

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, 1996 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 74-1563240
(State or other jurisdiction of (I.R.S. employer
incorporation or organization) identification no.)

P.O. BOX 36611 75235-1611
DALLAS, TEXAS (Zip Code)
(Address of principal executive offices)

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

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

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

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

None

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

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

Aggregate market value of Common Stock held by nonaffiliates as of February 28, 1997:

\$3,350,000,000

Number of shares of Common Stock outstanding as of the close of business on February 28, 1997:

145,335,143 shares

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for Annual Meeting of
Shareholders, May 15, 1997: 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 1996, Southwest operated 243 Boeing 737 aircraft and provided service to 50 airports in 49 cities in 24 states throughout the United States. Southwest commenced service to Jacksonville, Florida in January 1997, and has recently announced that it will commence service to Jackson, Mississippi in August 1997.

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:

1992	\$.61
1993	\$.59
1994	\$.54
1995	\$.55
1996	\$.65

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's principal hedging program utilizes the purchase of crude oil call options at a nominal premium and at volumes of up to 30% of its annual fuel requirements. 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.

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 at Love Field. 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.

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. For information regarding the impact of the lapse and reinstatement of the 10% federal excise tax on operating results, see Management's Discussion and Analysis of Financial Condition and Results of Operations. 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 a future interim compliance date for ANCA of 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 75 percent at December 31, 1998, or by operating a fleet that is at least 75 percent Stage 3 by December 31, 1998. 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, 1996, consisted of 47 Stage 2 aircraft and 196 Stage 3 aircraft, yielding a Stage 3 percentage of over 80 percent. Accordingly, the Company exceeds the Stage 3 fleet percentage requirement for the December 31, 1998 interim compliance date.

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As of December 31, 1996, of the 47 Stage 2 aircraft operated by the Company, 26 are leased from third parties and 21 are owned by the Company. 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 47 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; however, the Company currently intends to hushkit at least 20 aircraft. 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 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 principally on point-to-point, rather than hub-and-spoke, service in shorthaul markets with frequent, conveniently timed flights, and low fares. For example, Southwest's average aircraft trip length in 1996 was 410 miles with an average duration of approximately one hour. At yearend, Southwest served approximately 400 one-way nonstop city pairs with an average weekday frequency of just over 5 roundtrips per city pair.

Southwest's point-to-point route system, as compared to hub-and-spoke, provides for more direct nonstop routings for shorthaul customers and, therefore, minimizes connections, delays, and total trip time. Southwest focuses on nonstop, not connecting, traffic. As a result, approximately 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, Providence 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 domestic jet airlines, nor have any commuter feeder relationships. However, in late 1996 the Company entered into a marketing relationship with Icelandair, pursuant to which Icelandair may offer travel to Customers going between Cleveland and various foreign Icelandair destinations,

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via Baltimore. Southwest provides the transportation between Cleveland and Baltimore on its regularly scheduled service.

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. In 1996, Southwest began offering ticketless travel through the Company's home page on the Internet's World Wide Web at <http://www.iflyswa.com>. By December 31, 1996, approximately 50% 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.

FREQUENT FLYER AWARDS

Southwest's frequent flyer program, Rapid Rewards (formerly The Company Club), is based on trips flown rather than mileage. Rapid Rewards 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

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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 459,000, 417,000, and 279,000 during 1996, 1995, and 1994, respectively. The amount of free travel award usage as a percentage of total Southwest revenue passengers carried was 1.9 percent in 1996, 1.9 percent in 1995, and 1.4 percent in 1994.

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, 1996 and 1995 was not material.

The number of free travel awards for Southwest outstanding at December 31, 1996 and 1995 was approximately 404,000 and 295,000, 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 Rapid Rewards in 1987, approximately 15 percent of all award certificates have expired without being used.

EMPLOYEES

At December 31, 1996, Southwest had 22,944 active employees, consisting of 6,228 flight, 1,049 maintenance, 13,148 ground customer service and 2,519 management, accounting, marketing, and clerical personnel.

Southwest has ten collective bargaining agreements covering approximately 84 percent of its employees. Southwest's 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 (TWU), which became amendable May 31, 1996 and is currently in negotiations. Fleet service employees are subject to an agreement with the TWU which becomes amendable in December 1999. 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; mechanics, flight simulator technicians and flight crew training instructors are represented by the International Brotherhood of Teamsters pursuant to separate agreements which become amendable in August 2000, August 2001, October 2000 and December 2000, respectively. 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 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 are 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

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five years of the contract. The pilot group may choose to reopen the contract after five years, in which event all unexercised options will terminate on December 1, 1999.

ITEM 2. PROPERTIES

AIRCRAFT

Southwest operated a total of 243 Boeing 737 aircraft as of December 31, 1996, of which 106 and 13 were under operating and capital leases, respectively. The remaining 124 aircraft were 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 sixty-seven 737-700 aircraft from 1998 to 2004. The first four 737-700 aircraft will be delivered to the Company in late 1997.

In total, at December 31, 1996, the Company had 78 firm orders and 67 options as follows:

<TABLE>

<CAPTION>

Type	Seats	1996	1997	1998	1999	2000	2001	2002	2003	2004
----	-----	----	----	----	----	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
737-200	122	47	--	--	--	--	--	--	--	--
737-300	137	171	15	--	--	--	--	--	--	--
737-500	122	25	--	--	--	--	--	--	--	--
737-700	137	--	4	21	25	21	18	18	18	5

</TABLE>

The average age of the Company's fleet at December 31, 1996 was 7.9 years.

For information regarding the Company's obligations under capital leases and noncancelable operating leases see Notes 4 and 5 to the Consolidated Financial Statements.

For information concerning Southwest's aircraft purchase commitments, see Note 2 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, 1996, the Company operated nine reservation centers. The reservation centers located in Little Rock, Arkansas; Chicago, Illinois; Albuquerque, New Mexico; and Oklahoma City, Oklahoma occupy leased space. The Company owns its Dallas, Texas; Houston, Texas; Phoenix, Arizona; Salt Lake City, Utah; and San Antonio, Texas reservation centers.

The Company performs substantially all line maintenance on its aircraft and provides ground support services at most of the airports it serves. However, the Company has arrangements with certain aircraft

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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 and to administrative proceedings before the Department of Transportation. 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, 1997) are as follows:

<TABLE> <CAPTION>			
NAME ----	POSITION -----	AGE ---	OFFICER CONTINUOUSLY SINCE -----
<S> Herbert D. Kelleher	<C> Chairman of the Board, President, and Chief Executive Officer	<C> 65	<C> 1967
Colleen C. Barrett	Executive Vice President-Customers and Corporate Secretary	52	1978
Gary A. Barron	Executive Vice President, Chief Operations Officer	52	1978
John G. Denison	Executive Vice President- Corporate Services	52	1986
Gary C. Kelly	Vice President-Finance, Chief Financial Officer	41	1986
James F. Parker	Vice President-General Counsel	50	1986
Ron Ricks	Vice President-Governmental Affairs	47	1986
Joyce C. Rogge	Vice President - Advertising and Promotions	39	1994
James C. Wimberly	Vice President-Ground Operations	44	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.

PART II

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

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

<TABLE> <CAPTION>				
PERIOD		DIVIDEND	HIGH	LOW
- - - - -		-----	----	---
<S>	<C>	<C>	<C>	<C>
1996				
	1st Quarter	\$.011	\$33.00	\$22.13
	2nd Quarter	.011	33.25	25.75
	3rd Quarter	.011	29.00	21.38
	4th Quarter	.011	26.00	20.63
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

</TABLE>

As of March 4, 1997, there were 9,457 holders of record of the Company's common stock.

RECENT SALES OF UNREGISTERED SECURITIES

The Company re-employed Herbert D. Kelleher, effective as of January 1, 1996, as President and Chief Executive Officer under a five-year Employment Contract. Pursuant to this Contract, Mr. Kelleher was granted nonstatutory options to purchase, subject to his employment for four years, 144,395 shares of the Company's Common Stock at a purchase price of \$1 per share and 500,000 shares at a purchase price of \$23.50 per share, representing the composite tape closing sales price of the Common Stock on the New York Stock Exchange on January 2, 1996. One-fifth of the options are not subject to vesting and may be exercised at any time as to the underlying shares. Provided Mr. Kelleher remains in the continuous, full-time employ of the Company, the balance of the options will become exercisable in cumulative increments of one-fifth of the underlying shares each January 1 beginning January 1, 1997; provided that in the event of a change of control of the Company all of the options become immediately exercisable. Each of the options will expire ten years after it becomes exercisable. The options are not transferable by Mr. Kelleher other than by will or the laws of descent and distribution, and are exercisable during Mr. Kelleher's lifetime only by him. The options granted to Mr. Kelleher in 1996 are in addition to options granted to him pursuant to earlier employment agreements.

During 1996, Mr. Kelleher exercised unregistered options to purchase Southwest Common Stock as follows:

<TABLE> <CAPTION>		
Number of Shares Purchased	Exercise Price	Date of Exercise
- - - - -	-----	-----
<S>	<C>	<C>
67,500	\$1.00	07/30/96
33,750	4.889	07/30/96
22,500	4.889	01/09/96

The issuance of the above options and shares to Mr. Kelleher were deemed exempt from the registration provisions of the Securities Act of 1933, as amended (the "Act"), by reason of the provision of Section 4(2) of the Act because, among other things, of the limited number of participants in such transactions and the agreement and representation of Mr. Kelleher that he was acquiring such securities for investment and not with a view to distribution thereof. The certificates representing the shares issued to Mr. Kelleher contain a legend to the effect that such shares are not registered under the Act and may not be transferred except pursuant to a registration statement which has become effective under the Act or to an exemption from such registration. The issuance of such shares was not underwritten.

ITEM 6. SELECTED FINANCIAL DATA

The following financial information for the five years ended December 31, 1996 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.

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<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,				
	1996	1995	1994	1993	
1992					
<S>	<C>	<C>	<C>	<C>	<C>
FINANCIAL DATA:					
(in thousands except per share amounts)					
Operating revenues	\$ 3,406,170	\$ 2,872,751	\$ 2,591,933	\$ 2,296,673	\$
1,802,979					
Operating expenses	3,055,335	2,559,220	2,275,224	2,004,700	
1,609,175					
Operating income	350,835	313,531	316,709	291,973	
193,804					
Other expenses, net	9,473	8,391	17,186	32,336	
36,361					
Income before income taxes and cumulative effect of accounting changes	341,362	305,140	299,523	259,637	
157,443					
Provision for income taxes (1)	134,025	122,514	120,192	105,353	
60,058					
Income before cumulative effect of accounting changes (1)	207,337	182,626	179,331	154,284	
97,385					
Cumulative effect of accounting changes	--	--	--	15,259 (2)	
12,538 (3)					
Net income (1)	\$ 207,337	\$ 182,626	\$ 179,331	\$ 169,543	\$
109,923					
Net income per common and common equivalent share before cumulative effect of accounting changes (1)	\$ 1.37	\$ 1.23	\$ 1.22	\$ 1.05	\$
0.68					
Cash dividends per common share	\$.04400	\$.04000	\$.04000	\$.03867	\$
.03533					
Total assets at period-end	\$ 3,723,479	\$ 3,256,122	\$ 2,823,071	\$ 2,576,037	\$
2,368,856					
Long-term obligations at period-end	\$ 650,226	\$ 661,010	\$ 583,071	\$ 639,136	\$
735,754					
Stockholders' equity at period-end	\$ 1,648,312	\$ 1,427,318	\$ 1,238,706	\$ 1,054,019	\$
879,536					
OPERATING DATA:					

Revenue passengers carried	49,621,504	44,785,573	42,742,602 (5)	36,955,221 (5)
27,839,284				
Revenue passenger miles (RPMs) (000s)	27,083,483	23,327,804	21,611,266	18,827,228
13,787,005				
Available seat miles (ASMs) (000s)	40,727,495	36,180,001	32,123,974	27,511,000
21,366,642				
Load factor	66.5%	64.5%	67.3%	68.4%
64.5%				
Average length of passenger haul (miles)	546	521	506	509
495				
Trips flown	748,634	685,524	624,476	546,297
438,184				
Average passenger fare	\$ 65.88	\$ 61.64	\$ 58.44	\$ 59.97
58.33				
Passenger revenue yield per RPM	12.07c.	11.83c.	11.56c.	11.77c.
11.78c.				
Operating revenue yield per ASM	8.36c.	7.94c.	8.07c.	8.35c.
7.89c.				
Operating expenses per ASM	7.50c.	7.07c.	7.08c.	7.25c. (6)
7.03c.				
Fuel cost per gallon (average)	65.47c.	55.22c.	53.92c.	59.15c.
60.82c.				
Number of employees at period-end	22,944	19,933	16,818	15,175
11,397				
Size of fleet at period-end (4)	243	224	199	178
141				

</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

YEAR IN REVIEW

Southwest and the airline industry continued to post record profits in 1996. Southwest's net income for the first half of 1996 benefitted from the lapse in the ten percent federal ticket tax on December 31, 1995. Net income for the second half of 1996 fell below year ago levels primarily due to significant increases in jet fuel prices.

Southwest continued to maintain our advantage as the low cost leader in the industry. Despite this advantage, we continue pursuing numerous cost reduction efforts, which have proven to be beneficial.

We added 22 new Boeing 737-300 aircraft to our fleet in 1996 and retired three - - -200s. Our fleet remains one of the youngest fleets in the industry with an average age of 7.9 years. In October 1997, we will be the launch customer for the new Boeing 737-700 aircraft. In total for 1997, we will accept delivery of 15 -300s and four -700s. We currently plan to retire four -200s in fourth quarter 1997.

Our expansion into Florida in 1996 has been successful with strong load factors. We added Jacksonville, Florida service beginning January 15, 1997. Service to Providence, Rhode Island, which began October 27, 1996, also looks promising. Our current plans for capacity growth in 1997 will be primarily directed to cities we presently serve, either with increased frequencies or new routes. We may begin service to one more new city later in 1997.

Proposed FAA "funding reform" continues to present uncertainty as to how or if any changes would impact Southwest. While Congress reinstated the ten percent

ticket tax in August 1996, the tax lapsed again as of December 31, 1996. At the current time, Southwest is unable to predict how this FAA funding issue will be resolved and what impact, if any, resolution of this uncertainty will have on future operating results.

RESULTS OF OPERATIONS

1996 COMPARED WITH 1995 The Company's consolidated net income for 1996 was \$207.3 million (\$1.37 per share), as compared to the corresponding 1995 amount of \$182.6 million (\$1.23 per share), an increase of 13.5 percent.

OPERATING REVENUES Consolidated operating revenues increased by 18.6 percent in 1996 to \$3,406.2 million, compared to \$2,872.8

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million for 1995. This increase in 1996 operating revenues was derived primarily from an 18.4 percent increase in passenger revenues. Revenue passenger miles (RPMs) increased 16.1 percent in 1996, compared to a 12.6 percent increase in available seat miles (ASMs), resulting in an increase in load factor from 64.5 percent in 1995 to 66.5 percent in 1996. The 1996 ASM growth resulted from the net addition of 19 aircraft during the year: 22 additions and three retirements.

In December 1995, because of the impasse in the federal budget, Congress allowed the ten percent federal ticket tax to lapse. This benefitted Southwest's revenues until late August when Congress reimposed the tax through December 31, 1996. The reimposition of the ticket tax negatively impacted revenues in third and fourth quarters 1996 as compared to revenue trends in the first half of 1996.

In celebration of the Company's 25th Anniversary, Southwest launched a fare sale in July for travel between August 19 and October 31, 1996. The sale was extremely popular and resulted in record advance bookings, with more than four and a half million seats sold. Although July and early August load factors and revenues were negatively impacted by the telephone line congestion experienced during the sale, revenues for September and October 1996 were positively impacted with very heavy passenger volumes.

Freight revenues in 1996 were \$80.0 million, compared to \$65.8 million in 1995. The 21.5 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 1995 and early 1996.

Other revenues increased by 23.3 percent in 1996 to \$56.9 million, compared to \$46.2 million in 1995. This increase is primarily due to increased charter revenue.

OPERATING EXPENSES Consolidated operating expenses for 1996 were \$3,055.3 million, compared to \$2,559.2 million in 1995, an increase of 19.4 percent, compared to the 12.6 percent increase in capacity. Operating expenses per ASM increased 6.1 percent in 1996 compared to 1995, primarily due to significantly higher jet fuel prices along with the 4.3 cent per gallon federal jet fuel tax implemented October 1, 1995. Excluding jet fuel costs and related taxes, operating expenses per ASM were up 3.1 percent in 1996 compared to 1995.

Unit costs are expected to increase in first quarter 1997 versus first quarter 1996, due to higher jet fuel prices. (The

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immediately preceding sentence is a forward-looking statement which involves uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, the largely unpredictable levels of fuel prices.)

Operating expenses per ASM for 1996 and 1995 were as follows:

OPERATING EXPENSES PER ASM

<TABLE>

<CAPTION>

	1996	1995	INCREASE	PERCENT CHANGE
<S>	<C>	<C>	<C>	<C>
Salaries, wages,				

and benefits ...	2.22 (cents)	2.17 (cents)	.05 (cents)	2.3%
Employee profitsharing and savings plans ..	.23	.23	--	--
Fuel and oil	1.19	1.01	.18	17.8
Maintenance materials and repairs	.62	.60	.02	3.3
Agency commissions	.35	.34	.01	2.9
Aircraft rentals	.47	.47	--	--
Landing fees and other rentals ..	.46	.44	.02	4.5
Depreciation	.45	.43	.02	4.7
Other	1.51	1.38	.13	9.4

TOTAL	7.50 (cents)	7.07 (cents)	.43 (cents)	6.1%

</TABLE>

Salaries, wages, and benefits per ASM increased 2.3 percent in 1996. This increase resulted primarily from a 16.2 percent increase in 1996 average headcount, which outpaced the 1996 capacity (ASM) increase of 12.6 percent, and offset a 0.8 percent decrease in average salary and benefits cost per Employee. The 16.2 percent increase in average headcount was primarily the result of a 24.3 percent increase in Reservations Sales Agents in 1996. Excluding Reservations Sales Agents, total average headcount increased 13.1 percent, in line with capacity.

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. The Company reached an agreement with the Teamsters which was ratified by its membership in March 1996. The Company's flight attendants are subject to an agreement with the Transport Workers Union of America, AFL-CIO (TWU), which became amendable May 31, 1996. Southwest is currently in negotiations with TWU to amend the contract.

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Fuel and oil expenses per ASM increased 17.8 percent in 1996, primarily due to an 18.6 percent increase in the average jet fuel cost per gallon from 1995. The average price paid for jet fuel in 1996 was \$.6547 compared to \$.5522 in 1995. During fourth quarter 1996, the average cost per gallon increased 25.0 percent to \$.7323 compared to \$.5859 in fourth quarter 1995. In January 1997, fuel prices have averaged approximately \$.76 per gallon.

Maintenance materials and repairs per ASM increased 3.3 percent in 1996 compared to 1995 primarily as a result of increased scheduled airframe inspections during 1996.

Agency commissions per ASM increased 2.9 percent in 1996 compared to 1995, which was slightly slower than the 5.2 percent increase in passenger revenues per ASM.

Landing fees and other rentals per ASM increased 4.5 percent in 1996 compared to 1995, which included an airport credit of \$4.9 million.

Depreciation expense per ASM increased 4.7 percent in 1996 compared to 1995 due to an increase in the percentage of owned aircraft.

Other operating expenses per ASM increased 9.4 percent in 1996 compared to 1995. This increase was primarily due to increased advertising costs resulting from the expansion into Florida and Providence, Rhode Island, as well as a new advertising campaign; the 4.3 cents per gallon tax on commercial aviation jet fuel purchased for use in domestic operations, which became effective October 1, 1995; and increased airport security costs. The additional fuel tax increased 1996 and 1995 "other operating expenses" by \$32.7 million and \$7.4 million, respectively.

OTHER "Other expenses (income)" included interest expense, capitalized interest, interest income, and nonoperating gains and losses. Capitalized interest decreased \$9.1 million in 1996 as a result of certain amendments to aircraft purchase contracts during third quarter 1995 that affected the timing of payments. Interest income for 1996 increased \$5.7 million primarily due to higher invested cash balances.

INCOME TAXES The provision for income taxes, as a percentage of income before

taxes decreased in 1996 to 39.3 percent from 40.2 percent in 1995. The decrease was primarily the result of lower effective state tax rates.

1995 COMPARED WITH 1994 The Company's consolidated net income for 1995 was \$182.6 million (\$1.23 per share), as compared to the

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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. RPMs increased 7.9 percent in 1995, compared to a 12.6 percent increase in 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 throughout 1994 and 1995.

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.

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.

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

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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, 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.

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 operating functions to Southwest commencing first quarter 1994, and lower communications costs. Communications costs decreased approximately 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 a 4.3 cents per gallon tax on commercial aviation jet fuel purchased for use in domestic operations, which became effective September 30, 1995. This additional fuel tax increased 1995 "other operating expenses" by \$7.4 million.

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Other "Other expenses (income)" included interest expense, capitalized interest, 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.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided from operations was \$615.2 million in 1996, compared to \$456.4 million in 1995. During 1996, additional funds of \$330.0 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 \$588.8 million).

During 1996, capital expenditures of \$677.4 million primarily were for the purchase of 22 new 737-300 aircraft, one used 737-200 aircraft previously leased by the Company, and progress payments for future aircraft deliveries. At December 31, 1996, capital commitments of the Company consisted primarily of scheduled aircraft acquisitions.

The Company recently announced its intention to order 20 hushkits for our 737-200 fleet, with an option for 14 more, for delivery in 1997-1999. These hushkits, with an approximate cost of \$1.0 million per aircraft, will make the Stage 2 -200 aircraft compliant with Stage 3 noise requirements.

As of January 1997, Southwest had 78 new 737s on firm order, including 19 to be delivered in 1997, with options to purchase another 67. Aggregate funding required for firm commitments approximated \$1,960.1 million through the year 2001 of which \$515.1 million related to 1997. See Note 2 to the Consolidated Financial Statements for further information.

In September 1996, the Company's Board of Directors reaffirmed a 1990 authorization for the Company to purchase shares of its common stock from time-to-time on the open market. The authorization reaffirmed the purchase of up to 2,500,000 shares. As of February 21, 1997, no shares have been purchased pursuant to this authority since 1990.

The Company has various options available to meet its capital and operating commitments, including cash on hand at December 31, 1996

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of \$581.8 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, 1996). 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 \$114.4 million of public debt securities which it currently intends to utilize for aircraft financings in 1997.

Cash provided from operations was \$456.4 million in 1995 as 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 2005. These proceeds were primarily used to finance aircraft-related capital expenditures and to provide working capital.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF ERNST & YOUNG LLP
INDEPENDENT AUDITORS
The Board of Directors and Shareholders
Southwest Airlines Co.

We have audited the accompanying consolidated balance sheets of Southwest Airlines Co. as of December 31, 1996 and 1995, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. 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, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

/s/ ERNST & YOUNG LLP

Dallas, Texas
January 23, 1997

SOUTHWEST AIRLINES CO.
CONSOLIDATED BALANCE SHEET
(IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	December 31,	
	1996	1995

<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 581,841	\$ 317,363
Accounts receivable	73,440	79,781
Inventories of parts and supplies,		
at cost	51,094	41,032
Deferred income taxes (Note 9)	11,560	10,476
Prepaid expenses and other current		
assets	33,055	24,484
	-----	-----
Total current assets	750,990	473,136
Property and equipment, at cost (Notes 2 and 5):		
Flight equipment	3,435,304	3,024,702
Ground property and equipment	523,958	435,822
Deposits on flight equipment		
purchase contracts	198,366	323,864
	-----	-----
	4,157,628	3,784,388
Less allowance for depreciation	1,188,405	1,005,081
	-----	-----
	2,969,223	2,779,307
Other assets	3,266	3,679

	-----	-----
	\$3,723,479	\$3,256,122
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 214,232	\$ 116,530
Accrued liabilities (Note 3)	380,747	349,419
Air traffic liability	158,098	131,156
Current maturities of long-term debt	12,327	13,516
	-----	-----
Total current liabilities	765,404	610,621
Long-term debt less current maturities (Note 4)		
Deferred income taxes (Note 9)	650,226	661,010
Deferred gains from sale and leaseback of aircraft	349,987	281,650
Other deferred liabilities	274,891	245,154
	34,659	30,369
Commitments and contingencies (Notes 2, 5, and 9)		
Stockholders' equity (Notes 6 and 7):		
Common stock, \$1.00 par value:		
680,000,000 shares authorized;		
145,112,090 and 144,033,273		
shares issued and outstanding in 1996 and 1995, respectively		
Capital in excess of par value	145,112	144,033
Retained earnings	181,650	162,704
	1,321,550	1,120,581
	-----	-----
Total stockholders' equity	1,648,312	1,427,318
	-----	-----
	\$3,723,479	\$3,256,122
	=====	=====

</TABLE>

SEE ACCOMPANYING NOTES.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF INCOME
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>				
<CAPTION>				
		Years ended December 31,		
		1996	1995	1994

<S>	<C>	<C>	<C>	<C>
OPERATING REVENUES:				
Passenger	\$ 3,269,238	\$ 2,760,756	\$ 2,497,765	
Freight	80,005	65,825	54,419	
Other	56,927	46,170	39,749	
	-----	-----	-----	
Total operating revenues	3,406,170	2,872,751	2,591,933	
OPERATING EXPENSES:				
Salaries, wages, and benefits (Note 8)	999,719	867,984	756,023	
Fuel and oil	484,673	365,670	319,552	
Maintenance materials and repairs	253,521	217,259	190,308	
Agency commissions	140,940	123,380	133,081	
Aircraft rentals	190,663	169,461	132,992	
Landing fees and other rentals	187,600	160,322	148,107	
Depreciation	183,470	156,771	139,045	
Other operating expenses ...	614,749	498,373	456,116	
	-----	-----	-----	
Total operating expenses	3,055,335	2,559,220	2,275,224	
	-----	-----	-----	
OPERATING INCOME	350,835	313,531	316,709	
OTHER EXPENSES (INCOME):				

Interest expense	59,269	58,810	53,368
Capitalized interest	(22,267)	(31,371)	(26,323)
Interest income	(25,797)	(20,095)	(9,166)
Nonoperating (gains) losses, net	(1,732)	1,047	(693)
	-----	-----	-----
Total other expenses	9,473	8,391	17,186
	-----	-----	-----
INCOME BEFORE INCOME TAXES ...	341,362	305,140	299,523
PROVISION FOR INCOME TAXES (NOTE 9)	134,025	122,514	120,192
	-----	-----	-----
NET INCOME	\$ 207,337	\$ 182,626	\$ 179,331
	=====	=====	=====
NET INCOME PER SHARE (NOTES 6, 7, AND 10)	\$ 1.37	\$ 1.23	\$ 1.22
	=====	=====	=====

</TABLE>

SEE ACCOMPANYING NOTES.

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SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1996, 1995, AND 1994
(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, 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 (Note 7)	500	8,243	--	
8,743				
Tax benefit of options exercised	--	2,335	--	
2,335				
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 (Note 7)	777	9,907	--	
10,684				
Tax benefit of options exercised	--	1,051	--	
1,051				
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				

Issuance of common stock upon exercise of executive stock options and pursuant to Employee stock option and purchase plans (Note 7)	1,079	14,513	--	
15,592				
Tax benefit of options exercised	--	4,433	--	
4,433				
Cash dividends, \$.044 per share	--	--	(6,368)	
(6,368)				
Net income - 1996	--	--	207,337	
207,337				
-----	-----	-----	-----	---
Balance at December 31, 1996	\$ 145,112	\$ 181,650	\$ 1,321,550	\$
1,648,312				
=====	=====	=====	=====	

</TABLE>

SEE ACCOMPANYING NOTES.

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

<TABLE>
<CAPTION>

	Years ended December 31,		
	1996	1995	1994
-----	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 207,337	\$ 182,626	\$ 179,331
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	183,470	156,771	139,045
Deferred income taxes	67,253	48,147	49,887
Amortization of deferred gains on sale and leaseback of aircraft	(18,263)	(24,286)	(30,341)
Amortization of scheduled airframe overhauls	20,539	17,337	14,216
Changes in certain assets and liabilities:			
Accounts receivable	6,341	(4,089)	(5,208)
Other current assets	(19,534)	(11,857)	648
Accounts payable and accrued liabilities.....	132,096	61,937	52,679
Air traffic liability	26,942	25,017	9,993
Other current liabilities	5,334	1,050	(4,690)
Other	3,713	3,789	7,106
	-----	-----	-----
Net cash provided by operating activities	615,228	456,442	412,666
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment ...	(677,431)	(728,643)	(788,649)
	-----	-----	-----
Net cash used in investing activities	(677,431)	(728,643)	(788,649)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt	--	98,811	--
Proceeds from aircraft sale and leaseback transactions	330,000	321,650	315,000
Payment of long-term debt and capital lease obligations	(12,695)	(10,379)	(63,071)
Payment of cash dividends	(6,216)	(5,749)	(5,722)
Proceeds from Employee stock plans	15,592	10,693	8,743
Net cash provided by financing activities ...	326,681	415,026	254,950
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	264,478	142,825	(121,033)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	317,363	174,538	295,571
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 581,841	\$ 317,363	\$ 174,538
	=====	=====	=====
CASH PAYMENTS FOR:			
Interest, net of amount capitalized	\$ 36,640	\$ 25,277	\$ 26,598
Income taxes	66,447	73,928	80,461

</TABLE>

SEE ACCOMPANYING NOTES.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1996

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 12 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. In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows to be generated by those assets are

less than the carrying amounts of those assets.

AIRCRAFT AND ENGINE MAINTENANCE The cost of engine overhauls and routine maintenance costs for aircraft and engine maintenance

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are charged to maintenance expense as incurred. Scheduled airframe overhaul costs are capitalized and amortized over the estimated period benefited, presently 8 years. Modifications that significantly enhance the operating performance or extend the useful lives of aircraft or engines are capitalized and amortized over the remaining life of the asset.

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

FREQUENT FLYER AWARDS The Company accrues the estimated incremental cost of providing free travel awards earned under its Rapid Rewards frequent flyer program.

ADVERTISING The Company expenses the production costs of advertising as incurred. Advertising expense for the years ended December 31, 1996, 1995, and 1994 was \$109,136,000, \$92,087,000, and \$79,475,000, respectively.

STOCK-BASED EMPLOYEE COMPENSATION Pursuant to Statement of Financial Accounting Standards No. 123 (SFAS 123) "Accounting for Stock-Based Compensation", the Company accounts for stock-based compensation plans utilizing the provisions of Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and related Interpretations because, as discussed in Note 7, the alternative fair value accounting provided for under SFAS 123 requires use of option valuation models that were not developed for use in valuing employee stock options.

2. COMMITMENTS

The Company's contractual purchase commitments consist primarily of scheduled aircraft acquisitions. Timing of payments pursuant to contractual commitments was affected favorably by third quarter 1995 amendments to certain aircraft purchase contracts, which modified future progress payment schedules. Fifteen 737-300 and four 737-700 aircraft are scheduled for delivery in 1997. Sixteen - - -700s are scheduled for delivery in 1998, 16 in 1999, 15 in 2000, and 12 in 2001. In addition, the Company has options to purchase up to sixty-seven -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 -700s delivered subsequent to 1999. Aggregate funding needed for these commitments is approximately \$1,960.1 million, subject to adjustments for inflation, due as follows: \$515.1 million in 1997,

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\$420.0 million in 1998, \$502.2 million in 1999, \$318.3 million in 2000, and \$204.5 million in 2001.

The Company has historically used jet fuel and heating oil fixed price swap arrangements to hedge its exposure to price fluctuations on an insignificant percent of its annual fuel requirements. As of December 31, 1996, the Company had no open swap agreements, although the hedging program has not been discontinued. 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 paid or received the difference between the daily average heating oil price and a fixed price of \$.46 per gallon.

The Company's principal hedging program utilizes the purchase of crude oil call options at a nominal premium and at volumes of up to 30 percent of its annual fuel requirements.

Gains and losses on hedging transactions are recorded as adjustments to fuel expense and have been insignificant. Any such future 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.

3. ACCRUED LIABILITIES (in thousands)

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Aircraft rentals _____	\$121,384	\$105,534
Employee profitsharing and savings plans (Note 8) _____	61,286	55,253
Vacation pay _____	44,763	38,777
Aircraft maintenance costs _____	25,942	31,463
Taxes, other than income _____	25,574	22,478
Interest _____	21,853	22,326
Other _____	79,945	73,588
	\$380,747	\$349,419
	=====	=====

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4. LONG-TERM DEBT (in thousands)

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
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	100,000
Capital leases (Note 5) _____	165,610	177,696
Other _____	10	430
	665,620	678,126
Less current maturities _____	12,327	13,516
Less debt discount _____	3,067	3,600
	\$650,226	\$661,010
	=====	=====

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 prior to maturity.

The fair values, based on quoted market prices, of these Notes at December 31, 1996, were as follows (in thousands):

<TABLE>	
<S>	<C>
9 1/4% Notes due 1998 _____	\$103,520

9.4% Notes due 2001 _____	110,670
8 3/4% Notes due 2003 _____	109,820
7 7/8% Notes due 2007 _____	104,800
8% Notes due 2005 _____	106,190

</TABLE>

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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, 1996 or 1995.

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5. LEASES

Total rental expense for operating leases charged to operations in 1996, 1995, and 1994 was \$280,389,000, \$247,033,000, and \$198,987,000, respectively. The majority of the Company's terminal operations space, as well as 106 aircraft, were under operating leases at December 31, 1996. The amounts applicable to capital leases included in property and equipment were (in thousands):

	1996	1995

[S]		
Flight equipment _____	\$226,677	\$223,844
Less accumulated amortization _____	111,815	101,641
	-----	-----
	\$114,862	\$122,203
	=====	=====

Future minimum lease payments under capital leases and noncancelable operating leases with initial or remaining terms in excess of one year at December 31, 1996 were (in thousands):

<TABLE>

<CAPTION>

	CAPITAL LEASES	OPERATING LEASES

<S>	<C>	<C>
1997 _____	\$ 25,858	\$ 243,253
1998 _____	32,026	223,479
1999 _____	20,245	215,553
2000 _____	16,871	213,798
2001 _____	17,391	208,460
After 2001 _____	155,360	2,342,794
	-----	-----
Total minimum lease payments _____	267,751	\$3,447,337
		=====
Less amount representing interest _____	102,141	

Present value of minimum lease payment _____	165,610	
Less current portion _____	12,317	

Long-term portion _____	\$ 153,293	
	=====	

</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.

6. COMMON STOCK

At December 31, 1996, the Company had common stock reserved for issuance pursuant to Employee stock benefit plans (35,257,962 shares) and upon exercise of rights (180,370,052 shares) pursuant to the Common Stock Rights Agreement, as amended (Agreement).

Effective July 18, 1996, the Company amended and restated the Agreement. The principal purpose of the amendment and restatement was to extend the Agreement by 10 years. 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 15 percent of the common stock has been acquired by a person or group. If the Company is acquired, as defined in the Agreement, each Right will entitle its holder to purchase for \$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, 2006.

7. STOCK PLANS

At December 31, 1996, the Company had six stock-based compensation plans and other stock options outstanding, which are described below. The Company applies APB 25 and related Interpretations in accounting for its stock-based compensation. Accordingly, no compensation cost is recognized for its fixed option plans because the exercise prices of the Company's Employee stock options equal the market prices of the underlying stock on the date of the grants. Compensation cost charged against income for other options outstanding was \$649,778, \$564,251, and \$451,400 for 1996, 1995, and 1994, respectively.

The Company has five fixed option plans. Under the 1991 Incentive Stock Option Plan, the Company may grant options to key Employees for up to 9,000,000 shares of common stock. Under the 1991 Non-Qualified Stock Option Plan, the Company may grant options to key Employees and non-employee directors for up to 750,000 shares of common stock. All options granted under these plans have ten-year maximum terms and vest and become fully exercisable at the end of three, five, or ten years of continued employment, depending upon the grant type.

Under the 1995 Southwest Airlines Pilots' Association Non-Qualified Stock Option Plan (SWAPA Plan), the Company may grant

options to Pilots for up to 18,000,000 shares of common stock. An initial grant of approximately 14,500,000 shares was made on January 12, 1995 at an option price of \$20.00 per share, which exceeded the market price of the Company's stock on that date. Options granted under the initial grant vest in ten annual increments of ten percent. On September 1 of each year of the agreement, beginning September 1, 1996, additional options will be granted to Pilots that become eligible during that year. Additional options granted on September 1, 1996 vest in eight annual increments of 12.5 percent. Options under both grants must be exercised prior to January 31, 2007, or within a specified time upon retirement or termination. In the event that the Southwest Airlines Pilots' Association exercises its option to make the collective bargaining agreement amendable on September 1, 1999, any unexercised options will be canceled on December 1, 1999.

Under the 1996 Incentive Stock Option Plan, the Company may grant options to key Employees for up to 6,000,000 shares of common stock. Under the 1996 Non-Qualified Stock Option Plan, the Company may grant options to key Employees and non-employee directors for up to 575,000 shares of common stock. All options granted under these plans have ten-year terms and vest and become fully exercisable at the end of three, five, or ten years of continued employment, depending upon the grant type.

Under all fixed option plans, except the SWAPA Plan, the exercise price of each option equals the market price of the Company's stock on the date of grant. Under the SWAPA Plan, for additional options granted each September 1, eligible Pilots will be required to pay a purchase price equal to 105 percent of the fair

value of such stock on the date of the grant.

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A summary of the status of the Company's five fixed option plans as of December 31, 1996, 1995, and 1994, and changes during the years ending on those dates is presented below:

<TABLE>

<CAPTION>

<S>	INCENTIVE PLANS		NON-QUALIFIED PLANS	
	OPTIONS *	AVERAGE EXERCISE PRICE	OPTIONS **	AVERAGE EXERCISE PRICE
	<C>	<C>	<C>	<C>
Outstanding December 31, 1993 ..	4,312,287	\$ 8.83	301,277	\$ 8.92
Granted - Incentive Plans ...	794,714	29.02	--	--
Granted - SWAPA Plan	--	--	--	--
Granted - Other Non-Qualified Plans	--	--	63,918	34.85
Exercised	(190,159)	8.23	(9,940)	7.85
Surrendered	(104,880)	14.22	--	--
Outstanding December 31, 1994 ..	4,811,962	12.07	355,255	13.61
Granted - Incentive Plans	983,214	18.80	--	--
Granted - SWAPA Plan	--	--	14,527,050	20.00
Granted - Other Non-Qualified Plans	--	--	93,315	18.77
Exercised	(275,058)	8.50	(60,510)	15.12
Surrendered	(308,239)	12.71	(61,041)	19.61
Outstanding December 31, 1995 ..	5,211,879	13.47	14,854,069	19.86
Granted - Incentive Plans ...	1,670,344	25.18	--	--
Granted - SWAPA Plan	--	--	466,200	23.82
Granted - Other Non-Qualified Plans	--	--	69,122	25.17
Exercised	(395,848)	10.27	(290,385)	17.89
Surrendered	(250,446)	20.16	(94,985)	20.00
Outstanding December 31, 1996 ..	6,235,929	\$ 16.54	15,004,021	\$ 20.04
Exercisable December 31, 1996 ..	1,237,517		4,250,643	
Available for granting in future periods	7,352,821		3,854,504	

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*Includes 1991 Incentive Stock Option Plan. No options have been granted under the 1996 Incentive Stock Option Plan.

**Includes 1991 Non-Qualified Stock Option Plan and SWAPA Plan. No options have been granted under the 1996 Non-Qualified Stock Option Plan.

The following table summarizes information about fixed stock options outstanding under the fixed option plans at December 31, 1996:

<TABLE>

<CAPTION>

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding at 12/31/96	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable at 12/31/96	Weighted- Average Exercise Price	
<S>	<C>	<C>	<C>	<C>	<C>	
\$6.02 to \$7.81	2,487,991	4.05 yrs.	\$ 6.12	682,231	\$ 6.39	
\$11.33 to \$16.87	326,591	5.09	12.02	71,291	12.07	
\$18.81 to \$27.19	18,248,078	8.09	20.71	4,572,348	20.33	
\$35.69 to \$37.44	177,290	7.02	37.29	162,290	37.40	

\$6.02 to \$37.44	21,239,950	7.56 yrs.	\$19.01	5,488,160	\$18.99
-------------------	------------	-----------	---------	-----------	---------

</TABLE>

The Company has granted options to purchase the Company's common stock related to employment contracts with the Company's president and chief executive officer. These options have terms of ten years from the date of grant or ten years from the date exercisable, depending upon the grant. The options vest and become fully exercisable over three or four years. In 1996, the Company granted 144,395 options with an exercise price of \$1.00 per share and 500,000 options with an exercise price of \$23.50 per share related to the 1996 employment agreement. None of the 1996 options granted were exercised in 1996, however, 128,879 were exercisable as of December 31, 1996. At December 31, 1996, 1995, and 1994, 1,897,898, 1,422,253, and 1,489,753 total options were outstanding. Exercise prices range from \$1.00 to \$23.50 per share. Options for 168,750, 67,500, and 15,000 shares were exercised in 1996, 1995, and 1994, respectively.

Under the 1991 Employee Stock Purchase Plan (ESPP), the Company is authorized to issue up to a balance of 1,183,236 shares of common stock to Employees of the Company at a price equal to 90 percent of the market value at the end of each purchase period. Common stock purchases are paid for through periodic payroll deductions. Participants under the plan received 309,446 shares in 1996, 388,339 shares in 1995, and 290,054 shares in 1994 at average prices of \$23.05, \$19.18, and \$24.98, respectively.

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Pro forma information regarding net income and net income per share is required by SFAS 123, and has been determined as if the Company had accounted for its employee stock-based compensation plans and other stock options under the fair value method of that SFAS. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants under the fixed option plans in 1996 and 1995, respectively: dividend yield of .16% and .21%; expected volatility of 35.4% and 36.9%; risk-free interest rate of 5.9% and 7.8%; and expected lives of 5.0 years for both periods. Assumptions for the stock options granted in 1996 to the Company's president and chief executive officer were the same as for the fixed option plans except for the weighted average expected lives of 8.0 years.

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

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

<TABLE>		<CAPTION>	
		1996	1995
		----	----
<S>		<C>	<C>
Net income	As reported	\$207,337	\$182,626
	Pro forma	\$196,478	\$167,907
Net income per share	As reported	\$1.37	\$1.23
	Pro forma	\$1.33	\$1.14

</TABLE>

The effects of applying SFAS 123 for providing pro forma disclosures during the initial phase-in period may not be representative of the effects on reported net income for future years.

The weighted-average fair value of options granted under the five fixed option plans during 1996 and 1995 was \$10.17 and \$8.42, respectively, for the incentive plans, \$9.24 and \$7.97, respectively, for the SWAPA Plan, and \$10.17 and \$8.42,

respectively, for other non-qualified plans. The weighted average fair value of options granted in 1996 to the Company's president and chief executive officer (no options were granted in 1995) was \$13.98. The weighted-average fair value of each purchase right under the ESPP granted in 1996 and 1995, which is equal to the ten percent discount from the market value of the common stock at the end of each purchase period, was \$2.56 and \$2.15, respectively.

8. 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 1996, 1995, and 1994, was \$59,927,000, \$54,033,000, and \$52,782,000, 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 1996, 1995 and 1994 were \$35,125,000, \$28,954,000, and \$19,817,000, respectively.

9. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred tax assets and liabilities at December 31, 1996 and 1995 are as follows (in thousands):

<TABLE>		
<CAPTION>		
	1996	1995

<S>	<C>	<C>
Deferred tax liabilities:		
Accelerated depreciation _____	\$467,372	\$400,321
Scheduled airframe overhauls _____	30,984	27,129
Other _____	78,195	68,458
	-----	-----
Total deferred tax liabilities	576,551	495,908
Deferred tax assets:		
Deferred gains from sale and leaseback of aircraft _____	114,514	106,119
Capital and operating leases _____	58,252	54,472
Alternative minimum tax credit carryforward _____	6,019	11,333
Other _____	59,339	52,810
	-----	-----
Total deferred tax assets	238,124	224,734
	-----	-----
Net deferred tax liability	\$338,427	\$271,174
	=====	=====
</TABLE>		

The provision for income taxes is comprised of the following (in thousands):

<TABLE>			
<CAPTION>			
	1996	1995	1994

<S>	<C>	<C>	<C>
Current:			
Federal _____	\$ 59,101	\$ 64,420	\$ 59,603
State _____	7,671	9,947	10,702
	-----	-----	-----
Total Current	66,772	74,367	70,305
Deferred:			
Federal _____	60,967	44,580	46,470
State _____	6,286	3,567	3,417
	-----	-----	-----
Total deferred	67,253	48,147	49,887
	-----	-----	-----
	\$134,025	\$122,514	\$120,192
	=====	=====	=====

</TABLE>

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 income taxes differed from the federal income tax statutory rate for the following reasons (in thousands):

	1996	1995	1994
Tax at statutory			
U.S. tax rates ____	\$119,477	\$106,799	\$104,833
Nondeductible items	5,168	4,488	3,689
State income taxes, net of federal benefit _____	9,072	8,784	9,177
Other, net _____	308	2,443	2,493
	-----	-----	-----
Total income tax provision _____	\$134,025	\$122,514	\$120,192
	=====	=====	=====

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10. 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 (151,793,477 in 1996, 148,850,512 in 1995 and 147,305,374 in 1994). 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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QUARTERLY FINANCIAL DATA (UNAUDITED) (IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED			
	-----	-----	-----	-----
1996	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
-----	-----	-----	-----	-----

<S>	<C>	<C>	<C>	<C>
Operating revenues	\$772,529	\$910,308	\$891,492	\$831,841
Operating income	57,393	142,206	102,934	48,302
Income before income taxes	54,771	139,989	100,243	46,359
Net income	33,000	85,316	60,858	28,163
Net income per common and common equivalent share	.22	.56	.40	.19

<CAPTION>

THREE MONTHS ENDED				
1996	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

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" incorporated herein by reference, from pages 1-4 of the definitive Proxy Statement for Southwest's Annual Meeting of Shareholders to be held May 15, 1997. 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 15, 1997.

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 15, 1997.

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 15, 1997.

PART IV

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

- (a) 1. Financial Statements:
The financial statements included in Item 8 above are filed as part of this annual report.
2. Financial Statement Schedules:
There are no financial statement schedules filed as part of this annual report, since the required information is included in the consolidated financial statements, including the notes thereto, or the circumstances requiring inclusion of such schedules are not present.
3. Exhibits:

3.1 Restated Articles of Incorporation of Southwest (incorporated by reference to Exhibit 4.1 to Southwest's Registration

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

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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 (incorporated by reference to Exhibit 4.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 1-7259)).
- 4.2 Specimen certificate representing Common Stock of Southwest (incorporated by reference to Exhibit 4.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 1-7259)).
- 4.3 Indenture dated as of December 1, 1985 between Southwest and MBank Dallas, N.A., Trustee, relating to an unlimited amount of Debt Securities (incorporated by reference to Exhibit 4.1 of Southwest's Current Report on Form 8-K dated February 26, 1986 (File No. 1-7259)) and First Supplemental Indenture dated as of January 21, 1988, substituting MTrust Corp, National Association, as Trustee, thereunder (incorporated by reference to Exhibit 4.3 on Southwest's Annual Report on Form 10-K for the year ended December 31, 1987 (File 1-7259)).
- 4.4 Amended and Restated Rights Agreement dated July 18, 1996 between Southwest and Continental Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to Exhibit 1, Southwest's Registration Statement on Form 8-A/A dated August 12, 1996 (File No. 1-7259)).
- 4.5 Indenture dated as of June 20, 1991 between Southwest Airlines Co. and Bank of New York, successor to NationsBank of Texas, N.A. (formerly NCNB Texas National Bank), Trustee (incorporated by reference to Exhibit 4.1 to Southwest's Current Report on Form 8-K dated June 24, 1991 (File No. 1-7259)).
- 4.6 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% 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)).
- 4.12 Indenture dated as of February 25, 1997 between the Company and U.S. Trust Company of Texas, N.A.
- 4.13 Form of Global Security representing all 7 3/8% Debentures due 2027 (incorporated by reference to Exhibit 4.1 to Southwest's Current Report on Form 8-K dated February 25, 1997 (File No. 1-7259)).
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December 31, 1987 (File No. 1-7259)).

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- 10.14 1996 Incentive Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-20275)).
- 10.15 1996 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 333-20275)).
- 11 Computation of earnings per share.
- 22 Subsidiaries of Southwest.
- 23 Consent of Ernst & Young LLP, Independent Auditors.
- 27 Financial Data Schedule.

- - - - -
* 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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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) There were no Form 8-K's filed during the fourth quarter of 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, 1997

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, 1997 on behalf of the registrant and in the capacities indicated.

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

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INDEX TO EXHIBITS

- 3.1 Restated Articles of Incorporation of Southwest (incorporated by reference to Exhibit 4.1 to Southwest's Registration Statement on Form S-3 (File No. 33-52155)); Amendment to Restated Article of Incorporation of Southwest (incorporated by reference to Exhibit 4.1 to Southwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 (File No. 1-7259)).
- 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 (incorporated by reference to Exhibit 4.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 1-7259)).

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

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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% 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)).
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- 11 Computation of earnings per share.
- 22 Subsidiaries of Southwest.

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- 23 Consent of Ernst & Young LLP, Independent Auditors.
- 27 Financial Data Schedule.

- - - - -

* 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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SOUTHWEST AIRLINES CO.

AND

U.S. TRUST COMPANY OF TEXAS, N.A.
TRUSTEE

INDENTURE

Dated as of February 25, 1997

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THIS INDENTURE, dated as of February 25, 1997, between Southwest Airlines Co., a corporation duly organized and existing under the laws of the State of Texas (hereinafter sometimes referred to as the "Company"), party of the first part, and U.S. Trust Company of Texas, N.A., a national banking association (hereinafter sometimes referred to as the "Trustee"), party of the second part;

WITNESSETH:

WHEREAS, for its lawful corporate purposes, the Company has duly authorized the issue from time to time of its debentures, notes or other unsecured evidences of indebtedness, which are to be issued in one or more series (the "Securities"), each such series ranking pari passu with each other series, as unsecured obligations of the Company, up to such principal amount or amounts as may from time to time be authorized in accordance with the terms of this Indenture; and to provide, among other things, for the authentication, delivery and administration thereof, the Company has duly authorized the execution of this Indenture; and

WHEREAS, all acts and things necessary to make the Securities, when executed by the Company and authenticated and delivered by the Trustee as in this Indenture provided, the valid, binding and legal obligations of the Company, and to constitute these presents a valid indenture and agreement according to its terms, have been done and performed, and the execution of this Indenture and the issue hereunder of the Securities have in all respects been duly authorized, and the Company, in the exercise of the legal right and power vested in it, executes this Indenture and proposes to make, execute, issue and deliver the Securities;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That in order to declare the terms and conditions upon which the Securities are authenticated, issued, delivered and held, and in consideration of the premises, of the purchase and acceptance of the Securities by the holders thereof and of the sum of one dollar to it duly paid by the Trustee at the execution of these presents, the receipt whereof is hereby acknowledged, the Company covenants and agrees with the Trustee, for the benefit of the respective holders from time to time of the Securities, as follows:

ARTICLE ONE

DEFINITIONS

SECTION 1.01. Certain Terms Defined. The terms defined in this Section 1.01 (except as otherwise expressly provided or unless the context otherwise requires), for all purposes of this Indenture and of any indenture supplemental hereto, shall have the respective meanings specified in this Section 1.01. All other terms used in this Indenture that are defined in the Trust Indenture Act of 1939, as amended, or that are by reference therein defined in the Securities Act of 1933, as amended (except as herein otherwise expressly provided or unless the context otherwise requires), shall have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as they were in force at the date of the execution of this Indenture, unless said Trust Indenture Act or said Securities Act expressly provide for application of such statutes as of another date.

Affiliate: The term "Affiliate" shall mean any person directly or indirectly controlling, controlled by, or under direct or indirect common control with, the Company.

Bankruptcy Code: The term "Bankruptcy Code" shall mean Title 11, U.S. Code, or any similar federal or state law for the relief of debtors.

Board of Directors: The term "Board of Directors," when used with reference to the Company, shall mean the Board of Directors of the Company or the Executive Committee of the Board of Directors of the Company.

Business Day: The term "business day" shall mean, with respect to any

Security, a day other than a Saturday, a Sunday or a day that shall be in the city (or in any of the cities, if more than one), in which amounts are payable, as specified on the face of the form of such Security, a day on which banking institutions are authorized or obligated by law to close.

Commission: The term "Commission" shall mean the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, or if at any time after the execution and delivery of this Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act of 1939, then the body performing such duties on said date.

Company: The term "Company" shall mean Southwest Airlines Co., a Texas corporation, and, subject to the provisions of Article Ten, shall also include its successors and assigns.

Depository: The term "Depository" shall mean, with respect to the Securities of any series issuable or issued in whole or in part in the form of one or more Global Securities, the person designated as Depository for such series by the Company pursuant to Section 2.03 or otherwise appointed by the Company as a successor to such person in the event such person is unwilling or unable to continue to serve in such capacity.

Event of Default: The term "Event of Default" shall mean any event specified in Section 5.01, continued for the period of time, if any, and after the giving of notice, if any, therein designated.

Global Security: The term "Global Security" shall mean a Security issued in accordance with Section 2.10 evidencing all or part of a series of Securities, which in each case is issued to the Depository for such series, or part of a series, or its nominee and registered in the name of such Depository or nominee.

Indenture: The term "Indenture" shall mean this instrument as originally executed, or, if amended or supplemented as herein provided, as so amended or supplemented or both, and shall include the forms and terms of particular series of Securities established as contemplated hereunder.

Interest: The term "Interest, " when used with respect to a non-interest bearing Security, shall mean interest payable after the principal thereof has become due and payable, whether after maturity, by declaration of acceleration, by call for redemption pursuant to a sinking fund, or otherwise.

Officers' Certificate: The term "Officers' Certificate" shall mean a certificate signed by the Chairman of the Board or the President or any Vice Chairman of the Board or any Vice President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Company. Each such certificate shall include the statements provided for in Section 13.05, if and to the extent required by the provisions thereof.

Opinion of Counsel: The term "Opinion of Counsel" shall mean an opinion in writing signed by legal counsel, who may be an employee of, or of counsel to, the Company or may be other counsel. Each such opinion shall include the statements provided for in Section 13.05, if and to the extent required by the provisions thereof.

Original Issue Discount Security: The term "Original Issue Discount Security" shall mean any Security that provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the maturity thereof pursuant to Section 5.01.

Outstanding: The term "outstanding," when used with reference to Securities, shall, subject to the provisions of Section 7.04, mean, as of any particular time, all Securities authenticated and delivered by the Trustee under this Indenture except:

(a) Securities theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(b) Securities, or portions thereof, for the payment or redemption of which moneys in the necessary amount shall have been deposited in trust with the Trustee or with any Paying Agent (other than the Company) or shall have been set aside and segregated in trust by the Company for the holders of such Securities (if the Company shall act as its own Paying Agent), provided that if such Securities are to be redeemed prior to the maturity hereof, notice of such redemption shall have been given as herein provided, or

such notice, and, if all such Securities are redeemed, such deposit shall be in accordance with Article 11; and

(c) Securities in lieu of or in substitution for which other Securities shall have been authenticated and delivered, or which shall have been paid, pursuant to the terms of Section 2.08, unless proof satisfactory to the Trustee is presented that any such Securities are held by a person in whose hands such Security is a legal, valid and binding obligation of the Company.

In determining whether the holders of the requisite principal amount of outstanding Securities of any or all series have given any request, demand, authorization, direction, notice, consent or waiver hereunder, the principal amount of an Original Issue Discount Security that shall be deemed to be outstanding for such purposes shall be the amount of the principal thereof that would be due and payable as of the date of such determination upon a declaration of acceleration of the maturity thereof pursuant to Section 5.01.

Paying Agent: Any person authorized by the Company to pay the principal of, premium, if any, or interest on any securities on behalf of the Company.

Responsible Officer: The term "Responsible Officer," when used with respect to the Trustee, shall mean any officer within the corporate trust and agency group or department of the Trustee, including any Vice President, any trust officer or any other officer of the Trustee performing functions similar to those performed by any of the above-designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

Security or Securities: The term "Security" or "Securities" shall mean any Security or Securities, as the case may be, authenticated and delivered under this Indenture.

Securityholder; registered holder: The term "securityholder," "holder of Securities," "registered holder," "noteholder" or other similar term, shall mean any person who shall at the time be the registered holder of any Security or Securities on the books of the Company kept for that purpose in accordance with the provisions of the Indenture and shall also mean the executors, administrators and other legal representatives of such person.

Subsidiary: The term "Subsidiary" shall mean any corporation or other entity at least a majority of the outstanding voting shares of which is at the time directly or indirectly owned or controlled (either alone or through Subsidiaries or together with Subsidiaries) by the Company or another Subsidiary.

Trustee; principal office: The term "Trustee" shall mean U.S. Trust Company of Texas, N.A., and, subject to the provisions of Article Six, shall also include its successors. The

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term "principal office" of the Trustee shall mean the principal office of the Trustee in the City of Dallas, at which at any particular time its corporate trust business may be administered, which office at the date of execution of this Indenture is 2001 Ross Avenue, Suite 2700, Dallas, Texas, except that with respect to the presentation of Securities for payment or for registration of transfer or exchange, such term shall mean such office or agency of the Trustee at which at any particular time its corporate trust business shall be conducted.

Trust Indenture Act of 1939: The term "Trust Indenture Act of 1939" shall mean the Trust Indenture Act of 1939, as amended, as in effect on the date of this Indenture, except as provided in section 9.01 or 9.02 and except to the extent that any subsequent amendment to the Trust Indenture Act of 1939 shall retroactively apply to this instrument.

Yield to Maturity: The term "Yield to Maturity" shall mean the yield to maturity on a series of Securities, calculated at the time of the issuance of such series, or, if applicable, at the most recent redetermination of interest on such series, and calculated in accordance with accepted financial practice.

SECTION 1.02. References are to Indenture. Unless the context otherwise requires, all references herein to "Articles," "Sections" and other subdivisions refer to the corresponding Articles, Sections and other subdivisions of this Indenture, and the words "herein," "hereof," "hereby," "hereunder" and words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision hereof.

SECTION 1.03. Conflict with Trust Indenture Act. If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Act that is required under such Act to be part of and govern this Indenture, the latter provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

ARTICLE TWO

ISSUE, DESCRIPTION, EXECUTION, REGISTRATION AND EXCHANGE OF SECURITIES

SECTION 2.01. Forms Generally. The Securities of each series shall be substantially in the form (not inconsistent with this Indenture) as shall be established by the Board of Directors or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and in case such form is not established by supplemental indenture, such form shall be approved by the Trustee if the Trustee's rights or obligations are adversely affected thereby and may have imprinted or otherwise reproduced thereon such legend or legends, not inconsistent with

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the provisions of this Indenture, as may be required to comply with any law or with any rules or regulations pursuant thereto, or with any rules of any securities exchange or to conform to general usage, consistently herewith, all as may be determined by the officer executing such Securities, as evidenced by his execution of the Securities.

The definitive Securities shall be printed, lithographed or engraved on steel engraved borders or, with the consent of the Trustee, may be produced in any other manner, all as determined by the officer executing such Securities, as evidenced by his execution of such Securities.

SECTION 2.02. Form of Trustee's Certificate of Authentication. The Trustee's certificate of authentication of all Securities shall be in substantially the following form:

This is one of the Securities of the series designated herein referred to in the within-mentioned Indenture.

U.S. TRUST COMPANY OF TEXAS, N.A.,
as Trustee

By: _____
Authorized Signatory

SECTION 2.03. Amount Unlimited; Issuable in Series. The aggregate principal amount of Securities that may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series. There shall be established by the Board of Directors and set forth in an Officers' Certificate or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series, the following terms, which terms shall be approved by the Trustee if the Trustee's rights or obligations are adversely affected thereby, and thereafter such terms shall be deemed to be a part of this Indenture:

(1) the title of the Securities of the series (which shall distinguish the Securities of the series from all other Securities);

(2) any limit upon the aggregate principal amount of the Securities of the series that may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Sections 2.06, 2.07, 2.08, 5.03, 9.04 and Article Fourteen);

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(3) the date or dates on which the principal of the Securities

of the series is payable;

(4) the rate or rates, or method by which the rate or rates are determined, at which the Securities of the series shall bear interest, if any, the date or dates from which such interest shall accrue, the interest payment dates on which such interest shall be payable and the record dates for the determination of holders to whom interest is payable;

(5) the offices or agencies of the Company in the United States of America where the principal of and any interest on Securities of the series shall be payable;

(6) the price or prices at which, the period or periods within which and the terms and conditions upon which Securities of the series may be redeemed, in whole or in part, at the option of the Company, pursuant to any sinking fund or otherwise;

(7) the obligation, if any, of the Company to redeem, purchase or repay Securities of the series pursuant to any sinking fund or analogous provisions or at the option of a holder thereof and the price or prices at which and the period or periods within which and the terms and conditions upon which Securities of the series shall be redeemed, purchased or repaid, in whole or in part, pursuant to such obligation;

(8) if other than denominations of \$1,000 and any multiple thereof, the denominations in which Securities of the series shall be issuable;

(9) if other than the principal amount thereof, the portion of the principal amount of Securities of the series that shall be payable upon declaration of acceleration of the maturity thereof or provable in bankruptcy;

(10) any trustees, authenticating or Paying Agents, warrant agents, transfer agents or registrars with respect to the Securities of such series;

(11) the applicability, if any, of Section 11.05 to such series;

(12) whether the Securities of the series shall be issued in whole or in part in the form of one or more Global Securities and, in such case, the Depositary for such Global Security or Securities, which Depositary shall be a clearing agency registered under the Securities Exchange Act of 1934, as amended; and

(13) any other terms of the series (which terms shall not be inconsistent with the provisions of this Indenture), including any additional covenants with respect to such series.

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All Securities of any one series shall be substantially identical except as to denomination and except as may otherwise be provided by the Board of Directors and set forth in such Officers' Certificate or as may be otherwise provided in any such indenture supplemental hereto.

SECTION 2.04. Authentication and Delivery of Securities. At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication, and the Trustee shall thereupon authenticate and deliver said Securities to or upon the written order of the Company, signed on behalf of the Company by its Chairman of the Board or its President or a Vice Chairman of the Board or a Vice President and attested to by its Secretary or an Assistant Secretary or by its Treasurer or an Assistant Treasurer, without any further action by the Company. In authenticating such Securities and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 6.01) shall be fully protected in relying upon:

(1) certified copies of the Articles of Incorporation and bylaws of the Company (or an Officers' Certificate with respect to any amendment thereto) and of any resolutions of the Board of Directors authorizing the action taken pursuant to the resolutions delivered pursuant to clause (2) below;

(2) a copy of any resolutions of the Board of Directors relating to such Securities, in each case certified by the Secretary or an Assistant Secretary of the Company;

(3) an executed supplemental indenture, if any;

(4) an Officers' Certificate setting forth the form or forms and terms of the Securities under Sections 2.01 and 2.03, respectively, and stating that no Event of Default then exists and, in the case of a series of Original Issue Discount Securities, the Yield to Maturity of such series; and

(5) an Opinion of Counsel, which shall state

(a) that the form or forms and terms of such Securities have been established by the Board of Directors or by a supplemental indenture as permitted by, and in conformity with, the provisions of this Indenture;

(b) that such Securities, when authenticated and delivered by the Trustee and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid, binding and enforceable obligations of the Company;

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(c) that all laws and requirements in respect of the execution and delivery by the Company of the Securities have been complied with; and

(d) such other matters as the Trustee may reasonably request.

The Trustee shall have the right to decline to authenticate and deliver any Securities under this Section if the Trustee, being advised by counsel, determines that such action may not lawfully be taken by the Company or if the Trustee in good faith shall determine that such action would expose the Trustee to personal liability to existing Securityholders.

SECTION 2.05. Execution of Securities. The Securities shall be signed on behalf of the Company, manually or in facsimile, by its Chairman of the Board or its President or a Vice Chairman of the Board or a Vice President under its corporate seal (which may be in facsimile) reproduced thereon and attested, annually or in facsimile, by its Secretary or an Assistant Secretary or its Treasurer or an Assistant Treasurer. Typographical and other minor errors or defects in any such reproduction of the seal or any such signature shall not affect the validity or enforceability of any Security that has been duly authorized and delivered by the Trustee.

In case any officer of the Company whose signature appears on any of the Securities, annually or in facsimile, shall cease to be such officer before such Securities so signed shall have been authenticated and delivered by the Trustee, or disposed of by the Company, such Securities nevertheless may be authenticated and delivered by the Trustee, or disposed of by the Company, such Securities nevertheless may be authenticated and delivered or disposed of as though the person whose signature appears on such Securities had not ceased to be such officer of the Company; and any Security may be signed and the corporate seal reproduced thereon may be attested, on behalf of the Company, annually or in facsimile, by such persons as, at the actual date of the execution of such Security, shall be the proper officers of the Company, although at the date of the execution of this Indenture any such person was not such officer.

Only such Securities as shall bear thereon a certificate of authentication substantially in the form hereinbefore receipted, signed manually by an authorized signatory of the Trustee, shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate by the Trustee upon any Security executed by the Company shall be conclusive evidence that the Security so authenticated has been duly authenticated and delivered hereunder and that the holder is entitled to the benefits of this Indenture.

SECTION 2.06. Exchange of Securities. Securities of any series may be exchanged for a like aggregate principal amount of Securities of the same series in other authorized denominations. The Securities of any series to be exchanged shall be surrendered at the offices or agencies to be maintained by the Company in accordance with the provisions of Section 3.02, and the Company shall execute and the Trustee shall authenticate and deliver in

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exchange therefor the Security or Securities that the Securityholder making the exchange shall be entitled to receive.

The Company shall keep, at one of the offices or agencies to be maintained by the Company in accordance with the provisions of Section 3.02, a register or registers in which, subject to such reasonable regulations as it or the Securities registrar may prescribe, the Company shall register Securities and shall register the transfer of Securities as in this Article Two provided. Upon surrender for registration of transfer of any Security at such office or agency, the Company shall execute and the Trustee shall authenticate and deliver in the name of the transferee or transferees a new Security or Securities of the same series that the Securityholder making the exchange shall be entitled to receive, for a like aggregate principal amount.

All Securities presented or surrendered for exchange, registration of transfer, redemption or payment shall, if so required by the Company or the Trustee, be duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Company and the Trustee, duly executed by the registered holder or by his attorney who shall be so duly authorized in writing.

No service charge shall be made for any exchange or registration of transfer of Securities, but the Company or the Securities registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

The Company shall not be required to exchange or register a transfer of (i) any Securities of any series for a period of 15 days next preceding the first mailing of notice of redemption of Securities of such series to be redeemed, or (ii) any Securities selected, called or being called for redemption except, in the case of any Security where public notice has been given that such Security is to be redeemed in part, the portion thereof not so to be redeemed.

Notwithstanding the foregoing, any Global Security shall be exchangeable pursuant to this Section 2.06 for Securities registered in the names of persons other than the Depositary for such Security or its nominee only if (i) such Depositary notifies the Company that it is unwilling or unable to continue as Depositary for such Global Security or if at any time such Depositary ceases to be a clearing agency registered under the Securities Exchange Act of 1934, as amended, and the Company fails to appoint a successor Depositary for such Global Security within 90 days after the Company receives such notice or becomes aware of such event, (ii) the Company executes and delivers to the Trustee written instructions that such Global Security shall be so exchangeable, or (iii) there shall have occurred and be continuing an Event of Default or an event which, with the giving of notice or lapse of time, or both, would constitute an event of Default with respect to the Securities. Any Global Security that is exchangeable pursuant to the preceding sentence shall be exchangeable for Securities registered in such names as the Depositary shall direct.

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Except as provided in the immediately preceding paragraph, a Global Security may not be transferred except as a whole by the Depositary with respect to such Global Security to a nominee of such Depositary or by a nominee of such Depositary to such Depositary or another nominee of such Depositary or by such Depositary or any such nominee to a successor of such Depositary or a nominee of such successor.

None of the Company, the Trustee, any Paying Agent or the Security Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

SECTION 2.07. Temporary Securities. Pending the preparation of definitive Securities of any series, the Company may execute and the Trustee authenticate and deliver temporary Securities of such series (printed, typewritten or otherwise reproduced) of any authorized denomination and substantially in the form of the definitive Securities of such series, but with such omission, insertions and variations as may be appropriate for temporary Securities of such series, all as may be determined by the Company. Temporary Securities of any series may contain reference to any provisions of the Indenture as may be appropriate. Every such temporary Security shall be authenticated by the Trustee upon the conditions and in substantially the same manner, and with the same effect, as the definitive Securities of such series. Without unnecessary delay, the Company will execute and deliver to the Trustee definitive Securities of such series and thereupon any or all temporary Securities of such series may be surrendered in exchange therefor, at the

offices or agencies to be maintained by the Company in accordance with the provisions of Section 3.02, and the Trustee shall authenticate and deliver in exchange for such temporary Securities of such series an equal aggregate principal amount of definitive Securities of such series. Until so exchanged, the temporary Securities of such series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series authenticated and delivered hereunder.

SECTION 2.08. Mutilated, Destroyed, Lost or Stolen Securities. In case any temporary or definitive Security of any series shall become mutilated or be destroyed, lost or stolen, the Company, in the case of any mutilated Security of any series shall, and in the case of any destroyed, lost or stolen Security of any series in its discretion may, execute and upon its request the Trustee shall authenticate and deliver, a new Security of the same series bearing a number not contemporaneously outstanding in exchange and substitution for the mutilated Security, or in lieu of and substitution for the Security so destroyed, lost or stolen, or, if any such Security shall have matured or shall be about to mature, instead of issuing a substituted Security, the Company may pay the same without surrender thereof except in the case of a mutilated Security.

In every case the applicant for a substituted Security or for such payment shall furnish to the Company and to the Trustee such security or indemnity as may be required by them to save

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each of them harmless from all risk, however remote, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Company and to the Trustee evidence to their satisfaction of the destruction, loss or theft of such Security and of the ownership thereof. the Trustee may authenticate any such substituted Security and deliver the same, or the Trustee or any Paying Agent of the Company may make any such payment, upon the written request or authorization of any officer of the Company, and shall incur no liability to anyone by reason of anything done or omitted to be done by it in good faith under the provisions of this Section 2.08. Upon the issue of any substituted Security, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any expenses connected therewith (including the fees and expenses of the Trustee).

Every substituted Security issued pursuant to the provisions of this Section 2.08 in substitution for any destroyed, lost or stolen Securities shall constitute an additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be found at any time, and shall be entitled to all the benefits of (but shall be subject to all the limitations of rights set forth in) this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

All Securities shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities, and shall preclude (to the extent lawful) any and all other rights or remedies, notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment of negotiable instruments or other securities without their surrender.

SECTION 2.09. Cancellation of Surrendered Securities. All Securities surrendered for the purpose of payment, redemption, exchange, substitution or registration of transfer, shall, if surrendered to the Company or any Paying Agent or registrar, be delivered to the Trustee and the same, together with securities surrendered to the Trustee for cancellation, shall be promptly canceled by it, and no Securities shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Indenture. The Trustee shall destroy canceled Securities and shall deliver certificates of destruction thereof to the Company from time to time. If the Company shall purchase or otherwise acquire any of the Securities, however, such purchase or acquisition shall not operate as a payment, redemption or satisfaction of the indebtedness represented by such Securities unless and until the Company, at its option, shall deliver or surrender the same to the Trustee for cancellation.

SECTION 2.10. Securities in Global Form. If Securities of or within a series are issuable in whole or in part in temporary or permanent global form, as specified as contemplated by Section 2.03, then, notwithstanding clause (8) of Section 2.03, any such Security shall represent such of the outstanding Securities of such series as shall be specified therein and may provide that it shall represent the aggregate amount of outstanding Securities from time to time endorsed thereon and that the aggregate amount of outstanding Securities represented thereby may

from time to time be reduced to reflect exchanges. Any endorsement of a Security in global form to reflect the amount, or any increase or decrease in the amount, or changes in the rights of holders, of outstanding Securities represented thereby, shall be made by the Trustee in such manner and upon instructions given by such person or persons as shall be specified therein or in the instructions by the Company to be delivered to the Trustee pursuant to Section 2.04 or 2.07. Subject to the provisions of Section 2.04 and, if applicable, Section 2.07, the Trustee shall deliver and redeliver any Security in global form in the manner and upon instructions given by the person or persons specified therein or in the applicable Company instructions. Any instructions by the Company with respect to endorsement or delivery or redelivery of a Security in global form shall be in writing but need not comply with Section 13.05 hereof and need not be accompanied by an Opinion of Counsel.

ARTICLE THREE

PARTICULAR COVENANTS OF THE COMPANY

The Company covenants as follows:

SECTION 3.01. Payment of Principal of (and Premium, if Any) and Interest on Securities. The Company will duly and punctually pay or cause to be paid the principal of (and premium, if any) and interest on each series of the Securities at the respective times and places and in the manner provided in such Securities and this Indenture. Each payment from the Company to the Trustee or to the Paying Agent shall be accompanied by a written notice that designates the series to which such payment relates. As a condition precedent to the payment of any interest on a Security, the Company or the Paying Agent may require the holder of such Security to furnish such evidence as will enable the Company to determine whether it is required by law to deduct or to retain any tax or taxes from the interest so payable. An installment of principal or interest shall be considered paid on the date it is due if the trustee or Paying Agent holds on that date money designated for and sufficient to pay the installment.

SECTION 3.02. Maintenance of Office or Agency for Registration of Transfer, Exchange and Payment of Securities. So long as any of the Securities shall remain outstanding, the Company will maintain an office or agency in the City of Dallas, Texas, where the Securities may be surrendered for exchange or registration of transfer as in this Indenture provided, and where notices and demands to or upon the Company in respect of the Securities or of this Indenture may be served, and where the Securities may be presented or surrendered for payment. The Company will give to the Trustee prompt written notice of the location of any such office or agency and of any change of location thereof. In case the Company shall fail to maintain any such required office or agency or shall fail to give such notice of the location or of any change in the location thereof, such surrenders, presentations and demands may be made and notices may be served at the principal office of the Trustee, and the Company hereby appoints the Trustee its agent to receive at the aforesaid office all such surrenders, presentations, notices and demands.

The Company may from time to time designate one or more other offices or agencies (in or outside of the City of Dallas) where the Securities may be presented or surrendered for any or all such purposes, and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the City of Dallas, for such purposes as stated in this Section. The Company will give prompt written notice to the Trustee of any such designation or rescission and any change in the location of any such office or agency.

SECTION 3.03. Appointment to Fill a Vacancy in the Office of Trustee. The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 6.10, a Trustee, so that there shall at all times be a Trustee hereunder.

SECTION 3.04. Provision as to Paying Agent. (a) If the Company shall appoint a Paying Agent other than the Trustee, it will cause such Paying Agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section 3.04,

(1) that it will hold all sums held by it as such agent for the payment of the principal of (and premium, if any) or interest on any series of Securities (whether such sums have been paid to it by the

Company or by any other obligor on such series of Securities) in trust for the benefit of the persons entitled thereto until such sums shall be paid to such persons or otherwise disposed of as herein provided, and

(2) that it will give the Trustee written notice of any failure by the Company (or by any other obligor on any series of Securities) to make any payment of the principal of (and premium, if any) or interest on such series of Securities when the same shall be due and payable; and

(3) at any time during the continuance of an Event of Default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

(b) The Company will, prior to each due date of the principal of (and premium, if any) or interest on any series of Securities, deposit with the Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the holders of such series of Securities entitled to such principal, premium or interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee in writing of its failure so to act.

(c) If the Company shall act as its own Paying Agent, it will, on or before each due date of the principal of (and premium, if any) or interest on any series of Securities, set aside,

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segregate and hold in trust for the benefit of the persons entitled thereto, a sum sufficient to pay such principal (and premium, if any) or interest so becoming due until such sums shall be paid to such persons or otherwise disposed of as herein provided and will promptly notify the Trustee in writing of any such action or failure to take such action.

(d) Anything in this Section 3.04 to the contrary notwithstanding, the Company may, at any time, for the purpose of obtaining a satisfaction and discharge with respect to one or more or all series of Securities hereunder, or for any other reason, but only in accordance with Article 11, pay or cause to be paid to the Trustee or any Paying Agent all sums held in trust for any such series by it, or any Paying Agent hereunder, as required by this Section 3.04, such sums to be held by the Trustee or such Paying Agent upon the trusts herein contained. Upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

(e) Anything in this Section 3.04 to the contrary notwithstanding, the agreement to hold sums in trust as provided in this Section 3.04 is subject to the provisions of Sections 11.03 and 11.04.

SECTION 3.05. Maintenance of Corporate Existence. Subject to Article 10, the Company will at all times do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and its franchise to be a corporation.

SECTION 3.06. Officers' Certificate as to Default. The Company will, so long as any series of Securities is outstanding, deliver to the Trustee, forthwith upon becoming aware of any default or defaults in the performance of any covenant, agreement or condition contained in this Indenture, an Officers' Certificate specifying such default or defaults.

SECTION 3.07. Further Assurance. From time to time whenever reasonably demanded by the Trustee, the Company will make, execute and deliver or cause to be made, executed and delivered any and all such further and other instruments and assurances as may be reasonably necessary or proper to carry out the intention of or to facilitate the performance of the terms of this Indenture or to secure the rights and remedies hereunder of the holders of any series of Securities.

ARTICLE FOUR

SECURITYHOLDERS' LISTS AND REPORTS BY THE COMPANY AND THE TRUSTEE

SECTION 4.01. Company to Furnish Trustee Information as to Names and Addresses to Securityholders. The Company will furnish or cause to be furnished to the Trustee a list in such form as the Trustee may reasonably require containing all information in the possession or

control of the Company, or any of its Paying Agents other than the Trustee, as to the names and addresses of the holders of the Securities of each series obtained since the date as of which the next previous list if any, was furnished:

(a) semi-annually, not more than 15 days after each record date for the payment of semi-annual interest on such Securities, as hereinabove specified, as of such record date and not less than once every six months for non-interest bearing Securities in each year, and

(b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished; provided, that such list need not include information received after such date, provided, however, that so long as the Trustee is the Security registrar, no such list shall be required to be furnished.

SECTION 4.02. Preservation and Disclosure of Lists. (a) The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the holders of Securities (1) contained in the most recent list furnished to it as provided in Section 4.01 and (2) received by it in the capacity of Paying Agent (if so acting) and Security registrar (if so acting).

The Trustee may destroy any list furnished to it as provided in Section 4.01 upon receipt of a new list so furnished.

(b) Securityholders may communicate pursuant to Section 312(b) of the Trust Indenture Act of 1939 with other Securityholders with respect to their rights under this Indenture or any or all series of the Securities.

(c) Each and every holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any Paying Agent nor the Security registrar shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the holders of Securities in accordance with the provisions of subsection (b) of this Section 4.02, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under said subsection (b).

SECTION 4.03. Reports by the Company. (a) The Company covenants and agrees to file with the Trustee, within 30 days after the Company is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from time to time by rules and regulations prescribe) that the Company may be required to file with the Commission pursuant

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to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended; or, if the Company is not required to file information, documents or reports pursuant to either of such sections, then to file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports that may be required pursuant to Section 13 of the Securities Exchange Act of 1934, as amended, in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations.

(b) The Company covenants and agrees to file with the Trustee and the Securities and Exchange Commission, in accordance with the rules and regulations prescribed from time to time by the Commission, such additional information, documents, and reports with respect to compliance by the Company with the conditions and covenants provided for in this Indenture as may be required from time to time by such rules and regulations.

(c) The Company covenants and agrees to transmit to the holders of Securities within 30 days after the filing thereof with the Trustee, in the manner and to the extent provided in subsection (c) of Section 4.04 with respect to reports pursuant to subsection (a) of said Section 4.04, such summaries of any information, documents and reports required to be filed by the Company pursuant to subsections (a) and (b) of this Section 4.03 as may be required by rules and regulations prescribed from time to time by the Commission.

(d) The Company covenants and agrees to furnish to the trustee, not less often than annually, a brief certificate from the principal executive

officer, principal financial officer or principal accounting officer as to his or her knowledge of the Company's compliance with all conditions and covenants under this Indenture; provided, for purposes of this paragraph, such compliance shall be determined without regard to any period of grace or requirement of notice provided under this Indenture.

SECTION 4.04. Reports by the Trustee. (a) On or before July 14, 1997, and on or before July 14th in every year thereafter, so long as any Securities are outstanding hereunder, if such report is required by the Trust Indenture Act of 1939, the Trustee shall transmit to the Securityholders of each series, as hereinafter in this Section 4.04 provided, a brief report dated as of May 15th of the year in which such report is made that complies with Section 313(a) of the Trust Indenture Act of 1939.

(b) The Trustee shall also comply with Section 313(b)(2) of the Trust Indenture Act of 1939.

(c) Reports pursuant to this Section 4.04 shall be transmitted by mail to all Securityholders, as the names and addresses of such holders appear upon the registry books of the Company and to all other person to whom such reports are required to be transmitted pursuant to Section 313(c) of the Trust Indenture Act of 1939.

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(d) A copy of each such report shall, at the time of such transmission to holders of Securities, be filed by the Trustee with each stock exchange upon which the Securities of any applicable series are listed and also with the Commission. The Company will notify the Trustee when and as the Securities of such series become listed on any stock exchange.

ARTICLE FIVE

REMEDIES OF THE TRUSTEE AND SECURITYHOLDERS ON EVENT OF DEFAULT

SECTION 5.01 Events of Default Defined; Acceleration of Maturity; Waiver of Default. In case one or more of the following Events of Default with respect to Securities of any series shall have occurred and be continuing, that is to say:

(a) default in the payment of any installment of interest upon any of the Securities of such series as and when the same shall become due and payable, and continuance of such default for a period of 30 days;

(b) default in the payment of the principal of (and premium, if any, on) any of the Securities of such series as and when the same shall become due and payable either at maturity, by declaration or otherwise;

(c) failure on the part of the Company duly to observe or perform in any material respect any other of the covenants or agreements on the part of the Company in the Securities of such series or contained in this Indenture for a period of 90 days after the date on which written notice specifying such failure, stating that such notice is a "Notice of Default" hereunder and, requiring the same to be remedied, shall have been given to the Company by the Trustee, or to the Company and the Trustee by the holders of at least 25% in aggregate principal amount of the Securities of such series at the time outstanding;

(d) default under the terms of any agreement or instrument evidencing, or under which the Company has at the date of this Indenture or hereafter outstanding, any indebtedness for borrowed money and such indebtedness shall be accelerated so that the same shall be or become due and payable prior to the date on which the same would otherwise become due and payable and the aggregate principal amount thereof so accelerated exceeds \$50,000,000 and such acceleration is not rescinded or annulled within ten days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the holders of at least 25% in aggregate principal amount of the outstanding securities of that series a written notice specifying such default and stating that such notice is a "Notice of Default" hereunder; (it being understood however, that, subject to the provisions of Section 6.01, the Trustee shall not be deemed to have knowledge of such default under such agreement or instrument unless either (A)

a Responsible Officer of the Trustee shall have actual knowledge of such default or (B) a Responsible Officer of the Trustee shall have received written notice thereof from the Company, from any Holder, from the holder of any such indebtedness or from the trustee under any such agreement or other instrument); provided, however, that if such default under such agreement or instrument is remedied or cured by the Company or waived by the holders of such indebtedness, then the Event of Default hereunder by reason thereof shall be deemed likewise to have been thereupon remedied, cured or waived without further action upon the part of either the Trustee or any of such Holders;

(e) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Company in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Company or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or

(f) the Company shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of, or taking possession by, a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of the Company or for all or substantially all of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of any of the foregoing, then and in each and every such case, unless the principal of all the Securities of such series shall have already become due and payable, either the Trustee or the holders of not less than 25% in aggregate principal amount of the Securities of such series then outstanding hereunder, by notice in writing to the Company (and to the Trustee if given by Securityholders), may declare the principal of all the Securities of such series (or, if the Securities of such series are Original Issue Discount Securities, such portion of the principal amount as may be specified in the terms of that series) of all Securities of such series and the interest accrued thereon, if any, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Securities contained to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal (or, if the Securities are Original Issue Discount Securities, such portion of the principal as may be specified in the terms thereof) of the Securities of any series (or, if the Securities are Original Issue Discount Securities, such portion of the principal as may be specified in the terms thereof) of the Securities of any series (or of all the Securities, as the case may be) shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit

with the Trustee a sum sufficient to pay all matured installments of interest upon all the Securities of such series (or of all the Securities, as the case may be) and the principal of (and premium, if any, on) all Securities of such series (or of all the Securities, as the case may be) that shall have become due otherwise than by declaration (with interest on overdue installments of interest to the extent permitted by law, and on such principal and premium, if any, at the rate of interest borne by the Securities or Yield to Maturity (in the case of Original Issue Discount Securities) applicable to the Securities of such series (or at the respective rates of interest or Yields to maturity of all the Securities, as the case may be) to the date of such payment or deposit) and the expenses of the Trustee, and any and all defaults under the Indenture, other than the nonpayment of principal of and accrued interest on Securities that shall have become due by declaration, shall have been remedied--then and in every such case the Securityholders of a majority in aggregate principal amount of the Securities of such series (or of all the Securities, as the case may be) then outstanding, by written notice to the Company and to the Trustee, may waive all defaults with respect to that series, each such series voting as a separate class (or with respect to all Securities, as the case may be, in such case treated as a single class) and rescind and annul such declaration and its consequences; but no such waiver of rescission and annulment shall extend to or shall affect any subsequent

default, or shall impair any right consequent thereon.

In case the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of such rescission or annulment or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company, the Trustee and the holders of the Securities of such series shall be restored respectively to their former positions and rights hereunder, and all rights, remedies and powers of the Company and the Trustee shall continue as though no such proceedings had been taken.

SECTION 5.02. Payment of Securities on Default; Suit Therefor. The Company covenants that (1) in case default shall be made in the payment of any installment of interest on any of the Securities of any series, as and when the same shall become due and payable, and such default shall have continued for a period of 30 days or (2) in case default shall be made in the payment of the principal of any of the Securities of any series when the same shall have become due and payable, whether upon maturity of the Securities for such series or otherwise, including any sinking fund payment--then, upon demand of the Trustee, the Company will pay to the Trustee for the benefit of the holders of the Securities of such series (and shall designate which series) the whole amount that then shall have become due and payable on all Securities of such series for principal (and premium, if any) or interest, or both, as the case may be, with interest on the overdue principal (and premium, if any) and installments of interest (to the extent permitted by law) at the rate of interest or Yield to Maturity (in the case of Original Issue Discount Securities) borne by such series of Securities; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including a reasonable

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compensation to the Trustee, its agents, attorneys and counsel, and any expenses or liabilities incurred by the Trustee hereunder other than through its negligence or bad faith.

Until such demand is made by the Trustee, the Company may pay the principal of and interest on the Securities of any series to the holders thereof, whether or not the Securities of such series be overdue.

In case the Company shall fail forthwith to pay such amounts upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any action or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company or any other obligor upon such Securities, and collect in the manner provided by law out of the property of the Company or any other obligor upon such Securities wherever situated the moneys adjudged or decreed to be payable.

In case there shall be pending proceedings for the bankruptcy or for the reorganization of the Company or any other obligor upon the Securities of any series under the Bankruptcy Code or any other applicable law or in connection with the insolvency of the Company or any other obligor upon any Securities or in the case a receiver or trustee shall have been appointed for its property, or in case of any other judicial proceedings relative to the Company or any other obligor upon such series of Securities or to creditors or property of the Company or such other obligor, the Trustee, irrespective of whether the principal of such series of Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 5.02, shall be entitled and empowered by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal, premium, if any, and interest (or if the Securities of any series are Original Issue Discount Securities, such portion of the principal amount as may be specified in the terms of that series) owing and unpaid in respect of the Securities of any series, and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trust and of the Securityholders allowed in any judicial proceedings relative to the Company or any other obligor upon the Securities of any series, its creditors, or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its charges and expenses; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized by each of such holders to make such payments to the Trustee, and, in the event that the Trustee shall consent to the making of such payments directly to the holders, to pay to the Trustee any amount due it for compensation and expenses, including counsel fees incurred by it up to the date of such distribution. To the extent that such payment of reasonable compensation, expenses, liabilities and counsel fees out of the estate in any such proceedings shall be denied for any reason (except as a result of negligence or bad faith), payment of the same shall be secured by a

lien on, and shall be paid out of, any and all distributions, dividends, moneys, securities and

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other property that the holders of the Securities of any series may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise.

All rights of action and of asserting claims under this Indenture, or under any of the Securities of any series, may be enforced by the Trustee without the possession of any of the Securities, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name and as trustee of an express trust, and any recovery of judgment shall be for the ratable benefit of the holders of the Securities and the Trustee.

SECTION 5.03. Application of Moneys Collected by Trustee. Any moneys collected by the Trustee pursuant to Section 5.02 with respect to any one or more series shall be applied in the order following, at the date or dates fixed by the Trustee for the distribution of such moneys, and, in the case of the distribution of such moneys on account of principal or interest, upon presentation of the several Securities of a series in respect of which moneys have been collected, and stamping (or otherwise noting) thereon the payment, or issuing Securities of such series in reduced principal amounts in exchange for the presented Securities of such series if only partially paid, and upon surrender thereof if fully paid:

FIRST: To the payment of costs and expenses of collection applicable to such series, and reasonable compensation to the Trustee, its agents, attorneys and counsel, and of all other expenses and liabilities incurred, and all advances made, by the Trustee with respect to such series, except as a result of its negligence or bad faith;

SECOND: In case no principal of the outstanding Securities of such series shall have become due and be unpaid, to the payment of interest on the Securities of such series in default, in the order of the maturity of the installments of such interest, with interest upon the overdue installments of interest (so far as permitted by law and to the extent that such interest has been collected by the Trustee) as the rate of interest or Yield to Maturity (in the case of Original Issue Discount Securities) borne by the Securities of such series; and in case such moneys shall be insufficient to pay in full the whole amount so due and unpaid upon the Securities of such series, then to the payment of such principal (and premium, if any) and interest, without preference or priority of principal (and premium, if any) over interest, or of interest over principal (and premium, if any), or of any installment of interest over any other installment of interest or of any Security of such series over any other Security of such series, ratably to the aggregate of such principal (and premium, if any) and accrued and unpaid interest; and

FOURTH: To the payment of the remainder, if any, to the Company, its successors or assigns, or to whosoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

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SECTION 5.04. Limitation on Suits by Holders of Securities. No holder of a Security of any series shall have any right by virtue or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law or in bankruptcy or otherwise, upon or under or with respect to this Indenture or for the appointment of a receiver, liquidating custodian, trustee or similar official, or for any other remedy hereunder, unless such holder previously shall have given to the Trustee written notice of default and of the continuance thereof, as hereinabove provided, and unless also the holders of not less than 25% in aggregate principal amount of such series of Securities then outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee, for 60 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding and no direction inconsistent with such written request shall have been given to the Trustee pursuant to Section 5.06; it being understood and intended, and being expressly covenanted by the holder of every

Security of a series with every other Securityholder and the Trustee, that no one or more holders of such series of Securities shall have any right in any manner whatsoever by virtue or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of the holders of any other series of Securities, or to obtain or seek to obtain priority over or preference to any other such holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Securities. For the protection and enforcement of the provisions of this Section 5.04, each and every Securityholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

Notwithstanding any other provisions in this Indenture, the right of any holder of any Security to receive payment of the principal of (and premium, if any) and interest on such Security, on or after the respective due dates expressed in such Security, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such holder.

SECTION 5.05. Proceedings by Trustee; Remedies Cumulative and Continuing. In case an Event of Default has occurred, has not been waived, and is continuing, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law. All powers and remedies given by this Article Five to the Trustee or to the Securityholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any thereof or any other powers and remedies available to the Trustee or to the holders of the Securities, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and

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agreements contained in this Indenture, and no delay or omission of the Trustee or of any holder of any of the Securities to exercise any right or power accruing upon any default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or any acquiescence therein; and, subject to the provisions of Section 5.04, every power and remedy given by this Article Five or by law to the Trustee or to the Securityholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Securityholders.

SECTION 5.06. Rights of Holders of Majority in Principal Amount of Securities to Direct Trustee and to Waive Defaults. The holders of a majority in aggregate principal amount of the Securities of all series affected (voting as one class) at the time outstanding (determined as provided in Section 7.04), or, if a record date is set in accordance with Section 7.05, as of such record date, shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee by the Indenture with respect to the Securities of such series; provided, however, that subject to the provisions of Section 6.01, the Trustee shall have the right to decline to follow any such direction if the Trustee being advised by counsel shall determine that the action so directed may not lawfully be taken, or if the Trustee in good faith shall, by a responsible officer or officers of the Trustee, determine that the proceedings so directed would be illegal or involve it in personal liability or be unjustly prejudicial to the Securityholders not consenting, and provided further that nothing in this Indenture shall impair the right of the Trustee in its discretion to take any action deemed proper by the Trustee and which is not inconsistent with such direction by the Securityholders. Prior to the declaration of the maturity of the Securities of any series as provided in Section 5.01, the holders of a majority in aggregate principal amount of the Securities of such series at the time outstanding (each such series voting as a separate class) (determined as provided in Sections 7.04 and 7.05) may on behalf of the holders of all of the Securities of such series waive any past default hereunder and its consequences, except a default in the payment of interest or premium on, or the principal of, any of the Securities. In the case of any such waiver the Company, the Trustee and the holders of the Securities of such series shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other default or impair any right consequent hereon.

SECTION 5.07. Trustee to Give Notice of Defaults Known to It, But May Withhold in Certain Circumstances. The Trustee shall, within 90 days after the occurrence of a default hereunder, give to the Securityholders, in the manner and to the extent provided in subsection (c) of Section 4.04 with respect to reports pursuant to subsection (a) of Section 4.04, notice of such defaults known to the Trustee unless such default shall have been cured or waived before

the giving of such notice (the term "defaults" for the purposes of this Section 5.07 being hereby defined to be the events specified in clauses (a), (b), (c), (d), (e) and (f) of Section 5.01, not including any periods of grace provided for therein, and irrespective of the giving of any required notice); provided that, except in the case of default in the payment of the principal of (and premium, if any) or interest on any of the Securities of such series, the Trustee shall be protected

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in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determined that the withholding of such notice is in the interest of the Securityholders of such series.

SECTION 5.08. Requirement of an Undertaking to Pay Costs in Certain Suits Under the Indenture or Against the Trustee. All parties to this Indenture agree, and each holder of any Security by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement or any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorney's fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 5.08 shall not apply to any suit instituted by the Trustee, to any suit instituted by any Securityholder, or group of Securityholders of any series, holding in the aggregate more than ten percent in aggregate principal amount of the Securities of such series outstanding, or to any suit instituted by any Securityholder for the enforcement of the payment of the principal of (and premium, if any) or interest on any Security, on or after the due date expressed in such Security.

ARTICLE SIX

CONCERNING THE TRUSTEE

SECTION 6.01. Duties and Responsibilities of Trustee. The Trustee, prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default that may have occurred with respect to the Securities of a series, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred of which a Responsible Officer of the Trustee has actual knowledge (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by this Indenture with respect to the Securities of a series, and use the same degree of care and skill in their exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, provided, however, that:

(a) prior to the occurrence of an Event of Default with respect to the Securities of any series and after the curing or waiving of all Events of default with respect to such series that may have occurred

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(1) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall only be liable for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this

Indenture;

(b) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(c) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in principal amount of the Securities of all series affected (voting as a class) at the time outstanding (determined as provided in Sections 7.04 and 7.05) relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if there is reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

SECTION 6.02. Reliance on Documents, Opinions, etc. Subject to the provisions of Section 6.01:

(a) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

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(b) Any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed); and the Trustee by a copy thereof certified by the Secretary or any Assistant Secretary of the Company;

(c) The Trustee may consult with counsel and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with such advice or Opinion of Counsel;

(d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Securityholders, pursuant to the provisions of this Indenture, unless such Securityholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities that may be incurred therein or thereby; but nothing herein contained shall, however, relieve the Trustee of the obligation, upon the occurrence of an Event of Default (which has not been cured or waived), to exercise such of the rights and powers vested in it by this Indenture, and to use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs;

(e) The Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture;

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order approval, bond, note or other paper or document, unless requested in writing so to do by the holders of not less than a majority in aggregate principal amount of the Securities of all series affected then outstanding voting as one class (determined as provided in Sections 7.04 and 7.05); provided, however, that if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such expense or liability as a condition to so proceeding. The reasonable expense of every such examination shall be paid by the Company or, if paid by the Trustee, shall be repaid by the Company upon demand; and

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys. The Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

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SECTION 6.03. No Responsibility for Recitals, etc. The statements and recitals contained herein and in the Securities and in any other document in connection with the sale of the Securities (other than the certificate of authentication of the Securities) shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representation as to the validity or sufficiency of this Indenture or of the Securities. The Trustee shall not be accountable for the use or application by the Company of any of the Securities or of the proceeds of such Securities, or for the use or application of any moneys paid over by the Trustee in accordance with any provision of this Indenture, or for the use or application of any moneys received by any Paying Agent other than the Trustee.

SECTION 6.04. Trustee, Paying Agent or Security Registrar May Own Securities. The Trustee or any Paying Agent or Security registrar, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with the Company or any Affiliate of the Company with the same rights it would have if it were not Trustee, Paying Agent or Security registrar.

SECTION 6.05. Moneys Received by Trustee to be Held in Trust Without Interest. Subject to the provisions of Section 11.04, all moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on moneys received by it hereunder except such as it may agree with the Company to pay thereon. So long as no Event of Default shall have occurred and be continuing, all interest allowed on any such moneys shall be paid from time to time upon the written order of the Company, signed by its Chairman of the Board, any Vice Chairman of the Board, its President or any Vice President or its Treasurer or any Assistant Treasurer.

SECTION 6.06. Compensation and Expenses of Trustee. The Company covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation (which shall not be limited by any provision of law in regard to the compensation of a Trustee of an express trust), and the Company will promptly pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in connection with the acceptance or administration of its trust under this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. The Company also covenants to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on the part of the Trustee and arising (a) out of or in connection with the acceptance or administration of this trust, or (b) from any action or failure to act as authorized or within the discretion or rights or powers conferred upon the Trustee hereunder, including the costs and expenses of defending itself against any claim of liability in the premises. The obligations of the Company under this Section 6.06 to compensate the Trustee and to pay or reimburse the Trustee

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for expenses, disbursements, losses, liabilities and advances shall constitute additional indebtedness hereunder and shall survive the satisfaction and discharge of this Indenture. Such additional indebtedness shall be secured by a lien prior to that of the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Securities.

SECTION 6.07. Right of Trustee to Rely on Officers' Certificate Where No Other Evidence Specifically Prescribed. Subject to the provisions of Section 6.01, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the

Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee, and such Certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken, suffered or omitted by it under the provisions of this Indenture upon the faith thereof.

SECTION 6.08. Conflicting Interest of Trustee. (a) If the Trustee has or shall acquire any conflicting interest, as defined in this Section 6.08, it shall, within 90 days after ascertaining that it has such conflicting interest, either eliminate such conflicting interest or, unless the Trustee's duty to resign is stayed as provided in Section 310(b) of the Trust Indenture Act of 1939, resign in the manner and with the effect specified in Section 6.10, such resignation to become effective upon the appointment of a successor trustee and such successor's acceptance of such appointment, and the Company shall take prompt steps to have a successor appointed in the manner provided in Section 6.10.

(b) In the event that the Trustee shall fail to comply with the provisions of subsection (a) of this Section 6.08, the Trustee shall, within 10 days after the expiration of such 90-day period, or, if the Trustee's duty to resign is stayed, after the end of such stay, transmit notice of such failure to the Securityholders in the manner and to the extent provided in subsection (c) of Section 4.04 with respect to reports pursuant to subsection (a) of Section 4.04.

(c) For the purposes of this Section 6.08, the Trustee shall be deemed to have a conflicting interest if the Trustee has a conflict within the provisions of Section 310(b) of the Trust Indenture Act of 1939.

SECTION 6.09. Requirements for Eligibility of Trustee. The Trustee hereunder shall at all times be a corporation organized and doing business under the laws of the United States or any State or territory thereof or of the District of Columbia authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least five million dollars, subject to supervision or examination by Federal, State, Territorial, or District of Columbia authority. If such corporation publishes reports of condition at least annually, pursuant

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to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section 6.09, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 6.09, the Trustee shall resign immediately in the manner and with the effect specified in Section 6.10. Neither the Company nor any persons directly or indirectly controlling, controlled by, or under common control with the Company shall serve as Trustee.

SECTION 6.10. Resignation or Removal of Trustee. (a) The Trustee, or any Trustee hereafter appointed, may at any time resign with respect to one or more series of Securities by giving written notice of such resignation to the Company or to the Securityholders, such notice to the Securityholders of applicable series of Securities to be given by mailing (by first class mail) the same. Upon receiving such notice of resignation, the Company shall promptly appoint a successor Trustee with respect to the applicable series by written instrument, in duplicate, executed by order of the Board of Directors of the Company, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 60 days after the mailing of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee, or any Securityholder who has been a bona fide holder of a Security or Securities for at least six months may, subject to the provisions of Section 5.08, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur:

(1) the Trustee shall fail to comply with the provisions of subsection (a) of Section 6.08 with respect to any series of Securities after written request therefor by the Company or by any Securityholder who has been a bona fide holder of a Security or Securities of such series for at least six months, or

(2) the Trustee shall cease to be eligible in accordance with the provisions of Section 6.09 and shall fail to resign after written request therefor by the Company or by any such Securityholder, or

(3) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of a substantial portion of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of a substantial portion of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, the Company may remove the Trustee with respect to the applicable series and appoint a successor trustee for such series by written instrument, in duplicate, executed by order of the Board of Directors

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of the Company, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to the provisions of Section 5.08, any Securityholder who has been a bona fide holder of a Security or Securities of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee with respect to such series. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Securities of all series at the time outstanding voting as one class (determined as provided in Section 7.04) may at any time remove the Trustee with respect to Securities of all series and appoint a successor trustee with respect to securities of all series by written instrument or instruments signed by such holders or their attorneys-in-fact duly authorized, or by the affidavits of the permanent chairman and secretary of a meeting of the Securityholders evidencing the vote upon a resolution or resolutions submitted thereto with respect to such removal and appointment (as provided in Article Eight), and by delivery thereof to the Trustee so removed, to the successor trustee and to the Company.

(d) Any resignation or removal of the Trustee and appointment of any successor trustee pursuant to any of the provisions of this Section 6.10 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 6.11.

SECTION 6.11. Acceptance by Successor to Trustee; Notice of Succession of a Trustee. Any successor trustee appointed as provided in Section 6.10 shall execute, acknowledge and deliver to the Company and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee with respect to all or any particular series shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations with respect to such series of its predecessor hereunder, with like effect as if originally named as Trustee herein; but, nevertheless, on the written request of the Company or of the successor trustee, the Trustee ceasing to act shall, upon payment of any amounts then due it pursuant to the provisions of Section 6.06, pay over to the successor trustee, subject to Section 11.04, all monies at the time held by it hereunder with respect to such series, and execute and deliver an instrument transferring to such successor trustee all the rights and powers of the trustee so ceasing to act. Upon request of any such successor trustee, the Company shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such trustee to secure any amounts then due it pursuant to the provisions of Section 6.06.

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If a successor trustee is appointed with respect to the Securities of one or more (but not all) series, the Company, the predecessor Trustee and each successor trustee with respect to the Securities of any applicable series shall execute and deliver an indenture supplemental hereto that shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the predecessor Trustee with respect to the Securities of any series as to which the predecessor Trustee is not retiring shall continue to be vested in the predecessor Trustee, and shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees as co-trustees of the

same trust and that each such Trustee shall be Trustee of a trust or trusts under separate indentures.

No successor trustee with respect to any series of Securities shall accept appointment as provided in this Section 6.11 unless at the time of such acceptance such successor trustee shall be qualified under the provisions of Section 6.08 and eligible under the provisions of Section 6.09.

Upon acceptance of appointment by a successor trustee as provided in this Section 6.11, the Company shall mail to the holders of Securities of any series by first-class mail notice thereof. If the Company fails to mail such notice within 30 days after acceptance of appointment by the successor trustee, the successor trustee shall, in its discretion, cause such notice to be mailed at the expense of the Company.

SECTION 6.12. Successor to Trustee by Merger, Consolidation or Succession to Business. Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger or conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be qualified under the provisions of Section 6.08 and eligible under the provisions of Section 6.09, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

In case at the time such successor to the Trustee shall succeed to the trusts created by this Indenture and the Securities of any series shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor Trustee, and deliver such Securities so authenticated; and in case at that time the Securities of any series shall not have been authenticated, any successor to the Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor Trustee; and in all such cases such certificates shall have the full force that it is anywhere in the Securities of such series or in this Indenture provided that the certificate of the Trustee shall have; provided, however, that the right to adopt the certificate of authentication of any predecessor Trustee or authenticate Securities of any series in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

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SECTION 6.13. Limitations on Rights of Trustee as a Creditor. The Trustee shall comply with Section 311 of the Trust Indenture Act of 1939.

ARTICLE SEVEN

CONCERNING THE SECURITYHOLDERS

SECTION 7.01. Evidence of Action by Securityholders. Whenever in this Indenture it is provided that the holders of a specified percentage in aggregate principal amount of the Securities of any or all series may take any action (including the making of any demand or request, the giving of any notice, consent, or waiver or the taking of any other action) the fact that the holders of such specified percentage, determined as of the time such action was taken or, if a record date was set with respect thereto pursuant to Section 7.05, as of such record date, have joined therein may be evidenced (a) by any instrument or any number of instruments of similar tenor executed by Securityholders in person or by agent or proxy appointed in writing, or (b) by the record of the holders of Securities voting in favor thereof at any meeting of Securityholders duly called and held in accordance with the provisions of Article Eight, or (c) by a combination of such instrument or instruments and any such record of such a meeting of Securityholders.

SECTION 7.02. Proof of Execution of Instruments and of Holding of Securities. Subject to the provisions of Sections 6.01, 6.02 and 8.05, proof of the execution of any instrument by a Securityholder or his agent or proxy shall be sufficient if made in accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in such manner as shall be satisfactory to the Trustee.

The ownership of Securities shall be proved by the register of such Securities, or by a certificate of the registrar thereof.

The Trustee may accept such other proof or require such additional proof of any matter referred to in this Section 7.02 as it shall deem reasonable.

The record of any Securityholders' meeting shall be proved in the manner provided in Section 8.06.

SECTION 7.03. Who May be Deemed Owners of Securities. The Company, the Trustee, any Paying Agent and any Security registrar may deem and treat the person in whose name any Security shall be registered upon the books of the Company for such series on the applicable record date as the absolute owner of such Security (whether or not such Security shall be overdue and notwithstanding any notation of ownership or other writing thereon) for the purpose of receiving payment of or on account of the principal of, premium, if any, and interest on such Security and for all other purposes; and neither the Company nor the Trustee nor any Paying Agent nor any Security registrar shall be affected by any notice to the contrary. All such

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payments so made to, or upon the order of, any such holder shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable upon any such Security.

SECTION 7.04. Securities Owned by Company or Controlled or Controlling Persons Disregarded for Certain Purposes. In determining whether the holders of the requisite aggregate principal amount of Securities have concurred in any demand, direction, request, notice, consent, waiver or other action under this Indenture, Securities that are owned by the Company or any other obligor on the Securities or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any other obligor on the Securities shall be disregarded and deemed not to be outstanding for the purpose of any such determination, provided that for the purposes of determining whether the Trustee shall be protected in relying on any such demand, direction, request, notice, consent or waiver, only Securities that the Trustee knows are so owned shall be so disregarded. Securities so owned that have been pledged in good faith may be regarded as outstanding for the purposes of this Section 7.04, if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Securities and that the pledgee is not a person directly or indirectly controlling or controlled by or under direct or common control with the Company or any such obligor. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

SECTION 7.05. Record Date for Action by Securityholders. Whenever in this Indenture it is provided that holders of a specified percentage in aggregate principal amount of the Securities of a series may take any action (including the making of any demand or request, the giving of any direction, notice, consent or waiver or the taking of any action), other than any action taken at a meeting of Securityholders called pursuant to Article Eight, the Company, pursuant to a resolution of its Board of Directors, or the holders of at least ten percent in aggregate principal amount of the Securities of such series then outstanding, may request the Trustee to fix a record date for determining Securityholders entitled to notice of and to take any such action. In case the Company or the holders of Securities of such series in the amount above specified shall desire to request Securityholders of such series to take any such action and shall request the Trustee to fix a record date with respect thereto by written notice setting forth in reasonable detail the Securityholder action to be requested, the Trustee shall promptly (but in any event within five days of receipt of such request) fix a record date that shall be a Business Day not less than 15 nor more than 20 days after the date on which the Trustee receives such request. If the Trustee shall fail to fix a record date as hereinabove provided, then the Company or the holders of Securities of such series in the amount above specified may fix the same by mailing written notice thereof (the record date so fixed to be a business day not less than 15 nor more than 20 days after the date on which such written notice shall be given) to the Trustee. If a record date is fixed according to this Section 7.05, only persons shown as Securityholders of such series on the registration books for the Company at the close of business on the record date so fixed shall be entitled to take the requested action and the taking of any such action by the holders on the

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record date of the required percentage of the aggregate principal amount of the Securities of such series shall be binding on all Securityholders of such series, provided that the taking of the requested action by the holders on the record date of the percentage in aggregate principal amount of the Securities of such series in connection with such action shall have been evidenced to the Trustee, as provided in Section 7.01, not later than 180 days after such record date.

SECTION 7.06. Instruments Executed by Securityholders Bind Future Holders. At any time prior to (but not after) the evidencing to the Trustee,

as provided in Section 7.01, of the taking of any action by the holders of the percentage in aggregate principal amount of the Securities of any or all series in connection with such action, any holder of a Security of such series the serial number of which is shown by the evidence to be included in the Securities of such series the holders of which have consented to such action may, by filing written notice with the Trustee at its principal office and upon proof of holding as provided in Section 7.02, revoke such action so far as concerns such Security. Except as aforesaid any such action taken by the holder of any Security of such series and any direction, demand, request, waiver, consent, vote or other action of the holder of any Security of such series that by any provisions of this Indenture is required or permitted to be given shall be conclusive and binding upon such holder and upon all future holders and owners of such Security, and of any Security issued in lieu thereof, irrespective of whether or not any notation in regard thereto is made upon such Security. Any action taken by the holders of the percentage in aggregate principal amount of the Securities of such series in connection with such action shall be conclusively binding as the act of such holders upon the Company, the Trustee and the holders of the Securities of such series.

ARTICLE EIGHT

SECURITYHOLDERS' MEETING

SECTION 8.01. Purposes for Which Meetings May be Called. A meeting of holders of Securities of any or all series, as the case may be, may be called at any time and from time to time pursuant to the provisions of this Article Eight for any of the following purposes:

(1) to give any notice to the Company or to the Trustee, or to give any directions to the Trustee, or to consent to the waiving of any default or Event of Default hereunder and its consequences, or to take any other action authorized to be taken by Securityholders of any or all series pursuant to any of the provisions of Article Five;

(2) to remove the Trustee and appoint a successor Trustee pursuant to the provisions of Article Six;

(3) to consent to the execution of an indenture or indentures supplemental hereto pursuant to the provisions of Section 9.02; or

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(4) to take any other action authorized to be taken by or on behalf of the holders of the percentage in aggregate principal amount of the Securities of any or all series under any other provisions of this Indenture or under applicable law.

SECTION 8.02. Manner of Calling Meetings; Record Date. The Trustee may at any time call a meeting of Securityholders of any or all series to take any action specified in Section 8.01, to be held at such time and at such place in the City of Dallas, Texas, as the Trustee shall determine. Notice of every meeting of the Securityholders of any or all series, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be mailed nor less than thirty nor more than sixty days prior to the date fixed for the meeting to such Securityholders at their registered addresses. For the purpose of determining Securityholders entitled to notice of any meeting of Securityholders, the Trustee shall fix in advance a date as the record date for such determination, such date to be a business day not more than ten days prior to the date of the mailing of such notice as hereinabove provided. Only persons in whose name any Security shall be registered upon the books of the Company on a Record Date fixed by the Trustee as aforesaid, or by the Company or the Securityholders as in Section 8.03 provided, shall be entitled to notice of the meeting of Securityholders with respect to which such record date was so fixed.

SECTION 8.03. Call of Meeting by Company or Securityholders. In case at any time the Company, pursuant to a resolution of its Board of Directors, or the holders of at least ten percent in aggregate principal amount of the Securities then outstanding of any or all series, as the case may be, shall have requested the Trustee to call a meeting of such Securityholders to take any action authorized in Section 8.01 by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have mailed notice of such meeting within twenty days after receipt of such request, then the Company or the holders of such Securities in the amount above specified, as the case may be, may fix the record date with respect to, and determine the time and the place in said City of Dallas, Texas for, such meeting and may call such meeting to take any action authorized in Section 8.01, by mailing notice thereof as provided in Section 8.02. The record date fixed as provided in the preceding sentence shall be set forth in a written notice to the Trustee and shall be a business day not less than 15 nor more than 20 days after the date on which such notice is sent to the Trustee.

SECTION 8.04. Who May Attend and Vote at Meetings. To be entitled to vote at any meeting of Securityholders a person shall (i) be a holder of one or more Securities of the series with respect to which the meeting is called or, should the meeting be called with respect to the Securities of all series, a holder of one or more of such series, or (ii) a person appointed by an instrument in writing as proxy by a holder of one or more securities of the series. The only persons who shall be entitled to be present or to speak at any meeting of Securityholders shall be the persons entitled to vote at such meeting and their counsel and any representatives of the Trustee and its counsel and any representatives of the Company and its counsel. When a

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determination of Securityholders entitled to vote at any meeting of Securityholders has been made as provided in this Section 8.04, such determination shall apply to any adjournment thereof.

SECTION 8.05. Regulations. Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Securityholders, in regard to proof of the holding of Securities of the series with respect to which the meeting is called and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think fit. Except as otherwise permitted or required by any such regulations, the holding of such Securities and the appointment of any proxy shall be proved in the manner specified in Section 7.02.

The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Securityholders as provided in Section 8.03, in which case the Company or the Securityholders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by a vote of the holders of a majority in principal amount of the Securities represented at the meeting and entitled to vote.

Subject to the provisions of Section 7.04, at any meeting each Securityholder or proxy entitled to vote thereat shall be entitled to one vote for each \$1,000 principal amount of Securities held or represented by him; provided, however, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Securities held by him or instruments in writing as aforesaid duly designating him as the person to vote on behalf of other Securityholders. Any meeting of Securityholders duly called pursuant to the provisions of Section 8.02 or 8.03 may be adjourned from time to time, and the meeting may be held as so adjourned without further notice.

At any meeting of Securityholders, the presence of persons who held, or who are acting as proxy for persons who held, an aggregate principal amount of Securities of the series with respect to which the meeting is called on the record date for such meeting sufficient to take action on the business for the transaction of which such meeting was called shall constitute a quorum, but, if less than a quorum is present, the persons holding or representing a majority in aggregate principal amount of the Securities of the series with respect to which the meeting is called represented at the meeting may adjourn such meeting with the same effect, for all intents and purposes, as though a quorum had been present.

SECTION 8.06. Manner of Voting at Meetings and Record to be Kept. The vote upon any resolution submitted to any meeting of Securityholders shall be by written ballots on each of which shall be subscribed the signature of the Securityholder or proxy casting such ballot

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and the identifying number or numbers of the Securities held or represented in respect of which such ballot is cast. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Securityholders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the

inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was mailed as provided in Section 8.02. The record shall show the identifying numbers of the Securities voting in favor of or against any resolution. Each counterpart of such record shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one of the counterparts shall be delivered to the Company and the other to the Trustee to be preserved by the Trustee.

Any counterpart record so signed and verified shall be conclusive evidence of the matters therein stated and shall be the record referred to in clause (b) of Section 7.01.

SECTION 8.07. Exercise of Rights of Trustee and Securityholders Not to be Hindered or Delayed. Nothing in this Article Eight contained shall be deemed or construed to authorize or permit, by reason of any call of a meeting of Securityholders or any rights expressly or impliedly conferred hereunder to make such call, any hindrance or delay in the exercise of any right or rights conferred upon or reserved to the Trustee or to the Securityholders under any of the provisions of this Indenture or of the Securities of any or all series.

SECTION 8.08. Written Consent in Lieu of Meeting of Securityholders. The written authorization or consent of the requisite percentage of Securityholders herein provided, entitled to vote at any such meeting, evidenced as provided in Article Seven and filed with the Trustee, shall be effective in lieu of a meeting of Securityholders, with respect to any matter provided for in this Article Eight.

ARTICLE NINE

SUPPLEMENTAL INDENTURES

SECTION 9.01. Purposes for Which Supplemental Indentures May be Entered into Without Consent of Securityholders. The Company, when authorized by a resolution of its Board of Directors, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto (which shall comply with the provisions of the Trust Indenture Act of 1939 as then in effect) for one or more of the following purposes:

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(a) to evidence the succession of another corporation to the Company, or successive successions, and the assumption by the successor corporation of the covenants, agreements and obligations of the Company pursuant to Article Ten;

(b) to add to the covenants of the Company such further covenants, restrictions or conditions as its Board of Directors and the Trustee shall consider to be for the protection of the holders of all or any series of the Securities (and, if such covenants are to be for the benefit of less than all series of Securities stating that such covenants are expressly being included for the benefit of such series), and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions an Event of Default permitting the enforcement of all or any of the several remedies provided in this Indenture as herein set forth; provided, however, that in respect of any such additional covenant, restriction or condition such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such Event of Default or may limit the remedies available to the Trustee upon such Event of Default or may limit the right of the holders of a majority in aggregate principal amount of the Securities of such series to waive such an Event of Default;

(c) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture that may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture or any supplemental indenture as shall not adversely affect the interests of the holders of the Securities;

(d) to provide for the issuance under this Indenture of Securities, whether or not then outstanding, in coupon form (including Securities registrable as to principal only) and to provide for exchangeability of such Securities with Securities issued hereunder in fully registered form and to make all appropriate changes for such purpose;

(e) to establish the form or terms and to provide for the issuance of Securities of any series as permitted by Sections 2.01 and 2.03; and

(f) to evidence and provide for the acceptance of appointment hereunder by a successor trustee with respect to the Securities of one or more series and to add to or change any of the provisions of the Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one trustee.

The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, to make any further appropriate agreements and stipulations that may be therein contained and to accept the conveyance, transfer or assignment of any property thereunder,

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provided that if any such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

Any supplemental indenture authorized by the provisions of this Section 9.01 may be executed by the Company and the Trustee without the consent of the holders of any of the Securities at the time outstanding, notwithstanding any of the provisions of Section 9.02.

SECTION 9.02. Modification of Indenture with Consent of Holders of 66-2/3% in Principal Amount of Securities. With the consent (evidenced as provided in Section 7.01) of the holders of not less than 66-2/3% in aggregate principal amount of the Securities at the time outstanding of all Securities affected by such supplement (voting as one class) (determined as provided in Section 7.04), or, if a record date is set with respect to such consent in accordance with Section 7.05, as of such record date, the Company, when authorized by a resolution of its Board of Directors, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto (which shall comply with the provisions of the Trust Indenture Act of 1939 as then in effect) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture or of modifying in any manner the rights of the holders of the Securities of each such series; provided, however, that no such supplemental indenture shall (i) extend the stated maturity of any Security, or reduce the rate or extend the time of payment of interest thereon or reduce any amount payable on redemption thereof or reduce the amount of the principal of an Original Issue Discount Security that would be due and payable upon an acceleration of the maturity thereto pursuant to Section 5.01, or impair or affect the right of any Securityholder to institute suit for the payment thereof or the right of repayment if any, at the option of the Securityholder, without the consent of the holder of each Security so affected or (ii) reduce the aforesaid percentage of Securities of any series or of all series (voting as one class), as the case may be, the consent of the holders of which is required for any such supplemental indenture, without the consent of the holders of all Securities of each such series so affected.

A supplemental indenture that changes or eliminates any covenant or other provision of this Indenture that has expressly been included solely for the benefit of one or more particular series of Securities, or that modified the rights of holders of such series with respect to such covenant or provision, shall be deemed not to affect the rights under this Indenture of the holders of any other series.

Upon the request of the Company, accompanied by a copy of a resolution of its Board of Directors certified by the Secretary or an Assistant Secretary of the Company authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Securityholders as aforesaid, the Trustee shall join with the Company in the execution of such supplemental indenture, provided that if such supplemental indenture affects the

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Trustee's own rights, duties or immunities under this Indenture or otherwise, the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

It shall not be necessary for the consent of the Securityholders under

this Section 9.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of this Section 9.02, the Company shall mail a notice to the Securityholders of each series affected thereby, setting forth in general terms the substance of such supplemental indenture. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

SECTION 9.03. Effect of Supplemental Indentures. Upon the execution of any supplemental indenture pursuant to the provisions of this Article Nine, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitation of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the holders of Securities of each series affected thereby shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.04. Securities May Bear Notation of Changes by Supplemental Indentures. Securities of any series authenticated and delivered after the execution of any supplemental indenture affecting such series pursuant to the provisions of this Article Nine, or after any action taken at a Securityholders' meeting pursuant to Article Eight, may bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture or as to any action taken at any such meeting. If the Company or the Trustee shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Board of Directors of the Company, to any modification of this Indenture contained in any such supplemental indenture may be prepared by the Company, authenticated by the Trustee and delivered in exchange for the Securities of such series then outstanding.

SECTION 9.05. Opinion of Counsel. The Trustee, subject to the provisions of Sections 6.01 and 6.02, may rely upon, and shall be entitled to receive, an Opinion of Counsel as conclusive evidence that any such supplemental indenture complies with the provisions of this Article Nine.

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ARTICLE TEN

CONSOLIDATION, MERGER AND SALE

SECTION 10.01. Company May Consolidate, etc., on Certain Terms. Nothing contained in this Indenture or in any of the Securities shall prevent any consolidation or merger of the Company with or into any other corporation or corporations (whether or not affiliated with the Company) or successive consolidations or mergers in which the Company or its successor or successors shall be a party or parties, or shall prevent any sale or conveyance of the property of the Company as an entirety, or substantially as an entirety, to any other corporation (whether or not affiliated with the Company) authorized to acquire and operate the same; provided, however, and the Company hereby covenants and agrees, that any such consolidation, merger, sale or conveyance shall be upon the condition that (a) immediately after such consolidation, merger, sale or conveyance no Event of Default, and no event that upon notice or lapse of time, or both, would become an Event of Default, shall have occurred and be continuing with respect to the corporation (whether the Company or such other corporation) formed by or surviving any such consolidation or merger, or to which such sale or conveyance shall have been made; (b) the corporation (if other than the Company) formed by or surviving any such consolidation or merger, or to which such sale or conveyance shall have been made, shall be a corporation organized under the laws of the United States of America or any State thereof; and (c) the due and punctual payment of the principal of, premium, if any, and interest on all of the Securities, according to their tenor, and the due and punctual performance and observance of all the covenants and conditions of this Indenture to be performed or observed by the Company, shall be expressly assumed, by supplemental indenture complying with the requirements of Article Nine, satisfactory in form to the Trustee, executed and delivered to the Trustee by the corporation formed by such consolidation, or into which the Company shall have been merged, or by the corporation that shall have acquired such property. If at any time there shall be any consolidation or merger or sale or conveyance or lease of property to which the covenant of this Section 10.01 is applicable, then in any such event the successor corporation will promptly deliver to the Trustee:

(1) an Officers' Certificate stating that as of the time

immediately after the effective date of any such transaction the covenants of the Company and conditions contained in this Section 10.01 have been complied with and the successor corporation is not in default under the provisions of the Indenture; and

(2) an Opinion of Counsel stating that in the opinion of such counsel such covenants have been complied with and that any instrument or instruments executed in the performance of such covenants comply with the requirements thereof.

SECTION 10.02. Successor Corporation to be Substituted. In case of any such consolidation, merger, sale or conveyance and upon the assumption by the successor corporation,

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in the manner hereinabove provided, of the due and punctual payment of the principal or premium, if any, and interest on all of the Securities and the due and punctual performance and observance of all of the covenants and conditions of this Indenture to be performed or observed by the Company, such successor corporation shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the party of the first part. Such successor corporation thereupon may cause to be signed, and may issue either in its own name or in the name of Southwest Airlines Co., any or all of the Securities issuable hereunder that theretofore shall not have been signed by the Company and delivered to the Trustee; and, upon the order of such successor corporation (instead of the Company) and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee shall authenticate and shall deliver any Securities that previously shall have been signed and delivered by the officers of the Company to the Trustee of authentication, and any Securities that such successor corporation thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Securities so issued shall in all respects have the same legal rank and benefit under this Indenture as the Securities theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Securities had been issued at the date of the execution hereof. In the event of any such sale or conveyance and upon any such assumption, the Company or any successor corporation which shall theretofore have become such in the manner described in this Article Ten shall be discharged from all obligations and covenants under this Indenture and the Securities so assumed and may be liquidated and dissolved.

In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in the Securities thereafter to be issued as may be appropriate.

ARTICLE ELEVEN

SATISFACTION AND DISCHARGE OF INDENTURE; UNCLAIMED MONEYS

SECTION 11.01. Satisfaction and Discharge of Indenture. If at any time (a) the Company shall have paid or caused to be paid the principal of and interest on all the Securities of each series outstanding hereunder, as and when the same shall have become due and payable, or (b) the Company shall have delivered to the Trustee for cancellation (i) all securities of any series theretofore authenticated (other than any Securities of any series that shall have been destroyed, lost or stolen and that shall have been replaced or paid as provided in Section 2.08) and (ii) Securities for whose payment moneys have theretofore been deposited in trust and segregated and held in trust by the Company and thereafter returned to the Company or discharged from such trust, as provided in Section 11.04 or (c) (i) all such Securities not theretofore delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption under arrangements satisfactory to the Trustee for the giving of notice of redemption, and (ii) the Company shall have irrevocably

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deposited or caused to be deposited with the Trustee as trust funds an amount (other than moneys returned by the Trustee or any Paying Agent to the Company in accordance with Section 11.04) sufficient to pay at maturity or upon redemption all such Securities not theretofore delivered to the Trustee for cancellation, including principal and interest due or to become due to such date of maturity or date of redemption, as the case may be, and if, in any such case, the Company shall also pay or cause to be paid all other sums payable hereunder by the Company with respect to Securities of such series, then this Indenture shall cease to be of further effect with respect to Securities of

such series (except as to (i) rights of registration of transfer and exchange, (ii) substitution of apparently mutilated, defaced, destroyed, lost or stolen Securities, (iii) the rights, obligations and immunities of the Trustee hereunder and (iv) the rights of the Securityholders of such series as beneficiaries hereof with respect to the property so deposited with the Trustee payable to all or any of them), and the Trustee, on demand of the Company accompanied by an Officers' Certificate and an Opinion of Counsel (each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with) and at the cost and expense of the Company, shall execute proper instruments acknowledging such satisfaction of and discharging this Indenture with respect to such series; provided that the rights of holders of the Securities of such series to receive amounts in respect of principal of and interest on the Securities held by them shall not be delayed longer than required by then-applicable mandatory rules or policies of any securities exchange upon which the Securities of such series are listed and provided further that the Company shall not be discharged from any payment obligations in respect of any Securities, and such obligations shall be reinstated, if the Trustee is unable to apply any money in accordance with this Section by reason of any legal proceeding or any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application until such time as the Trustee is able to apply such money or the obligations are otherwise satisfied. The Company agrees to reimburse the Trustee of any costs or expenses thereafter reasonably and properly incurred and to compensate the Trustee for any services thereafter reasonably and properly rendered by the Trustee in connection with this Indenture or the Securities of such series.

SECTION 11.02. Application by Trustee of Funds Deposited for Payment of Securities. Subject to Section 11.04, all moneys deposited with the Trustee pursuant to Section 11.01 shall be held in trust and applied by it to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent), to the holders of the particular Securities of such series, for the payment or redemption of which such moneys have been deposited with the Trustee, of all sums due and to become due thereon for principal, interest and premium, if any.

SECTION 11.03. Repayment of Moneys Held by Paying Agent. In connection with the satisfaction and discharge of this Indenture with respect to such series of Securities, all moneys then held by any Paying Agent under the provisions of this Indenture with respect to any such series of Securities shall, upon demand of the Company or the Trustee, be paid to the Trustee

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and thereupon such Paying Agent shall be released from all further liability with respect to such moneys.

SECTION 11.04. Repayment of Moneys Held by Trustee. Any moneys deposited with the Trustee or any Paying Agent, or then held by the Company, for the payment of the principal of, premium, if any, or interest on any Securities of any series and not applied but remaining unclaimed by the holders of Securities for two years after the date upon which such payment shall have become due, shall be repaid to the Company by the Trustee or by such Paying Agent on demand; or, if then held by the Company, shall be discharged from such trust; and thereupon the Trustee and such Paying Agent or the Company as trustee shall be released from all further liability with respect to such moneys, and the holder of any for the Securities of such series entitled to receive such payment shall thereafter look only to the Company for the payment thereof; provided however, that the Trustee or Paying Agent, before being required to make any such payment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in Dallas, Texas, or cause to be mailed to each Securityholder of such series, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 11.05. Satisfaction, Discharge and Defeasance of Securities of any Series. If this Section 11.05 is specified, as contemplated by Section 2.03, to be applicable to Securities of any series, the Company shall be deemed to have paid and discharged the entire indebtedness on all the Securities of any such series at the time outstanding, and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction, discharge and defeasance of such indebtedness, when

(1) either

(A) with respect to all Securities of such series at the time outstanding,

(i) the Company has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness on all such Securities for principal and interest, on the days on which such principal or interest, as the case may be, is due and payable in accordance with the terms of this Indenture and such Securities, to the date of maturity or date of redemption thereof as contemplated by the penultimate paragraph of this Section 11.05, as the case may be; or

(ii) the Company has deposited or caused to be deposited with the Trustee as obligations in trust for the purpose such amount of non-callable direct obligations of, or obligations the principal of and interest on which are fully

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guaranteed by, the United States of America as will, together with the income to accrue thereon without consideration of any reinvestment thereof, be sufficient to pay and discharge the entire indebtedness on all such Securities for principal and interest, on the days on which such principal or interest, as the case may be, is due and payable in accordance with the terms of this Indenture and such Securities, to the date of maturity or date of redemption thereof as contemplated by the penultimate paragraph of this Section 11.05, as the case may be; or

(B) the Company has properly fulfilled such other means of satisfaction and discharge as is specified, as contemplated by Section 2.03, to be applicable to the Securities of such series;

(2) the Company has paid or caused to be paid all other sums payable with respect to the Securities of such series at the time outstanding and all other amounts due under the Indenture with respect to such series;

(3) such deposit will not result in a breach or violation of, or constitute a default under, this Indenture or any other agreement or instrument to which the Company is a party or by which it is bound;

(4) no Event of Default or event that, after notice or lapse of time or both, would become an Event of Default shall have occurred and be continuing on the date of such deposit;

(5) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel to the effect that (i) the Company has received from, or that there has been published by, the Internal Revenue Service a ruling, or (ii) since the date of this Indenture there has been a change in applicable federal income tax law, in either case to the effect that holders of the Securities of such series will not recognize income, gain or loss for federal income tax purposes as a result of such deposit, satisfaction, discharge and defeasance and will be subject to federal income tax on the same amounts and in the same manner and at the same times, as would have been the case if such deposit, satisfaction, discharge and defeasance had not occurred; and

(6) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction, discharge and defeasance of the entire indebtedness on all Securities of any such series at the time outstanding have been complied with.

Any deposits with the Trustee referred to in Section 11.05(1) (A) above shall be irrevocable and shall be made under the terms of an escrow trust agreement in form and substance satisfactory to the Trustee. If any Securities of such series at the time outstanding are to be redeemed prior to their stated maturity, whether pursuant to any optional redemption provisions or in accordance with any mandatory sinking fund requirement, the Company shall make such arrangements as are

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satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company.

Upon the satisfaction of the conditions set forth in this Section 11.05 with respect to all the Securities of any series at the time outstanding, the terms and conditions of such series, including the terms and conditions with respect thereto set forth in this Indenture, shall no longer be binding upon,

or applicable to, the Company, provided that the Company shall not be discharged from any payment obligations in respect of Securities of such series that are deemed not to be outstanding under clause (c) of the definition thereof if such obligations continue to be valid obligations in accordance with this Section by reason of any legal proceeding or any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application.

ARTICLE TWELVE

IMMUNITY OF INCORPORATORS, SHAREHOLDERS, OFFICERS AND DIRECTORS

SECTION 12.01. Incorporators, Shareholders, Officers and Directors of Company Exempt from Individual Liability. No records under or upon any obligation, covenant or agreement of this Indenture, or of any Security, or for any claim based thereon or otherwise in respect thereof shall be had against any incorporator, shareholder, officer or director, as such, past, present or future, of the Company or of any successor corporation, either directly or through the Company or such successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Indenture and the obligations issued hereunder are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, shareholders, officers or directors, as such, past, present or future, of the Company or of any successor corporation, or any of them, because of the reason of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or implied therefrom; and that any and all such personal liability of every name and nature, either at common law or in equity or by constitution or statute, of and any and all such rights and claims against, every such incorporator, shareholder, officer or director, as such, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or implied therefrom are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of such Securities.

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ARTICLE THIRTEEN

MISCELLANEOUS PROVISIONS

SECTION 13.01. Successors and Assigns of Company Bound by Indenture. All the covenants, stipulations, promises and agreements in this Indenture contained by or on behalf of the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 13.02. Acts of Board, Committee or Officer of Successor Corporation Valid. Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or officer of the Company shall and may be done and performed with like force and effect by the like board, committee or officer of any corporation that shall at the time be the lawful sole successor of the Company.

SECTION 13.03. Required Notices or Demands May be Served by Mail; Waiver. Any notice, direction, request or demand that by any provisions of this Indenture is required or permitted to be given or served by the Trustee or by the holders of Securities to or on the Company may be given or served by being deposited, postage prepaid, certified or registered mail, addressed (until another address is filed by the Company with the Trustee for such purpose), as follows: Southwest Airlines Co., P.O. Box 36611, Dallas, Texas 75235, Attention: Treasurer. Any notice, direction, request or demand by any Securityholder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or made at the principal office of the Trustee.

Where this Indenture provides for notice to Securityholders, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first class, postage prepaid, to each holder entitled thereto, at his last address as it appears in the Security register or registers. In any case where notice to holders if given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular holder shall affect the sufficiency of such notice with respect to other holders.

In case, by reason of the suspension of or irregularities in regular mail service, it shall be impracticable to mail notice to the Company or Securityholders when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be

satisfactory to the Trustee shall be deemed to be a sufficient giving of such notice.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by the person entitled to receive such notice, either before or after the event or action relating thereto, and such waiver shall be the equivalent of such notice. Waivers of notice by Securityholders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

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SECTION 13.04. Indenture and Securities to be Construed in Accordance with the Laws of the State of Texas. This Indenture and each Security shall be deemed to be a contract made under the laws of the State of Texas, and for all purposes shall be construed in accordance with the laws of said State, except as otherwise required by mandatory provisions of law.

SECTION 13.05. Evidence of Compliance with Conditions Precedent. Upon any request or application by the Company to the Trustee to take any action under any of the provisions as of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with, and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent have been complied with, except that in the case of any such application or demand as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or demand, no additional certificate or opinion need be furnished.

Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant provided for in this Indenture shall include (1) a statement that the person making such certificate or opinion has read such covenant or condition; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

Any certificate, statement or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows that the certificate or opinion or representations with respect to the matters upon which his certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous. Any certificate, statement or opinion of counsel may be based, insofar as it relates to factual matters, on information that is in the possession of the Company, upon the certificate, statement or opinion of or representations by an officer or officers of the Company, unless such counsel knows that the certificate, statement or opinion or representations with respect to the matters upon which his certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise of reasonable care should know that the same are erroneous.

Any certificate, statement or opinion of an officer of the Company or of counsel may be based, insofar as it relates to accounting matters, upon a certificate or opinion of or representations by an accountant or firm of accountants unless such officer or counsel, as the case may be, knows that the certificate or opinion or representations with respect to the accounting matters upon which his certificate, statement or opinion may be based as aforesaid are erroneous, or in the exercise

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of reasonable care should know that the same are erroneous. Any certificate or opinion of any independent firm of public accountants filed with the Trustee shall contain a statement that such firm is independent.

SECTION 13.06. Payments Due on Saturdays, Sundays, and Holidays. In any case where the date of payment of interest on or principal of the Securities of any series, or the date fixed for redemption or repayment of any such Security, shall not be a Business Day, then payment of interest or principal (and premium, if any) need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made

on the date of payment or the date fixed for redemption, and no interest shall accrue for the period after such date.

SECTION 13.07. Provisions Required by Trust Indenture Act of 1939 to Control. If and to the extent that any provision of this Indenture limits, qualifies or conflicts with the duties imposed by operation of subsection (c) of Section 318 of the Trust Indenture Act of 1939, the imposed duties shall control.

SECTION 13.08. Provisions of the Indenture and Security for the Sole Benefit of the Parties and the Securityholders. Nothing in this Indenture or in the Securities, expressed or implied, shall give or be construed to give any person, firm or corporation, other than the parties hereto and their successors and the holders of the Securities, any legal or equitable right, remedy or claim under or in respect of this Indenture, or under any covenant, condition or provision herein contained; all its covenants, conditions and provisions being for the sole benefit of the parties hereto and their successors and the holders of the Securities.

SECTION 13.09. Indenture May be Executed in Counterparts. This Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

SECTION 13.10. Article and Section Headings. The Article and Section heading references herein and in the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 13.11. Severability. If any provision hereof shall be held to be invalid, illegal or unenforceable under applicable law, then the remaining provisions hereof shall be construed as though such invalid, illegal or unenforceable provision were not contained herein.

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ARTICLE FOURTEEN

REDEMPTION OF SECURITIES AND SINKING FUNDS

SECTION 14.01. Applicability of Article. The provisions of this Article shall be applicable to the Securities of any series that are redeemable before their maturity or to any sinking fund for the retirement of Securities of a series, in either case as specified as contemplated by Section 2.03 for Securities of such series.

SECTION 14.02. Notice of Redemption; Partial Redemptions. Notice of redemption to the holders of Securities of any series to be redeemed as a whole or in part shall be given by mailing notice of such redemption by first class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption to such holders of Securities of such series at their last addresses as they shall appear upon the Security register or registers. Any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the holder receives the notice. Failure to give notice by mail, or any defect in the notice to the holder of any Security of a series designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Security of such series.

The notice of redemption to each such holder shall specify the principal amount of each Security of such series held by such holder to be redeemed, the date fixed for redemption, the redemption price, the place or places of payment, that payment will be made upon presentation and surrender of such Securities, that such redemption is pursuant to the mandatory or optional sinking fund, or both, if such be the case, that interest accrued to the date fixed for redemption will be paid as specified in said notice and that on and after said date interest thereon or on the portions thereof to be redeemed will cease to accrue. In case any Security of a series is to be redeemed in part only the notice of redemption shall state the portion of the principal amount thereof to be redeemed and shall state that on and after the date fixed for redemption, upon surrender of such Security, a new Security or Securities of such series in principal amount equal to the unredeemed portion thereof will be issued.

The notice of redemption of Securities of any series to be redeemed at the option of the Company shall be given by the Company or, at the Company's request, by the Trustee for such series in the name and at the expense of the Company.

No later than the redemption date specified in the notice of redemption given as provided in this Section, the Company will deposit with the Trustee or with one or more Paying Agents (or, if the Company is acting as its own Paying

Agent, set aside, segregate and hold in trust as provided in Section 3.04) an amount of money sufficient to redeem on the redemption date all the Securities of such series so called for redemption at the appropriate redemption price, together with accrued interest to the date fixed for redemption. If less than all the outstanding Securities

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of a series are to be redeemed, the Company will deliver to the Trustee at least 70 days (or such shorter period acceptable to the Trustee) prior to the date fixed for redemption an Officers' Certificate stating the aggregate principal amount of Securities to be redeemed.

If less than all the Securities of a series are to be redeemed, the Trustee shall select, in such manner as it shall deem appropriate and fair, Securities of such series to be redeemed in whole or in part. Securities may be redeemed in part in multiples equal to the minimum authorized denomination for Securities of such series or any integral multiple thereof. The Trustee shall promptly notify the Company in writing of the Securities of such series selected for redemption and, in the case of any Securities of such series selected for partial redemption, the principal amount of each such Security to be redeemed. For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of the Securities of any series shall relate, in the case of any Security redeemed or to be redeemed only in part, to the portion of the principal amount of such Security which has been or is to be redeemed.

SECTION 14.03. Payment of Securities Called for Redemption. If notice of redemption has been given as above provided, the Securities or portions of Securities specified in such notice shall become due and payable on the date and at the place or places stated in such notice at the applicable redemption price, together with interest accrued to the date fixed for redemption, and on and after said date (unless the Company shall default in the payment of such Securities at the redemption price, together with interest accrued to said date) interest on the Securities or portions of Securities so called for redemption shall cease to accrue and, except as provided in Sections 6.05 and 11.04, such Securities shall cease from and after the date fixed for redemption to be entitled to any benefit or security under this Indenture, and the holders thereof shall have no right in respect of such Securities except the right to receive the redemption price thereof and unpaid interest to the date fixed for redemption. On presentation and surrender of such Securities at a place of payment specified in said notice, said Securities or the specified portions thereof shall be paid and redeemed by the company at the applicable redemption price, together with interest accrued thereon to the date fixed for redemption; provided that any semiannual payment of interest becoming due on the date fixed for redemption shall be payable to the holders of such Securities registered as such on the relevant record date subject to the terms and provisions of Section 2.04 hereof.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid or duly provided for, bear interest from the date fixed for redemption at the rate of interest or Yield to Maturity (in the case of an Original Issue Discount Security) borne by the Security.

Upon presentation of any Security redeemed in part only, the Company shall execute and the Trustee shall authenticate and deliver to or on the order of the holder thereof, at the expense of the Company, a new Security or Securities of such series, of authorized denominations, in principal amount equal to the unredeemed portion of the Security so presented.

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SECTION 14.04. Exclusion of Certain Securities from Eligibility for Selection for Redemption. Securities shall be excluded from eligibility for selection for redemption if they are identified by registration and certificate number in a written statement signed by an authorized officer of the Company and delivered to the Trustee at least 45 (or such lesser number, not less than 30, as the Trustee may permit) days prior to the last date on which notice of redemption may be given as being owned by, and not pledged or hypothecated by, either (i) the Company or (ii) an Affiliate specifically identified in such written statement.

SECTION 14.05. Mandatory and Optional Sinking Funds. The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a "mandatory sinking fund payment," and any payment in excess of such minimum amount provided for by the terms of

Securities of any series is herein referred to as an "optional sinking fund payment." The last date on which a sinking fund payment may be made in each year is herein referred to as the "sinking fund payment date."

In lieu of making all or any part of any mandatory sinking fund payment with respect to any series of Securities in cash, the Company may at its option (i) deliver to the Trustee Securities of such series theretofore purchased or otherwise acquired (except upon redemption pursuant to the mandatory sinking fund) by the Company or receive credit for Securities of such series (not previously so credited) theretofore purchased or otherwise acquired (except as aforesaid) by the Company and delivered to the Trustee for cancellation pursuant to Section 2.09, (ii) receive credit for optional sinking fund payments (not previously so credited) made pursuant to this Section, or (iii) receive credit for Securities of such series (not previously so credited) redeemed by the Company through any optional redemption provisions contained in the terms of such Securities. Securities so delivered or credited shall be received or credited by the Trustee at the sinking fund redemption price specified in such Securities.

On or before the sixtieth day (or such later day, no later than the thirtieth, as the Trustee may permit) next preceding each sinking fund payment date for any series, the Company will deliver to the Trustee a written statement (which need not contain the statements required by Section 13.05) signed by an authorized officer of the Company (i) specifying the portion of the mandatory sinking fund payment to be satisfied by payment of cash and the portion to be satisfied by credit of Securities of such series, (ii) stating that none of the securities of such series has theretofore been so credited, (iii) stating that no defaults in the payment of interest or Events of Default with respect to such series have occurred (which have not been waived or cured) and are continuing and (iv) stating whether or not the Company intends to exercise its right to make an optional sinking fund payment with respect to such series, and, if so, specifying the amount of such optional sinking fund payment that the Company intends to pay on or before the next succeeding sinking fund payment date. Any Securities of such series to be credited and required to be delivered to the Trustee in order for the Company to be entitled to credit therefor as aforesaid that have not theretofore been delivered to the Trustee shall be delivered for cancellation pursuant to Section 2.09 to the Trustee with such written statement (or reasonably promptly

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thereafter if acceptable to the Trustee). Such written statement shall be irrevocable and upon its receipt by the Trustee the Company shall become unconditionally obligated to make all the cash payments therein referred to, if any, on or before the next succeeding sinking fund payment date. Failure of the Company, on or before any such sixtieth day (or such later day as the Trustee may have permitted), to deliver such written statement and Securities specified in this paragraph, if any, shall not constitute a default but shall constitute, on and as of such date, the irrevocable election of the Company (i) that the mandatory sinking fund payment for such series due on the next succeeding sinking fund payment date shall be paid entirely in cash without the option to deliver or credit Securities of such series in respect thereof and (ii) that the Company will make no optional sinking fund payment with respect to such series as provided in this Section.

If the sinking fund payment or payments (mandatory or optional or both) made in cash plus any unused balance of any preceding sinking fund payments made in cash shall exceed \$50,000 (or a lesser sum if the Company shall so request) with respect to the Securities of any particular series, such cash shall be applied on the next succeeding sinking fund payment date to the redemption of Securities of such series at the sinking fund redemption price together with accrued interest to the date fixed for redemption. If such amount shall be \$50,000 or less and the Company makes no such request then it shall be carried over until a sum in excess of \$50,000 is available. The Trustee shall select, in the manner provided in Section 14.02, for redemption on such sinking fund payment date a sufficient principal amount of Securities of such series to absorb said cash, as nearly as may be, and shall (if requested in writing by the Company) inform the Company or an entity known by the Trustee to be an Affiliate, as shown by the Security register or registers, and not known to the Trustee to have been pledged or hypothecated by the Company or any such entity or (ii) identified in a written statement delivered to the Trustee pursuant to Section 14.04 as being owned by, and not pledged or hypothecated by, the Company or an Affiliate shall be excluded from Securities of such series eligible for selection for redemption. The Trustee, in the name and at the expense of the Company (or the Company, if it shall so request the Trustee in writing) shall cause notice of redemption of the Securities of such series to be given in substantially the manner provided in Section 14.02 (and with the effect provided in Section 14.03) for the redemption of Securities of such series in part at the option of the Company. The amount of any sinking fund payments not so applied or allocated to the redemption of Securities of such series shall be added to the next cash sinking fund payment and, together

with such payment, shall be applied in accordance with the provisions of this Section 13.04. Any and all sinking fund moneys held on the stated maturity date of the Securities of any particular series (or earlier, if such maturity is accelerated), that are not held for the payment or redemption of particular Securities of such series shall be applied, together with other moneys if necessary, sufficient for the purpose, to the payment of the principal of, and interest on, the Securities of such series at maturity.

The Trustee shall not redeem or cause to be redeemed any Securities of a series with sinking fund moneys or mail any notice of redemption of Securities for such series by operation of the sinking funds during the continuance of a default in payment of interest on such Securities

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or of any Event of Default except that, where the mailing of notice of redemption of any securities shall theretofore have been made, the Trustee shall redeem or cause to be redeemed such Securities, provided that it shall have received from the Company a sum sufficient for such redemption. Except as aforesaid, any moneys in the sinking fund for such series at the time when any such default or Event of Default shall occur, and any moneys thereafter paid into the sinking fund, shall, during the continuance of such default or Event of Default, be deemed to have been collected under Article Five and held for the payment of all such Securities. In case such Event of Default shall have been waived as provided in Article Five or the default cured on or before the sixtieth day preceding the sinking fund payment date in any year, such moneys shall thereafter be applied on the next succeeding sinking fund payment date in accordance with this Section to the redemption of such Securities.

U.S. Trust Company of Texas, N.A., the party of the second part, hereby accepts the trust in this Indenture declared and provided, upon the terms and conditions hereinabove set forth.

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IN WITNESS WHEREOF, SOUTHWEST AIRLINES CO. the party of the first part, has caused this Indenture to be signed and acknowledged by its Chairman of the Board, a Vice Chairman of the Board, its President or one of its Vice Presidents, and the same to be attested by its Secretary or an Assistant Secretary; and U.S. Trust Company of Texas, N.A., the party of the second part, has caused this Indenture to be signed and acknowledged by one of its Vice Presidents, has caused its corporate seal to be affixed hereunto, and the same to be attested by Bill Barber, all as of the day and year first written above.

SOUTHWEST AIRLINES CO.

By _____ /s/ Gary C. Kelly
(Title) Chief Financial Officer

ATTEST:

_____/s/ Deborah Ackerman

(Title) Assistant Secretary

U.S. TRUST COMPANY OF TEXAS, N.A.

By _____ /s/ John Stohlmann
(Title) Vice President

ATTEST:

/s/ Bill Barber

(Title) Vice President

ACKNOWLEDGMENTS

STATE OF TEXAS)
) ss.:
COUNTY OF DALLAS)

BEFORE ME, P.J. Woodall a Notary Public, on this day personally appeared Gary C. Kelly, known to me to be the person whose name is subscribed to the foregoing instrument, and known to me to be Vice President - Chief Financial Officer of SOUTHWEST AIRLINES CO., a Texas corporation, and acknowledged to me that he/she executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said corporation.

GIVEN under my hand and seal of office this 25 day of February, 1997.

 /s/ P.J. Woodall

NOTARY PUBLIC - STATE OF TEXAS

STATE OF _____)
) ss.:
COUNTY OF _____)

BEFORE ME, Brandy Leah McCuistion a Notary Public, on this day personally appeared John C. Stohlmann, known to me to be the person whose name is subscribed to the foregoing instrument, and known to me to be Vice President of U.S. Trust Company of Texas, N.A., and acknowledged to me that he/she executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said corporation.

GIVEN under my hand and seal of office this 26 day of February, 1997.

 /s/ Brandy Leah McCuistion

NOTARY PUBLIC - STATE OF TEXAS

Supplemental Agreement No. 1

to

Purchase Agreement No. 1810

between

The Boeing Company

and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of February 26, 1997, by and between THE BOEING COMPANY, a Delaware corporation with its principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with its principal offices in City of Dallas, State of Texas (Buyer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 1810 dated January 19, 1994, relating to Boeing Model 737-7H4 aircraft (the Agreement) and;

WHEREAS, the parties desire to supplement the Agreement as hereinafter set forth to update the description of the Aircraft, revise the price for Special Features, Aircraft Basic Price and Advance Payment Base Price, delete any reference to Program Changes, update Exhibit A, change the warranty period in Exhibit B Part A, revise the Option Aircraft letter agreement, update the performance guarantees, revise the number of flight test hours, revise the training letter agreement, revise program changes in the Other Matters letter agreement, add new letter agreements for additional considerations, galley interchangeability, service ready validation program field test, escalation sharing, amortization of costs for customer unique changes, maintenance training and a price reconciliation for the Aircraft Basic Price .

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

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1. The Table of Contents of the Agreement is deleted in its entirety and a new Table of Contents is attached hereto and incorporated into the Agreement by this reference.

2. Article 1, entitled "Subject Matter of Sale," paragraph 1.1 entitled "The Aircraft" is deleted in its entirety and replaced by a new paragraph 1.1. Such new paragraph 1.1 provides a new date of October 30, 1996 for the Boeing Detail Specification. Such new page 1-1 is attached hereto and incorporated into the Agreement by this reference.

3. Article 3, entitled "Price of Aircraft", paragraph 3.2 entitled "Aircraft Basic Price" is revised by ***. Paragraph 3.3 entitled "Aircraft Price," subparagraph 3.3.1 is revised ***. Such new paragraph 3.2 and subparagraph 3.3.1 provide the new Aircraft Basic Price for the Aircraft. Paragraph 3.4 entitled "Advance Payment Base Price," subparagraph 3.4.1 entitled "Advance Payment Base Price" is revised by updating the Advance Payment Base Prices because of the new Aircraft Basic Price and by using current escalation factors as of the date of this Supplemental Agreement. Such new pages 3-1 and 3-2 are attached hereto and incorporated into the Agreement by this reference.

4. Article 7, entitled "Changes to the Detail Specification," paragraph 7.2 "Program Changes" is deleted in its entirety because Program Changes are not a part of the Agreement. Paragraph 7.3 entitled "Change Orders" becomes paragraph 7.2 and page 7-2 is deleted in its entirety. Such new page 7-1 is attached hereto and incorporated into the Agreement by this reference.

5. Exhibit A, entitled "Aircraft Configuration" is deleted in its entirety and replaced by a new Exhibit A reflecting the configuration reached between Buyer and Boeing. Such new Exhibit A is attached hereto and incorporated into the Agreement by this reference.

6. Exhibit B, entitled "Product Assurance Document," Part A entitled "Boeing Warranty," paragraph 4 entitled "Warranty Periods and Claims," subparagraphs 4.1.1 and 4.1.2 and Paragraph 8 entitled "Reimbursement for Certain Inspection Labor Costs," subparagraph 8.1.1 is revised by deleting 36 months and inserting 48 months. A new revised Part A is attached hereto and incorporated into the Agreement by this reference.

7. Letter Agreement No. 6-1162-RLL-933 entitled "Option Aircraft" is deleted in its entirety and replaced with

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Letter Agreement No. 6-1162-RLL-933R1 attached hereto and incorporated herein by this reference. The letter agreement was revised by adding four (4) Option Aircraft in the preamble for a total of sixty-seven (67) Option Aircraft. Article 1, entitled "Delivery of Option Aircraft" is revised by adding two (2) each 737-7H4 Option Aircraft to the Block G delivery stream in the months August and October 1999. Article 2 entitled "Delivery of Rollover Option Aircraft," subparagraph 2.2.1 is revised by changing the quantity of Option Aircraft from sixty-three (63) to sixty-seven (67). *** August and October 1999. Paragraph 5 entitled "Option Exercise," subparagraph 5.2 is revised by deleting in the last sentence of the paragraph the words advance payment and inserting the words option deposit. A new paragraph 8 entitled "Confidential Treatment" is added to the body of the letter agreement. Attachment A, Paragraph 1 entitled "Option Aircraft Description and Changes", subparagraph 1.1 entitled "Aircraft Description" is revised by inserting a new date for the Detail Specification and deleting reference to items 1, 2, and subparagraphs a, b, c, and d. The configuration items listed in paragraphs 1, 2, and subparagraphs a, b, c, and d are now included in the Detail Specification with the new date. Paragraph 1.3 entitled "Program Changes" is deleted in its entirety because Program Changes are no longer a part of the Agreement. Paragraph 1.4 entitled "Effect of Changes" becomes paragraph 1.3. Paragraph 2 entitled "Price Description," subparagraph 2.1 entitled "Price Elements Per Aircraft" is revised by adding the August and October 1999 Option Aircraft to the Aircraft Delivery Mo. and Yr. column and by deleting the Aircraft and Estimated Special Features Price, Estimated Escalation and Advance Payment Base Price Columns and replacing the columns with the respective new pricing elements. Paragraph 2 entitled "Price Description," paragraph 2.3 entitled "Price Adjustments for Option Aircraft Delivering from January 2002 through December 2006," subparagraph 2.3.5 entitled "Base Price Adjustments," is revised by ***.

8. Letter Agreement No. 6-1162-RLL-934 entitled "Disclosure of Confidential Information" is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL- 934R1 which is attached hereto and incorporated herein by this reference. The letter agreement was revised to update the list of confidential letter agreements.

9. Letter Agreement No. 6-1162-RLL-935 entitled *** is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-935R1 which is attached hereto and incorporated herein by this reference. The letter agreement was revised to ***.

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10. Letter Agreement No. 6-1162-RLL-936 entitled "Certain Contractual Matters," is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-936R1 which is attached hereto and incorporated herein by this reference. ***

11. Letter Agreement No. 6-1162-RLL-939 entitled *** is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-939R1 which is attached hereto and incorporated herein by this reference. ***

12. Letter Agreement No. 6-1162-RLL-940 entitled *** is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-940R1 which is attached hereto and incorporated herein by this reference. The letter agreement was revised to incorporate our mutual agreement based upon ***.

13. Letter Agreement No. 6-1162-RLL-941 entitled "Other Matters," is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-941R1 which is attached hereto and incorporated herein by this reference. The letter agreement was revised by deleting paragraph 4 entitled "Program Changes" because Article 7.2 of the Agreement and Article 1.3 of Attachment A to Letter Agreement No 6-1162-RLL-933, both entitled "Program Changes" have been deleted from the

14. Letter Agreement No. 6-1162-RLL-1855 entitled "Additional Contractual Matters" is incorporated into the Agreement by this reference.

15. Letter Agreement No. 6-1162-RLL-1856 entitled *** is incorporated into the Agreement by this reference.

16. Letter Agreement No. 6-1162-RLL-1857 entitled *** is incorporated into the Agreement by this reference.

17. Letter Agreement No. 6-1162-RLL-1858 entitled *** is incorporated into the Agreement by this reference.

18. Letter Agreement No. 6-1162-RLL-2036 entitled *** is incorporated into the Agreement by this reference.

19. Letter Agreement No. 6-1162-RLL-2037 entitled "Reconciliation of the Aircraft Basic Price" is incorporated into the Purchase Agreement by this reference.

20. Letter Agreement No. 6-1162-RLL-2073 entitled *** is incorporated into the Purchase Agreement by this reference.

21. This Supplemental Agreement will become effective upon its execution and the execution of Supplemental Agreement No. 22 to Purchase Agreement No. 1405.

22. Within three business days of execution of this Supplemental Agreement, Boeing will return ***.

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

By: /s/ R. Leo Lyons By: /s/ Gary A. Barron

Its: Attorney-In-Fact Its: EVP-COO

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6-1162-RLL-936R1	Certain Contractual Matters	SA-1
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6-1162-RLL-942	Open Configuration Matters	
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6-1162-RLL-2037	Reconciliation of the Aircraft Basic Price	SA-1
6-1162-RLL-2073	***	SA-1

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ARTICLE 1. Subject Matter of Sale.

1.1 The Aircraft. Subject to the terms and conditions of this Agreement, Boeing will manufacture and deliver to Buyer and Buyer will purchase and accept delivery from Boeing of sixty-three (63) Boeing Model 737-7H4 aircraft (the Aircraft) manufactured in accordance with Boeing Detail Specification D6-38808-1, dated October 30, 1996, as described in Exhibit A, as modified from time to time in accordance with this Agreement (Detail Specification).

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

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

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

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ARTICLE 3. Price of Aircraft.

3.1 Definitions.

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

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

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

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

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

3.2 Aircraft Basic Price.

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

Base Aircraft Price:	\$***
Special Features	\$***
Aircraft Basic Price	\$***

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

3.3.1 the Aircraft Basic Price, which is ***; plus

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

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

3.4 Advance Payment Base Price.

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

<TABLE>		
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Month and Year of Scheduled Delivery -----		Advance Payment Base Price per Aircraft -----
<S>		
	<C>	<C>
	Block A Aircraft ***	
October 1997		\$
November 1997		\$
	Block B Aircraft ***	
January 1998		\$
February 1998		\$
March 1998		\$
April 1998		\$
May 1998		\$
June 1998		\$
July 1998		\$
September 1998		\$
	Block C Aircraft ***	
February 1999		\$
May 1999		\$
July 1999		\$
September 1999		\$
	Block D Aircraft ***	
January 2000		\$
March 2000		\$
July 2000		\$
September 2000		\$
</TABLE>		

<TABLE>		
<C>	<C>	<C>
	Block E Aircraft ***	
January 2001		\$
March 2001		\$
July 2001		\$
September 2001		\$
</TABLE>		

ARTICLE 7. Changes to the Detail Specification.

7.1 Development Changes. Boeing may, at its own expense and without Buyer's consent, incorporate Development Changes in the Detail Specification and the Aircraft prior to delivery to Buyer. Development Changes are defined as changes to the basic specification for Model 737-700 aircraft that do not affect the Aircraft Purchase Price or adversely affect Aircraft delivery, guaranteed weight, guaranteed performance or compliance with the interchangeability or replaceability requirements set forth in the Detail Specification. If Boeing makes changes pursuant to this paragraph, Boeing will promptly notify Buyer of such changes.

7.2 Change Orders. The Detail Specification and associated provisions of this Agreement may be amended by Change Order or other written agreement, which

will state the particular changes to be made and any effect on design, performance, weight, balance, time of delivery, Aircraft Basic Price and Advance Payment Base Price.

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AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Exhibit A to Purchase Agreement Number 1810

AIRCRAFT CONFIGURATION

Dated February 26, 1997

relating to

BOEING MODEL 737-7H4 AIRCRAFT

The Detail Specification is Boeing Detail Specification D6-38808-1, dated October 30, 1996. Such Detail Specification will be comprised of Boeing Configuration Specification DC-38808, dated September 7, 1993, as amended to incorporate the applicable specification language to reflect the effect of the changes set forth in the Change Requests listed below, including the effects of such changes on Manufacturer's Empty Weight (MEW) and Operating Empty Weight (OEW). Such Change Requests are set forth in Boeing Document D6-38808-1. 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, except such Aircraft Basic Price does not include the price effects of Change Requests changing Buyer Furnished Equipment to Seller Purchased Equipment.

<TABLE>
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CR / TITLE	PRICE
	PER A/P
	SWA3701
	92 \$
=====	

<S> 0000DC3182 MISCELLANEOUS DEVELOPEMENT CHANGES STATUS: ACCEPT	<C> NC
0110CG3018 737-700 CONFIGURATION STATUS: ACCEPT	IB
0160MS3171 AIRPLANE IDENTIFICATION NUMBERS - SERIAL, REGISTRY, MODE S, FLIGHT RECORDER ID	NC

STATUS: ACCEPT	
0310CH3332	***
INCREASE CERTIFIED MAXIMUM TAKEOFF WEIGHT - 138,500 IN LIEU OF 133,000	
STATUS: ACCEPT	
0352CG3023	NC
AIRPLANE LOADING SYSTEM FOR WEIGHT AND BALANCE CONTROL	
STATUS: ACCEPT	
0370CH3014	***
AIR CONDITIONING TRANSITION DUCT UNDER FLOOR - ADD 17 MIL DAMPING TAPE FOR NOISE REDUCTION	
STATUS: ACCEPT	
0370CH3019	***
INSTALLATION OF STRINGER DAMPING FROM STATION 540-727	
STATUS: ACCEPT	

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	PRICE
	PER A/P
	SWA3701
CR / TITLE	92 \$
=====	=====

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1110CH3003	NC
CROWN METRO EXTERIOR PAINT - BMS 10-72 TYPE VI SYSTEM	
STATUS: ACCEPT	
1110MP3290	NC
EXTERIOR DECORATIVE FINISH - DESOTO SERIES 420 HIGH SOLID TOPCOAT IN LIEU OF EXISTING TOPCOAT	
STATUS: ACCEPT	
2123CH3042	***
AIR CONDITIONING SYSTEM REVISION - 737-200 TYPE GASPER SYSTEM	
STATUS: ACCEPT	
2160CG3011	NC
CABIN TEMPERATURE INDICATOR - DEGREES FAHRENHEIT IN LIEU OF CELSIUS	
STATUS: ACCEPT	
2210CG3204	***
DIGITAL FLIGHT CONTROL SYSTEM (DFCS) - PADDLE AUTOPILOT ENGAGE MODE CONTROL PANEL	
STATUS: ACCEPT	
2210MP3227	NC
DIGITAL FLIGHT CONTROL SYSTEM (DFCS) - PUSH-BUTTON AUTOPILOT ENGAGE IN LIEU OF PADDLE	
STATUS: ACCEPT	
2230CH3028	NC
AUTOTHROTTLE DEACTIVATION - UNIT TO REMAIN INSTALLED AND BITE FEATURES OPERATIONAL	
STATUS: ACCEPT	

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PRICE
PER A/P

CR / TITLE	SWA3701 92 \$
=====	
<S>	<C>
2312CH3284	NC
DUAL VHF COMMUNICATIONS - INSTALLATION - BFE ALLIEDSIGNAL/GABLES ENGINEERING INC STATUS: ACCEPT	
2319CH3020	***
CLAIRCOM AIR TO GROUND PASSENGER COMMUNICATION SYSTEM - COMPLETE BFE INSTALLATION PROVISIONS STATUS: ACCEPT	
2319MP3021	***
CLAIRCOM PHONES - CANCEL INSTALLATION INTENDED FROM 2319CH3020 STATUS: ACCEPT	
2320CH3020	***
ATSCALL INSTALLATION - PARTIAL PROVISIONS - AFT ELECTRONICS PANEL STATUS: ACCEPT	
2321CH3498	***
SELECTIVE CALLING EQUIPMENT - SELCAL - DELETE PARTIAL PROVISIONS STATUS: ACCEPT	
2331CH3158	NC
DELETION OF BFE MATSUSHITA PASSENGER ADDRESS TAPE REPRODUCER STATUS: ACCEPT	
2331CH3159	NC
PASSENGER ADDRESS SYSTEM - COLLINS ARINC 700 IN LIEU OF COLLINS ARINC 560 STATUS: ACCEPT	
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	PRICE PER A/P SWA3701 92 \$
CR / TITLE	
=====	
<S>	<C>
2334SP3210	NC
PASSENGER ENTERTAINMENT SYSTEM (AUDIO) - DELETE SPACE PROVISIONS STATUS: ACCEPT	
2340MP3095	NC
BFE BOOM MICROPHONE/HEADSET REVISION STATUS: ACCEPT	
2342MP3011	NC
FLIGHT ATTENDANT HANDSET - REVISION TO FUNCTION AND FACEPLATE STATUS: ACCEPT	
2350CH3139	NC
PA MICROPHONE - ADD ELECTROVOICE P/N 602-4183 STATUS: ACCEPT	
2350CH3162	NC
DTMF MICROPHONE INSTALLATION - FIRST OBSERVER STATUS: ACCEPT	
2350CH3163	NC
DIGITAL AUDIO REMOTE ELECTRONICS UNIT REVISION TO DELETE HEADSET AURAL ALERTS STATUS: ACCEPT	

2350MP3220
DIGITAL AUDIO REMOTE ELECTRONICS UNIT
REVISION - ADD PREDICTIVE WINDSHEAR WITHOUT
HEADSET AURAL ALERTS - 737-700
STATUS: ACCEPT
</TABLE>

NC

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<CAPTION>

CR / TITLE	PRICE PER A/P SWA3701 92 \$
<S>	<C>
2370CG3166 SOLID STATE VOICE RECORDER - INSTALLATION - BFE ALLIEDSIGNAL INC STATUS: ACCEPT	NC
2500CH3453 DOOR WARNING STRAP - SHOCK CORD STATUS: ACCEPT	NC
2501CH3076 FORWARD MODULE WITH GALLEY G1 AND LAVATORY LA STATUS: ACCEPT	NC
2501MP3080 REVISE FORWARD MODULE WITH GALLEY G1 AND LAVATORY LA FROM SEAT TRACK MOUNT TO HARDPOINT STATUS: ACCEPT	NC
2502CH3066 AFT MODULE WITH GALLEY G3, G4 AND LAVATORY LB STATUS: ACCEPT	NC
2502MP3069 REVISE MODULE WITH GALLEY G3, G4 AND LAVATORY LB TO HARPOINT IN LIEU OF SEAT TRACK MOUNT STATUS: ACCEPT	NC
2510CH3058 FLIGHT COMPARTMENT - MISCELLANEOUS REVISIONS STATUS: ACCEPT	NC

</TABLE>

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<TABLE>
<CAPTION>

CR / TITLE	PRICE PER A/P SWA3701 92 \$
<S>	<C>
2510CH3059 TRIP COUNTER REVISION - SFE - DEXTER WILSON STATUS: ACCEPT	NC
2510CH3060 CONTROL COLUMN CHECKLIST DELETION STATUS: ACCEPT	NC
2511CG3057 SECOND OBSERVER'S STATION STATUS: ACCEPT	***
2511CH3059 LOG BOOK POCKET INSTALLATION - ON SECOND	NC

OBSERVERS SEAT LEGS
STATUS: ACCEPT

2520CH3538
INTERIOR ARRANGEMENT - 137 TOURIST CLASS AT
33/32" PITCH WITH LAVS LA AND LB AND
GALLEYS G1, G3 AND G4
STATUS: ACCEPT

2520MP3667
STOWAGE BIN REVISION - ADD BULLNOSE ON
INBOARD LOWER SURFACE
STATUS: ACCEPT

NC

2523CH3109
PSU REVISION - ADD PLACARD TO PASSENGER
VIEWING SURFACE IN LOUNGE AREAS ONLY
STATUS: ACCEPT

NC

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<TABLE>
<CAPTION>

PRICE
PER A/P
SWA3701
92 \$

CR / TITLE

=====

<S>
2523CH3112
INSTALL NON STANDARD COLOR PSU
STATUS: ACCEPT

<C>
NC

2523MP3119
INTERIOR REVISION - PSU AND PARTITION
RELOCATION TO SUPPORT SEAT RE-PITCH
REQUIRED FOR 16G COMPLIANCE
STATUS: ACCEPT

NC

2524CH3431
BFE FWD RIGHT HAND WINDSCREEN/STOWAGE UNIT
IN LIEU OF SFE
STATUS: ACCEPT

2524MP3488
FULL HEIGHT BFE STOWAGE UNIT REVISION - ADD
BFE FLASHLIGHTS AND BFE LITERATURE POCKETS
STATUS: ACCEPT

NC

2524MP3500
PARTITION DECORATIVE COVERING REVISION -
ULTRALEATHER IN LIEU OF LEATHER
STATUS: ACCEPT

NC

2524MP3513
EMERGENCY EQUIPMENT BRACKET COMMONALITY -
SFE
STATUS: ACCEPT

NC

2525MP3159
PASSENGER SEAT REVISION - ALL FORWARD
FACING SEATS WITH 137 PAX
STATUS: ACCEPT

NC

</TABLE>

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<TABLE>
<CAPTION>

PRICE
PER A/P
SWA3701
92 \$

CR / TITLE

=====

<S>
2528CH3189
SFE HALF HEIGHT STOWAGE UNIT/WINDSCREEN -

<C>

AFT LH CABIN WITH THE AFT FACE AT STATION
955 - WITH MEGAPHONE
STATUS: ACCEPT

2528CH3191 ***
SFE FULL HEIGHT STOWAGE UNIT/WINDSCREEN -
FWD LH CABIN WITH THE AFT FACE AT STATION
355
STATUS: ACCEPT

2528CH3194 ***
BFE HALF HEIGHT STOWAGE UNIT/WINDSCREEN -
AFT LH CABIN WITH THE AFT FACE AT STATION
955 - WITH MEGAPHONE
STATUS: ACCEPT

2528CH3195 ***
BFE FULL HEIGHT STOWAGE UNIT/WINDSCREEN IN
LIEU OF SFE - FWD LH CABIN WITH THE AFT
FACE AT STATION 355
STATUS: ACCEPT

2528MP3217 NC
CREW LUGGAGE SECURITY DEVICE
STATUS: ACCEPT

2530MP3613 NC
G3 EXTERIOR DECORATIVE COVERING REVISION -
ULTRASUEDE IN LIEU OF LEATHER
STATUS: ACCEPT

2541CH3034 NC
LIQUID SOAP DISPENSER INSTALLATION
STATUS: ACCEPT

</TABLE>

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<TABLE>
<CAPTION>

CR / TITLE	PRICE PER A/P SWA3701 92 \$
=====	=====

<S>	<C>
2550CH3153	NC
CARGO COMPARTMENT LINING REVISION	
STATUS: ACCEPT	

2550CH3233	NC
FWD AND AFT CARGO COMPARTMENT FLOOR PANEL	
REVISION - ALUMINUM PANELS IN LIEU OF	
CONOLITE AT ENTRYWAY	
STATUS: ACCEPT	

2550MP3259	NC
TRANSVERSE CARGO NET INSTALLATION - FORWARD	
AND AFT CARGO COMPARTMENTS	
STATUS: ACCEPT	

2550MP3267	NC
FORWARD AND AFT CARGO COMPARTMENT CARGO	
RESTRAINT SYSTEM	
STATUS: ACCEPT	

2622CH3013	NC
APU FIRE BOTTLE REVISION - INTERCHANGEABLE	
WITH ENGINE BOTTLE	
STATUS: ACCEPT	

2841CG3095	NC
FUEL QUANTITY INDICATORS ON RIGHT WING	
FUELING PANEL	
STATUS: ACCEPT	

2844CG3038	NC
MEASURING STICK CONVERSION TABLES TO U.S.	
GALLONS	
STATUS: ACCEPT	

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CR / TITLE	PRICE PER A/P SWA3701 92 \$
<S>	<C>
2910CH3082 HYDRAULIC PUMPS - AC ELECTRIC MOTOR DRIVEN - VICKERS IN LIEU OF ABEX STATUS: ACCEPT	NC
2910CG3087 ENGINE DRIVEN HYDRAULIC PUMP WITH VESPEL SPLINE - VICKERS 10-62167-3 IN LIEU OF ABEX 10-62167-2 STATUS: ACCEPT	***
3040CH3041 INSTALL A TWO LRU WINDOW HEAT CONTROL SYSTEM - PED 1231-1 IN LIEU OF TBD STATUS: ACCEPT	NC
3040MP3049 INSTALL A 4 UNIT WINDOW HEAT CONTROL SYSTEM - OLIN 231-2 IN LIEU OF 1231-1 STATUS: ACCEPT	NC
3040MP3053 INSTALL A BFE WINDOW HEAT CONTROL SYSTEM WHICH CONTAINS BITE - OLIN 231-3 IN LIEU OF 231-2 STATUS: ACCEPT	***
3043MP3022 WINDSHIELD WIPER SWITCH REVISION - SINGLE SWITCH FOR BOTH WIPERS IN LIEU OF TWO SWITCHES STATUS: ACCEPT	NC

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CR / TITLE	PRICE PER A/P SWA3701 92 \$
<S>	<C>
3120CH3016 CLOCK WIRING REVISION - FMC, DFDAU AND VOICE RECORDER INPUT FROM FIRST OFFICER'S CLOCK IN LIEU OF CAPTAIN'S CLOCK STATUS: ACCEPT	NC
3131CG3673 ACCELEROMETER - INSTALLATION - BFE ALLIEDSIGNAL INC STATUS: ACCEPT	NC
3131CG3692 SOLID STATE DIGITAL FLIGHT DATA RECORDER - INSTALLATION - BFE ALLIEDSIGNAL INC - 128 WPS STATUS: ACCEPT	NC
3131CH3721 DIGITAL FLIGHT DATA ACQUISITION UNIT (DFDAU) - INSTALLATION - BFE ALLIEDSIGNAL STATUS: ACCEPT	NC
3162CG3013 EFIS/MAP DISPLAY FORMAT	NC

STATUS: ACCEPT

3162CG3016	NC
FLIGHT DIRECTOR COMMAND DISPLAY - FILLED	
INTEGRATED CUE	
STATUS: ACCEPT	

3162CG3017	NC
MACH AIRSPEED DISPLAY	
STATUS: ACCEPT	

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	PRICE
	PER A/P
	SWA3701
CR / TITLE	92 \$
=====	=====

<S>	<C>
3162CG3019	NC
RADIO ALTITUDE DISPLAY - ROUND DIAL	
STATUS: ACCEPT	

3162CG3020	NC
RADIO ALTITUDE - ABOVE ADI	
STATUS: ACCEPT	

3162CG3022	NC
RISING RUNWAY DISPLAY	
STATUS: ACCEPT	

3162CG3025	NC
RADIO ALTITUDE HEIGHT ALERT DISPLAY - 2500	
FEET	
STATUS: ACCEPT	

3162CG3026	NC
ATTITUDE COMPARATOR - STEADY	
STATUS: ACCEPT	

3162CG3029	NC
LOCALIZER BACKCOURSE POLARITY - REVERSAL	
STATUS: ACCEPT	

3162CG3032	NC
MAP MODE ORIENTATION - TRACK UP	
STATUS: ACCEPT	

3162CG3038	NC
MANUALLY TUNED VOR SELECTED COURSE LINES -	
DISPLAYED	
STATUS: ACCEPT	

3162CG3041	NC
ADF POINTER(S) IN MAP MODE - SUPPRESSED	
STATUS: ACCEPT	

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<TABLE>
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	PRICE
	PER A/P
	SWA3701
CR / TITLE	92 \$
=====	=====

<S>	<C>
3162CG3042	NC
POSITION DIFFERENCE - AUTOMATIC DISPLAY	
STATUS: ACCEPT	

3162CG3046	NC
WEATHER RADAR MODE/GAIN/TILT ANGLE -	
DISPLAYED	
STATUS: ACCEPT	

3162CG3050	NC
TCAS TRAFFIC ON MAP	
STATUS: ACCEPT	
3162CG3052	NC
TCAS RESOLUTION ADVISORY ON ADI	
STATUS: ACCEPT	
3162CG3053	NC
TCAS RESOLUTION ADVISORY ON IVSI	
STATUS: ACCEPT	
3162CG3057	NC
ANALOG FAILURE FLAGS - DISPLAYED	
STATUS: ACCEPT	
3162CH3066	NC
MACH AIRSPEED INDICATOR BUG #5 - 80 KNOTS	
STATUS: ACCEPT	
3162CH3068	NC
SUPPLEMENTAL METRIC DATA INDICATIONS -	
DEACTIVATION	
STATUS: ACCEPT	

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	PRICE
	PER A/P
	SWA3701
CR / TITLE	92 \$
=====	=====

<S>	<C>
3162CH3075	NC
EFIS CONTROL PANEL - EFIS/MAP DISPLAY	
FORMAT	
STATUS: ACCEPT	
3162MP3128	NC
ANALOG FAILURE FLAG - DELETE	
STATUS: ACCEPT	
3162MP3129	NC
SUPPLEMENTAL METRIC DATA INDICATIONS -	
ACTIVATION	
STATUS: ACCEPT	
3162MP3131	NC
ENHANCED MACH AIRSPEED DISPLAY	
STATUS: ACCEPT	
3162MP3132	NC
WEATHER RADAR RANGE INDICATORS - RANGE	
MARKS	
STATUS: ACCEPT	
3240CH3220	NC
NOSE LANDING GEAR WHEELS - BENDIX	
STATUS: ACCEPT	
3240CH3221	NC
MAIN LANDING GEAR WHEELS AND BRAKES -	
BENDIX	
STATUS: ACCEPT	
3240MP3258	NC
NOSE LANDING GEAR - INSTALL 737-300	
ALLIEDSIGNAL WHEEL IN LIEU OF EXISTING	
STATUS: ACCEPT	

</TABLE>

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PRICE

CR / TITLE	PER A/P SWA3701 92 \$
<S>	<C>
3245CH3029	NC
TIRES - INSTALLATION OF SFE GOODYEAR TIRES	
STATUS: ACCEPT	
3324CH3010	NC
CEILING MOUNTED LIGHTED EXIT SIGN -	
RELOCATION	
STATUS: ACCEPT	
3343CH3034	NC
ANTI-COLLISION LIGHT - SWITCH NOMENCLATURE	
REVISION	
STATUS: ACCEPT	
3345CH3020	NC
LOGO LIGHTS - SYSTEM DEACTIVATION	
STATUS: ACCEPT	
3345MP3029	NC
REACTIVATION OF LOGO LIGHT SYSTEM	
STATUS: ACCEPT	
3350MP3079	NC
EGRESS LIGHTING REVISION TO ACCOMMODATE ALL	
FORWARD FACING SEAT CONFIGURATION	
STATUS: ACCEPT	
3423CH3021	NC
INSTALL BFE STANDBY ATTITUDE INDICATOR	
WITHOUT ILS DEVIATION DISPLAY IN LIEU OF	
SFE INDICATOR	
STATUS: ACCEPT	
3423CH3026	NC
STANDBY INDICATOR - SFE SEXTANT IN LIEU OF	
BFE JET	
STATUS: ACCEPT	
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<TABLE>
<CAPTION>

CR / TITLE	PRICE PER A/P SWA3701 92 \$
<S>	<C>
3431CG3051	NC
ILS - INSTALLATION - BFE ALLIEDSIGNAL INC	
STATUS: ACCEPT	
3433CG3058	NC
LOW RANGE RADIO ALTIMETER (LRRA) -	
INSTALLATION - BFE ALLIEDSIGNAL INC	
STATUS: ACCEPT	
3435CH3028	***
FLIGHT DYNAMICS CAPTAIN ONLY HEAD UP	
GUIDANCE SYSTEM - PARTIAL PROVISIONS	
STATUS: ACCEPT	
3443CH3118	***
WEATHER RADAR SYSTEM - ARINC 708A SINGLE	
WEATHER RADAR SYSTEM WITH PREDICTIVE	
WINDSHEAR - PARTIAL PROVISIONS	
STATUS: ACCEPT	
3443CH3154	NC
ARINC 708 WEATHER RADAR SYSTEM -	
INSTALLATION - BFE ALLIEDSIGNAL INC (WITH	
DEACTIVATED PREDICTIVE WINDSHEAR FEATURE	
R/T RDR-4B)	
STATUS: ACCEPT	

3445CH3197
TCAS II - INSTALLATION - BFE ALLIEDSIGNAL
INC
STATUS: ACCEPT
</TABLE>

NC

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<CAPTION>

CR / TITLE	PRICE PER A/P SWA3701 92 \$
------------	--------------------------------------

<S> 3451CG3005 VOR/MARKER BEACON - INSTALLATION - BFE ALLIEDSIGNAL INC STATUS: ACCEPT	<C> NC
---	-----------

3455CG3120 DISTANCE MEASURING EQUIPMENT (DME) - INSTALLATION - BFE ALLIEDSIGNAL INC (SCANNING) STATUS: ACCEPT	NC
---	----

3457CG3088 AUTOMATIC DIRECTION FINDER (ADF) - INSTALLATION - BFE ALLIEDSIGNAL INC STATUS: ACCEPT	NC
---	----

3457CG3092 AUTOMATIC DIRECTION FINDER (ADF) CONTROL PANEL - INSTALLATION - BFE GABLES ENGINEERING INC STATUS: ACCEPT	NC
--	----

3457MP3132 ADF CONTROL PANEL REVISION - ADD GABLES G7402-05 IN LIEU OF EXISTING STATUS: ACCEPT	NC
---	----

3457MP3133 ADF ANTENNA REVISION - ADD ALLIEDSIGNAL 2041683-7507 IN LIEU OF EXISTING STATUS: ACCEPT	NC
---	----

</TABLE>

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<TABLE>
<CAPTION>

CR / TITLE	PRICE PER A/P SWA3701 92 \$
------------	--------------------------------------

<S> 3458CH3091 GPS PROVISIONS - ADD COMPONENTS REQUIRED TO PROVIDE COMPLETE PROVISIONS STATUS: ACCEPT	<C> NC
---	-----------

3458CH3092 GLOBAL POSITIONING SYSTEM (GPS) - INSTALLATION - HONEYWELL INC (SUPPLEMENTAL NAVIGATION CERTIFICATION) STATUS: ACCEPT	***
--	-----

3461CG3403 BUYER FURNISHED NAVIGATION DATA BASE STATUS: ACCEPT	NC
--	----

3461CH3485 VERTICAL NAVIGATION (VNAV) ACTIVATE/DEACTIVATE SERVICE BULLETIN STATUS: ACCEPT	NC
--	----

3461CH3489 ***
FLIGHT MANAGEMENT COMPUTER SYSTEM REVISION
- CERTIFICATION FOR SINGLE COMPUTER
OPERATION ONLY
STATUS: ACCEPT

3510CG3089 NC
CREW OXYGEN - 114 CU. FT. IN LIEU OF 76 CU.
FT. CYLINDER
STATUS: ACCEPT

3830MP3025 NC
INSTALLATION OF PNEUDRAULICS INC. 4"
SERVICE PANEL LAVATORY DRAIN VALVE P/N 9569
IN LIEU OF CURRENT SHAW VALVE
STATUS: ACCEPT
</TABLE>

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<TABLE>
<CAPTION>

	PRICE PER A/P SWA3701 92 \$
CR / TITLE	
=====	=====

<S>	<C>
3831MP3019	***
GRAY WATER DRAIN ROUTING REVISION - LEVEL LINE IN LIEU OF SLANTED LINE STATUS: ACCEPT	

3832CH3071 NC
VACUUM LAVATORY SYSTEM IN LIEU OF
RECIRCULATING LAVATORY - LAVS A AND B
STATUS: ACCEPT

3910CH3113 NC
RELOCATE ATC CONTROL PANEL
STATUS: ACCEPT

3910CH3122 NC
AFT ELECTRONICS PANEL ARRANGEMENT
STATUS: ACCEPT

5100CH3026 NC
ADDITIONAL CORROSION PROTECTION BENEATH
GALLEYS AND LAVS
STATUS: ACCEPT

5100CH3027 NC
FWD AND AFT CARGO DOOR REVISION - INSTALL
HEAVY DUTY SKIN
STATUS: ACCEPT

5100MP3030 NC
REMOVE ADDITIONAL CORROSION PROTECTION
ADDED BY CR 5100CH3026
STATUS: ACCEPT
</TABLE>

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<TABLE>
<CAPTION>

	PRICE PER A/P SWA3701 92 \$
CR / TITLE	
=====	=====

<S>	<C>
5220MP3012	NC
OVERWING HATCH ASSIST HANDLE REVISION - INSTALL RECESSED HANDLE IN LIEU OF PROTRUDING HANDLE STATUS: ACCEPT	

7200CG3244
AIRPLANE PERFORMANCE: CFM56-7 ENGINES WITH
OPERATIONAL THRUST OF 22,000 LBS. FOR
737-600,-700
STATUS: ACCEPT

IB

7900CG3026
LUBRICATING OIL - ESSO/EXXON TURBO OIL 2380
STATUS: ACCEPT

NC

CR'S	138	TOTAL	***
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</TABLE>

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PART A

BOEING WARRANTY

1. Warranties.

Subject to the exceptions set forth in paragraph 2, Boeing warrants that, at the time of delivery, each Aircraft, including all installed systems, accessories, equipment and parts, will:

1.1 conform to the Detail Specification, as it may be changed pursuant to this Agreement, except such portions stated to be estimates, approximations, design objectives, or design criteria, or described as not guaranteed;

1.2 be free from defects in material and workmanship, including process of manufacture; and

1.3 be free from defects in design, including selection of (i) materials and (ii) process of manufacture, in view of the state of the art at the time of design.

For purposes of this Boeing Warranty, nonconformance with the Detail Specification, defects in material or workmanship and defects in design may hereinafter be called "defects" or a "defect", and the term "system", "accessory", "equipment" or "part" may hereinafter be called "item" or "items."

2. Exceptions.

The warranties above will not apply to BFE. The warranty above covering material and workmanship and the warranty above covering design will not apply to Engines or to any other item purchased by Boeing but not manufactured to Boeing's detailed design. However, any defect in the Boeing workmanship installing such BFE, Engines or other items in an Aircraft will, including any failure by Boeing to conform to the installation instructions of the manufacturer of such items that invalidates any applicable warranty from such manufacturer, constitute a defect in workmanship and be covered by the warranty set forth in paragraph 1.

3. Survival of Warranties.

Neither the warranty of conformance to the Detail Specification applicable to Engines and other items purchased by Boeing but not manufactured to Boeing's detailed design, nor any Performance Guarantees, will survive delivery of the Aircraft. The remaining warranties

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set forth herein will survive delivery of the Aircraft, subject to the limitations and conditions set forth herein.

4. Warranty Periods and Claims.

4.1 The warranty periods are:

4.1.1 As to a defect in conformance to the Detail Specification, 48 months after delivery of such Aircraft, and

4.1.2 As to a defect in material, workmanship or design in any item, 48 months after delivery of each Aircraft in

which such item was initially installed.

4.2 Boeing must receive the warranty claim in writing at the earliest practicable time after the defect becomes apparent to Buyer but in no event later than 90 days after expiration of the applicable warranty period.

4.3 Such warranty claim must include the data set forth below and, if requested by Boeing, reasonable evidence that the claimed defect did not result from any act or omission of Buyer.

4.3.1 Identity of the item or Aircraft involved, including Boeing part number, serial number if applicable, nomenclature and the quantity claimed to be defective;

4.3.2 Identity of the Aircraft on which the claimed item was installed as original equipment;

4.3.3 Date the claimed defect became apparent to Buyer; and

4.3.4 Description of the claimed defect and circumstances, including Boeing service bulletin or Boeing service letter number if claim involves a service bulletin or letter.

4.4 Upon completion of Boeing's warranty claim investigation, including examination of any item or Aircraft returned to Boeing, Boeing will provide a written disposition of its warranty claim findings to Buyer. In the event Boeing must reject Buyer's warranty claim, Boeing will provide reasonable substantiation of such rejection in its disposition.

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5. Remedies.

Buyer's remedies under this Boeing Warranty are as follows:

5.1 As to a defect in conformance to the Detail Specification, the correction at Boeing's expense of such defect; provided, however, that Boeing will not be obligated to correct any defect that Boeing and Buyer agree has no material adverse effect on the maintenance, use or operation of the Aircraft. The warranty period for the corrected item will be the unexpired warranty period for the defective item.

5.2 As to a defect in material or workmanship, (i) the repair at Boeing's expense of such defect or, (ii) at Boeing's option, the replacement of such item with a similar item free from defect or the issuance of a credit memorandum to Buyer for a spare part previously purchased from Boeing as the replacement for such defective item. The warranty period for either correction will be the unexpired warranty period for the defective item.

5.3 As to a defect in design, the correction at Boeing's expense of such defect. The warranty period for such correction is 18 months from receipt by Buyer of corrective material or the end of the original design warranty period for the defective item, whichever is later.

5.4 Boeing will reimburse Buyer at the Warranty Labor Rate for the direct labor hours required for removal from the Aircraft of a defective item and the reinstallation in the Aircraft of the corrected item.

6. Returned Items.

Unless otherwise provided in this Agreement, the Aircraft or item claimed to be defective must be returned to Boeing as soon as practicable. Buyer may also provide specific technical repair or correction instructions with such return. The absence of such instructions will evidence Buyer's authorization for Boeing to proceed using Boeing information and data. The following criteria will apply with respect to return of Aircraft or items to Boeing:

6.1 As to Aircraft:

6.1.1 An Aircraft may be returned only if

6.1.1.1 substantially all the work to be performed by Boeing is covered by this Boeing Warranty and

6.1.1.2 Buyer does not have the capability to perform, nor is it practical for Boeing

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personnel to perform, the warranty work away from Boeing's facilities.

6.1.2 All warranty work will be performed at Boeing's expense, with reasonable efforts to minimize Aircraft out-of-service time. In addition, Boeing will reimburse Buyer for the cost of fuel, oil and landing fees incurred in ferrying the Aircraft to Boeing's facilities and in ferrying the Aircraft back to Buyer's facilities. Buyer will use its best efforts to minimize the length of both ferry flights.

6.1.3 Any nonwarranty work performed by Boeing will be paid for by Buyer at Boeing's then-standard rates and shall in no event exceed the rates charged other commercial carriers of Boeing during substantially the same time period.

6.1.4 A separate agreement containing the above provisions and their mutually agreeable terms and conditions based on Boeing's then-standard form will be entered into to cover the return of and work on such Aircraft.

6.2 As to any system, accessory, equipment or part:

6.2.1 All warranty work will be performed at Boeing's expense, with reasonable efforts to minimize item out-of-service time for items returned.

6.2.2 Boeing's turnaround-time objectives for repair or replacement are: 10 working days for avionic and electronic items and 30 working days for other items when corrected at Boeing's facilities, or 40 working days when corrected at the facilities of a Boeing subcontractor. Turnaround time starts the date Boeing receives the returned item, together with Buyer's warranty claim describing the work, and ends the date of shipment by Boeing of such item. If a turnaround-time objective is not achieved and a resultant critical parts shortage is experienced by Buyer, and Buyer has procured spare parts for such item substantially in accordance with the Boeing Recommended Spare Parts List, Boeing will, upon request from Buyer, either:

6.2.2.1 expedite repair or replacement of the item or

6.2.2.2 provide a similar item on a no-charge loan or no-charge lease basis until the repaired or replaced item is provided to Buyer.

6.2.3 The freight charge for shipment to Boeing of any item will be paid by Buyer; however, Boeing

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will reimburse Buyer for such charge for any item determined to be defective under this Boeing Warranty. The freight charge for the return shipment to Buyer of any such defective item which has been repaired, replaced or corrected pursuant to this Boeing Warranty will be paid by Boeing.

6.3 Title to and risk of loss of any Aircraft or item returned to Boeing will at all times remain with Buyer and/or any other owner of such Aircraft or item, except that at the time Boeing ships a replacement item to Buyer, title to and risk of loss (i) for the returned item will pass to Boeing and (ii) for the replacement item will pass to Buyer. While Boeing has care, custody and control of an Aircraft or item, Boeing will have only such liabilities as a bailee for mutual benefit would have, but will not be liable for loss of use.

7. Nonrepairable Items.

Buyer may scrap any defective nonrepairable item having a then-current Boeing spare part selling price of \$2,000 or less and make a claim for a replacement item. For a defective nonrepairable item having a then-current Boeing spare part selling price greater than \$2,000, an authorized Boeing representative must confirm the nonrepairability of any such item. Buyer's claim for an item with a spare part selling price exceeding \$2,000 must include such confirmation.

8. Reimbursement for Certain Inspection Labor Costs.

8.1 In addition to the remedies set forth in this Boeing Warranty, Boeing will reimburse Buyer at the Warranty Labor Rate for the direct labor hours expended by Buyer in performing inspections of the Aircraft to determine whether or not a covered defect exists in any system, accessory,

equipment or part manufactured to Boeing's detailed design, provided that:

8.1.1 such inspections are recommended by a Boeing service bulletin or service letter issued by Boeing within 48 months after delivery of such Aircraft, and

8.1.2 such reimbursement will not apply to any inspections performed as an alternative to accomplishing corrective action when such corrective action is available to Buyer at the time such inspections are performed.

9. Wear and Tear.

Normal wear and tear and the need for regular maintenance and overhaul will not constitute a defect.

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10. Disclaimer and Release; Exclusion of Liabilities.

This Part A and the rights and remedies of Buyer and obligations of Boeing herein are subject to the Disclaimer and Release and Exclusion of Consequential and Other Damages provisions of Article 12 of this Agreement.

11. Buyer's Indemnification of Boeing.

The provisions of Part E, "Buyer's Indemnification of Boeing and Insurance" of Exhibit C, will apply to all warranty work performed by Boeing hereunder in accordance with Buyer's specific technical repair or correction instructions, to the extent any legal liability of Boeing is based upon the content of such instructions.

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6-1162-RLL-933R1

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

Subject: Letter Agreement No. 6-1162-RLL-933R1 to
Purchase Agreement No. 1810 -
Option Aircraft

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

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

In consideration of the purchase by Buyer of the Aircraft, Boeing hereby agrees to manufacture and sell to Buyer sixty-seven (67) additional Model 737-7H4 aircraft as described in paragraph 1 of Attachment A hereto (Option Aircraft) and forty-nine (49) Model 737-7H4 Rollover Option Aircraft (Rollover Option Aircraft), subject to the terms and conditions set forth below.

1. Delivery of Option Aircraft.

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

<TABLE> <CAPTION>		
Month and Year of Delivery - - - - -	Number of Option Aircraft -----	Option Aircraft Block -----
<S>	<C>	<C>
October 1998	One (1)	F
November 1998	Two (2)	F
December 1998	Two (2)	F

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

Southwest Airlines Co.
6-1162-RLL-933R1 Page 2

<TABLE>
<CAPTION>

Month and Year of Delivery - - - - -	Number of Option Aircraft -----	Option Aircraft Block -----
(continued)		
<S>	<C>	<C>
April 2001	Three (3)	I
October 2001	Three (3)	I
January 2002	Four (4)	J
March 2002	Four (4)	J
April 2002	Two (2)	J
July 2002	Four (4)	J
October 2002	Four (4)	J
January 2003	Four (4)	K
March 2003	Four (4)	K
April 2003	Two (2)	K
July 2003	Four (4)	K
October 2003	Four (4)	K
April 2004	Two (2)	L
July 2004	Three (3)	L

2. Delivery of Rollover Option Aircraft.

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

<TABLE>
<CAPTION>

Year of Delivery	Number of Option Aircraft	Option Aircraft Block
<S>	<C>	<C>
2004	Thirteen (13)	M
2005	Eighteen (18)	N
2006	Eighteen (18)	O

2.2 The forty-nine (49) Rollover Option Aircraft are offered to Buyer subject to the following conditions:

2.2.1 Buyer can exercise any forty-nine (49) of the sixty-seven (67) Option Aircraft, and will be offered a Rollover Option Aircraft for each option aircraft exercised up to and including forty-nine (49).

2.2.2 Conversely to Article 2.2.1 above, if Buyer does not exercise a minimum of forty-nine (49) Option Aircraft, one Rollover Option Aircraft will be deleted for each Option Aircraft not exercised by Buyer.

Southwest Airlines Co.
6-1162-RLL-933R1 Page 3

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

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

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

3. Price.

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

3.2 Price and escalation provisions for Model 737-7H4 aircraft
 delivering after 2001, are not currently available. The estimated Advance
 Payment Base Prices shown in paragraph 3.3 below and in paragraph 2.1 of
 Attachment A are based on currently available price and escalation provisions.
 As price and escalation provisions become available for Model 737-7H4 aircraft
 delivering after 2001, such price and escalation provisions will be
 appropriately applied to the applicable Option Aircraft.

For additional information relating to price and escalation provisions
 applicable to Option Aircraft delivering after 2001 refer to paragraphs 2.3 and
 3.2 of Attachment A.

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

Southwest Airlines Co.
 6-1162-RLL-933R1 Page 4

<TABLE> <CAPTION> Month and Year of Delivery - - - - -		Advance Payment Base Price per Option Aircraft -----
<S>		<C>
Block F Aircraft ***		
October 1998		\$
November 1998		\$
December 1998		\$
Block G Aircraft ***		
March 1999		\$
June 1999		\$
August 1999		\$
September 1999		\$
October 1999		\$
Block H Aircraft ***		
April 2000		\$
October 2000		\$
Block I Aircraft ***		
April 2001		\$
October 2001		\$
Block J Aircraft ***		
January 2002		\$
March 2002		\$
April 2002		\$
July 2002		\$
October 2002		\$
Block K Aircraft ***		
January 2003		\$

March 2003	\$
April 2003	\$
July 2003	\$
October 2003	\$

Block L Aircraft ***

April 2004	\$
July 2004	\$

</TABLE>

3.4 The Option Aircraft purchase price will be the applicable basic price thereof at the time of Option Aircraft delivery adjusted in accordance with Boeing's

Southwest Airlines Co.
6-1162-RLL-933R1 Page 5

Aircraft escalation provisions contained in the definitive agreement to purchase the Option Aircraft. The purchase price will include the price for Seller Purchased Equipment (SPE) if Buyer has elected to change Buyer Furnished Equipment (BFE) to SPE.

4. Option Aircraft Payment.

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

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

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

5. Option Exercise.

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

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

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

Southwest Airlines Co.
6-1162-RLL-933R1 Page 6

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

6. Contract Terms.

It is understood that Boeing and Buyer will use their best efforts to enter into a definitive agreement for the Option Aircraft within thirty (30) days after Buyer exercises an option to purchase Option Aircraft pursuant to

paragraph 5 covering the detailed terms and conditions for the sale of such Option Aircraft.

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

Southwest Airlines Co.
6-1162-RLL-933R1 Page 7

7. Termination of Option to Purchase.

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

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

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

(iii) exercise of an option to purchase an Option Aircraft pursuant to the terms hereof. Any termination of an option to purchase by Boeing which is based on the termination of the purchase of Aircraft under the Agreement will be on a one-for-one basis, for each Aircraft so terminated.

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

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

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

Southwest Airlines Co.
6-1162-RLL-933R1 Page 8

8. Confidential Treatment. Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement No. 6-1162-RLL-934R1.

Very truly yours,

THE BOEING COMPANY

By /s/ R. Leo Lyons

Its Attorney-in-Fact

ACCEPTED AND AGREED TO this

date: February 26, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its EVP-COO

Attachments

Attachment A to
6-1162-RLL-933R1
Page 1

Model 737-7H4 Aircraft

1. Option Aircraft Description and Changes.

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

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

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

(2) Changes mutually agreed upon.

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

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

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

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

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

Attachment A to
6-1162-RLL-933R1
Page 2

2. Price Description

2.1 Price Elements Per Aircraft

<TABLE>

<CAPTION>

	1	2	3
AIRCRAFT DELIVERY MO. & YR.	AIRCRAFT & ESTIMATED SPECIAL FEATURES PRICE (JULY 1992\$)	ESTIMATED ESCALATION	ADV. PMT. BASE PRICE (ELEMENTS) 1 + 2 + 3
-----	-----	-----	-----
<S>	<C>	<C>	<C>
October 1998	***	***	***
November 1998			
December 1998			
March 1999			
June 1999			
August 1999			
September 1999			
October 1999			
April 2000			
October 2000			
April 2001			
October 2001			
January 2002			
March 2002			
April 2002			
July 2002			
October 2002			
January 2003			
March 2003			
April 2003			
July 2003			
October 2003			
April 2004			
July 2004			
</TABLE>			

Attachment A to
6-1162-RLL-933R1
Page 3

2. Price Description. (Continued)

2.2 Price Adjustments For Option Aircraft Delivering From October 1998 to October 2001.

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

2.2.2 Escalation Adjustments. For Option Aircraft delivering from October 1998 to October 2001, the Aircraft Basic Price and Special Features price will be escalated according to the provisions of Attachment B to this letter agreement.

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

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

2.3 Price Adjustments For Option Aircraft Delivering From January 2002 through December 2006.

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

2.3.2 Escalation Adjustments. For escalation provisions applicable to Option Aircraft delivering after 2001, see paragraph 2.3.6 below.

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

2.3.4 Price Adjustments for Changes. Boeing may adjust the

Aircraft Basic Price and the Advance Payment Base Price for any changes mutually agreed upon subsequent

Attachment A to
6-1162-RLL-933R1
Page 4

to the date that Buyer and Boeing enter into a definitive agreement for the Option Aircraft.

2.3.5 Base Price Adjustments. The Aircraft Basic Price of the Option Aircraft will be adjusted to Boeing's then-current prices as of the date of execution of the definitive agreement for the Option Aircraft in accordance with the agreement reached below. The Aircraft Basic Price starting point for options delivering from January 2002 through December 2006 is \$*** (July 1992 STE). Such Aircraft Basic Price may increase in accordance with paragraphs 2.3.1, 2.3.2, 2.3.3 and 2.3.4. For any other changes to the Aircraft Basic Price, Boeing may increase the Aircraft Basic Price by a maximum of \$*** (July 1992 STE) per year or portion thereof starting in January 2002.

2.3.6 Prices for Long Lead Time Aircraft. Boeing has not established escalation provisions for Model 737-700 aircraft for delivery 2002 and after. Such escalation provisions (i) will be incorporated into the Option Aircraft definitive agreement when such information is available and (ii) will be the then-current escalation provisions applicable to the same model aircraft and engines delivering in the same time period as the Option Aircraft. The resulting revisions to the definitive agreement will include but not be limited to, adjustment of the Aircraft Basic Price of the Option Aircraft, the Advance Payment Base Price, the Aircraft escalation provisions and the advance payment amounts due on the Option Aircraft.

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

3. Advance Payment Schedules, Prices and Adjustments.

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

Attachment A to
6-1162-RLL-933R1
Page 5

	Amount Due per Aircraft (Percentage times Advance Payment Base Price)
Due Date of Payment	
Deposit	\$100,000 (if applicable)
18 months prior to the first day of the scheduled delivery month of the Aircraft	15% (less the Deposit if any)
12 months prior to the first day of the scheduled delivery month of the Aircraft	5%
9 months prior to the first day of the scheduled delivery month of the Aircraft	5%
6 months prior to the first day of the scheduled delivery month of the Aircraft	5%
Total	30%

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

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

Attachment B to
6-1162-RLL-933R1
Page 1

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

1. Formula.

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

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

Where:

Pa = Aircraft Price Adjustment.

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

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

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

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

Attachment B to
6-1162-RLL-933R1
Page 2

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

In determining the value of L, the ratio of ECI divided by 116.2

will be expressed as a decimal rounded to the nearest ten-thousandth and then multiplied by .65 with the resulting value also expressed as a decimal and rounded to the nearest ten-thousandth.

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

<TABLE>
<CAPTION>

Month of Scheduled Aircraft Delivery - - - - -	Months to be Utilized in Determining the Value of ECI and ICI -----
<S>	<C>
January	June B, July B, Aug. B
February	July B, Aug. B, Sept. B
March	Aug. B, Sept. B, Oct. B
April	Sept. B, Oct. B, Nov. B
May	Oct. B, Nov. B, Dec. B
June	Nov. B, Dec. B, Jan. D
July	Dec. B, Jan. D, Feb. D
August	Jan. D, Feb. D, Mar. D
September	Feb. D, Mar. D, Apr. D
October	Mar. D, Apr. D, May D
November	Apr. D, May D, June D
December	May D, June D, July D
</TABLE>	

The following definitions of B and D will apply:

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

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

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

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

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

months needed to determine the Aircraft Price Adjustment, such values will be used to determine any increase or decrease in the Aircraft

Attachment B to
6-1162-RLL-933R1
Page 4

Price Adjustment for the Aircraft from that determined at the time of delivery of such Aircraft.

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

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

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

6-1162-RLL-934R1

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

Subject: Letter Agreement No. 6-1162-RLL-934R1 to
Purchase Agreement No. 1810 -
Disclosure of Confidential Information

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

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

1. Buyer understands that certain commercial and financial information contained in the documents listed below (Confidential Documents) is considered by Boeing as confidential.

2. Buyer agrees that it will treat the Confidential Documents and the information contained therein as confidential and will not, without the prior written consent of Boeing, disclose such Confidential Documents or any information contained therein to any other person or entity except as may be required by (i) applicable law or governmental regulations, or (ii) for financing the Aircraft in accordance with the provisions of Article 10 of the Agreement.

3. In connection with any such disclosure or filing of the Confidential Documents, or the information contained therein pursuant to any such applicable law or governmental regulation, Buyer will request and use its best reasonable efforts to obtain confidential treatment of such Confidential Documents and the information contained therein. Boeing agrees to cooperate with Buyer in making and supporting its request for confidential treatment.

Schedule of Confidential Documents

1. Letter Agreement No. 6-1162-RLL-932
2. Letter Agreement No. 6-1162-RLL-933R1
3. Letter Agreement No. 6-1162-RLL-934R1
4. Letter Agreement No. 6-1162-RLL-935R1
5. Letter Agreement No. 6-1162-RLL-936R1
6. Letter Agreement No. 6-1162-RLL-937
7. Letter Agreement No. 6-1162-RLL-938

Southwest Airlines Co.
6-1162-RLL-934R1 Page 2

8. Letter Agreement No. 6-1162-RLL-939R1
9. Letter Agreement No. 6-1162-RLL-940R1
10. Letter Agreement No. 6-1162-RLL-941R1
11. Letter Agreement No. 6-1162-RLL-942
12. Letter Agreement No. 6-1162-RLL-943
13. Letter Agreement No. 6-1162-RLL-944
14. Letter Agreement No. 6-1162-RLL-945
15. Letter Agreement No. 6-1162-RLL-1855
16. Letter Agreement No. 6-1162-RLL-1856
17. Letter Agreement No. 6-1162-RLL-1857
18. Letter Agreement No. 6-1162-RLL-1858
19. Letter Agreement No. 6-1162-RLL-2036
20. Letter Agreement No. 6-1162-RLL-2037
21. Letter Agreement No. 6-1162-RLL-2073

4. Confidential Treatment.

Buyer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement.

Very truly yours,

THE BOEING COMPANY

By /s/ R. Leo Lyons

Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of this

date: February 26, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its EVP-COO

6-1162-RLL-935R1

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

Subject: Letter Agreement No. 6-1162-RLL-935R1 to
Purchase Agreement No. 1810 -0

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

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

3. Confidential Treatment. Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement No. 6-1162-RLL-934R1.

Very truly yours,

THE BOEING COMPANY

By /s/ R. Leo Lyons

Its Attorney-in-Fact

Southwest Airlines Co.
6-1162-RLL-935R1 Page 2

ACCEPTED AND AGREED TO as of this

date: February 26, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its EVP-COO

Attachment

6-1162-RLL-936R1

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

Subject: Letter Agreement No. 6-1162-RLL-936R1 to
Purchase Agreement No. 1810 -
Certain Contractual Matters

This Letter Agreement amends Purchase Agreement No. 1810 dated January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 aircraft (the Aircraft) and Letter Agreement 6-1162-RLL-933R1, dated even date herewith, entitled "Option Aircraft", relating to the sale by Boeing and the purchase by Buyer of sixty-seven (67) additional Model 737-7H4 aircraft (the Option Aircraft) and forty-nine (49) Model 737-7H4 Rollover Option Aircraft (Rollover Option Aircraft).

The commitments made herein to Buyer are provided from Boeing and CFM International Inc. (CFM).

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

1. Credit Memorandum - Aircraft - Firm Aircraft.

In consideration of Buyer's purchase of the Aircraft, Boeing will

issue to Buyer at the time of delivery of each Aircraft a credit memorandum which may be used by Buyer for the purchase of Boeing goods and services or applied to the final delivery payment for the Aircraft for which the credit was issued. The amount of this credit memorandum applicable to each Aircraft will be *** of the Aircraft Basic Price (July 1992 STE \$) ***.

2. Credit Memorandum - Aircraft - Option Aircraft and Rollover Option Aircraft.

In consideration of Buyer's purchase of the Option Aircraft and Rollover Option Aircraft, Boeing will issue to Buyer at the time of delivery of each Option Aircraft and Rollover Option Aircraft a credit memorandum which may be used by Buyer for the purchase of Boeing goods and services or applied to the final delivery payment for the Option Aircraft or Rollover Option Aircraft for which the credit was issued. The amount of the credit memorandum applicable to each Aircraft will be *** of the Aircraft Basic Price (July 1992 STE \$) ***.

Southwest Airlines Co.
6-1162-RLL-935R1 Page 2

3. Simulation Data Credits.

If Buyer purchases one subsequent simulator data package for a price of \$*** dollars (July 1992 STE \$), Boeing will issue offsetting credit memoranda in amounts equal to Boeing's invoice price of such simulator data concurrent with the issuance of such invoice. If Buyer purchases one concurrent simulator data package for a price of \$***, Boeing will issue an offsetting credit memorandum in an amount equal to Boeing's invoice price of such simulator data package concurrent with the issuance of such invoice. Buyer understands that the concurrent data package price of \$*** (July 1992 STE \$) is valid only if the second simulator is manufactured by the same simulator manufacturer as the subsequent simulator and the concurrent simulator is ordered within eight years of the signing of the Agreement.

4. Credits.

The Aircraft Basic Price for Buyer's 737-7H4 Aircraft does not include a price for Dual Flight Management Computer and Five Channel SELCAL. These two features will be installed in the Aircraft but deactivated. If Buyer decides at anytime (whether before or after delivery) to activate this capability, Buyer will pay Boeing an amount equal to *** (July 1992 STE \$) escalated to the month and year of delivery of that Aircraft in accordance with the aircraft escalation formula (Exhibit D - Aircraft Price Adjustment) for this installed capability. If Buyer sells or leases the Aircraft for operation by a third party and the features are subsequently activated, Buyer will pay or cause the subsequent buyer or lessee to pay the above described activation charge to Boeing.

5. Maximum Takeoff Weight Credit Memoranda.

Buyer has purchased a Maximum Takeoff Weight of 138,500 pounds for the Aircraft. Boeing will, at the time of Aircraft delivery, issue to Buyer a credit memoranda in the amount of \$*** (July 1992 STE \$), *** to offset the price for 500 pounds of Maximum Takeoff Weight.

6. Confidential Treatment.

Buyer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any

Southwest Airlines Co.
6-1162-RLL-936R1 Page 3

information contained herein to any other person or entity, except as provided in Letter Agreement 6-1162-RLL-934R1.

Very truly yours,

THE BOEING COMPANY

By /s/ R. Leo Lyons

Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of this

date: February 26, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its EVP-COO

6-1162-RLL-939R1

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

Subject: Letter Agreement No. 6-1162-RLL-939R1 to
Purchase Agreement No. 1810 -

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

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

11. Confidential Treatment.

Buyer understands that certain commercial and financial information
contained in this Letter Agreement is considered by Boeing as confidential.
Buyer agrees that it will treat this Letter Agreement and the information
contained herein as confidential and will not, without the prior written
consent of Boeing, disclose this Letter Agreement or any information contained
herein to any other person or entity, except as provided in Letter Agreement
6-1162-RLL-934R1.

Very truly yours,

THE BOEING COMPANY

By /s/ R. Leo Lyons

Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of this

date: February 26, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its EVP-COO

6-1162-RLL-940R1

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

Subject: Letter Agreement No. 6-1162-RLL-940R1 to
Purchase Agreement No. 1810 -

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

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

7. Flight Crew Computer Based Training.

7.1 See Exhibit C, Part C, Paragraph 4.1 of the Purchase Agreement, Computer Based Training.

7.2 Recognizing that CBT authoring technologies will continue to change, Boeing agrees to hold discussions with Buyer to develop a mutually agreeable solution by January 1, 1996. The CBT program will contain 100 percent CBT coverage and support on airline Advanced Qualification Program Applicable.

10. Delivery of Flight Manual and Operations Manual.

Buyer has a requirement to receive its initial flight and operations manual earlier than on the actual delivery day of Buyer's first Aircraft. Boeing will provide an advanced representative copy of the flight and operations manual on or before August 15, 1997. Boeing will provide the FAA approved flight manual and operations manual to Buyer immediately after the FAA approves the flight manual.

Southwest Airlines Co.
6-1162-RLL-940R1 Page 2

11. Confidential Treatment.

Buyer understands that certain commercial and financial information contained in this Letter Agreement are considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity, except as provided in Letter Agreement 6-1162-RLL-934R1.

Very truly yours,

THE BOEING COMPANY

By /s/ R. Leo Lyons

Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of this

date: February 26, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its EVP-COO

6-1162-RLL-941R1

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

Subject: Letter Agreement No. 6-1162-RLL-941R1 to
Purchase Agreement No. 1810 -
Other Matters

This Letter Agreement amends Purchase Agreement No. 1810 dated January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 Aircraft (the Aircraft) and to Letter Agreement No. 6-1162-RLL-933 dated even date herewith, entitled "Option Aircraft," relating to the sale by Boeing and purchase by Buyer of sixty-seven (67) additional Model 737-7H4 aircraft (the Option Aircraft) and forty-nine (49) Model 737-7H4 Rollover Option Aircraft (Rollover Option Aircraft).

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

1. Delivery Delay.

Notwithstanding the language set forth in Article 2.3 "Notice of Delivery Date," if Buyer requests a delivery delay for any Aircraft within the contract delivery month, Buyer shall not be charged for costs of the first ten (10) days of such delay.

2. Purchase Price - Excusable Delay/Destroyed Aircraft.

2.1. If the Article 2.1 delivery month for any Aircraft is delayed because of an excusable delay under Article 6.1, Boeing agrees that the Aircraft Price shall be determined as if the delayed Aircraft had been delivered during the original Article 2.1 delivery month.

2.2. In the event any Aircraft is destroyed and Boeing offers Buyer a replacement Aircraft under Article 6.3, Boeing agrees that the Aircraft Price shall be determined as if the replacement aircraft had been delivered during the original Article 2.1 delivery month of the destroyed Aircraft.

Southwest Airlines Co.
6-1162-RLL-941R1 Page 2

3. Advance Payment - Repayment.

4. Confidential Treatment.

Buyer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity, except as provided in Letter Agreement 6-1162-RLL-934R1.

Very truly yours,
THE BOEING COMPANY

By /s/ R. Leo Lyons

Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of this
date: February 26, 1997
SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its EVP-COO

6-1162-RLL-1855

Southwest Airlines Co.
P.O. Box 36611
Dallas, Texas 75235-1611

Subject: Letter Agreement No. 6-1162-RLL-1855 to
Purchase Agreement No. 1810
Additional Contractual Matters

Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1810 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to the sale by Boeing and the purchase by Buyer of sixty-three (63) Model 737-7H4 aircraft (the Aircraft) and Letter Agreement 6-1162-RLL-933R1, dated even date herewith, entitled "Option Aircraft", relating to the sale by Boeing and the purchase by Buyer of sixty-seven (67) additional Model 737- 7H4 aircraft (the Option Aircraft).

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

3. Confidential Treatment

Buyer understands that certain commercial and financial information contained in this Letter Agreement are considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity, except as provided in Letter Agreement 6-1162-RLL-934R1.

Southwest Airlines Co.
6-1162-RLL-1855 Page 2

Very truly yours,
THE BOEING COMPANY

By /s/ R. Leo Lyons

Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of this

date: February 26, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its EVP-COO

6-1162-RLL-1856

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

Subject: Letter Agreement No. 6-1162-RLL-1856 to
Purchase Agreement No. 1810 -

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

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

2. Confidential Treatment.

Buyer understands that certain commercial and financial information contained
in this Letter Agreement and attachment(s) hereto are considered by Boeing as
confidential. Buyer agrees that it will treat this Letter Agreement and the
information contained herein as confidential and will not, without the prior
written consent of Boeing, disclose this Letter Agreement or any information
contained herein to any other person or entity, except as provided in Letter
Agreement No. 6-1162-RLL- 934R1.

Very truly yours,

THE BOEING COMPANY

By /s/ R. Leo Lyons

Its Attorney-in-Fact

Southwest Airlines Co.
6-1162-RLL-1856
Page 2

ACCEPTED AND AGREED TO as of this

date: February 26, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its EVP-COO

6-1162-RLL-1857

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

Subject: Letter Agreement No. 6-1162-RLL-1857 to
Purchase Agreement No. 1810 -

Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1810 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to the sale by Boeing and the purchase by Buyer of sixty-three (63) Model 737-7H4 aircraft (the Aircraft).

All terms used herein and in the Purchase Agreement, and not defined herein, shall have the same meanings as in the Purchase Agreement.

12. Confidentiality

12.1 In accordance with Letter Agreement No. 6-1162- RLL-934R1, the terms and conditions of this Letter Agreement are and will remain strictly confidential between Boeing and Buyer and will not under any circumstances be disclosed by either party to any third party (except, as reasonably necessary, to its respective employees and professional advisers, and to Boeing's insurers in connection with the insurance described in paragraph 11.3 above and to the Federal Aviation Administration) without the prior written consent of the other party, such consent not to be unreasonably withheld.

If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval below.

Southwest Airlines Co.
6-1162-RLL-1857 Page 2

Very truly yours,

THE BOEING COMPANY

By /s/ R. Leo Lyons

Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of this

date: February 26, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its EVP-COO

6-1162-RLL-1858

Southwest Airlines Co.
P.O. Box 36611
Dallas, Texas 75235-1611

Subject: Letter Agreement No. 6-1162-RLL-1858 to
Purchase Agreement No. 1810

Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1810 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to the sale by Boeing and the purchase by Buyer of Model 737-7H4 aircraft (the Aircraft) and Letter Agreement 6-1162-RLL-933R1, dated even date herewith, entitled "Option Aircraft", relating to the sale by Boeing and the purchase by Buyer of sixty-seven (67) additional Model 737-7H4 aircraft (the Option Aircraft) and forty-nine (49) Model 737-7H4 Rollover Option Aircraft (Rollover Option Aircraft).

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

5. Confidential Treatment

Buyer understands that certain commercial and financial information contained in this Letter Agreement are considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity, except as provided in Letter Agreement 6-1162-RLL-934R1.

Very truly yours,

THE BOEING COMPANY

By /s/ R. Leo Lyons

Its Attorney-in-Fact

Southwest Airlines Co.
6-1162-RLL-1858 Page 2

ACCEPTED AND AGREED TO as of this

date: February 26, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its EVP-COO

6-1162-RLL-2036

Southwest Airlines Co.
P.O. Box 36611
Dallas, Texas 75235-1611

Subject: Letter Agreement No. 6-1162-RLL-2036 to
Purchase Agreement No. 1810 ***

Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1810 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to the sale by Boeing and the purchase by Buyer of Model 737-7H4 aircraft (the Aircraft) and Letter Agreement 6-1162-RLL-933R1, dated even date herewith, entitled "Option Aircraft", relating to the sale by Boeing and the purchase by Buyer of sixty-seven (67) additional Model 737-7H4 aircraft (the Option Aircraft) and forty-nine (49) Model 737-7H4 Rollover Option Aircraft (Rollover Option Aircraft).

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

2. Confidential Treatment

Buyer understands that certain commercial and financial information contained in this Letter Agreement are considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity, except as provided in Letter Agreement 6-1162-RLL-934R1.

Very truly yours,

THE BOEING COMPANY

By /s/ R. Leo Lyons

Its Attorney-in-Fact

Southwest Airlines Co.
6-1162-RLL-2036 Page 4

ACCEPTED AND AGREED TO as of this

date: February 26, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its EVP-COO

Attachment

Attachment to
Southwest Airlines Co.
6-1162-RLL-2036 Page 1

<TABLE>
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	PER A/P	PRICE
CR / TITLE	SWA3701	SWA3701 F/O
	92 \$	92\$

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<S>	<C>	<C>
0000DC3182	NC	NC
MISCELLANEOUS DEVELOPEMENT CHANGES		
STATUS: ACCEPT		
0110CG3018	IB	IB
737-700 CONFIGURATION		
STATUS: ACCEPT		
0160MS3171	NC	NC
AIRPLANE IDENTIFICATION NUMBERS - SERIAL,		
REGISTRY, MODE S, FLIGHT RECORDER ID		
STATUS: ACCEPT		
0310CH3332	\$***	\$***
INCREASE CERTIFIED MAXIMUM TAKEOFF WEIGHT -		
138,500 IN LIEU OF 133,000		
STATUS: ACCEPT		

0352CG3023 AIRPLANE LOADING SYSTEM FOR WEIGHT AND BALANCE CONTROL STATUS: ACCEPT	NC	NC
0370CH3014 AIR CONDITIONING TRANSITION DUCT UNDER FLOOR - ADD 17 MIL DAMPING TAPE FOR NOISE REDUCTION STATUS: ACCEPT	\$***	NC
0370CH3019 INSTALLATION OF STRINGER DAMPING FROM STATION 540-727 STATUS: ACCEPT	\$***	\$***
1110CH3003 CROWN METRO EXTERIOR PAINT - BMS 10-72 TYPE VI SYSTEM STATUS: ACCEPT	NC	NC
1110MP3290 EXTERIOR DECORATIVE FINISH - DESOTO SERIES 420 HIGH SOLID TOPCOAT IN LIEU OF EXISTING TOPCOAT STATUS: ACCEPT	NC	NC
2123CH3042 AIR CONDITIONING SYSTEM REVISION - 737-200 TYPE GASPER SYSTEM STATUS: ACCEPT	\$***	\$***
2160CG3011 CABIN TEMPERATURE INDICATOR - DEGREES FAHRENHEIT IN LIEU OF CELSIUS STATUS: ACCEPT	NC	NC

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Attachment to
Southwest Airlines Co.
6-1162-RLL-2036 Page 2

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CR / TITLE	PRICE PER A/P	F/O PRICE
	SWA3701	SWA3701
	92 \$	92\$

<S> 2210CG3204 DIGITAL FLIGHT CONTROL SYSTEM (DFCS) - PADDLE AUTOPILOT ENGAGE MODE CONTROL PANEL STATUS: ACCEPT	<C> \$***	<C> \$***
2210MP3227 DIGITAL FLIGHT CONTROL SYSTEM (DFCS) - PUSH-BUTTON AUTOPILOT ENGAGE IN LIEU OF PADDLE STATUS: ACCEPT	NC	NC
2230CH3028 AUTOTHROTTLE DEACTIVATION - UNIT TO REMAIN INSTALLED AND BITE FEATURES OPERATIONAL STATUS: ACCEPT	NC	NC
2312CH3284 DUAL VHF COMMUNICATIONS - INSTALLATION - BFE ALLIEDSIGNAL/GABLES ENGINEERING INC STATUS: ACCEPT	NC	NC
2319CH3020 CLAIRCOM AIR TO GROUND PASSENGER COMMUNICATION SYSTEM - COMPLETE BFE INSTALLATION PROVISIONS STATUS: ACCEPT	\$***	\$***
2319MP3021	\$***	\$***

CLAIRCOM PHONES - CANCEL INSTALLATION
INTENDED FROM 2319CH3020
STATUS: ACCEPT

2320CH3020
ATSCALL INSTALLATION - PARTIAL PROVISIONS -
AFT ELECTRONICS PANEL
STATUS: ACCEPT

\$*** \$***

2321CH3498
SELECTIVE CALLING EQUIPMENT - SELCAL -
DELETE PARTIAL PROVISIONS
STATUS: ACCEPT

\$*** \$***

2331CH3158
DELETION OF BFE MATSUSHITA PASSENGER
ADDRESS TAPE REPRODUCER
STATUS: ACCEPT

NC NC

2331CH3159
PASSENGER ADDRESS SYSTEM - COLLINS ARINC
700 IN LIEU OF COLLINS ARINC 560
STATUS: ACCEPT
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NC NC

Attachment to
Southwest Airlines Co.
6-1162-RLL-2036 Page 3

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CR / TITLE	PRICE	F/O
	PER A/P	PRICE
	SWA3701	SWA3701 F/O
	92 \$	92\$
=====	=====	=====

<S>
2334SP3210
PASSENGER ENTERTAINMENT SYSTEM (AUDIO) -
DELETE SPACE PROVISIONS
STATUS: ACCEPT

<C> <C>
NC NC

2340MP3095
BFE BOOM MICROPHONE/HEADSET REVISION
STATUS: ACCEPT

NC NC

2342MP3011
FLIGHT ATTENDANT HANDSET - REVISION TO
FUNCTION AND FACEPLATE
STATUS: ACCEPT

NC NC

2350CH3139
PA MICROPHONE - ADD ELECTROVOICE P/N
602-4183
STATUS: ACCEPT

NC NC

2350CH3162
DTMF MICROPHONE INSTALLATION - FIRST
OBSERVER
STATUS: ACCEPT

NC NC

2350CH3163
DIGITAL AUDIO REMOTE ELECTRONICS UNIT
REVISION TO DELETE HEADSET AURAL ALERTS
STATUS: ACCEPT

NC NC

2350MP3220
DIGITAL AUDIO REMOTE ELECTRONICS UNIT
REVISION - ADD PREDICTIVE WINDSHEAR WITHOUT
HEADSET AURAL ALERTS - 737-700
STATUS: ACCEPT

NC NC

2370CG3166
SOLID STATE VOICE RECORDER - INSTALLATION -
BFE ALLIEDSIGNAL INC
STATUS: ACCEPT

NC NC

2500CH3453

NC NC

DOOR WARNING STRAP - SHOCK CORD
STATUS: ACCEPT

2501CH3076
FORWARD MODULE WITH GALLEY G1 AND LAVATORY
LA
STATUS: ACCEPT

NC NC

2501MP3080
REVISE FORWARD MODULE WITH GALLEY G1 AND
LAVATORY LA FROM SEAT TRACK MOUNT TO
HARDPOINT
STATUS: ACCEPT
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NC NC

Attachment to
Southwest Airlines Co.
6-1162-RLL-2036 Page 4

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CR / TITLE	PRICE PER A/P SWA3701 92 \$	F/O PRICE SWA3701 F/O 92\$
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<S>
2502CH3066
AFT MODULE WITH GALLEY G3, G4 AND LAVATORY
LB
STATUS: ACCEPT

<C> <C>
NC NC

2502MP3069
REVISE MODULE WITH GALLEY G3, G4 AND
LAVATORY LB TO HARPOINT IN LIEU OF SEAT
TRACK MOUNT
STATUS: ACCEPT

NC NC

2510CH3058
FLIGHT COMPARTMENT - MISCELLANEOUS
REVISIONS
STATUS: ACCEPT

NC NC

2510CH3059
TRIP COUNTER REVISION - SFE - DEXTER WILSON
STATUS: ACCEPT

NC NC

2510CH3060
CONTROL COLUMN CHECKLIST DELETION
STATUS: ACCEPT

NC NC

2511CG3057
SECOND OBSERVER'S STATION
STATUS: ACCEPT

\$*** \$***

2511CH3059
LOG BOOK POCKET INSTALLATION - ON SECOND
OBSERVERS SEAT LEGS
STATUS: ACCEPT

NC NC

2520CH3538
INTERIOR ARRANGEMENT - 137 TOURIST CLASS AT
33/32" PITCH WITH LAVS LA AND LB AND
GALLEYS G1, G3 AND G4
STATUS: ACCEPT

\$*** \$****

2520MP3667
STOWAGE BIN REVISION - ADD BULLNOSE ON
INBOARD LOWER SURFACE
STATUS: ACCEPT

NC NC

2523CH3109
PSU REVISION - ADD PLACARD TO PASSENGER
VIEWING SURFACE IN LOUNGE AREAS ONLY
STATUS: ACCEPT

NC NC

2523CH3112

NC NC

INSTALL NON STANDARD COLOR PSU
STATUS: ACCEPT
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Attachment to
Southwest Airlines Co.
6-1162-RLL-2036 Page 5

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CR / TITLE	PRICE PER A/P SWA3701 92 \$	F/O PRICE SWA3701 F/O 92\$
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<S>	<C>	<C>
2523MP3119 INTERIOR REVISION - PSU AND PARTITION RELOCATION TO SUPPORT SEAT RE-PITCH REQUIRED FOR 16G COMPLIANCE STATUS: ACCEPT	NC	NC
2524CH3431 BFE FWD RIGHT HAND WINDSCREEN/STOWAGE UNIT IN LIEU OF SFE STATUS: ACCEPT	\$***	\$***
2524MP3488 FULL HEIGHT BFE STOWAGE UNIT REVISION - ADD BFE FLASHLIGHTS AND BFE LITERATURE POCKETS STATUS: ACCEPT	NC	NC
2524MP3500 PARTITION DECORATIVE COVERING REVISION - ULTRALEATHER IN LIEU OF LEATHER STATUS: ACCEPT	NC	NC
2524MP3513 EMERGENCY EQUIPMENT BRACKET COMMONALITY - SFE STATUS: ACCEPT	NC	NC
2525MP3159 PASSENGER SEAT REVISION - ALL FORWARD FACING SEATS WITH 137 PAX STATUS: ACCEPT	NC	NC
2528CH3189 SFE HALF HEIGHT STOWAGE UNIT/WINDSCREEN - AFT LH CABIN WITH THE AFT FACE AT STATION 955 - WITH MEGAPHONE STATUS: ACCEPT	\$***	\$***
2528CH3191 SFE FULL HEIGHT STOWAGE UNIT/WINDSCREEN - FWD LH CABIN WITH THE AFT FACE AT STATION 355 STATUS: ACCEPT	\$***	\$***
2528CH3194 BFE HALF HEIGHT STOWAGE UNIT/WINDSCREEN - AFT LH CABIN WITH THE AFT FACE AT STATION 955 - WITH MEGAPHONE STATUS: ACCEPT	\$***	\$***
2528CH3195 BFE FULL HEIGHT STOWAGE UNIT/WINDSCREEN IN LIEU OF SFE - FWD LH CABIN WITH THE AFT FACE AT STATION 355 STATUS: ACCEPT	\$***	\$***

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CR / TITLE	PRICE	F/O
	PER A/P	PRICE
	SWA3701	SWA3701 F/O
	92 \$	92\$
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<S>	<C>	<C>
2528MP3217	NC	NC
CREW LUGGAGE SECURITY DEVICE		
STATUS: ACCEPT		
2530MP3613	NC	NC
G3 EXTERIOR DECORATIVE COVERING REVISION -		
ULTRASUEDE IN LIEU OF LEATHER		
STATUS: ACCEPT		
2541CH3034	NC	NC
LIQUID SOAP DISPENSER INSTALLATION		
STATUS: ACCEPT		
2550CH3153	NC	NC
CARGO COMPARTMENT LINING REVISION		
STATUS: ACCEPT		
2550CH3233	NC	NC
FWD AND AFT CARGO COMPARTMENT FLOOR PANEL		
REVISION - ALUMINUM PANELS IN LIEU OF		
CONOLITE AT ENTRYWAY		
STATUS: ACCEPT		
2550MP3259	NC	NC
TRANSVERSE CARGO NET INSTALLATION - FORWARD		
AND AFT CARGO COMPARTMENTS		
STATUS: ACCEPT		
2550MP3267	NC	NC
FORWARD AND AFT CARGO COMPARTMENT CARGO		
RESTRAINT SYSTEM		
STATUS: ACCEPT		
2622CH3013	NC	NC
APU FIRE BOTTLE REVISION - INTERCHANGEABLE		
WITH ENGINE BOTTLE		
STATUS: ACCEPT		
2841CG3095	NC	NC
FUEL QUANTITY INDICATORS ON RIGHT WING		
FUELING PANEL		
STATUS: ACCEPT		
2844CG3038	NC	NC
MEASURING STICK CONVERSION TABLES TO U.S.		
GALLONS		
STATUS: ACCEPT		
2910CH3082	NC	NC
HYDRAULIC PUMPS - AC ELECTRIC MOTOR DRIVEN		
- VICKERS IN LIEU OF ABEX		
STATUS: ACCEPT		
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CR / TITLE	PRICE	F/O
	PER A/P	PRICE
	SWA3701	SWA3701 F/O
	92 \$	92\$
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<S>	<C>	<C>
2910CG3087	\$***	\$***
ENGINE DRIVEN HYDRAULIC PUMP WITH VESPEL SPLINE - VICKERS 10-62167-3 IN LIEU OF ABEX 10-62167-2 STATUS: ACCEPT		
3040CH3041	NC	NC
INSTALL A TWO LRU WINDOW HEAT CONTROL SYSTEM - PED 1231-1 IN LIEU OF TBD STATUS: ACCEPT		
3040MP3049	NC	NC
INSTALL A 4 UNIT WINDOW HEAT CONTROL SYSTEM - OLIN 231-2 IN LIEU OF 1231-1 STATUS: ACCEPT		
3040MP3053	\$***	\$***
INSTALL A BFE WINDOW HEAT CONTROL SYSTEM WHICH CONTAINS BITE - OLIN 231-3 IN LIEU OF 231-2 STATUS: ACCEPT		
3043MP3022	NC	NC
WINDSHIELD WIPER SWITCH REVISION - SINGLE SWITCH FOR BOTH WIPERS IN LIEU OF TWO SWITCHES STATUS: ACCEPT		
3120CH3016	NC	NC
CLOCK WIRING REVISION - FMC, DFDAU AND VOICE RECORDER INPUT FROM FIRST OFFICER'S CLOCK IN LIEU OF CAPTAIN'S CLOCK STATUS: ACCEPT		
3131CG3673	NC	NC
ACCELEROMETER - INSTALLATION - BFE ALLIEDSIGNAL INC STATUS: ACCEPT		
3131CG3692	NC	NC
SOLID STATE DIGITAL FLIGHT DATA RECORDER - INSTALLATION - BFE ALLIEDSIGNAL INC - 128 WPS STATUS: ACCEPT		
3131CH3721	NC	NC
DIGITAL FLIGHT DATA ACQUISITION UNIT (DFDAU) - INSTALLATION - BFE ALLIEDSIGNAL STATUS: ACCEPT		
3162CG3013	NC	NC
EFIS/MAP DISPLAY FORMAT STATUS: ACCEPT		
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Attachment to
Southwest Airlines Co.
6-1162-RLL-2036 Page 8

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CR / TITLE	PRICE	F/O
	PER A/P	PRICE
	SWA3701	SWA3701 F/O
	92 \$	92\$
=====	=====	=====

<S>	<C>	<C>
3162CG3016	NC	NC
FLIGHT DIRECTOR COMMAND DISPLAY - FILLED INTEGRATED CUE STATUS: ACCEPT		
3162CG3017	NC	NC
MACH AIRSPEED DISPLAY		

STATUS: ACCEPT		
3162CG3019 RADIO ALTITUDE DISPLAY - ROUND DIAL STATUS: ACCEPT	NC	NC
3162CG3020 RADIO ALTITUDE - ABOVE ADI STATUS: ACCEPT	NC	NC
3162CG3022 RISING RUNWAY DISPLAY STATUS: ACCEPT	NC	NC
3162CG3025 RADIO ALTITUDE HEIGHT ALERT DISPLAY - 2500 FEET STATUS: ACCEPT	NC	NC
3162CG3026 ATTITUDE COMPARATOR - STEADY STATUS: ACCEPT	NC	NC
3162CG3029 LOCALIZER BACKCOURSE POLARITY - REVERSAL STATUS: ACCEPT	NC	NC
3162CG3032 MAP MODE ORIENTATION - TRACK UP STATUS: ACCEPT	NC	NC
3162CG3038 MANUALLY TUNED VOR SELECTED COURSE LINES - DISPLAYED STATUS: ACCEPT	NC	NC
3162CG3041 ADF POINTER(S) IN MAP MODE - SUPPRESSED STATUS: ACCEPT	NC	NC
3162CG3042 POSITION DIFFERENCE - AUTOMATIC DISPLAY STATUS: ACCEPT	NC	NC
3162CG3046 WEATHER RADAR MODE/GAIN/TILT ANGLE - DISPLAYED STATUS: ACCEPT	NC	NC

</TABLE>

Attachment to
Southwest Airlines Co.
6-1162-RLL-2036 Page 9

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CR / TITLE	PRICE	F/O
	PER A/P	PRICE
	SWA3701	SWA3701 F/O
	92 \$	92\$

<S>	<C>	<C>
3162CG3050 TCAS TRAFFIC ON MAP STATUS: ACCEPT	NC	NC
3162CG3052 TCAS RESOLUTION ADVISORY ON ADI STATUS: ACCEPT	NC	NC
3162CG3053 TCAS RESOLUTION ADVISORY ON IVSI STATUS: ACCEPT	NC	NC
3162CG3057 ANALOG FAILURE FLAGS - DISPLAYED STATUS: ACCEPT	NC	NC

3162CH3066	NC	NC
MACH AIRSPEED INDICATOR BUG #5 - 80 KNOTS		
STATUS: ACCEPT		
3162CH3068	NC	NC
SUPPLEMENTAL METRIC DATA INDICATIONS -		
DEACTIVATION		
STATUS: ACCEPT		
3162CH3075	NC	NC
EFIS CONTROL PANEL - EFIS/MAP DISPLAY		
FORMAT		
STATUS: ACCEPT		
3162MP3128	NC	NC
ANALOG FAILURE FLAG - DELETE		
STATUS: ACCEPT		
3162MP3129	NC	NC
SUPPLEMENTAL METRIC DATA INDICATIONS -		
ACTIVATION		
STATUS: ACCEPT		
3162MP3131	NC	NC
ENHANCED MACH AIRSPEED DISPLAY		
STATUS: ACCEPT		
3162MP3132	NC	NC
WEATHER RADAR RANGE INDICATORS - RANGE		
MARKS		
STATUS: ACCEPT		
3240CH3220	NC	NC
NOSE LANDING GEAR WHEELS - BENDIX		
STATUS: ACCEPT		

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Attachment to
Southwest Airlines Co.
6-1162-RLL-2036 Page 10

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CR / TITLE	PRICE	F/O
	PER A/P	PRICE
	SWA3701	SWA3701 F/O
	92 \$	92\$
=====	=====	=====

<S>	<C>	<C>
3240CH3221	NC	NC
MAIN LANDING GEAR WHEELS AND BRAKES -		
BENDIX		
STATUS: ACCEPT		
3240MP3258	NC	NC
NOSE LANDING GEAR - INSTALL 737-300		
ALLIEDSIGNAL WHEEL IN LIEU OF EXISTING		
STATUS: ACCEPT		
3245CH3029	NC	NC
TIRES - INSTALLATION OF SFE GOODYEAR TIRES		
STATUS: ACCEPT		
3324CH3010	NC	NC
CEILING MOUNTED LIGHTED EXIT SIGN -		
RELOCATION		
STATUS: ACCEPT		
3343CH3034	NC	NC
ANTI-COLLISION LIGHT - SWITCH NOMENCLATURE		
REVISION		
STATUS: ACCEPT		
3345CH3020	NC	NC
LOGO LIGHTS - SYSTEM DEACTIVATION		
STATUS: ACCEPT		

3345MP3029 REACTIVATION OF LOGO LIGHT SYSTEM STATUS: ACCEPT	NC	NC
3350MP3079 EGRESS LIGHTING REVISION TO ACCOMMODATE ALL FORWARD FACING SEAT CONFIGURATION STATUS: ACCEPT	NC	NC
3423CH3021 INSTALL BFE STANDBY ATTITUDE INDICATOR WITHOUT ILS DEVIATION DISPLAY IN LIEU OF SFE INDICATOR STATUS: ACCEPT	NC	NC
3423CH3026 STANDBY INDICATOR - SFE SEXTANT IN LIEU OF BFE JET STATUS: ACCEPT	NC	NC
3431CG3051 ILS - INSTALLATION - BFE ALLIEDSIGNAL INC STATUS: ACCEPT	NC	NC

Attachment to
Southwest Airlines Co.
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<TABLE>
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	PRICE PER A/P	F/O PRICE
CR / TITLE	SWA3701	F/O
	92 \$	92\$

<S>	<C>	<C>
3433CG3058 LOW RANGE RADIO ALTIMETER (LRR) - INSTALLATION - BFE ALLIEDSIGNAL INC STATUS: ACCEPT	NC	NC
3435CH3028 FLIGHT DYNAMICS CAPTAIN ONLY HEAD UP GUIDANCE SYSTEM - PARTIAL PROVISIONS STATUS: ACCEPT	\$***	\$***
3443CH3118 WEATHER RADAR SYSTEM - ARINC 708A SINGLE WEATHER RADAR SYSTEM WITH PREDICTIVE WINDSHEAR - PARTIAL PROVISIONS STATUS: ACCEPT	\$***	\$***
3443CH3154 ARINC 708 WEATHER RADAR SYSTEM - INSTALLATION - BFE ALLIEDSIGNAL INC (WITH DEACTIVATED PREDICTIVE WINDSHEAR FEATURE R/T RDR-4B) STATUS: ACCEPT	NC	NC
3445CH3197 TCAS II - INSTALLATION - BFE ALLIEDSIGNAL INC STATUS: ACCEPT	NC	NC
3451CG3005 VOR/MARKER BEACON - INSTALLATION - BFE ALLIEDSIGNAL INC STATUS: ACCEPT	NC	NC
3455CG3120 DISTANCE MEASURING EQUIPMENT (DME) - INSTALLATION - BFE ALLIEDSIGNAL INC (SCANNING) STATUS: ACCEPT	NC	NC

3457CG3088 AUTOMATIC DIRECTION FINDER (ADF) - INSTALLATION - BFE ALLIEDSIGNAL INC STATUS: ACCEPT	NC	NC
3457CG3092 AUTOMATIC DIRECTION FINDER (ADF) CONTROL PANEL - INSTALLATION - BFE GABLES ENGINEERING INC STATUS: ACCEPT	NC	NC
3457MP3132 ADF CONTROL PANEL REVISION - ADD GABLES G7402-05 IN LIEU OF EXISTING STATUS: ACCEPT	NC	NC

Attachment to
Southwest Airlines Co.
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<TABLE>
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CR / TITLE	PRICE PER A/P	F/O PRICE
	SWA3701	SWA3701
	92 \$	92\$

<S>	<C>	<C>
3457MP3133 ADF ANTENNA REVISION - ADD ALLIEDSIGNAL 2041683-7507 IN LIEU OF EXISTING STATUS: ACCEPT	NC	NC
3458CH3091 GPS PROVISIONS - ADD COMPONENTS REQUIRED TO PROVIDE COMPLETE PROVISIONS STATUS: ACCEPT	NC	NC
3458CH3092 GLOBAL POSITIONING SYSTEM (GPS) - INSTALLATION - HONEYWELL INC (SUPPLEMENTAL NAVIGATION CERTIFICATION) STATUS: ACCEPT	\$***	\$***
3461CG3403 BUYER FURNISHED NAVIGATION DATA BASE STATUS: ACCEPT	NC	NC
3461CH3485 VERTICAL NAVIGATION (VNAV) ACTIVATE/DEACTIVATE SERVICE BULLETIN STATUS: ACCEPT	NC	NC
3461CH3489 FLIGHT MANAGEMENT COMPUTER SYSTEM REVISION - CERTIFICATION FOR SINGLE COMPUTER OPERATION ONLY STATUS: ACCEPT	\$***	\$***
3510CG3089 CREW OXYGEN - 114 CU. FT. IN LIEU OF 76 CU. FT. CYLINDER STATUS: ACCEPT	NC	NC
3830MP3025 INSTALLATION OF PNEUDRAULICS INC. 4" SERVICE PANEL LAVATORY DRAIN VALVE P/N 9569 IN LIEU OF CURRENT SHAW VALVE STATUS: ACCEPT	NC	NC
3831MP3019 GRAY WATER DRAIN ROUTING REVISION - LEVEL LINE IN LIEU OF SLANTED LINE STATUS: ACCEPT	\$***	\$***
3832CH3071	NC	NC

VACUUM LAVATORY SYSTEM IN LIEU OF
RECIRCULATING LAVATORY - LAVS A AND B
STATUS: ACCEPT

3910CH3113	NC	NC
RELOCATE ATC CONTROL PANEL		
STATUS: ACCEPT		

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CR / TITLE	PRICE PER A/P SWA3701 92 \$	F/O PRICE SWA3701 F/O 92\$
=====	=====	=====

<S>	<C>	<C>
3910CH3122	NC	NC
AFT ELECTRONICS PANEL ARRANGEMENT		
STATUS: ACCEPT		

5100CH3026	NC	NC
ADDITIONAL CORROSION PROTECTION BENEATH GALLEYS AND LAVS		
STATUS: ACCEPT		

5100CH3027	NC	NC
FWD AND AFT CARGO DOOR REVISION - INSTALL HEAVY DUTY SKIN		
STATUS: ACCEPT		

5100MP3030	NC	NC
REMOVE ADDITIONAL CORROSION PROTECTION ADDED BY CR 5100CH3026		
STATUS: ACCEPT		

5220MP3012	NC	NC
OVERWING HATCH ASSIST HANDLE REVISION - INSTALL RECESSED HANDLE IN LIEU OF PROTRUDING HANDLE		
STATUS: ACCEPT		

7200CG3244	IB	IB
AIRPLANE PERFORMANCE: CFM56-7 ENGINES WITH OPERATIONAL THRUST OF 22,000 LBS. FOR 737-600,-700		
STATUS: ACCEPT		

7900CG3026	NC	NC
LUBRICATING OIL - ESSO/EXXON TURBO OIL 2380		
STATUS: ACCEPT		

CR'S 138	TOTAL	\$***	\$***
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6-1162-RLL-2037

Southwest Airlines Co.
P.O. Box 36611
Dallas, Texas 75235-1611

Subject: Letter Agreement No. 6-1162-RLL-2037 to
Purchase Agreement No. 1810 - Reconciliation of the
Aircraft Basic Price

Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1810 (the Agreement)

between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to the sale by Boeing and the purchase by Buyer of Model 737-7H4 aircraft (the Aircraft).

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

1. Reconciliation of the Aircraft Basic Price

During the course of recent negotiations, Boeing and Buyer reviewed and mutually agreed to the pricing for the Aircraft. The price elements for the prices set forth in Article 3.2 of the Agreement are documented in the Attachment to this Letter Agreement.

2. Confidential Treatment

Buyer understands that certain commercial and financial information contained in this Letter Agreement are considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity, except as provided in Letter Agreement 6-1162-RLL-934R1.

Very truly yours,

THE BOEING COMPANY

By /s/ R. Leo Lyons

Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of this

date: February 26, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its EVP-COO

Attachment ***

6-1162-RLL-2073

Southwest Airlines Co.
P.O. Box 36611
Dallas, Texas 75235-1611

Subject: Letter Agreement No. 6-1162-RLL-2073 to
Purchase Agreement No. 1810 - ***

Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1810 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to the sale by Boeing and the purchase by Buyer of Model 737-7H4 aircraft (the Aircraft).

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

1. Customized Maintenance Training for Buyer

Buyer and Boeing agree that the maintenance training, as described below, will be provided to Buyer in lieu of the maintenance training as

described in Exhibit C, Part A, Paragraphs 3.1, 3.2, 3.3 and 3.4 of the Agreement.

5. Confidential Treatment

Buyer understands that certain commercial and financial information contained in this Letter Agreement are considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity, except as provided in Letter Agreement 6-1162-RLL-934R1.

Very truly yours,

THE BOEING COMPANY

By /s/ R. Leo Lyons

Its Attorney-in-Fact

Southwest Airlines Co.
6-1162-RLL-2073 Page 2

ACCEPTED AND AGREED TO as of this

date: February 26, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its EVP-COO

Southwest Airlines Co.
Computation of Earnings Per Share
For the Year Ended December 31, 1996

<TABLE>
<CAPTION>

	Primary	Fully Diluted
	-----	-----
<S>	<C>	<C>
Weighted average shares outstanding	144,745,071	144,745,071
Shares issuable upon exercise of outstanding stock options (treasury stock method)	7,048,406	7,054,306
	-----	-----
Weighted average common and common equivalent shares	151,793,477	151,799,377
	=====	=====
Earnings for per share computations	\$207,337,000	\$207,337,000
	=====	=====
Earnings per common and common equivalent share	\$1.37	\$1.37
	=====	=====

</TABLE>

Exhibit 11
Page 2 of 3

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

<TABLE>
<CAPTION>

	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>

Exhibit 11
Page 3 of 3

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.
SUBSIDIARIES OF THE COMPANY

Southwest Airlines Co. has five wholly owned subsidiaries:

TranStar Airlines Corporation, Southwest Jet Fuel Co., and Southwest ABQ
RES Center, Inc., which are incorporated under the laws of Texas.

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-20275, 33-48178, 33-57327, 33-40652 and 33-40653 and Form S-3 Nos. 33-52115 and 33-59113) and in the related Prospectuses of our report dated January 23, 1997 with respect to the consolidated financial statements of Southwest Airlines Co. for the year ended December 31, 1996 included in its Annual Report on Form 10-K to be filed with the Securities and Exchange Commission on or about March 21, 1997.

/s/ Ernst & Young LLP
ERNST & YOUNG LLP

Dallas, TX
March 20, 1997

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