

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, 2002 or

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

For the transition period from _____ to _____

Commission File No. 1-7259

SOUTHWEST AIRLINES CO.

(Exact name of registrant as specified in its charter)

TEXAS

74-1563240

(State or other jurisdiction of
incorporation or organization)

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

P.O. BOX 36611

DALLAS, TEXAS

75235-1611

(Address of principal executive offices)

(Zip Code)

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

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

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

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

None

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☒ No ☐

Aggregate market value of Common Stock held by nonaffiliates as of
December 31, 2002:

\$10,685,364,125

Number of shares of Common Stock outstanding as of the close of
business on December 31, 2002:

776,662,894 shares

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for Annual Meeting
of Shareholders, May 14, 2003: 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 predominantly 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 2002, Southwest operated 375 Boeing 737 aircraft and Provided service to 59 airports in 58 cities in 30 states throughout the United States. Based on data for second quarter 2002 (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).

Southwest's filings with the Securities and Exchange Commission, including its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are accessible free of charge at www.southwest.com.

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 COST PER GALLON	PERCENT OF OPERATING EXPENSES
1998	\$388.3	\$.46	11.2%
1999	\$492.4	\$.53	12.5%
2000	\$804.4	\$.79	17.4%
2001	\$770.5	\$.71	15.6%
2002	\$762.1	\$.68	14.9%

</TABLE>

From October 1, 2002 through December 31, 2002, the average cost per gallon was \$.71. 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

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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. 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 certain provisions of the U.S. Transportation Code, 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.

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"), which has recently been moved to the new Office of Homeland Security. The TSA assumed the aviation security functions previously residing in the FAA and assumed passenger screening contracts at U.S. airports on February 17, 2002. The TSA now provides for the screening of all passengers and property, which is performed by federal employees. Beginning February 1, 2002, a \$2.50 per enplanement security fee is imposed on passengers (maximum of \$5.00 per one-way trip). Pursuant to authority granted to the TSA to impose additional fees on air carriers if necessary to cover additional federal aviation security costs, the TSA has imposed an annual Security Infrastructure Fee which approximated \$23 million for Southwest in 2002 and is expected to approximate \$26 million in 2003. Like the FAA, the TSA may impose and collect fines for violations of its regulations.

Environmental. Certain airports, including San Diego 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.

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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.

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.

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 2002 was 548 miles with an average duration of approximately 1.5 hours. At year-end, Southwest served 338 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 77 percent of the Company's Customers fly nonstop. In addition, Southwest serves many conveniently located satellite or downtown airports such as Dallas Love Field, Houston Hobby, Chicago Midway, Baltimore-Washington International, Burbank, Manchester, Oakland, San Jose, Providence, Ft. Lauderdale/Hollywood and Long Island airports, which are typically less congested than other airlines' hub airports and enhance the Company's ability to sustain high Employee productivity and reliable ontime performance. This operating strategy also permits the Company to achieve high asset utilization. Aircraft are scheduled to minimize the amount of time the aircraft 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 or offer joint fares 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

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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 and then process 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 www.southwest.com. For the year ended December 31, 2002, more than 85 percent of Southwest's Customers chose the Ticketless travel option, and approximately 49 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 larger fleets and wider name recognition. Certain major United States airlines have established marketing or codesharing alliances with each other, including Northwest Airlines/Continental Airlines, American Airlines/Alaska Airlines, and United Airlines/US Airways. Northwest Airlines and Continental Airlines have announced plans to add Delta Air Lines to their alliance in a transaction which is subject to conditions established by the Department of Transportation.

Since the terrorist acts of September 11, 2001, and in the face of weak demand for air service, most major carriers (not including Southwest) have significantly reduced service, grounded aircraft, and furloughed employees. UAL, the parent of United Airlines, and US Airways have sought relief from financial obligations in bankruptcy and other, smaller carriers have ceased operation entirely. America West Airlines and others have received federal loan guarantees (or conditional approval for guarantees) authorized by federal law and additional airlines may do so in the future.

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. In response to these measures, the Company has introduced its new Automated Boarding Passes, as well as RAPID CHECK-IN kiosks in many airports and it will continue to expand the latter service offering throughout 2003. It is currently not possible to assess the ultimate impact of all of these events on airline competition.

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.

Following the terrorist attacks, commercial aviation insurers significantly increased the premiums and reduced the amount of war-risk coverage available to commercial carriers. At that time, the federal government stepped in to provide supplemental third-party war-risk insurance coverage to commercial carriers

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for renewable 60-day periods at substantially lower premiums than prevailing commercial rates and for levels of coverage not available in the commercial market. In November 2002, Congress passed the Homeland Security Act of 2002, which mandated the federal government to provide third party, passenger and hull war-risk insurance coverage to commercial carriers through August 31, 2003, which may be extended by the government through December 31, 2003. The Company is unable to predict whether the government will extend this insurance coverage past August 31, 2003, whether alternative commercial insurance with comparable coverage will become available at reasonable premiums, and what impact this will have on the Company's ongoing operations or future financial performance.

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 for 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 2.2 million, 1.7 million, and 1.6 million Award Tickets and flights on Companion Passes during 2002, 2001, and 2000, respectively. The amount of free travel award usage as a percentage of total Southwest revenue passengers carried was 6.8 percent in 2002, 5.4 percent in 2001, and 4.9 percent in 2000. The number of Award Tickets outstanding at December 31, 2002 and 2001 was approximately 1.4 million and 1.3 million, 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 60 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, 2002 and 2001 was approximately 55,000 and 48,000, 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. Revenue from the sale of flight segment credits and

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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, 2002 and 2001 was not material.

EMPLOYEES

At December 31, 2002, Southwest had 33,705 active employees, consisting of 10,920 flight, 1,900 maintenance, 16,405 ground customer and fleet service and 4,480 management, accounting, marketing, and clerical personnel.

Southwest has ten collective bargaining agreements covering approximately 80.6 percent of its employees. The following table sets forth the Company's employee groups and collective bargaining status:

EMPLOYEE GROUP	REPRESENTED BY	AGREEMENT AMENDABLE ON
Customer Service and Reservations	International Association of Machinists and Aerospace Workers, AFL-CIO	November 2008 (or 2006 at the Union's option under certain conditions)
Flight Attendants	Transportation Workers of America, AFL-CIO ("TWU")	In negotiations
Ramp, Operations and Provisioning	TWU	June 2008 (or 2006 at the Union's option under certain conditions)
Pilots	Southwest Airlines Pilots' Association	September 2006
Flight Dispatchers	Southwest Airlines Employee Association	November 2009
Aircraft Appearance Technicians	Aircraft Mechanics Fraternal Association ("AMFA")	February 2009
Stock Clerks	International Brotherhood of Teamsters ("Teamsters")	August 2008
Mechanics	AMFA	August 2005
Flight Simulator Technicians	Teamsters	November 2008
Flight/Ground School Instructors and Flight Crew Training Instructors	Southwest Airlines Professional Instructors Association	December 2012

ITEM 2. PROPERTIES

AIRCRAFT

Southwest operated a total of 375 Boeing 737 aircraft as of December 31, 2002, of which 90 and 7 were under operating and capital leases, respectively. The remaining 278 aircraft were owned.

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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, 2002, Southwest had 129 Boeing 737-700 aircraft in service.

In total, at February 1, 2003, the Company had firm orders and options to purchase Boeing 737 aircraft as follows:

FIRM ORDERS AND OPTIONS TO PURCHASE BOEING 737-700 AIRCRAFT

DELIVERY YEAR	FIRM ORDERS	OPTIONS	PURCHASE RIGHTS
2003	17	-	-
2004	23	11	-
2005	24	18	-
2006	22	16	-

2007	25	9	20
2008-2012	6	25	197
TOTALS	117	79	217

The Company currently intends to retire its fleet of 27 Boeing 737-200 aircraft over the next three years.

The average age of the Company's fleet at December 31, 2002 was 9.2 years.

GROUND FACILITIES AND SERVICES

Southwest leases terminal passenger service facilities at each of the airports it serves, to which it has added various leasehold improvements. The Company leases land on a long-term basis for its maintenance centers located at Dallas Love Field, Houston Hobby, Phoenix Sky Harbor, and Chicago Midway, its training center near Love Field, which houses six 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, 2002, 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.

Southwest has entered into a concession agreement with the Town of Islip, New York which gives the Company the right to construct, furnish, occupy, and maintain a new concourse at the airport. Once all phases of the project are completed, the concourse would have up to a total of eight gates and is expected to cost approximately \$65 million. The Company is currently expected to be able to begin operations from this new concourse in 2004, at which time the new concourse will become the property of the Town of Islip. In return for constructing the new concourse, Southwest will receive fixed-rent abatements for a total of 25 years; however, the Company will still be required to pay variable rents for common use areas.

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.

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ITEM 3. LEGAL PROCEEDINGS

The Company is subject to various legal proceedings and claims arising in the ordinary course of business, including, but not limited to, examinations by the Internal Revenue Service (IRS). The IRS regularly examines the Company's federal income tax returns and, in the course of those examinations, proposes adjustments to the Company's federal income tax liability reported on such returns. It is the Company's practice to vigorously contest those proposed adjustments that it deems lacking of merit. The Company's management does not expect that the outcome in any of its currently ongoing legal proceedings or the outcome of any proposed adjustments presented to date by the IRS, individually or collectively, will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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, 2003) are as follows:

<TABLE> <CAPTION>			
NAME	POSITION	AGE	
----	-----	---	
<S>	<C>	<C>	
Herbert D. Kelleher	Chairman of the Board	71	
James F. Parker	Vice Chairman of the Board and Chief Executive Officer	56	
Colleen C. Barrett	Director, President and Chief Operating Officer	58	
Donna D. Conover	Executive Vice President - Customer Service	49	
Gary C. Kelly	Executive Vice President and Chief Financial Officer	47	

James C. Wimberly	Executive Vice President - Chief Operations Officer	49
Joyce C. Rogge	Senior Vice President - Marketing	45
Ron Ricks	Vice President - Governmental Affairs	53
Dave Ridley	Vice President - Ground Operations	49

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 Chief Executive Officer pursuant to Board authorization. Each of the above individuals has worked for Southwest Airlines Co. for more than the past five years.

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PART II

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

Southwest's common stock is listed on the New York Stock Exchange and is traded under the symbol LUV. The high and low sales prices of the common stock on the Composite Tape and the quarterly dividends per share paid on the common stock were:

<CAPTION>			
PERIOD	DIVIDEND	HIGH	LOW
- - - - -	-----	----	---
<S>	<C>	<C>	<C>
2002			
1st Quarter	\$ 0.00450	\$ 22.00	\$ 17.17
2nd Quarter	0.00450	19.35	14.85
3rd Quarter	0.00450	16.08	10.90
4th Quarter	0.00450	16.70	11.23
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

As of December 31, 2002, there were 11,858 holders of record of the Company's common stock.

RECENT SALES OF UNREGISTERED SECURITIES

During 2002, Herbert D. Kelleher, Chairman of the Board, exercised unregistered options to purchase Southwest Common Stock as follows:

<CAPTION>		
NUMBER OF SHARES PURCHASED	EXERCISE PRICE	DATE OF EXERCISE
- - - - -	-----	-----
<S>	<C>	<C>
415,528	\$ 1.00	1/15/02
437,032	\$ 2.24	1/15/02

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.

The following table provides information as of December 31, 2002 regarding compensation plans (including individual compensation arrangements) under which equity securities of Southwest are authorized for issuance.

EQUITY COMPENSATION PLAN INFORMATION

<TABLE>
<CAPTION>

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (in thousands)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS*	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (a)) (in thousands)
	(a)	(b)	(c)
<S>	<C>	<C>	<C>
Equity Compensation Plans Approved by Security Holders	31,151	\$ 9.76	22,538
Equity Compensation Plans not Approved by Security Holders	110,160	9.94	41,767
Total	141,311	\$ 9.90	64,305

</TABLE>

*As adjusted for stock splits.

See Note 12 to the Consolidated Financial Statements for information regarding the material features of the above plans. Each of the above plans provides that the number of shares with respect to which options may be granted, and the number of shares of Common Stock subject to an outstanding option, shall be proportionately adjusted in the event of a subdivision or consolidation of shares or the payment of a stock dividend on Common Stock, and the purchase price per share of outstanding options shall be proportionately revised.

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ITEM 6. SELECTED FINANCIAL DATA

The following financial information for the five years ended December 31, 2002 has been derived from the Company's Consolidated Financial Statements. This information should be read in conjunction with the Consolidated Financial Statements and related notes thereto included elsewhere herein.

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
<S>	<C>	<C>	<C>
FINANCIAL DATA:			
(in thousands except per share amounts)			
Operating revenues.....	\$ 5,521,771	\$ 5,555,174	\$ 5,649,560
Operating expenses.....	5,104,433	4,924,052	4,628,415
Operating income.....	417,338	631,122	1,021,145
Other expenses (income), net.....	24,656	(196,537)	3,781
Income before income taxes.....	392,682	827,659	1,017,364
Provision for income taxes.....	151,713	316,512	392,140
Net income	\$ 240,969	\$ 511,147	\$ 625,224 (3)
Net income per share, basic.....	\$.31	\$.67	\$.84 (3)
Net income per share, diluted.....	\$.30	\$.63	\$.79 (3)
Cash dividends per common share.....	\$.0180	\$.0180	\$.0147
Total assets at period-end.....	\$ 8,953,750	\$ 8,997,141	\$ 6,669,572
Long-term obligations at period-end.....	\$ 1,552,781	\$ 1,327,158	\$ 760,992
Stockholders' equity at period-end.....	\$ 4,421,617	\$ 4,014,053	\$ 3,451,320
OPERATING DATA:			
Revenue passengers carried.....	63,045,988	64,446,773	63,678,261
Revenue passenger miles (RPMs) (000s).....	45,391,903	44,493,916	42,215,162
Available seat miles (ASMs) (000s).....	68,886,546	65,295,290	59,909,965
Load factor (1).....	65.9%	68.1%	70.5%
Average length of passenger haul (miles)...	720	690	663

Trips flown.....	947,331	940,426	903,754
Average passenger fare.....	\$ 84.15 (5)	\$ 83.93 (4)	\$ 85.87
Passenger revenue yield per RPM.....	11.69 (cents) (5)	12.16 (cents) (4)	12.95 (cents)
Operating revenue yield per ASM.....	7.96 (cents) (5)	8.55 (cents) (4)	9.43 (cents)
Operating expenses per ASM.....	7.41 (cents)	7.48 (cents) (4)	7.73 (cents)
Fuel cost per gallon (average).....	68.01 (cents)	70.86 (cents)	78.69 (cents)
Number of Employees at year-end.....	33,705	31,580	29,274
Size of fleet at year-end (2).....	375	355	344

</TABLE>

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER 31,	
	1999	1998
	----	----
<S>	<C>	<C>
FINANCIAL DATA:		
(in thousands except per share amounts)		
Operating revenues.....	\$ 4,735,587	\$ 4,163,980
Operating expenses.....	3,954,011	3,480,369
	-----	-----
Operating income.....	781,576	683,611
Other expenses (income), net.....	7,965	(21,501)
	-----	-----
Income before income taxes.....	773,611	705,112
Provision for income taxes.....	299,233	271,681
	-----	-----
Net income	\$ 474,378	\$ 433,431
	=====	=====
Net income per share, basic.....	\$.63	\$.58
Net income per share, diluted.....	\$.59	\$.55
Cash dividends per common share.....	\$.0143	\$.0126
Total assets at period-end.....	\$ 5,653,703	\$ 4,715,996
Long-term obligations at period-end.....	\$ 871,717	\$ 623,309
Stockholders' equity at period-end.....	\$ 2,835,788	\$ 2,397,918

OPERATING DATA:

Revenue passengers carried.....	57,500,213	52,586,400
Revenue passenger miles (RPMs) (000s).....	36,479,322	31,419,110
Available seat miles (ASMs) (000s).....	52,855,467	47,543,515
Load factor (1).....	69.0%	66.1%
Average length of passenger haul (miles)...	634	597
Trips flown.....	846,823	806,822
Average passenger fare.....	\$ 79.35	\$ 76.26
Passenger revenue yield per RPM.....	12.51 (cents)	12.76 (cents)
Operating revenue yield per ASM.....	8.96 (cents)	8.76 (cents)
Operating expenses per ASM.....	7.48 (cents)	7.32 (cents)
Fuel cost per gallon (average).....	52.71 (cents)	45.67 (cents)
Number of Employees at year-end.....	27,653	25,844
Size of fleet at year-end (2).....	312	280

</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).
- (4) Excludes special items related to the September 11, 2001 terrorist attacks. Including these items, average passenger fare would decrease by \$.47, passenger revenue yield per RPM would decrease by .07 cents operating revenue yield per ASM would decrease by .04 cents and operating expenses per ASM would increase by .06 cents.
- (5) Excludes \$36 million in revenue from second quarter 2002 related to a reduction in air traffic liability. Including the \$36 million, average passenger fare would increase by \$.57, passenger revenue yield per RPM would increase by .08 cents, and operating revenue yield per ASM would increase by .06 cents.

YEAR IN REVIEW

In 2002, Southwest posted a profit for the 30th consecutive year. While the Company's 2002 profitability fell short of our historical standards, this performance was remarkable given that the major airlines collectively reported losses in the billions of dollars. From a financial perspective, 2002 was one of

the worst years, if not the worst, in the history of commercial aviation. It was a year that included dramatic increases in aviation insurance costs, increased passenger security costs resulting from continually evolving security laws and directives, airline industry downsizing, rising energy prices, and a recessionary airline revenue environment. However, the Company's business strategy - predominantly shorthaul, high frequency, low-fare, point-to-point, high-quality Customer Service, low costs - continued to serve Southwest well throughout the year. The Company has been able to combat many of these higher exogenous costs by lowering distribution costs and implementing other cost reduction measures. Throughout the difficult period beginning with the September 11, 2001 terrorist attacks the Company has been profitable every quarter.

During 2002, Southwest successfully met the challenge of dramatic changes in airport security. Initially, these security changes dramatically altered airport checkin procedures resulting in longer checkin times for Customers. The Company invested in additional airport facilities, new technology, changed processes and added Employees. These actions, at most airports, restored checkin times to normal durations. Specific changes to the way Customers and baggage are processed included the implementation of computer-generated baggage tags to electronically track bags checked by Customers, computer-generated boarding passes from multiple points in the airport, and the installation of self-service RAPID CHECK-IN kiosks at airports. Although the Transportation Security Administration has successfully assumed responsibility for passenger and baggage screening, and has complied with all federal security mandates as required by the Aviation and Transportation Security Act, the Company is currently unable to predict what impact future mandates, if any, will have on the Company's ongoing operations and future financial performance.

Although the Company did not open any new cities in 2002, it did improve its quality of service between cities already served and added 23 new 737-700 aircraft to facilitate this growth. These additions, along with the retirement of three older 737-200 aircraft, resulted in a net capacity increase of 5.5 percent, and brought the Company's all-737 fleet to 375 aircraft at the end of 2002. The Company ended 2002 serving 59 airports in 30 states.

Available seat mile (ASM) capacity is expected to grow approximately four percent in 2003 with the planned net addition of 11 aircraft. The Company currently has 17 new Boeing 737-700s scheduled for delivery during the year and plans to retire six of the Company's older 737-200s.

RESULTS OF OPERATIONS

2002 COMPARED WITH 2001 The Company's consolidated net income for 2002 was \$241.0 million (\$.30 per share, diluted), as compared to 2001 net income of \$511.1 million (\$.63 per share, diluted), a decrease of \$270.1 million or 52.9 percent. Operating income for 2002 was \$417.3 million, a decrease of \$213.8 million, or 33.9 percent compared to 2001.

Consolidated results for 2002 and 2001 included \$48 million and \$235 million, respectively, in gains that the Company recognized from grants under the Air Transportation Safety and System Stabilization Act (Air Stabilization Act). Consolidated results for 2002 also included \$36 million in additional passenger revenue from a reduction in estimated refunds and exchanges, contributing to an

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increase in forfeited tickets included in "Air traffic liability." Consolidated results for 2001 also included special pre-tax charges of approximately \$48 million arising from the terrorist attacks. See Note 1 and Note 3 to the Consolidated Financial Statements.

The Company believes that comparative analysis of results can be enhanced by excluding the impact of these special items. The following table reconciles results reported in accordance with Generally Accepted Accounting Principles (GAAP) with results adjusted for special items that are not expected to recur:

<TABLE>

<CAPTION>

(In thousands)	2002	2001
<S>	<C>	<C>
Consolidated net income, as reported	\$ 240,969	\$ 511,147
Government grant proceeds, net *	(24,796)	(123,510)
Passenger revenue adjustments, net *	(18,103)	15,749
Special charges arising from terrorist attacks, net *	-	9,563
Adjusted consolidated net income, excluding special charges and unusual items (non-GAAP)	\$ 198,070	\$ 412,949
Net income per share, basic, as reported	\$.31	\$.67
Government grant proceeds, net *	(.03)	(.16)
Passenger revenue adjustments, net *	(.02)	.02
Special charges arising from terrorist attacks, net *	-	.01

Adjusted net income per share, basic, excluding special charges and unusual items (non-GAAP)	\$.26 =====	\$.54 =====
Net income per share, diluted, as reported	\$.30	\$.63
Government grant proceeds, net *	(.03)	(.15)
Passenger revenue adjustments, net *	(.03)	.02
Special charges arising from terrorist attacks, net *	-	.01
	-----	-----
Adjusted net income per share, diluted, excluding special charges and unusual items (non-GAAP)	\$.24 =====	\$.51 =====

</TABLE>

* Net of income tax and Company profitsharing effects.

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 canceled approximately 9,000 flights before resuming flight operations on September 14, although it did not resume its normal pre-September 11 flight schedule until September 18, 2002. After operations were fully resumed, load factors and passenger yields were severely impacted, and ticket refund activity increased. The Company estimates that from September 11 through September 30, 2001, it incurred operating losses in excess of \$130 million.

OPERATING REVENUES Consolidated operating revenues decreased \$33.4 million, or ..6 percent, primarily due to a \$37.4 million, or .7 percent, decrease in passenger revenues.

The decrease in passenger revenues was due to lower load factors (revenue passenger miles or RPMs divided by available seat miles or ASMs) attributable to the post-September 11, 2001 reduction in demand for air travel, and from lower passenger yields (passenger revenue divided by RPMs) caused by a decline in full-fare traffic. The Company's load factor for 2002 was 65.9 percent, compared to 68.1 percent for 2001, resulting from a capacity (ASM) increase of 5.5 percent versus an RPM increase of only 2.0 percent. Excluding special items, passenger yields for 2002 were \$.1169 compared to \$.1216 in 2001, a

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decrease of 3.9 percent. In 2002, there continued to be heavy fare discounting by the Company and the airline industry in general to stimulate demand. The increase in capacity, as measured by ASMs, was due to the net addition of 20 aircraft during 2002 (net of three aircraft retirements). For the full year, the Company experienced a 2.2 percent decrease in revenue passengers carried and a 4.3 percent increase in average length of passenger haul (RPMs divided by revenue passengers carried).

The Company's 2002 load factor was attained only through heavy promotional activities and aggressive revenue management. Load factors thus far in January 2003 and bookings for February and March 2003 have been satisfactory. However, we expect the air fare environment to continue to be weak, relative to pre-September 11, 2001 performance, through the first quarter 2003. If current booking and revenue trends continue, first quarter 2003 unit revenues should, however, exceed first quarter 2002's unit revenue of \$.0761.

Consolidated freight revenues decreased \$6.6 million, or 7.2 percent, primarily due to a 40.3 percent decrease in mail revenues. Following the terrorist attacks, the United States Postal Service shifted a portion of the mail that commercial carriers had previously carried to freight carriers. The mail decrease more than offset an 11.4 percent increase in other freight revenues. Other revenues increased \$10.5 million, or 12.4 percent, primarily due to an increase in commissions earned from programs the Company sponsors with certain business partners, such as the Company-sponsored First USA(R) Visa card.

OPERATING EXPENSES Consolidated operating expenses for 2002 increased \$180.4 million, or 3.7 percent, compared to the 5.5 percent increase in capacity. Operating expenses per ASM decreased 1.7 percent to \$.0741, primarily due to decreases in profitsharing expense, average jet fuel costs, and commission expense. Excluding 2001 special items, operating expenses per ASM decreased .9 percent. For 2003, the Company currently expects an increase in operating expenses per ASM primarily due to higher fuel costs and salaries, wages, and benefits.

To a large extent, changes in operating expenses for airlines are driven by changes in capacity, or ASMs. The following presents Southwest's operating expenses per ASM for 2002 and 2001 followed by explanations of these changes on a per ASM basis:

<TABLE>
<CAPTION>

			Increase (decrease)	Percent change
	2002	2001		

<S>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits	2.89 (cents)	2.84 (cents)	.05 (cents)	1.8 %
Fuel and oil	1.11	1.18	(.07)	(5.9)
Maintenance materials and repairs	.57	.61	(.04)	(6.6)
Agency commissions	.08	.16	(.08)	(50.0)
Aircraft rentals	.27	.29	(.02)	(6.9)
Landing fees and other rentals	.50	.48	.02	4.2
Depreciation	.52	.49	.03	6.1
Other	1.47	1.49	(.02)	(1.3)
Total	7.41 (cents)	7.54 (cents)	(.13) (cents)	(1.7) %

</TABLE>

Salaries, wages, and benefits expense per ASM increased 1.8 percent due to a 5.7 percent increase in salaries and wages per ASM and a 7.6 percent increase in benefits expense per ASM, partially offset by a 30.3 percent decrease in Employee retirement plans expense per ASM. The majority of the increase in salaries and wages was due to headcount additions outpacing the Company's capacity growth in several

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operational areas, due in part to additional security requirements at airports. The remaining portion of the increase in salaries and wages per ASM was primarily due to increases in average wage rates.

The increase in benefits expense per ASM was primarily due to higher health care costs. Employee retirement plans expense per ASM decreased primarily due to the decrease in Company earnings available for profitsharing. In 2002 and 2001, earnings available for profitsharing included \$48 million and \$235 million, respectively, from grants recognized under the Air Stabilization Act. See Note 3 to the Consolidated Financial Statements. The Company also expects to experience an increase in salaries, wages, and benefits per ASM in 2003 due to the continued impact of headcount additions in excess of capacity growth, higher average wage rates, and higher anticipated health care costs.

The Company's Mechanics are subject to an agreement negotiated with the International Brotherhood of Teamsters (the Teamsters), that became amendable in August 2001. The Company reached a tentative agreement with the Teamsters, which was ratified by its membership in October 2002 (on January 27, 2003, the Aircraft Mechanics Fraternal Association was certified by the National Mediation Board as the new representative of the Mechanics). The new contract, which includes the issuance of stock options, becomes amendable in August 2005.

The Company's Customer Service and Reservations Agents are subject to an agreement with the International Association of Machinists and Aerospace Workers (IAM) that became amendable in November 2002. The Company reached a tentative agreement with the IAM in December 2002, which was approved by IAM membership in January 2003. The new contract includes the issuance of stock options and becomes amendable in November 2008 (or 2006 at the Union's option under certain conditions as defined in the agreement).

The Company's Pilots are subject to an agreement with the Southwest Airlines Pilots' Association (SWAPA). Although the contract between Southwest and SWAPA was not amendable until September 2004, during 2002 the Company negotiated an extension with SWAPA that was ratified by its membership in August 2002. The extended contract, which includes the issuance of stock options, becomes amendable in September 2006.

The Company's Ramp, Operations, and Provisioning Agents are represented by the Transport Workers Union of America (TWU). Although the contract between Southwest and TWU was not amendable until June 2006, during 2002 the Company negotiated a two-year contract extension with TWU that was ratified by its membership in December 2002. The contract extension included the issuance of stock options. The contract with TWU now becomes amendable in June 2008 (or 2006 at the Union's option under certain conditions as defined in the agreement).

The Company's Flight Attendants are subject to an agreement with the TWU that became amendable in June 2002. Southwest is currently in negotiations with the TWU for a new contract.

Fuel and oil expense per ASM decreased 5.9 percent, primarily due to a 4.0 percent decrease in the average jet fuel cost per gallon. The average cost per gallon of jet fuel in 2002 was \$.6801 compared to \$.7086 in 2001, excluding fuel related taxes but including the effects of hedging activities. The Company's 2002 and 2001 average jet fuel costs are net of approximately \$44.5 million and \$79.9 million in gains from hedging activities, respectively. 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 83 percent of its anticipated fuel consumption in 2003, including all of its anticipated requirements for first quarter 2003. Considering current market prices and the continued effectiveness of the Company's fuel hedges, the Company is forecasting first quarter 2003 average fuel cost per gallon to be in the \$.70 to \$.75 range. The majority of the Company's near term hedge positions

are in the form of option contracts, which protect the Company in the event of rising jet fuel prices. The Company should also benefit, to a large extent, in the event of a decline in jet fuel prices.

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Maintenance materials and repairs per ASM decreased 6.6 percent. This decrease was primarily due to a decrease in airframe expense resulting from fewer outsourced heavy maintenance events versus 2001. More heavy maintenance events were performed internally in 2002, resulting in the costs associated with those events being reflected in salaries and wages. Currently, the Company expects an increase in maintenance materials and repairs expense per ASM in first quarter and full year 2003, versus 2002, due to an increase in contract rates from outside vendors as well as the number of engine inspections and repairs scheduled. The majority of the Company's engine maintenance work is outsourced.

Agency commissions per ASM decreased 50.0 percent, primarily due to a change in the Company's commission rate policy. Effective October 15, 2001, the Company reduced the commission paid to travel agents from eight percent for Ticketless bookings and five percent for paper ticket bookings, to five percent (with no cap), regardless of the type of ticket sold. In addition, the mix of tickets sold through travel agents declined from 25 percent in 2001 to 20 percent in 2002, thereby reducing commissionable revenues and commission expense.

Aircraft rentals per ASM decreased 6.9 percent primarily due to a lower percentage of the aircraft fleet being leased. Approximately 24.0 percent of the Company's aircraft were under operating lease at December 31, 2002, compared to 25.9 percent at December 31, 2001. Based on the Company's current new aircraft delivery schedule, scheduled aircraft retirements for 2003, and financing plans, the Company expects a decline in aircraft rental expense per ASM in 2003, including the first quarter.

Landing fees and other rentals per ASM increased 4.2 percent primarily as a result of airport rate increases throughout the Company's system. Moreover, following the terrorist attacks, most other major airlines reduced their flight schedules due to the drop in air travel. Since Southwest did not reduce its flights, the Company incurred higher airport costs based on a greater relative share of total flights and passengers.

Depreciation expense per ASM increased 6.1 percent primarily due to growth in the Company's owned aircraft fleet. The Company received delivery of 23 new 737-700 aircraft during 2002, all of which were purchased.

Other operating expenses per ASM decreased 1.3 percent despite a per-ASM increase of more than 175 percent in aviation insurance costs. (The insurance cost increases were more than offset through various cost control measures implemented immediately following the prior year terrorist attacks, including reductions in personnel related expenses and office expenses: excluding insurance expense, other operating expenses per ASM decreased 8.5 percent). Following the terrorist attacks, commercial aviation insurers significantly increased the premiums and reduced the amount of war-risk coverage available to commercial carriers. The federal government then stepped in to provide supplemental third-party war-risk insurance coverage to commercial carriers, for renewable 60-days periods, at substantially lower premiums than prevailing commercial rates during 2002 and for levels of coverage not available in the commercial market. In November 2002, Congress passed the Homeland Security Act of 2002, which mandated the federal government provide third party, passenger and hull war-risk insurance coverage to commercial carriers through August 31, 2003, and which permits such coverage to be extended by the government through December 31, 2003. The Company is unable to predict whether the government will extend this insurance coverage past August 31, 2003; whether alternative commercial insurance with comparable coverage will become available at reasonable premiums; and what impact the outcome will have on the Company's ongoing operations or future financial performance. As a result of recently concluded negotiations for 2003 commercial insurance coverage and the additional coverage provided by the government, the Company currently expects per-ASM insurance costs to decrease compared to 2002 for at least the near term, including first quarter 2003.

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OTHER "Other expenses (income)" included interest expense, capitalized interest, interest income, and other gains and losses. Interest expense increased \$36.2 million, or 51.8 percent compared to the prior year, due to higher debt levels. In fourth quarter 2001, the Company issued \$614.3 million in long-term debt in the form of Pass Through Certificates. In first quarter 2002, the Company issued \$385 million in unsecured notes. See Note 7 to the Consolidated Financial Statements for more information on these two borrowings. The increase in expense caused by these borrowings was partially 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. Capitalized interest decreased \$3.9 million, or 18.7 percent, primarily as a result of lower 2002 progress payment balances for scheduled future aircraft deliveries, compared to 2001. Based on the Company's current schedule of progress payments and aircraft deliveries, the Company expects progress payment balances, and corresponding capitalized interest, to increase in 2003 compared to 2002. Interest income decreased \$5.6 million, or 13.2 percent, as higher invested

cash balances for the year were more than offset by lower rates. Other gains in 2002 and 2001 primarily resulted from \$48 million and \$235 million, respectively, received as the Company's share of government grant funds under the Air Stabilization Act. See Note 3 to the Company's Consolidated Financial Statements for further discussion of the Air Stabilization Act and grants from the government.

INCOME TAXES The provision for income taxes, as a percentage of income before taxes, increased to 38.64 percent in 2002 from 38.24 percent in 2001 primarily due to the Company's lower earnings in 2002.

2001 COMPARED WITH 2000 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 \$114.1 million, or 18.2 percent. Consolidated results for 2001 included \$235 million in gains that the Company recognized from grants under the Air Stabilization 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, for 2000, after the cumulative change in accounting principle, were \$603.1 million and \$.76, respectively. Operating income for 2001 was \$631.1 million, a decrease of \$390.0 million, or 38.2 percent, compared to 2000.

OPERATING REVENUES Consolidated operating revenues decreased \$94.4 million, or 1.7 percent, primarily due to a 1.6 percent decrease in passenger revenues. The decrease in passenger revenues was a direct result of the terrorist attacks. From January through August 2001, passenger revenues were higher by \$314.9 million, or 8.7 percent, than the same period in 2000 primarily due to an increase in capacity, as measured by ASMs, of 11.6 percent. This capacity increase was due to the addition of 14 aircraft during 2001 (all prior to September 11) and its revenue effects were partially offset by a decrease of 1.9 percent in passenger yield. Passenger yield decreased as a result of fare discounting by the Company and the airline industry in general as the United States economy weakened throughout 2001. 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 \$404.2 million, or 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

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lower during this period, versus the same period in 2000, due to aggressive fare sales following the terrorist attacks.

For the full year 2001, 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 6.6 percent decrease in 2001 passenger yield.

As a result of weak economic conditions throughout 2001, consolidated freight revenues decreased \$19.5 million, or 17.6 percent. There were decreases in both the number of freight shipments and revenue per shipment. Other revenues increased \$14.3 million, or 20.3 percent, primarily due 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 \$295.6 million, or 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, primarily due 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.

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	2.84 (cents)	2.81 (cents)	.03 (cents)	1.1 %
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	7.54 (cents)	7.73 (cents)	(.19) (cents)	(2.5) %

</TABLE>

Salaries, wages, and benefits per ASM increased 1.1 percent due to a 3.2 percent increase in salaries and wages per ASM, and a 9.8 percent increase in benefits expense per ASM, partially offset by a 17.5 percent decrease in Employee retirement plans expense per ASM. The increase in salaries and wages per ASM was primarily due to higher average wage rates within certain workgroups and increased headcount due, in part, to the increased security requirements following the September terrorist attacks.

The increase in benefits expense per ASM was primarily due to higher benefits costs, primarily health care. The decrease in Employee retirement plans expense per ASM was primarily due to the decrease in Company earnings available for profitsharing. This decrease in earnings more than offset an increase in expense due to a fourth 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.

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Fuel and oil expense per ASM decreased 11.9 percent, primarily due 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.

Maintenance materials and repairs per ASM decreased 3.2 percent. This decrease was primarily due 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. A 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.

Agency commissions per ASM decreased 40.7 percent, primarily due 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. In addition, the mix of tickets sold through travel agents declined from 28 percent in 2000 to 25 percent in 2001, thereby reducing commissionable revenues and commission expense.

Aircraft rentals per ASM decreased 12.1 percent primarily due 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.

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.

Depreciation expense per ASM increased 4.3 percent primarily due to the growth in the Company's aircraft fleet prior to the 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 primarily due to a significant increase in aviation insurance costs following the terrorist attacks. The Company's insurance carriers canceled their war risk and terrorism insurance policies following the terrorist attacks and reinstated such coverage at significantly higher rates than before.

OTHER "Other expenses (income)" included interest expense, capitalized interest, interest income, and other gains and losses. Interest expense was flat compared to 2000. 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. Capitalized interest decreased \$7.0 million, or 25.3 percent, primarily as a result of lower 2001 progress payment balances for scheduled future aircraft deliveries as 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 \$2.5 million, or 6.2 percent, primarily due to higher invested cash balances, partially offset by lower rates. Other gains in 2001 primarily resulted from \$235 million received as the Company's share of government grant funds

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under the Air Stabilization Act, intended to offset the Company's direct and incremental losses caused by the terrorist attacks, through the end of 2001. See Note 3 to the Company's Consolidated Financial Statements for further discussion of the Air Stabilization 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 primarily resulted from lower effective state tax rates in 2001.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$520.2 million in 2002 compared to \$1.5 billion in 2001. The decrease in operating cash flows was primarily due to the decrease in net income and the deferral of approximately \$186 million in 2001 excise tax payments until January 2002, as provided for in the Air Stabilization Act.

Cash flows used in investing activities in 2002 totaled \$603.1 million compared to \$997.8 million in 2001. Investing activities in both years consisted primarily of payments for new 737-700 aircraft delivered to the Company and progress payments for future aircraft deliveries. Of the 23 new aircraft the Company put into service during 2002, 11 were recorded (on the Consolidated Statement of Cash Flows and on the Consolidated Balance Sheet) through the consolidation of a special purpose trust (the Trust) during 2001. See Note 4 to the Consolidated Financial Statements for more information on the Trust. A total of eight new 737-700 aircraft were recorded through consolidation of the Trust during 2002. The remaining four new 737-700 aircraft delivered to the Company in 2002 were purchased directly from Boeing. The Trust was dissolved prior to December 31, 2002.

Net cash used in financing activities was \$381.7 million in 2002 compared to cash generated by financing activities of \$1.3 billion in 2001. Cash used in financing activities during 2002 was primarily for the repayment of the Company's \$475 million revolving credit facility that the Company drew down in September 2001 and for the repayment of the Trust. These uses were partially offset by cash generated from the issuance of \$385 million in unsecured notes in March 2002. Financing cash flows in 2001 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 2002 and in 2001 was primarily used to finance aircraft-related capital expenditures and provide working capital.

The Company has various options available to meet its capital and operating commitments, including cash on hand at December 31, 2002, of \$1.82 billion, internally generated funds, and a \$575 million bank revolving line of credit. 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, unencumbered assets, modest leverage, and consistent profitability.

The Company has an available revolving credit facility from which it can borrow up to \$575 million from a group of banks. One-half of the facility is short term and expires on April 23, 2003 if not drawn before that date. The other one-half expires on April 23, 2005. The Company expects that it will be able to renew the expiring 365-day facility for an additional 365-day period at reasonable terms. If the Company is unable to renew, the Company's available credit facility will be reduced.

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The Company currently has outstanding shelf registrations for the issuance of up to \$1.0 billion in public debt securities and pass through certificates, which it may utilize for aircraft financings in the future.

In 1999, the Company's Board of Directors 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, 2002, 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 or in 2002.

CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES AND COMMITMENTS

Southwest has contractual obligations and commitments primarily with regards to future purchases of aircraft, payment of debt, and lease arrangements.

As of February 1, 2003, Southwest is scheduled to take delivery of 17 new 737-700 aircraft from Boeing in 2003, 23 in 2004, 24 in 2005, 22 in 2006, 25 in 2007, and six in 2008. The Company also has a total of 79 purchase options for new 737-700 aircraft for years 2004 through 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.

The following table aggregates the Company's expected contractual obligations and commitments subsequent to December 31, 2002:

<TABLE>
<CAPTION>

Contractual obligations (1)	PAYMENTS DUE BY PERIOD (IN THOUSANDS)				
	2003	2004 - 2005	2006 - 2007	BEYOND 2007	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Long-term debt	\$ 120,797	\$ 320,320	\$ 637,588	\$ 516,980	\$ 1,595,685
Capital lease commitments (2)	17,751	41,160	26,758	52,016	137,685
Operating lease commitments	281,042	496,371	365,403	1,459,961	2,602,777
Aircraft purchase commitments	597,097	1,394,569	1,139,891	104,924	3,236,481
Total contractual cash obligations	\$1,016,687	\$ 2,252,420	\$ 2,169,640	\$ 2,133,881	\$ 7,572,628

=====

</TABLE>

(1) Does not include other commitments for the purchase of goods and services which in the aggregate are immaterial.

(2) Includes amounts classified as interest.

There were no outstanding borrowings under the revolving credit facility at December 31, 2002. See Note 6 to the Consolidated Financial Statements for more information.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (GAAP). The Company's significant accounting policies are described in Note 1 to the Consolidated Financial Statements. The preparation of financial statements in accordance with GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying footnotes. The Company's estimates and assumptions are based on historical experiences and changes in the business environment. However, actual results may differ from

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estimates under different conditions, sometimes materially. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of the Company's financial condition and results and require management's most subjective judgments. The Company's most critical accounting policies and estimates are described below.

Revenue Recognition

As described in Note 1 to the Consolidated Financial Statements, tickets sold are initially deferred as "Air traffic liability." Passenger revenue is recognized and air traffic liability is reduced when the service is provided (i.e., when the flight takes place). "Air traffic liability" primarily represents tickets sold for future travel dates and estimated future refunds, exchanges, or forfeitures of tickets sold for past travel dates. The Company's air traffic liability balance at December 31, 2002 was \$412.2 million.

The majority of the Company's tickets sold are nonrefundable, which is the primary source of forfeited tickets. Tickets that are sold but not flown on the travel date can be reused for another flight, up to a year from the date of sale, or can be refunded (if the ticket is refundable). A small percentage of tickets (or partial tickets) expire unused. Fully refundable tickets are rarely forfeited. "Air traffic liability" includes an estimate of the amount of future refunds, exchanges, and forfeitures for all unused tickets once the flight date has passed. These estimates are based on historical experience over many years. The Company and members of the airline industry have consistently applied this accounting method to estimate revenue from forfeited tickets at the date travel is provided. Estimated future refunds and exchanges included in the air traffic liability account are constantly evaluated based on subsequent refund and exchange activity to validate the accuracy of the Company's estimates with respect to forfeited tickets. Events and circumstances outside of historical fare sale activity or historical Customer travel patterns can result in actual refunds, exchanges or forfeited tickets differing significantly from estimates; however, these differences have historically not been material. Additional factors that may affect estimated refunds include, but may not be limited to,

the Company's refund and exchange policy, the mix of refundable and nonrefundable 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 exchange activity may vary from estimated amounts.

Since September 2001, the Company has experienced fluctuations in estimated refunds and exchanges, and correspondingly, forfeited tickets, due to many of the factors described above. Following the terrorist events of September 11, 2001, and the subsequent temporary shutdown of U.S. air space, Southwest temporarily suspended its normal refund policy in order to provide the highest Service to the Company's Customers, including the refunding of nonrefundable tickets upon Customer request. As a result, the Company experienced refunds during September 2001 and through December 2001 far above historical refund levels and in excess of the Company's contractual obligations. In evaluating passenger revenue through third quarter 2001, based on these unusually high refund levels, the Company estimated that approximately \$30 million of these refunds related to revenue previously recognized for estimated forfeited tickets. As a result, the Company reduced third quarter 2001 "Passenger revenue" by \$30 million and restored "Air traffic liability", accordingly.

Subsequent to third quarter 2001 and through second quarter 2002, the Company experienced a higher than usual mix of low-fare, nonrefundable ticket sales. The Company also experienced changes in Customer travel patterns resulting from various factors including new airport security measures, concerns about further terrorist attacks, and an uncertain economy. Consequently, the Company recorded \$36 million in additional passenger revenue in second quarter 2002 as Customers required fewer refunds and exchanges, resulting in more forfeited tickets.

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While the Company believes the current estimates included in "Air traffic liability" and "Passenger revenue" are reasonable, these estimates may continue to change based on refund, exchange and forfeiture activity varying from pre-September 2001 patterns.

Accounting for Long-Lived Assets

As of December 31, 2002, the Company had approximately \$9.46 billion of long-lived assets, including \$8.02 billion in flight equipment and related assets. In accounting for long-lived assets, the Company must make estimates about the expected useful lives of the assets, the expected residual values of the assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate.

In estimating the lives and expected residual values of its aircraft, the Company has primarily relied upon actual experience with the same or similar aircraft types and recommendations from Boeing, the manufacturer of the Company's aircraft. Subsequent revisions to these estimates, which can be significant, could be caused by changes to the Company's maintenance program, changes in utilization of the aircraft (actual flight hours during a given period of time), governmental regulations on aging aircraft, and changing market prices of new and used aircraft of the same or similar types. The Company evaluates its estimates and assumptions each reporting period and, when warranted, adjusts these estimates and assumptions. Generally, these adjustments are accounted for on a prospective basis through depreciation expense, as required by GAAP.

The Company periodically evaluates its long-lived assets for impairment. Factors that would indicate potential impairment include, but are not limited to, significant decreases in the market value of the long-lived asset(s), a significant change in the long-lived asset's physical condition, and operating or cash flow losses associated with the use of the long-lived asset. While the airline industry as a whole has experienced many of these indicators, Southwest has continued to operate all of its aircraft and continues to experience positive cash flow. Consequently, the Company has not identified any impairments related to its existing aircraft fleet. The Company will continue to monitor its long-lived assets and the airline operating environment.

Financial Derivative Instruments

The Company utilizes financial derivative instruments to manage its risk associated with changing jet fuel prices, and accounts for them under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133.) See "Qualitative and Quantitative Disclosures about Market Risk" for more information on these risk management activities. SFAS 133 requires that all derivatives be marked to market (fair value) and recorded on the Consolidated Balance Sheet. The fair value of the Company's financial derivative instruments recorded on the Company's Consolidated Balance Sheet as of December 31, 2002, was \$157.2 million.

Since the majority of the Company's financial derivative instruments are not traded on a market exchange, the Company estimates their fair values. Depending on the type of instrument, the values are 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. Also, since there is not a

reliable forward market for jet fuel, the Company must estimate the future prices of jet fuel in order to measure the effectiveness of the hedging instruments in offsetting changes to those prices, as required by SFAS 133. Forward jet fuel prices are estimated through the observation of similar commodity futures prices (such as crude oil and heating oil) and adjusted based on historical variations to those like commodities.

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Fair values for financial derivative instruments and forward jet fuel prices are both estimated prior to the time that the financial derivative instruments settle, and the time that jet fuel is purchased and consumed, respectively. However, once settlement of the financial derivative instruments occur and the hedged jet fuel is purchased and consumed, all values and prices are known and are realized in the financial statements. Based on these actual results once all values and prices become known, the Company's estimates have proved to be materially accurate. Furthermore, since the majority of the Company's hedges settle within 12 to 24 months from the time the Company enters into the contract for the derivative financial instrument, the estimates being made are relatively short-term.

Estimating the fair value of these fuel hedging derivatives and forward prices for jet fuel will also result in changes in their values from period to period and thus determine how they are accounted for under SFAS 133. To the extent that the period to period change in the estimated fair value of a fuel hedging instrument differs from a period to period change in the estimated price of the associated jet fuel to be purchased, ineffectiveness of the fuel hedge will result, as defined by SFAS 133. This could result in the immediate recording of charges or income, even though the derivative instrument may not expire until a future period. Historically, the Company has not experienced significant ineffectiveness in its fuel hedges accounted for under SFAS 133.

See Note 2 and Note 9 to the Consolidated Financial Statements for more information on SFAS 133 and the Company's fuel hedging activities.

FORWARD-LOOKING STATEMENTS

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

- - Items directly linked to the September 11, 2001 terrorist attacks, such as the adverse impact of new airline and airport security directives on the Company's costs and Customer demand for travel, changes in the Transportation Security Administration's scope for managing U.S. airport security, the availability and cost of war-risk and other aviation insurance, including the federal government's provision of third party war-risk coverage, and the possibility of additional incidents that could cause the public to question the safety and/or efficiency of air travel.
- - War or other military actions by the U.S. or others.
- - Competitive factors, such as fare sales and capacity decisions by the Company and its competitors, changes in competitors' flight schedules, mergers and acquisitions, codesharing programs, and airline bankruptcies.

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- - General economic conditions, which could adversely affect the demand for travel in general and consumer ticket purchasing habits, as well as decisions by major freight Customers on how they allocate freight deliveries among different types of carriers.
- - Factors that could affect the Company's ability to control its costs, such as the results of Employee labor contract negotiations, Employee hiring and retention rates, costs for health care, the largely unpredictable prices of jet fuel, crude oil, and heating oil, the continued effectiveness of the Company's fuel hedges, changes in the Company's overall fuel hedging strategy, capacity decisions by the Company and its competitors, unscheduled required aircraft airframe or engine repairs and regulatory requirements, changes in commission policy, availability of capital markets, and future financing decisions made by the Company.
- - Disruptions to operations due to adverse weather conditions and air traffic control-related constraints.

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

ITEM 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 97 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 details on the Company's financial derivative instruments.

Fuel hedging. The fair values of outstanding financial derivative instruments related to the Company's jet fuel market price risk at December 31, 2002, were a net asset of \$157.2 million. The current portion of these financial derivative instruments, or \$112.8 million, is classified as "Fuel hedge contracts" in the Consolidated Balance Sheet. The long-term portion of these financial derivative instruments, or \$44.4 million, is included in "Other assets." The fair values of the derivative instruments, depending on the type of instrument, were determined by 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, 2002, prices would correspondingly change the fair value of the commodity derivative instruments in place by approximately \$135 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, 2002 levels, except underlying futures prices.

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Financial market risk. 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" 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 6 and Note 7 to the Consolidated Financial Statements for more information on the material terms of the Company's short-term and long-term debt.

As disclosed in Note 7 to the Consolidated Financial Statements, the Company had outstanding senior unsecured notes totaling \$785 million at December 31, 2002. In addition, as disclosed in Note 7, the Company had outstanding long-term fixed-rate debt totaling \$585.7 million 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 11.7 percent of total noncurrent assets at December 31, 2002. The unsecured long-term debt currently has a weighted-average maturity of 8.2 years at fixed rates averaging 7.3 percent at December 31, 2002, which is comparable to average rates prevailing for similar debt instruments over the last ten years. The Certificates bear interest at a combined weighted-average rate of 5.5 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 \$1.82 billion at December 31, 2002. The Company invests available cash in certificates of deposit, highly rated money markets, 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 market interest rate risk management activities.

A hypothetical ten percent change in market interest rates as of December 31, 2002, 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, 2002, were held constant throughout a 12-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 \$1.3 million. Using these assumptions and considering the Company's cash balance and floating-rate debt outstanding at December 31, 2002, an increase in rates would have a net positive effect on the Company's earnings and cash flows, while a decrease in rates would have a net negative effect on the Company's earnings and cash flows. 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.

The Company is also subject to various types of liquidity and financing risk included in agreements with financial institutions that process credit card transactions on behalf of the Company, the Company's revolving credit facility, and outstanding debt agreements. Such risks included the

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Company maintaining minimum credit ratings, the Company's assets (for secured debt) maintaining minimum fair values, and the Company achieving minimum covenant ratios with regard to its available or outstanding debt agreements. The Company met or exceeded the minimum standards set forth in these agreements as of December 31, 2002. However, if conditions change and the Company failed to meet the minimum standards set forth in the agreements, it could reduce the availability of cash under the agreements or increase the costs to keep the agreements intact as written.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
SOUTHWEST AIRLINES CO.
CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

	DECEMBER 31,	
	2002	2001
(In thousands, except per share amounts)		
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,815,352	\$ 2,279,861
Accounts and other receivables	174,393	71,283
Inventories of parts and supplies, at cost	86,016	70,561
Deferred income taxes	-	46,400
Fuel hedge contracts	112,847	-
Prepaid expenses and other current assets	43,352	52,114
Total current assets	2,231,960	2,520,219
Property and equipment, at cost:		
Flight equipment	8,024,719	7,534,119
Ground property and equipment	1,041,844	899,421
Deposits on flight equipment purchase contracts	389,094	468,154
	9,455,657	8,901,694
Less allowance for depreciation	2,810,193	2,456,207
	6,645,464	6,445,487
Other assets	76,326	31,435
	\$ 8,953,750	\$ 8,997,141
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 362,027	\$ 504,831
Accrued liabilities	529,109	547,540
Air traffic liability	412,238	450,407
Aircraft purchase obligations	-	221,840
Short-term borrowings	-	475,000
Current maturities of long-term debt	130,454	39,567
Total current liabilities	1,433,828	2,239,185
Long-term debt less current maturities	1,552,781	1,327,158
Deferred income taxes	1,227,475	1,058,143
Deferred gains from sale and leaseback of aircraft	183,797	192,342
Other deferred liabilities	134,252	166,260

Commitments and contingencies

Stockholders' equity:

Common stock, \$1.00 par value: 2,000,000 shares authorized;
776,663 and 766,774 shares issued in 2002
and 2001, respectively
Capital in excess of par value
Retained earnings
Accumulated other comprehensive income (loss)

776,663	766,774
135,848	50,409
3,455,448	3,228,408
53,658	(31,538)
-----	-----
4,421,617	4,014,053
-----	-----
\$ 8,953,750	\$ 8,997,141
=====	=====

Total stockholders' equity

</TABLE>

See accompanying notes.

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SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF INCOME

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
(In thousands, except per share amounts)	-----	-----	-----
<S>	<C>	<C>	<C>
OPERATING REVENUES:			
Passenger	\$ 5,341,349	\$ 5,378,702	\$ 5,467,965
Freight	84,675	91,270	110,742
Other	95,747	85,202	70,853
	-----	-----	-----
Total operating revenues	5,521,771	5,555,174	5,649,560
OPERATING EXPENSES:			
Salaries, wages, and benefits	1,992,485	1,856,288	1,683,689
Fuel and oil	762,096	770,515	804,426
Maintenance materials and repairs	390,216	397,505	378,470
Agency commissions	54,669	103,014	159,309
Aircraft rentals	186,992	192,110	196,328
Landing fees and other rentals	344,660	311,017	265,106
Depreciation	356,304	317,831	281,276
Other operating expenses	1,017,011	975,772	859,811
	-----	-----	-----
Total operating expenses	5,104,433	4,924,052	4,628,415
	-----	-----	-----
OPERATING INCOME	417,338	631,122	1,021,145
OTHER EXPENSES (INCOME):			
Interest expense	106,023	69,827	69,889
Capitalized interest	(16,720)	(20,576)	(27,551)
Interest income	(36,964)	(42,562)	(40,072)
Other (gains) losses, net	(27,683)	(203,226)	1,515
	-----	-----	-----
Total other expenses (income)	24,656	(196,537)	3,781
	-----	-----	-----
INCOME BEFORE TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	392,682	827,659	1,017,364
PROVISION FOR INCOME TAXES	151,713	316,512	392,140
	-----	-----	-----
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	240,969	511,147	625,224
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF INCOME TAXES	-	-	(22,131)
	-----	-----	-----
NET INCOME	\$ 240,969	\$ 511,147	\$ 603,093
	=====	=====	=====
NET INCOME PER SHARE, BASIC BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$.31	\$.67	\$.84
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	-	-	(.03)
	-----	-----	-----
NET INCOME PER SHARE, BASIC	\$.31	\$.67	\$.81
	=====	=====	=====
NET INCOME PER SHARE, DILUTED BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$.30	\$.63	\$.79
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	-	-	(.03)
	-----	-----	-----
NET INCOME PER SHARE, DILUTED	\$.30	\$.63	\$.76
	=====	=====	=====

</TABLE>

See accompanying notes.

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SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31, 2002, 2001, AND 2000						
(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>	<C>
Balance at December 31, 1999	\$ 505,005	\$ 35,436	\$ 2,385,854	\$ -	\$ (90,507)	\$	\$
2,835,788							
Purchase of shares of treasury stock (108,674)	-	-	-	-	(108,674)		
Issuance of common and treasury stock pursuant to Employee stock plans 70,424	2,892	6,667	(75,952)	-	136,817		
Tax benefit of options exercised 61,677	-	61,677	-	-	-		
Cash dividends, \$.015 per share (10,988)	-	-	(10,988)	-	-		
Net income 603,093	-	-	603,093	-	-		
Balance at December 31, 2000	507,897	103,780	2,902,007	-	(62,364)		
3,451,320							
Three-for-two stock split	253,929	(136,044)	(117,885)	-	-		
Issuance of common and treasury stock pursuant to Employee stock plans 43,541	4,948	28,982	(52,753)	-	62,364		
Tax benefit of options exercised 53,691	-	53,691	-	-	-		
Cash dividends, \$.018 per share (14,108)	-	-	(14,108)	-	-		
Comprehensive income (loss)							
Net income 511,147	-	-	511,147	-	-		
Unrealized loss on derivative (31,063)	-	-	-	(31,063)	-		
instruments							
Other (475)	-	-	-	(475)	-		
Total comprehensive income							
479,609							
Balance at December 31, 2001	766,774	50,409	3,228,408	(31,538)	-		
4,014,053							
Issuance of common stock pursuant to Employee stock plans 56,757	9,889	46,868	-	-	-		
Tax benefit of options exercised 38,571	-	38,571	-	-	-		
Cash dividends, \$.018 per share (13,929)	-	-	(13,929)	-	-		
Comprehensive income (loss)							
Net income 240,969	-	-	240,969	-	-		
Unrealized gain on derivative 87,213	-	-	-	87,213	-		
instruments							
Other (2,017)	-	-	-	(2,017)	-		
Total comprehensive income							
326,165							

Balance at December 31, 2002	\$ 776,663	\$ 135,848	\$ 3,455,448	\$ 53,658	\$ -	\$
4,421,617						

</TABLE>

See accompanying notes.

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SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

(In thousands)	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 240,969	\$ 511,147	\$ 603,093
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	356,304	317,831	281,276
Deferred income taxes	169,629	207,922	153,447
Amortization of deferred gains on sale and leaseback of aircraft	(15,181)	(15,180)	(15,178)
Amortization of scheduled airframe inspections and repairs	46,311	43,121	36,328
Income tax benefit from Employee stock option exercises	38,571	53,691	61,677
Changes in certain assets and liabilities:			
Accounts and other receivables	(103,110)	66,787	(63,032)
Other current assets	(10,159)	(9,027)	(24,657)
Accounts payable and accrued liabilities	(148,850)	202,506	129,438
Air traffic liability	(38,169)	73,346	120,119
Other	(16,106)	32,464	15,775
Net cash provided by operating activities	520,209	1,484,608	1,298,286
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(603,060)	(997,843)	(1,134,644)
Net cash used in investing activities	(603,060)	(997,843)	(1,134,644)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt	385,000	614,250	-
Proceeds from revolving credit facility	-	475,000	-
Proceeds from trust arrangement	119,142	266,053	-
Proceeds from Employee stock plans	56,757	43,541	70,424
Payments of long-term debt and capital lease obligations	(64,568)	(110,600)	(10,238)
Payments of trust arrangement	(385,195)	-	-
Payment of revolving credit facility	(475,000)	-	-
Payments of cash dividends	(13,872)	(13,440)	(10,978)
Repurchases of common stock	-	-	(108,674)
Other, net	(3,922)	(4,703)	-
Net cash provided by (used in) financing activities	(381,658)	1,270,101	(59,466)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(464,509)	1,756,866	104,176
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,279,861	522,995	418,819
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,815,352	\$ 2,279,861	\$ 522,995
CASH PAYMENTS FOR:			
Interest, net of amount capitalized	\$ 79,998	\$ 47,682	\$ 36,946
Income taxes	\$ 2,693	\$ 65,905	\$ 150,000

</TABLE>

See accompanying notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION Southwest Airlines Co. (Southwest) is a major domestic airline that provides predominantly 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 (GAAP) 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.

CASH AND CASH EQUIVALENTS Cash equivalents consist of certificates of deposit, money market funds, 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 once the asset is placed in service. 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.

In estimating the lives and expected residual values of its aircraft, the Company has primarily relied upon actual experience with the same or similar aircraft types and recommendations from Boeing, the manufacturer of the Company's aircraft. Subsequent revisions to these estimates, which can be significant, could be caused by changes to the Company's maintenance program, changes in utilization of the aircraft (actual flight hours or cycles during a given period of time), governmental regulations on aging aircraft, changing market prices of new and used aircraft of the same or similar types, etc. The Company evaluates its estimates and assumptions each reporting period and, when warranted, adjusts these estimates and assumptions. Generally, these adjustments are accounted for on a prospective basis through depreciation expense, as required by GAAP.

The Company periodically evaluates its long-lived assets used in operations for impairment. Impairment losses would be recorded when events and circumstances indicate that an asset might be impaired and the undiscounted cash flows to be generated by that asset are less than the carrying amounts of the asset. Factors that would indicate potential impairment include, but are not limited to, significant decreases in the market value of the long-lived asset(s), a significant change in the long-lived asset's physical condition, operating or cash flow losses associated with the use of the long-lived asset, etc. While the airline industry as a whole has experienced many of these indicators, Southwest has continued to operate all of its aircraft and continues to experience positive cash flow.

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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.

In 2001, the American Institute of Certified Public Accountants (AICPA) issued a Proposed Statement of Position entitled "Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment" (Proposed SOP). The Proposed SOP, as originally written, would require that all "D" checks be expensed as incurred. In fourth quarter 2002, the AICPA announced it would be transitioning this project to the Financial Accounting Standards Board (FASB), although the AICPA may retain and address certain components of the Proposed SOP. The FASB and the AICPA have not determined which components, if any, will be retained by the AICPA for potential issuance in a future SOP. In addition, the FASB has not set a timetable for addressing the issues raised by the proposed SOP.

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 and exchanges of tickets sold for past travel dates. The majority of the Company's tickets sold are nonrefundable. Tickets that are sold but not flown on the travel date can be reused for another flight, up to a year from the date of sale, or refunded (if the ticket is refundable). A small percentage of tickets (or partial tickets) expire unused. The Company estimates the amount of future refunds, exchanges, and forfeitures for all unused tickets once the flight date has passed. These estimates are based on historical experience over many years. The Company and members of the airline industry have

consistently applied this accounting method to estimate revenue from forfeited tickets at the date travel is provided. Estimated future refunds and exchanges included in the air traffic liability account are constantly evaluated based on subsequent refund and exchange activity to validate the accuracy of the Company's revenue recognition method with respect to forfeited tickets.

Events and circumstances outside of historical fare sale activity or historical Customer travel patterns can result in actual refunds, exchanges or forfeited tickets differing significantly from estimates; however, these differences have historically not been material. Additional factors that may affect estimated refunds include, but may not be limited to, the Company's refund and exchange policy, the mix of refundable and nonrefundable 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 exchange activity may vary from estimated amounts.

Subsequent to third quarter 2001 and through second quarter 2002, the Company experienced a higher than usual mix of low-fare, nonrefundable ticket sales. The Company also experienced changes in Customer travel patterns resulting from various factors including new airport security measures, concerns about further terrorist attacks, and an uncertain economy. Consequently, the Company recorded \$36 million in additional passenger revenue in second quarter 2002 as Customers required fewer refunds and exchanges, resulting in more forfeited tickets.

While actual results may vary from these estimates, the Company believes it is unlikely that materially different estimates for future refunds, exchanges, and forfeited tickets would be reported based on other reasonable assumptions or conditions suggested by actual historical experience and other data available at the time estimates were made.

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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 frequent flyer credits and related services to companies participating in its Rapid Rewards frequent flyer program. Funds received from the sale of flight segment credits and associated with future travel are deferred and recognized as Passenger revenue when the ultimate free travel awards are flown or the credits expire unused. See Note 2 for additional information on frequent flyer program accounting.

ADVERTISING The Company expenses the costs of advertising as incurred. Advertising expense for the years ended December 31, 2002, 2001, and 2000 was \$156.4 million, \$147.6 million, and \$141.3 million, respectively.

STOCK-BASED EMPLOYEE COMPENSATION The Company has stock-based compensation plans covering the majority of its Employee groups, including a plan covering the Company's Board of Directors and plans related to employment contracts with certain Executive Officers of the Company. The Company accounts for stock-based compensation utilizing the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and related Interpretations. Accordingly, no compensation expense is recognized for fixed option plans because the exercise prices of Employee stock options equal or exceed the market prices of the underlying stock on the dates of grant. Compensation expense for other stock options is not material.

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

<TABLE>

<CAPTION>

(In thousands except per share amounts)			
	2002	2001	2000
<S>	<C>	<C>	<C>
Net income, as reported	\$ 240,969	\$ 511,147	\$ 603,093
Add: Stock-based Employee compensation expense included in reported income, net of related tax effects	399	402	339
Deduct: Total stock-based Employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(53,489)	(25,603)	(19,725)
Pro forma net income	\$ 187,879	\$ 485,946	\$ 583,707
Net income per share			
Basic, as reported	\$.31	\$.67	\$.81
Basic, pro forma	\$.24	\$.64	\$.78
Diluted, as reported	\$.30	\$.63	\$.76
Diluted, pro forma	\$.23	\$.61	\$.74

</TABLE>

As required, the pro forma disclosures above include 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. 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. See Note 12 for further discussion of the Company's stock-based Employee compensation.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". SFAS No. 148 amends the transition and disclosure provisions of SFAS No. 123. The Company is currently evaluating SFAS No. 148 to determine if it will adopt SFAS No. 123 to account for Employee stock options using the fair value method and, if so, when to begin transition to that method.

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 and oil" 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.

Since the majority of the Company's financial derivative instruments are not traded on a market exchange, the Company estimates their fair values. Depending on the type of instrument, the values are 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. Also, since there is not a reliable forward market for jet fuel, the Company must estimate the future prices of jet fuel in order to measure the effectiveness of the hedging instruments in offsetting changes to those prices, as required by SFAS 133. Forward jet fuel prices are estimated through the observation of similar commodity futures prices (such as crude oil and heating oil) and adjusted based on historical variations to those like commodities.

RECENT ACCOUNTING DEVELOPMENTS In November 2002 the Financial Accounting Standards Board (FASB) issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which disclosures are effective for financial statements issued after December 15, 2002. While the Company has various guarantees included in contracts in the normal course of business, primarily in the form of indemnities, these guarantees would only result in immaterial increases in future costs, but do not represent significant commitments or contingent liabilities of the indebtedness of others.

In January 2003, FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46) which requires the consolidation of variable interest entities, as defined. FIN 46 is applicable to financial statements to be issued by the Company after 2002; however, disclosures are required currently if the Company expects to consolidate any variable interest entities. The Company does not currently believe that any material entities will be consolidated with Southwest as a result of FIN 46.

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 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 analyses that 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 Accumulated other comprehensive income (loss). During 2002 and 2001, the Company recognized \$4.5 million in additional income, and \$8.2 million in expense, respectively, in "Other (gains) losses, net", related to the ineffectiveness of its hedges. During 2002 and 2001, the Company recognized approximately \$25.6 million and \$17.5 million, respectively, 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. 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.

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. The Company resumed flight activity on September 14, 2001, 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 (Air Stabilization Act). The Air Stabilization Act provided 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 Air Stabilization Act, from September 11, 2001 through December 31, 2001, associated with the terrorist attacks. Each airline's total eligible grant was determined based on that airline's

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percentage of available seat miles (ASMs) during August 2001 to total eligible carriers' ASMs for August 2001, less an amount set aside for eligible carriers for whom the use of an ASM formula would result in an insufficient representation of their share of direct and incremental losses.

In 2001, the Department of Transportation (DOT) made a final determination of the amount of eligible direct and incremental losses incurred by Southwest, and the Company was allotted 100 percent of its eligible grants, totaling \$283 million. The Company recognized \$235 million in "Other gains" from grants under the Air Stabilization Act during the second half of 2001 and recognized an additional \$48 million as "Other gains" from grants under the Air Stabilization Act in third quarter 2002 coincident with the receipt of its final payment. Representatives of the DOT or other governmental agencies may perform additional audit and/or review(s) of the Company's previously submitted final application. While the Air Stabilization Act is subject to significant interpretation as to what constitutes direct and incremental losses, management believes the Company's eligible direct and incremental losses are sufficient to retain 100 percent of its eligible grant following additional audits or reviews, should they occur.

The Company recorded total special charges of \$48 million in 2001 arising from the terrorist attacks, which included a \$30 million reduction in "Passenger revenue." Following the terrorist events of September 11, 2001, and the subsequent temporary shutdown of U.S. air space, Southwest temporarily suspended

its normal refund policy in order to provide the highest Service to the Company's Customers, including refunding nonrefundable tickets upon Customer request. As a result, the Company's refunds during September 2001 and through December 2001 were far above historical refund levels and in excess of the Company's contractual obligations. Refunds are recorded as a reduction in "Air traffic liability." Based on these unusually high refunds, the Company estimated that approximately \$30 million of these refunds related to revenue previously recognized for estimated forfeited tickets. As a result, the Company reduced third quarter 2001 "Passenger revenue" by \$30 million and restored "Air traffic liability" accordingly. Total special charges also included \$13 million in "Other operating expenses", primarily related to write-downs of various assets due to impairment. Other miscellaneous charges totaling approximately \$5 million were also included in "Other (gains) losses, net."

4. COMMITMENTS

The Company's contractual purchase commitments consist primarily of scheduled aircraft acquisitions from Boeing. The Company has contractual purchase commitments with Boeing for 17 737-700 aircraft deliveries in 2003, 23 scheduled for delivery in 2004, 24 in 2005, 22 in 2006, 25 in 2007, and 6 in 2008. In addition, the Company has options to purchase up to 79 737-700s 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. As of February 1, 2003, aggregate funding needed for firm commitments is approximately \$3.2 billion, subject to adjustments for inflation, due as follows: \$597 million in 2003, \$676 million in 2004, \$719 million in 2005, \$632 million in 2006, \$508 million in 2007, and \$105 million thereafter.

In November 2001, in response to decreased demand for air travel following the terrorist attacks, the Company modified its schedule for future aircraft deliveries to defer the acquisition of 19 new 737-700 aircraft that were either already in production at Boeing or were scheduled to be built through April 2002. The Company accomplished this by entering into a trust arrangement with a special purpose entity (the Trust) and assigned its purchase agreement with Boeing to the Trust with respect to the 19 aircraft originally scheduled for delivery between September 2001 and April 2002. Southwest subsequently entered into a

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purchase agreement with the Trust to purchase the aircraft at new delivery dates from January 2002 to April 2003. The Trust was formed primarily to facilitate the financing of the Company's near-term aircraft purchase obligations with Boeing. The Trust purchased 11 of the aircraft in 2001 and eight aircraft in 2002. For these 19 Trust aircraft, the Company recorded the associated assets ("Flight equipment") and liabilities ("Aircraft purchase obligations") in its financial statements as the aircraft were completed by Boeing and delivered to the Trust. In the Consolidated Statement of Cash Flows, the Trust's receipt of these aircraft was recorded as "Purchases of property and equipment" and "Proceeds from trust arrangement." During 2002, the Company accelerated the deliveries from the Trust and accepted delivery of all 19 aircraft, thereby terminating the Trust. The receipt of the aircraft from the Trust was reflected in the Consolidated Statement of Cash Flows as "Payments of trust arrangement". The cost of financing these aircraft obligations, approximately \$5 million, was expensed.

5. ACCRUED LIABILITIES

<TABLE>

<CAPTION>

(In thousands)	2002	2001

<S>	<C>	<C>
Retirement plans (Note 13)	\$ 71,233	\$ 147,110
Aircraft rentals	120,856	120,554
Vacation pay	95,664	83,105
Advances and deposits	80,458	4,557
Other	160,898	192,214
	-----	-----
	\$ 529,109	\$ 547,540
	=====	=====

</TABLE>

6. SHORT-TERM BORROWINGS

Following the terrorist attacks 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 bore interest at six-month LIBOR plus 15.5 basis points. The Company repaid this unsecured revolving credit line in full, plus accrued interest, in March 2002. The \$475 million borrowing was classified as a current liability in the Consolidated Balance Sheet at December 31, 2001. There were no outstanding borrowings under this credit facility at December 31, 2000. This credit facility was replaced in April 2002.

In April 2002, the Company entered into new unsecured revolving credit facility agreements from which it can borrow up to \$575 million from a group of banks. One-half of the facility is short term and expires on April 23, 2003 if not drawn before that date. The other one-half expires on April 23, 2005. The Company expects that it will be able to renew the expiring 365-day facility for an additional 365-day period at reasonable terms. If the Company is unable to renew, the Company's available credit facility will be reduced. The effective borrowing rate of the credit facility would vary depending on factors in place at the time funds were drawn, as defined in the agreements.

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7. LONG-TERM DEBT

<TABLE>

<CAPTION>

(In thousands)	2002	2001

<S>	<C>	<C>
8 3/4% Notes due 2003	\$ 100,000	\$ 100,000
Aircraft Secured Notes due 2004	175,000	200,000
8% Notes due 2005	100,000	100,000
Pass Through Certificates	585,661	614,250
7 7/8% Notes due 2007	100,000	100,000
French Credit Agreements	50,024	52,310
6 1/2% Notes due 2012	385,000	-
7 3/8% Debentures due 2027	100,000	100,000
Capital leases (Note 8)	100,563	109,268
	-----	-----
	1,696,248	1,375,828
Less current maturities	130,454	39,567
Less debt discount and issue costs	13,013	9,103
	=====	=====
	\$ 1,552,781	\$1,327,158
	=====	=====

</TABLE>

On March 1, 2002, the Company issued \$385 million senior unsecured Notes (Notes) due March 1, 2012. The Notes bear interest at 6.5 percent, payable semi-annually beginning on September 1, 2002. Southwest used the net proceeds from the issuance of the Notes, approximately \$380.2 million, for general corporate purposes, including the repayment of the Company's credit facility in March 2002. See Note 6.

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. The Company prepaid \$25 million of the Notes during 2002.

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.

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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 transactions.

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 \$926.1 million at December 31, 2002.

As of December 31, 2002, aggregate annual principal maturities (not including interest on capital leases) for the five-year period ending December 31, 2007 were \$130 million in 2003, \$207 million in 2004, \$142 million in 2005, \$542 million in 2006, \$114 million in 2007, and \$561 million thereafter.

8. LEASES

The Company had seven aircraft classified as capital leases at December 31, 2002. The amounts applicable to these aircraft included in property and equipment were:

<TABLE>
<CAPTION>

(In thousands)	2002	2001
<S>	<C>	<C>
Flight equipment	\$ 165,467	\$ 165,085
Less accumulated depreciation	106,876	99,801
	-----	-----
	\$ 58,591	\$ 65,284
	=====	=====

</TABLE>

Total rental expense for operating leases charged to operations in 2002, 2001, and 2000 was \$371.4 million, \$358.6 million, and \$330.7 million, respectively. The majority of the Company's terminal operations space, as well as 90 aircraft, were under operating leases at December 31, 2002. Future minimum lease payments under capital leases and noncancelable operating leases with initial or remaining terms in excess of one year at December 31, 2002, were:

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<TABLE>
<CAPTION>

(In thousands)	CAPITAL LEASES	OPERATING LEASES
<S>	<C>	<C>
2003	\$ 17,751	\$ 281,042
2004	17,651	263,343
2005	23,509	233,028
2006	13,379	189,498
2007	13,379	175,905
After 2007	52,016	1,459,961
	-----	-----
Total minimum lease payments	137,685	\$ 2,602,777
		=====
Less amount representing interest	37,122	

Present value of minimum lease payments	100,563	
Less current portion	9,657	

Long-term portion	\$ 90,906	
	=====	

</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 2002, 2001, and 2000 represented approximately 14.9, 15.6 percent, and 17.4 percent of Southwest's operating expenses, respectively. The Company endeavors to acquire jet fuel at the lowest possible cost. 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. As of January 22, 2003, the Company had a mixture of purchased call options, collar structures, and fixed price swap agreements in place to hedge approximately 83 percent of its 2003 total anticipated jet fuel requirements, approximately 80 percent of its 2004 total anticipated jet fuel requirements, and portions of its 2005-2008 total anticipated jet fuel requirements. As of December 31, 2002, the majority of the Company's first quarter 2003 hedges are effectively heating oil-based positions in the form of option contracts. The majority of the remaining hedge positions are crude oil-based positions.

During 2002, 2001, and 2000, the Company recognized gains in "Fuel and oil" expense of \$44.5 million, \$79.9 million, and \$113.5 million, respectively, from hedging activities. At December 31, 2002 and 2001, approximately \$13.1 million and \$8.2 million, respectively, due from third parties from expired derivative contracts, is 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,

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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, 2002, was a net asset of approximately \$157.2 million. The current portion of these financial derivative instruments is classified as "Fuel hedge contracts" and the long-term portion is classified as "Other assets" 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, 2002, the Company had approximately \$56.2 million in unrealized gains, net of tax, in "Accumulated other comprehensive income (loss)" related to fuel hedges. Included in this total are approximately \$49.4 million in net unrealized gains that are expected to be realized in earnings during 2003.

Outstanding financial derivative instruments expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements. However, the Company does not expect any of the counterparties to fail to meet their obligations. The credit exposure related to these financial instruments is represented by the fair value of contracts with a positive fair value at the reporting date. To manage credit risk, the Company selects and periodically reviews counterparties based on credit ratings, limits its exposure to a single counterparty, and monitors the market position of the program and its relative market position with each counterparty. At December 31, 2002, the Company had agreements with seven counterparties containing early termination rights and/or bilateral collateral provisions whereby security is required if market risk exposure exceeds a specified threshold amount or credit ratings fall below certain levels. 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, 2002 were as follows:

<TABLE>

<CAPTION>

(In thousands)	CARRYING VALUE	ESTIMATED FAIR VALUE
<S>	<C>	<C>
8 3/4% Notes due 2003	\$ 100,000	\$ 104,380
Aircraft Secured Notes due 2004	175,000	175,000
8% Notes due 2005	100,000	109,222
Pass Through Certificates	585,661	603,953

7 7/8% Notes due 2007	100,000	112,872
French Credit Agreements	50,024	50,024
6 1/2% Notes due 2012	385,000	402,213
7 3/8% Debentures due 2027	100,000	104,446

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.

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 \$326.2 million and \$479.6 million for 2002 and 2001, respectively. The differences between Net income and Comprehensive income for 2002 and 2001 are as follows:

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<TABLE> <CAPTION>		
(in thousands)	2002	2001
<S>	<C>	<C>
NET INCOME	\$ 240,969	\$ 511,147
Unrealized gain (loss) on derivative instruments, net of deferred taxes of \$56,338 and (\$20,719)	87,213	(31,063)
Other, net of deferred taxes of (\$1,302) and (\$320)	(2,017)	(475)
Total other comprehensive income	85,196	(31,538)
COMPREHENSIVE INCOME	\$ 326,165	\$ 479,609

A rollforward of the amounts included in "Accumulated other comprehensive income (loss)", net of taxes for 2002 and 2001, 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)
2002 changes in fair value	109,571	(2,017)	107,554
Reclassification to earnings	(22,358)	-	(22,358)
Balance at December 31, 2002	\$ 56,150	\$ (2,492)	\$ 53,658

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, 2002, the Company had common stock reserved for issuance pursuant to Employee stock benefit plans (218 million shares authorized of which 57.8 million shares have not yet been granted) and upon exercise of rights (474.0 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. The Agreement is not applicable to a fully-financed or cash tender offer for all of the Company's shares of common stock, which remains

open for at least 60 calendar days, is at a price equal to the higher of (a) 65% over the average closing price of the common stock during the 90 days preceding the offer and (b) the highest closing price during the 52 weeks preceding the offer, and is accompanied by a written fairness opinion of a nationally recognized investment banking firm. If the Company is acquired, as 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, 2005.

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 this stock split.

In 1999, the Company's Board of Directors authorized the repurchase of up to \$250 million of its outstanding common stock. This program resulted in the repurchase of 18.3 million shares at an average cost of \$10.85 per share between October 1999 and December 2000. All of these acquired shares were subsequently reissued under Employee stock plans. No shares were repurchased in 2002 or 2001.

12. STOCK PLANS

The Company has stock plans covering Employees subject to collective bargaining agreements (collective bargaining plans) and stock plans covering Employees not subject to collective bargaining agreements (other Employee plans.) None of the collective bargaining plans were required to be approved by shareholders. Options granted to Employees under collective bargaining plans are granted at or above the fair market value of the Company's common stock on the date of grant, generally have terms ranging from six to twelve years, and vest primarily in accordance with the period covered by the respective collective bargaining agreement. Neither Executive Officers nor members of the Company's Board of Directors are eligible to participate in any of these collective bargaining plans. Options granted to Employees through other Employee plans are granted at the fair market value of the Company's common stock on the date of grant, have ten-year terms and vest and become fully exercisable over three, five, or ten years of continued employment, depending upon the grant type. All of these other Employee plans have been approved by shareholders except the plan covering non-management, non-contract Employees, which had 6.8 million options outstanding to purchase the Company's common stock and an additional 2.0 million shares available to grant as of December 31, 2002.

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

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<TABLE> <CAPTION> ----- ----				
(In thousands, except exercise prices) PRICE	COLLECTIVE BARGAINING PLANS -----		OTHER EMPLOYEE PLANS -----	
	OPTIONS	AVERAGE EXERCISE PRICE	OPTIONS	AVERAGE EXERCISE PRICE

<S>	<C>	<C>	<C>	<C>
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
Granted	48,414	13.37	4,423	16.90
Exercised	(4,211)	4.48	(3,805)	5.75
Surrendered	(733)	8.69	(1,317)	12.48

Outstanding December 31, 2002	104,020	\$ 9.51	34,152	\$ 11.47
=====				
Exercisable December 31, 2002	52,733	\$ 6.77	12,924	\$ 11.33
Available for granting in future periods	39,850		17,982	
</TABLE>				

The following table summarizes information about stock options outstanding under the fixed option plans at December 31, 2002:

<TABLE>

<CAPTION>

AVERAGE RANGE OF EXERCISE PRICES PRICE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	OPTIONS OUTSTANDING AT 12/31/02 (000's)	WTD-AVERAGE REMAINING CONTRACTUAL LIFE	WTD-AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE AT 12/31/02 (000's)	WTD- EXERCISE
<S>	<C>	<C>	<C>	<C>	<C>
\$ 3.30 to \$ 4.99 4.01	50,811	3.9 yrs	\$ 4.05	38,717	\$
\$ 5.11 to \$ 7.41 5.91	3,341	3.0 yrs	5.85	2,586	
\$ 7.86 to \$11.73 9.94	14,247	5.9 yrs	9.84	6,548	
\$12.11 to \$18.07 14.01	61,369	8.4 yrs	13.85	14,738	
\$18.26 to \$23.94 19.91	8,404	7.2 yrs	19.65	3,068	
	-----			-----	
\$ 3.30 to \$23.94 7.67	138,172	6.3 yrs	\$ 9.99	65,657	\$
	=====			=====	

</TABLE>

Under the amended 1991 Employee Stock Purchase Plan (ESPP), which has been approved by shareholders, as of December 31, 2002, the Company is authorized to issue up to a remaining balance of 6.5 million shares of common stock to Employees of the Company. These shares may be issued 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 1.4 million shares in 2002, 1.0 million shares in 2001, and 1.0 million shares in 2000 at average prices of \$14.70, \$16.42, and \$13.34, respectively. The weighted-average fair value of each purchase right under the ESPP granted in 2002, 2001, and 2000, which is equal to the ten percent discount from the market value of the common stock at the end of each purchase period, was \$1.63, \$1.82, and \$1.48, respectively.

Pro forma information regarding net income and net income per share, as disclosed in Note 1, has been determined as if the Company had accounted for its Employee stock-based compensation plans and other stock options under the fair value method of SFAS 123. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants under the fixed option plans:

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<TABLE>

<CAPTION>

	2002	2001	2000
<S>	<C>	<C>	<C>
Wtd-average risk-free interest rate	3.4%	4.5%	5.0%
Expected life of option (years)	5.0	5.9	6.0
Expected stock volatility	34.0%	34.8%	34.9%
Expected dividend yield	0.13%	0.07%	0.10%

</TABLE>

The Black-Scholes option valuation model was developed for use in estimating the fair value of short-term traded options that 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 2002 ranged from \$3.54 to \$8.52. 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.

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

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 2002, 2001, and 2000 were \$155.6 million, \$214.6 million, and \$241.5 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, 2002 and 2001, are as follows:

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<TABLE> <CAPTION>		
(In thousands)	2002	2001
<S>	<C>	<C>
DEFERRED TAX LIABILITIES:		
Accelerated depreciation	\$ 1,440,565	\$ 1,246,009
Scheduled airframe maintenance	70,843	89,292
Other	25,854	31,770
	-----	-----
Total deferred tax liabilities	1,537,262	1,367,071
DEFERRED TAX ASSETS:		
Deferred gains from sale and leaseback of aircraft	95,823	101,755
Capital and operating leases	77,033	76,990
Accrued employee benefits	86,227	83,450
State taxes	43,151	37,715
Other	1,722	55,418
	-----	-----
Total deferred tax assets	303,956	355,328
	-----	-----
Net deferred tax liability	\$ 1,233,306	\$ 1,011,743
	=====	=====

</TABLE>

The provision for income taxes is composed of the following:

<TABLE> <CAPTION>			
(In thousands)	2002	2001	2000
<S>	<C>	<C>	<C>
CURRENT:			
Federal	\$ (19,018)	\$ 98,378	\$ 197,875
State	1,102	10,212	26,671
	-----	-----	-----
Total current	(17,916)	108,590	224,546
DEFERRED:			
Federal	156,545	187,296	151,694
State	13,084	20,626	15,900
	-----	-----	-----
Total deferred	169,629	207,922	167,594
	-----	-----	-----
	\$ 151,713	\$ 316,512	\$ 392,140
	=====	=====	=====

</TABLE>

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

<TABLE> <CAPTION>			
(In thousands)	2002	2001	2000
<S>	<C>	<C>	<C>
Tax at statutory			
U.S. tax rates	\$ 137,439	\$ 289,681	\$ 356,077
Nondeductible items	6,418	7,318	6,801
State income taxes, net of federal benefit	9,221	20,045	27,671
Other, net	(1,365)	(532)	1,591
	-----	-----	-----
Total income			

tax provision	\$ 151,713	\$ 316,512	\$ 392,140
	=====	=====	=====

</TABLE>

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At December 31, 2002, Southwest Airlines Co. had an estimated tax net operating loss of \$145 million for federal income tax purposes. The Company estimates that a federal tax refund of \$51 million will be realized as a result of utilizing this net operating loss as a carryback to prior taxable years. The Company has included this refund in "Accounts and other receivables" in the Consolidated Balance Sheet at December 31, 2002.

The Internal Revenue Service (IRS) regularly examines the Company's federal income tax returns and, in the course of which, may propose adjustments to the Company's federal income tax liability reported on such returns. It is the Company's practice to vigorously contest those proposed adjustments that it deems lacking of merit. The Company's management does not expect that the outcome of any proposed adjustments presented to date by the IRS, individually or collectively, will have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

15. NET INCOME PER SHARE

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

<TABLE>
<CAPTION>

(In thousands except per share amounts)	2002	2001	2000

<S>	<C>	<C>	<C>
Net income before cumulative effect of change in accounting principle	\$ 240,969	\$ 511,147	\$ 625,224
Cumulative effect of change in accounting principle	-	-	(22,131)
	-----	-----	-----
Net income	\$ 240,969	\$ 511,147	\$ 603,093
	=====	=====	=====
Weighted-average shares outstanding, basic	772,556	762,973	748,617
Dilutive effect of Employee stock options	36,864	44,142	47,699
	-----	-----	-----
Adjusted weighted-average shares outstanding, diluted	809,420	807,115	796,316
	=====	=====	=====
Net income per share, basic, before cumulative effect of change in accounting principle	\$.31	\$.67	\$.84
Cumulative effect of change in accounting principle	-	-	(.03)
	-----	-----	-----
Net income per share, basic	\$.31	\$.67	\$.81
	=====	=====	=====
Net income per share, diluted, before cumulative effect of change in accounting principle	\$.30	\$.63	\$.79
Cumulative effect of change in accounting principle	-	-	(.03)
	-----	-----	-----
Net income per share, diluted	\$.30	\$.63	\$.76
	=====	=====	=====

</TABLE>

The Company has excluded 11.0 million, 5.7 million, and 11.7 million shares from its calculations of net income per share, diluted, in 2002, 2001, and 2000, 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, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. 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, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, 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
/s/ ERNST & YOUNG LLP

Dallas, Texas
January 21, 2003

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

<TABLE>
<CAPTION>

	THREE MONTHS ENDED			
	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
2002				
- ----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Operating revenues	\$1,257,243	\$1,472,798	\$1,391,191	\$1,400,539
Operating income	49,365	188,999	91,141	87,833
Income before income taxes	35,196	169,238	124,324	63,924
Net income	21,385	102,298	74,887	42,399
Net income per share, basic	.03	.13	.10	.05
Net income per share, diluted	.03	.13	.09	.05
2001				
- ----	-----	-----	-----	-----
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

</TABLE>

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 14, 2003. 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 14, 2003.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

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 14, 2003.

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 14, 2003.

ITEM 14. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. The Company's Chief Executive and Chief Financial Officers are responsible for establishing and maintaining these procedures, and, as required by the rules of the SEC, evaluate their effectiveness. Based on their evaluation of the Company's disclosure controls and procedures which took place as of a date within 90 days of the filing date of this report, the Chief Executive and Chief Financial Officers believe that these procedures are effective to ensure that the Company is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods.

INTERNAL CONTROLS

The Company maintains a system of internal controls designed to provide reasonable assurance that: transactions are executed in accordance with management's general or specific authorization; transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles, and (2) to maintain accountability for assets; access to assets is permitted only in accordance with management's general or specific authorization; and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Since the date of the most recent evaluation of the Company's internal controls by the Chief Executive and Chief Financial Officers, there have been no significant changes in such controls or in other factors that could have significantly affected those controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

ITEM 15. 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.

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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 3.1 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 3.1 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 2002 (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)).
- 4.1 364-Day Competitive Advance and Revolving Credit Facility Agreement dated as of April 23, 2002 and 3-Year Competitive Advance and Revolving Credit Facility Agreement dated as of April 23, 2002 (incorporated by reference to Exhibits 10.2 and 10.1, respectively, to Southwest's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (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 4.2 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.

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- 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)); Supplemental Agreements Nos. 20, 21, 22, 23 and 24 (incorporated by reference to Exhibit 10.3 to Southwest's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (File No. 1-7259)).

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

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

- 10.2 Form of Executive Employment Agreement between Southwest and certain key employees pursuant to Executive Service Recognition Plan (incorporated by reference to Exhibit 28 to Southwest Quarterly Report on Form 10-Q for the quarter ended June 30, 1987 (File No. 1-7259)).
- 10.3 1992 stock option agreements between Southwest and Herbert D. Kelleher (incorporated by reference to Exhibit 10.8 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).
- 10.4 1996 stock option agreements between Southwest and Herbert D. Kelleher (incorporated by reference to Exhibit 10.8 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-7259)).
- 10.5 2001 employment agreement and related stock option agreements between Southwest and Herbert D. Kelleher (incorporated by reference to Exhibit 10 to Southwest's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 (File No. 1-7259)).
- 10.6 1991 Incentive Stock Option Plan.
- 10.7 1991 Non-Qualified Stock Option Plan.
- 10.8 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. 33-40653)).
- 10.9 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 (incorporated by reference to Exhibit 10.11 to

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Southwest's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 1-7259)); Amendment No. 2 to Southwest Airlines Co. Profit Sharing Plan.

- 10.10 Southwest Airlines Co. 401(k) Plan (incorporated by reference to Exhibit 10.12 to Southwest's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 1-7259)); Amendment No. 1 to Southwest Airlines Co. 401(k) Plan; Amendment No. 2 to Southwest Airlines Co. 401(k) Plan.
- 10.11 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)).
- 10.12 1996 Incentive Stock Option Plan.
- 10.13 1996 Non-Qualified Stock Option Plan.
- 10.14 Employment Agreement dated as of June 19, 2002 between Southwest and James F. Parker (incorporated by reference to Exhibit 10.16 to Southwest's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 1-7259)).
- 10.15 Employment Agreement dated as of June 19, 2002 between Southwest and Colleen C. Barrett (incorporated by reference to Exhibit 10.17 to Southwest's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 1-7259)).
- 10.16 Southwest Airlines Co. Outside Director Incentive Plan (incorporated by reference to Exhibit 10.1 to Southwest's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 (File No. 1-7259)).
- 10.17 1998 SAEA Non-Qualified Stock Option Plan.
- 10.18 1999 SWAPIA Non-Qualified Stock Option Plan.
- 10.19 LUV 2000 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-53610)).
- 10.20 2000 Aircraft Appearance Technicians Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-52388)).
- 10.21 2000 Stock Clerks Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-52390)).
- 10.22 2000 Flight Simulator Technicians Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-53616)).
- 10.23 2002 SWAPA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-98761)).
- 10.24 2002 Bonus SWAPA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-98761)).
- 10.25 2002 SWAPIA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 333-100862)).

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- 10.26 2002 Mechanics Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 333-100862)).
- 10.27 2002 Ramp, Operations, Provisioning and Freight Non-Qualified Stock Option Plan.
- 10.28 2002 Customer Service/Reservations Non-Qualified Stock Option Plan.
- 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.

99 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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) No reports on Form 8-K were filed during the fourth quarter of 2002.

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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, 2003

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, 2003 on behalf of the registrant and in the capacities indicated.

<TABLE>
<CAPTION>

Signature -----	Capacity -----
<S>	<C>
/s/ Herbert D. Kelleher ----- Herbert D. Kelleher	Chairman of the Board of Directors
/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/ C. Webb Crockett ----- C. Webb Crockett	Director
/s/ William H. Cunningham ----- William H. Cunningham	Director
/s/ William P. Hobby ----- William P. Hobby	Director
/s/ Travis C. Johnson ----- Travis C. Johnson	Director
/s/ R.W. King ----- R. W. King	Director
/s/ John T. Montford ----- John T. Montford	Director
/s/ June M. Morris ----- June M. Morris	Director

</TABLE>

I, Gary C. Kelly, Executive Vice President and Chief Financial Officer of Southwest Airlines Co., certify that:

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly

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affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 5, 2003

/s/ Gary C. Kelly

Gary C. Kelly
Executive Vice President - Chief
Financial Officer

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CERTIFICATIONS

I, James F. Parker, Chief Executive Officer of Southwest Airlines Co., certify that:

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d- 14) for the registrant and we have:

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

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly

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affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 5, 2003

/s/ James F. Parker

James F. Parker
Chief Executive Officer

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INDEX TO 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 3.1 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 3.1 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 2002 (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)).
- 4.1 364-Day Competitive Advance and Revolving Credit Facility Agreement dated as of April 23, 2002 and 3-Year Competitive Advance and Revolving Credit Facility Agreement dated as of April 23, 2002 (incorporated by reference to Exhibits 10.2 and 10.1, respectively, to Southwest's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (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 4.2 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

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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)); Supplemental Agreements Nos. 20, 21, 22, 23 and 24 (incorporated by reference to Exhibit 10.3 to Southwest's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (File No. 1-7259)).

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

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

- 10.2 Form of Executive Employment Agreement between Southwest and certain key employees pursuant to Executive Service Recognition Plan (incorporated by reference to Exhibit 28 to Southwest Quarterly Report on Form 10-Q for the quarter ended June 30, 1987 (File No. 1-7259)).
- 10.3 1992 stock option agreements between Southwest and Herbert D. Kelleher (incorporated by reference to Exhibit 10.8 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).
- 10.4 1996 stock option agreements between Southwest and Herbert D. Kelleher (incorporated by reference to Exhibit 10.8 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-7259)).
- 10.5 2001 employment agreement and related stock option agreements between Southwest and Herbert D. Kelleher (incorporated by reference to Exhibit 10 to Southwest's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 (File No. 1-7259)).
- 10.6 1991 Incentive Stock Option Plan.
- 10.7 1991 Non-Qualified Stock Option Plan.
- 10.8 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. 33-40653)).
- 10.9 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 (incorporated by reference to Exhibit 10.11 to Southwest's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 1-7259)); Amendment No. 2 to Southwest Airlines Co. Profit Sharing Plan.

- 10.10 Southwest Airlines Co. 401(k) Plan (incorporated by reference to Exhibit 10.12 to Southwest's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 1-7259)); Amendment No. 1 to Southwest Airlines Co. 401(k) Plan; Amendment No. 2 to Southwest Airlines Co. 401(k) Plan.
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- 10.11 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)).
- 10.12 1996 Incentive Stock Option Plan.
- 10.13 1996 Non-Qualified Stock Option Plan.
- 10.14 Employment Agreement dated as of June 19, 2002 between Southwest and James F. Parker (incorporated by reference to Exhibit 10.16 to Southwest's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 1-7259)).
- 10.15 Employment Agreement dated as of June 19, 2002 between Southwest and Colleen C. Barrett (incorporated by reference to Exhibit 10.17 to Southwest's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 1-7259)).
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- 10.19 LUV 2000 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-53610)).
- 10.20 2000 Aircraft Appearance Technicians Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-52388)).
- 10.21 2000 Stock Clerks Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-52390)).
- 10.22 2000 Flight Simulator Technicians Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-53616)).
- 10.23 2002 SWAPA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-98761)).
- 10.24 2002 Bonus SWAPA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-98761)).
- 10.25 2002 SWAPIA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 333-100862)).
- 10.26 2002 Mechanics Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 333-100862)).
- 10.27 2002 Ramp, Operations, Provisioning and Freight Non-Qualified Stock Option Plan.
- 10.28 2002 Customer Service/Reservations Non-Qualified Stock Option Plan.

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- 22 Subsidiaries of Southwest (incorporated by reference to Exhibit 22 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 1-7259)).
- 23 Consent of Ernst & Young LLP, Independent Auditors.

SOUTHWEST AIRLINES CO.

1991 INCENTIVE STOCK OPTION PLAN

SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), hereby formulates and adopts the following 1991 Incentive Stock Option Plan (the "Plan") for employees of the Company and its subsidiaries.

1. Purpose. The purpose of this Plan is to secure for the Company the benefits of the additional incentive inherent in the ownership of its Common Stock by selected key employees of the Company and its subsidiaries who are important to the success and the growth of the Company and its subsidiaries, and to help the Company and its subsidiaries secure and retain the services of such key employees. The Plan shall be administered so as to qualify the options as "incentive stock options" under Section 422A of the Internal Revenue Code.

2. Stock Option Committee. Subject to the provisions of paragraph 4, this Plan shall be administered by a Stock Option Committee (the "Committee") of the Board of Directors (the "Board") of the Company, to be appointed by at least a majority of the whole Board of Directors. All members of the Committee shall be "disinterested" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as such Rule is in effect on the date of adoption of this Plan by the Board. The Committee shall select one of its members as Chairman and shall adopt such rules and regulations as it shall deem appropriate concerning the holding of its meetings and the transaction of its business. A majority of the whole Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee. Any member of the Committee may be removed at any time either with or without cause by resolution adopted by the Board of Directors of the Company; and any vacancy on the Committee may at any time be filled by resolution adopted by the Board of Directors.

3. Grant of Options. The Committee shall have the authority and responsibility, within the limitations of this Plan, to determine the key employees to whom options are to be granted, the number of shares that may be purchased under each option and the option price.

In determining the key employees to whom options shall be granted and the number of shares to be covered by each such option, the Committee shall take into consideration the employee's present and potential contribution to the success of the Company and its subsidiaries and such other factors as the Committee may deem proper and relevant.

4. Employees Eligible. Options may be granted under this Plan to any key employee or prospective key employee (conditioned and effective upon his becoming an employee) of the Company or its subsidiaries. Employees who are also officers or directors of the Company or its subsidiaries shall not by reason of such offices be ineligible to receive options under this Plan; provided, however, that no director who is not also an employee of the Company or any of its subsidiaries shall be eligible to receive options.

An Employee receiving any option under this Plan is hereinafter referred to as an "Optionee." Any reference herein to the employment of an Optionee with the Company shall include his employment with the Company or any of its subsidiaries.

5. Stock Subject to Options. Subject to the provisions of paragraph 13, the number of shares of the Company's Common Stock subject at any one time to options, plus the number of such shares then outstanding pursuant to exercises of options granted under this Plan, shall not exceed 3,000,000. If, and to the extent the options granted under this Plan terminate or expire without having been exercised, new options may be granted with respect to the shares covered by such terminated or expired options; provided that the granting and terms of such new options shall in all respects comply with the provisions of this Plan.

Shares sold or distributed upon the exercise of any option granted under this Plan may be shares of the Company's authorized and unissued Common Stock, shares of the Company's issued Common Stock held in the Company's treasury, or both.

There shall be reserved at all times for sale or distribution under this Plan a number of shares of Common Stock (either authorized and unissued shares or shares held in the Company's treasury, or both) equal to the maximum number of shares which may be purchased or distributed upon the exercise of options granted or that may be granted under this Plan.

6. Option Price. The option price of each share of Common Stock purchasable under any option granted under this Plan shall be not less than the

fair market value thereof at the time the option is granted and shall be set forth in the option agreement; provided, however, that the option price for any share of Common Stock purchasable under an option granted to an individual owning, at the time the option is granted, more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or its subsidiary corporations, shall be one hundred ten percent (110%) of the fair market value thereof at the time the option is granted.

The fair market value of the Common Stock on any day shall be the mean between the highest and lowest quoted selling prices of the Common Stock on such day as reported by the primary national stock exchange on which such stock is listed. If no sale shall have been made on that day, or if the Common Stock is not listed on a national exchange at that time, fair market value will be determined by the Committee.

7. Expiration and Termination of the Plan. Options may be granted under this Plan at any time and from time to time, prior to ten years from the date of adoption of this Plan, on which date this Plan will expire, except as to options then outstanding under this Plan. Such options shall remain in effect until they have been exercised or have expired. This Plan may be terminated or modified at any time prior to December 31, 2000, by the Board of Directors except to the extent prohibited by Section 422A of the Internal Revenue Code.

No modification, extension, renewal or other change in any option granted under this Plan shall be made after the grant of such option unless the same is consistent with the provisions of this Plan.

8. Exercisability and Duration of Options. Options granted under this Plan shall become exercisable after the lapse of such period or periods of time or the occurrence of such event or events as the Committee, in its discretion, may provide upon the granting thereof.

The unexercised portion of any option granted under this Plan shall automatically and without notice terminate and become null and void at the time of the earliest to occur of the following:

(a) The expiration of 10 years from the date on which such option was granted; provided, however, that in the case of an Optionee owning, at the time such option was granted, more than 10% of the

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total combined voting power of all classes of stock of the Company or its subsidiaries, such expiration shall be as of 5 years from the date on which such option was granted;

(b) The expiration of three months from the date of termination of the Optionee's employment with the Company or any subsidiary; provided that if the Optionee shall die during such 3-month period the provisions of subparagraph (c) below shall apply;

(c) The expiration of 6 months following the issuance of letters testamentary or letters of administration to the executor or administrator of a deceased Optionee, if the Optionee's death occurs either during his employment with the Company or during the 3-month period following the date of termination of such employment, but not later than 1 year after the Optionee's death;

(d) The termination of the Optionee's employment with the Company for cause, including breach by the Optionee of an employment agreement with the Company or any of its subsidiaries or the Optionee's commission of a felony or misdemeanor (whether or not prosecuted) against the Company or any of its subsidiaries;

(e) The expiration of such period of time or the occurrence of such event as the Committee in its discretion may provide upon the granting thereof.

9. Exercise of Options. The options granted hereunder shall be exercised by the Optionee (or by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee) as to all or part of the shares covered by the option, by giving written of the exercise thereof to the Company at its principal business office, specifying the number of shares to be purchased, and specifying a business day (the "exercise date") not less than 5 days nor more than 15 days from the date such notice is given, for the payment of the purchase price against delivery of the shares being purchased. In such notice, the Optionee shall elect whether he or she is to pay for his or her shares in cash or in Common Stock of the Company, or both, and if payment is to be made in Common Stock, it shall be valued at its fair market value on the date of such notice, as determined by the Committee. The giving of such written notice to the Company shall constitute an irrevocable election to purchase the number of shares specified in the notice on the date specified in the notice.

The Company shall cause certificates for shares to be delivered to the Optionee (or the person exercising the Optionee's options in the event of death) at its principal business office within 10 business days after the exercise date.

10. Nontransferability of Options. No option granted under this Plan or any right evidenced thereby shall be transferable by the Optionee other than by will or the laws of descent and distribution. During the lifetime of an Optionee, only he (or his or her guardian or legal representative) may exercise his or her options.

In the event of the Optionee's death during his employment with the Company, or during the 30-day period following the date of termination of such employment, his options shall thereafter be exercisable, as provided in paragraph 8(c), by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee.

11. Rights of Optionee. Neither the Optionee nor his executors or shall have any of the rights of a shareholder of the Company with respect to the shares subject to an option granted under this Plan until certificates for such shares shall have been issued upon the exercise of such option.

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12. Right to Terminate Employment. Nothing in this Plan or in any option granted under this Plan shall confer upon any Optionee the right to continue in the employment of the Company or affect the right of the Company or any of its subsidiaries to terminate the Optionee's employment at any time, subject, however, to the provisions of any agreement of employment between the Company or any of its subsidiaries and the Optionee.

13. Adjustment Upon Changes in Capitalization, Etc.

(a) The existence of the Plan and the options granted hereunder shall not affect in any way the right or power of the Board or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities ahead of or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

(b) The shares with respect to which options may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of any option theretofore granted, the Company shall effect a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend on Common Stock without receipt of consideration by the Company, the number of shares of Common Stock with respect to which such option may thereafter be exercised (i) in the event of an increase in the number of outstanding shares shall be proportionately increased, and the purchase price per share shall be proportionately reduced, and (ii) in the event of a reduction in the number of outstanding shares shall be proportionately reduced, and the purchase price per share shall be proportionately increased. In the event of any such change in the outstanding Common Stock, the aggregate number of shares available under the Plan may be appropriately adjusted by the Committee whose determination shall be conclusive.

(c) If the Company recapitalizes or otherwise changes its capital structure, thereafter upon any exercise of an option theretofore granted the Optionee shall be entitled to purchase under such option, in lieu of the number of shares of Common Stock as to which such option shall then be exercisable, the number and class of shares of stock and securities to which the Optionee would have been entitled pursuant to the terms of the recapitalization if, immediately prior to such recapitalization, the Optionee had been the holder of record of the number of shares of Common Stock as to which such option is then exercisable. If the Company shall not be the surviving entity in any merger or consolidation (or survives only as a subsidiary of an entity other than a previously wholly-owned subsidiary of the Company) or if the Company is to be dissolved or liquidated, then unless a surviving corporation assumes or substitutes new options for Options then outstanding hereunder, (i) the time at which such Options may be exercised shall be accelerated and such Options shall become exercisable in full on or before a date fixed by the Company prior to the effective date of such merger or consolidation or such dissolution or liquidation, and (ii) upon such effective date Options shall expire.

(d) Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class for property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of

shares of Common Stock subject to options theretofore granted or the purchase price per share.

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14. Purchase for Investment and Legality. The Optionee, by acceptance of any option granted under this Plan, shall represent and warrant to the Company that the purchase or receipt of shares of Common Stock upon the exercise thereof shall be for investment and not with a view to distribution, provided that such representation and warranty shall be inoperative if, in the opinion of counsel to the Company, a proposed sale or distribution of such shares is pursuant to an applicable effective registration statement under the Securities Act of 1933 or is, without such representation and warranty, exempt from registration under such Act.

The obligation of the Company to issue shares upon the exercise of an option shall also be subject as conditions precedent to compliance with applicable provisions of the Securities Act of 1933, the Securities Exchange Act of 1934, state securities laws, rules and regulations under any of the foregoing and applicable requirements of any securities exchange upon which the Company's securities shall be listed.

The Company may endorse an appropriate legend referring to the foregoing restrictions upon the certificate or certificates representing any shares issued or transferred to the Optionee upon the exercise of any option granted under this Plan.

15. Limitation on Amount of Options. In no event shall the aggregate fair market value (determined as of the time an option is granted) of the stock for which options are exercisable for the first time by any Optionee during any calendar year, under all incentive stock option plans of the Company and its subsidiaries, exceed \$100,000. As used in this Section, the term "incentive stock option plan" shall mean any plan qualifying as such under Internal Revenue Code Section 422.

16. Effective Date of Plan. This Plan shall become effective upon its adoption by the Board of Directors of the Company, subject, however, to its approval by the Company's shareholders after the date of such adoption.

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SOUTHWEST AIRLINES CO.

1991 NON-QUALIFIED STOCK OPTION PLAN

SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), hereby formulates and adopts the following 1991 Non-Qualified Stock Option Plan (the "Plan") for employees and directors of the Company and its subsidiaries.

1. Purpose. The purpose of this Plan is to secure for the Company the benefits of the additional incentive inherent in the ownership of its Common Stock by selected key employees and directors of the Company and its subsidiaries who are important to the success and the growth of the Company and its subsidiaries, and to help the Company and its subsidiaries secure and retain the services of such key employees and directors.

2. Stock Option Committee. Subject to the provisions of paragraph 4, this Plan shall be administered by a Stock Option Committee (the "Committee") of the Board of Directors (the "Board") of the Company, to be appointed by at least a majority of the whole Board of Directors. All members of the Committee shall be "disinterested" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as such Rule is in effect on the date of adoption of this Plan by the Board. The Committee shall select one of its members as Chairman and shall adopt such rules and regulations as it shall deem appropriate concerning the holding of its meetings and the transaction of its business. A majority of the whole Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee. Any member of the Committee may be removed at any time either with or without cause by resolution adopted by the Board of Directors of the Company; and any vacancy on the Committee may at any time be filled by resolution adopted by the Board of Directors.

3. Grant of Options. The Committee shall have the authority and responsibility, within the limitations of this Plan, to determine the key employees to whom options are to be granted, the number of shares that may be purchased under each option and the option price.

In determining the key employees to whom options shall be granted and the number of shares to be covered by each such option, the Committee shall take into consideration the employee's present and potential contribution to the success of the Company and its subsidiaries and such other factors as the Committee may deem proper and relevant.

4. Persons Eligible.

(a) Options may be granted under this Plan to any key employee or prospective key employee (conditioned and effective upon his becoming an employee) of the Company or its subsidiaries. Employees who are also officers or directors of the Company or its subsidiaries shall not by reason of such offices be ineligible to receive options under this Plan.

(b) Each individual who is not an employee of the Company or its subsidiaries, who is a director of the Company ("Outside Director") after adoption of this Plan and who has not previously been granted options under this, or any other stock option plan of the Company, shall, on the third business day following the issuance of a press release by the Company containing its 1990 earnings, shall, on such date, be granted an option to purchase 10,000 shares of the Common Stock (the "Base Grant"), plus 400 shares for each year,

or part thereof, that such Outside Director has previously served as a director of the Company, all at a price equal to 100% of the fair market value of the Common Stock on such date. Each individual who becomes an Outside Director after such date and who has not previously been granted options under this or any other stock option plan of the Company shall, on the date of his or her election to the Board of Directors of the Company, be granted an option to purchase 10,000 shares of the Common Stock (such grant is also referred to herein as the "Base Grant"), at a price equal to 100 % of the fair market value of the Common Stock on such date. No Outside Director to whom an option has been granted shall be eligible to receive additional options under this Plan.

An employee or director receiving any option under this Plan is hereinafter referred to as an "Optionee." Any reference herein to the employment of an Optionee with the Company shall include employment with the Company or any of its subsidiaries. The fair market value of the Common Stock on any day shall be the mean between the highest and lowest quoted selling prices of the Common Stock on such day as reported by the national stock exchange on which such stock is listed. If no sale shall have been made on that day, or if the Common Stock is not listed on a national exchange at that time, fair market value will be determined by the Committee.

5. Stock Subject to Options. Subject to the provisions of paragraph 13, the number of shares of the Company's Common Stock subject at any one time to options, plus the number of such shares then outstanding pursuant to exercises of options granted under this Plan, shall not exceed 250,000. If, and to the extent the options granted under this Plan terminate or expire without having been exercised, new options may be granted with respect to the shares covered by such terminated or expired options; provided that the granting and terms of such new options shall in all respects comply with the provisions of this Plan.

Shares sold or distributed upon the exercise of any option granted under this Plan may be shares of the Company's authorized and unissued Common Stock, shares of the Company's issued Common Stock held in the Company's treasury, or both.

There shall be reserved at all times for sale or distribution under this Plan a number of shares of Common Stock (either authorized and unissued shares or shares held in the Company's treasury, or both) equal to the maximum number of shares which may be purchased or distributed upon the exercise of options granted or that may be granted under this Plan.

6. Option Price. The option price of each share of Common Stock purchasable under any option granted under this Plan shall be not less than the fair market value thereof at the time the option is granted and shall be set forth in the option agreement.

7. Expiration and Termination of the Plan. Options may be granted under this Plan at any time and from time to time, prior to December 31, 2001, on which date this Plan will expire, except as to options then outstanding under this Plan. Such options shall remain in effect until they have been exercised or have expired. This Plan may be terminated or modified at any time prior to December 31, 2001, by the Board of Directors except with respect to any options then outstanding under this Plan; provided that any (a) increase in the maximum number of shares subject to options, as specified in paragraph 5, (b) decrease in the minimum option price specified in paragraph 6 or (c) change in the number of and terms of options to be awarded to Outside Directors as specified in paragraphs 4(b), 8 and 13 shall be subject to approval by the Company's shareholders, unless made pursuant to the provisions of paragraph 13.

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No modification, extension, renewal or other change in any option granted under this Plan shall be made after the grant of such option unless the same is consistent with the provisions of this Plan.

8. Exercisability and Duration of Options.

(a) Exercisability. Options granted under this Plan to employees shall become exercisable after the lapse of such period or periods of time or the occurrence of such event or events as the Committee, in its discretion, may provide upon the granting thereof. Any option granted under this Plan to an Outside Director shall become exercisable as follows (or after the lapse of such additional period or periods of time or the occurrence of such event or events as the Committee, in its discretion, may provide upon the granting thereof):

(1) As to the Base Grant to an Outside Director, such options may be exercised upon the following schedule:

<Table> <Caption>	
Time Elapsed since Grant -----	Options First Exercisable -----
<S>	<C>
One Year	1,000
Two Years	1,500
Three Years	2,000
Four Years	2,500
Five Years	3,000

After the expiration of five years following the date on which such grant is made, such options may be exercised as to all of the shares covered thereby.

(2) As to the additional options granted to an Outside Director pursuant to paragraph 4(b) hereof, which are dependent on the number of years which such Outside Director has served on the Board of Directors, such options may be exercised as to all of the shares covered thereby at any time after the grant thereof.

(b) Duration. The unexercised portion of any option granted under this

Plan shall automatically and without notice terminate and become null and void at the time of the earliest to occur of the following:

(1) The expiration of 10 years from the date on which such option was granted;

(2) The expiration of three months from the date of termination of the Optionee's employment with the Company or any subsidiary (or in the case of an Outside Director, three months from the date such Outside Director ceases to serve as a member of the Board of Directors for any reason other than death); provided that if the Optionee shall die during such 3-month period the provisions of subparagraph (3) below shall apply;

(3) The expiration of 6 months following the issuance of letters testamentary or letters of administration to the executor or administrator of a deceased Optionee, if the Optionee's death occurs either during his employment with the Company (or service as an Outside Director, as the case may be) or during

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the 3-month period following the date of termination of such employment (or service as an Outside Director, as the case may be), but not later than 1 year after the Optionee's death;

(4) In the case of employee Optionees, the termination of the Optionee's employment with the Company for cause, including breach by the Optionee of an employment agreement with the Company or any of its subsidiaries or the Optionee's commission of a felony or misdemeanor (whether or not prosecuted) against the Company or any of its subsidiaries;

(5) In the case of employee Optionees, the expiration of such period of time or the occurrence of such event as the Committee in its discretion may provide upon the granting thereof.

9. Exercise of Options. The options granted hereunder shall be exercised by the Optionee (or by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee) as to all or part of the shares covered by the option, by giving written notice of the exercise thereof to the Company at its principal business office, specifying the number of shares to be purchased, and specifying a business day (the "exercise date") not less than 5 days nor more than 15 days from the date such notice is given, for the payment of the purchase price against delivery of the shares being purchased. In such notice, the Optionee shall elect whether he or she is to pay for his or her shares in cash or in Common Stock of the Company, or both and if payment is to be made in Common Stock, it shall be valued at its fair market value on the date of such notice, as determined by the Committee. The giving of such written notice to the Company shall constitute an irrevocable election to purchase the number of shares specified in the Notice on the date specified in the Notice.

The Company shall cause certificates for any shares to be delivered to the Optionee (or the person exercising the Optionee's options in the event of his death) at its principal business office within 10 business days after the exercise date.

10. Nontransferability of Options. No option granted under this Plan or any right evidenced thereby shall be transferable by the Optionee other than by will or the laws of descent and distribution. During the lifetime of an Optionee, only he (or his or her guardian or legal representative) may exercise his options.

In the event of the Optionee's death during his employment with the Company, or during the 30-day period following the date of termination of such employment, his options shall thereafter be exercisable, as provided in paragraph 8(b), by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee.

11. Rights of Optionee. Neither the Optionee nor his executors or administrators shall have any of the rights of a shareholder of the Company with respect to the shares subject to an option granted under this Plan until certificates for such shares shall have been issued upon the exercise of such option.

12. Right to Terminate Employment. Nothing in this Plan or in any option granted under this Plan shall confer upon any Optionee the right to continue in the employment of the Company or affect the right of the Company or any of its subsidiaries to terminate the Optionee's employment at any time, subject, however, to the provisions of any agreement of employment between the Company or any of its subsidiaries and the Optionee.

13. Adjustment Upon Changes in Capitalization, Etc.

(a) The existence of the Plan and the options granted hereunder shall not affect in any way the right or power of the Board or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities ahead of or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

(b) The shares with respect to which options may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of an option theretofore granted, the Company shall effect a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend on Common Stock without receipt of consideration by the Company, the number of shares of Common Stock with respect to which such option may thereafter be exercised (i) in the event of an increase in the number of outstanding shares shall be proportionately increased, and the purchase price per share shall be proportionately reduced, and (ii) in the event of a reduction in the number of outstanding shares shall be proportionately reduced, and the purchase price per share shall be proportionately increased. In the event of any such change in the outstanding Common Stock, the aggregate number of shares available under the Plan may be appropriately adjusted by the Committee whose determination shall be conclusive.

(c) If the Company recapitalizes or otherwise changes its capital structure, thereafter upon any exercise of an option theretofore granted the Optionee shall be entitled to purchase under such option, in lieu of the number of shares of Common Stock as to which such option shall then be exercisable, the number and class of shares of stock and securities to which the Optionee would have been entitled pursuant to the terms of the recapitalization if, immediately prior to such recapitalization, the Optionee had been the holder of record of the number of shares of Common Stock as to which such option is then exercisable. If the Company shall not be the surviving entity in any merger or consolidation (or survives only as a subsidiary of an entity other than a previously wholly-owned subsidiary of the Company) or if the Company is to be dissolved or liquidated, then unless a surviving corporation assumes or substitutes new options for Options then outstanding hereunder (i) the time at which such Options may be exercised shall be accelerated and such Options shall become exercisable in full on or before a date fixed by the Company prior to the effective date of such merger or consolidation or such dissolution or liquidation, and (ii) upon such effective date Options shall expire.

(d) Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to options theretofore granted or the purchase price per share.

14. Purchase for Investment and Legality. The Optionee, by the acceptance of any option granted under this Plan, shall represent and warrant to the Company that the purchase or receipt of shares of Common Stock upon the exercise thereof shall be for investment and not with a view to distribution, provided that such representation and warranty shall be inoperative if, in the opinion of counsel to the Company, a proposed sale or distribution of such shares is pursuant to an applicable effective registration statement under the Securities Act of 1933 or is, without such representation and warranty, exempt from registration under such Act.

The obligation of the Company to issue shares upon the exercise of an option shall also be subject as conditions precedent to compliance with applicable provisions of the Securities Act of 1933, the Securities Exchange Act of 1934, state securities laws, rules and regulations under any of the foregoing and applicable requirements of any securities exchange upon which the Company's securities shall be listed.

The Company may endorse an appropriate legend referring to the foregoing restrictions upon the certificate or certificates representing any shares issued or transferred to the Optionee upon the exercise of any option granted under this Plan.

15. Effective Date of Plan. This Plan shall become effective upon its adoption by the Board of Directors of the Company, subject, however, to its approval by the Company's shareholders after the date of such adoption.

AMENDMENT NO. 2
TO SOUTHWEST AIRLINES CO. Profit Sharing Plan

Pursuant to the authority of the Board of Directors of Southwest Airlines Co., and the provisions of Section 17.1 thereof, the Southwest Airlines Co. Profit Sharing Plan (the "Plan") is hereby amended in the following respects only, effective as the dates set forth herein:

(1) Article VI, Section 6.4, subparagraph (b)(4), is hereby amended in its entirety, effective January 1, 1998, to read as follows:

"(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, effective January 1, 1995, (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, together with 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."

(2) Article II, Paragraph (ff) of Section 2.1, is hereby amended in its entirety, effective January 1, 2002:

"(ff) Retirement: Separation from service 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 service."

(3) Article VII, Section 7.1, is hereby amended in its entirety, effective January 1, 2002, to read as follows:

"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

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nonforfeitable. If a Member continues in the service of the Company beyond his Normal Retirement Date, he shall continue to participate in the Plan."

(4) Effective January 1, 2002, Article VIII shall be amended to add Section 8.1 to read as follows, and Sections 8.1, 8.2 and 8.3 shall be renumbered as Sections 8.2, 8.3 and 8.4, respectively:

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

(5) Effective January 1, 2002, Article IX shall be amended to add Section 9.1 to read as follows, and Section 9.1 shall be renumbered as Section 9.2:

"9.1 Disability: If a Member'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."

(6) Article X, Section 10.3, shall be amended in its entirety, effective January 1, 2002, to read as follows:

"10.3 Forfeitures: A Member to whom Section 10.1 is applicable shall forfeit that portion of the amount in his Individual Account to which he is not entitled under Section 10.1 and the amount thus forfeited shall remain in the Trust Fund and shall be allocated pursuant to the provisions of Section 6.2. A Member who does not have

any nonforfeitable right to his Individual Account shall be deemed to have received a cashout distribution pursuant to Section 15.3 hereof, and shall forfeit the amount in such Individual Account in the Plan Year in which his separation from service occurs."

(7) Article XV, Section 15.1, is hereby amended in its entirety, effective January 1, 2002, to read as follows:

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

(8) Article XV, Section 15.2, is hereby amended in its entirety, effective January 1, 2002, except as otherwise specified herein, as follows:

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"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 separation from service of a Member, former Member, or Beneficiary who is entitled to receive a benefit hereunder. Notwithstanding the foregoing, if the nonforfeitable portion of a Member's or former Member's Individual Account exceeds Five Thousand and No/100 Dollars (\$5,000.00), no distributions, other than distributions upon the death of such Member or former Member, may commence without the consent of the Member or former Member until he attains age sixty-two (62), at which time distribution shall be made. 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 annuity starting date. The annuity starting date is the first day of the first period for which a benefit is paid hereunder. Notwithstanding the foregoing, the consent of the Member or former Member shall not be required to the extent that a distribution is required to satisfy Section 415 of the Code. In addition, upon termination of this Plan, if the Plan does not then offer an annuity option, the Member's or former Member's Individual Account may, without his consent, be distributed to the Member or former Member or transferred to another defined contribution plan maintained by an Affiliate.

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 attains age 70 1/2 or (b) the calendar year in which the Member retires; provided that if a 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 attains age 70 1/2. Subject to the provisions of Section 18.11 hereof, distribution of the entire Individual Account of a Member who attains age 70 1/2 on or after September 15, 2000 shall be made in a single lump sum on or before such Member's required beginning date. In the case of a Member who attained age 70 1/2 prior to September 15, 2000, or in the case of a Member who is a Five Percent Owner, the minimum distribution required for the calendar year immediately preceding the 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 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, and the requirements of this Article will take precedence over any inconsistent provisions of the Plan. Required minimum distributions will be determined beginning with the first distribution calendar year and up to and including the distribution calendar year that includes the Member's date of death. Effective January 1, 2003, during such

lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

(a) the quotient obtained by dividing the Member's Individual Account balance by the distribution period in the Uniform Lifetime Table set forth in section 1.401(a)(9)-9 of the Treasury Regulations, using the Member's age as of the Member's birthday in the distribution calendar year; or

(b) if the Member's sole designated beneficiary for the distribution calendar year is the Member's spouse, the quotient obtained by dividing the Member's Individual Account balance by the number in the Joint and Last Survivor Table set forth in section 1.401(a)(9)-9 of the Treasury Regulations, using the Member's and spouse's attained ages as of the Member's and spouse's birthdays in the distribution calendar year.

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

If distributions have commenced so that payments are being made over the life of the Member, and he dies before his entire interest has been distributed, then the remaining portion of such interest shall be distributed at least as rapidly as under the method of distribution being used as of the date of his death, but in no event later than one year after the Valuation Date coincident with or immediately following his death. On the other hand, if a 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 surviving spouse and such surviving spouse dies after the 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. Furthermore, if the designated Beneficiary is the surviving spouse of the 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 death and (b) December 31 of the calendar year in which the Member would have attained age 70 1/2. Distribution of benefits is considered to have begun, for purposes of this paragraph, on the required beginning date; provided that if a Member's designated Beneficiary is his

surviving spouse, and such surviving spouse dies after the Member but before payments to such surviving spouse have begun, then distribution of benefits is considered to have begun on the date distribution to the surviving spouse is required to begin pursuant to the provisions of this paragraph.

Notwithstanding any provision herein to the contrary, 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."

(9) Article XV, Section 15.3, is hereby amended, effective January 1, 2002, to read as follows:

"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 separation from service occurs, has forfeited a portion of his Individual 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 that 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 distribution 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 that was nonvested at the time of separation from service."

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(10) Article XXI is hereby added to read as follows:

"ARTICLE XXI

Amendments Pursuant to the Economic Growth and
Tax Relief Reconciliation Act of 2001

21.1 Preamble:

a. Adoption and Effective Date of Amendments: This Article 21 reflects certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"). This Article is intended as good faith compliance with the requirements of EGTRRA and is to be construed in accordance with EGTRRA and guidance issued thereunder. Except as otherwise provided, the provisions of this Article 21 shall be effective for Plan Years beginning on or after January 1, 2002.

b. Inconsistent provisions superseded: The provisions of this Article 21 shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this Article.

21.2 Limitations on Contributions: The Annual Additions that may be contributed or allocated to a Member's Individual Account under the Plan for any Limitation Year shall not exceed the lesser of:

a. \$40,000, as adjusted for increases in the cost-of-living under section 415(d) of the Code, or

b. 100% of the Member's Compensation, within the meaning of Section 6.4(b)(4) of the Plan, for the Limitation Year. The compensation limit referred to in this subparagraph (b) shall not apply to any contribution for medical benefits after separation from service (within the meaning of section 401(h) or section 419A(f)(2) of the Code) that is otherwise treated as an Annual Addition.

21.3 Increase in Annual Compensation Limit: The Annual Compensation of each Member taken into account in determining allocations for any Plan Year beginning after December 31, 2001, shall not exceed \$200,000, as adjusted for cost-of-living increases in accordance with section 401(a)(17)(B) of the Code. Annual Compensation means compensation during the Plan Year. The cost-of-living adjustment in effect for a calendar year applies to Annual Compensation for the

Plan Year that begins with or within such calendar year."

21.4 Modification of Top-Heavy Rules:

a. Determination of top-heavy status.

(i) Key Employee. Key Employee means any Employee or former Employee (including any deceased Employee) who, at any time during the Plan Year that includes the Determination Date, was an officer of the Company having Annual Compensation greater than \$130,000 (as adjusted under section 416(i)(1) of the Code for Plan Years beginning on or after January 1, 2003), a 5-percent owner of the Company, or a 1-percent owner of the Company having Annual Compensation of more than \$150,000. For this purpose, Annual Compensation means compensation within the meaning of Section 6.4(b)(4) of the Plan. The determination of

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who is a Key Employee will be made in accordance with section 416(i)(1) of the Code and the applicable regulations and other guidance of general applicability issued thereunder.

(ii) Determination of present values and amounts. This subsection (ii) shall apply for purposes of determining the present values of accrued benefits and the amounts of Individual Account balances of Employees as of the Determination Date.

(1) Distributions during year ending on the Determination Date. The present values of accrued benefits and the amounts of Individual Account balances of an Employee as of the Determination Date shall be increased by the distributions made with respect to the Employee under the Plan and any plan aggregated with the Plan under section 416(g)(2) of the Code during the 1-year period ending on the Determination Date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than separation from service, death, or disability, this provision shall be applied by substituting "5-year period" for "1-year period."

(2) Employees not performing services during year ending on the Determination Date. The accrued benefits and Individual Accounts of any individual who has not performed services for the Employer during the 1-year period ending on the Determination Date shall not be taken into account.

(b) Minimum benefits. Company Matching Contributions under the Southwest Airlines Co. 401(k) Plan shall be taken into account for purposes of satisfying the minimum contribution requirements of section 416(c)(2) of the Code and the Plan and shall be treated as matching contributions for purposes of the actual contribution percentage test and other requirements of section 401(m) of the Code."

21.5 Direct Rollovers of Plan Distributions: For purposes of the direct rollover provisions in Section 15.6 of the Plan, for plan distributions on or after January 1, 2002, the term "eligible retirement plan" shall mean (i) an individual retirement account described in Section 408(a) of the Code, (ii) an individual retirement annuity described in Section 408(b) of the Code (other than an endowment contract), (iii) a qualified trust described under Section 401(a) of the Code, (iv) an annuity plan described in Section 403(a) of the Code, (v) an annuity contract described in section 403(b) of the Code, and (vi) an eligible plan under section 457(b) of the Code that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a

state and that agrees to separately account for amounts transferred into such plan from this Plan. The definition of eligible retirement plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the

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alternate payee under a qualified domestic relation order, as defined in section 414(p) of the Code. Furthermore, for purposes of the direct rollover provisions in Section 15.6 of the Plan, for plan distributions on or after January 1, 2002, a portion of a distribution shall not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions that are not includible in gross income. However, such portion may be transferred only to an individual retirement account or annuity described in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in Section 401(a) or 403(a) of the Code that agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution that is includible in gross income and the portion of such distribution that is not so includible."

IN WITNESS WHEREOF, and as conclusive evidence of the adoption of the foregoing instrument comprising Amendment No. 2 to the Southwest Airlines Co. Profit Sharing Plan, the Company 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 21 day of November, 2002.

SOUTHWEST AIRLINES CO.

By: /s/ JAMES F. PARKER

James F. Parker, Chief Executive Officer

ATTEST:

/s/ DEBORAH ACKERMAN

Deborah Ackerman, Assistant Secretary

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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 21 day of November, 2002, personally appeared JAMES F. PARKER, to me known to be the identical 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 as the free and voluntary act and deed of such organization for the uses and purposes therein set forth.

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

/s/ MARILYN STRICKLAND

Notary Public in and for the State of Texas

My Commission Expires: 05/31/05

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AMENDMENT NO. 1
TO SOUTHWEST AIRLINES CO. 401(k) PLAN

Pursuant to the authority of the Board of Directors of Southwest Airlines Co., and the provisions of Section 17.1 thereof, the Southwest Airlines Co. 401(k) Plan (the "Plan") is hereby amended in the following respects only, effective as of January 1, 2002, except as otherwise specifically provided herein:

(1) Article IV, Section 4.1 is hereby amended in its entirety, effective September 1, 2002, to read as follows:

"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 fifty percent (50%); provided, however, effective January 1, 2002, such amount may not exceed the applicable dollar amount as set forth in Section 402(g)(1)(B) of the Code, adjusted for taxable years of the Member beginning after December 31, 2006 for increases in the cost of living as provided in Section 402(g)(4) of the Code. 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 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."

(2) Article IV, Section 4.2 is hereby amended in its entirety, effective September 1, 2002, to read as follows:

"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 and, if applicable, Catch-Up Contributions, not to exceed the specific amount set forth in

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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 and, if applicable, Catch-Up Contributions from a Member's paycheck and credited, as of each Valuation Date, to the Company Matching Contribution Account of each eligible Member who has elected to have Salary Reduction Contributions and, if applicable, Catch-Up Contributions made to the Trust Fund on his behalf during the applicable period."

(3) Article IV, Section 4.4 is hereby amended in its entirety to read as follows:

"4.4 Excess Deferrals: If a Member's Salary Reduction Contributions hereunder should exceed the applicable dollar amount as set forth in Section 402(g)(1)(B) of the Code, adjusted for taxable years of the Member beginning after December 31, 2006 for increases in the cost of living as provided in Section 402(g)(4) 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) The Plan is hereby amended to add Article 21 to read as follows:

"ARTICLE XXI

Amendments Pursuant to the Economic Growth and
Tax Relief Reconciliation Act of 2001

21.1 Preamble:

a. Adoption and Effective Date of Amendments: This Article 21 reflects certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"). This Article is intended as good faith compliance with the requirements of EGTRRA and is to be construed in accordance with EGTRRA and guidance issued thereunder.

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Except as otherwise provided, the provisions of this Article 21 shall be effective for Plan Years beginning on or after January 1, 2002.

b. Inconsistent provisions superseded: The provisions of this Article 21 shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this Article.

21.2 Limitations on Contributions: Except to the extent permitted under Section 21.3 of this Article and section 414(v) of the Code, if applicable, the Annual Additions that may be contributed or allocated to a Member's Individual Account under the Plan for any Limitation Year shall not exceed the lesser of:

a. \$40,000, as adjusted for increases in the cost-of-living under section 415(d) of the Code, or

b. 100% of the Member's compensation, within the meaning of section 415(c)(3) of the Code, for the Limitation Year. The compensation limit referred to in this subparagraph (b) shall not apply to any contribution for medical benefits after separation from service (within the meaning of section 401(h) or section 419A(f)(2) of the Code) that is otherwise treated as an Annual Addition.

21.3 Catch-Up Contributions:

a. Eligibility for Catch-Up Contributions: Effective September 1, 2002, all Members who are eligible to make Salary Reduction Contributions under this Plan and who have attained age 50 before the close of the Plan Year shall be eligible to make Catch-Up Contributions in accordance with, and subject to, the limitations of section 414(v) of the Code.

b. Effect of Catch-Up Contributions on Plan: Such Catch-Up Contributions shall not be taken into account for purposes of the provisions of the Plan implementing the required limitations of sections 402(g) and 415 of the Code. The Plan shall not be treated as failing to satisfy the provisions of the Plan implementing the requirements of section 401(k)(3), 401(k)(11), 401(k)(12), 410(b), or 416 of the Code, as applicable, by reason of the making of such Catch-Up Contributions."

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IN WITNESS WHEREOF, and as conclusive evidence of the adoption of the foregoing instrument comprising Amendment No. 1 to Southwest Airlines Co. 401(k) Plan, the Company has caused these presents to be duly executed in its name and behalf by its proper officers thereunto duly authorized this 22 day of July, 2002.

SOUTHWEST AIRLINES CO.

By: /s/ JAMES F. PARKER

James F. Parker, Chief Executive Officer

ATTEST:

/s/ DEBORAH ACKERMAN

Deborah Ackerman, Assistant Secretary

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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 22 day of July, 2002, personally appeared JAMES F. PARKER, to me known to be the identical 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 as the free and voluntary act and deed of such organization for the uses and purposes therein set forth.

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

/s/ NOVIE RAE LEACHMAN

Notary Public in and for the State of Texas

My Commission Expires: 05/22/05

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AMENDMENT NO. 2
TO SOUTHWEST AIRLINES CO. 401(k) PLAN

Pursuant to the authority of the Board of Directors of Southwest Airlines Co., and the provisions of Section 17.1 thereof, the Southwest Airlines Co. 401(k) Plan (the "Plan") is hereby amended in the following respects only, effective as of the dates set forth herein:

(1) Item 8.1 of the Table of Contents is hereby amended, effective January 1, 2002, to read as follows:

"8.1 DEATH OF MEMBER..."

(2) Article II, Paragraph (dd) of Section 2.1, is hereby amended in its entirety, effective January 1, 2002:

"(dd) Retirement: Separation from service 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 service."

(3) Article IV, Section 4.4, is hereby amended in its entirety, effective September 1, 2002, to read as follows:

"4.4 Distribution of Excess Deferrals: If a Member's Salary Reduction Contributions hereunder should exceed the applicable dollar amount as set forth in Section 402(g) of the Code (\$11,000 for the Member's taxable year beginning 2002), adjusted for taxable years of the Member beginning after December 31, 2006 for increases in the cost of living, as set forth in Section 402(g)(4) of the Code, the excess (with earnings thereon) shall be reduced as follows:

(a) To the extent that such excess Salary Reduction Contributions do not exceed the applicable dollar limitation under Section 414(v), reduced by elective deferrals previously treated as Catch-Up Contributions, whether under this Plan or another applicable employer plan (as defined in Section 414(v)(6)(A) of the Code), the amount of such excess Salary Reduction Contributions shall be recharacterized as Catch-Up Contributions, if such Member is otherwise eligible to make

Catch-Up Contributions in accordance with Section 21.3 hereof during the Plan Year in which the excess deferral arises.

(b) If the Member is not eligible to make Catch-Up Contributions, as provided in Section 21.3 hereof, or to the extent that recharacterization of such excess Salary Reduction Contributions, together with elective deferrals previously treated as Catch-Up Contributions, whether under this Plan or another applicable

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employer plan (as defined in Section 414(v)(6)(A) of the Code), exceeds the applicable dollar limitation under Section 414(v), the amount of such excess Salary Reduction Contributions shall be distributed to the Member. 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 with respect to which such excess deferrals were made.

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 deemed a Catch-Up Contribution in accordance with subparagraph (a) herein, as the case may be, or distributed to the Member in accordance with subparagraph (b) herein. 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: (i) the value of the Member's Salary Reduction Contribution Account or (ii) the Member's excess deferrals for the Plan Year."

(4) Article IV, Section 4.5, is hereby amended in its entirety, effective January 1, 2002, to read as follows:

"(a) Determination of Deferral Percentages: As soon as administratively feasible after the end of each Plan Year (or other applicable period) the Committee shall determine:

(i) Deferral Percentage. 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 (less excess Salary Reduction Contributions treated as Catch-Up Contributions for the Plan Year in accordance with Section 4.4 above) 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 (less excess Salary Reduction Contributions treated as Catch-Up Contributions for the Plan Year in accordance with Section 4.4 above) to such Employee's compensation (as defined in Section 2.1(r) hereof) for the prior Plan Year.

(ii) Highly Compensated Deferral Percentage. 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

(iii) Nonhighly Compensated Deferral Percentage. The "nonhighly compensated deferral percentage," which shall be the average of the "deferral percentages" for all Employees then eligible for Salary Reduction Contributions

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who were not included in the "highly compensated deferral percentage," in (ii) above."

If a Highly Compensated Employee participates in two (2) or more plans maintained by an Employer 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 an Employer 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 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 deferral percentage test. For purposes of implementing the deferral percentage test, elective deferrals treated as Catch-Up Contributions shall be disregarded.

(b) Limitation on Highly Compensated Deferral Percentage. 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."

(c) Recharacterization of Excess Salary Reduction Contributions. If the above deferral percentage test would otherwise be violated as of the end of the Plan Year, then, to the extent that the excess Salary Reduction Contributions of such Highly Compensated Employees do not exceed the applicable dollar limitation under Section 414(v), reduced by elective deferrals previously treated as Catch-Up Contributions, whether under this Plan or another elective deferral program (as defined under Section 402(g)(3)), the amount of the excess Salary Reduction Contributions of such Highly Compensated Employees shall be recharacterized as Catch-Up Contributions, if such Member is otherwise eligible to make Catch-Up Contributions in accordance with Section 21.3 hereof during the Plan Year in which the excess deferral arises.

(d) Application of Qualified Nonelective Contributions. If, after recharacterization of the excess Salary Reduction Contributions of such Highly Compensated Employees, the deferral percentage test would still be violated as of the end of the Plan Year, then, subject to satisfaction of the conditions described in Section 1.401(k)-1(b)(5) of the Treasury Regulations, the "deferral percentage," as defined in (a)(i) above, shall instead be the ratio of the sum of the Employee's Salary Reduction Contributions (less excess Salary Reduction Contributions treated as Catch-Up Contributions for the Plan Year), Qualified Nonelective Contributions, if any, and, to the extent necessary to satisfy the deferral percentage test, Company Matching Contributions for such Plan Year to the Employee's compensation (as defined in Section 2.1(r) hereof) for such 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.

(e) Distribution of Excess Contributions. If, after consideration of Qualified Nonelective Contributions, if any, and applicable Company Matching Contributions, as

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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 (other than excess Salary Reduction Contributions treated as Catch-Up Contributions for the Plan Year) 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 (other than excess Salary Reduction Contributions treated as Catch-Up Contributions for the Plan Year), to the extent revoked, shall constitute an "excess contribution" to be distributed (with earnings thereon) no later than the last day of the Plan Year following the Plan Year with respect to which such contribution was made. Excess contributions are allocated to the Highly Compensated Employees with the largest amounts of Employer contributions 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. If an excess contribution is distributed to a Member in accordance with the foregoing, any Company Matching Contribution

relating to such excess contribution shall be forfeited and then utilized as described in Section 6.3 hereof, and shall not be taken into account in determining the Member's contribution percentage under Section 4.6."

(5) Article IV, Paragraph (a) of Section 4.7, is hereby amended in its entirety, effective January 1, 2002, to read as follows:

"The transfer occurs on or before the 60th day following his receipt of such distribution, or such later date as permitted by the Internal Revenue Service for distributions on and after January 1, 2002; 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, or such later date as permitted by the Internal Revenue Service for distributions on and after January 1, 2002;"

(6) Article VI, the second sentence of Section 5.1, is hereby amended in its entirety, effective September 1, 2002, to read as follows:

"The Individual Account of each Member shall be composed of a Company Matching Contribution Account, to which Company Matching Contributions, if any, shall be credited; a Salary Reduction Contribution Account, to which Salary Reduction Contributions, if any, and Catch-Up Contributions, if any, together with Qualified Nonelective Contributions and Company Matching Contributions, if any, utilized to satisfy the deferral percentage test or the contribution percentage test, as set forth in

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Sections 4.5 and 4.6 hereof, if any, shall be credited; and, if applicable, a Rollover Contribution Account."

(7) Article V, the first paragraph of Section 5.3, is hereby amended in its entirety, effective September 1, 2002, to read as follows:

"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 such Member first satisfies the eligibility requirements of Article III hereof, or as of any subsequent Entry Date. Such election must be made prior to such Entry Date, and shall be effective for each payroll period thereafter until modified or amended. Each Member who is eligible to make Catch-Up Contributions under Section 21.3 hereof and who desires to make such contributions for the Plan Year shall indicate such intent by making an election in the manner prescribed by the Committee; provided, however, that a separate election to make Catch-Up Contributions shall remain effective no later than the end of the Member's taxable year for which such separate Catch-Up Contribution election is effective."

(8) Article V, Section 5.3(c), is hereby amended in its entirety, effective September 1, 2002, to read as follows:

"The Company may unilaterally amend or revoke a salary deferral election with any Member at any time, including an amendment to recharacterize an election of Salary Reduction Contributions as an election of Catch-Up Contributions, if the Company determines that such revocation or amendment is necessary to ensure 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 ensure that the requirements of Section 401(k) of the Code and Sections 4.1 and 21.3 hereof have been satisfied with respect to the amount that may be withheld and contributed on behalf of a Member."

(9) Article VII, Section 7.1, is hereby amended in its entirety, effective January 1, 2002, to read as follows:

"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 service of the Company beyond his Normal Retirement Date, he shall continue to participate in the Plan."

(10) Article VIII, Section 8.1, is hereby amended in its entirety, effective January 1, 2002, to read as follows:

"8.1 Death of Member: Upon the death of a Member while employed by the Company, such Member's Individual Account shall thereupon become one hundred percent (100%) vested, and the amount

contained therein shall be nonforfeitable."

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(11) Article IX, Section 9.1, is hereby amended, effective January 1, 2002, to read as follows:

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

(12) Article X, Section 10.3, is hereby amended, effective January 1, 2002, to read as follows:

"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 separation from service 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."

(13) Article XI, the last sentence of the third paragraph of Section 11.2, is hereby deleted in its entirety, effective January 1, 2002.

(14) Article XV, Section 15.1, is hereby amended in its entirety, effective January 1, 2002, to read as follows:

"15.1. Method of Payment: As soon as practicable after the separation from service of a Member, former Member, or Beneficiary who 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) Article XV, Section 15.2, is hereby amended in its entirety, effective January 1, 2002, except as otherwise specified herein, to read as follows:

"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 separation from service of a Member, former Member, or Beneficiary who is entitled to receive a benefit hereunder. Notwithstanding the

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foregoing, if the nonforfeitable portion of a Member's or former Member's Individual Account exceeds Five Thousand and No/100 Dollars (\$5,000.00), no distributions, other than distributions upon the death of such Member or former Member, may commence without the consent of the Member or former Member until he attains age sixty-two (62), at which time distribution shall be made. 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 or former 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 or former 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 attains age 70 1/2 or (b) the calendar year in which the Member retires; provided that if a 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 attains age 70 1/2. Effective as of November 16, 2001, distribution of a Member's entire Individual Account shall be made in a single lump sum on or before such Member's required beginning date. In the case of a Member who attained age 70 1/2 prior to November 16, 2001, or in the case of a Member who is a five percent (5%) owner, the minimum distribution required for the calendar year immediately preceding the 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 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, and the requirements of this Article will take precedence over any inconsistent provisions of the Plan. Required minimum distributions will be determined beginning with the first distribution calendar year and up to and including the distribution calendar year that includes the Member's date of death. Effective January 1, 2003, during such

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Member's lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

(a) the quotient obtained by dividing the Member's Individual Account balance by the distribution period in the Uniform Lifetime Table set forth in section 1.401(a)(9)-9 of the Treasury Regulations, using the Member's age as of the Member's birthday in the distribution calendar year; or

(b) if the Member's sole designated beneficiary for the distribution calendar year is the Member's spouse, the quotient obtained by dividing the Member's Individual Account balance by the number in the Joint and Last Survivor Table set forth in section 1.401(a)(9)-9 of the Treasury Regulations, using the Member's and spouse's attained ages as of the Member's and spouse's birthdays in the distribution calendar year.

Notwithstanding any provision herein to the contrary, any Member who attains age 70 1/2 in a calendar year after 1995 and prior to November 16, 2001, may irrevocably elect, in the manner established by the Committee, by April 1 of the calendar year following the year in which the Member attains age 70 1/2 (or by December 31, 1997 in the case of a Member who attains age 70 1/2 in 1996) to defer distributions until April 1 of the calendar year following the calendar year in which the Member retires. If no such election is made, the Member will begin receiving distributions by the April 1 of the calendar year following the year in which the Member attains age 70 1/2 (or by December 31, 1997 in the case of a Member who attains age 70 1/2 in 1996), and any such distributions shall comply with the provisions of the preceding paragraph. Furthermore, any Member who attains age 70 1/2 in a calendar year prior to 1996, may irrevocably elect, in the manner established by the Committee, to stop distributions and recommence distributions as of the April 1 of the calendar year following the calendar year in which such Member retires.

If distributions have commenced so that payments are being made over the life of the Member, and he dies before his entire interest has been distributed, then the remaining portion of such interest shall be distributed at least as rapidly as under the method of distribution being used as of the date of his death, but in no event later than one year after the Valuation Date coincident with or

immediately following his death. On the other hand, if a 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 surviving spouse and such surviving spouse dies after the 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. Furthermore, if the designated Beneficiary is the surviving spouse of the 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 death and (b) December 31 of the calendar year in which the Member would have attained age 70 1/2. Distribution of benefits is considered to have begun, for purposes of this paragraph, on the required beginning date; provided that if a Member's designated Beneficiary is his

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surviving spouse, and such surviving spouse dies after the Member but before payments to such surviving spouse have begun, then distribution of benefits is considered to have begun on the date distribution to the surviving spouse is required to begin pursuant to the provisions of this paragraph.

Notwithstanding any provision herein to the contrary, 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."

(16) Article XV, Section 15.3, is hereby amended, effective January 1, 2002, to read as follows:

"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 separation from service occurs, has forfeited a portion of his Individual 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 that 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 distribution 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 that was nonvested at the time of separation from service."

(17) Article XXI is hereby amended to add Section 21.4, effective January 1, 2002, to read as follows:

"21.4 Increase in Annual Compensation Limit: The Annual Compensation of each Member taken into account in determining allocations shall not exceed \$200,000, as adjusted for cost-of-living increases in accordance with section 401(a)(17)(B) of the Code. Annual Compensation means compensation during the Plan Year. The cost-of-

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living adjustment in effect for a calendar year applies to Annual Compensation for the Plan Year that begins with or within such calendar year."

(18) Article XXI is hereby amended to add Section 21.5, effective January 1, 2002, to read as follows:

"21.5 Modification of Top-Heavy Rules:

a. Determination of top-heavy status.

(i) Key Employee. Key Employee means any Employee or former Employee (including any deceased Employee) who, at any time during the Plan Year that includes the Determination Date, was an officer of the Company having Annual Compensation greater than \$130,000 (as adjusted under section 416(i)(1) of the Code for Plan Years beginning on or after January 1, 2003), a 5-percent owner of the Company, or a 1-percent owner of the Company having Annual Compensation of more than \$150,000. For this purpose, Annual Compensation means compensation within the meaning of Section 2.1(c) of the Plan. The determination of who is a Key Employee will be made in accordance with section 416(i)(1) of the Code and the applicable regulations and other guidance of general applicability issued thereunder.

(ii) Determination of present values and amounts. This subsection (ii) shall apply for purposes of determining the present values of accrued benefits and the amounts of Individual Account balances of Employees as of the Determination Date.

(1) Distributions during year ending on the Determination Date. The present values of accrued benefits and the amounts of Individual Account balances of an Employee as of the Determination Date shall be increased by the distributions made with respect to the Employee under the Plan and any plan aggregated with the Plan under section 416(g)(2) of the Code during the 1-year period ending on the Determination Date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than separation from service, death, or disability, this provision shall be applied by substituting "5-year period" for "1-year period."

(2) Employees not performing services during year ending on the Determination Date. The accrued benefits and Individual Accounts of any individual who has not performed services for the Employer during the 1-year period ending on the Determination Date shall not be taken into account.

(b) Minimum benefits. Company Matching Contributions shall be taken into account for purposes of satisfying the minimum contribution requirements of section 416(c)(2) of the Code and the Plan and any Company

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Matching Contributions that are used to satisfy the minimum contribution requirements shall be treated as matching contributions for purposes of the actual contribution percentage test and other requirements of section 401(m) of the Code."

(19) Article XXI is hereby amended to add Section 21.6, effective January 1, 2002, to read as follows:

"21.6 Direct Rollovers of Plan Distributions: For purposes of the direct rollover provisions in Section 15.6 of the Plan, for plan

distributions on or after January 1, 2002, the term "eligible retirement plan" shall mean (i) an individual retirement account described in Section 408(a) of the Code, (ii) an individual retirement annuity described in Section 408(b) of the Code (other than an endowment contract), (iii) a qualified trust described under Section 401(a) of the Code, (iv) an annuity plan described in Section 403(a) of the Code, (v) an annuity contract described in section 403(b) of the Code, and (vi) an eligible plan under section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan. The definition of eligible retirement plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the alternate payee under a qualified domestic relation order, as defined in section 414(p) of the Code. Furthermore, the term "eligible rollover distribution" shall not include any hardship withdrawal."

(20) Article XXI is hereby amended to add Section 21.7, effective January 1, 2002, to read as follows:

"21.7 Rollovers from Other Plans:

a. Direct Rollovers: For purposes of the rollover contribution provisions of Section 4.7 of the Plan, a Member who is entitled to receive an eligible rollover distribution from (i) a qualified plan described in section 401(a) or 403(a) of the Code, (ii) an annuity contract described in section 403(b) of the Code, or (iii) an eligible plan under section 457(b) of the Code that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state, may, in accordance with procedures approved by the Committee, elect to transfer directly to the Trustee, as a trustee-to-trustee transfer, in cash only, an amount equal to all or a portion of such distribution; provided, however, that the maximum amount of such transfer shall be the fair market value of that portion of the distribution that would be includable in gross income if not so transferred (determined without regard to Section 402(c) of the Code).

b. Member Rollover Contributions from Other Plans: For purposes of the rollover contribution provisions of Section 4.7 of the Plan, any Member who has distributed to him an amount that qualifies as an eligible rollover distribution from (i) a qualified plan described in section 401(a) or 403(a) of the Code, (ii) an annuity contract described in section 403(b) of the Code, (iii) an eligible plan under section 457(b) of the Code that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political

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subdivision of a state, or (iv) any portion of a distribution from an individual retirement account annuity described in section 408(a) or 408(b) of the Code, may, in accordance with procedures approved by the Committee, contribute, in cash only, an amount equal to all or any portion of such distribution that is eligible to be rolled over and that would otherwise be includible in gross income if not so transferred (determined without regard to Section 402(c) of the Code)."

(21) Article XXI is hereby amended to add Section 21.8, effective January 1, 2002, to read as follows:

"21.8 Repeal of Multiple-Use Test: The multiple use test described in Treasury Regulation section 1.401(m)-2 and Section 4.6 of the Plan shall not apply for Plan Years beginning on or after January 1, 2002. Any references made throughout the Plan to the multiple use test shall hereafter be disregarded."

IN WITNESS WHEREOF, and as conclusive evidence of the adoption of the foregoing instrument comprising Amendment No. 2 to the Southwest Airlines Co. 401(k) Plan, the Company 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 21 day of November, 2002.

SOUTHWEST AIRLINES CO.

By: /s/ JAMES F. PARKER

James F. Parker, Chief Executive Officer

ATTEST:

/s/ DEBORAH ACKERMAN

Deborah Ackerman, Assistant Secretary

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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 21 day of November, 2002, personally appeared JAMES F. PARKER, to me known to be the identical 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 as the free and voluntary act and deed of such organization for the uses and purposes therein set forth.

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

/s/ MARILYN STRICKLAND

Notary Public in and for the State of Texas

My Commission Expires: 05/31/05

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SOUTHWEST AIRLINES CO.

1996 INCENTIVE STOCK OPTION PLAN

SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), hereby formulates and adopts the following 1996 Incentive Stock Option Plan (the "Plan") for employees of the Company and its subsidiaries.

1. Purpose. The purpose of this Plan is to secure for the Company the benefits of the additional incentive inherent in the ownership of its Common Stock by selected key employees of the Company and its subsidiaries who are important to the success and the growth of the Company and its subsidiaries, and to help the Company and its subsidiaries secure and retain the services of such key employees. The Plan shall be administered so as to qualify the options as "incentive stock options" under Section 422A of the Internal Revenue Code.

2. Stock Option Committee. Subject to the provisions of paragraph 4, this Plan shall be administered by a Stock Option Committee (the "Committee") of the Board of Directors (the "Board") of the Company, to be appointed by at least a majority of the whole Board of Directors. All members of the Committee shall be "disinterested" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as such Rule is in effect on the date of adoption of this Plan by the Board. The Committee shall select one of its members as Chairman and shall adopt such rules and regulations as it shall deem appropriate concerning the holding of its meetings and the transaction of its business. A majority of the whole Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee. Any member of the Committee may be removed at any time either with or without cause by resolution adopted by the Board of Directors of the Company; and any vacancy on the Committee may at any time be filled by resolution adopted by the Board of Directors.

3. Grant of Options. The Committee shall have the authority and responsibility, within the limitations of this Plan, to determine the key employees to whom options are to be granted, the number of shares that may be purchased under each option and the option price.

In determining the key employees to whom options shall be granted and the number of shares to be covered by each such option, the Committee shall take into consideration the employee's present and potential contribution to the success of the Company and its subsidiaries and such other factors as the Committee may deem proper and relevant. During any calendar year period during the term of this Plan, options will not be granted to any individual in excess of 50,000 shares, as adjusted from time to time pursuant to paragraph 13.

Options may not be granted under this Plan if shares are reasonably available for granting under the 1991 Incentive Stock Option Plan.

4. Employees Eligible. Options may be granted under this Plan to any key employee or prospective key employee (conditioned and effective upon his becoming an employee) of the Company or its subsidiaries. Employees who are also officers or directors of the Company or its subsidiaries shall not

by reason of such offices be ineligible to receive options under this Plan; provided, however, that no director who is not also an employee of the Company or any of its subsidiaries shall be eligible to receive options.

An Employee receiving any option under this Plan is hereinafter referred to as an "Optionee." Any reference herein to the employment of an Optionee with the Company shall include his employment with the Company or any of its subsidiaries.

5. Stock Subject to Options. Subject to the provisions of paragraph 13, the number of shares of the Company's Common Stock subject at any one time to options, plus the number of such shares then outstanding pursuant to exercises of options granted under this Plan, shall not exceed 6,000,000. If, and to the extent the options granted under this Plan terminate or expire without having been exercised, new options may be granted with respect to the shares covered by such terminated or expired options; provided that the granting and terms of such new options shall in all respects comply with the provisions of this Plan.

Shares sold or distributed upon the exercise of any option granted under this Plan may be shares of the Company's authorized and unissued Common Stock, shares of the Company's issued Common Stock held in the Company's treasury, or both.

There shall be reserved at all times for sale or distribution under this Plan a number of shares of Common Stock (either authorized and unissued

shares or shares held in the Company's treasury, or both) equal to the maximum number of shares which may be purchased or distributed upon the exercise of options granted or that may be granted under this Plan.

6. Option Price. The option price of each share of Common Stock purchasable under any option granted under this Plan shall be not less than the fair market value thereof at the time the option is granted and shall be set forth in the option agreement; provided, however, that the option price for any share of Common Stock purchasable under an option granted to an individual owning, at the time the option is granted, more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or its subsidiary corporations, shall be one hundred ten percent (110%) of the fair market value thereof at the time the option is granted.

The fair market value of the Common Stock on any day shall be the mean between the highest and lowest quoted selling prices of the Common Stock on such day as reported by the primary national stock exchange on which such stock is listed. If no sale shall have been made on that day, or if the Common Stock is not listed on a national exchange at that time, fair market value will be determined by the Committee.

7. Expiration and Termination of the Plan. Options may be granted under this Plan at any time and from time to time, prior to ten years from the date of adoption of this Plan, on which date this Plan will expire, except as to options then outstanding under this Plan. Such options shall remain in effect until they have been exercised or have expired. This Plan may be terminated or modified at any time prior to December 31, 2005, by the Board of Directors except to the extent prohibited by Section 422 of the Internal Revenue Code.

No modification, extension, renewal or other change in any option granted under this Plan shall be made after the grant of such option unless the same is consistent with the provisions of this Plan.

8. Exercisability and Duration of Options. Options granted under this Plan shall become exercisable after the lapse of such period or periods of time or the occurrence of such event or events as the Committee, in its discretion, may provide upon the granting thereof.

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The unexercised portion of any option granted under this Plan shall automatically and without notice terminate and become null and void at the time of the earliest to occur of the following:

(a) The expiration of 10 years from the date on which such option was granted; provided, however, that in the case of an Optionee owning, at the time such option was granted, more than 10% of the total combined voting power of all classes of stock of the Company or its subsidiaries, such expiration shall be as of 5 years from the date on which such option was granted;

(b) The expiration of three months from the date of termination of the Optionee's employment with the Company or any subsidiary; provided that if the Optionee shall die during such 3-month period the provisions of subparagraph (c) below shall apply;

(c) The expiration of 6 months following the issuance of letters testamentary or letters of administration to the executor or administrator of a deceased Optionee, if the Optionee's death occurs either during his employment with the Company or during the 3-month period following the date of termination of such employment, but not later than 1 year after the Optionee's death;

(d) The termination of the Optionee's employment with the Company for cause, including breach by the Optionee of an employment agreement with the Company or any of its subsidiaries or the Optionee's commission of a felony or misdemeanor (whether or not prosecuted) against the Company or any of its subsidiaries;

(e) The expiration of such period of time or the occurrence of such event as the Committee in its discretion may provide upon the granting thereof.

9. Exercise of Options.

(a) Procedure. The options granted hereunder shall be exercised by the Optionee (or by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee) as to all or part of the shares covered by the option, by giving written notice (the "Notice") of the exercise thereof to the Company. From time to time the Committee may establish procedures relating and effecting such exercises. No fractional shares shall be issued as a result of exercising an option.

(b) Payment. In the Notice, the Optionee shall elect whether he or she is to pay for his or her shares in cash or in Common Stock of the Company, or

both. If payment is to be made in cash, the Optionee shall deliver to the Company a cashier's check or electronic funds transfer in the amount of the exercise price on or before the exercise date. If payment is to be made in Common Stock, it shall be valued at its fair market value on the date of such notice, as determined pursuant to paragraph 6 hereof, and the Notice shall be accompanied by a certificate for at least the number of shares of Common Stock to be used as payment.

(c) Irrevocable Election. The giving of such written notice to the Company shall constitute an irrevocable election to purchase the number of shares specified in the Notice on the date specified in the Notice.

(d) Delivery of Shares. The Company shall cause certificates for shares to be delivered to the Optionee (or the person exercising the Optionee's options in the event of death) as soon as practicable after the exercise date.

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10. Nontransferability of Options. No option granted under this Plan or any right evidenced thereby shall be transferable by the Optionee other than by will or the laws of descent and distribution. During the lifetime of an Optionee, only the Optionee (or his or her guardian or legal representative) may exercise his or her options.

In the event of the Optionee's death during his employment with the Company, or during the 3-month period following the date of termination of such employment, his options shall thereafter be exercisable, as provided in paragraph 8(c), by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee.

11. Rights of Optionee. Neither the Optionee nor his or her executors, administrators, or legal representatives shall have any of the rights of a shareholder of the Company with respect to the shares subject to an option granted under this Plan until certificates for such shares shall have been issued upon the exercise of such option.

12. Right to Terminate Employment. Nothing in this Plan or in any option granted under this Plan shall confer upon any Optionee the right to continue in the employment of the Company or affect the right of the Company or any of its subsidiaries to terminate the Optionee's employment at any time, subject, however, to the provisions of any agreement of employment between the Company or any of its subsidiaries and the Optionee.

13. Adjustment Upon Changes in Capitalization, Etc.

(a) The existence of the Plan and the options granted hereunder shall not affect in any way the right or power of the Board or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities ahead of or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

(b) The shares with respect to which options may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of any option theretofore granted, the Company shall effect a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend on Common Stock without receipt of consideration by the Company, the number of shares of Common Stock with respect to which such option may thereafter be exercised (i) in the event of an increase in the number of outstanding shares shall be proportionately increased, and the purchase price per share shall be proportionately reduced, and (ii) in the event of a reduction in the number of outstanding shares shall be proportionately reduced, and the purchase price per share shall be proportionately increased. In the event of any such change in the outstanding Common Stock, the aggregate number of shares available under the Plan may be appropriately adjusted by the Committee whose determination shall be conclusive.

(c) If the Company recapitalizes or otherwise changes its capital structure, thereafter upon any exercise of an option theretofore granted the Optionee shall be entitled to purchase under such option, in lieu of the number of shares of Common Stock as to which such option shall then be exercisable, the number and class of shares of stock and securities to which the Optionee would have been entitled pursuant to the terms of the recapitalization if, immediately prior to such recapitalization, the Optionee had been the holder of record of the number of shares of Common Stock as to which such option is then exercisable. If the Company shall not be the surviving entity in any merger or consolidation (or survives only as a subsidiary of an entity other than a previously wholly-owned subsidiary of the Company) or if the Company is to be

dissolved or liquidated, then unless a surviving corporation assumes or substitutes new options for Options then outstanding hereunder, (i) the time at which such Options may be exercised shall be accelerated and such Options shall become exercisable in full on or before a date fixed by the Company prior to the effective date of such merger or consolidation or such dissolution or liquidation, and (ii) upon such effective date Options shall expire.

(d) Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class for property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to options theretofore granted or the purchase price per share.

14. Purchase for Investment and Legality. The Optionee, by acceptance of any option granted under this Plan, shall represent and warrant to the Company that the purchase or receipt of shares of Common Stock upon the exercise thereof shall be for investment and not with a view to distribution, provided that such representation and warranty shall be inoperative if, in the opinion of counsel to the Company, a proposed sale or distribution of such shares is pursuant to an applicable effective registration statement under the Securities Act of 1933 or is, without such representation and warranty, exempt from registration under such Act.

The obligation of the Company to issue shares upon the exercise of an option shall also be subject as conditions precedent to compliance with applicable provisions of the Securities Act of 1933, the Securities Exchange Act of 1934, state securities laws, rules and regulations under any of the foregoing and applicable requirements of any securities exchange upon which the Company's securities shall be listed.

The Company may endorse an appropriate legend referring to the foregoing restrictions upon the certificate or certificates representing any shares issued or transferred to the Optionee upon the exercise of any option granted under this Plan.

15. Limitation on Amount of Options. In no event shall the aggregate fair market value (determined as of the time an option is granted) of the stock for which options are exercisable for the first time by any Optionee during any calendar year, under all incentive stock option plans of the Company and its subsidiaries, exceed \$100,000. As used in this Section, the term "incentive stock option plan" shall mean any plan qualifying as such under Internal Revenue Code Section 422.

16. Effective Date of Plan. This Plan shall become effective upon its adoption by the Board of Directors of the Company, subject, however, to its approval by the Company's shareholders after the date of such adoption.

SOUTHWEST AIRLINES CO.

1996 NON-QUALIFIED STOCK OPTION PLAN

SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), hereby formulates and adopts the following 1996 Non-Qualified Stock Option Plan (the "Plan") for employees and directors of the Company and its subsidiaries.

1. Purpose. The purpose of this Plan is to secure for the Company the benefits of the additional incentive inherent in the ownership of its Common Stock by selected key employees and directors of the Company and its subsidiaries who are important to the success and the growth of the Company and its subsidiaries, and to help the Company and its subsidiaries secure and retain the services of such key employees and directors.

2. Stock Option Committee. Subject to the provisions of paragraph 4, this Plan shall be administered by a Stock Option Committee (the "Committee") of the Board of Directors (the "Board") of the Company, to be appointed by at least a majority of the whole Board of Directors. All members of the Committee shall be "disinterested" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as such Rule is in effect on the date of adoption of this Plan by the Board. The Committee shall select one of its members as Chairman and shall adopt such rules and regulations as it shall deem appropriate concerning the holding of its meetings and the transaction of its business. A majority of the whole Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee. Any member of the Committee may be removed at any time either with or without cause by resolution adopted by the Board of Directors of the Company; and any vacancy on the Committee may at any time be filled by resolution adopted by the Board of Directors.

3. Grant of Options. The Committee shall have the authority and responsibility, within the limitations of this Plan, to determine the key employees to whom options are to be granted, the number of shares that may be purchased under each option and the option price.

In determining the key employees to whom options shall be granted and the number of shares to be covered by each such option, the Committee shall take into consideration the employee's present and potential contribution to the success of the Company and its subsidiaries and such other factors as the Committee may deem proper and relevant. During any calendar year period during the term of this Plan, options will not be granted to any individual in excess of 50,000 shares, as adjusted from time to time pursuant to paragraph 13.

Options may not be granted under this Plan if shares are available for granting under the 1991 Non-Qualified Stock Option Plan.

4. Persons Eligible.

(a) Options may be granted under this Plan to any key employee or prospective key employee (conditioned and effective upon his becoming an employee) of the Company or its subsidiaries. Employees who are also officers or directors of the Company or its subsidiaries shall not by reason of such offices be ineligible to receive options under this Plan.

(b) Each individual who is not an employee of the Company or its subsidiaries, who becomes a director of the Company ("Outside Director") after adoption of this Plan and who has not previously been granted options under this, or any other stock option plan of the Company, shall, on the date of his or her election to the Board of Directors of the Company, be granted an option to purchase 10,000 shares of the Common Stock at a price equal to 100% of the fair market value of the Common Stock on such date. No Outside Director to whom an option has been granted shall be eligible to receive additional options under this Plan.

An employee or director receiving any option under this Plan is hereinafter referred to as an "Optionee." Any reference herein to the employment of an Optionee with the Company shall include employment with the Company or any of its subsidiaries. The fair market value of the Common Stock on any day shall be the mean between the highest and lowest quoted selling prices of the Common Stock on such day as reported by the primary national stock exchange on which such stock is listed. If no sale shall have been made on that day, or if the Common Stock is not listed on a national exchange at that time, fair market value will be determined by the Committee.

5. Stock Subject to Options. Subject to the provisions of paragraph 13, the number of shares of the Company's Common Stock subject at any one time to options, plus the number of such shares then outstanding pursuant to exercises

of options granted under this Plan, shall not exceed 575,000. If, and to the extent the options granted under this Plan terminate or expire without having been exercised, new options may be granted with respect to the shares covered by such terminated or expired options; provided that the granting and terms of such new options shall in all respects comply with the provisions of this Plan.

Shares sold or distributed upon the exercise of any option granted under this Plan may be shares of the Company's authorized and unissued Common Stock, shares of the Company's issued Common Stock held in the Company's treasury, or both.

There shall be reserved at all times for sale or distribution under this Plan a number of shares of Common Stock (either authorized and unissued shares or shares held in the Company's treasury, or both) equal to the maximum number of shares which may be purchased or distributed upon the exercise of options granted or that may be granted under this Plan.

6. Option Price. The option price of each share of Common Stock purchasable under any option granted under this Plan shall be not less than the fair market value thereof at the time the option is granted and shall be set forth in the option agreement.

7. Expiration and Termination of the Plan. Options may be granted under this Plan at any time and from time to time, prior to December 31, 2005, on which date this Plan will expire, except as to options then outstanding under this Plan. Such options shall remain in effect until they have been exercised or have expired. This Plan may be terminated or modified at any time prior to December 31, 2005, by the Board of Directors except with respect to any options then outstanding under this Plan; provided that any (a) increase in the maximum number of shares subject to options, as specified in paragraph 5, (b) decrease in the minimum option price specified in paragraph 6 or (c) change in the number of and terms of options to be awarded to Outside Directors as specified in paragraphs 4(b), 8 and 13 shall be subject to approval by the Company's shareholders, unless made pursuant to the provisions of paragraph 13.

No modification, extension, renewal or other change in any option granted under this Plan shall be made after the grant of such option unless the same is consistent with the provisions of this Plan.

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8. Exercisability and Duration of Options.

(a) Exercisability. Options granted under this Plan to employees shall become exercisable after the lapse of such period or periods of time or the occurrence of such event or events as the Committee, in its discretion, may provide upon the granting thereof. Any option granted under this Plan to an Outside Director shall become exercisable as follows (or after the lapse of such additional period or periods of time or the occurrence of such event or events as the Committee, in its discretion, may provide upon the granting thereof):

<Table> <Caption>	
Time Elapsed since Grant -----	Options First Exercisable -----
<S>	
One Year	1,000
Two Years	1,500
Three Years	2,000
Four Years	2,500
Five Years	3,000
</Table>	

After the expiration of five years following the date on which such grant is made, such options may be exercised as to all of the shares covered thereby.

(b) Duration. The unexercised portion of any option granted under this Plan shall automatically and without notice terminate and become null and void at the time of the earliest to occur of the following:

(1) The expiration of 10 years from the date on which such option was granted;

(2) The expiration of three months from the date of termination of the Optionee's employment with the Company or any subsidiary (or in the case of an Outside Director, three months from the date such Outside Director ceases to serve as a member of the Board of Directors for any reason other than death); provided that if the Optionee shall die during such 3-month period the provisions of subparagraph (3) below shall apply;

(3) The expiration of 6 months following the issuance of letters testamentary or letters of administration to the executor or

administrator of a deceased Optionee, if the Optionee's death occurs either during his employment with the Company (or service as an Outside Director, as the case may be) or during the 3-month period following the date of termination of such employment (or service as an Outside Director, as the case may be), but not later than 1 year after the Optionee's death;

(4) In the case of employee Optionees, the termination of the Optionee's employment with the Company for cause, including breach by the Optionee of an employment agreement with the Company or any of its subsidiaries or the Optionee's commission of a felony or misdemeanor (whether or not prosecuted) against the Company or any of its subsidiaries;

(5) In the case of employee Optionees, the expiration of such period of time or the occurrence of such event as the Committee in its discretion may provide upon the granting thereof.

3

9. Exercise of Options.

(a) Procedure. The options granted hereunder shall be exercised by the Optionee (or by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee) as to all or part of the shares covered by the option, by giving written notice (the "Notice") of the exercise thereof to the Company. From time to time the Committee may establish procedures relating and effecting such exercises. No fractional shares shall be issued as a result of exercising an option.

(b) Payment. In the Notice, the Optionee shall elect whether he or she is to pay for his or her shares in cash or in Common Stock of the Company, or both. If payment is to be made in cash, the Optionee shall deliver to the Company a cashier's check or electronic funds transfer in the amount of the exercise price on or before the exercise date. If payment is to be made in Common Stock, it shall be valued at its fair market value on the date of such notice, as determined pursuant to paragraph 6 hereof and the Notice shall be accompanied by a certificate for at least the number of shares of Common Stock to be used as payment.

(c) Irrevocable Election. The giving of such written notice to the Company shall constitute an irrevocable election to purchase the number of shares specified in the Notice on the date specified in the Notice.

(d) Withholding Taxes. To the extent that the exercise of any Option granted pursuant to this Plan or the disposition of shares of Common Stock acquired by exercise of an Option results in compensation income to the Optionee for federal or state income tax purposes, the Optionee shall deliver to the Company at the time of such exercise or disposition such amount of money as the Company may require to meet its obligation under applicable tax laws or regulations, and, if the Optionee fails to do so, the Company is authorized to (a) withhold delivery of certificates upon exercise and (b) withhold from remuneration then or thereafter payable to Optionee any tax required to be withheld by reason of such resulting compensation income.

(e) Delivery of Shares. The Company shall cause certificates for shares to be delivered to the Optionee (or the person exercising the Optionee's options in the event of the death as soon as practicable after the exercise date.

10. Nontransferability of Options. No option granted under this Plan or any right evidenced thereby shall be transferable by the Optionee other than by will or the laws of descent and distribution. During the lifetime of an Optionee, only the Optionee (or his or her guardian or legal representative) may exercise his options.

In the event of the Optionee's death during his or her employment with the Company, or during the 30-day period following the date of termination of such employment, his options shall thereafter be exercisable, as provided in paragraph 8(b), by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee.

11. Rights of Optionee. Neither the Optionee nor his or her executors, administrators, or legal representatives shall have any of the rights of a shareholder of the Company with respect to the shares subject to an option granted under this Plan until certificates for such shares shall have been issued upon the exercise of such option.

4

12. Right to Terminate Employment. Nothing in this Plan or in any option granted under this Plan shall confer upon any Optionee the right to continue in the employment of the Company or affect the right of the Company or any of its subsidiaries to terminate the Optionee's employment at any time, subject, however, to the provisions of any agreement of employment between the

Company or any of its subsidiaries and the Optionee.

13. Adjustment Upon Changes in Capitalization, Etc.

(a) The existence of the Plan and the options granted hereunder shall not affect in any way the right or power of the Board or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities ahead of or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

(b) The shares with respect to which options may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of an option theretofore granted, the Company shall effect a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend on Common Stock without receipt of consideration by the Company, the number of shares of Common Stock with respect to which such option may thereafter be exercised (i) in the event of an increase in the number of outstanding shares shall be proportionately increased, and the purchase price per share shall be proportionately reduced, and (ii) in the event of a reduction in the number of outstanding shares shall be proportionately reduced, and the purchase price per share shall be proportionately increased. In the event of any such change in the outstanding Common Stock, the aggregate number of shares available under the Plan may be appropriately adjusted by the Committee whose determination shall be conclusive.

(c) If the Company recapitalizes or otherwise changes its capital structure, thereafter upon any exercise of an option theretofore granted the Optionee shall be entitled to purchase under such option, in lieu of the number of shares of Common Stock as to which such option shall then be exercisable, the number and class of shares of stock and securities to which the Optionee would have been entitled pursuant to the terms of the recapitalization if, immediately prior to such recapitalization, the Optionee had been the holder of record of the number of shares of Common Stock as to which such option is then exercisable. If the Company shall not be the surviving entity in any merger or consolidation (or survives only as a subsidiary of an entity other than a previously wholly-owned subsidiary of the Company) or if the Company is to be dissolved or liquidated, then unless a surviving corporation assumes or substitutes new options for Options then outstanding hereunder (i) the time at which such Options may be exercised shall be accelerated and such Options shall become exercisable in full on or before a date fixed by the Company prior to the effective date of such merger or consolidation or such dissolution or liquidation, and (ii) upon such effective date Options shall expire.

(d) Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to options theretofore granted or the purchase price per share.

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14. Purchase for Investment and Legality. The Optionee, by the acceptance of any option granted under this Plan, shall represent and warrant to the Company that the purchase or receipt of shares of Common Stock upon the exercise thereof shall be for investment and not with a view to distribution, provided that such representation and warranty shall be inoperative if, in the opinion of counsel to the Company, a proposed sale or distribution of such shares is pursuant to an applicable effective registration statement under the Securities Act of 1933 or is, without such representation and warranty, exempt from registration under such Act.

The obligation of the Company to issue shares upon the exercise of an option shall also be subject as conditions precedent to compliance with applicable provisions of the Securities Act of 1933, the Securities Exchange Act of 1934, state securities laws, rules and regulations under any of the foregoing and applicable requirements of any securities exchange upon which the Company's securities shall be listed.

The Company may endorse an appropriate legend referring to the foregoing restrictions upon the certificate or certificates representing any shares issued or transferred to the Optionee upon the exercise of any option granted under this Plan.

15. Effective Date of Plan. This Plan shall become effective upon its adoption by the Board of Directors of the Company, subject, however, to its approval by the Company's shareholders after the date of such adoption.

SOUTHWEST AIRLINES CO.

1998 SAEA NON-QUALIFIED
STOCK OPTION PLAN

SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), hereby formulates and adopts the following 1998 SAEA Non-Qualified Stock Option Plan.

1. PURPOSE. This Plan is adopted pursuant to the Collective Bargaining Agreement (the "Agreement") between the Company and the Southwest Airlines Employee Association ("SAEA") ratified on September 10, 1998.

2. ADMINISTRATION. This Plan shall be administered by an Administrative Committee (the "Committee") consisting of not more than five (5) persons designated from time to time by the Chief Executive Officer of the Company, including as one of its members the President of SAEA or his or her designee. Members of the Committee may be removed or replaced at any time by the Chief Executive Officer of the Company. The Administrative Committee shall select one of its members as Chairman and shall adopt such rules and regulations as it shall deem appropriate concerning the holding of its meetings, the transaction of its business and the administration of this Plan. A majority of the whole Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee; any decision or determination reduced to writing and signed by a majority of the members of the Administrative Committee shall be fully as effective as if made by a majority vote at a meeting duly called and held.

3. GRANT OF OPTIONS; PERSONS ELIGIBLE. The Stock Option Committee of the Board of Directors of the Company, or such other committee as may be appointed by the Board, shall have the authority and responsibility, within the limitations of this Plan, to grant options from time to time to persons employed as dispatchers (including dispatchers in management positions retaining seniority numbers) by the Company pursuant to the Agreement and as set forth in the schedule attached as Exhibit A and made a part hereof. Initial Grants (as defined in Exhibit A) shall be granted at an exercise price of \$19.62 per share; thereafter, Options shall be granted at an exercise price equal to the fair market value of the Common Stock of the Company on the date of the grant of the option plus five percent (5%). Only persons who are employed as dispatchers of SWA on the date of the grant may be granted options under this Plan; under no circumstances shall executive officers of the Company be eligible to receive options hereunder.

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1998 SAEA NON-QUALIFIED STOCK OPTION PLAN

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4. DEFINITIONS. An employee receiving any option under this Plan is hereinafter referred to as an "Optionee." Any reference herein to the employment of an Optionee with the Company shall include only employment with the Company. The fair market value of the Common Stock on any day shall be the mean between the highest and lowest quoted selling prices of the Common Stock on such day as reported by the primary national stock exchange on which such stock is listed. If no sale shall have been made on that day, or if the Common Stock is not listed on a national exchange at that time, fair market value will be determined by the Committee.

5. STOCK SUBJECT TO OPTIONS. Subject to the provisions of paragraph 12, the number of shares of the Company's Common Stock subject at any one time to options, plus the number of such shares then outstanding pursuant to exercises of options, granted under this Plan, shall not exceed 1,050,000 shares (as adjusted for the 3-for-2 stock split effective August 20, 1998). If, and to the extent the options granted under this Plan terminate or expire without having been exercised, new options may be granted with respect to the shares covered by such terminated or expired options; provided that the granting and terms of such new options shall in all respects comply with the provisions of this Plan.

Shares sold or distributed upon the exercise of any option granted under this Plan may be shares of the Company's authorized and unissued Common Stock, shares of the Company's issued Common Stock held in the Company's treasury, or both.

There shall be reserved at all times for sale or distribution under this Plan a number of shares of Common Stock (either authorized and unissued shares or shares held in the Company's treasury, or both) equal to the maximum number of shares which may be purchased or distributed upon the exercise of options granted under this Plan.

Exercise of an Option in any manner shall result in a decrease in the number of shares of Common Stock which may thereafter be available, both for purposes of this Plan and for sale to any one individual, by the number of shares as to which the Option is exercised.

6. EXPIRATION AND TERMINATION OF THE PLAN. This Plan will expire on June 30, 2012.

No modification, extension, renewal or other change in any option granted under this Plan shall be made after the grant of such option unless the same is consistent with the provisions of this Plan.

7. EXERCISABILITY AND DURATION OF OPTIONS.

(a) Exercisability. Options granted under this Plan shall become exercisable pursuant to the vesting schedule and requirements set forth in Exhibit A attached hereto.

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1998 SAEA NON-QUALIFIED STOCK OPTION PLAN

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(b) Duration. The unexercised portion of any option granted under this Plan shall automatically and without notice terminate and become null and void at the time of the earliest to occur of the following:

(1) June 30, 2012;

(2) The expiration of three months from the date of termination of the Optionee's employment with the Company (unless such termination was as a result of the circumstances set forth in subparagraphs (3) or (4) below); provided that if the Optionee shall die during such 3-month period the provisions of subparagraph (3) below shall apply;

(3) The expiration of 12 months following the issuance of letters testamentary or letters of administration to the executor or administrator of a deceased Optionee, if the Optionee's death occurs either during his employment with the Company, during the three-month period following the date of termination of such employment, or during the 24-month period following retirement at age 65; or

(4) The expiration of 24 months following the retirement of the Optionee at age 65; provided that if the Optionee shall die during such 24-month period, the provisions of subparagraph (3) above shall apply.

In the case of subparagraphs (2), (3) and (4) above, the Optionee shall have the right to exercise any Option prior to such expiration to the extent it was exercisable at the date of such termination of employment and shall not have been exercised.

8. EXERCISE OF OPTIONS.

(a) Procedure. The option granted herein shall be exercised by the Optionee (or by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee) as to all or part of the shares covered by the option (but in no event less than 100 shares, unless such exercise is for all remaining shares) by giving written notice of the exercise thereof (the "Notice") to the Company. From time to time the Committee may establish procedures relating to effecting such exercises. No fractional shares shall be issued as a result of exercising an Option.

(b) Payment. In the Notice, the Optionee shall elect whether he or she is to pay for his or her shares in cash or in Common Stock of the Company, or both. If payment is to be made in cash, the Optionee shall deliver to the Company a cashier's check or electronic funds transfer in the amount of the exercise price on or before the exercise date. If payment is to be made in Common Stock, (a) it shall be valued at its fair market value on the date of such notice, as determined pursuant to Paragraph 4 hereof; (b) such Common Stock must have been owned by the Optionee for at least six months prior to the exercise date; and (c) the Notice shall be accompanied by a certificate for at least the number of shares of Common Stock to be used as payment.

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1998 SAEA NON-QUALIFIED STOCK OPTION PLAN

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(c) Irrevocable Election. The giving of such written notice to the Company shall constitute an irrevocable election to purchase the number of shares specified in the notice on the date specified in the notice.

(d) Withholding Taxes. To the extent that the exercise of any Option granted pursuant to this Plan or the disposition of shares of Common Stock acquired by exercise of an Option results in compensation income to the Optionee for federal or state income tax purposes, the Optionee shall deliver to the Company at the time of such exercise or disposition such amount of money as the Company may require to meet its obligation under applicable tax laws or regulations, and, if the Optionee fails to do so, the Company is authorized to (a) withhold delivery of certificates upon exercise and (b) withhold from remuneration then or thereafter payable to Optionee any tax required to be withheld by reason of such resulting compensation income.

(e) Delivery of Shares. The Company shall cause shares to be delivered to the Optionee (or the person exercising the Optionee's options in the event of death) as soon as practicable after the exercise date.

9. NONTRANSFERABILITY OF OPTIONS. No option granted under this Plan or any right evidenced thereby shall be transferable by the Optionee other than by will or the laws of descent and distribution. During the lifetime of an Optionee, only the Optionee (or his or her guardian or legal representative) may exercise his or her options.

In the event of the Optionee's death during his or her employment with the Company, during the three-month period following the date of termination of such employment, or during the 24-month period following retirement at age 65, the Optionee's options shall thereafter be exercisable, as provided in paragraph 7(b), by his or her executor or administrator, or by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee.

10. RIGHTS OF OPTIONEE. Neither the Optionee nor his or her executors, administrators, or legal representatives shall have any of the rights of a shareholder of the Company with respect to the shares subject to an option granted under this Plan until certificates for such shares shall have been issued upon the exercise of such option.

11. RIGHT TO TERMINATE EMPLOYMENT. Nothing in this Plan or in any option granted under this Plan shall confer upon any Optionee the right to continue in the employment of the Company or affect the right of the Company or any of its subsidiaries to terminate the Optionee's employment at any time; subject, however, to the provisions of the Agreement.

12. ADJUSTMENT UPON CHANGES IN CAPITALIZATION, ETC.

(a) The existence of the Plan and the options granted hereunder shall not affect in any way the right or power of the Board of Directors or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the

Company, any issue of debt or equity securities ahead of or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

(b) The shares with respect to which options may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of an option theretofore granted, the Company shall effect a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend on Common Stock without receipt of consideration by the Company, the number of shares of Common Stock with respect to which such option may thereafter be exercised (i) in the event of an increase in the number of outstanding shares shall be proportionately increased, and the purchase price per share shall be proportionately reduced, and (ii) in the event of a reduction in the number of outstanding shares shall be proportionately reduced, and the purchase price per share shall be proportionately increased; likewise, the number of shares to be granted pursuant to the schedule set forth in Exhibit A shall be appropriately adjusted. In the event of any such change in the outstanding Common Stock, the aggregate number of shares available under the Plan shall be appropriately adjusted by the Board of Directors of the Company, whose determination shall be conclusive.

(c) If the Company recapitalizes or otherwise changes its capital structure, thereafter upon any exercise of an option theretofore granted the Optionee shall be entitled to purchase under such option, in lieu of the number

of shares of Common Stock as to which such option shall then be exercisable, the number and class of shares of stock and securities to which the Optionee would have been entitled pursuant to the terms of the recapitalization if, immediately prior to such recapitalization, the Optionee had been the holder of record of the number of shares of Common Stock as to which such option is then exercisable. If the Company shall not be the surviving entity in any merger or consolidation (or survives only as a subsidiary of an entity other than a previously wholly-owned subsidiary of the Company) or if the Company is to be dissolved or liquidated, then unless a surviving corporation assumes or substitutes new options for Options then outstanding hereunder (i) the time at which such Options may be exercised shall be accelerated and such Options shall become exercisable in full on or before a date fixed by the Company prior to the effective date of such merger or consolidation or such dissolution or liquidation, and (ii) upon such effective date Options shall expire.

(d) Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to options theretofore granted or to be granted or the purchase price per share.

13. PURCHASE FOR INVESTMENT AND LEGALITY. The Optionee, by acceptance of any option granted under this Plan, shall represent and warrant to the Company that the

purchase or receipt of shares of Common Stock upon the exercise thereof shall be for investment and not with a view to distribution, provided that such representation and warranty shall be inoperative if, in the opinion of counsel to the Company, a proposed sale or distribution of such shares is pursuant to an applicable effective registration statement under the Securities Act of 1933 or is, without such representation and warranty, exempt from registration under such Act. The Company shall file a Registration Statement on Form S-8 pursuant to the Securities Act of 1933, as amended, covering the shares to be offered pursuant to the Plan and will use its best efforts to maintain such registration at all times necessary to permit holders of options to exercise them.

The obligation of the Company to issue shares upon the exercise of an option shall also be subject as conditions precedent to compliance with applicable provisions of the Securities Act of 1933, the Securities Exchange Act of 1934, state securities laws, rules and regulations under any of the foregoing and applicable requirements of any securities exchange upon which the Company's securities shall be listed.

The Company may endorse an appropriate legend referring to the foregoing restrictions upon the certificate or certificates representing any shares issued or transferred to the Optionee upon the exercise of any option granted under this Plan.

14. EFFECTIVE DATE OF PLAN. This Plan shall become effective on September 10, 1998 upon its adoption by the Board of Directors of the Company.

EXHIBIT A

INITIAL GRANTS

On the Effective Date of the Plan, options will be granted to persons employed as dispatchers by the Company according to the following schedule. Initial Grants are based on the Dispatcher's step level for pay purposes as of December 1, 1997 (the "Seniority Grant Date"), except for employees hired after the Seniority Grant Date and before the Effective Date, who shall be treated for purposes of the Initial Grants as being step one employees. Options will vest annually on the anniversary of the Seniority Grant Date.

<Table>

<Caption>

STOCK OPTION VESTING SCHEDULE

(DATE OF RATIFICATION)											
DECEMBER 1,											
STEP LEVEL AS OF SENIORITY GRANT DATE 2006	TOTAL GRANT	SEPT. 10, 1998	1998	1999	2000	2001	2002	2003	2004	2005	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1	6749	453	503	552	601	650	699	748	798	848	
2	7242	503	552	601	650	699	748	798	848	897	
3	7686	552	602	649	699	749	798	847	897	947	
4	8081	602	649	699	749	798	847	897	947	946	
5	8426	650	699	749	798	847	897	947	946	947	
6	8721	699	749	798	847	897	947	946	946	946	
7	8969	749	798	847	897	947	946	947	946	946	
8	9165	798	848	897	946	946	946	946	946	946	
9	9314	848	897	947	946	946	946	946	946	946	
10	9413	897	947	946	947	946	946	946	946	946	
11	9465	947	946	947	946	947	946	947	946	947	
12 & Thereafter	9465	947	946	947	946	947	946	947	946	947	

SUBSEQUENT GRANTS

On December 1 of each year, commencing December 1, 1998 through December 1, 2008 (unless the Plan terminates at an earlier date according to the terms thereof), options will be granted to persons employed as dispatchers by the Company who have completed probation during the previous 12 months. Options will vest annually on the anniversary of the Grant Date, as follows:

EXHIBIT A TO 1998 SAEA NON-QUALIFIED STOCK OPTION PLAN

PAGE 1

<Table>
<Caption>
Grant
Date

STOCK OPTION VESTING SCHEDULE*

	Grant Date	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total Grant
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1998	453	503	552	601	649	699	748	798	847	897	6,747
1999	453	503	552	601	649	699	748	798	847	0	5,850
2000	453	503	552	601	649	699	748	798	0	0	5,003

2001	453	503	552	601	649	699	748	0	0	0	4,205
2002	453	503	552	601	649	699	0	0	0	0	3,457
2003	453	503	552	601	649	0	0	0	0	0	2,758
2004	453	503	552	601	0	0	0	0	0	0	2,109
2005	453	503	552	0	0	0	0	0	0	0	1,508
2006	453	503	0	0	0	0	0	0	0	0	956
2007	453	0	0	0	0	0	0	0	0	0	453
2008	453	0	0	0	0	0	0	0	0	0	453

*Year 2 is the first anniversary of the Grant Date, Year 3 is the second anniversary of the Grant Date, and so on.

All numbers in this Exhibit have been adjusted to reflect the 3-for-2 stock split effective August 20, 1998.

VESTING REQUIREMENTS

Options will vest on the applicable vesting date under the following circumstances, and no other:

(a) For Optionees who are employees of the Company on paid status as of the applicable vesting date; and

(b) For Optionees who are employees of the Company on unpaid status as of the applicable vesting date (e.g., medical leave, military leave, maternity leave etc.) who accrue hours of service during the calendar year in which the vesting date occurs sufficient to qualify for a profit sharing contribution under the Company's Profit Sharing Plan for such calendar year. By way of example, if an Optionee is on unpaid medical leave on December 1, 1999, but during calendar year 1999 accrues sufficient hours of service to qualify for a profit sharing contribution for 1999, such Optionee's options will vest on December 1, 1999 as if that Optionee had been on paid status as of December 1, 1999.

SOUTHWEST AIRLINES CO.

1999 SWAPIA NON-QUALIFIED STOCK OPTION PLAN

SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), hereby formulates and adopts the following 1999 SWAPIA Non-Qualified Stock Option Plan.

1. PURPOSE. This Plan is adopted pursuant to the Collective Bargaining Agreement (the "Agreement") between the Company and the Southwest Airlines Professional Instructors Association ("SWAPIA") ratified on May 20, 1999.

2. ADMINISTRATION. This Plan shall be administered by an Administrative Committee (the "Committee") consisting of not more than five (5) persons designated from time to time by the Chief Executive Officer of the Company, including as one of its members the President of SWAPIA or his or her designee. Members of the Committee may be removed or replaced at any time by the Chief Executive Officer of the Company. The Administrative Committee shall select one of its members as Chairman and shall adopt such rules and regulations as it shall deem appropriate concerning the holding of its meetings, the transaction of its business and the administration of this Plan. A majority of the whole Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee; any decision or determination reduced to writing and signed by a majority of the members of the Administrative Committee shall be fully as effective as if made by a majority vote at a meeting duly called and held.

3. GRANT OF OPTIONS; PERSONS ELIGIBLE. The Stock Option Committee of the Board of Directors of the Company, or such other committee as may be appointed by the Board, shall have the authority and responsibility, within the limitations of this Plan, to grant options from time to time to persons employed as fulltime flight crew training instructors (including flight crew training instructors in management positions retaining seniority numbers) by the Company pursuant to the Agreement and as set forth in the schedule attached as Exhibit A and made a part hereof. Initial Grants (as defined in Exhibit A) shall be granted at an exercise price of \$33.8953 per share; thereafter, Options shall be granted at an exercise price equal to the fair market value of the Common Stock of the Company on the date of

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the grant of the option plus five percent (5%). Only persons who are employed as fulltime flight crew training instructors of SWA on the date of the grant may be granted options under this Plan; under no circumstances shall executive officers of the Company be eligible to receive options hereunder.

Southwest Airlines employees who enter the instructor work force without a break in company service and who are participants in another collectively bargained stock option plan (an "existing plan") will either retain stock option grants established in accordance with such existing plan, or will receive grants in accordance with this Plan, whichever is chosen by the employee involved, but the employee shall not hold grants under both plans simultaneously. The employee must make the election prior to the scheduled grant date for options under this Plan. If the employee does not make a timely election, options previously granted will remain in effect, and no grant will be made under this Plan. Exercise of options will be done in accordance with the Plan under which they were awarded. At such time as the employee no longer holds any vested or unvested options under the other existing plan, the employee will receive an initial grant under this Plan on the next scheduled grant date. The total grant shall be based on the employee's step level as of the grant date, and shall be equal to the number of shares which have not vested prior to the grant date for that step level, according to Exhibit A.

Southwest Airlines flight crew training instructors who transfer to another collective bargaining work group covered by an existing stock option plan will either retain stock option grants established in accordance with this plan, or will receive grants in accordance with such other existing plan, whichever is chosen by the employee involved, but the employee shall not hold grants under both plans simultaneously. The employee must make the election prior to the next scheduled grant date for options under the other stock option plan. If the employee does not make a timely election, options previously granted under this plan will remain in effect and no grant will be made under the other stock option plan. At such time as the employee no longer holds any vested or unvested options under this plan, the employee will receive an initial grant under the other plan on the next scheduled grant date. Unless prohibited under the other plan, the total grant shall be based on the employee's step level as of the grant date, and shall be equal to the number of shares which have not vested prior to the grant date for that step level.

4. DEFINITIONS. An employee receiving any option under this Plan is hereinafter referred to as an "Optionee." Any

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reference herein to the employment of an Optionee with the Company shall include only employment with the Company. The fair market value of the Common Stock on any day shall be the mean between the highest and lowest quoted selling prices of the Common Stock on such day as reported by the primary national stock exchange on which such stock is listed. If no sale shall have been made on that day, or if the Common Stock is not listed on a national exchange at that time, fair market value will be determined on the most recent business day on which the stock was traded, unless otherwise determined by the Committee.

5. STOCK SUBJECT TO OPTIONS. Subject to the provisions of paragraph 12, the number of shares of the Company's Common Stock subject at any one time to options, plus the number of such shares then outstanding pursuant to exercises of options, granted under this Plan, shall not exceed 350,000 shares. If, and to the extent the options granted under this Plan terminate or expire without having been exercised, new options may be granted with respect to the shares covered by such terminated or expired options; provided that the granting and terms of such new options shall in all respects comply with the provisions of this Plan.

Shares sold or distributed upon the exercise of any option granted under this Plan may be shares of the Company's authorized and unissued Common Stock, shares of the Company's issued Common Stock held in the Company's treasury, or both.

There shall be reserved at all times for sale or distribution under this Plan a number of shares of Common Stock (either authorized and unissued shares or shares held in the Company's treasury, or both) equal to the maximum number of shares which may be purchased or distributed upon the exercise of options granted under this Plan.

Exercise of an Option in any manner shall result in a decrease in the number of shares of Common Stock which may thereafter be available, both for purposes of this Plan and for sale to any one individual, by the number of shares as to which the Option is exercised.

6. EXPIRATION AND TERMINATION OF THE PLAN. This Plan will expire on June 30, 2012.

No modification, extension, renewal or other change in any option granted under this Plan shall be made after the grant of such option unless the same is consistent with the provisions of this Plan.

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7. EXERCISABILITY AND DURATION OF OPTIONS.

(a) Exercisability. Options granted under this Plan shall become exercisable pursuant to the vesting schedule and requirements set forth in Exhibit A attached hereto.

(b) Duration. The unexercised portion of any option granted under this Plan shall automatically and without notice terminate and become null and void at the time of the earliest to occur of the following:

(1) June 30, 2012;

(2) The expiration of three months from the date of termination of the Optionee's employment with the Company (unless such termination was as a result of the circumstances set forth in subparagraphs (3) or (4) below); provided that if the Optionee shall die during such 3-month period the provisions of subparagraph (3) below shall apply;

(3) The expiration of 12 months following the issuance of letters testamentary or letters of administration to the executor or administrator of a deceased Optionee, or admitting testator's will into probate, if the Optionee's death occurs either during his employment with the Company, during the three-month period following the date of termination of such employment, or during the 24-month period following retirement at age 65; or

(4) The expiration of 24 months following the retirement of the Optionee at or after age 65; provided that if the Optionee shall die during such 24-month period, the provisions of subparagraph (3) above shall apply.

In the case of subparagraphs (2), (3) and (4) above, the

Optionee shall have the right to exercise any Option prior to such expiration to the extent it was exercisable at the date of such termination of employment and shall not have been exercised.

8. EXERCISE OF OPTIONS.

(a) Procedure. The option granted herein shall be exercised by the Optionee (or by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee) as to all or part of the shares covered by the option (but in no event less than 100 shares, unless such exercise is for all remaining shares) by giving written notice of the exercise thereof (the

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"Notice") to the Company. From time to time the Committee may establish procedures relating to effecting such exercises. No fractional shares shall be issued as a result of exercising an Option.

(b) Payment. In the Notice, the Optionee shall elect whether he or she is to pay for his or her shares in cash or in Common Stock of the Company, or both. If payment is to be made in cash, the Optionee shall deliver to the Company a cashier's check or electronic funds transfer in the amount of the exercise price on or before the exercise date. If payment is to be made in Common Stock, (a) it shall be valued at its fair market value on the date of such notice, as determined pursuant to Paragraph 4 hereof; (b) such Common Stock must have been owned by the Optionee for at least six months prior to the exercise date; and (c) the Notice shall be accompanied by a certificate for at least the number of shares of Common Stock to be used as payment.

(c) Irrevocable Election. The giving of such written notice to the Company shall constitute an irrevocable election to purchase the number of shares specified in the notice on the date specified in the notice.

(d) Withholding Taxes. To the extent that the exercise of any Option granted pursuant to this Plan or the disposition of shares of Common Stock acquired by exercise of an Option results in compensation income to the Optionee for federal or state income tax purposes, the Optionee shall deliver to the Company at the time of such exercise or disposition such amount of money as the Company may require to meet its obligation under applicable tax laws or regulations, and, if the Optionee fails to do so, the Company is authorized to (a) withhold delivery of certificates upon exercise and (b) withhold from remuneration then or thereafter payable to Optionee any tax required to be withheld by reason of such resulting compensation income.

(e) Delivery of Shares. The Company shall cause shares to be delivered to the Optionee (or the person exercising the Optionee's options in the event of death) as soon as practicable after the exercise date.

9. NONTRANSFERABILITY OF OPTIONS. No option granted under this Plan or any right evidenced thereby shall be transferable by the Optionee other than by will or the laws of descent and distribution. During the lifetime of an Optionee, only the Optionee (or his or her guardian or legal representative) may exercise his or her options.

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In the event of the Optionee's death during his or her employment with the Company, during the three-month period following the date of termination of such employment, or during the 24-month period following retirement at age 65, the Optionee's options shall thereafter be exercisable, as provided in paragraph 7(b), by his or her executor or administrator, or by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee.

10. RIGHTS OF OPTIONEE. Neither the Optionee nor his or her executors, administrators, or legal representatives shall have any of the rights of a shareholder of the Company with respect to the shares subject to an option granted under this Plan until certificates for such shares shall have been issued upon the exercise of such option.

11. RIGHT TO TERMINATE EMPLOYMENT. Nothing in this Plan or in any option granted under this Plan shall confer upon any Optionee the right to continue in the employment of the Company or affect the right of the Company or any of its subsidiaries to terminate the Optionee's employment at any time; subject, however, to the provisions of the Agreement.

12. ADJUSTMENT UPON CHANGES IN CAPITALIZATION, ETC.

(a) The existence of the Plan and the options granted hereunder shall not affect in any way the right or power of the Board of Directors or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities ahead of or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

(b) The shares with respect to which options may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of an option theretofore granted, the Company shall effect a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend on Common Stock without receipt of consideration by the Company, the number of shares of Common Stock with respect to which such option may thereafter be exercised (i) in the event of an increase in the number of outstanding shares shall be proportionately increased, and the purchase price per share shall

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be proportionately reduced, and (ii) in the event of a reduction in the number of outstanding shares shall be proportionately reduced, and the purchase price per share shall be proportionately increased; likewise, the number of shares to be granted pursuant to the schedule set forth in Exhibit A shall be appropriately adjusted. In the event of any such change in the outstanding Common Stock, the aggregate number of shares available under the Plan shall be appropriately adjusted by the Board of Directors of the Company, whose determination shall be conclusive.

(c) If the Company recapitalizes or otherwise changes its capital structure, thereafter upon any exercise of an option theretofore granted the Optionee shall be entitled to purchase under such option, in lieu of the number of shares of Common Stock as to which such option shall then be exercisable, the number and class of shares of stock and securities to which the Optionee would have been entitled pursuant to the terms of the recapitalization if, immediately prior to such recapitalization, the Optionee had been the holder of record of the number of shares of Common Stock as to which such option is then exercisable. If the Company shall not be the surviving entity in any merger or consolidation (or survives only as a subsidiary of an entity other than a previously wholly-owned subsidiary of the Company) or if the Company is to be dissolved or liquidated, then unless a surviving corporation assumes or substitutes new options for Options then outstanding hereunder (i) the time at which such Options may be exercised shall be accelerated and such Options shall become exercisable in full on or before a date fixed by the Company prior to the effective date of such merger or consolidation or such dissolution or liquidation, and (ii) upon such effective date Options shall expire.

(d) Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to options theretofore granted or to be granted or the purchase price per share.

13. PURCHASE FOR INVESTMENT AND LEGALITY. The Optionee, by acceptance of any option granted under this Plan, shall represent and warrant to the Company that the purchase or receipt of shares

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of Common Stock upon the exercise thereof shall be for investment and not with a view to distribution, provided that such representation and warranty shall be inoperative if, in the opinion of counsel to the Company, a proposed sale or distribution of such shares is pursuant to an applicable effective registration statement under the Securities Act of 1933 or is, without such representation and warranty, exempt from registration under such Act. The Company shall file a Registration Statement on Form S-8 pursuant to the Securities Act of 1933, as amended, covering the shares to be offered pursuant to the Plan and will use its best efforts to maintain such registration at all times necessary to permit holders of options to exercise them.

The obligation of the Company to issue shares upon the exercise of an option shall also be subject as conditions precedent to compliance with applicable provisions of the Securities Act of 1933, the Securities Exchange Act of 1934, state securities laws, rules and regulations under any of the foregoing and applicable requirements of any securities exchange upon which the Company's securities shall be listed.

The Company may endorse an appropriate legend referring to the foregoing restrictions upon the certificate or certificates representing any shares issued or transferred to the Optionee upon the exercise of any option granted under this Plan.

14. EFFECTIVE DATE OF PLAN. This Plan shall become effective on May 20, 1999, upon its adoption by the Board of Directors of the Company.

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EXHIBIT A

INITIAL GRANTS

On the Effective Date of the Plan, options will be granted to persons employed as Instructors by the Company according to the following schedule. Initial Grants are based on the Instructor's step level for pay purposes as of the Effective Date of the Plan, May 20, 1999. Options will vest annually on January 1 of subsequent years.

<Table>
<Caption>

STOCK OPTION VESTING SCHEDULE											
Step Level as of Effective Date of Plan	TOTAL GRANT	Effective Date of Plan May 20, 1999	January 1,								
			2000	2001	2002	2003	2004	2005	2006	2007	2008
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1-4	5,400	540	540	540	540	540	540	540	540	540	540
5	6,200	620	620	620	620	620	620	620	620	620	620
6	6,500	650	650	650	650	650	650	650	650	650	650
7	7,000	700	700	700	700	700	700	700	700	700	700
8	7,500	750	750	750	750	750	750	750	750	750	750
9	7,800	780	780	780	780	780	780	780	780	780	780
10	8,000	800	800	800	800	800	800	800	800	800	800
11	8,200	820	820	820	820	820	820	820	820	820	820
12	8,400	840	840	840	840	840	840	840	840	840	840
13	8,600	860	860	860	860	860	860	860	860	860	860
14	8,800	880	880	880	880	880	880	880	880	880	880
15 & Above	9,000	900	900	900	900	900	900	900	900	900	900

</Table>

SUBSEQUENT GRANTS

On January 1 of each year, commencing January 1, 2001, through January 1, 2010 (unless the plan terminates at an earlier date according to the terms thereof), options will be granted to persons employed as Instructors by the Company who have completed

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probation during the previous 12 months. Options will vest annually on the anniversary of the Grant Date as follows:

<Table>
<Caption>
Grant

Date	STOCK OPTION VESTING SCHEDULE*										
JAN.1	GRANT DATE	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	TOTAL GRANT
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
2001	450	450	450	450	450	450	450	450	450	450	4,500
2002	450	450	450	450	450	450	450	450	450	0	4,050
2003	450	450	450	450	450	450	450	450	0	0	3,600
2004	450	450	450	450	450	450	450	0	0	0	3,150
2005	450	450	450	450	450	450	0	0	0	0	2,700
2006	450	450	450	450	450	0	0	0	0	0	2,250
2007	450	450	450	450	0	0	0	0	0	0	1,800
2008	450	450	450	0	0	0	0	0	0	0	1,350
2009	450	450	0	0	0	0	0	0	0	0	900
2010	450	0	0	0	0	0	0	0	0	0	450

*Year 2 is the first anniversary of the Grant Date, Year 3 is the second anniversary of the Grant Date, and so on.

VESTING REQUIREMENTS

Options will vest on the applicable vesting date under the following circumstances, and no other:

- (a) For Optionees who are employees of the Company on paid status as of the applicable vesting date; and
- (b) For Optionees who are employees of the Company on unpaid status as of the applicable vesting date (e.g., medical leave, military leave, maternity leave etc.) who accrue hours of service during the calendar year prior to the year in which the vesting date occurs sufficient to qualify for a profitsharing contribution under the Company's Profitsharing Plan for such calendar year. By way of example, if an Optionee is on unpaid medical leave on January 1, 2000, but during calendar year 1999 accrues sufficient hours of service to qualify for a profitsharing contribution for 1999, such Optionee's options will vest on January 1, 2000,

as if that Optionee had been on paid status as of January 1, 2000.

SOUTHWEST AIRLINES CO.

2002 RAMP, OPERATIONS, PROVISIONING AND
FREIGHT NON-QUALIFIED STOCK OPTION PLAN

SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), hereby formulates and adopts the following 2002 Ramp, Operations, Provisioning and Freight Non-Qualified Stock Option Plan.

1. PURPOSE. This Plan is adopted pursuant to proposed Side Letter of Agreement No. Ten ("Side Letter Ten") to the Collective Bargaining Agreement (the "Agreement") between the Company and the Transport Workers Union of America, AFL - CIO Local 555 representing Ramp, Operations, Provisioning and Freight Agents ("TWU") ratified on June 14, 2001.

2. ADMINISTRATION. This Plan shall be administered by an Administrative Committee (the "Committee") consisting of not more than five (5) persons designated from time to time by the Chief Executive Officer of the Company. Members of the Committee may be removed or replaced at any time by the Chief Executive Officer of the Company. The Administrative Committee shall select one of its members as Chairman and shall adopt such rules and regulations as it shall deem appropriate concerning the holding of its meetings, the transaction of its business and the administration of this Plan. A majority of the whole Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee; any decision or determination reduced to writing and signed by a majority of the members of the Administrative Committee shall be fully as effective as if made by a majority vote at a meeting duly called and held.

3. GRANT OF OPTIONS; PERSONS ELIGIBLE.

(a) Persons Eligible. The Stock Option Committee of the Board of Directors of the Company, or such other committee as may be appointed by the Board, shall have the authority and responsibility, within the limitations of this Plan, to grant options from time to time to persons employed as Ramp, Operations, Provisioning or Freight Agents by the Company pursuant to the Agreement, or to Supervisory Employees in the Ground Operations or Provisioning Depts., all as set forth in the schedule attached as Exhibit A and made a part hereof. Only persons who are employed as Ramp, Operations, Provisioning or Freight Agents of the Company on the date of the grant may be granted options under this Plan, or at the option of the Company, Supervisory Employees in the Company's Ground Operations and Provisioning

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2002 TWU 555 NON-QUALIFIED STOCK OPTION PLAN

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Depts.; under no circumstances shall officers of the Company be eligible to receive options hereunder.

(b) Grant Price. Options shall be granted at an exercise price equal to the fair market value of the Common Stock of the Company on the date of the grant of the option with initial grants on the date of ratification of Letter of Agreement No. Ten.

(c) Southwest Airlines Employees Joining the TWU. Southwest Airlines Employees who enter the work force subject to the Agreement without a break in company service and who are participants in another stock option plan (an "existing plan") will retain any vested and unexercised options granted with such existing plan. The Employee must choose to either retain unvested stock option grants established in accordance with such existing plan (if permitted by such other plan), or will receive grants in accordance with this Plan, whichever is chosen by the Employee involved, but the Employee shall not hold grants under both plans simultaneously (other than vested and unexercised options in such existing plan). The Employee must make the election prior to the scheduled grant date for options under this Plan. If the Employee does not make a timely election, options previously granted will remain in effect, and no grant will be made under this Plan. Exercise of options will be done in accordance with the Plan under which they were awarded. At such time as the Employee no longer holds any vested or unvested options under the other existing plan, the Employee will receive an initial grant under this Plan on the next scheduled grant date. Employees who entered the TWU workforce prior to the initial grant date of options under this Plan must make the election within 60 days of the date of ratification of the Agreement.

(d) Transferring to Another Work Group. If an Optionee transfers to another work group (other than a supervisory, management, or union position related to the functions covered by this Agreement), any unvested portion of any option granted in accordance with this Plan, shall automatically and without notice terminate and become null and void as of the first day such Optionee is

on the payroll for such position. Any vested and unexercised portion of any such option shall remain exercisable under this Plan.

4. DEFINITIONS. An Employee receiving any option under this Plan is referred to herein as an "Optionee." Any reference herein to the employment of an Optionee with the Company shall include only employment with the Company. The fair market value of the Common Stock on any day shall be the mean between the highest and lowest quoted selling prices of the Common Stock on such day as reported by the primary national stock exchange on which such stock is listed. If no sale shall have been made on that day, or if the Common Stock is not listed on a national exchange at that time, fair market value will be determined by the Committee. If the date of grant is not a business day, the grant price will be calculated using the immediately preceding business day.

5. STOCK SUBJECT TO OPTIONS. Subject to the provisions of paragraph 12, the number of shares of the Company's Common Stock subject at any one time to options, plus the number of such shares then outstanding pursuant to exercises of options, granted under this Plan, shall not exceed 11,500,000 shares. If, and to the extent the options granted under this Plan terminate or expire without having been exercised, new options may be granted with respect to the shares

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2002 TWU 555 NON-QUALIFIED STOCK OPTION PLAN

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covered by such terminated or expired options; provided that the granting and terms of such new options shall in all respects comply with the provisions of this Plan.

Shares sold or distributed upon the exercise of any option granted under this Plan may be shares of the Company's authorized and unissued Common Stock, shares of the Company's issued Common Stock held in the Company's treasury, or both.

There shall be reserved at all times for sale or distribution under this Plan a number of shares of Common Stock (either authorized and unissued shares or shares held in the Company's treasury, or both) equal to the maximum number of shares which may be purchased or distributed upon the exercise of options granted under this Plan.

Exercise of an Option in any manner shall result in a decrease in the number of shares of Common Stock which may thereafter be available, both for purposes of this Plan and for sale to any one individual, by the number of shares as to which the Option is exercised.

6. EXPIRATION AND TERMINATION OF THE PLAN. This Plan will expire on December 30, 2008, except as to any options then outstanding under this Plan, which shall remain in effect until they have been exercised or expired; except that this Plan will be terminated on December 30, 2007, upon delivery of notice by TWU 555 of its desire to make the Agreement amendable as of June 30, 2007, pursuant to Section 4 of Side Letter Ten.

No modification, extension, renewal or other change in any option granted under this Plan shall be made after the grant of such option unless the same is consistent with the provisions of this Plan.

7. EXERCISABILITY AND DURATION OF OPTIONS.

(a) Exercisability. Options granted under this Plan shall become exercisable pursuant to the vesting schedule and requirements set forth in Exhibit A attached hereto.

(b) Duration. The unexercised portion of any option granted under this Plan shall automatically and without notice terminate and become null and void at the time of the earliest to occur of the following:

(1) November 1, 2012;

(2) The expiration of three months from the date of termination of the Optionee's employment with the Company (unless such termination was as a result of the circumstances set forth in subparagraph (3) below); provided that if the Optionee shall die during such 3-month period the provisions of subparagraph (3) below shall apply; or

(3) The expiration of 12 months from the Optionee's death, if the Optionee's death occurs either during his employment with the Company or during the three-month period following the date of termination of such employment.

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In the case of subparagraphs (2) and (3) above, the Optionee shall have the right to exercise any Option prior to such expiration to the extent it was exercisable at the date of such termination of employment and shall not have been exercised.

8. EXERCISE OF OPTIONS.

(a) Procedure. The option granted herein shall be exercised by the Optionee (or by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee) as to all or part of the shares covered by the option by giving notice of the exercise thereof (the "Notice") to the Company. From time to time the Committee may establish procedures relating to effecting such exercises. No fractional shares shall be issued as a result of exercising an Option.

(b) Payment. In the Notice, the Optionee shall elect whether he or she is to pay for his or her shares in cash or in Common Stock of the Company, or both. If payment is to be made in cash, the Optionee shall deliver to the Company funds in the amount of the exercise price on or before the exercise date. If payment is to be made in Common Stock, (a) it shall be valued at its fair market value on the date of such notice, as determined pursuant to Paragraph 4 hereof; (b) such Common Stock must have been owned by the Optionee for at least six months prior to the exercise date; and (c) the Notice shall be accompanied by documentation as proof of ownership for the number of shares of Common Stock to be used as payment.

(c) Irrevocable Election. The giving of such notice to the Company shall constitute an irrevocable election to purchase the number of shares specified in the notice on the date specified in the notice.

(d) Withholding Taxes. To the extent that the exercise of any Option granted pursuant to this Plan or the disposition of shares of Common Stock acquired by exercise of an Option results in compensation income to the Optionee for federal or state income tax purposes, the Optionee shall deliver to the Company at the time of such exercise or disposition such amount of money as the Company may require to meet its obligation under applicable tax laws or regulations, and, if the Optionee fails to do so, the Company is authorized to (a) withhold delivery of certificates upon exercise and (b) withhold from remuneration then or thereafter payable to Optionee any tax required to be withheld by reason of such resulting compensation income.

(e) Delivery of Shares. The Company shall cause shares to be delivered to the Optionee (or the person exercising the Optionee's options in the event of death) as soon as practicable after the exercise date.

9. NONTRANSFERABILITY OF OPTIONS. No option granted under this Plan or any right evidenced thereby shall be transferable by the Optionee other than by will or the laws of descent and distribution. During the lifetime of an Optionee, only the Optionee (or his or her guardian or legal representative) may exercise his or her options.

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In the event of the Optionee's death during his or her employment with the Company, or during the three-month period following the date of termination of such employment, the Optionee's options shall thereafter be exercisable by his or her executor or administrator, or by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee.

10. RIGHTS OF OPTIONEE. Neither the Optionee nor his or her executors, administrators, or legal representatives shall have any of the rights of a Shareholder of the Company with respect to the shares subject to an option granted under this Plan until certificates for such shares shall have been issued upon the exercise of such option.

11. RIGHT TO TERMINATE EMPLOYMENT. Nothing in this Plan or in any option granted under this Plan shall confer upon any Optionee the right to continue in the employment of the Company or affect the right of the Company or any of its subsidiaries to terminate the Optionee's employment at any time; subject, however, to the provisions of the Agreement.

12. ADJUSTMENT UPON CHANGES IN CAPITALIZATION, ETC.

(a) The existence of the Plan and the options granted hereunder shall not affect in any way the right or power of the Board of Directors or the Shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities ahead of or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease,

exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

(b) The shares with respect to which options may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of an option theretofore granted, the Company shall effect a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend on Common Stock without receipt of consideration by the Company, the number of shares of Common Stock with respect to which such option may thereafter be exercised (i) in the event of an increase in the number of outstanding shares shall be proportionately increased, and the purchase price per share shall be proportionately reduced, and (ii) in the event of a reduction in the number of outstanding shares shall be proportionately reduced, and the purchase price per share shall be proportionately increased; likewise, the number of shares to be granted pursuant to the schedule set forth in Exhibit A shall be appropriately adjusted. In the event of any such change in the outstanding Common Stock, the aggregate number of shares available under the Plan shall be appropriately adjusted by the Board of Directors of the Company, whose determination shall be conclusive.

(c) If the Company recapitalizes or otherwise changes its capital structure, thereafter upon any exercise of an option theretofore granted the Optionee shall be entitled to purchase under such option, in lieu of the number of shares of Common Stock as to which such option shall then be exercisable, the number and class of shares of stock and securities to which the Optionee would have been entitled pursuant to the terms of the recapitalization if, immediately prior to such recapitalization, the Optionee had been the holder of record of the number of shares

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of Common Stock as to which such option is then exercisable. If the Company shall not be the surviving entity in any merger or consolidation (or survives only as a subsidiary of an entity other than a previously wholly-owned subsidiary of the Company) or if the Company is to be dissolved or liquidated, then unless a surviving corporation assumes or substitutes new options for Options then outstanding hereunder (i) the time at which such Options may be exercised shall be accelerated and such Options shall become exercisable in full on or before a date fixed by the Company prior to the effective date of such merger or consolidation or such dissolution or liquidation, and (ii) upon such effective date Options shall expire.

(d) Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to options theretofore granted or to be granted or the purchase price per share.

13. PURCHASE FOR INVESTMENT AND LEGALITY. The Optionee, by acceptance of any option granted under this Plan, shall represent and warrant to the Company that the purchase or receipt of shares of Common Stock upon the exercise thereof shall be for investment and not with a view to distribution, provided that such representation and warranty shall be inoperative if, in the opinion of counsel to the Company, a proposed sale or distribution of such shares is pursuant to an applicable effective registration statement under the Securities Act of 1933 or is, without such representation and warranty, exempt from registration under such Act. The Company shall file a Registration Statement on Form S-8 pursuant to the Securities Act of 1933, as amended, covering the shares to be offered pursuant to the Plan and will use its best efforts to maintain such registration at all times necessary to permit holders of options to exercise them.

The obligation of the Company to issue shares upon the exercise of an option shall also be subject as conditions precedent to compliance with applicable provisions of the Securities Act of 1933, the Securities Exchange Act of 1934, state securities laws, rules and regulations under any of the foregoing and applicable requirements of any securities exchange upon which the Company's securities shall be listed.

The Company may endorse an appropriate legend referring to the foregoing restrictions upon the certificate or certificates representing any shares issued or transferred to the Optionee upon the exercise of any option granted under this Plan.

14. EFFECTIVE DATE OF PLAN; AMENDMENTS. This Plan shall become effective upon its adoption by the Board of Directors of the Company; provided, however, if the Agreement is not ratified by TWU on or before December 30, 2002,

this Plan shall be null and void.

Exhibit A

INITIAL STOCK OPTION GRANTS AND VESTING

On the date of ratification of Letter Agreement No. Ten to the Agreement, options will be granted to persons employed as Ramp, Operations, Provisioning or Freight Agents by the Company according to the following schedule, and vesting as shown below.

<Table>

<Caption>

SENIORITY AS OF 7/1/02 -----	PROJECTED SENIORITY AS OF 7/1/06 -----	SHARES VESTING 7/1/06 -----	SHARES VESTING 7/1/07 -----	TOTAL GRANT -----
<S>	<C>	<C>	<C>	<C>
<C>				
1st Year	Step 4	350	400	750
Step 1	Step 5	400	450	850
Step 2	Step 6	450	500	950
Step 3	Step 7	500	550	1,050
Step 4	Step 8	550	600	1,150
Step 5	Step 9	600	650	1,250
Step 6	Step 10	650	700	1,350
Step 7	Step 11	700	700	1,400
Step 8	Step 11	700	700	1,400
Step 9	Step 11	700	700	1,400
Step 10	Step 11	700	700	1,400
Step 11	Step 11	700+	700+	1,400+

</Table>

+ Add ten shares for every full year of service completed above 11 years as of the vesting date. Example: An Employee who has completed 20 years of service as of 7/1/06 would receive a total grant of 1,590 shares, with 790 shares vesting on 7/1/06 and 800 shares vesting 7/1/07.

EMPLOYEES HIRED BETWEEN 7/1/02 AND DATE OF RATIFICATION

Eligible Employees hired between 7/1/02 and Date of Ratification shall be granted options for a total of 700 shares, with 325 shares vesting 7/1/06 and 375 shares vesting 7/1/07, to be granted upon completion of probation.

SUBSEQUENT GRANTS

Options will be granted to persons subsequently employed by the Company who are covered by the Agreement who have completed probation. Grants will be made upon completion of probation, at the then applicable Fair Market Value. Options will vest annually as follows:

<Table>

<Caption>

HIRE DATE -----	PROJECTED SENIORITY AS OF 7/1/06 -----	SHARES VESTING 7/1/06 -----	SHARES VESTING 7/1/07 -----	TOTAL GRANT -----
<S>	<C>	<C>	<C>	<C>
DOR-6/30/03	Step 3	300	350	650
7/1/03-6/30/04	Step 2	250	300	550
7/1/04-6/30/05	Step 1	200	250	450

7/1/05-6/30/06	1st Year	200	200	400
7/1/06-6/30/07	--	--	200*	200
7/1/07-6/30/08	--	--	175*	175

* Grants will be made upon completion of probation, not necessarily by 7/1/07.
Any options granted after 7/1/07 will vest immediately upon grant.

VESTING REQUIREMENTS

Options will vest on the applicable vesting date under the following circumstances, and no other:

For Optionees who are Employees of the Company and on the TWU 555 seniority list as of the applicable vesting date, and who have been on paid status for at least 1000 hours during the 12 months immediately preceding the vesting date, options shall vest on the applicable vesting date. Options for Employees of the Company who are on the TWU 555 seniority list as of the applicable vesting date, but who were not on paid status for at least 1,000 hours during the 12 months immediately preceding the vesting date, will vest upon the Employee's completion of 1,000 hours on paid status during the 12 month period immediately following the vesting date. If such Optionee is not on paid status for 1,000 hours during such 12 month period, the options will be canceled.

SUPERVISORY EMPLOYEES

At the Company's option from time to time, Supervisory Employees in the Company's Ground Operations or Provisioning Depts. may be granted options in amounts and with vesting and other requirements as may be determined from time to time by the Compensation Committee of the Board of Directors.

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2002 TWU 555 NON-QUALIFIED STOCK OPTION PLAN

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EARLY TERMINATION OF THE AGREEMENT

Notwithstanding any other term of this Plan, in the event TWU exercises its option to make the Agreement amendable as of June 30, 2007, no options shall vest on or after July 1, 2007 and such options shall immediately terminate.

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2002 TWU 555 NON-QUALIFIED STOCK OPTION PLAN

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SOUTHWEST AIRLINES CO.

2002 CUSTOMER SERVICE/RESERVATIONS
NON-QUALIFIED STOCK OPTION PLAN

SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), hereby formulates and adopts the following 2002 Customer Service/Reservations Non-Qualified Stock Option Plan.

1. PURPOSE. This Plan is adopted in support of the Collective Bargaining Agreement between the Company and the International Association of Machinists and Aerospace Workers, AFL-CIO, representing the class and craft of employees recognized by the Railway Labor Act as being Customer Service employees of the Company ("IAM"). The Company anticipates an extension of the current Agreement in a revised agreement (the "Agreement") pursuant to negotiations currently underway.

2. ADMINISTRATION. This Plan shall be administered by an Administrative Committee (the "Committee") consisting of not more than five (5) persons designated from time to time by the Chief Executive Officer of the Company. Members of the Committee may be removed or replaced at any time by the Chief Executive Officer of the Company. The Administrative Committee shall select one of its members as Chairman and shall adopt such rules and regulations as it shall deem appropriate concerning the holding of its meetings, the transaction of its business and the administration of this Plan. A majority of the whole Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee; any decision or determination reduced to writing and signed by a majority of the members of the Administrative Committee shall be fully as effective as if made by a majority vote at a meeting duly called and held.

3. GRANT OF OPTIONS; PERSONS ELIGIBLE.

(a) Persons Eligible. The Stock Option Committee of the Board of Directors of the Company, or such other committee as may be appointed by the Board, shall have the authority and responsibility, within the limitations of this Plan, to grant options from time to time to persons employed as Customer Service Agents or Reservation Sales Agents by the Company pursuant to the Agreement, or at the option of the Company, as Supervisory Employees in the Ground Operations or Reservations Depts., and as set forth in the schedule to be attached as Exhibit A and made a part hereof. Only persons who are employed as Customer Service Agents or Reservation Sales Agents of the Company, or at the option

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2002 IAM NON-QUALIFIED STOCK OPTION PLAN

Page 1

of the Company, as Supervisory Employees in the Ground Operations or Reservations Depts. on the date of the grant may be granted options under this Plan; under no circumstances shall officers of the Company be eligible to receive options hereunder.

(b) Grant Price. Options shall be granted at an exercise price equal to the fair market value of the Common Stock of the Company on the date of the grant of the option with initial grants on the date of ratification of the Agreement.

(c) Southwest Airlines Employees Joining the IAM. Southwest Airlines Employees who enter the work force subject to the Agreement without a break in company service and who are participants in another stock option plan (an "existing plan") will retain any vested and unexercised options granted with such existing plan. The Employee must choose to either retain unvested stock option grants established in accordance with such existing plan (if permitted by such other plan), or will receive grants in accordance with this Plan, whichever is chosen by the Employee involved, but the Employee shall not hold grants under both plans simultaneously (other than vested and unexercised options in such existing plan). The Employee must make the election prior to the scheduled grant date for options under this Plan. If the Employee does not make a timely election, options previously granted will remain in effect, and no grant will be made under this Plan. Exercise of options will be done in accordance with the Plan under which they were awarded. At such time as the Employee no longer holds any vested or unvested options under the other existing plan, the Employee will receive an initial grant under this Plan on the next scheduled grant date. Employees who enter the IAM work force prior to the initial grant date of options under this Plan must make the election within 60 days of the date of ratification of the Agreement.

(d) Transferring to Another Work Group. If an Optionee transfers to another work group (other than a supervisory, management, or union position related to the functions covered by this Agreement), any unvested portion of any

option granted in accordance with this Plan, shall automatically and without notice terminate and become null and void as of the first day such Optionee is on the payroll for such position. Any vested and unexercised portion of any such option shall remain exercisable under this Plan.

4. DEFINITIONS. An Employee receiving any option under this Plan is referred to herein as an "Optionee." Any reference herein to the employment of an Optionee with the Company shall include only employment with the Company. The fair market

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2002 IAM NON-QUALIFIED STOCK OPTION PLAN

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value of the Common Stock on any day shall be the mean between the highest and lowest quoted selling prices of the Common Stock on such day as reported by the primary national stock exchange on which such stock is listed. If no sale shall have been made on that day, or if the Common Stock is not listed on a national exchange at that time, fair market value will be determined by the Committee. If the date of grant is not a business day, the grant price will be calculated using the immediately preceding business day.

5. STOCK SUBJECT TO OPTIONS. Subject to the provisions of paragraph 12, the number of shares of the Company's Common Stock subject at any one time to options, plus the number of such shares then outstanding pursuant to exercises of options, granted under this Plan, shall not exceed 22,000,000 shares. If, and to the extent the options granted under this Plan terminate or expire without having been exercised, new options may be granted with respect to the shares covered by such terminated or expired options; provided that the granting and terms of such new options shall in all respects comply with the provisions of this Plan.

Shares sold or distributed upon the exercise of any option granted under this Plan may be shares of the Company's authorized and unissued Common Stock, shares of the Company's issued Common Stock held in the Company's treasury, or both.

There shall be reserved at all times for sale or distribution under this Plan a number of shares of Common Stock (either authorized and unissued shares or shares held in the Company's treasury, or both) equal to the maximum number of shares which may be purchased or distributed upon the exercise of options granted under this Plan.

Exercise of an Option in any manner shall result in a decrease in the number of shares of Common Stock which may thereafter be available, both for purposes of this Plan and for sale to any one individual, by the number of shares as to which the Option is exercised.

6. EXPIRATION AND TERMINATION OF THE PLAN. This Plan will expire on the earlier of (a) April 30, 2009 except as to any options then outstanding under this Plan, which shall remain in effect until they have been exercised or expired or (b) such earlier date as may be agreed upon in the Agreement.

No modification, extension, renewal or other change in any option granted under this Plan shall be made after the grant of such option unless the same is consistent with the provisions of this Plan.

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2002 IAM NON-QUALIFIED STOCK OPTION PLAN

Page 3

7. EXERCISABILITY AND DURATION OF OPTIONS.

(a) Exercisability. Options granted under this Plan shall become exercisable pursuant to the vesting schedule and requirements set forth in Exhibit A to be attached hereto.

(b) Duration. The unexercised portion of any option granted under this Plan shall automatically and without notice terminate and become null and void at the time of the earliest to occur of the following:

(1) November 1, 2012;

(2) The expiration of three months from the date of termination of the Optionee's employment with the Company (unless such termination was as a result of the circumstances set forth in subparagraph (3) below); provided that if the Optionee shall die during such 3-month period the provisions of subparagraph (3) below shall apply;

(3) The expiration of 12 months from the Optionee's death, if the Optionee's death occurs either during his employment with the Company or during the three-month period following the date of termination of such employment; or

(4) Such other date as may be set forth in Exhibit A to be set forth hereto.

In the case of subparagraphs (2) and (3) above, the Optionee shall have the right to exercise any Option prior to such expiration to the extent it was exercisable at the date of such termination of employment and shall not have been exercised.

8. EXERCISE OF OPTIONS.

(a) Procedure. The option granted herein shall be exercised by the Optionee (or by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee) as to all or part of the shares covered by the option by giving notice of the exercise thereof (the "Notice") to the Company. From time to time the Committee may establish procedures relating to effecting such exercises. No fractional shares shall be issued as a result of exercising an Option.

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2002 IAM NON-QUALIFIED STOCK OPTION PLAN

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(b) Payment. In the Notice, the Optionee shall elect whether he or she is to pay for his or her shares in cash or in Common Stock of the Company, or both. If payment is to be made in cash, the Optionee shall deliver to the Company funds in the amount of the exercise price on or before the exercise date. If payment is to be made in Common Stock, (a) it shall be valued at its fair market value on the date of such notice, as determined pursuant to Paragraph 4 hereof; (b) such Common Stock must have been owned by the Optionee for at least six months prior to the exercise date; and (c) the Notice shall be accompanied by documentation as proof of ownership for the number of shares of Common Stock to be used as payment.

(c) Irrevocable Election. The giving of such notice to the Company shall constitute an irrevocable election to purchase the number of shares specified in the notice on the date specified in the notice.

(d) Withholding Taxes. To the extent that the exercise of any Option granted pursuant to this Plan or the disposition of shares of Common Stock acquired by exercise of an Option results in compensation income to the Optionee for federal or state income tax purposes, the Optionee shall deliver to the Company at the time of such exercise or disposition such amount of money as the Company may require to meet its obligation under applicable tax laws or regulations, and, if the Optionee fails to do so, the Company is authorized to (a) withhold delivery of certificates upon exercise and (b) withhold from remuneration then or thereafter payable to Optionee any tax required to be withheld by reason of such resulting compensation income.

(e) Delivery of Shares. The Company shall cause shares to be delivered to the Optionee (or the person exercising the Optionee's options in the event of death) as soon as practicable after the exercise date.

9. NONTRANSFERABILITY OF OPTIONS. No option granted under this Plan or any right evidenced thereby shall be transferable by the Optionee other than by will or the laws of descent and distribution. During the lifetime of an Optionee, only the Optionee (or his or her guardian or legal representative) may exercise his or her options.

In the event of the Optionee's death during his or her employment with the Company, or during the three-month period following the date of termination of such employment, the Optionee's options shall thereafter be exercisable by his or her executor or administrator, or by the person who acquires such options by will or the laws of descent and distribution or otherwise by reason of the death of the Optionee.

10. RIGHTS OF OPTIONEE. Neither the Optionee nor his or her executors, administrators, or legal representatives shall have any of the rights of a Shareholder of the Company with respect to the shares subject to an option granted under this Plan until certificates for such shares shall have been issued upon the exercise of such option.

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2002 IAM NON-QUALIFIED STOCK OPTION PLAN

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11. RIGHT TO TERMINATE EMPLOYMENT. Nothing in this Plan or in any option granted under this Plan shall confer upon any Optionee the right to continue in the employment of the Company or affect the right of the Company or any of its subsidiaries to terminate the Optionee's employment at any time; subject, however, to the provisions of the Agreement.

12. ADJUSTMENT UPON CHANGES IN CAPITALIZATION, ETC.

(a) The existence of the Plan and the options granted hereunder shall not affect in any way the right or power of the Board of Directors or the

Shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities ahead of or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

(b) The shares with respect to which options may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of an option theretofore granted, the Company shall effect a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend on Common Stock without receipt of consideration by the Company, the number of shares of Common Stock with respect to which such option may thereafter be exercised (i) in the event of an increase in the number of outstanding shares shall be proportionately increased, and the purchase price per share shall be proportionately reduced, and (ii) in the event of a reduction in the number of outstanding shares shall be proportionately reduced, and the purchase price per share shall be proportionately increased; likewise, the number of shares to be granted pursuant to the schedule to be set forth in Exhibit A shall be appropriately adjusted. In the event of any such change in the outstanding Common Stock, the aggregate number of shares available under the Plan shall be appropriately adjusted by the Board of Directors of the Company, whose determination shall be conclusive.

(c) If the Company recapitalizes or otherwise changes its capital structure, thereafter upon any exercise of an option theretofore granted the Optionee shall be entitled to purchase under such option, in lieu of the number of shares of Common Stock as to which such option shall then be exercisable, the number and class of shares of stock and securities to which the Optionee would have been entitled pursuant to the terms of the recapitalization if, immediately prior to such recapitalization, the Optionee had been the holder of record of the number of shares of Common

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2002 IAM NON-QUALIFIED STOCK OPTION PLAN

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Stock as to which such option is then exercisable. If the Company shall not be the surviving entity in any merger or consolidation (or survives only as a subsidiary of an entity other than a previously wholly-owned subsidiary of the Company) or if the Company is to be dissolved or liquidated, then unless a surviving corporation assumes or substitutes new options for Options then outstanding hereunder (i) the time at which such Options may be exercised shall be accelerated and such Options shall become exercisable in full on or before a date fixed by the Company prior to the effective date of such merger or consolidation or such dissolution or liquidation, and (ii) upon such effective date Options shall expire.

(d) Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to options theretofore granted or to be granted or the purchase price per share.

13. PURCHASE FOR INVESTMENT AND LEGALITY. The Optionee, by acceptance of any option granted under this Plan, shall represent and warrant to the Company that the purchase or receipt of shares of Common Stock upon the exercise thereof shall be for investment and not with a view to distribution, provided that such representation and warranty shall be inoperative if, in the opinion of counsel to the Company, a proposed sale or distribution of such shares is pursuant to an applicable effective registration statement under the Securities Act of 1933 or is, without such representation and warranty, exempt from registration under such Act. The Company shall file a Registration Statement on Form S-8 pursuant to the Securities Act of 1933, as amended, covering the shares to be offered pursuant to the Plan and will use its best efforts to maintain such registration at all times necessary to permit holders of options to exercise them.

The obligation of the Company to issue shares upon the exercise of an option shall also be subject as conditions precedent to compliance with applicable provisions of the Securities Act of 1933, the Securities Exchange Act of 1934, state securities laws, rules and regulations under any of the foregoing and applicable requirements of any securities exchange upon which the Company's securities shall be listed.

The Company may endorse an appropriate legend referring to the foregoing restrictions upon the certificate or certificates representing any shares issued or transferred to the Optionee upon the exercise of any option granted under this Plan.

14. EFFECTIVE DATE OF PLAN; AMENDMENTS. This Plan shall become effective upon its adoption by the Board of Directors of the Company; provided, however, if a tentative agreement for the Agreement has not been reached between the Company and the IAM on or before December 30, 2002, at the option of the Company, this Plan shall be null and void and provided, further, if the Agreement is not ratified by IAM on or before January 31, 2003, this Plan shall be null and void in any event. Prior to a Tentative Agreement described in the preceding sentence, this Plan may be amended by the Board of Directors of the Company.

EXHIBIT A

INITIAL STOCK OPTION GRANTS AND VESTING

On the date of ratification of Collective Bargaining Agreement (the "Agreement") between the Company and the International Association of Machinists and Aerospace Workers, AFL-CIO, representing the class and craft of Employees recognized by the Railway Labor Act as being Customer Service Employees of the Company ("IAM"), options will be granted to persons employed as Customer Service Agents and Reservation Sales Agents by the Company according to the following schedule, and vesting as shown below.

Seniority 11/1/02	Shares Vesting DOR	Shares Vesting 11/1/03	Shares Vesting 11/1/04	Shares Vesting 11/1/05	Shares Vesting 11/1/06	Shares Vesting 11/1/07	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1st Year*	175	200	225	175	350	400	1,525
Step 1	200	225	250	200	400	450	1,725
Step 2	225	250	275	225	450	500	1,925
Step 3	250	275	300	250	500	550	2,125
Step 4	275	300	325	275	550	600	2,325
Step 5	300	325	350	300	600	650	2,525
Step 6	325	350	375	325	650	700	2,725
Step 7	350	375	400	350	700	700	2,875
Step 8	375	400	450	375	700	700	3,000
Step 9	400	450	500	400	700	700	3,150
Step 10	450	500	500	450	700	700	3,300
Step 11-14	500	500	500	500	700+	700+	3,400+

* Granted upon completion of probation.

+ Add 10 shares for every year of service completed above 11 years as of the vesting date. Example: An Employee who has completed 20 years of service as of 11/1/06 would receive a total grant of 3,590 shares, with 790 shares vesting 11/1/06 and 800 shares vesting on 11/1/07.

SUBSEQUENT GRANTS

Options will be granted to persons employed by the Company after November 1, 2002 who are covered by the Agreement. Grants will be made upon completion of probation, at the then applicable Fair Market Value. Options will vest annually as follows:

Hire Date	Vesting 11/1/03	Vesting 11/1/04	Vesting 11/1/05	Vesting 11/1/06	Vesting 11/1/07	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
11/1/02 - 10/31/03	175	200	175	300	350	1,200
11/1/03 - 10/31/04		175	175	250	300	900
11/1/04 - 10/31/05			175	200	250	625
11/1/05 - 10/31/06**				200	200	400
11/1/06 - 10/31/07**					200***	200
11/1/07 - 10/31/08**					175***	175

** Grants scheduled to be made on and after 11/1/06 will not be granted if IAM makes the contract amendable as of 11/1/06.

***Grants made after 11/1/07 will vest immediately upon the grant.

VESTING REQUIREMENTS

Options will vest on the applicable vesting date under the following circumstances, and no other:

For shares vesting on the Date of Ratification, the Optionee must be an Employee of the Company and on the IAM seniority list and either (a) on active status on the Date of Ratification or (b) on paid status for at least 1000 hours during the 12 months immediately preceding the Date of Ratification or, alternatively (c) the shares will vest upon the Employee's completion of 1,000 hours on paid status during the 12 month period immediately following the Date of Ratification.

For shares vesting after the Date of Ratification, the Optionee must be an Employee of the Company and on the IAM seniority list as of the applicable vesting date, and have been on paid status for at least 1000 hours during the 12 months immediately preceding the vesting date, and the options shall vest on the applicable vesting date. Options for Employees of the Company who are on the IAM seniority list as of the applicable vesting date, but who were not on paid status for at least 1,000 hours during the 12 months immediately preceding the vesting date, will vest upon the Employee's completion of 1,000 hours on paid status during the 12 month period immediately following the vesting date. If such Optionee is not on paid status for 1,000 hours during such 12 month period, the options will be canceled.

EARLY TERMINATION OF THE AGREEMENT

Notwithstanding any other term of this Plan, in the event the IAM exercises its option to make the Agreement amendable as of October 31, 2006, no options shall vest on or after October 31, 2006, in which case options vesting on November 1, 2006 and thereafter would be canceled.

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, 333-57478, 333-98761, and 333-100862 and Forms S-3 Nos. 333-29257, 33-59113, 333-71392, and 333-100861) of Southwest Airlines Co. and in the related Prospectuses of our report dated January 21, 2003, 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, 2002.

ERNST & YOUNG LLP

Dallas, Texas
January 30, 2003

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

In connection with the Annual Report on Form 10-K of Southwest Airlines Co. (the "Company") for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James F. Parker, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 5, 2003

By: /s/ James F. Parker

Name: James F. Parker
Title: Chief Executive Officer

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

In connection with the Annual Report on Form 10-K of Southwest Airlines Co. (the "Company") for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary C. Kelly, Executive Vice President - Chief Financial Officer, of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 5, 2003

By: /s/ Gary C. Kelly

Name: Gary C. Kelly
Title: Executive Vice President -
Chief Financial Officer