responsibilities as set forth in this Article I.

II. EMPLOYEE'S OBLIGATIONS

- A. TIME AND EFFORT. During the term of his employment hereunder, the Employee shall devote such time and effort as is required to perform his duties and to discharge his responsibilities hereunder. The Employee shall generally conform with all policies of Southwest as they apply to a person of his level of duties and responsibilities.
- B. NON-COMPETITION. The Employee recognizes and understands that in performing the duties and responsibilities of his employment as outlined in this Agreement and pursuant to his employment at Southwest prior to the execution of this Agreement, the Employee has occupied and will occupy a position of trust and confidence, pursuant to which the Employee has developed and acquired and will develop and acquire experience and knowledge with respect to various aspects of the business of Southwest and the manner in which such business is conducted. It is the expressed intent and agreement of the Employee and Southwest that such knowledge and experience shall be used in the furtherance of the

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business interests of Southwest and not in any manner which would be detrimental to such business interests of Southwest. The Employee therefore agrees that, so long as the Employee is employed pursuant to

this Agreement, unless he first secures the consent of the Board of Directors of Southwest, the Employee will not invest, engage or participate in any manner whatsoever, either personally or in any status or capacity (other than as a shareholder of less than one percent [1%] of the capital stock of a publicly owned corporation), in any business or other entity organized for profit engaged in significant competition with Southwest in the conduct of its air carrier operations anywhere in the States of Texas, Louisiana, Oklahoma, New Mexico, Missouri, Arizona, Nevada, California, Arkansas, Alabama, Tennessee, Kentucky, Michigan, Indiana, Ohio, Maryland, Illinois, Utah, Washington, Oregon, Nebraska, Florida, Idaho, Mississippi, New Hampshire, New York, Rhode Island, Connecticut, North Carolina and Virginia. Although the Employee and Southwest regard such restrictions as reasonable for the purpose of preserving Southwest and its proprietary rights, in the event that the provisions of this Paragraph II-B should ever be deemed to exceed the time or geographic limitations permitted by applicable laws, then such provisions shall be reformed to the maximum time or geographic limitations permitted by applicable laws.

III. TERM

- A. TERM. This Agreement and the Employee's employment hereunder shall commence and become effective on and as of June 19, 2001. The term of such employment shall expire on June 19, 2004, unless extended by consent of the parties hereto or earlier terminated pursuant to the provisions of Article V.

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IV. EMPLOYEE'S COMPENSATION

- A. BASE SALARY. The Employee's annual Base Salary for the year ending June 19, 2002 which originally was to be the amount of \$312,000 shall, in accordance with Employee's irrevocable agreement to terminate payment of Employee's salary for the period October 1, 2001 through December 31, 2001, be \$234,000, payable in 18 equal semi-monthly installments of \$13,000 commencing with Southwest's second regular payroll date in June, 2001 and continuing through Southwest's first regular payroll date in October, 2001, at which point such semi-monthly installments shall temporarily cease (it being understood and agreed that no Base Salary shall be due or payable to Employee with respect to the period commencing October 1, 2001 and continuing through and including December 31, 2001); with such semi-monthly installments of \$13,000 to recommence with Southwest's first regular payroll date in January, 2002 and continuing through and including Southwest's second regular payroll date in June, 2002. The Employee's annual Base Salary for the years ending June 19, 2003 and 2004 shall be \$324,480 and \$337,460, respectively. The Employee's Base Salary for the years ending July 19, 2003 and July 19, 2004 shall be payable to the Employee in equal semi-monthly installments. The Employee's Base Salary installment payments shall be subject to such payroll and withholding deductions as may be required by law.
- B. PERFORMANCE BONUS. The Board of Directors of Southwest (or the Compensation Committee thereof) may grant a Performance Bonus to the Employee, in addition to his Base Salary, at such times and in such amounts as such Board (or Committee) may determine.
- C. DEFERRED COMPENSATION. In addition to the Base Salary provided for in Paragraph IV-A above, Southwest shall set aside on its books a special ledger Deferred

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Compensation Account (the "Account") for the Employee, and shall credit thereto Deferred Compensation determined as hereinafter provided. (Southwest at its election may fund the payment of Deferred Compensation by setting aside and investing such funds as Southwest may from time to time determine. Neither the establishment of the Account, the crediting of Deferred Compensation thereto, nor the setting aside of any funds shall be deemed to create a trust. Legal and equitable title to any funds set aside shall remain in Southwest, and the Employee shall have no security or other interest in such funds. Any funds so set aside or invested shall remain subject to the claims of the creditors of Southwest, present and future.) For each full or partial calendar year as the Employee shall remain in the employment of Southwest under this Agreement, Deferred Compensation shall accumulate in an amount equal to any contributions (including forfeitures but excluding any elective deferrals actually returned to the Employee)

which would otherwise have been made by Southwest on behalf of the Employee to the Southwest Airlines Co. Money Purchase Plan but which exceed maximum annual additions under such Plan on his behalf under federal tax law. If such employment shall terminate prior to December 31 in any calendar year, then Deferred Compensation shall accumulate and be calculated as provided under the terms of Southwest's Money Purchase Plan. The Deferred Compensation credited to the Account (including the Interest hereinafter provided) shall be paid to the Employee (or to the executors or administrators of his estate) at the rate of \$100,000 per calendar year (subject to such payroll and withholding deductions as may be required by law), commencing with the calendar year following the year in which (i) the Employee shall become sixty-five (65) or (ii) the Employee's employment with Southwest shall terminate (whether such termination is under this Agreement or otherwise and whether it is before, on or after the

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expiration of the initial term set forth in Paragraph III-A above, and irrespective of the cause thereof), whichever shall occur later, and continuing until the entire amount of Deferred Compensation and Interest credited to the Account shall have been paid. Although the total amount of Deferred Compensation ultimately payable to the Employee hereunder shall be computed in accordance with the provisions set forth above, there shall be accrued and credited to the Account, beginning on January 1, 2002 and continuing annually thereafter, amounts equal to simple interest at the rate of ten percent (10%) per annum, compounded annually ("Interest"), on the accrued and unpaid balance of the Deferred Compensation credited to the Account as of the preceding December 31. The Deferred Compensation and Interest to be paid in any one calendar year shall be paid on the first business day of such calendar year. Notwithstanding the foregoing, in the event of the Employee's death, Southwest, in its sole discretion, shall have the right to pay the unpaid balance of the Deferred Compensation (together with any accrued Interest thereon) to the executors or administrators of the Employee's estate in cash in one lump sum on the first business day of the calendar year next following the calendar year in which the Employee shall have died. No right, title, interest or benefit under this Paragraph IV-C shall ever be liable for or charged with any of the torts or obligations of the Employee or any person claiming under him, or be subject to seizure by any creditor of the Employee or any person claiming under him. Neither the Employee nor any person claiming under him shall have the power to anticipate or dispose of any right, title, interest or benefit under this Paragraph IV-C in any manner until the same shall have been actually distributed by Southwest.

- D. DISABILITY INSURANCE. Southwest shall provide long term disability insurance providing for payment, in the event of disability of the Employee, of \$10,000 per month to

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age seventy (70). Except as to amounts payable, the terms and conditions of such policy shall be identical, or substantially similar, to the disability insurance provided by Southwest for its other officers as of the date of this Agreement.

- E. MEDICAL AND DENTAL EXPENSES. During the term of this Agreement, Southwest shall reimburse the Employee for all medical and dental expenses incurred by the Employee and his spouse. Expenses for medical and dental care shall be deemed to include all amounts paid with respect to hospital bills, doctor and dental bills and drugs for which the Employee is not compensated by insurance or otherwise.
- F. STOCK OPTION GRANT. Southwest shall grant to the Employee, effective as of the date hereof, ten-year options to purchase 180,000 shares of its common stock at \$17.11 per share pursuant to Southwest's 1996 Non-Qualified Stock Option Plan, with one-third of such options to be exercisable immediately and one-third to become exercisable on each of June 19, 2002 and June 19, 2003.
- G. OTHER BENEFITS. The Employee shall be eligible to continue to participate in all employee pension, profit-sharing, stock purchase, group insurance and other benefit plans or programs in effect for Southwest managerial employees generally to the extent of and in accordance with the rules and agreements governing such plans or programs, so long as same shall be in effect, with full service credit where relevant for the Employee's prior employment by Southwest. Southwest shall reimburse the Employee for reasonable expenses incurred by him in the performance of his duties and responsibilities hereunder. The Employee shall be entitled to vacation of three (3) weeks per year

or such longer period as may be established from time to time by Southwest for its managerial employees generally.

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V. TERMINATION PROVISIONS

- A. EXPIRATION OR DEATH. The Employee's employment hereunder shall terminate on June 19, 2004 (or such later date to which the term of this Agreement may be extended by consent of the parties hereto, in either case without prejudice to the Employee's privilege to remain an employee of Southwest thereafter), or upon the Employee's death, whichever shall first occur, without further obligation or liability of either party hereunder, except for Southwest's obligation to pay Deferred Compensation as provided in Paragraph IV-C of this Agreement.
- B. TERMINATION FOR CAUSE. Southwest may terminate the Employee's employment hereunder upon the determination by a majority of its whole Board of Directors that the Employee has willfully failed and refused to perform his duties and to discharge his responsibilities hereunder. Such determination shall be final and conclusive. If the Board of Directors of Southwest makes such determination, Southwest may (a) terminate the Employee's employment, effective immediately or at a subsequent date, or (b) condition his continued employment upon the circumstances and place a reasonable limitation upon the time within which the Employee shall comply with such considerations or requirements. If termination is so effected, Southwest shall have no further liability to the Employee hereunder except for the obligation to pay Deferred Compensation as provided in Paragraph IV-C hereof.
- C. TERMINATION FOR DISABILITY. Southwest may terminate the Employee's employment hereunder on account of any disabling illness, hereby defined to include any emotional or mental disorders, physical diseases or injuries as a result of which the Employee is, for a continuous period of ninety (90) days, unable to perform his duties and

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to discharge his responsibilities hereunder on a full-time basis. Southwest shall give to the Employee thirty (30) days' notice of its intention to effect such termination pursuant to this Paragraph V-C. If, within such notice period, the Employee shall have recovered from his disability sufficiently well to resume performance of his duties and discharge of his responsibilities on a full-time basis (although still undergoing treatment or rehabilitation), Southwest shall not have the right to effect such termination. If such disabling illness occurs as a result of a job-related cause, Southwest shall continue to pay the Employee regular installments of his Base Salary in effect at the time of such termination for the remainder of the term of this Agreement. It is expressly understood and agreed, however, that any obligation of Southwest to continue to pay the Employee his Base Salary pursuant to this Paragraph V-C shall be reduced by the amount of any proceeds of long-term disability insurance provided for the Employee pursuant to Paragraph IV-D above, and shall also be reduced by the amount of the proceeds of any worker's compensation or other benefits which the Employee receives as a result of or growing out of his disabling illness.

- D. CHANGE OF CONTROL TERMINATION. In the event of any change of control of Southwest, the Employee may, at his option, terminate his employment hereunder by giving to Southwest notice thereof no later than sixty (60) days after the Employee shall have determined or ascertained that such change has occurred, irrespective whether Southwest shall have purported to terminate this Agreement after such event but prior to receipt of such notice. If termination is so effected, no later than the date of such termination Southwest shall pay the Employee as "severance pay" a lump sum equal to (i) \$750,000 plus (ii) an amount equal to the unpaid installments of his Base Salary in effect at the time of such termination for the remaining term of this Agreement. If termination is so effected,

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Southwest shall have no other further liability to the Employee hereunder except for its obligation to pay Deferred Compensation as provided in Paragraph IV-C above. For purposes of this Paragraph V-D, a "change of control of Southwest" shall be deemed to occur if (i) a third person, including a "group" as determined in accordance with

Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of Southwest having twenty percent (20%) or more of the total number of votes that may be cast for the election of directors of Southwest, or (ii) as a result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions (herein called a "Transaction"), the persons who were directors of Southwest before the Transaction shall cease to constitute a majority of the Board of Directors of Southwest or any successor to Southwest.

- E. VOLUNTARY TERMINATION. The Employee's employment hereunder shall terminate forthwith upon his resignation and its acceptance by Southwest, without further obligation or liability of either party hereunder, except for Southwest's obligation to pay Deferred Compensation as provided in Paragraph IV-C above.

VI. MISCELLANEOUS

- A. ASSIGNABILITY, ETC. The rights and obligations of Southwest hereunder shall inure to the benefit of and shall be binding upon the successors and assigns of Southwest; provided, however, Southwest's obligations hereunder may not be assigned without the prior approval of the Employee. This Agreement is personal to the Employee and may not be assigned by him.

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- B. NO WAIVERS. Failure to insist upon strict compliance with any provision hereof shall not be deemed a waiver of such provision or any other provision hereof.
- C. AMENDMENTS. This Agreement may not be modified except by an agreement in writing executed by the parties hereto.
- D. NOTICES. Any notice required or permitted to be given under this Agreement shall be in writing in the English language and shall be deemed to have been given to the person affected by such notice when personally delivered or when deposited in the United States mail, certified mail, return receipt requested and postage prepaid, and addressed to the party affected by such notice at the address indicated on the signature page hereof.
- E. SEVERABILITY. The invalidity or unenforceability of any provision hereof shall not affect the validity or enforceability of any other provision hereof.
- F. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original but all of which taken together shall constitute a single instrument.
- G. ENTIRE AGREEMENT. This Agreement contains all of the terms and conditions agreed upon by the parties hereto respecting the subject matter hereof, and all other prior agreements, oral or otherwise, regarding the subject matter of this Agreement shall be deemed to be superseded as of the date of this Agreement and not to bind either of the parties hereto.
- H. GOVERNING LAW. This Agreement shall be subject to and governed by the laws of the State of Texas.

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

SOUTHWEST AIRLINES CO.

By: /s/ HERBERT D. KELLEHER

Herbert D. Kelleher
Chairman of the Board of Directors

THE EMPLOYEE

/s/ JAMES F. PARKER

James F. Parker

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

EMPLOYMENT CONTRACT

THIS EMPLOYMENT CONTRACT (hereinafter referred to as this "Agreement"), dated as of June 19, 2001, by and between COLLEEN C. BARRETT (hereinafter referred to as the "Employee"), a resident of Dallas, Texas, and SOUTHWEST AIRLINES CO. (hereinafter referred to as "Southwest", which term shall include its subsidiary companies where the context so admits), a Texas corporation,

WITNESSETH:

WHEREAS the Employee has served Southwest since March 1978 in various executive capacities, most recently as Executive Vice President-Customers and Corporate Secretary; and

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

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

I. POSITION, DUTIES AND AUTHORITY

- A. POSITIONS, DUTIES AND RESPONSIBILITIES. The Employee shall serve as President and Chief Operating Officer of Southwest, and, for so long as she shall be elected to the Board of Directors of Southwest, she shall serve as a member of the Board without additional compensation hereunder. Further, she shall continue to serve as Corporate Secretary of Southwest, without additional compensation hereunder, until such time as the Board of Directors elects otherwise. The Employee's duties and responsibilities as President and Chief Operating Officer shall include managing the day to day operations of Southwest; planning the future course of such operations; achieving excellent Customer and employee service quality; preserving the Southwest servant leader culture; assisting the Chief

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Executive Officer in implementing Southwest's current and long range business policies and programs; and, in general, maintaining employee morale and esprit de corps. In addition, she shall perform such other corporate duties and discharge such other corporate responsibilities as are specified in the bylaws of Southwest or are designated from time to time by any of the Chairman of the Board of Directors of Southwest, the Chief Executive Officer or the full Board of Directors.

- B. AUTHORITY. The Employee shall be vested with all authority reasonably necessary to carry out her duties and responsibilities as set forth in this Article I.
- C. NECESSARY SUPPORT AND ENVIRONMENT. The Employee shall be provided with the secretarial and other support personnel (including a full-time administrative assistant) and general working environment (including a private, furnished office) reasonably necessary for her to carry out her duties and responsibilities as set forth in this Article I.

II. EMPLOYEE'S OBLIGATIONS

- A. TIME AND EFFORT. During the term of her employment hereunder, the Employee shall devote such time and effort as is required to perform her duties and to discharge her responsibilities hereunder. The Employee shall generally conform with all policies of Southwest as they apply to a person of her level of duties and responsibilities.
- B. NON-COMPETITION. The Employee recognizes and understands that in performing the duties and responsibilities of her employment as outlined in this Agreement and pursuant to her employment at Southwest prior to the execution of this Agreement, the Employee has occupied and will occupy a position of trust and confidence, pursuant to which the Employee has developed and acquired and will develop and acquire experience and knowledge with respect to various aspects of the business of Southwest and the manner in which such

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business is conducted. It is the expressed intent and agreement of the Employee and Southwest that such knowledge and experience shall be used in the furtherance of the business interests of Southwest and not in any manner which would be detrimental to such business interests of

Southwest. The Employee therefore agrees that, so long as the Employee is employed pursuant to this Agreement, unless she first secures the consent of the Board of Directors of Southwest, the Employee will not invest, engage or participate in any manner whatsoever, either personally or in any status or capacity (other than as a shareholder of less than one percent [1%] of the capital stock of a publicly owned corporation), in any business or other entity organized for profit engaged in significant competition with Southwest in the conduct of its air carrier operations anywhere in the States of Texas, Louisiana, Oklahoma, New Mexico, Missouri, Arizona, Nevada, California, Arkansas, Alabama, Tennessee, Kentucky, Michigan, Indiana, Ohio, Maryland, Illinois, Utah, Washington, Oregon, Nebraska, Florida, Idaho, Mississippi, New Hampshire, New York, Rhode Island, Connecticut, North Carolina and Virginia. Although the Employee and Southwest regard such restrictions as reasonable for the purpose of preserving Southwest and its proprietary rights, in the event that the provisions of this Paragraph II-B should ever be deemed to exceed the time or geographic limitations permitted by applicable laws, then such provisions shall be reformed to the maximum time or geographic limitations permitted by applicable laws.

III. TERM

- A. TERM. This Agreement and the Employee's employment hereunder shall commence and become effective on and as of June 19, 2001. The term of such employment shall expire on

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June 19, 2004, unless extended by consent of the parties hereto or earlier terminated pursuant to the provisions of Article V.

IV. EMPLOYEE'S COMPENSATION

- A. BASE SALARY. The Employee's annual Base Salary for the year ending June 19, 2002 which originally was to be the amount of \$309,000 shall, in accordance with Employee's irrevocable agreement to terminate payment of Employee's salary for the period October 1, 2001 through December 31, 2001, be \$231,750, payable in 18 equal semi-monthly installments of \$12,875 commencing with Southwest's second regular payroll date in June, 2001 and continuing through Southwest's first regular payroll date in October, 2001, at which point such semi-monthly installments shall temporarily cease (it being understood and agreed that no Base Salary shall be due or payable to Employee with respect to the period commencing October 1, 2001 and continuing through and including December 31, 2001); with such semi-monthly installments of \$12,875 to recommence with Southwest's first regular payroll date in January, 2002 and continuing through and including Southwest's second regular payroll date in June, 2002. The Employee's annual Base Salary for the years ending June 19, 2003 and 2004 shall be \$321,360 and \$334,215, respectively. The Employee's Base Salary for the years ending July 19, 2003 and July 19, 2004 shall be payable to the Employee in equal semi-monthly installments. The Employee's Base Salary installment payments shall be subject to such payroll and withholding deductions as may be required by law.
- B. PERFORMANCE BONUS. The Board of Directors of Southwest (or the Compensation Committee thereof) may grant a Performance Bonus to the Employee, in addition to her Base Salary, at such times and in such amounts as such Board (or Committee) may determine.

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- C. DEFERRED COMPENSATION. In addition to the Base Salary provided for in Paragraph IV-A above, Southwest shall set aside on its books a special ledger Deferred Compensation Account (the "Account") for the Employee, and shall credit thereto Deferred Compensation determined as hereinafter provided. (Southwest at its election may fund the payment of Deferred Compensation by setting aside and investing such funds as Southwest may from time to time determine. Neither the establishment of the Account, the crediting of Deferred Compensation thereto, nor the setting aside of any funds shall be deemed to create a trust. Legal and equitable title to any funds set aside shall remain in Southwest, and the Employee shall have no security or other interest in such funds. Any funds so set aside or invested shall remain subject to the claims of the creditors of Southwest, present and future.) For each full or partial calendar year as the Employee shall remain in the employment of Southwest under this Agreement, Deferred Compensation shall accumulate in an amount equal to any contributions (including forfeitures but excluding any elective deferrals actually returned to the Employee) which would otherwise have been made by Southwest on behalf of the Employee to the Southwest Airlines Co. Money Purchase Plan but which

exceed maximum annual additions under such Plan on her behalf under federal tax law. If such employment shall terminate prior to December 31 in any calendar year, then Deferred Compensation shall accumulate and be calculated as provided under the terms of Southwest's Money Purchase Plan. The Deferred Compensation credited to the Account (including the Interest hereinafter provided) shall be paid to the Employee (or to the executors or administrators of her estate) at the rate of \$100,000 per calendar year (subject to such payroll and withholding deductions as may be required by law), commencing with the calendar year following the year in which (i) the Employee shall become sixty-five (65)

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or (ii) the Employee's employment with Southwest shall terminate (whether such termination is under this Agreement or otherwise and whether it is before, on or after the expiration of the initial term set forth in Paragraph III-A above, and irrespective of the cause thereof), whichever shall occur later, and continuing until the entire amount of Deferred Compensation and Interest credited to the Account shall have been paid. Although the total amount of Deferred Compensation ultimately payable to the Employee hereunder shall be computed in accordance with the provisions set forth above, there shall be accrued and credited to the Account, beginning on January 1, 2002 and continuing annually thereafter, amounts equal to simple interest at the rate of ten percent (10%) per annum, compounded annually ("Interest"), on the accrued and unpaid balance of the Deferred Compensation credited to the Account as of the preceding December 31. The Deferred Compensation and Interest to be paid in any one calendar year shall be paid on the first business day of such calendar year. Notwithstanding the foregoing, in the event of the Employee's death, Southwest, in its sole discretion, shall have the right to pay the unpaid balance of the Deferred Compensation (together with any accrued Interest thereon) to the executors or administrators of the Employee's estate in cash in one lump sum on the first business day of the calendar year next following the calendar year in which the Employee shall have died. No right, title, interest or benefit under this Paragraph IV-C shall ever be liable for or charged with any of the torts or obligations of the Employee or any person claiming under her, or be subject to seizure by any creditor of the Employee or any person claiming under her. Neither the Employee nor any person claiming under her shall have the power to anticipate or dispose of any right, title, interest or benefit under this Paragraph IV-C in any manner until the same shall have been actually distributed by Southwest.

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- D. DISABILITY INSURANCE. Southwest shall provide long term disability insurance providing for payment, in the event of disability of the Employee, of \$10,000 per month to age seventy (70). Except as to amounts payable, the terms and conditions of such policy shall be identical, or substantially similar, to the disability insurance provided by Southwest for its other officers as of the date of this Agreement.
- E. MEDICAL AND DENTAL EXPENSES. During the term of this Agreement, Southwest shall reimburse the Employee for all medical and dental expenses incurred by the Employee and her spouse. Expenses for medical and dental care shall be deemed to include all amounts paid with respect to hospital bills, doctor and dental bills and drugs for which the Employee is not compensated by insurance or otherwise.
- F. STOCK OPTION GRANT. Southwest shall grant to the Employee, effective as of the date hereof, ten-year options to purchase 150,000 shares of its common stock at \$17.11 per share pursuant to Southwest's 1996 Non-Qualified Stock Option Plan, with one-third of such options to be exercisable immediately and one-third to become exercisable on each of June 19, 2002 and June 19, 2003.
- G. OTHER BENEFITS. The Employee shall be eligible to continue to participate in all employee pension, profit-sharing, stock purchase, group insurance and other benefit plans or programs in effect for Southwest managerial employees generally to the extent of and in accordance with the rules and agreements governing such plans or programs, so long as same shall be in effect, with full service credit where relevant for the Employee's prior employment by Southwest. Southwest shall reimburse the Employee for reasonable expenses incurred by her in the performance of her duties and responsibilities hereunder. The Employee shall be entitled to vacation of three (3) weeks per year or such longer period

as may be established from time to time by Southwest for its managerial employees generally.

V. TERMINATION PROVISIONS

- A. EXPIRATION OR DEATH. The Employee's employment hereunder shall terminate on June 19, 2004 (or such later date to which the term of this Agreement may be extended by consent of the parties hereto, in either case without prejudice to the Employee's privilege to remain an employee of Southwest thereafter), or upon the Employee's death, whichever shall first occur, without further obligation or liability of either party hereunder, except for Southwest's obligation to pay Deferred Compensation as provided in Paragraph IV-C of this Agreement.
- B. TERMINATION FOR CAUSE. Southwest may terminate the Employee's employment hereunder upon the determination by a majority of its whole Board of Directors that the Employee has willfully failed and refused to perform her duties and to discharge her responsibilities hereunder. Such determination shall be final and conclusive. If the Board of Directors of Southwest makes such determination, Southwest may (a) terminate the Employee's employment, effective immediately or at a subsequent date, or (b) condition her continued employment upon the circumstances and place a reasonable limitation upon the time within which the Employee shall comply with such considerations or requirements. If termination is so effected, Southwest shall have no further liability to the Employee hereunder except for the obligation to pay Deferred Compensation as provided in Paragraph IV-C hereof.
- C. TERMINATION FOR DISABILITY. Southwest may terminate the Employee's employment hereunder on account of any disabling illness, hereby defined to include any

emotional or mental disorders, physical diseases or injuries as a result of which the Employee is, for a continuous period of ninety (90) days, unable to perform her duties and to discharge her responsibilities hereunder on a full-time basis. Southwest shall give to the Employee thirty (30) days' notice of its intention to effect such termination pursuant to this Paragraph V-C. If, within such notice period, the Employee shall have recovered from her disability sufficiently well to resume performance of her duties and discharge of her responsibilities on a full-time basis (although still undergoing treatment or rehabilitation), Southwest shall not have the right to effect such termination. If such disabling illness occurs as a result of a job-related cause, Southwest shall continue to pay the Employee regular installments of her Base Salary in effect at the time of such termination for the remainder of the term of this Agreement. It is expressly understood and agreed, however, that any obligation of Southwest to continue to pay the Employee her Base Salary pursuant to this Paragraph V-C shall be reduced by the amount of any proceeds of long-term disability insurance provided for the Employee pursuant to Paragraph IV-D above, and shall also be reduced by the amount of the proceeds of any worker's compensation or other benefits which the Employee receives as a result of or growing out of her disabling illness.

- D. CHANGE OF CONTROL TERMINATION. In the event of any change of control of Southwest, the Employee may, at her option, terminate her employment hereunder by giving to Southwest notice thereof no later than sixty (60) days after the Employee shall have determined or ascertained that such change has occurred, irrespective whether Southwest shall have purported to terminate this Agreement after such event but prior to receipt of such notice. If termination is so effected, no later than the date of such termination Southwest shall pay the Employee as "severance pay" a lump sum equal to (i) \$750,000 plus (ii) an

amount equal to the unpaid installments of her Base Salary in effect at the time of such termination for the remaining term of this Agreement. If termination is so effected, Southwest shall have no other further liability to the Employee hereunder except for its obligation to pay Deferred Compensation as provided in Paragraph IV-C above. For purposes of this Paragraph V-D, a "change of control of Southwest" shall be deemed to occur if (i) a third person, including a "group" as determined in accordance with Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the beneficial owner of shares of Southwest having twenty percent (20%) or more of the total number of votes that may be cast for the election of directors of Southwest, or

(ii) as a result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions (herein called a "Transaction"), the persons who were directors of Southwest before the Transaction shall cease to constitute a majority of the Board of Directors of Southwest or any successor to Southwest.

- E. VOLUNTARY TERMINATION. The Employee's employment hereunder shall terminate forthwith upon her resignation and its acceptance by Southwest, without further obligation or liability of either party hereunder, except for Southwest's obligation to pay Deferred Compensation as provided in Paragraph IV-C above.

VI. MISCELLANEOUS

- A. ASSIGNABILITY, ETC. The rights and obligations of Southwest hereunder shall inure to the benefit of and shall be binding upon the successors and assigns of Southwest; provided, however, Southwest's obligations hereunder may not be assigned without the prior

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approval of the Employee. This Agreement is personal to the Employee and may not be assigned by her.

- B. NO WAIVERS. Failure to insist upon strict compliance with any provision hereof shall not be deemed a waiver of such provision or any other provision hereof.
- C. AMENDMENTS. This Agreement may not be modified except by an agreement in writing executed by the parties hereto.
- D. NOTICES. Any notice required or permitted to be given under this Agreement shall be in writing in the English language and shall be deemed to have been given to the person affected by such notice when personally delivered or when deposited in the United States mail, certified mail, return receipt requested and postage prepaid, and addressed to the party affected by such notice at the address indicated on the signature page hereof.
- E. SEVERABILITY. The invalidity or unenforceability of any provision hereof shall not affect the validity or enforceability of any other provision hereof.
- F. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original but all of which taken together shall constitute a single instrument.
- G. ENTIRE AGREEMENT. This Agreement contains all of the terms and conditions agreed upon by the parties hereto respecting the subject matter hereof, and all other prior agreements, oral or otherwise, regarding the subject matter of this Agreement shall be deemed to be superseded as of the date of this Agreement and not to bind either of the parties hereto.
- H. GOVERNING LAW. This Agreement shall be subject to and governed by the laws of the State of Texas.

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

SOUTHWEST AIRLINES CO.

By: /s/ HERBERT D. KELLEHER

Herbert D. Kelleher
Chairman of the Board of Directors

THE EMPLOYEE

/s/ COLLEEN C. BARRETT

Colleen C. Barrett

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

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, 333-53616 and 333-57478, and Forms S-3 Nos. 333-38257, 33-59113 and 333-71392) of Southwest Airlines Co. and in the related Prospectuses of our report dated January 16, 2002, 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, 2001.

ERNST & YOUNG LLP

Dallas, Texas
January 29, 2002