

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 [FEE REQUIRED]

For the Fiscal Year Ended December 31, 1995 or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission File No. 1-7259

SOUTHWEST AIRLINES CO.

(Exact name of registrant as specified in its charter)

TEXAS

(State of other jurisdiction of
incorporation or organization)

74-1563240

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

P.O. BOX 36611

DALLAS, TEXAS

(Address of principal executive offices)

75235-1611

(Zip Code)

Registrant's telephone number, including area code: (214) 904-4000

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

<TABLE>

<CAPTION>

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

</TABLE>

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

None

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

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

Aggregate market value of Common Stock held by nonaffiliates as of February 29, 1996:

\$4,352,674,000

Number of shares of Common Stock outstanding as of the close of business on February 29, 1996:

144,399,522 shares

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for Annual Meeting of
Shareholders, May 16, 1996:

PART III

PART I

ITEM 1. BUSINESS

DESCRIPTION OF BUSINESS

Southwest Airlines Co. (Southwest) is a major domestic airline that provides shorthaul, high frequency, point-to-point, low fare service. Southwest was incorporated in Texas and commenced Customer Service on June 18,

1971 with three Boeing 737 aircraft serving three Texas cities - Dallas, Houston, and San Antonio.

At yearend 1995, Southwest operated 224 Boeing 737 aircraft and provided service to 46 airports in 45 cities primarily in the midwestern, southwestern, and western regions of the United States. Southwest commenced service to Tampa and Ft. Lauderdale, Florida in January 1996 and will begin service to Orlando, Florida in April 1996.

On December 31, 1993, Southwest acquired Morris Air Corporation (Morris) in a stock-for-stock exchange, issuing approximately 3.6 million shares of Southwest Common Stock in exchange for all of the outstanding shares of Morris. During 1994, the operations of Morris were substantially integrated with those of Southwest, and Morris ceased service as a certificated air carrier in March 1995. Unless the context requires otherwise, references in this annual report to the "Company" include Southwest and Morris.

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

FUEL

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

<TABLE>

<S>	<C>
1991	\$.66
1992	\$.61
1993	\$.59
1994	\$.54
1995	\$.55

</TABLE>

The Company is unable to predict the extent of future fuel cost changes. The Company has standard industry arrangements with major fuel suppliers. Standard industry fuel contracts do not provide material protection against price increases or for assured availability of supplies. The Company uses various price-risk management techniques, including derivative products such as fixed-price swaps, caps, and collars, to help protect against price increases. To date, not more than two percent of then-current usage was hedged in this manner. Although market conditions can significantly impact the price of jet fuel, at present, these conditions have not resulted in an inadequate supply of jet fuel. For more discussion of current jet fuel costs and the impact of these costs on the Company's operations, see Management's Discussion and Analysis of Financial Condition and Results of Operations.

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REGULATION

Economic. The Dallas Love Field section of the International Air Transportation Competition Act of 1979 (Competition Act), 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 Arkansas, Louisiana, New Mexico, Oklahoma, and Texas if (a) "such air carrier does not offer or provide any through service or ticketing with another air carrier" and (b) "such air carrier does not offer for sale transportation to or from, and the flight or aircraft does not serve, any point which is outside any such states." Southwest does not interline or offer joint fares with any other air carrier. The Competition Act does not restrict Southwest's intrastate Texas flights or its air service from points other than Love Field to points beyond Texas and the four contiguous states.

The Department of Transportation (DOT) has significant regulatory jurisdiction over passenger airlines. Unless exempted, no air carrier may furnish air transportation over any route without a DOT certificate of authorization, which does not confer either exclusive or proprietary rights. The Company's certificates are unlimited in duration and permit the Company to operate among any points within the United States, its territories and possessions, except as limited by the Love Field section of the Competition Act, as do the certificates of all other U.S. carriers. DOT may revoke such certificates, in whole or in part, for intentional failure to comply with any provisions of subchapter IV of the Federal Aviation Act of 1958, or any order, rule or regulation issued thereunder or any term, condition or limitation of such certificate; provided that, with respect to revocation, the certificate holder has first been advised of the alleged violation and has been given a reasonable time to effect compliance.

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

The national budget impasse, lapse of the 10 percent ticket tax and its presumed reinstatement and proposed deferral of the jet fuel tax present uncertainty for 1996 and future periods. Further, several bills have been introduced in Congress with a goal of "reforming" the Federal Aviation Administration ("FAA") by, among other things, modifying the method of funding the FAA. At the current time, Southwest is unable to predict how these issues will be resolved and what impact, if any, resolution of these uncertainties will have on future operating results or financial condition.

Safety. The Company is subject to the jurisdiction of the 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.

Environmental. The Airport Noise and Capacity Act of 1990 (ANCA) requires the phase out of Stage 2 airplanes (which meet less stringent noise emission standards than later model Stage 3 airplanes) in the contiguous 48 states by December 31, 1999. FAA rules establish future interim compliance dates for ANCA of December 31, 1996 and December 31, 1998. An operator may comply by either implementing a reduction of the operator's base level, as defined in ANCA, of Stage 2 aircraft by at least 50 percent at December 31, 1996 and 75 percent at December 31, 1998, or by operating a fleet that is at least 65 percent Stage 3 by December 31, 1996 and 75 percent by December 31, 1998. Selection of

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one of the two alternative compliance techniques is not irrevocable and operators are free to opt for one method at one compliance date and another at the next. Operation of Stage 2 aircraft after December 31, 1999 is prohibited, subject, however, to an extension of the final compliance date to December 31, 2003, if at least 85 percent of the aircraft used by the operator in the contiguous United States will comply with Stage 3 noise levels by July 1, 1999 and the operator successfully obtains a waiver from the FAA of the December 31, 1999 final phaseout date. Statutory requirements to obtain a waiver include a determination by the FAA that the waiver is in the public interest or would enhance competition or benefit service to small communities. There is no assurance that such a waiver is obtainable.

The Company's fleet, as of December 31, 1995, consisted of 50 Stage 2 aircraft and 174 Stage 3 aircraft, yielding a Stage 3 percentage of 78 percent. Accordingly, the Company exceeds the Stage 3 fleet percentage requirement for the December 31, 1996 and December 31, 1998 interim compliance dates.

As of December 31, 1995, of the 50 Stage 2 aircraft operated by the Company, 30 are leased from third parties and 20 are owned by the Company. The Company can comply with the rules by acquiring additional Stage 3 aircraft, returning Stage 2 aircraft to the lessors as the leases terminate according to their terms, retiring owned Stage 2 aircraft, or hushkitting Stage 2 aircraft. Because the Company already complies with the December 31, 1998 interim compliance requirement of a 75 percent Stage 3 fleet, the Company could operate all 50 of its Stage 2 aircraft until December 31, 1999. Based upon the Company's current schedule for delivery of new Stage 3 aircraft, including options, and the Company's planned retirement schedule for Stage 2 aircraft, assuming no hushkitting, the Company will achieve 85 percent compliance by July 1, 1999. This would qualify the Company to apply for a waiver from the final compliance date, which, if obtained, could permit the Company to continue operation of the then remaining 43 Stage 2 aircraft until, at the latest, December 31, 2003.

ANCA also requires the FAA to establish parameters within which any new Stage 2 and Stage 3 noise or access restrictions at individual airports must be developed. The published rules generally provide that local noise restrictions on Stage 3 aircraft first effective after October 1990 require FAA approval, and establish a regulatory notice and review process for local restrictions on Stage 2 aircraft first proposed after October 1990. Certain airports, including Dallas Love Field, Los Angeles, San Diego, San Francisco, 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 are considering adopting similar noise regulations.

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 of materials into the environment.

MARKETING AND COMPETITION

Southwest focuses on point-to-point, rather than hub-and-spoke, service in shorthaul markets with frequent, conveniently timed flights, and low fares. For example, Southwest's average aircraft trip length in 1995 was 400 miles with an average duration of approximately one hour. At yearend, Southwest served 350 nonstop city pairs with an average weekday frequency of six roundtrips per city pair.

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Southwest's point-to-point route system, as compared to hub-and-spoke, provides for more direct nonstop routings for shorthaul customers and, therefore, minimizes connections, delays, and total trip time. Southwest focuses on local, not connecting, traffic. As a result, approximately 80 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, Burbank, Oakland, San Jose and Ft. Lauderdale airports, which are typically less congested than other airlines' hub airports and enhance the Company's ability to sustain high employee productivity and reliable ontime performance. This operating strategy also permits the Company to achieve high asset utilization. Aircraft are scheduled to minimize the amount of time the aircraft is at the gate, approximately 20 minutes, thereby reducing the number of aircraft and gate facilities that would otherwise be required. Southwest does not interline with other jet airlines, nor have any commuter feeder relationships.

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

In May 1994, the computer reservations systems (CRSs) owned by United Airlines (Apollo) and Continental Airlines (System One) disabled automated ticketing for Southwest travel. Rather than pay the fees associated with CRS participation in Apollo and System One, Southwest took the following actions: Southwest introduced a Ticketless travel option, available system-wide in January 31, 1995, eliminating the need to print a paper ticket altogether; provided direct access to its own reservation system and ticketing for the 50 largest travel agencies (SWAT); instituted overnight delivery of Southwest-produced tickets for approximately 300 large travel agencies; and improved access to Ticket By Mail for direct Customers by reducing the time limit from seven days out from the date of travel to three days. Southwest also entered into a new arrangement with SABRE, the CRS in which Southwest has historically participated to a limited extent, providing for ticketing and automated booking on Southwest in a very cost-effective manner. By December 31, 1995, approximately 35% of Southwest's customers were choosing the ticketless travel option.

The airline industry is highly competitive as to fares, frequent flyer benefits, routes, and service, and some carriers competing with the Company have greater financial resources, larger fleets, and wider name recognition. Several of the Company's larger competitors have initiated or are studying low-cost, shorthaul service in markets served by the Company, which represents a more direct threat in Southwest's market niche. Profit levels in the air transport industry are highly sensitive to changes in operating and capital costs and the extent to which competitors match an airline's fares and services. The profitability of a carrier in the airline industry is also impacted by general economic trends. For more discussion on the current competitive environment for Southwest, see Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 which compete with surface transportation, price is a competitive factor, but frequency and convenience of scheduling, facilities, transportation safety, and Customer Service may be of equal or greater importance to many passengers.

INSURANCE

The Company carries insurance of types customary in the airline industry and in 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.

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FREQUENT FLYER AWARDS

Southwest's frequent flyer program, The Company Club, is based on trips flown rather than mileage. The Company Club offers one free roundtrip travel award to any Southwest destination after flying eight roundtrips (or 16 one-way trips) on Southwest within a consecutive twelve-month period.

The trips flown as credit towards a free travel award certificate are valid for twelve months only; the free travel award is automatically generated when earned by the Customer rather than allowing the Customer to bank the trip credits indefinitely; and the free travel award is valid for one year with an automatic expiration date. Based on the issuance of free travel awards to qualified members, coupled with the foregoing program characteristics and the use of "black out" dates for the free travel awards during peak holiday periods, the financial impact of free travel awards used on the Company's consolidated financial statements has not been material. Free travel awards redeemed were approximately 417,000, 279,000, and 256,000 during 1995, 1994, and 1993, respectively. The amount of free travel award usage as a percentage of total Southwest revenue passengers carried was 1.9 percent in 1995, 1.4 percent in 1994 and 1.5 percent in 1993.

The Company accounts for free travel awards using the incremental cost method, consistent with the other major airlines. This method recognizes an average incremental cost to provide roundtrip transportation to one additional passenger. The incremental cost to provide free transportation 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. The estimated incremental costs include passenger costs such as beverage and snack supplies, baggage claims, baggage handling, and liability insurance; operations costs such as security services, airport rentals, fuel, oil, and into-plane charges; and reservations costs, such as communications and system operations fees. The liability for free travel awards earned but not used at December 31, 1995 and 1994 was not material.

The number of free travel awards for Southwest outstanding at December 31, 1995 and 1994 was approximately 295,000 and 248,000, respectively. These numbers do not include partially earned awards. The Company currently does not have a system to accurately estimate partially earned awards. However, these partially earned awards may equate to approximately 60-70 percent of the current outstanding awards. Since the inception of The Company Club in 1987, approximately 15 percent of all award certificates have expired without being used.

EMPLOYEES

At December 31, 1995, Southwest had 19,933 employees, consisting of 5,499 flight, 872 maintenance, 11,368 ground customer service and 2,194 management, accounting, marketing, and clerical personnel.

Southwest has nine collective bargaining agreements covering approximately 83 percent of its employees. Southwest's fleet service employees are subject to an agreement with the Ramp, Operations and Provisioning Association, which becomes amendable in December 1999. Customer service and reservation employees are subject to an agreement with the International Association of Machinists and Aerospace Workers, AFL-CIO (IAM), which becomes amendable in November 1997. Flight attendants are subject to an agreement with the Transportation Workers Union of America, AFL-CIO, which becomes amendable May 31, 1996. The pilots are subject to an agreement with the Southwest Airlines Pilots' Association (SWAPA), which becomes amendable in September 1999 (described below). Flight dispatchers are represented by the Southwest Airlines Employees Association, pursuant to an agreement which becomes amendable in November 1997. Aircraft cleaners and stock clerks are subject to agreements with the International Brotherhood of Teamsters, which become amendable in August 2000. Mechanics and flight simulator technicians are represented by the International Brotherhood of Teamsters

pursuant to separate agreements. The mechanics' agreement becomes amendable in August 2001 and the flight simulator technicians are in negotiations. The flight/ground school instructors are subject to an agreement with the Southwest Airlines Professional Instructors Association which becomes amendable in December 2000.

In January 1995, Southwest's pilots ratified a ten-year labor contract that calls for no wage increases in the first five years and three percent annual wage increases in three of the last five years of the contract. Initially, the pilots received options to purchase approximately 14.5 million shares of Southwest common stock at \$20 per share over the term of the contract; pilots hired subsequently will receive additional grants at a five percent premium over then current fair market value, up to a total of 18,000,000 shares that can be issued under the stock option plan. Pilots will be eligible for profitability bonuses of up to three percent of compensation in three of the first five years and profitability-based pay increases up to three percent in two of the second five years of the contract. The pilot group may choose to reopen the contract in five years, in which event all unexercised options will terminate on December 1, 1999.

ITEM 2. PROPERTIES

AIRCRAFT

Southwest operated a total of 224 Boeing 737 aircraft as of December 31, 1995, of which 100 and 13 were under operating and capital leases, respectively. The remaining 111 aircraft are owned.

In January 1994, Southwest entered into an agreement with The Boeing Company, pursuant to which Southwest is the launch customer for the Boeing 737-700 aircraft, the newest generation of the Boeing 737 aircraft type. As the launch customer, Southwest has agreed to purchase sixty-three Boeing 737-700 aircraft from 1997 to 2001, with options for an additional 63 737-700 aircraft from 1998 to 2004.

In total, at December 31, 1995, the Company had 100 firm orders and 67 options as follows:

<TABLE>
<CAPTION>

Type	Seats	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
737-200	122	50	---	---	---	---	---	---	---	---	---
737-300	137	149	20	21	---	---	---	---	---	---	---
737-500	122	25	---	---	---	---	---	---	---	---	---
737-700	137	---	---	4	21	21	21	18	18	18	5

</TABLE>

Subsequent to yearend, four 1997-300 options were converted to four 1999-700 options. The average age of the Company's fleet at December 31, 1995 was 7.8 years.

For information regarding the Company's obligations under capital leases and noncancelable operating leases see Notes 6 and 7 to the Consolidated Financial Statements.

For information concerning Southwest's aircraft purchase commitments, see Note 4 to the Consolidated Financial Statements.

The Company has an agreement with CFM International, Inc. (a joint company of SNECMA (France) and General Electric Company) dated May 28, 1981, as amended, for the supply of spare engines for its Boeing 737-300, -500, and -700 aircraft. CFM also supplies the engines to The Boeing Company for original installation on such aircraft. CFM is the sole manufacturer of engines for use on the Boeing 737-300, -400, -500, and -700 aircraft.

GROUND FACILITIES AND SERVICES

Southwest leases terminal passenger service facilities at each of the airports it serves to which it has added various leasehold improvements. The Company leases land on a long-term basis for its maintenance centers located at Dallas Love Field, Houston Hobby, and Phoenix Sky Harbor, its training center near Love Field which houses three 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, 1995, the Company operated nine reservation centers. The reservation centers located in Little Rock, Arkansas; Chicago, Illinois; Albuquerque, New Mexico; Oklahoma City, Oklahoma and Salt Lake City, Utah occupy leased space. The Company owns its Dallas, Texas; Houston, Texas;

Phoenix, Arizona; and San Antonio, Texas reservation centers.

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

In recent years, many airports have increased or sought to increase the rates charged to airlines. The extent to which such charges are limited by statute and the ability of airlines to contest such charges has been subject to litigation, including a case recently decided against certain carriers by the United States Supreme Court. To the extent the limitations on such charges are relaxed or the ability of airlines to challenge such charges is restricted, the rates charged by airports to airlines may increase substantially. Management cannot predict the magnitude of any such increase.

ITEM 3. LEGAL PROCEEDINGS

Southwest has received examination reports from the Internal Revenue Service proposing certain adjustments to Southwest's income tax returns for 1987 through 1991. The adjustments relate to certain types of aircraft financings consummated by Southwest, as well as other members of the aviation industry, during that time period. Southwest intends to vigorously protest the adjustments made with which it does not agree. The industry's differences with the IRS involve complex issues of law and fact which are likely to take a substantial period of time to resolve. Management believes that final resolution of such protest will not have a materially adverse effect upon the results of operations of Southwest.

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

None to be reported.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Southwest, their positions, and their respective ages (as of March 1, 1996) are as follows:

<TABLE>

<CAPTION>

NAME ----	POSITION -----	AGE ---	OFFICER CONTINUOUSLY SINCE -----
<S>	<C>	<C>	<C>
Herbert D. Kelleher	Chairman of the Board, President, and Chief Executive Officer	64	1967
Colleen C. Barrett	Executive Vice President-Customers and Corporate Secretary	51	1978
Gary A. Barron	Executive Vice President, Chief Operations Officer	51	1978
John G. Denison	Executive Vice President- Corporate Services	51	1986
Gary C. Kelly	Vice President-Finance, Chief Financial Officer	40	1986
James F. Parker	Vice President-General Counsel	49	1986
Ron Ricks	Vice President-Governmental Affairs	46	1986
James C. Wimberly	Vice President-Ground Operations	43	1985

</TABLE>

Executive officers are elected annually at the first meeting of Southwest's Board of Directors following the annual meeting of shareholders or appointed by the President pursuant to Board authorization. All of the executive officers have held their current positions with Southwest for more than five years.

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:

<TABLE> <CAPTION>					
PERIOD		DIVIDEND	HIGH	LOW	
-----		-----	----	---	
<S>	<C>	<C>	<C>	<C>	
1995					
	1st Quarter	\$.01	\$20.00	\$16 .38	
	2nd Quarter	.01	25.75	17.63	
	3rd Quarter	.01	29.88	23.63	
	4th Quarter	.01	26.13	19.75	
1994					
	1st Quarter	\$.01	\$39.00	\$31 .25	
	2nd Quarter	.01	34.38	24.13	
	3rd Quarter	.01	29.63	21.63	
	4th Quarter	.01	23.63	15.50	
</TABLE>					

As of February 29, 1996, there were 9,461 holders of record of the Company's common stock.

ITEM 6. SELECTED FINANCIAL DATA

The following financial information for the five years ended December 31, 1995 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,			

		1995	1994	1993	1992
		----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>
FINANCIAL DATA:					
(in thousands except per share amounts)					
Operating revenues		\$2,872,751	\$2,591,933	\$2,296,673	\$1,802,979
\$1,379,286					
Operating expenses		2,559,220	2,275,224	2,004,700	1,609,175
1,306,675					
		-----	-----	-----	-----
Operating income		313,531	316,709	291,973	193,804
72,611					
Other expenses, net		8,391	17,186	32,336	36,361
18,725					
		-----	-----	-----	-----
Income before income taxes and cumula-					
tive effect of accounting changes		305,140	299,523	259,637	157,443
53,886					
Provision for income taxes (1)		122,514	120,192	105,353	60,058
20,738					
		-----	-----	-----	-----
Income before cumulative effect of					
accounting changes (1)		182,626	179,331	154,284	97,385
33,148					
Cumulative effect of accounting changes . .		-	-	15,259(2)	12,538(3)

		-----	-----	-----	-----
Net income (1)		\$182,626	\$179,331	\$ 169,543	\$ 109,923
\$ 33,148					

=====	=====	=====	=====	=====
Net income per common and common equivalent share before cumulative effect of accounting changes (1)	\$1.23	\$1.22	\$1.05	\$0.68
\$0.25 Cash dividends per common share	\$0.04000	\$0.04000	\$0.03867	\$0.03533
\$0.03333 Total assets at period-end	\$3,256,122	\$2,823,071	\$2,576,037	\$2,368,856
\$1,854,331 Long-term obligations at period-end	\$661,010	\$583,071	\$639,136	\$735,754
\$617,434 Stockholders' equity at period-end	\$1,427,318	\$1,238,706	\$1,054,019	\$879,536
\$635,793 OPERATING DATA:				
Revenue passengers carried	44,785,573	42,742,602 (5)	36,955,221 (5)	27,839,284
22,669,942 Revenue passenger miles (RPMs) (000s)	23,327,804	21,611,266	18,827,228	13,787,005
11,296,183 Available seat miles (ASMs) (000s)	36,180,001	32,123,974	27,511,000	21,366,642
18,491,003 Load factor	64.5%	67.3%	68.4%	64.5%
61.1% Average length of passenger haul (miles)	521	506	509	495
498 Trips flown	685,524	624,476	546,297	438,184
382,752 Average passenger fare	\$61.64	\$58.44	\$59.97	\$58.33
\$55.93 Passenger revenue yield per RPM	11.83c.	11.56c.	11.77c.	11.78c.
11.22c. Operating revenue yield per ASM	7.94c.	8.07c.	8.35c.	7.89c.
7.10c. Operating expenses per ASM	7.07c.	7.08c.	7.25c. (6)	7.03c.
6.76c. Fuel cost per gallon (average)	55.22c.	53.92c.	59.15c.	60.82c.
65.69c. Number of employees at period-end	19,933	16,818	15,175	11,397
9,778 Size of fleet at period-end (4)	224	199	178	141
124 </TABLE>				

- -----
- (1) Proforma prior to 1993, assuming Morris, an S-Corporation prior to 1993, was taxed at statutory rates.
- (2) Includes the net cumulative effect of adopting Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" and Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions."
- (3) Includes one-time adjustment for the cumulative effect of a change in the method of accounting for scheduled airframe overhaul costs from the direct expense method to that of capitalizing and amortizing the costs over the periods benefited.
- (4) Includes leased aircraft.
- (5) Includes certain estimates for Morris.
- (6) Excludes merger expenses of \$10.8 million.

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

Management's Discussion and Analysis listed in the accompanying Index to Consolidated Financial Statements on Page F-1 is filed as part of this annual report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements, Notes to Consolidated Financial Statements, and Report of Ernst & Young LLP, Independent Auditors, listed in the accompanying Index to Consolidated Financial Statements on page F-1 are filed as part of this annual report.

<TABLE>
<CAPTION>

1995	THREE MONTHS ENDED			
	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
<S>	<C>	<C>	<C>	<C>
Operating revenues	\$620,999	\$738,205	\$764,975	\$748,572
Operating income	23,409	103,425	114,098	72,599
Income before income taxes	20,034	100,801	114,215	70,090
Net income	11,826	59,724	67,717	43,359
Net income per common and common equivalent share	.08	.41	.45	.29

</TABLE>

<TABLE>
<CAPTION>

1994	THREE MONTHS ENDED			
	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
<S>	<C>	<C>	<C>	<C>
Operating revenues	\$619,412	\$661,056	\$685,289	\$626,176
Operating income	76,046	101,834	101,710	37,119
Income before income taxes	69,538	97,156	97,128	35,701
Net income	41,847	58,522	58,619	20,343
Net income per common and common equivalent share	.28	.40	.40	.14

</TABLE>

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

None to be reported.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

See "Election of Directors" and "Other Matters - Certain Transactions," incorporated herein by reference, from pages 1-4 and 19, respectively, of the definitive Proxy Statement for Southwest's Annual Meeting of Shareholders to be held May 16, 1996. See "Executive Officers of the Registrant" in Part I following Item 4 for information relating to executive officers.

ITEM 11. EXECUTIVE COMPENSATION

See "Compensation of Executive Officers," incorporated herein by reference, from pages 6-9 of the definitive Proxy Statement for Southwest's Annual Meeting of Shareholders to be held May 16, 1996.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See "Voting Securities and Principal Shareholders," incorporated herein by reference, from pages 4-5 of the definitive Proxy Statement for Southwest's Annual Meeting of Shareholders to be held May 16, 1996.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See "Election of Directors" incorporated herein by reference, from pages 1-4 of the definitive Proxy Statement for Southwest's Annual Meeting of Shareholders to be held May 16, 1996.

PART IV

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

(a) 1. Financial Statements:

The financial statements listed in the accompanying Index to Consolidated Financial Statements on page F-1 are filed as part of this annual report.

2. Financial Statement Schedules:

There are no financial statement schedules filed as part of this annual report, since the required information is included in the consolidated financial statements, including the notes thereto, or the circumstances requiring inclusion of such schedules are not present.

3. Exhibits:

3.1 Restated Articles of Incorporation of Southwest (incorporated by reference to Exhibit 4.1 to Southwest's Registration Statement on Form S-3 (File No. 33-52155)).

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3.2 Bylaws of Southwest, as amended through February 1994 (incorporated by reference to Exhibit 3.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)).

4.1 Credit Agreement dated December 15, 1990, between Southwest and Texas Commerce Bank - Dallas, N.A., as agent for itself and four other banks named therein, and such banks (incorporated by reference to Exhibit 4.1 on Southwest's Current Report on Form 8-K dated February 14, 1991 (File No. 1-7259)); First Amendment to Credit Agreement, dated April 4, 1991 and Second Amendment to Credit Agreement, dated December 14, 1991 (incorporated by reference to Exhibit 4.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)); Third Amendment to Credit Agreement, dated December 14, 1992 (incorporated by reference in Exhibit 4.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-7259)); Fourth Amendment to Credit Agreement, dated December 14, 1993 (incorporated by reference to Exhibit 4.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 1-7259)); Fifth and Sixth Amendments to Credit Agreement, dated March 10, 1995 and May 18, 1995, respectively.

4.2 Specimen certificate representing Common Stock of Southwest (incorporated by reference to Exhibit 4.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 1-7259)).

4.3 Indenture dated as of December 1, 1985 between Southwest and MBank Dallas, N.A., Trustee, relating to an unlimited amount of Debt Securities (incorporated by reference to Exhibit 4.1 of Southwest's Current Report on Form 8-K dated February 26, 1986 (File No. 1-7259)) and First Supplemental Indenture dated as of January 21, 1988, substituting MTrust Corp, National Association, as Trustee, thereunder (incorporated by reference to Exhibit 4.3 on Southwest's Annual Report on Form 10-K for the year ended December 31, 1987 (File 1-7259)).

4.4 Rights Agreement dated July 14, 1986 between Southwest and MBank Dallas, N.A., as Rights Agent (incorporated by reference to Exhibit 1, Southwest's Registration Statement on Form 8-A dated July 15, 1986 (File No. 1-7259)) and Amendment No. 1 to Rights Agreement, dated as of December 1, 1990 between Southwest and Ameritrust Texas N.A. (incorporated by reference to Exhibit 4.2 on Southwest's Current Report on Form 8-K dated February 14, 1991 (File No. 1-7259)).

4.5 Indenture dated as of June 20, 1991 between Southwest Airlines Co. and Bank of New York, successor to NationsBank of Texas, N.A. (formerly NCNB Texas National Bank), Trustee (incorporated by reference to Exhibit 4.1 to Southwest's Current Report on Form 8-K dated June 24, 1991 (File No. 1-7259)).

4.6 Form of 9.4 percent Note due 2001 (incorporated by reference to Exhibit 4.2 to Southwest's Current Report on Form 8-K dated

June 24, 1991 (File No. 1-7259)).

- 4.7 Form of 8-3/4 percent Note due 2003 (incorporated by reference to Exhibit 4.2 to Southwest's Current Report on Form 8-K dated October 4, 1991 (File No. 1-7259)).
- 4.9 Form of 9-1/4 percent Note due 1998 (incorporated by reference to Exhibit 4.9 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).

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- 4.10 Form of 7-7/8 percent Note due 2007 (incorporated by reference to Exhibit 4.10 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-7259)).
- 4.11 Form of Global Security representing all 8 percent Notes due 2005 (incorporated by reference to Exhibit 4 to Southwest's current Report on Form 8-K dated March 6, 1995 (File No. 1-7259)).
- 10.1 General Terms Agreement between CFM International, Inc. and Southwest (with all amendments through March 29, 1990) dated May 28, 1981 (incorporated by reference to Exhibit 10.2 on Southwest's Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 1-7259)); Amendments from November 6, 1989 through March 29, 1993 (incorporated by reference to Exhibit 10.2 on Southwest's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-7259)); Amendments from March 29, 1993 through March 29, 1994 (incorporated by reference to Exhibit 10.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)); Amendment No. 7 and Letter Agreement No. 11, each dated as of January 19, 1994 (incorporated by reference to Exhibit 10.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)).
- 10.2 Purchase Agreement No. 1405, dated July 23, 1987 between The Boeing Company and Southwest (with all amendments through March 29, 1990) (incorporated by reference to Exhibit 10.3 on Southwest's Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 1-7259)); Amendments from April 1, 1990 through March 29, 1993 (incorporated by reference to Exhibit 10.3 on Southwest's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-7259)); Amendments from March 29, 1993 through March 29, 1994 (incorporated by reference to Exhibit 10.3 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)); Amendments from March 30, 1994 through March 29, 1995 (incorporated by reference to Exhibit 10.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)); Amendments from March 30, 1995 through March 29, 1996.
- 10.3 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)).

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

- 10.4 1985 stock option agreements between Southwest and Herbert D. Kelleher (incorporated by reference to Exhibit 10.1 to Southwest's Quarterly Report on Form 10-Q for the quarter ended September 30, 1985 (File No. 1-7259)).
- 10.5 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)).

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- 10.6 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)).

- 10.7 1987 stock option agreement between Southwest and Herbert D. Kelleher (incorporated by reference to Exhibit 10.11 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1987 (File No. 1-7259)).
- 10.8 1996 employment contract between Southwest and Herbert D. Kelleher and related stock option agreements.
- 10.9 1991 Incentive Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 33-40652)).
- 10.10 1991 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 33-40652)).
- 10.11 1991 Employee Stock Purchase Plan as amended May 20, 1992 (incorporated by reference to Exhibit 10.13 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-7259)).
- 10.12 Southwest Airlines Co. Profit Sharing Plan (incorporated by reference to Exhibit 10.13 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).
- 10.13 Southwest Airlines Co. 401(k) Plan (incorporated by reference to Exhibit 10.14 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).
- 10.14 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)).
- 11 Computation of earnings per share.
- 22 Subsidiaries of Southwest.
- 23 Consent of Ernst & Young LLP, Independent Auditors.
- 27 Financial Data Schedule.

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Southwest will furnish to the Commission supplementally upon request a copy of each other instrument with respect to the long-term debt of the Company.

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

(b) The following reports on Form 8-K were filed during the fourth quarter of 1995:

Form 8-K dated October 2, 1995, including exhibits relative to Pass Through Certificates, Series 1995-A.

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

YEAR IN REVIEW

Southwest and the airline industry posted their highest profits ever in 1995. Southwest began 1995 with first quarter earnings substantially below first quarter 1994. This beginning of 1995 followed a 47 percent decline in fourth quarter 1994 earnings compared to fourth quarter 1993. In early 1995, we addressed many of the challenges that surfaced during fourth quarter 1994, and we finished the year strong, reporting record earnings for 1995.

Competitive pressures eased in 1995 with most carriers pulling back to their hubs and routes where they dominate. Continental Lite ceased to exist, American substantially decreased its presence in Nashville, and the United Shuttle reduced head-to-head competition with Southwest by approximately 50 percent. Southwest, however, continued to expand, adding service to Omaha, Nebraska, and increasing service in many under-served markets, particularly those experiencing reductions in service by other carriers.

In 1995, capacity and traffic for the domestic airline industry grew approximately three percent and four percent, respectively, and load factor increased versus 1994 due to modest capacity growth and a steady economy. Southwest, however, grew capacity aggressively at 12.6 percent. For most of 1995 and in January 1996, Southwest's monthly load factors were below year-ago levels. While it is too early to determine if this trend will continue in 1996, thus far these lower load factors have been offset by strong passenger revenue yield performances. Our passenger revenue yield for January 1996 exceeded January 1995 by more than 10 percent aided, in large measure, by the lapse of the 10 percent federal ticket tax on January 1, 1996.

The early results of our 1996 expansion into Florida look promising as our load factors for our initial two markets, Tampa and Ft. Lauderdale, have exceeded our systemwide averages. We will begin service to Orlando in April 1996.

After years of horrendous losses, most carriers reduced costs in 1995 by closing hubs, reducing their work force, contracting high-cost work, and obtaining concessions from union workers. For the second consecutive year, our operating expenses per ASM also declined year-over-year, down .1 percent in 1995 primarily due to the significant reduction in the Company's distribution costs. While our goal is to continue this overall cost trend, recent increases in jet fuel prices, and the October 1, 1995 implementation of a 4.3 cents per gallon transportation fuel tax

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for commercial aviation, make near-term reductions in total operating expenses on a per-ASM basis much more difficult.

The national budget impasse, lapse of the 10 percent ticket tax and its presumed reinstatement, proposed deferral of the jet fuel tax, and looming prospect of FAA reform present uncertainty for 1996 and future periods. At the current time, Southwest is unable to predict how these issues will be resolved and what impact, if any, resolution of these uncertainties will have on future operating results or financial condition.

During 1996, we plan to add a net of seventeen aircraft to our fleet, which will be used primarily in our Florida expansion and to strengthen our existing route system.

RESULTS OF OPERATIONS

1995 COMPARED WITH 1994 The Company's consolidated net income for 1995 was \$182.6 million (\$1.23 per share), as compared to the corresponding 1994 amount of \$179.3 million (\$1.22 per share), an increase of 1.8 percent.

Operating Revenues Consolidated operating revenues increased by 10.8 percent in 1995 to \$2,872.8 million, compared to \$2,591.9 million for 1994. This increase in 1995 operating revenues was derived from a 10.5 percent increase in passenger revenues. Revenue passenger miles (RPMs) increased 7.9 percent in 1995, compared to a 12.6 percent increase in available seat miles (ASMs), resulting in a decrease in load factor from 67.3 percent in 1994 to 64.5 percent in 1995. The 1995 ASM growth resulted from the addition of 25 aircraft during the year.

Freight revenues in 1995 were \$65.8 million, compared to \$54.4 million in 1994. The 21.0 percent increase in freight revenues exceeded the 12.6 percent increase in ASMs for the same period primarily due to increased air freight volumes and United States mail services primarily resulting from the development of new markets added in 1994.

Operating Expenses Consolidated operating expenses for 1995 were \$2,559.2 million, compared to \$2,275.2 million in 1994, an increase of 12.5 percent,

compared to the 12.6 percent increase in ASMs. For the second consecutive year, operating expenses on a per-ASM basis decreased year-over-year, down .1 percent in 1995.

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Operating expenses per ASM for 1995 and 1994 were as follows:

OPERATING EXPENSES PER ASM

<TABLE>

<CAPTION>

	1995	1994	INCREASE (DECREASE)	PERCENT CHANGE
<S>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits	2.17c.	2.13c.	.04c.	1.9%
Employee profitsharing and savings plans	.23	.22	.01	4.5
Fuel and oil	1.01	1.00	.01	1.0
Maintenance materials and repairs	.60	.59	.01	1.7
Agency commissions	.34	.41	(.07)	(17.1)
Aircraft rentals	.47	.42	.05	11.9
Landing fees and other rentals	.44	.46	(.02)	(4.3)
Depreciation	.43	.43	-	-
Other	1.38	1.42	(.04)	(2.8)
TOTAL	7.07c.	7.08c.	(.01)c.	(0.1)%

</TABLE>

Salaries, wages, and benefits per ASM increased 1.9 percent in 1995. This increase resulted primarily from a 17.8 percent increase in 1995 average headcount, which outpaced the 1995 capacity (ASM) increase of 12.6 percent, and offset a 2.6 percent decrease in average salary and benefits cost per Employee. The 17.8 percent increase in average headcount was primarily the result of a 44.6 percent increase in Reservations Sales Agents in 1995. Excluding Reservations Sales Agents, total average headcount increased only 11.4 percent. The Reservations Sales Agent increase coincided with increased demand for reservations capacity following 1994 enhancements to Southwest's ticket delivery systems for direct Customers.

Fleet Service Employees are subject to an agreement with the Ramp, Operations and Provisioning Association (ROPA), which became amendable in December 1994. The Company reached an agreement with ROPA which was ratified by its membership in November 1995. Southwest's mechanics are subject to an agreement with the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America (the Teamsters), which became amendable August 16, 1995. Southwest is currently in negotiations with the Teamsters for a new contract.

Employee profitsharing and savings plans expense per ASM increased 4.5 percent in 1995. The increase is primarily the

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result of increased matching contributions to Employee savings plans resulting from increased Employee participation and higher matching rates in 1995 for non-contract Employees and certain Employee groups covered by collective bargaining agreements.

Fuel and oil expenses per ASM increased 1.0 percent in 1995, primarily due to a 2.4 percent increase in the average jet fuel cost per gallon from 1994. Jet fuel prices remained relatively stable throughout most of 1995, with quarterly averages through the first three quarters ranging from \$.53 to \$.55 per gallon. During fourth quarter 1995, the average cost per gallon increased to \$.59 and, in January 1996, has averaged approximately \$.62 per gallon.

Maintenance materials and repairs per ASM increased 1.7 percent in 1995 compared to 1994 primarily as a result of performing more engine overhauls during 1995.

Agency commissions per ASM decreased 17.1 percent in 1995 compared to 1994, due to a lower mix of travel agency sales in 1995. The lower travel agency sales mix resulted from 1994 enhancements to Southwest's ticket delivery systems for direct Customers, as described below.

In response to actions taken by our competitor-owned reservations systems in

1994, we reduced our operating costs and enhanced our ticket delivery systems by developing our own Southwest Airlines Air Travel ("SWAT") system allowing high-volume travel agents direct access to reservations; introduced overnight ticket delivery for travel agents; reduced to three the number of advance days reservations required for overnight delivery of tickets to consumers (Ticket By Mail); developed our own Ticketless system, which was rolled out system-wide on January 31, 1995; and effective March 30, 1995 subscribed to a new level of service with SABRE that automates the booking process for SABRE travel agencies. We also continue to actively pursue other cost-effective solutions for automating non-SABRE travel agency bookings.

Aircraft rentals per ASM increased 11.9 percent in 1995. The increase primarily resulted from second and third quarter 1995 sale/leaseback transactions involving ten new 737-300 aircraft and a higher percentage of the fleet consisting of leased aircraft.

Other operating expenses per ASM decreased 2.8 percent in 1995 compared to 1994. This decrease was primarily due to operating efficiencies resulting from the transition of Morris operational functions to Southwest commencing first quarter 1994, and lower communications costs. Communications costs decreased approximately

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15 percent per ASM primarily due to lower negotiated rates, increased reservations operations efficiencies, and enhancements to the Company's ticket delivery system.

In August 1993, the Revenue Reconciliation Act of 1993 was enacted, which, among other things, included an assessment of 4.3 cents per gallon in federal jet fuel tax, which became effective September 30, 1995, for aviation. This additional fuel tax increased 1995 "other operating expenses" by \$7.4 million.

Other "Other expenses (income)" included interest expense, interest income, and nonoperating gains and losses. Interest expense increased \$5.4 million in 1995 due to the March 1995 issuance of \$100 million senior unsecured 8% Notes due 2005. Capitalized interest increased \$5.0 million in 1995 as a result of higher levels of progress payments on aircraft compared to 1994. Interest income for 1995 increased \$10.9 million primarily due to higher invested cash balances and higher short-term interest rates.

Income Taxes The provision for income taxes as a percentage of income before taxes was relatively unchanged year over year.

1994 COMPARED WITH 1993 The Company's consolidated net income for 1994 was \$179.3 million (\$1.22 per share), as compared to the corresponding 1993 amount (before the cumulative effect of accounting changes) of \$154.3 million (\$1.05 per share), an increase of 16.2 percent. The increase in earnings was primarily attributable to an increase in operating income of 8.5 percent and a decrease in other expenses (nonoperating) of 46.9 percent.

Operating Revenues Consolidated operating revenues increased by 12.9 percent in 1994 to \$2,591.9 million, compared to \$2,296.7 million for 1993. This increase in 1994 operating revenues was derived from a 12.7 percent increase in passenger revenues. RPMs increased 14.8 percent in 1994, compared to a 16.8 percent increase in ASMs, resulting in a decrease in load factor from 68.4 percent in 1993 to 67.3 percent in 1994. The 1994 ASM growth resulted from the addition of 21 aircraft during 1994.

Freight revenues in 1994 were \$54.4 million, compared to \$42.9 million in 1993. The 26.9 percent increase in freight revenues exceeded the 16.8 percent increase in ASMs for the same period primarily due to increased air freight volumes and United States mail services.

Operating Expenses Consolidated operating expenses for 1994 were \$2,275.2 million, compared to \$2,004.7 million in 1993, an increase of 13.5 percent, compared to the 16.8 percent increase in ASMs. On a per-ASM basis, operating expenses (excluding 1993

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merger expenses) decreased 2.3 percent in 1994. The primary factors contributing to this decrease were an 8.8 percent decrease in average jet fuel cost per gallon and lower agency commission costs, offset by increased aircraft rentals.

Salaries, wages, and benefits per ASM increased only .5 percent in 1994. This increase resulted from a 3.0 percent increase in average salary and benefits cost per Employee, partially offset by slower average headcount growth, which increased only 13.8 percent in 1994 versus the 1994 capacity (ASM) increase of 16.8 percent. The majority of the increase in average salary and benefits cost

related to increased health benefits and workers' compensation costs. Employee productivity improved from 2,633 passengers handled per Employee in 1993 to 2,676 in 1994.

Employee profitsharing and savings plans expense per ASM increased 4.8 percent in 1994. The increase is primarily the result of increased matching contributions to Employee savings plans resulting from increased Employee participation and higher matching rates in 1994 for Flight Attendants and Customer Service Employees under their respective collective bargaining agreements.

Fuel and oil expenses per ASM decreased 9.9 percent in 1994, primarily due to an 8.8 percent reduction in the average jet fuel cost per gallon from 1993. Jet fuel prices remained relatively stable throughout 1994, with quarterly averages ranging from \$.51 to \$.56 per gallon.

Maintenance materials and repairs per ASM was unchanged in 1994 compared to 1993.

Agency commissions per ASM decreased 12.8 percent due to a lower mix of travel agency sales and lower 1994 passenger revenue per ASM. The lower travel agency sales mix resulted from 1994 enhancements to Southwest's ticket delivery systems for direct Customers.

Aircraft rentals per ASM increased 7.7 percent in 1994. The increase primarily resulted from a third quarter 1994 sale/leaseback transaction involving ten new 737-300 aircraft and a lease of three used aircraft under long-term operating leases. At December 31, 1994, 44.7 percent of the Company's fleet was subject to operating leases, compared to 43.3 percent at December 31, 1993.

Other operating expenses per ASM decreased 1.4 percent in 1994 compared to 1993. The overall decrease is primarily attributable to operating efficiencies resulting from the transition of Morris operational functions to Southwest, primarily contract services

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which decreased \$8.8 million (24.4 percent per ASM), offset by an increase in advertising costs of \$24.1 million (22.9 percent per ASM) primarily associated with the start-up of seven new cities and new competitive pressures in 1994.

Other "Other expenses (income)" included interest expense, interest income, and nonoperating gains and losses. Interest expense decreased \$5.1 million in 1994 due to the March 1, 1993 redemption of \$100 million senior unsecured 9% Notes due 1996 and the repayment of approximately \$54.0 million of Morris long-term debt during first quarter 1994. Capitalized interest increased \$8.6 million in 1994 as a result of higher levels of advance payments on aircraft compared to 1993. Interest income for 1994 decreased \$1.9 million primarily due to lower cash balances available for short-term investment.

Income Taxes The provision for income taxes decreased in 1994 as a percentage of income before taxes, including cumulative effect of accounting changes, to 40.1 percent from 40.6 percent in 1993. The 1993 rate was higher due to deferred tax adjustments in 1993 related to the 1993 increase in the federal corporate income tax rate from 34 percent to 35 percent (see Note 11 to the Consolidated Financial Statements). This was offset by increased 1994 effective state income tax rates.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided from operations was \$456.4 million in 1995, compared to \$412.7 million in 1994. During 1995, additional funds of \$321.7 million were generated from the sale and leaseback of ten new 737-300 aircraft subject to long-term operating leases (increasing total commitments for operating leases by \$607.9 million). In addition, \$98.8 million was generated from the March 1995 issuance of \$100 million in Senior Unsecured 8% Notes due in 2005.

During 1995, capital expenditures of \$728.6 million primarily were for the purchase of 23 new 737-300 aircraft, one used 737-300 aircraft previously leased by Morris, and progress payments for future aircraft deliveries. At December 31, 1995, capital commitments of the Company consisted primarily of scheduled aircraft acquisitions.

As of January 1996, Southwest had one hundred 737s on firm order, including twenty to be delivered in 1996, with options to purchase another sixty-seven. Aggregate funding required for firm commitments approximated \$2,614.0 million through the year 2001 of which \$461.5 million related to 1996. See Note 4 to the Consolidated Financial Statements for further information.

As of December 31, 1995 and since 1990, the Company had authority from its Board of Directors to purchase 3,750,000 shares of its common stock from time-to-time on the open market. No shares have been purchased since 1990.

The Company has various options available to meet its capital and operating commitments, including cash on hand at December 31, 1995 of \$317.4 million, internally generated funds, and a revolving credit line with a group of banks of up to \$460 million (none of which had been drawn at December 31, 1995). In addition, the Company will also consider various borrowing or leasing options to maximize earnings and supplement cash requirements.

The Company currently has outstanding shelf registrations for the issuance of \$260.6 million public debt securities.

Cash provided from operations was \$412.7 million in 1994 as compared to \$392.7 million in 1993. During 1994, additional funds of \$315.0 million were generated from the sale and leaseback of ten new 737-300 aircraft subject to long-term operating leases (increasing total commitments for operating leases by \$619.0 million). These proceeds were primarily used to finance aircraft-related capital expenditures and to provide working capital.

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SOUTHWEST AIRLINES CO.
CONSOLIDATED BALANCE SHEET
(in thousands except share and per share amounts)

<TABLE>
<CAPTION>

	December 31,	
	1995	1994
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 317,363	\$ 174,538
Accounts receivable	79,781	75,692
Inventories of parts and supplies, at cost	41,032	37,565
Deferred income taxes (Note 11)	10,476	9,822
Prepaid expenses and other current assets	24,484	17,281
Total current assets	473,136	314,898
Property and equipment, at cost (Notes 4 and 7):		
Flight equipment	3,024,702	2,564,551
Ground property and equipment	435,822	384,501
Deposits on flight equipment purchase contracts	323,864	393,749
	3,784,388	3,342,801
Less allowance for depreciation	1,005,081	837,838
	2,779,307	2,504,963
Other assets	3,679	3,210
	\$3,256,122	\$2,823,071
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 117,473	\$ 117,599
Accrued liabilities (Note 5)	348,476	288,979
Air traffic liability	131,156	106,139
Current maturities of long-term debt	13,516	9,553
Total current liabilities	610,621	522,270
Long-term debt less current maturities (Note 6)	661,010	583,071
Deferred income taxes (Note 11)	281,650	232,850
Deferred gains from sale and leaseback of aircraft	245,154	217,677
Other deferred liabilities	30,369	28,497
Commitments and contingencies (Notes 4, 7, and 11)		
Stockholders' equity (Notes 8 and 9):		

Common stock, \$1.00 par value:		
500,000,000 shares authorized;		
144,033,273 shares issued and		
outstanding in 1995 and		
143,255,795 shares in 1994	144,033	143,256
Capital in excess of par value	162,704	151,746
Retained earnings	1,120,581	943,704
	-----	-----
Total stockholders' equity	1,427,318	1,238,706
	-----	-----
	\$3,256,122	\$2,823,071
	=====	=====

</TABLE>

SEE ACCOMPANYING NOTES.

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SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF INCOME
(in thousands except per share amounts)

<TABLE>
<CAPTION>

	Years ended December 31,		
	1995	1994	1993

<S>	<C>	<C>	<C>
OPERATING REVENUES:			
Passenger	\$ 2,760,756	\$ 2,497,765	\$ 2,216,342
Freight	65,825	54,419	42,897
Other	46,170	39,749	37,434
	-----	-----	-----
Total operating revenues	2,872,751	2,591,933	2,296,673
OPERATING EXPENSES:			
Salaries, wages, and			
benefits (Note 10)	867,984	756,023	641,747
Fuel and oil	365,670	319,552	304,424
Maintenance materials and			
repairs	217,259	190,308	163,395
Agency commissions	123,380	133,081	130,445
Aircraft rentals	169,461	132,992	107,885
Landing fees and other			
rentals	160,322	148,107	129,222
Depreciation	156,771	139,045	119,338
Other operating expenses	498,373	456,116	397,441
Merger expenses (Note 2)	--	--	10,803
	-----	-----	-----
Total operating expenses	2,559,220	2,275,224	2,004,700
	-----	-----	-----
OPERATING INCOME	313,531	316,709	291,973
OTHER EXPENSES (INCOME):			
Interest expense	58,810	53,368	58,460
Capitalized interest	(31,371)	(26,323)	(17,770)
Interest income	(20,095)	(9,166)	(11,093)
Nonoperating (gains) losses,			
net	1,047	(693)	2,739
	-----	-----	-----
Total other expenses	8,391	17,186	32,336
	-----	-----	-----
INCOME BEFORE INCOME TAXES AND			
CUMULATIVE EFFECT OF			
ACCOUNTING CHANGES	305,140	299,523	259,637
PROVISION FOR INCOME TAXES			
(NOTE 11)	122,514	120,192	105,353
	-----	-----	-----
INCOME BEFORE CUMULATIVE			
EFFECT OF ACCOUNTING			
CHANGES	182,626	179,331	154,284
CUMULATIVE EFFECT OF			
ACCOUNTING CHANGES			
(NOTE 3)	--	--	15,259
	-----	-----	-----
NET INCOME	\$ 182,626	\$ 179,331	\$ 169,543
	=====	=====	=====
PER SHARE AMOUNTS (NOTES 3, 8,			
AND 12):			

Income before cumulative effect of accounting changes	\$ 1.23	\$ 1.22	\$ 1.05
Cumulative effect of accounting changes	--	--	.10
Net income	\$ 1.23	\$ 1.22	\$ 1.15

</TABLE>

SEE ACCOMPANYING NOTES.

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SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1995, 1994, AND 1993
(in thousands except per share amounts)

<TABLE>
<CAPTION>

	Common stock	Capital in excess of par value	Retained earnings	Total
<S>	<C>	<C>	<C>	<C>
Balance at December 31, 1992	96,047	177,561	605,928	879,536
Three-for-two stock split (Note 8)	46,325	(46,325)	-	-
Issuance of common stock upon exercise of executive stock options and pursuant to Employee stock option and purchase plans and related tax benefit (Note 9)	384	9,932	-	10,316
Cash dividends, \$.03867 per share	-	-	(5,376)	(5,376)
Net income - 1993	-	-	169,543	169,543
Balance at December 31, 1993	142,756	141,168	770,095	1,054,019
Issuance of common stock upon exercise of executive stock options and pursuant to Employee stock option and purchase plans and related tax benefit (Note 9)	500	10,578	-	11,078
Cash dividends, \$.04 per share	-	-	(5,722)	(5,722)
Net income - 1994	-	-	179,331	179,331
Balance at December 31, 1994	143,256	151,746	943,704	1,238,706
Issuance of common stock upon exercise of executive stock options and pursuant to Employee stock option and purchase plans and related tax benefit (Note 9)	777	10,958	-	11,735
Cash dividends, \$.04 per share	-	-	(5,749)	(5,749)
Net income - 1995	-	-	182,626	182,626
Balance at December 31, 1995	\$ 144,033	\$ 162,704	\$ 1,120,581	\$ 1,427,318

</TABLE>

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SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

Years ended December 31,

	1995	1994	1993
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$182,626	\$179,331	\$169,543
Cumulative effect of accounting changes (Note 3)	-	-	(15,259)
Income before cumulative effect of accounting changes	182,626	179,331	154,284
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	156,771	139,045	119,338
Deferred income taxes	48,147	49,887	53,200
Amortization of deferred gains on sale and leaseback of aircraft	(24,286)	(30,341)	(32,509)
Amortization of scheduled airframe overhauls	17,337	14,216	11,630
Changes in certain assets and liabilities:			
Increase in accounts receivable	(4,089)	(5,208)	(14,253)
(Increase) decrease in other current assets	(11,857)	648	(9,641)
Increase in accounts payable and accrued liabilities	61,937	52,679	67,585
Increase in air traffic liability	25,017	9,993	30,212
Increase (decrease) in other current liabilities	1,050	(4,690)	2,393
Other	3,789	7,106	10,440
Net cash provided by operating activities	456,442	412,666	392,679
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(728,643)	(788,649)	(524,169)
Net cash used in investing activities	(728,643)	(788,649)	(524,169)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt	98,811	-	17,810
Proceeds from aircraft sale and leaseback transactions	321,650	315,000	90,000
Payment of long-term debt and capital lease obligations	(10,379)	(63,071)	(120,098)
Payment of cash dividends	(5,749)	(5,722)	(5,376)
Proceeds from Employee stock plans	10,693	8,743	6,743
Other	-	-	(7)
Net cash provided by (used in) financing activities	415,026	254,950	(10,928)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	142,825	(121,033)	(142,418)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	174,538	295,571	437,989
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$317,363	\$174,538	\$295,571
CASH PAYMENTS FOR:			
Interest, net of amount capitalized	\$ 25,277	\$ 26,598	\$ 43,161
Income taxes	73,928	80,461	45,292

</TABLE>

SEE ACCOMPANYING NOTES.

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SOUTHWEST AIRLINES CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and cash equivalents Cash equivalents consist of certificates of deposit and investment grade commercial paper issued by major corporations and

financial institutions that are highly liquid and have original maturity dates of three months or less. Cash and cash equivalents are carried at cost, which approximates market value.

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

Property and equipment Depreciation is provided by the straight-line method to residual values over periods ranging from 15 to 20 years for flight equipment and 3 to 30 years for ground property and equipment. 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.

Aircraft and engine maintenance The cost of engine overhauls and routine maintenance costs for aircraft and engine maintenance are charged to maintenance expense as incurred. Scheduled airframe overhaul costs are capitalized at amounts not to exceed the fair market value of the related aircraft and amortized over the estimated periods benefited, presently 8 years. Modifications that

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significantly enhance the operating performance or extend the useful lives of aircraft or engines are capitalized and amortized over the remaining life of the asset.

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

Frequent flyer awards The Company accrues the estimated incremental cost of providing free travel awards earned under its Company Club frequent flyer program.

Advertising The Company expenses the production costs of advertising as incurred. Advertising expense for the years ended December 31, 1995, 1994, and 1993 was \$92,087,000, \$79,475,000, and \$55,344,000, respectively.

Stock-Based Employee Compensation The Company accounts for stock-based compensation plans utilizing the provisions of Accounting Principles Board Opinion No. 25 (APB25), "Accounting for Stock Issued to Employees." In October of 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." The Company is not required to adopt the provisions of SFAS 123 until 1996. Under SFAS 123, companies are allowed to continue to apply the provisions of APB 25 to their stock-based employee compensation arrangements. As such, the Company will only be required to supplement its financial statements with additional disclosures beginning in 1996.

2. ACQUISITION

On December 31, 1993, Southwest exchanged 3,574,656 newly issued shares of its common stock for all of the outstanding stock of Morris Air Corporation (Morris), a low-fare commercial/charter air carrier based in Salt Lake City. The acquisition was accounted for as a pooling of interests and, accordingly, the Company's consolidated financial statements were restated to include the accounts and operations of Morris for all periods prior to the acquisition.

Merger expenses of \$10,803,000 relating to the merger of Southwest and Morris have been included in 1993 operating expenses as required for financial reporting purposes; however, these expenses have been separately reported as "merger expenses" to reflect the impact of these nonrecurring expenses on operating results.

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3. ACCOUNTING CHANGES

Income Taxes Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes". As a result of adopting SFAS 109, the Company recorded deferred tax assets of \$6,977,000 and reduced deferred tax liabilities by \$9,048,000 at January 1, 1993, which resulted in an increase to the Company's 1993 net income of \$16,025,000 (\$.11 per share) for the cumulative effect of the accounting

change.

Postretirement Benefits Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 106 (SFAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions". The cumulative effect of this change in accounting method at January 1, 1993 reduced 1993 net income by \$766,000 (net of benefit from income taxes of \$469,000) or \$.01 per share. The effect of adopting SFAS 106 on 1993 income before cumulative effect of accounting changes was not material.

4. COMMITMENTS

The Company's contractual purchase commitments consist primarily of scheduled aircraft acquisitions. Timing of payments pursuant to contractual commitments was affected by third quarter 1995 amendments to certain aircraft purchase contracts, which modified future progress payment schedules. Twenty 737-300 aircraft are scheduled for delivery in 1996, and 17 in 1997. Four 737-700s are scheduled for delivery in 1997, 16 in 1998, 16 in 1999, 15 in 2000, and 12 in 2001. In addition, the Company has options to purchase up to sixty-seven 737-700s during 1998-2004. 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 delivered subsequent to 1999. Aggregate funding needed for these commitments is approximately \$2,614.0 million, subject to adjustments for inflation, due as follows: \$461.5 million in 1996, \$576.9 million in 1997, \$446.9 million in 1998, \$551.2 million in 1999, \$351.0 million in 2000, and \$226.5 million in 2001.

The Company uses jet fuel and heating oil fixed price swap arrangements to hedge its exposure to price fluctuations on approximately two percent of its annual fuel requirements. As of December 31, 1995, the Company had a heating oil swap agreement with a broker-dealer to exchange monthly payments on a notional quantity of 1,050,000 gallons during May 1996. Under the swap agreement, the Company pays or receives the difference between the daily average heating oil price and a fixed price of \$.46 per gallon. Gains and losses on such transactions are recorded as adjustments to fuel expense and have been insignificant. Although

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such agreements expose the Company to credit loss in the event of nonperformance by the other parties to the agreements, the Company does not anticipate such nonperformance.

5. ACCRUED LIABILITIES

(in thousands)

<TABLE>

<CAPTION>

	1995	1994
<S>	<C>	<C>
Aircraft rentals_____	\$ 105,534	\$ 67,407
Employee profitsharing and savings plans (Note 10)____	55,253	53,512
Vacation pay_____	38,777	31,801
Aircraft maintenance costs____	31,463	37,330
Taxes, other than income_____	22,478	25,001
Interest_____	22,326	20,270
Other_____	72,645	53,658
	\$ 348,476	\$ 288,979

6. LONG-TERM DEBT

(in thousands)

	1995	1994
9 1/4% Notes due 1998_____	\$100,000	\$100,000
9.4% Notes due 2001_____	100,000	100,000
8 3/4% Notes due 2003_____	100,000	100,000
7 7/8% Notes due 2007_____	100,000	100,000
8% Notes due 2005_____	100,000	-

Capital leases (Note 7) _____	177,696	195,756
Other _____	430	435
	-----	-----
	678,126	596,191
Less current maturities _____	13,516	9,553
Less debt discount _____	3,600	3,567
	-----	-----
	\$661,010	\$583,071
	=====	=====

</TABLE>

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

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

During 1991, the Company issued \$100 million of senior unsecured 9 1/4% Notes, \$100 million of senior unsecured 9.4% Notes, and \$100 million of senior unsecured 8 3/4% Notes due February 15, 1998, July 1, 2001, and October 15, 2003, respectively. Interest on the Notes is payable semi-annually. The Notes are not redeemable by the Company prior to maturity.

The fair values, based on quoted market prices, of these Notes at December 31, 1995, were as follows (in thousands):

9 1/4% Notes due 1998 _____	\$106,720
9.4% Notes due 2001 _____	114,610
8 3/4% Notes due 2003 _____	114,350
7 7/8% Notes due 2007 _____	110,530
8% Notes due 2005 _____	110,310

In addition to the credit facilities described above, Southwest has an unsecured Bank Credit Agreement with a group of banks that permits Southwest to borrow through December 14, 1999 on a revolving credit basis up to \$460 million. Interest rates on borrowings under the Credit Agreement can be, at the option of Southwest, the agent bank's prime rate, 0.275% over LIBOR, or 0.50% over domestic certificate of deposit rates. The commitment fee is 0.125% per annum. There were no outstanding borrowings under this agreement at December 31, 1995 or 1994.

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7. LEASES

Total rental expense for operating leases charged to operations in 1995, 1994, and 1993 was \$247,033,000, \$198,987,000, and \$167,303,000, respectively. The majority of the Company's terminal operations space, as well as 100 aircraft, were under operating leases at December 31, 1995. The amounts applicable to capital leases included in property and equipment were (in thousands):

<TABLE>		
<CAPTION>		
	1995	1994
- - - - -	-----	-----
<S>	<C>	<C>
Flight equipment _____	\$223,844	\$233,324
Less accumulated amortization _____	101,641	88,656
	-----	-----
	\$122,203	\$144,668
	=====	=====

</TABLE>

Future minimum lease payments under capital leases and noncancelable operating leases, with initial or remaining terms in excess of one year, at December 31, 1995, were (in thousands):

<TABLE>
<CAPTION>

	CAPITAL LEASES	OPERATING LEASES
<S>	<C>	<C>
1996	\$27,796	\$223,279
1997	25,858	207,875
1998	32,026	187,662
1999	20,245	173,846
2000	16,871	165,692
After 2000	172,751	1,935,372
Total minimum lease payments	295,547	\$2,893,726
		=====
Less amount representing interest	117,851	
Present value of minimum lease payments	177,696	
Less current portion	13,505	
Long-term portion	\$164,191	
	=====	

</TABLE>

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

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8. COMMON STOCK

At December 31, 1995, the Company had common stock reserved for issuance pursuant to Employee stock benefit plans (29,202,885 shares) and upon exercise of rights pursuant to the Common Stock Rights Agreement (Agreement), as amended (173,236,158 shares).

Pursuant to the Agreement, each outstanding share of the Company's common stock is accompanied by one common share purchase right (Right). Each Right entitles its holder to purchase one share of common stock at an exercise price of \$16.67 and is exercisable only in the event of a proposed takeover, as defined by the Agreement. The Company may redeem the Rights at \$.0111 per Right prior to the time that 20 percent of the common stock has been acquired by a person or group. If the Company is acquired or if certain self-dealing transactions occur, as defined in the Agreement, each Right will entitle its holder to purchase for \$16.67 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, 1996.

On May 19, 1993, the Company's Board of Directors declared a three-for-two stock split, distributing 46,325,147 shares on July 15, 1993.

9. STOCK PLANS

In May 1991, the Company's stockholders approved the Incentive Stock Option Plan and the Non-Qualified Stock Option Plan. Under the Incentive Stock Option Plan, options to purchase a maximum of 9,000,000 shares of Southwest common stock may be granted to key Employees. Under the Non-Qualified Stock Option Plan, options to purchase up to 750,000 shares of Southwest common stock may be granted to key Employees and non-employee directors. Under each plan, the option price per share may not be less than the fair market value of a share on the date the option is granted and the maximum term of an option may not exceed ten years.

Effective January 12, 1995, the Company adopted, pursuant to a collective bargaining agreement between the Company and the Southwest Airlines Pilots' Association (SWAPA), the 1995 SWAPA Non-Qualified Stock Option Plan (SWAPA Plan). Under the terms of the SWAPA Plan, 18,000,000 common shares have been reserved for issuance. An initial grant of approximately 14.5 million shares was made on the effective date at an option price of \$20.00 per share. On September 1 of each year of the agreement, commencing September 1, 1996, additional options will be granted to Pilots that became eligible during that year at an option price equal to the fair market value of the common stock of the Company on the

date of grant plus 5 percent. Options vest in ten annual increments of ten per cent and must be exercised prior to January 31, 2007, or within a specified time upon retirement or termination. In the event that SWAPA exercises its option to make the collective bargaining agreement amendable on September 1, 1999, any unexercised options will be canceled on December 1, 1999.

Information regarding the stock option plans is summarized below:

<S>	INCENTIVE PLAN	NON-QUALIFIED PLANS *
	-----	-----
<C>	<C>	<C>
Outstanding December 31, 1992__	4,016,904	374,625
Granted_____	724,646	22,512
Exercised_____	** (198,285)	*** (94,810)
Surrendered_____	(230,978)	(1,050)
	-----	-----
Outstanding December 31, 1993__	4,312,287	301,277
Granted_____	794,714	63,918
Exercised_____	(190,159)	(9,940)
Surrendered_____	(104,880)	-
	-----	-----
Outstanding December 31, 1994__	4,811,962	355,255
Granted_____	983,214	14,620,365
Exercised_____	(275,058)	(60,510)
Surrendered_____	(308,239)	(61,041)
	-----	-----
Outstanding December 31, 1995__	5,211,879	14,854,069
	=====	=====
Exercisable_____	889,499	2,892,969
Available for granting in future periods_____	2,772,719	3,719,841
Average price of exercised options:		
1995_____	\$8.50	\$15.12
1994_____	\$8.23	\$7.85
1993_____	\$7.14	\$7.37

</TABLE>

*Includes 1991 Non-Qualified Plan and SWAPA Plan.

**Includes 108,113 pre-split shares and 36,115 post-split shares, of which 5,476 pre-split shares and 72 post-split shares were issued from treasury.

***Includes 12,740 pre-split shares and 75,700 post-split shares.

The exercise price of outstanding options ranged from \$6.02 to \$37.44 in 1995 and 1994, and \$6.02 to \$19.71 in 1993.

In 1991, the Company's stockholders also approved the Employee Stock Purchase Plan that provides for the sale of common stock to Employees of the Company at a price equal to 90% 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 388,339 shares in 1995, 290,054 shares in 1994, and 182,459 shares (59,442 pre-split shares and 93,296 post-split shares) in 1993 at average prices of \$19.18, \$24.98, and \$25.25, respectively.

At December 31, 1995, 1994, and 1993, 1,422,253, 1,489,753, and 1,504,753, options to purchase the Company's common stock were also outstanding related to employment contracts with the Company's president and chief executive officer. Exercise prices range from \$1.00 to \$11.33 per share. Options for 67,500 shares, 15,000 shares, and 7,500 shares (5,000 pre-split shares, of which 968 shares were issued from treasury), were exercised in 1995, 1994, and 1993, respectively.

10. EMPLOYEE PROFITSHARING AND SAVINGS PLANS

Substantially all of Southwest's Employees are members of the Southwest Airlines Co. Profitsharing Plan (the Plan). Total profitsharing expense charged to operations in 1995, 1994, and 1993, was \$54,033,000, \$52,782,000, and \$44,959,000, respectively. The Company sponsors Employee savings plans under Section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time Employees. The amount of matching contributions varies by Employee group. Company contributions generally vest over five years with credit for prior years' service granted. Company matching contributions expensed in 1995, 1994, and 1993 were \$28,954,000, \$19,817,000, and \$13,986,000, respectively.

11. INCOME TAXES

Effective January 1, 1993, the Company changed its method of accounting for income taxes from the deferred method to the liability method as required by SFAS 109 (see Note 3).

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Under SFAS 109, 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, 1995 and 1994 are as follows (in thousands):

	1995	1994
	-----	-----
<S>	<C>	<C>
Deferred tax liabilities:		
Accelerated depreciation	\$400,321	\$343,585
Scheduled airframe overhauls	27,129	23,966
Other	68,458	55,953
	-----	-----
Total deferred tax liabilities	495,908	423,504
Deferred tax assets:		
Deferred gains from sale and leaseback of aircraft	106,119	95,602
Capital and operating leases	54,472	38,240
Alternative minimum tax credit carryforward	11,333	22,778
Other	52,810	43,856
	-----	-----
Total deferred tax assets	224,734	200,476
	-----	-----
Net deferred tax liability	\$271,174	\$223,028
	=====	=====

</TABLE>

In August 1993, the Revenue Reconciliation Act of 1993 was enacted, which contains numerous provision changes including an increase in the federal corporate income tax rate from 34 percent to 35 percent effective January 1, 1993. As a result, the Company recognized approximately \$4.0 million of additional expense in 1993 related to deferred tax liabilities existing on January 1, 1993.

The provision for income taxes before the cumulative effect of accounting changes is comprised of the following (in thousands):

	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
Current:			
Federal	\$64,420	\$59,603	\$46,744
State	9,947	10,702	5,409
	-----	-----	-----
Total current	74,367	70,305	52,153
Deferred:			
Federal	44,580	46,470	48,524
State	3,567	3,417	4,676
	-----	-----	-----
Total deferred	48,147	49,887	53,200

-----	-----	-----
\$122,514	\$120,192	\$105,353
=====	=====	=====

</TABLE>

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Southwest has received examination reports from the Internal Revenue Service proposing certain adjustments to Southwest's income tax returns for 1987 through 1991. The adjustments relate to certain types of aircraft financings consummated by Southwest, as well as other members of the aviation industry during that time period. Southwest intends to vigorously protest the adjustments proposed with which it does not agree. The industry's difference with the IRS involves complex issues of law and fact that are likely to take a substantial period of time to resolve. Management believes that final resolution of such protest will not have a materially adverse effect upon the results of operations of Southwest.

The effective tax rate on income before cumulative effect of accounting changes differed from the federal income tax statutory rate for the following reasons (in thousands):

<TABLE>

<CAPTION>

	1995	1994	1993

<S>	<C>	<C>	<C>
Tax at statutory			
U.S. tax rates	\$106,799	\$104,833	\$90,873
Nondeductible items	4,488	3,689	1,361
State income taxes,			
net of federal			
benefit	8,784	9,177	6,632
Effect of increase			
in U.S. statutory			
rate	-	-	3,957
Other, net	2,443	2,493	2,530
	-----	-----	-----
Total income tax			
provision	\$122,514	\$120,192	\$105,353
	=====	=====	=====

</TABLE>

12. NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

Net income per common and common equivalent share is computed based on the weighted average number of common and common equivalent shares outstanding (148,850,512 in 1995, 147,305,374 in 1994, and 147,144,568 in 1993). Fully diluted earnings per share have not been presented as the fully dilutive effect of shares issuable upon the exercise of options under the Company's Stock Option Plans is not material.

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REPORT OF ERNST & YOUNG LLP

INDEPENDENT AUDITORS

The Board of Directors and Shareholders

Southwest Airlines Co.

We have audited the accompanying consolidated balance sheets of Southwest Airlines Co. as of December 31, 1995 and 1994, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. 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 generally accepted auditing standards. 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, 1995 and 1994, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

As discussed in Note 3, during 1993, the Company changed its method of accounting for income taxes and postretirement benefits.

ERNST & YOUNG LLP

Dallas, Texas
January 25, 1996

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SIGNATURES

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

SOUTHWEST AIRLINES CO.

March 21, 1996

By /s/ GARY C. KELLY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on March 21, 1996 on behalf of the registrant and in the capacities indicated.

<TABLE>

<CAPTION>

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

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)).
- 3.2 Bylaws of Southwest, as amended through February 1994 (incorporated by reference to Exhibit 3.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)).
- 4.1 Credit Agreement dated December 15, 1990, between Southwest and Texas Commerce Bank - Dallas, N.A., as agent for itself and four other banks named therein, and such banks (incorporated by reference to Exhibit 4.1 on Southwest's Current Report on Form 8-K dated February 14, 1991 (File No. 1-7259)); First Amendment to Credit Agreement, dated April 4, 1991 and Second Amendment to Credit Agreement, dated December 14, 1991 (incorporated by reference to Exhibit 4.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)); Third Amendment to Credit Agreement, dated December 14, 1992 (incorporated by reference in Exhibit 4.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-7259)); Fourth Amendment to Credit Agreement, dated December 14, 1993 (incorporated by reference to Exhibit 4.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 1-7259)). Fifth and Sixth Amendments to Credit Agreement dated March 10, 1995 and May 18, 1995, respectively.
- 4.2 Specimen certificate representing Common Stock of Southwest (incorporated by reference to Exhibit 4.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 1-7259)).
- 4.3 Indenture dated as of December 1, 1985 between Southwest and MBank Dallas, N.A., Trustee, relating to an unlimited amount of Debt Securities (incorporated by reference to Exhibit 4.1 of Southwest's Current Report on Form 8-K dated February 26, 1986 (File No. 1-7259)) and First Supplemental Indenture dated as of January 21, 1988, substituting MTrust Corp, National Association, as Trustee, thereunder (incorporated by reference to Exhibit 4.3 on Southwest's Annual Report on Form 10-K for the year ended December 31, 1987 (File 1-7259)).
- 4.4 Rights Agreement dated July 14, 1986 between Southwest and MBank Dallas, N.A., as Rights Agent (incorporated by reference to Exhibit 1, Southwest's Registration Statement on Form 8-A dated July 15, 1986 (File No. 1-7259)) and Amendment No. 1 to Rights Agreement, dated as of December 1, 1990 between Southwest and Ameritrust Texas N.A. (incorporated by reference to Exhibit 4.2 on Southwest's Current Report on Form 8-K dated February 14, 1991 (File No. 1-7259)).
- 4.5 Indenture dated as of June 20, 1991 between Southwest Airlines Co. and Bank of New York, successor to NationsBank of Texas, N.A. (formerly NCB 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)).

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- 4.6 Form of 9.4 percent Note due 2001 (incorporated by reference to Exhibit 4.2 to Southwest's Current Report on Form 8-K dated June 24, 1991 (File No. 1-7259)).
- 4.7 Form of 8-3/4 percent Note due 2003 (incorporated by reference to Exhibit 4.2 to Southwest's Current Report on Form 8-K dated October 4, 1991 (File No. 1-7259)).
- 4.9 Form of 9-1/4 percent Note due 1998 (incorporated by reference to Exhibit 4.9 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).
- 4.10 Form of 7-7/8 percent Note due 2007 (incorporated by reference to Exhibit 4.10 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-7259)).
- 4.11 Form of Global Security representing all 8 percent Notes due 2005 (incorporated by reference to Exhibit 4 to Southwest's current Report on Form 8-K dated March 6, 1995 (File No. 1-7259)).
- 10.1 General Terms Agreement between CFM International, Inc. and Southwest

(with all amendments through March 29, 1990) dated May 28, 1981 (incorporated by reference to Exhibit 10.2 on Southwest's Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 1-7259)); Amendments from November 6, 1989 through March 29, 1993 (incorporated by reference to Exhibit 10.2 on Southwest's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-7259)); Amendments from March 29, 1993 through March 29, 1994 (incorporated by reference to Exhibit 10.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)); Amendment No. 7 and Letter Agreement No. 11, each dated as of January 19, 1994 (incorporated by reference to Exhibit 10.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)).

- 10.2 Purchase Agreement No. 1405, dated July 23, 1987 between The Boeing Company and Southwest (with all amendments through March 29, 1990) (incorporated by reference to Exhibit 10.3 on Southwest's Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 1-7259)); Amendments from April 1, 1990 through March 29, 1993 (incorporated by reference to Exhibit 10.3 on Southwest's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-7259)); Amendments from March 29, 1993 through March 29, 1994 (incorporated by reference to Exhibit 10.3 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)); Amendments from March 30, 1994 through March 29, 1995 (incorporated by reference to Exhibit 10.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)); Amendments from March 30, 1995 through March 29, 1996.
- 10.3 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)).

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

- 10.4 1985 stock option agreements between Southwest and Herbert D. Kelleher (incorporated by reference to Exhibit 10.1 to Southwest's Quarterly Report on Form 10-Q for the quarter ended September 30, 1985 (File No. 1-7259)).
- 10.5 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)).
- 10.6 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)).
- 10.7 1987 stock option agreement between Southwest and Herbert D. Kelleher (incorporated by reference to Exhibit 10.11 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1987 (File No. 1-7259)).
- 10.8 1996 employment contract between Southwest and Herbert D. Kelleher and related stock option agreements.
- 10.9 1991 Incentive Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 33-40652)).
- 10.10 1991 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 33-40652)).
- 10.11 1991 Employee Stock Purchase Plan as amended May 20, 1992 (incorporated by reference to Exhibit 10.13 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-7259)).
- 10.12 Southwest Airlines Co. Profit Sharing Plan (incorporated by reference to Exhibit 10.13 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).
- 10.13 Southwest Airlines Co. 401(k) Plan (incorporated by reference to Exhibit 10.14 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).

- 10.14 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)).
- 11 Computation of earnings per share.
- 22 Subsidiaries of Southwest.
- 23 Consent of Ernst & Young LLP, Independent Auditors.
- 27 Financial Data Schedule.

FIFTH AMENDMENT TO COMPETITIVE ADVANCE AND
REVOLVING CREDIT FACILITY AGREEMENT

THIS AMENDMENT is entered into as of March 10, 1995, among SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), the banks listed on the signature pages hereof ("Banks"), TEXAS COMMERCE BANK NATIONAL ASSOCIATION (formerly TEXAS COMMERCE BANK, NATIONAL ASSOCIATION), a national banking association, as agent for the Banks (in such capacity, "Agent"), TEXAS COMMERCE BANK NATIONAL ASSOCIATION, a national banking association, as Funds Administrator (in such capacity, "Funds Administrator"), and CHEMICAL BANK, a New York banking corporation, as auction administration agent (in such capacity, "Auction Administration Agent").

The Company, Banks, Agent, Funds Administrator and Auction Administration Agent have entered into the Competitive Advance and Revolving Credit Facility Agreement dated as of December 14, 1990 (as previously amended as of April 4, 1991, December 14, 1991, December 14, 1992, and December 14, 1993 and as further renewed, extended, amended, or supplemented, the "Credit Agreement"). The Company has requested that the Banks extend the Original Termination Date to December 14, 1999 and change certain pricing provisions.

NOW, THEREFORE, in consideration of the premises and other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company, Banks, Agent, Funds Administrator and Auction Administration Agent agree as follows:

1. Unless otherwise specified herein, terms defined in the Credit Agreement have the same meaning when used herein and all references to "Sections" and "Schedules" are references to sections and schedules of or to the Credit Agreement.
2. The following definitions are deleted from Section 1.01 of the Credit Agreement:

"Anniversary Date"
"Continuing Banks"
"Existing Termination Date"
"Nominee"
"Non-Consenting Banks"
"Notice of Cancellation"
"Notice of Extension"
"Relevant Anniversary Date"

3. The definition of Original Termination Date in Section 1.01 of the Credit Agreement is amended to read "December 14, 1999," instead of "December 14, 1996."

4. New definitions, reading as follows, are added to Section 1.01 of the Credit Agreement in appropriate alphabetical order:

"LIBO Margin for Committed Loans" means the following percentages in the following contexts:

<TABLE>	
<CAPTION>	
Company's senior unsecured long-term debt as rated by S&P or Moody's, whichever is higher	Percentage
-----	-----
<S>	<C>
A1 or better	.25
A- or BBB+2	.275
BBB3	.3125
BBB-4 or below	.50
</TABLE>	

"Moody's" means Moody's Investor Service, Inc.

"S&P" means Standard & Poors Corporation.

5. The definition of Facility Fee Percentage in Section 1.01 of the Credit Agreement is amended to read as follows:

"Facility Fee Percentage" means the following percentages in the following contexts:

<TABLE>

<CAPTION>

Company's senior unsecured long-term debt as rated by S&P or Moody's, whichever is higher	Percentage
<S>	<C>
A1 or	.10
A- or BBB+2	.125
BBB3	.1875
BBB-4 or below	.25

</TABLE>

6. The definition of Commitment found in Section 1.01 of the Credit Agreement is amended by deleting the words "and Section 2.20" each time they appear and by deleting the comma found after the reference to "Section 2.06" and inserting the word "and" in lieu thereof.

- -----

- (1) A is the S&P rating designation. The rating from Moody's that corresponds to A is A2.
- (2) BBB+ is the S&P rating designation. The rating from Moody's that corresponds to BBB+ is Baa1.
- (3) BBB is the S&P rating. The rating from Moody's that corresponds to BBB is Baa2.
- (4) BBB- is the S&P rating. The rating from Moody's that corresponds to BBB- is Baa3.

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7. The definition of Majority Committed Banks found in Section 1.01 of the Credit Agreement is amended by deleting therefrom the following: ", except as provided in Section 2.20(f),".

8. The definition of Termination Date found in Section 1.01 of the Credit Agreement is amended by deleting the parenthetical phrase found therein.

9. Section 2.09(a)(ii) is amended in its entirety as follows:

(ii) the LIBO Rate for the Interest Period in effect for such Loan (A) plus or minus, as the case may be, in the case of each Competitive Loan, the Margin specified by a Bank with respect to such Loan in its Competitive Bid submitted pursuant to Section 2.02(b) or (B) plus, in the case of each Committed Loan, the LIBO for Committed Loans.

10. Section 2.15(e) of the Credit Agreement is amended to read as follows:

(e) the consent by some Banks but not all of the Banks to the extension of any Termination Date,

11. Section 2.16 of the Credit Agreement is amended by deleting therefrom the words "or pursuant to Section 2.20".

12. Section 2.17 of the Credit Agreement is amended by deleting the words "or Section 2.20" therefrom and inserting the word "and" before the reference to Section 2.15.

13. Section 2.18(a) of the Credit Agreement is amended by deleting the words "and Section 2.20", inserting the word "and" before the reference to Section 2.15 and deleting from the parenthetical found therein the words "and payments made to a Non-Consenting Bank pursuant to Section 2.20".

14. Section 2.20 of the Credit Agreement is deleted in its entirety and the following substituted therefor: "[OMITTED INTENTIONALLY]."

15. Section 8.1 of the Credit Agreement is amended by deleting the phrase "except as expressly provided in Section 2.20" from clause (d) and by deleting the words "Section 2.20 or" from clause (e).

16. The Credit Agreement is further amended by correcting the following typographical errors:

<TABLE>

<CAPTION>

Section	Current Word	Corrected Word
---------	--------------	----------------

<S>	<C>	<C>
6.01(e), proviso	event (first time it appears)	extent
7.02	respect	respective
7.06 (second sentence)	without	within
8.05	Vtermination	termination

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17. Conditions Precedent. The foregoing shall not become effective until all of the following conditions have been satisfied: (i) Agent shall have received, in sufficient copies for each Bank, a copy of this amendment executed by the Company together with Officers' Certificates dated the date hereof certifying inter alia, (A) true and correct copies of resolutions adopted by the Board of Directors or Executive Committee, as appropriate, of the Company authorizing the Company to borrow and effect other transactions pursuant to the Credit Agreement as amended hereby, (B) the incumbency and specimen signatures of the Persons executing any documents on behalf of the Company, (C) the truth as of the date first written above of the representations and warranties made by the Company in the Credit Agreement, as amended hereby, and (D) the absence of the occurrence and continuance of any Default or Event of Default; and (ii) Existence and Good Standing Certificates of the Company, from the Secretary of State and the Comptroller of Public Accounts of Texas.

18. Ratifications. Except as herein specifically amended and modified, (a) the Credit Agreement is unchanged and continues in full force and effect, and (b) the Company hereby confirms and ratifies the Credit Agreement's existence and each and every term, condition, and covenant therein contained, to the same extent and as though the same were set out herein in full.

19. Representations and Warranties. The Company hereby represents and warrants to Banks, Agent, Funds Administrator, and Auction Administration Agent that (a) this amendment and the Loan Papers to be delivered hereunder have been duly executed and delivered by the Company, (b) no action of, or filing with, any Tribunal is required to authorize, or is otherwise required in connection with, the execution, delivery, and performance by the Company of this amendment and the Loan Papers to be delivered hereunder, (c) this amendment and the Loan Papers to be delivered hereunder are valid and binding upon the Company and are enforceable against the Company in accordance with their respective terms, except as limited by the Bankruptcy Code of the United States of America and all other similar Laws affecting the rights of creditors generally, (d) the execution, delivery and performance by the Company of this amendment and the Loan Papers to be delivered hereunder do not require the consent of any other Person and do not and will not constitute a violation of any laws, agreement, or understanding to which the Company is a party or by which the Company is bound, (e) the representations and warranties contained in the Credit Agreement, as amended hereby, and any other Loan Paper are true and correct in all material respects on and as of the date of execution hereof as though made as of the date of execution hereof, and (f) as of the date of this amendment, no Default or Event of Default has occurred and is continuing.

20. References. All references in the Loan Papers to the Credit Agreement shall refer to the Credit Agreement as amended by this amendment, and, because this amendment is a "Loan Paper" referred to in the Credit Agreement, then the provisions relating to Loan Papers set forth in the Credit Agreement are incorporated herein by reference, the same as if set forth herein verbatim.

21. Counterparts. This amendment may be executed in a number of identical counterparts, each of which shall be deemed an original. In making proof of this instrument,

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it shall not be necessary for any party to account for all counterparts, and it shall be sufficient for any party to produce but one such counterpart.

22. Parties Bound. This amendment shall be binding upon and shall inure to the benefit of the Company, Agent, and each Bank, and, subject to Section 8.11 of the Credit Agreement, their respective successors and assigns.

23. ENTIRETY. THIS AMENDMENT, THE CREDIT AGREEMENT AS AMENDED HEREBY, AND THE OTHER LOAN PAPERS REPRESENT THE FINAL CREDIT AGREEMENT BETWEEN THE PARTIES FOR THE TRANSACTIONS THEREIN, AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS BY THE PARTIES. THERE ARE NO

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EXECUTED as of the date and year first stated above.

SOUTHWEST AIRLINES CO.

By: /s/ JOHN D. OWEN

John D. Owen, Treasurer

\$70,000,000

TEXAS COMMERCE BANK
NATIONAL ASSOCIATION, individually, as
Agent and as Funds Administrator

By: /s/ MARK J. DENTON

Mark J. Denton, Senior Vice President

CHEMICAL BANK, as Auction
Administration Agent

By: /s/ JANET BELDIN

Janet Beldin, Vice President

\$45,000,000

NATIONSBANK OF TEXAS, N.A.

By: /s/ DONALD L. HARRISON, Jr.

Donald L. Harrison, Jr.,
Senior Vice President

\$40,000,000

BANK OF AMERICA NATIONAL TRUST AND
SAVINGS ASSOCIATION

By: /s/ PATRICK P. HORAN

Patrick P. Horan,
Senior Vice President

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<TABLE>

<S>

\$40,000,000

<C>

BANK ONE, TEXAS, N.A.

By: /s/ GINA NORRIS

Gina Norris, Vice President

\$30,000,000

FIRST INTERSTATE BANK OF TEXAS, N.A.

By: /s/ CONNOR J. DUFFEY

Connor J. Duffey, Vice President

\$25,000,000

THE FIRST NATIONAL BANK OF CHICAGO

By: /s/ DAVID DIXON

David Dixon, Vice President

\$25,000,000

THE BOATMEN'S NATIONAL BANK
OF ST. LOUIS

By: /s/ DAVID E. WILSDORF

David E. Wilsdorf, Vice President

\$25,000,000

FIRST SECURITY BANK OF UTAH, N.A.

By: /s/ JEFFREY J. JENSEN

Jeffrey J. Jensen, Vice President

</TABLE>

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EXHIBIT 4.1 (Continued)

SIXTH AMENDMENT TO COMPETITIVE ADVANCE AND
REVOLVING CREDIT FACILITY AGREEMENT

THIS SIXTH AMENDMENT is entered into as of May 18, 1995, among SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), the banks listed on the signature pages hereof ("Banks"), TEXAS COMMERCE BANK NATIONAL ASSOCIATION (formerly TEXAS COMMERCE BANK, NATIONAL ASSOCIATION), a national banking association, as agent for the Banks (in such capacity, "Agent"), TEXAS COMMERCE BANK NATIONAL ASSOCIATION, a national banking association, as Funds Administrator (in such capacity, "Funds Administrator"), and CHEMICAL BANK, a New York banking corporation, as auction administration agent (in such capacity, "Auction Administration Agent").

The Company, Banks, Agent, Funds Administrator and Auction Administration Agent have entered into the Competitive Advance and Revolving Credit Facility Agreement dated as of December 14, 1990 (as previously amended as of April 4, 1991, December 14, 1991, December 14, 1992, December 14, 1993 and March 10, 1995 and as further renewed, extended, amended, or supplemented, the "Credit Agreement"). The Company has requested certain amendments to the Credit Agreement to increase the Total Commitment, to increase the Commitment of certain Banks and to add ABN AMRO Bank N.V. and National Westminster Plc as Banks, with Commitments of \$50,000,000 and \$25,000,000, respectively.

NOW, THEREFORE, in consideration of the premises and other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company, Banks, Agent, Funds Administrator and Auction Administration Agent agree as follows:

24. Unless otherwise specified herein, terms defined in the Credit Agreement have the same meaning when used herein and all references to "Sections" and "Schedules" are references to sections and schedules of or to the Credit Agreement.

25. Wherever in the Credit Agreement and Exhibits thereto "\$300,000,000" appears, it is hereby amended to be "\$460,000,000," and wherever "Three Hundred Million" appears, it is hereby amended to be "Four Hundred Sixty Million."

26. Schedule I is amended to add the following information with respect to ANB AMRO Bank N.V. and National Westminster Bank Plc:

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<TABLE>
<CAPTION>

Name Lending Office Notice Information

<S> <C> <C>
ABN AMRO BANK N.V. ABN AMRO Bank N.V. ABN AMRO Bank N.V.

135 S. LaSalle Street
Suite 760
Chicago, Illinois 60674-9135

135 S. LaSalle Street
Suite 760
Chicago, Illinois 60674-9135
Fax: 312/606-8428
Phone: 312/904-2901
Attn: James A. Raff

National Westminster Bank Plc	(Eurodollar) National Westminster Bank Plc Nassau Branch 175 Water Street New York, NY 10038	(Lending Issues) National Westminster Bank Plc 175 Water Street New York, NY 10038 Fax: 212/602-4118 Phone: 212/602-4180 Attn: Nadira Fauder
	(Domestic) National Westminster Bank Plc 175 Water Street New York, NY 10038	(LC Issues) National Westminster Bank Plc 175 Water Street New York, NY 10038 Fax: 212/602-4118 Phone: 212/602-4165 Attn: Orlando Cortes
		(Bankers Acceptances) National Westminster Bank Plc 175 Water Street New York, NY 10038 Fax: 212/602-4118 Phone: 212/602-4613 Attn: Sattie Chinapen

</TABLE>

27. Conditions Precedent. The foregoing shall not become effective until all of the following conditions have been satisfied:

(a) Each of ABN AMRO Bank N.V. and National Westminster Bank Plc and each of the other Banks with a changed Commitment shall have received a Committed Note, and each Bank shall have received a Competitive Note, properly dated and executed by the Company, payable to the order of such Banks, in the amount of its Commitment, in the case of the Committed Notes to ABN AMRO Bank N.V., National Westminster Bank Plc and each Bank with a changed Commitment, and in the amount of the Total Commitment in the case of the Competitive Notes to all Banks.

(b) Agent shall have received, in sufficient copies for each Bank, (i) a copy of this amendment executed by the Company together with Officers' Certificates dated the date hereof certifying inter alia, (A) true and correct copies of resolutions adopted by the Board of Directors or Executive Committee, as appropriate, of the Company

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authorizing the Company to borrow and effect other transactions pursuant to the Credit Agreement as amended hereby, (B) the incumbency and specimen signatures of the Persons executing any documents on behalf of the Company, (C) the truth as of the date first written above of the representations and warranties made by the Company in the Credit Agreement, as amended hereby, and (D) the absence of the occurrence and continuance of any Default or Event of Default; (ii) Existence and Good Standing Certificates of the Company, from the Secretary of State and the Comptroller of Public Accounts of Texas; (iii) completed Administrative Questionnaires from ABN AMRO Bank N.V. and National Westminster Bank Plc; (iv) the written opinion of counsel to the Company substantially in the form set out as Exhibit E-1 to the Credit Agreement, modified to include the transactions contemplated hereby; and (v) the written opinion of Winstead Sechrest & Minick P.C., counsel for the Agent and the Banks, substantially set out as Exhibit E-2 to the Credit Agreement, modified to include the transactions contemplated hereby.

28. Ratifications. Except as herein specifically amended and modified, (a) the Credit Agreement is unchanged and continues in full force and effect, and (b) the Company hereby confirms and ratifies the Credit Agreement's existence and each and every term, condition, and covenant therein contained, to the same extent and as though the same were set out herein in full.

29. Representations and Warranties. The Company hereby represents and warrants to Banks, Agent, Funds Administrator, and Auction Administration Agent that (a) this amendment and the Loan Papers to be delivered hereunder have been duly executed and delivered by the Company, (b) no action of, or filing with, any Tribunal is required to authorize, or is otherwise required in connection with, the execution, delivery, and performance by the Company of this amendment and the Loan Papers to be delivered hereunder, (c) this amendment and the Loan Papers to be delivered hereunder are valid and binding upon the Company and are enforceable against the Company in accordance with their respective terms, except as limited by the Bankruptcy Code of the United States of America and all other similar Laws affecting the rights of creditors generally, (d) the execution, delivery and performance by the Company of this amendment and the Loan Papers to be delivered hereunder do not require the consent of any other Person and do not and will not constitute a violation of any laws, agreement, or understanding to which the Company is a party or by which the Company is bound, (e) the representations and warranties contained in the Credit Agreement, as amended hereby, and any other Loan Paper are true and correct in all material respects on and as of the date of execution hereof as though made as of the date of execution hereof, and (f) as of the date of this amendment, no Default or Event of Default has occurred and is continuing.

30. References. All references in the Loan Papers to the Credit Agreement shall refer to the Credit Agreement as amended by this amendment, and, because this amendment is a "Loan Paper" referred to in the Credit Agreement, then the provisions relating to Loan Papers set forth in the Credit Agreement are incorporated herein by reference, the same as if set forth herein verbatim.

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31. Counterparts. This amendment may be executed in a number of identical counterparts, each of which shall be deemed an original. In making proof of this instrument, it shall not be necessary for any party to account for all counterparts, and it shall be sufficient for any party to produce but one such counterpart.

32. Parties Bound. This amendment shall be binding upon and shall inure to the benefit of the Company, Agent, and each Bank, and, subject to Section 8.11 of the Credit Agreement, their respective successors and assigns.

33. ENTIRETY. THIS AMENDMENT, THE CREDIT AGREEMENT AS AMENDED HEREBY, AND THE OTHER LOAN PAPERS REPRESENT THE FINAL CREDIT AGREEMENT BETWEEN THE PARTIES FOR THE TRANSACTIONS THEREIN, AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS BY THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

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EXECUTED as of the date and year first stated above.

SOUTHWEST AIRLINES CO.

By: /s/ JOHN D. OWEN

John D. Owen
Treasurer

COMMITMENT:

\$80,000,000

TEXAS COMMERCE BANK
NATIONAL ASSOCIATION, individually, as
Agent and as Funds Administrator

By: /s/ SEAN F. OBRANSKI

Sean F. Obranski, Vice President

CHEMICAL BANK, as Auction
Administration Agent

\$75,000,000 By :/s/ JANET BELDIN

Janet Beldin, Vice President

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION

\$60,000,000 By: /s/ PATRICK P. HORAN

Patrick P. Horan, Senior
Vice President

NATIONSBANK OF TEXAS, N.A.

By: /s/ LYNN H. MULLIN

Lynn H. Mullin,
Senior Vice President

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\$50,000,000 ABN AMRO BANK N.V.

By: /s/ JOHN E. LEWIS

John E. Lewis,
Senior Vice President

-and-

\$40,000,000 By: /s/ JAMES A. RAFF

James A. Raff,
Vice President

BANK ONE, TEXAS, N.A.

\$40,000,000 By: /s/ GINA NORRIS

Gina Norris, Vice President

THE FIRST NATIONAL BANK OF CHICAGO

\$35,000,000 By :/s/ DAVID DIXON

David Dixon, Vice President

FIRST INTERSTATE BANK OF TEXAS, N.A.

\$30,000,000 By: /s/ CONNOR J. DUFFEY

Connor J. Duffey, Vice President

FIRST SECURITY BANK OF UTAH, N.A.

By: /s/ JEFFREY J. JENSEN

Jeffrey J. Jensen, Vice President

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\$25,000,000

THE BOATMEN'S NATIONAL BANK
OF ST. LOUIS

By: /s/ DAVID E. WILSDORF

\$25,000,000

David E. Wilsdorf, Vice President
NATIONAL WESTMINSTER BANK PLC

By: /s/ ROBERT BUCK

Robert Buck,
Assistant Director-Aerospace

Supplemental Agreement No. 20

to

Purchase Agreement No. 1405

between

The Boeing Company

and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of the 29th day of September 1995, by and between THE BOEING COMPANY, a Delaware corporation (hereinafter called Boeing), and SOUTHWEST AIRLINES CO., a Texas corporation with its principal office in the City of Dallas, State of Texas, (hereinafter called Buyer);

W I T N E S S E T H:

WHEREAS, the parties hereto entered into that certain Purchase Agreement No. 1405, dated July 23, 1987, relating to the purchase and sale of certain Boeing Model 737 aircraft (the "Aircraft"), which agreement, as amended, together with all exhibits and specifications attached thereto and made a part thereof, is hereinafter called the "Purchase Agreement;" and

WHEREAS, Buyer has agreed to exercise the option to purchase three (3) additional Option Aircraft delivering in April 1997 offered pursuant to Letter Agreement No. 1405-6R3;

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

1. Article 1, entitled "Subject Matter of Sale" is deleted in its entirety and replaced by the following new Article 1:

ARTICLE 1. Subject Matter of Sale.

Subject to the provisions of this Agreement, Boeing shall sell and deliver to Buyer, and Buyer shall purchase from Boeing eighteen (18) Boeing Model 737-5H4 aircraft (hereinafter sometimes referred to as the "Block A and Block B" Aircraft) to be manufactured by Boeing in accordance with Boeing Detail Specification D6-38500-3 (which includes CFM International, Inc. CFM56-3-B1 engines), dated July 23, 1987 (as described in Exhibit A attached to the Purchase Agreement), twenty-three (23) Boeing Model 737-3H4 Aircraft (hereinafter sometimes referred to as the Block C-1 and Block D-1 Substitute Aircraft) to be manufactured by Boeing in accordance with Boeing Detail Specification D6-76300-2 Rev. T (which includes CFM International, Inc.

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CFM56-3-B1 engines), dated September 19, 1989 (as described in Exhibit A-1 attached to the Purchase Agreement), seven (7) Boeing Model 737-5H4 aircraft (hereinafter sometimes referred to as the "Block C Aircraft") to be manufactured by Boeing in accordance with Boeing Detail Specification D6-38500-3 (which includes CFM International, Inc. CFM56-3-B1 engines), dated June 7, 1989, thirty-four (34) Model 737-3H4 aircraft (hereinafter referred to as the "Block E Aircraft" to be manufactured by Boeing in accordance with Boeing Detail Specification D6-76300-2 Rev. W (which includes CFM International, Inc. CFM56-3-B1 engines) dated May 22, 1992, (as described in Exhibit A-2 attached to the Purchase Agreement), three (3) Model 737-3H4 aircraft (hereinafter referred to as the "Block F Aircraft") to be manufactured by Boeing in accordance with Boeing Detail Specification D6-76300-2 Rev. X (which includes CFM International, Inc. CFM56-3-B1 engines) dated February 26, 1993, (as described in Exhibit A-3 attached to the Purchase Agreement), twelve (12) Model 737-3H4 aircraft (hereinafter referred to as the "Block G Aircraft") to be manufactured by Boeing in accordance with Boeing Detail Specification

D6-76300-2 Rev. Z (which includes CFM International, Inc. CFM56-3-B1 engines) dated February 15, 1994 (as further described in Exhibit A-4 attached to the Purchase Agreement), four (4) Model 737-3H4 aircraft (hereinafter referred to as the "Block H Aircraft") to be manufactured by Boeing in accordance with Boeing Detail Specification D6-76300-2 Rev. Z (which includes CFM International, Inc. CFM56-3-B1 engines) dated February 15, 1994 (as further described in Exhibit A-5 attached to the Purchase Agreement), five (5) Model 737-3H4 aircraft (hereinafter referred to as the "Block I Aircraft") to be manufactured by Boeing in accordance with Boeing Detail Specification D6-76300-2 Rev. AA (which includes CFM International, Inc. CFM56-3-B1 engines) dated May 11, 1994 as further described in Exhibit A-6 attached to the Purchase Agreement and three (3) Model 737-3H4 aircraft (hereinafter referred to as the "Block J Aircraft") to be manufactured by Boeing in accordance with Boeing Detail Specification D6-76300-2 Rev. AC (which includes CFM International, Inc. CFM56-3-B1 engines) dated June 21, 1995 as further described in Exhibit A-7 attached to the Purchase Agreement and as such Detail Specifications may be modified from time to time in accordance with the terms and conditions of Article 7 herein. Such Detail Specifications as so modified are by this reference incorporated in this Agreement and are hereinafter referred to as the "Detail Specification." In connection with the sale and purchase of the Aircraft, Boeing shall also deliver to Buyer such other things as may be required by this Agreement including data, documents, training and services. All Block A, Block B, Block C, Block C-1 Substitute, Block D-1 Substitute, Block E, Block F, Block G, Block H, Block I and Block J Aircraft are referred to individually and collectively as the "Aircraft" or "AIRCRAFT."

2. Article 2.1, entitled "Time of Delivery" is deleted in its entirety and replaced by the following new Article 2.1 which adds the Block J Aircraft:

2.1 Time of Delivery. Each Aircraft shall be delivered to Buyer assembled and ready for flight, and Buyer shall accept delivery of such Aircraft, during the months set forth in the following schedule or such earlier months as mutually agreed between Boeing and Buyer:

<TABLE>
<CAPTION>

Month and Year of Delivery -----	Quantity of Aircraft -----
<S>	<C>
	Block A -----
February 1990	One (1)
March 1990	Two (2)
April 1990	Two (2)

</TABLE>

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<TABLE>
<S>

<C>	<C>
May 1990	One (1)
August 1990	Two (2)
September 1990	Two (2)
May 1991	Two (2)
September 1991	One (1)
	Block B -----
February 1991	One (1)
May 1991	Two (2)
September 1991	Two (2)
	Block C -----
February 1992	Three (3)
May 1992	Four (4)
	Block C-1 Substitute Aircraft -----
June 1992	Two (2)
July 1992	One (1)
February 1993	Three (3)
May 1993	Four (4)
August 1993	Two (2)
September 1993	One (1)

Block D-1
Substitute Aircraft

February 1994	Three (3)
May 1994	Four (4)
September 1994	Three (3)

Block F Aircraft

July 1994	Two (2)
September 1994	One (1)

Block E Aircraft

November 1994	Two (2)
March 1995	One (1)
April 1995	Two (2)
May 1995	Two (2)
September 1995	Two (2)
October 1995	Three (3)
March 1996	Two (2)
April 1996	Three (3)
May 1996	Two (2)
July 1996	Two (2)
August 1996	One (1)
September 1996	Two (2)
January 1997	Four (4)

</TABLE>

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<TABLE>

<S>	<C>	<C>
June 1997	Four (4)	
August 1997	Two (2)	

Block G Aircraft

July 1995	Two (2)
August 1995	Two (2)
September 1995	Two (2)
January 1996	Three (3)
March 1996	One (1)
June 1996	Two (2)

Block H Aircraft

February 1995	Four (4)
---------------	----------

Block I Aircraft

July 1995	One (1)
October 1995	Two (2)
November 1995	Two (2)

Block J Aircraft

April 1997	Three (3)
------------	-----------

</TABLE>

3. Article 3.1, entitled "Basic Price" is deleted in its entirety and replaced by the following new Article 3.1 which adds the Basic Price for the Block J Aircraft:

3.1 Basic Price. The basic price of each Aircraft shall be equal to the sum of (i) Twenty Million Five Hundred Seventy-Three Thousand One Hundred Twenty-Six Dollars (\$20,573,126) for the Block A and Block B Aircraft, Twenty Million, Six Hundred Three Thousand, Seven Hundred Twenty-Six Dollars (\$20,603,726) for the Block C Aircraft, Twenty-Three Million Seven Hundred Forty-One Thousand Eight Hundred Seventy-Six Dollars (\$23,741,876) for the Block C-1 Substitute Aircraft, Twenty-Three Million, Eight Hundred Eighty Thousand One Hundred Seventy-Six Dollars (\$23,880,176) for the Block D-1 Substitute Aircraft, Twenty-Nine Million Five Hundred Seventy-Three Thousand One Hundred Seventy-Eight Dollars (\$29,573,178) for the

Block E Aircraft, Thirty Million Three Hundred Three Thousand Six Hundred Seventy-Eight Dollars (\$30,303,678) for the Block F Aircraft, Thirty-One Million Six Hundred Twenty-Eight Thousand Eight Hundred Sixty-Six Dollars (\$31,628,866) for the Block G Aircraft, Thirty-One Million Six Hundred Twenty One Thousand Seven Hundred Sixty Six Dollars (\$31,621,766) for the Block H Aircraft, Thirty-Two Million Sixty-Five Thousand Four Hundred Fifty Eight Dollars (\$32,065,458) for the Block I Aircraft and Thirty-Two Million One Hundred Sixteen Thousand Eight Hundred Fifty Eight Dollars (\$32,116,858) for the Block J Aircraft and (ii) such price adjustments applicable to such Aircraft as may be made pursuant to the provisions of this Agreement, including Article 7 (changes to Detail Specification) and Article 8 (FAA Requirements) or other written agreements executed by Buyer and Boeing.

5. Article 5.1, entitled "Advance Payment Base Price" is revised by deleting the Advance Payment Base Price for the January, June and August 1997 Block E

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Aircraft and inserting new Advance Payment Base Prices due to escalation sharing and inserting after the Block I Aircraft the following:

Block E Aircraft

<TABLE>	
<S>	<C>
"January 1997	\$35,630,000
June 1997	\$35,687,000
August 1997	\$35,771,000"
</TABLE>	

Block J Aircraft

<TABLE>	
<CAPTION>	
Month and Year of Scheduled Delivery -----	Advance Payment Base Price per Aircraft -----
<S>	<C>
April 1997	\$35,662,000
</TABLE>	

6. Article 5.2, entitled "Advance Payment Schedule" is revised by inserting after the Block I Aircraft the following schedule for the Block J Aircraft:

<TABLE>	
<CAPTION>	
Due Date of Payment - -----	Amount Due per Aircraft Block J Aircraft April 1997 -----
<S>	<C>
Deposit	\$200,000
Upon execution of Supplemental Agreement No. 20	10% (less the Deposit)
18 months prior to the first day of the scheduled delivery month of the Aircraft	5%
12 months prior to the first day of the scheduled delivery month of the Aircraft	5%
9 months prior to the first day of the scheduled delivery month of the Aircraft	5%
6 months prior to the first day of the scheduled delivery month of the Aircraft	5%
Total	----- 30%
</TABLE>	

7. The title and the first sentence in Article 7.3.2 is revised to be written as "The Block E, F, G, H, I and J Aircraft."

8. A new Exhibit A-7, entitled "Aircraft Configuration - the Block J Aircraft," attached hereto, is incorporated into the Purchase Agreement by this reference.

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9. Exhibit D-4, entitled "Airframe and Engine Price Adjustment - the Block I Aircraft" is revised in the title of page one by inserting the words "and J".

10. Letter Agreement No. 1405-6R3 entitled "Option Aircraft" is revised in Article 1, paragraph 1.1, Article 2, paragraph 2.2, Attachment A, Article 2, paragraph 2.1 and Attachment B, paragraph b, page 2 by deleting reference to the three (3) April 1997 Option Aircraft.

11. *

12. *

13. Boeing and Buyer agree that the provisions of Letter Agreement No. 6-1162-STE-1363, dated July 23, 1987, shall apply to paragraph 11 and 12 of this Supplemental Agreement.

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

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

THE BOEING COMPANY

SOUTHWEST AIRLINES CO.

By: /s/ R. Leo Lyons

By: /s/ Gary A. Barron

Its: Attorney-In-Fact

Its: Executive Vice President and

Chief Operating Officer

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

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EXHIBIT A-7

to

PURCHASE AGREEMENT NO. 1405

Dated _____

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

AIRCRAFT CONFIGURATION

BLOCK J AIRCRAFT

MODEL 737-3H4

The Detail Specification, referred to in Article 1 of the Purchase Agreement, is Boeing Detail Specification D6-76300-2 Revision AC dated June 21, 1995 as amended to incorporate the applicable specification language to reflect the effect of the changes set forth in the Master Changes listed below, including the effects of such changes on Manufacturer's Empty Weight (MEW) and Operating Empty Weight (OEW). As soon as practicable, Boeing will furnish to Buyer copies of the Detail Specification, which copies will reflect the effect of such changes. The Aircraft Basic Price reflects and includes all effects of such changes of price.

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Exhibit A-7
Page 2

2002MP3024

N/C

INSTALL PROGRAM PIN BURNDY BLOCKS
NON EFIS AIRCRAFT

A-7-2

Supplemental Agreement No. 21

to

Purchase Agreement No. 1405

between

The Boeing Company

and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of the 19th day of December, 1995, by and between THE BOEING COMPANY, a Delaware corporation (hereinafter called Boeing), and SOUTHWEST AIRLINES CO., a Texas corporation with its principal office in the City of Dallas, State of Texas, (hereinafter called Buyer);

W I T N E S S E T H:

WHEREAS, the parties hereto entered into that certain Purchase Agreement No. 1405, dated July 23, 1987, relating to the purchase and sale of certain Boeing Model 737 aircraft (the "Aircraft"), which agreement, as amended, together with all exhibits and specifications attached thereto and made a part thereof, is hereinafter called the "Purchase Agreement;" and

WHEREAS, Buyer has agreed to exercise the option to purchase four (4) additional Option Aircraft delivering in August 1997 (quantity 2) and September 1997 (quantity 2) offered pursuant to Letter Agreement No. 1405-6R3;

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

1. Article 1, entitled "Subject Matter of Sale" is deleted in its entirety and replaced by the following new Article 1:

ARTICLE 1. Subject Matter of Sale.

ARTICLE 1. Subject Matter of Sale.

Subject to the provisions of this Agreement, Boeing shall sell and deliver to Buyer, and Buyer shall purchase from Boeing eighteen (18) Boeing Model 737-5H4 aircraft (hereinafter sometimes referred to as the

"Block A and Block B" Aircraft) to be manufactured by Boeing in accordance with Boeing Detail Specification D6-38500-3 (which includes CFM International, Inc. CFM56-3-B1 engines), dated July 23, 1987 (as described in Exhibit A attached to the Purchase Agreement), twenty-three (23) Boeing Model 737-3H4 Aircraft (hereinafter sometimes referred to as the Block C-1

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and Block D-1 Substitute Aircraft) to be manufactured by Boeing in accordance with Boeing Detail Specification D6-76300-2 Rev. T (which includes CFM International, Inc. CFM56-3-B1 engines), dated September 19, 1989 (as described in Exhibit A-1 attached to the Purchase Agreement), seven (7) Boeing Model 737-5H4 aircraft (hereinafter sometimes referred to as the "Block C Aircraft") to be manufactured by Boeing in accordance with Boeing Detail Specification D6-38500-3 (which includes CFM International, Inc. CFM56-3-B1 engines), dated June 7, 1989, thirty-four (34) Model 737-3H4 aircraft (hereinafter referred to as the "Block E Aircraft") to be manufactured by Boeing in accordance with Boeing Detail Specification D6-76300-2 Rev. W (which includes CFM International, Inc. CFM56-3-B1 engines) dated May 22, 1992, (as described in Exhibit A-2 attached to the Purchase Agreement), three (3) Model 737-3H4 aircraft (hereinafter referred to as the "Block F Aircraft") to be manufactured by Boeing in accordance with Boeing Detail Specification D6-76300-2 Rev. X (which includes CFM International, Inc. CFM56-3-B1 engines) dated February 26, 1993, (as described in Exhibit A-3 attached to the Purchase Agreement), twelve (12) Model 737-3H4 aircraft (hereinafter referred to as the "Block G Aircraft") to be manufactured by Boeing in accordance with Boeing Detail Specification D6-76300-2 Rev. Z (which includes CFM International, Inc. CFM56-3-B1 engines) dated February 15, 1994 (as further described in Exhibit A-4 attached to the Purchase Agreement), four (4) Model 737-3H4 aircraft (hereinafter referred to as the "Block H Aircraft") to be manufactured by Boeing in accordance with Boeing Detail Specification D6-76300-2 Rev. Z (which includes CFM International, Inc. CFM56-3-B1 engines) dated February 15, 1994 (as further described in Exhibit A-5 attached to the Purchase Agreement), five (5) Model 737-3H4 aircraft (hereinafter referred to as the "Block I Aircraft") to be manufactured by Boeing in accordance with Boeing Detail Specification D6-76300-2 Rev. AA (which includes CFM International, Inc. CFM56-3-B1 engines) dated May 11, 1994 as further described in Exhibit A-6 attached to the Purchase Agreement, three (3) Model 737-3H4 aircraft (hereinafter referred to as the "Block J Aircraft") to be manufactured by Boeing in accordance with Boeing Detail Specification D6-76300-2 Rev. AC (which includes CFM International, Inc. CFM56-3-B1 engines) dated July 21, 1995 as further described in Exhibit A-7 attached to the Purchase Agreement and four (4) Model 737-3H4 aircraft (hereinafter referred to as the "Block K Aircraft") to be manufactured by Boeing in accordance with Boeing Detail Specification D6-76300-2 Rev. AC (which includes CFM International, Inc. CFM56-3-B1 engines) dated July 21, 1995 as further described in Exhibit A-8 attached to the Purchase Agreement and as such Detail Specifications may be modified from time to time in accordance with the terms and conditions of Article 7 herein. Such Detail Specifications as so modified are by this reference incorporated in this Agreement and are hereinafter referred to as the "Detail Specification." In connection with the sale and purchase of the Aircraft, Boeing shall also deliver to Buyer such other things as may be required by this Agreement including data, documents, training and services. All Block A, Block B, Block C, Block C-1 Substitute, Block D-1 Substitute, Block E, Block F, Block G, Block H, Block I, Block J, and Block K Aircraft are referred to individually and collectively as the "Aircraft" or "AIRCRAFT."

2. Article 2.1, entitled "Time of Delivery" is deleted in its entirety and replaced by the following new Article 2.1 which adds the Block K Aircraft:

2.1 Time of Delivery. Each Aircraft shall be delivered to Buyer assembled and ready for flight, and Buyer shall accept delivery of such Aircraft, during the months set forth in the following schedule or such earlier months as mutually agreed between Boeing and Buyer:

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<TABLE>
<CAPTION>

Month and Year of Delivery -----	Quantity of Aircraft -----
<S>	<C>
	Block A -----

February 1990	One (1)
March 1990	Two (2)
April 1990	Two (2)
May 1990	One (1)
August 1990	Two (2)
September 1990	Two (2)
May 1991	Two (2)
September 1991	One (1)

Block B

February 1991	One (1)
May 1991	Two (2)
September 1991	Two (2)

Block C

February 1992	Three (3)
May 1992	Four (4)

Block C-1
Substitute Aircraft

June 1992	Two (2)
July 1992	One (1)
February 1993	Three (3)
May 1993	Four (4)
August 1993	Two (2)
September 1993	One (1)

Block D-1
Substitute Aircraft

February 1994	Three (3)
May 1994	Four (4)
September 1994	Three (3)

Block F Aircraft

July 1994	Two (2)
September 1994	One (1)

Block E Aircraft

November 1994	Two (2)
March 1995	One (1)
April 1995	Two (2)
May 1995	Two (2)
September 1995	Two (2)

</TABLE>

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<TABLE>

<S>

<C>

<C>

October 1995	Three (3)
March 1996	Two (2)
April 1996	Three (3)
May 1996	Two (2)
July 1996	Two (2)
August 1996	One (1)
September 1996	Two (2)
January 1997	Four (4)
June 1997	Four (4)
August 1997	Two (2)

Block G Aircraft

July 1995	Two (2)
August 1995	Two (2)
September 1995	Two (2)
January 1996	Three (3)
March 1996	One (1)
June 1996	Two (2)

Block H Aircraft

February 1995

Four (4)

Block I Aircraft

July 1995

One (1)

October 1995

Two (2)

November 1995

Two (2)

Block J Aircraft

April 1997

Three (3)

Block K Aircraft

August 1997

Two (2)

September 1997

Two (2)

</TABLE>

3. Article 3.1, entitled "Basic Price" is deleted in its entirety and replaced by the following new Article 3.1 which adds the Basic Price for the Block K Aircraft:

3.1 Basic Price. The basic price of each Aircraft shall be equal to the sum of (i) Twenty Million Five Hundred Seventy-Three Thousand One Hundred Twenty-Six Dollars (\$20,573,126) for the Block A and Block B Aircraft, Twenty Million, Six Hundred Three Thousand, Seven Hundred Twenty-Six Dollars (\$20,603,726) for the Block C Aircraft, Twenty-Three Million Seven Hundred Forty-One Thousand Eight Hundred Seventy-Six Dollars (\$23,741,876) for the Block C-1 Substitute Aircraft, Twenty-Three Million, Eight Hundred Eighty Thousand One Hundred Seventy-Six Dollars (\$23,880,176) for the Block D-1 Substitute Aircraft, Twenty-Nine Million Five Hundred Seventy-Three Thousand One Hundred Seventy-Eight Dollars (\$29,573,178) for the Block E Aircraft, Thirty Million Three Hundred Three Thousand Six Hundred Seventy-Eight Dollars (\$30,303,678) for the Block F Aircraft, Thirty-One Million Six

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Hundred Twenty-Eight Thousand Eight Hundred Sixty-Six Dollars (\$31,628,866) for the Block G Aircraft, Thirty-One Million Six Hundred Twenty One Thousand Seven Hundred Sixty Six Dollars (\$31,621,766) for the Block H Aircraft, Thirty-Two Million Sixty-Five Thousand Four Hundred Fifty Eight Dollars (\$32,065,458) for the Block I Aircraft and Thirty-Two Million One Hundred Sixteen Thousand Eight Hundred Fifty Eight Dollars (\$32,116,858) for the Block J Aircraft and Thirty-Two Million One Hundred Seventy Nine Thousand Seven Hundred Fifty Eight Dollars (\$32,179,758) for the Block K Aircraft and (ii) such price adjustments applicable to such Aircraft as may be made pursuant to the provisions of this Agreement, including Article 7 (changes to Detail Specification) and Article 8 (FAA Requirements) or other written agreements executed by Buyer and Boeing.

4. Article 5.1, entitled "Advance Payment Base Price" is revised by inserting after the Block J Aircraft the following schedule for the Block K Aircraft:

<TABLE>
<CAPTION>

Block K Aircraft

<S>

"August 1997

September 1997

<C>

\$35,865,000

\$35,913,000

</TABLE>

5. Article 5.2, entitled "Advance Payment Schedule" is revised by inserting after the Block J Aircraft the following schedule for the Block K Aircraft:

<TABLE>
<CAPTION>

Due Date of Payment	Amt Due per A/C Block K A/C August 1997	Amt due per A/C Block K A/C September 1997
<S>	<C>	<C>
Deposit	\$130,000	\$200,000

Upon execution of Supplemental Agreement No. 21	10% (less the Deposit)	10% (less the Deposit)
18 months prior to the first day of the scheduled delivery month of the Aircraft	5%	5%
12 months prior to the first day of the scheduled delivery month of the Aircraft	5%	5%
9 months prior to the first day of the scheduled delivery month of the Aircraft	5%	5%
6 months prior to the first day of the scheduled delivery month of the Aircraft	5%	5%
Total	30%	30%

</TABLE>

6. The title and the first sentence in Article 7.3.2 is revised to be written as "The Block E, F, G, H, I, J and K Aircraft."

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7. A new Exhibit A-8, entitled "Aircraft Configuration - the Block K Aircraft," attached hereto, is incorporated into the Purchase Agreement by this reference.

8. Exhibit D-4, entitled "Airframe and Engine Price Adjustment - the Block I and J Aircraft" is revised in the title of page one by deleting the word "and" between the letters I and K and inserting "and K" after the letter J and before the word Aircraft.

9. Letter Agreement No. 1405-6R3 entitled "Option Aircraft" is revised in Article 1, paragraph 1.1, Article 2, paragraph 2.2, Attachment A, Article 2, paragraph 2.1 and Attachment B, paragraph b, page 2 by deleting reference to the two (2) August 1997 and two (2) September 1997 Option Aircraft.

10. *

11. *

12. Boeing and Buyer agree that the provisions of Letter Agreement No. 6-1162-STE-1363, dated July 23, 1987, shall apply to paragraph 11 and 12 of this Supplemental Agreement.

13. It is recognized by the parties that a strike was commenced against Boeing on October 6, 1995 by its principal employee union. It is not presently known whether such strike will have any effect upon Boeing's proposed undertaking set forth herein. The parties agree that any delay in the performance of any obligation of Boeing under this supplemental agreement, as a result of such strike, will be deemed an excusable delay and subject to the excusable delay provisions of the Purchase Agreement.

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

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

THE BOEING COMPANY

SOUTHWEST AIRLINES CO.

By: /s/ R. Leo Lyons

By: /s/ Gary A. Barron

Its: Attorney-In-Fact

Its: Executive Vice President and Chief
Operating Officer

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

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EXHIBIT A-8

to

PURCHASE AGREEMENT NO. 1405

Dated _____

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

AIRCRAFT CONFIGURATION

BLOCK K AIRCRAFT

MODEL 737-3H4

The Detail Specification, referred to in Article 1 of the Purchase Agreement, is Boeing Detail Specification D6-76300-2 Revision AC dated July 21, 1995 as amended to incorporate the applicable specification language to reflect the effect of the changes set forth in the Master Changes listed below, including the effects of such changes on Manufacturer's Empty Weight (MEW) and Operating Empty Weight (OEW). As soon as practicable, Boeing will furnish to Buyer copies of the Detail Specification, which copies will reflect the effect of such changes. The Aircraft Basic Price reflects and includes all effects of such changes of price.

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1110MP3333 EXTERIOR DECORATIVE PAINT REVISION WHITE IN LIEU OF EXISTING	N/C
2002MP3024 INSTALL PROGRAM PIN BURNDY BLOCKS NON EFIS AIRCRAFT	N/C
2524MP3465 INSTALLATION OF TEDLAR/NOMEX PANEL IN LIEU OF LEATHER	N/C
3040MP3047 INSTALL A 4 UNIT WINDOW HEAT CONTROL SYSTEM OLIN 231-2 IN LIEU OF 1231-1	N/C
3040MP3052 INSTALL A BFE WINDOW HEAT CONTROL SYSTEM WHICH CONTAINS BITE-OLIN 231-3 IN LIEU OF 231-2	(\$1,800)
3435MP3032 HUD INSTALLATION REVISION - INCORPORATION OF INTENT OF FLIGHT DYNAMICS SERVICE BULLETIN	\$1,400
3446MP3147 GPWC REVISION - BANK ANGLE CALLOUT DELETE	N/C

EMPLOYMENT CONTRACT

THIS EMPLOYMENT CONTRACT (hereinafter referred to as this "Agreement"), dated as of January 1, 1996, by and between HERBERT D. KELLEHER (hereinafter referred to as the "Employee"), a resident of Dallas, Texas, and SOUTHWEST AIRLINES CO. (hereinafter referred to as "Southwest", which term shall include its subsidiary companies where the context so admits), a Texas corporation,

W I T N E S S E T H:

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

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

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

I. POSITIONS, DUTIES AND AUTHORITY

- A. POSITIONS. The Employee shall serve as President and Chief Executive Officer of Southwest, and the Employee shall serve in such senior executive positions with MW SW Corp., Southwest Jet Fuel Co., TranStar Airlines Corporation, Morris Air Corporation and Southwest Airlines Eurofinance N.V. as the Board of Directors of Southwest may from time to time request. For so long as he shall be elected to the Board of Directors of Southwest, the Employee shall serve thereon as Chairman without additional compensation hereunder.
- B. DUTIES. The Employee's duties shall include, in addition to those enumerated in the bylaws of Southwest, management of the day-to-day operations of Southwest, planning of the future course of such operations and implementation of Southwest's current and long-range business policies and programs. The Employee's duties may also include managing or handling other functions or segments of Southwest's business as may be directed from time to time by the Board of Directors of Southwest.
- C. AUTHORITY. The Employee shall be vested with all authority reasonably necessary to carry out his duties and responsibilities as set forth in this Article I.
- D. NECESSARY SUPPORT AND ENVIRONMENT. The Employee shall be provided with the secretarial and other support personnel (including a full-time administrative assistant) and general working environment (including a private, furnished office) reasonably necessary for him to carry out his duties and responsibilities as set forth in this Article I.

II. EMPLOYEE'S OBLIGATIONS

- A. FULL TIME AND EFFORTS. During the term of his employment hereunder, the Employee shall devote his full time and efforts to the business affairs of Southwest. The Employee shall generally conform with all policies of Southwest as they apply to a person of his level of responsibilities. The Employee will not, without the prior approval of the Board of Directors of Southwest, accept any other employment, or serve as an officer, consultant or partner of any business or other entity organized for profit (other than Southwest and any family enterprise), except in the capacity of an investor of money

and so long as such monetary investment does not require any significant active involvement or otherwise adversely affect the conduct of the Employee's duties as set forth in this Agreement. It is understood, however, that the Employee may act as executor of the estates of family members and he may serve as a director or trustee of any business or other entity not engaged in significant competition

with Southwest, provided that such service does not adversely affect the conduct of the Employee's duties as set forth in this Agreement.

- B. NON-COMPETITION. The Employee recognizes and understands that in performing the duties and responsibilities of his employment as outlined in this Agreement and pursuant to his employment at Southwest prior to the execution of this Agreement, the Employee has occupied and will occupy a position of trust and confidence, pursuant to which the Employee has developed and acquired and will develop and acquire experience and knowledge with respect to various aspects of the business of Southwest and the manner in which such business is conducted. It is the expressed intent and agreement of the Employee and Southwest that such knowledge and experience shall be used in the furtherance of the business interests of Southwest and not in any manner which would be detrimental to such business interests of Southwest. The Employee therefore agrees that, so long as the Employee is employed pursuant to this Agreement, unless he first secures the consent of the Board of Directors of Southwest, the Employee will not invest, engage or participate in any manner whatsoever, either personally or in any status or capacity (other than as a shareholder of less than one percent [1%] of the capital stock of a publicly owned corporation), in any business or other entity organized for profit engaged in significant competition with Southwest in the conduct of its air carrier

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operations anywhere in the United States. Although the Employee and Southwest regard such restrictions as reasonable for the purpose of preserving Southwest and its proprietary rights, in the event that the provisions of this Paragraph II-B should ever be deemed to exceed the time or geographic limitations permitted by applicable laws, then such provisions shall be reformed to the maximum time or geographic limitations permitted by applicable laws.

III. TERM

- A. This Agreement and the Employee's employment hereunder shall commence and become effective on and as of January 1, 1996. The term of such employment shall expire on December 31, 2000, unless extended by consent of the parties hereto or earlier terminated pursuant to the provisions of Article V.

IV. EMPLOYEE'S COMPENSATION

- A. BASE SALARY. The Employee's annual Base Salary for the years ending December 31, 1996, 1997, 1998 and 1999 shall be \$395,000 and for the year ended December 31, 2000 shall be \$450,000 or such greater amount as shall be determined by the Board of Directors of Southwest. The Employee's Base Salary shall be payable to the Employee in equal semi-monthly installments and shall be subject to such payroll and withholding deductions as may be required by law.
- B. PERFORMANCE BONUS. The Board of Directors of Southwest (or the Compensation Committee thereof) may grant a Performance Bonus to the Employee, in addition to his Base Salary, at such times and in such amounts as such Board (or Committee) may determine, not exceeding \$172,000 per year for years prior to December 31, 1999 and not exceeding \$196,000 for the year ended December 31, 2000.

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

excluding any elective deferrals actually returned to the Employee) which would otherwise have been made by Southwest on behalf of the Employee to the Southwest Airlines Co. Profit Sharing Plan but which exceed maximum annual additions under such Plan on his behalf under federal tax law. If such employment shall terminate prior to December 31 in any year, then Deferred Compensation shall accumulate and be calculated through the close of the next preceding December 31. The Deferred Compensation credited to the Account (including the Interest hereinafter provided as well as all amounts credited to the Account pursuant to the Old Contracts) shall be paid in cash to the Employee (or to the executors or administrators of his estate) at the rate of \$60,000 per calendar year (subject to such

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payroll and withholding deductions as may be required by law), commencing with the calendar year following the year in which (i) the Employee shall become seventy (70) or (ii) the Employee's employment with Southwest shall terminate (whether such termination is under this Agreement or otherwise and whether it is before, on or after the expiration of the initial term set forth in Paragraph III-A above, and irrespective of the cause thereof), whichever shall occur earlier, and continuing until the entire amount of Deferred Compensation and Interest credited to the Account shall have been paid. Although the total amount of Deferred Compensation ultimately payable to the Employee hereunder shall be computed in accordance with the provisions set forth above, there shall be accrued and credited to the Account, beginning on January 1, 1996 and continuing annually thereafter, amounts equal to simple interest at the rate of ten percent (10%) per annum, compounded annually ("Interest"), on the accrued and unpaid balance of the Deferred Compensation credited to the Account as of the preceding December 31. The Deferred Compensation and Interest to be paid in any one calendar year shall be paid on the first business day of such calendar year. Notwithstanding the foregoing, in the event of the Employee's death, Southwest, in its sole discretion, shall have the right to pay the unpaid balance of the Deferred Compensation (together with any accrued Interest thereon) to the executors or administrators of the Employee's estate in cash in one lump sum on the first business day of the calendar year next following the calendar year in which the Employee shall have died. No right, title, interest or benefit under this Paragraph IV-C shall ever be liable for or charged with any of the torts or obligations of the Employee or any person claiming under him, or be subject to seizure by any creditor of the Employee or any person claiming under him. Neither the Employee nor

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any person claiming under him shall have the power to anticipate or dispose of any right, title, interest or benefit under this Paragraph IV-C in any manner until the same shall have been actually distributed by Southwest.

- D. DISABILITY INSURANCE. Southwest shall provide long term disability insurance providing for payment, in the event of disability of the Employee, of \$6,000 per month to age seventy (70). Except as to amounts payable, the terms and conditions of such policy shall be identical, or substantially similar, to the disability insurance provided by Southwest for its other officers as of the date of this Agreement.
- E. MEDICAL AND DENTAL EXPENSES. During the term of this Agreement, Southwest shall reimburse the Employee (i) for all medical and dental expenses incurred by the Employee and his spouse and (ii) for all medical and dental expenses paid by the Employee in excess of \$10,000 per calendar year and incurred by his children, their spouses and the Employee's grandchildren. Expenses for medical care shall be deemed to include all amounts paid with respect to hospital bills, doctor and dental bills and drugs which are not compensated by insurance or otherwise.
- F. STOCK OPTION GRANT AND AMENDMENTS. Southwest shall grant to the Employee, effective as of the date hereof but subject to shareholder approval, ten-year options to purchase 500,000 shares of its common stock at a price per share which represents the New York Stock Exchange - Composite Tape closing sales price on January 2, 1996, the first trading day after the effective date of this Agreement in accordance with the Stock Option Plan and Agreement of even date herewith, a form of which is attached as Exhibit A hereto, and

ten-year options to purchase 144,395 such shares at \$1 per share in accordance with the Stock Option Plan and Agreement of even

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date herewith, a form of which is attached as Exhibit B hereto. Failing shareholder approval of each such Stock Option Plan and Agreement at the 1996 Annual Meeting of Shareholders (including any adjournment thereof), such grant shall be null and void ab initio, and thereupon Southwest and the Employee shall negotiate alternative compensation of equivalent value to the Employee.

- G. OTHER BENEFITS. The Employee shall be eligible to continue to participate in all employee pension, profit-sharing, stock purchase, group insurance and other benefit plans or programs in effect for Southwest managerial employees generally to the extent of and in accordance with the rules and agreements governing such plans or programs, so long as same shall be in effect, with full service credit where relevant for the Employee's prior employment by Southwest. Southwest shall reimburse the Employee for reasonable expenses incurred by him in the performance of his duties and responsibilities hereunder. The Employee shall be entitled to vacation of three (3) weeks per year or such longer period as may be established from time to time by Southwest for its managerial employees generally.

V. TERMINATION PROVISIONS

- A. EXPIRATION OR DEATH. The Employee's employment hereunder shall terminate on December 31, 2000 (or such later date to which the term of this Agreement may be extended by consent of the parties hereto, in either case without prejudice to the Employee's privilege to remain an employee of Southwest thereafter), or upon the Employee's death, whichever shall first occur, without further obligation or liability of either party hereunder, except for Southwest's obligation to pay Deferred Compensation as provided in Paragraph IV-C of this Agreement.

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- B. TERMINATION FOR CAUSE. Southwest may terminate the Employee's employment hereunder upon the determination by a majority of its whole Board of Directors that the Employee has willfully failed and refused to perform his duties and to discharge his responsibilities hereunder. Such determination shall be final and conclusive. If the Board of Directors of Southwest makes such determination, Southwest may (a) terminate the Employee's employment, effective immediately or at a subsequent date, or (b) condition his continued employment upon such circumstances and place a reasonable limitation upon the time within which the Employee shall comply with such considerations or requirements. If termination is so effected, Southwest shall have no further liability to the Employee hereunder except for the obligation to pay Deferred Compensation as provided in Paragraph IV-C hereof.
- C. TERMINATION FOR DISABILITY. Southwest may terminate the Employee's employment hereunder on account of any disabling illness, hereby defined to include any emotional or mental disorders, physical diseases or injuries as a result of which the Employee is, for a continuous period of ninety (90) days, unable to work on a full-time basis. Southwest shall give to the Employee thirty (30) days' notice of its intention to effect such termination pursuant to this Paragraph V-C. If, within such notice period, the Employee shall have recovered from his disability sufficiently well to return to full-time duty (although still undergoing treatment or rehabilitation), Southwest shall not have the right to effect such termination. If such disabling illness occurs as a result of a job-related cause, Southwest shall continue to pay the Employee regular installments of his Base Salary in effect at the time of such termination for the remainder of the term of this Agreement. It is expressly understood and agreed, however, that any obligation of

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

Employee receives as a result of or growing out of his disabling illness.

- D. CHANGE OF CONTROL TERMINATION. In the event of any change of control of Southwest, the Employee may, at his option, terminate his employment hereunder by giving to Southwest notice thereof no later than sixty (60) days after the Employee shall have determined or ascertained that such change has occurred, irrespective whether Southwest shall have purported to terminate this Agreement after such event but prior to receipt of such notice. If termination is so effected, no later than the date of such termination Southwest shall pay the Employee as "severance pay" a lump sum equal to (i) \$750,000 plus (ii) an amount equal to the unpaid installments of his Base Salary in effect at the time of such termination for the remaining term of this Agreement. Notwithstanding the forgoing, Southwest shall have no obligation to pay the Employee hereunder, and the Employee shall have no right to receive from Southwest hereunder, any payment to the extent that such payment would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended, and, in the event Southwest makes any such payment hereunder, the Employee shall refund the amount of such payment to Southwest promptly upon request. If termination is so effected, Southwest shall have no other further liability to the Employee hereunder except for its obligation to pay Deferred Compensation as provided in Paragraph IV-C above. For purposes of this Paragraph V-D, a "change of control of

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

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

VI. MISCELLANEOUS

- A. ASSIGNABILITY, ETC. The rights and obligations of Southwest hereunder shall inure to the benefit of and shall be binding upon the successors and assigns of Southwest; provided, however, Southwest's obligations hereunder may not be assigned without the prior approval of the Employee. This Agreement is personal to the Employee and may not be assigned by him.
- B. NO WAIVERS. Failure to insist upon strict compliance with any provision hereof shall not be deemed a waiver of such provision or any other provision hereof.
- C. AMENDMENTS. This Agreement may not be modified except by an agreement in writing executed by the parties hereto.

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- D. NOTICES. Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given to the person affected by such notice when personally delivered or when deposited in the United States mail, certified mail, return receipt requested and postage prepaid, and addressed to the party affected by such notice at the address indicated on the signature page hereof.
- E. SEVERABILITY. The invalidity or unenforceability of any provision hereof shall not affect the validity or enforceability of any other provision hereof.
- F. COUNTERPARTS. This Agreement may be executed in multiple

counterparts, each of which shall be deemed an original but all of which taken together shall constitute a single instrument.

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

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

SOUTHWEST AIRLINES CO.

By: /s/ John G. Denison

John G. Denison
Executive Vice President -
Corporate Services

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

ATTEST:

/s/ Colleen C. Barrett

Colleen C. Barrett
Secretary

THE EMPLOYEE

/s/ Herbert D. Kelleher

Herbert D. Kelleher

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

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STOCK OPTION PLAN AND AGREEMENT

THIS STOCK OPTION PLAN AND AGREEMENT ("Agreement"), made as of the 2nd day of January 1996, between SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), and HERBERT D. KELLEHER ("Employee"),

W I T N E S S E T H:

To carry out the purpose of Paragraph IV-F of the Employment Contract (herein so called) of even date herewith between the Company and Employee by affording Employee the opportunity to purchase shares of the \$1.00 par value common stock of the Company ("Stock"), the Company and Employee hereby agree as follows:

1. GRANT OF OPTION. Subject to shareholder approval as provided in Paragraph IV-F of the Employment Contract, the Company hereby irrevocably

grants to Employee the right and option ("Option") to purchase all or part of an aggregate of 500,000 shares of Stock, on the terms and conditions set forth herein. This Option is not intended to constitute an incentive stock option within the meaning of Section 422A(b) of the Internal Revenue Code of 1986, as amended (the "Code").

2. PURCHASE PRICE. The purchase price of Stock purchased pursuant to the exercise of this Option shall be \$23.50 per share, which represents the New York Stock Exchange-Composite Tape closing sales price of the Stock on the date thereof.

3. EXERCISE OF OPTION. Subject to the earlier expiration of this Option as herein provided, this Option may be exercised, by written notice to the Company (addressed to its

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principal executive offices), at any time and from time to time after the date of grant hereof, 100,000 shares on the date hereof and thereafter in equal annual increments of 100,000 shares each on January 1 of each year, beginning January 1, 1997, with all of such options being exercisable on and after January 1, 2000. Notwithstanding the foregoing, in the event of any change of control of the Company (as defined in Paragraph V-D of the Employment Contract), then this Option shall become exercisable in full. This Option is not transferable by Employee otherwise than by will or the laws of descent and distribution, and may be exercised only by Employee during his lifetime and while he remains a full-time employee of the Company, except that:

(a) If Employee's full-time employment with the Company terminates other than by death (whether by resignation, retirement, dismissal or otherwise), Employee may exercise this Option at any time during the period of three years following the date of such termination, but only as to the number of shares Employee was entitled to purchase hereunder as of the date his employment so terminates.

(b) If Employee dies while in the employ of the Company or within the three-year period specified in (a) above, his estate, or the person who acquires this Option by bequest or inheritance or by reason of the death of Employee, may exercise this Option at any time during the period of one year following the date of Employee's death, but only as to the number of shares Employee was entitled to purchase hereunder as of the date of his death.

In any event, this Option shall not be exercisable as to any shares of Stock offered hereby after the expiration of ten years from the date this Option shall first become exercisable with respect to such shares. The purchase price of shares of Stock as to which this Option is

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STOCK OPTION AGREEMENT

exercised shall be paid in full at the time of exercise (a) in cash (including check, bank draft or money order payable to the order of the Company), or (b) by delivery to the Company of shares of Stock having a fair market value equal to the purchase price, or (c) by a combination of cash and Stock; provided that the fair market value of Stock so delivered shall be the mean of the reported high and low sales price of Stock on the New York Stock Exchange - Composite Tape on the date on which the Option is exercised or, if no prices are so reported on such day, on the next preceding day on which such prices of Stock are so reported. Unless and until a certificate for such shares shall have been issued by the Company to him, Employee (or the person permitted to exercise this Option in the event of Employee's death) shall not be or have any of the rights or privileges of a shareholder of the Company with respect to shares acquirable upon an exercise of this Option.

4. SHARES SUBJECT TO THE OPTION. The aggregate number of shares of Stock which may be issued under this Option is 500,000. Such shares may consist of authorized but unissued shares of Stock or previously issued shares reacquired by the Company. Any of such shares which remains unissued at the termination of this Option shall cease to be subject thereto, but until termination of this Option the Company shall at all times make available a sufficient number of shares to meet the requirements of this Option. The aggregate number of shares issuable under this Option shall be adjusted to reflect a change in capitalization of the Company, such as a stock dividend or stock split, as provided in Paragraph 5 of this Agreement.

5. RECAPITALIZATION OR REORGANIZATION. (a) The existence of this Option 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

STOCK OPTION AGREEMENT

in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of bonds, debentures, warrants, preferred or prior preference stocks ahead of or affecting Stock or the rights thereof, the dissolution or liquidation of the Company or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding.

(b) The shares offered by this Option are shares of Stock as presently constituted, but if, and whenever, prior to the expiration of this Option, the Company shall effect a subdivision or consolidation of shares of Stock or the payment of a stock dividend on Stock without receipt of consideration by the Company, the number of shares of Stock with respect to which this 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 (but in no event to less than the par value of the Stock), 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.

(c) If the Company recapitalizes or merges or engages in a compulsory share exchange with one or more other entities and the Company shall be the surviving or acquiring corporation, thereafter upon any exercise of this Option, Employee shall be entitled to purchase under this Option, in lieu of the number of shares of Stock as to which this Option shall then be exercisable, the number and class of shares of stock and other securities or other property to which Employee would have been entitled pursuant to the terms of the recapitalization or plan of merger or exchange if, immediately prior to the effective time of such recapitalization or merger or share exchange, Employee had been the holder of record of the number of shares of Stock as to which such Option is then exercisable. If the Company shall not be the surviving

STOCK OPTION AGREEMENT

or acquiring corporation in any merger or share exchange, or if the Company is to be dissolved or liquidated, then unless a surviving or acquiring entity assumes or substitutes new Options for this Option, (i) the time at which this Option may be exercised shall be accelerated and this Option shall become exercisable in full on or before a date fixed by the Company prior to the effective date of such merger or share exchange or such dissolution or liquidation, and (ii) upon such effective date this Option 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 cash, 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, 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 Stock subject to this Option or the purchase price per share.

6. ADMINISTRATION. To the extent necessary for the administration of elections made pursuant to Paragraph 7 hereof, this Option shall be administered by the Stock Option Committee which administers the 1991 Incentive Stock Option Plan of the Company; or, at the direction of the Board of Directors of the Company, such other committee (together with such Stock Option Committee, the "Committee") of three or more directors of the Company, each of whom is a disinterested person, appointed by the Board of Directors of the Company. The Committee is further authorized to interpret this Option and may from time to time adopt such rules and regulations, consistent with the provisions of this Option, as it may deem advisable to carry out this Option. For purposes of this Option, "disinterested person" shall have the

STOCK OPTION AGREEMENT

meaning provided for by Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended and the regulations promulgated under Section 162(m) of the Internal Revenue Code.

7. WITHHOLDING OF TAX. To the extent that the exercise of this

Option or the disposition of shares of Stock acquired by exercise of this Option results in compensation income to Employee for federal or state income tax purposes, except as hereinafter provided, Employee 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. Employee may elect with respect to this Option to surrender or authorize the Company to withhold shares of Stock (valued at their fair market value on the date of surrender or withholding of such shares) in satisfaction of any such withholding obligation (a "Stock Surrender Withholding Election"); provided, however, that any Stock Surrender Withholding Election shall be made in accordance with the rules and regulations adopted by the Committee for implementation of the tax withholding provisions of this Paragraph 7. If Employee fails to deliver such money or make a Stock Surrender Withholding Election pursuant to this Paragraph 7, the Company is authorized to withhold from any cash or Stock remuneration then or thereafter payable to Employee any tax required to be withheld.

8. STATUS OF STOCK. The Company does not presently intend to register for issue under the Securities Act of 1933, as amended (the "Act"), the shares of Stock acquirable upon exercise of this Option, and instead proposes to rely on the private offering exemption from the registration requirements of the Act afforded by Section 4(2) thereof. In order to assure that exemption from registration under the Act is available upon an exercise of this Option, Employee (or the person permitted to exercise this Option in the event of Employee's death),

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if requested by the Company to do so, will execute and deliver to the Company in writing an agreement containing such provisions as the Company may reasonably require to assure compliance with applicable securities laws. No sale or disposition of shares of Stock acquired upon exercise of this Option shall be made in the absence of a registration statement being on file with respect to such shares under the Act unless an opinion of counsel satisfactory to the Company that such sale or disposition will not constitute a violation of the Act or any other applicable securities laws is first obtained. The certificates representing shares of Stock acquired under this Option may bear such legend as the Company deems appropriate, referring to the provisions of this Paragraph 8.

9. REGISTRATION RIGHTS. With respect to any shares of Stock which are issued and delivered upon exercise of this Option (the "Shares"):

(a) Upon written request made by Employee at any time before January 1, 2011, the Company shall take such steps as may be necessary promptly to register (but not more than once), at the Company's sole expense (save for any underwriting commissions or discounts applicable to any Shares and Employee's counsel fees), such of the Shares under the Act (and under regulations of the Securities and Exchange Commission under the Act or under any similar federal act or acts then in effect and under the so-called "Blue Sky" laws of the several states and regulations thereunder then in effect), as Employee may by written request given to the Company within 15 days following such initial request, desire to have so registered. The Company will cause such a registration statement to be filed within 90 days after the initial request is made. The Company will use its best efforts to cause any such registration statement

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STOCK OPTION AGREEMENT

to become and to remain effective and current for such period (not to exceed 120 days) as Employee may request.

(b) In connection with any registration under this Paragraph 9, the parties agree to indemnify each other in the customary manner, and, in the case of an organized secondary or primary underwritten offering, the Company agrees to indemnify Employee and the underwriters and Employee agrees to indemnify the Company (provided Employee is then a director, officer or employee of the Company), in the manner and to the extent as is customary in secondary or primary underwritten offerings.

(c) The Company shall have the sole right to designate the underwriters to be employed in any organized secondary or primary underwritten offering under this Section 9.

(d) In connection with any registration under this Section 9, Employee shall furnish to the Company such information regarding the Shares and such other information as the Company may reasonably request.

10. EMPLOYMENT RELATIONSHIP. Employee shall be considered to be in the employment of the Company as long as he remains an employee of either the Company, a parent or subsidiary corporation (as defined in Section 424 of the Code), or a corporation or a parent or subsidiary of such corporation assuming or substituting a new option for this Option. Any questions as to whether or when there has been a termination of such employment, and the cause of such termination, shall be determined by the Board of Directors of the employing corporation, and its determination shall be final. No obligation as to length of Employee's employment with any such corporation shall be implied from the terms of this Agreement, and this Agreement in no way modifies, alters, amends or impairs the provisions of the Employment Contract.

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STOCK OPTION AGREEMENT

11. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of any successors to the Company and all persons lawfully claiming under Employee.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by its officer thereunto duly authorized, and Employee has executed this Agreement, all as of the day and year first above written.

ATTEST: SOUTHWEST AIRLINES CO.

/s/ Colleen C. Barrett

By:/s/ John G. Denison

Colleen C. Barrett
Secretary

John G. Denison
Executive Vice President -
Corporate Services

EMPLOYEE

/s/ Herbert D. Kelleher

Herbert D. Kelleher

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STOCK OPTION AGREEMENT

STOCK OPTION PLAN AND AGREEMENT

THIS STOCK OPTION PLAN AND AGREEMENT ("Agreement"), made as of the 1st day of January 1996, between SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), and HERBERT D. KELLEHER ("Employee"),

W I T N E S S E T H:

To carry out the purpose of Paragraph IV-F of the Employment Contract (herein so called) of even date herewith between the Company and Employee by affording Employee the opportunity to purchase shares of the \$1.00 par value common stock of the Company ("Stock"), the Company and Employee hereby agree as follows:

1. GRANT OF OPTION. Subject to shareholder approval as provided in Paragraph IV-F of the Employment Contract, the Company hereby irrevocably grants to Employee the right and Option ("Option") to purchase all or part of an aggregate of 144,395 shares of Stock, on the terms and conditions set forth herein.

2. PURCHASE PRICE. The purchase price of Stock purchased pursuant to the exercise of this Option shall be \$1 per share.

3. EXERCISE OF OPTION. Subject to the earlier expiration of this Option as herein provided, this Option may be exercised, by written notice to the Company (addressed to its principal executive offices), at any time and from time to time after the date of grant hereof; vesting in equal annual increments of 28,879 shares each on January 1 of each year, beginning January 1, 1996, with all of such options being exercisable on and after January 1, 2000.

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Notwithstanding the foregoing, in the event of any change of control of the Company (as defined in Paragraph V-D of the Employment Contract), then this Option shall become exercisable in full. This Option is not transferable by Employee otherwise than by will or the laws of descent and distribution, and may be exercised only by Employee during his lifetime and while he remains a full-time employee of the Company, except that:

(a) If Employee's full-time employment with the Company terminates other than by death (whether by resignation, retirement, dismissal or otherwise), Employee may exercise this Option at any time during the period of three years following the date of such termination, but only as to the number of shares Employee was entitled to purchase hereunder as of the date his employment so terminates.

(b) If Employee dies while in the employ of the Company or within the three-year period specified in (a) above, his estate, or the person who acquires this Option by bequest or inheritance or by reason of the death of Employee, may exercise this Option at any time during the period of one year following the date of Employee's death, but only as to the number of shares Employee was entitled to purchase hereunder as of the date of his death.

In any event, this Option shall not be exercisable as to any shares of Stock offered hereby after the expiration of ten years from the date this Option shall first become exercisable with respect to such shares. The purchase price of shares of Stock as to which this Option is exercised shall be paid in full at the time of exercise (a) in cash (including check, bank draft or money order payable to the order of the Company), or (b) by delivery to the Company of shares of Stock having a fair market value equal to the purchase price, or (c) by a combination of cash and Stock; provided that the fair market value of Stock so delivered shall be the mean of the

STOCK OPTION AGREEMENT - \$1

reported high and low sales price of Stock on the New York Stock Exchange - Composite Tape on the date on which the Option is exercised or, if no prices are so reported on such day, on the next preceding day on which such prices of Stock are so reported. Unless and until a certificate for such shares shall have been issued by the Company to him, Employee (or the person permitted to exercise this Option in the event of Employee's death) shall not be or have any of the rights or privileges of a shareholder of the Company with respect to shares acquirable upon an exercise of this Option.

4. SHARES SUBJECT TO THE OPTION. The aggregate number of shares of Stock which may be issued under this Option is 144,395. Such shares may consist of authorized but unissued shares of Stock or previously issued shares reacquired by the Company. Any of such shares which remains unissued at the termination of this Option shall cease to be subject thereto, but until termination of this Option the Company shall at all times make available a sufficient number of shares to meet the requirements, of this Option. The aggregate number of shares issuable under this Option shall be adjusted to reflect a change in capitalization of the Company, such as a stock dividend or stock split, as provided in Paragraph 5 of this Agreement.

5. RECAPITALIZATION OR REORGANIZATION. (a) The existence of this Option 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 bonds, debentures, warrants, preferred or prior preference stocks ahead of or affecting Stock or the rights thereof, the dissolution or liquidation of the Company or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding.

STOCK OPTION AGREEMENT - \$1

(b) The shares offered by this Option are shares of Stock as presently constituted, but if, and whenever, prior to the expiration of this Option, the Company shall effect a subdivision or consolidation of shares of Stock or the payment of a stock dividend on Stock without receipt of consideration by the Company, the number of shares of Stock with respect to

which this 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 (but in no event to less than the par value of the Stock), 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.

(c) If the Company recapitalizes or merges or engages in a compulsory share exchange with one or more other entities and the Company shall be the surviving or acquiring corporation, thereafter upon any exercise of this Option, Employee shall be entitled to purchase under this Option, in lieu of the number of shares of Stock as to which this Option shall then be exercisable, the number and class of shares of stock and other securities or other property to which Employee would have been entitled pursuant to the terms of the recapitalization or plan of merger or exchange if, immediately prior to the effective time of such recapitalization or merger or share exchange, Employee had been the holder of record of the number of shares of Stock as to which such Option is then exercisable. If the Company shall not be the surviving or acquiring corporation in any merger or share exchange, or if the Company is to be dissolved or liquidated, then unless a surviving or acquiring entity assumes or substitutes new Options for this Option, (i) the time at which this Option may be exercised shall be accelerated and this Option shall become exercisable in full on or before a date fixed by the Company prior to the

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STOCK OPTION AGREEMENT - \$1

effective date of such merger or share exchange or such dissolution or liquidation, and (ii) upon such effective date this Option 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 cash, 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 Stock subject to this Option or the purchase price per share.

6. ADMINISTRATION. To the extent necessary for the administration of elections made pursuant to Paragraph 7 hereof, this Option shall be administered by the Stock Option Committee which administers the 1991 Incentive Stock Option Plan of the Company; or, at the direction of the Board of Directors of the Company, such other committee (together with such Stock Option Committee, the "Committee") of three or more directors of the Company, each of whom is a disinterested person, appointed by the Board of Directors of the Company. The Committee is further authorized to interpret this Option and may from time to time adopt such rules and regulations, consistent with the provisions of this Option, as it may deem advisable to carry out this Option. For purposes of this Option, "disinterested person" shall have the meaning provided for by Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended.

7. WITHHOLDING OF TAX. To the extent that the exercise of this Option or the disposition of shares of Stock acquired by exercise of this Option results in compensation income

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STOCK OPTION AGREEMENT - \$1

to Employee for federal or state income tax purposes, except as hereinafter provided, Employee 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. Employee may elect with respect to this Option to surrender or authorize the Company to withhold shares of Stock (valued at their fair market value on the date of surrender or withholding of such shares) in satisfaction of any such withholding obligation (a "Stock Surrender Withholding Election"); provided, however, that any Stock Surrender Withholding Election shall be made in accordance with the rules and regulations adopted by the Committee for implementation of the tax withholding provisions of this Paragraph 7. If Employee fails to deliver such money or make a Stock Surrender Withholding Election pursuant to this Paragraph 7, the Company is authorized to withhold from any cash or Stock remuneration then or thereafter payable to Employee any tax required to be withheld.

8. STATUS OF STOCK. The Company does not presently intend to register for issue under the Securities Act of 1933, as amended (the "Act"),

the shares of Stock acquirable upon exercise of this Option, and instead proposes to rely on the private offering exemption from the registration requirements of the Act afforded by Section 4(2) thereof. In order to assure that exemption from registration under the Act is available upon an exercise of this Option, Employee (or the person permitted to exercise this Option in the event of Employee's death), if requested by the Company to do so, will execute and deliver to the Company in writing an agreement containing such provisions as the Company may reasonably require to assure compliance with applicable securities laws. No sale or disposition of shares of Stock acquired upon exercise of this Option shall be made in the absence of a registration statement being on

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STOCK OPTION AGREEMENT - \$1

file with respect to such shares under the Act unless an opinion of counsel satisfactory to the Company that such sale or disposition will not constitute a violation of the Act or any other applicable securities laws is first obtained. The certificates representing shares of Stock acquired under this Option may bear such legend as the Company deems appropriate, referring to the provisions of this Paragraph 8.

9. REGISTRATION RIGHTS. With respect to any shares of Stock which are issued and delivered upon exercise of this Option (the "Shares"):

(a) Upon written request made by Employee at any time before January 1, 2011, the Company shall take such steps as may be necessary promptly to register (but not more than once), at the Company's sole expense (save for any underwriting commissions or discounts applicable to any Shares and Employee's counsel fees), such of the Shares under the Act (and under regulations of the Securities and Exchange Commission under the Act or under any similar federal act or acts then in effect and under the so-called "Blue Sky" laws of the several states and regulations thereunder then in effect), as Employee may by written request given to the Company within 15 days following such initial request, desire to have so registered. The Company will cause such a registration statement to be filed within 90 days after the initial request is made. The Company will use its best efforts to cause any such registration statement to become and to remain effective and current for such period (not to exceed 120 days) as Employee may request.

(b) In connection with any registration under this Paragraph 9, the parties agree to indemnify each other in the customary manner, and, in the case of an organized secondary or primary underwritten offering, the Company agrees to indemnify Employee and the underwriters

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STOCK OPTION AGREEMENT - \$1

and Employee agrees to indemnify the Company (provided Employee is then a director, officer or employee of the Company), in the manner and to the extent as is customary in secondary or primary underwritten offerings.

(c) The Company shall have the sole right to designate the underwriters to be employed in any organized secondary or primary underwritten offering under this Section 9.

(d) In connection with any registration under this Section 9, Employee shall furnish to the Company such information regarding the Shares and such other information as the Company may reasonably request.

10. EMPLOYMENT RELATIONSHIP. Employee shall be considered to be in the employment of the Company as long as he remains an employee of either the Company, a parent or subsidiary corporation (as defined in Section 424 of the Internal Revenue Code of 1986, as amended), or a corporation or a parent or subsidiary of such corporation assuming or substituting a new option for this Option. Any questions as to whether and when there has been a termination of such employment, and the cause of such termination, shall be determined by the Board of Directors of the employing corporation, and its determination shall be final. No obligation as to the length of the Employee's employment with any such corporation shall be implied from the terms of this Agreement, and this Agreement in no way modifies, alters, amends or impairs the provisions of the Employment Contract.

11. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of any successors to the Company and all persons lawfully claiming under Employee.

STOCK OPTION AGREEMENT - \$1

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by its officer thereunto duly authorized, and Employee has executed this Agreement, all as of the day and year first above written.

ATTEST: SOUTHWEST AIRLINES CO.

/s/ Colleen C. Barrett

By /s/ John G. Denison

Colleen C. Barrett
Secretary

John G. Denison
Executive Vice President -
Corporate Services

EMPLOYEE

/s/ Herbert D. Kelleher

Herbert D. Kelleher

Southwest Airlines Co.
Computation of Earnings Per Share
For the Year Ended December 31, 1995

<TABLE>
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	Primary	Fully Diluted
	-----	-----
<S>	<C>	<C>
Weighted average shares outstanding	143,678,223	143,678,223
Shares issuable upon exercise of outstanding stock options (treasury stock method)	5,172,289	5,202,614
	-----	-----
Weighted average common and common equivalent shares	148,850,512	148,880,837
	=====	=====
Earnings for per share computations	\$182,626,000	\$182,626,000
	=====	=====
Earnings per common and common equivalent share	\$1.23	\$1.23
	=====	=====

</TABLE>

Southwest Airlines Co.
Computation of Earnings Per Share
For the Year Ended December 31, 1994

<TABLE>
<CAPTION>

	Primary	Fully Diluted
	-----	-----
<S>	<C>	<C>
Weighted average shares outstanding	143,046,509	143,046,509
Shares issuable upon exercise of outstanding stock options (treasury stock method)	4,258,865	4,259,233
	-----	-----
Weighted average common and common equivalent shares	147,305,374	147,305,742
	=====	=====
Earnings for per share computations	\$179,331,000	\$179,331,000
	=====	=====
Earnings per common and common equivalent share	\$1.22	\$1.22
	=====	=====

</TABLE>

Southwest Airlines Co.
Computation of Earnings Per Share
For the Year Ended December 31, 1993

<TABLE>
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	Primary	Fully Diluted
	-----	-----
<S>	<C>	<C>
Weighted average shares outstanding	142,622,160	142,622,160
Shares issuable upon exercise of outstanding stock options (treasury stock method)	4,522,408	4,676,476

Weighted average common and common equivalent shares	----- 147,144,568 =====	----- 147,298,636 =====
Earnings for per share computation before cumulative effect of accounting changes	\$154,284,000	\$154,284,000
Cumulative effect of accounting change	15,259,000 -----	15,259,000 -----
Earnings for per share computation after cumulative effect of accounting changes	\$169,543,000 =====	\$169,543,000 =====
Earnings per common and common equivalent share before cumulative effect of accounting change	\$1.05 =====	\$1.05 =====
Earnings per common and common equivalent share after cumulative effect of accounting change	\$1.15 =====	\$1.15 =====

</TABLE>

Note: The share and per share amounts have been adjusted to reflect the three-for-two stock split distributed July 15, 1993.

SOUTHWEST AIRLINES CO.
SUBSIDIARIES OF THE COMPANY

Southwest Airlines Co. has five wholly owned subsidiaries:

TranStar Airlines Corporation, Southwest Jet Fuel Co., Southwest ABQ RES Center, Inc., which are incorporated under the laws of Texas; Southwest Airlines Eurofinance N.V., which is incorporated under the laws of Netherlands Antilles; and Morris Air Corporation, which is incorporated under the laws of Delaware.

CONSENT OF ERNST & YOUNG, LLP INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements Form S-3 (Nos. 33-52155 and 33-59113) and Form S-8 (Nos. 33-48178, 33-57327, 33-40652 and 33-40653) and in the related Prospectuses of our report dated January 25, 1996, 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, 1995.

ERNST & YOUNG LLP

Dallas, Texas
March 28, 1996

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