

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 1997 or

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

For the transition period from _____ to _____

Commission File No. 1-7259

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

TEXAS 74-1563240
(State or other jurisdiction of (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 March 2, 1998:

\$6,365,558,997

Number of shares of Common Stock outstanding as of the close of business on March 2, 1998:

222,627,708 shares

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for Annual Meeting of
Shareholders, May 21, 1998: PART III

PART I

ITEM 1. BUSINESS

DESCRIPTION OF BUSINESS

Southwest Airlines Co. (Southwest) is a major domestic airline that provides primarily shorthaul, high frequency, point-to-point, low fare service. Southwest was incorporated in Texas and commenced Customer Service on June 18, 1971 with three Boeing 737 aircraft serving three Texas cities - Dallas, Houston, and San Antonio.

At yearend 1997, Southwest operated 261 Boeing 737 aircraft and provided service to 52 airports in 51 cities in 25 states throughout the United States. Southwest commenced 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 (not adjusted for subsequent stock split) 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 (excluding taxes) for scheduled carrier service over the past five years was as follows:

1993	\$.59
1994	\$.54
1995	\$.55
1996	\$.65
1997	\$.62

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. 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, as amended in 1997, (commonly known as the "Wright Amendment"), as it affects Southwest's scheduled service, provides that no common carrier may provide scheduled passenger air transportation for compensation between Love Field and one or more points outside Texas, except that an air carrier may

transport individuals by air on a flight between Love Field and one or more points within the states of Alabama, Arkansas, Kansas, Louisiana, Mississippi, New Mexico, Oklahoma, and Texas if (a) "such air carrier does not offer or provide any through service or ticketing with another air carrier" and (b) "such air carrier does not offer for sale transportation to or from, and the flight or aircraft does not serve, any point which is outside any such states." Southwest does not interline or offer joint fares with any other air carrier at Love Field. The Wright Amendment 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 Wright Amendment, as do the certificates of all other U.S. carriers. DOT may revoke such certificates, in whole or in part, for intentional failure to comply with any provisions of subchapter IV of the Federal Aviation Act of 1958, or any order, rule or regulation issued thereunder or any term, condition or limitation of such certificate; provided that, with respect to revocation, the certificate holder has first been advised

of the alleged violation and has been given a reasonable time to effect compliance.

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

Safety. The Company is subject to the jurisdiction of the Federal Aviation Administration (FAA) with respect to its aircraft maintenance and operations, including equipment, ground facilities, dispatch, communications, flight training personnel, and other matters affecting air safety. To ensure compliance with its regulations, the FAA requires airlines to obtain operating, airworthiness and other certificates which are subject to suspension or revocation for cause. The Company has obtained such certificates. The FAA, acting through its own powers or through the appropriate U. S. Attorney, also has the power to bring proceedings for the imposition and collection of fines for violation of the Federal Air Regulations.

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, 1997, consisted of 42 Stage 2 aircraft and 219 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.

As of December 31, 1997, of the 42 Stage 2 aircraft operated by the Company, 24 are leased from third parties and 18 are owned by the Company. Because the Company already complies with the

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December 31, 1998 interim compliance requirement of a 75 percent Stage 3 fleet, the Company could operate its 42 remaining 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 1997 was 425 miles with an average duration of approximately one hour. At yearend, Southwest served 229 one-way nonstop city pairs.

Southwest's point-to-point route system, as compared to hub and spoke, provides for more direct nonstop routings for shorthaul customers and, therefore, minimizes connections, delays, and total trip time. Southwest focuses on nonstop, not connecting, traffic. As a result, approximately 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 traveling between Chicago, Cleveland, Louisville or Providence and various foreign Icelandair destinations, via Baltimore. Southwest provides the domestic portion of the travel on its regularly scheduled service.

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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 new 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, 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.southwest.com>. At December 31, 1997, approximately 60 percent 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.

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 at amounts deemed adequate to protect the Company and its property and to comply both with federal regulations and certain of the Company's credit and lease agreements. The policies principally provide coverage for public and passenger liability, property damage, cargo and baggage liability, loss or damage to aircraft, engines, and spare parts, and workers' compensation.

FREQUENT FLYER AWARDS

Southwest's frequent flyer program, Rapid Rewards, is based on trips flown rather than mileage. Rapid Rewards offers two types of travel awards. The Rapid Rewards Award Ticket ("Award Ticket") 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 Rapid Rewards Companion Pass ("Companion Pass") is granted after flying 50 roundtrips (or 100 one-way trips) on Southwest within a consecutive twelve-month period. The Companion Pass offers unlimited free roundtrip travel to any Southwest destination for a companion of the qualifying Rapid Rewards member. In order for the companion to use this pass, the Rapid Rewards member must purchase a ticket or use an Award Ticket. Additionally, the Rapid Rewards member and companion must travel together on the same flight.

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The trips flown as credit towards a free travel award are valid for twelve months only; the free travel awards are automatically generated when earned by the Customer rather than allowing the Customer to bank the trip credits indefinitely; and the free travel awards are 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 782,000, 494,000, and 435,000 during 1997, 1996, and 1995, respectively. The amount of free travel award usage as a percentage of total Southwest revenue passengers carried was 3.1 percent in 1997, 2.0 percent in 1996, and 1.9 percent in 1995.

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, 1997 and 1996 was not material.

The number of Award Tickets for Southwest outstanding at December 31, 1997 and 1996 was approximately 485,000 and 399,000, respectively. These numbers do not include partially earned Award Tickets. The Company currently does not have a system to accurately estimate partially earned Award Tickets. However, these partially earned Award Tickets may equate to approximately 60-70 percent of the current outstanding Award Tickets. Since the inception of Rapid Rewards in 1987, approximately 15 percent of all Award Tickets have expired without being used.

The number of Companion Passes for Southwest outstanding at December 31, 1997 and 1996 was approximately 20,000 and 30,000, respectively. The Company currently estimates that three to four trips will be redeemed per outstanding Companion Pass.

EMPLOYEES

At December 31, 1997, Southwest had 23,974 active employees, consisting of 6,459 flight, 1,116 maintenance, 13,723 ground customer service and 2,676 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 became amendable in November 1997 and is currently in negotiations. Flight attendants are subject to an agreement with the Transportation Workers Union of America, AFL-CIO (TWU), which becomes amendable May 31, 2002. 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 became amendable in November 1997 and is currently in negotiations. 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 21.8 million shares of Southwest common stock at \$13.33 per share over the term of the contract. Pilots hired subsequently receive additional grants at a five percent premium over the then current fair market value. Up to 27,000,000 shares ultimately 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 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 261 Boeing 737 aircraft as of December 31, 1997, of which 106 and 13 were under operating and capital leases, respectively. The remaining 142 aircraft were owned.

Southwest is the launch customer for the Boeing 737-700 aircraft, the newest generation of the Boeing 737 aircraft type. The first 737-700 Aircraft was delivered in December 1997 and entered revenue service in January 1998.

In total, at December 31, 1997, the Company had 126 firm orders to purchase Boeing 737 Aircraft as follows:

<TABLE>									
<CAPTION>									
	Type	Seats	1998	1999	2000	2001	2002	2003	2004
	----	----	----	----	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	737-700	137	22	25	23	21	21	8	6
</TABLE>									

The Company also has 62 options for deliveries in 2003 through 2006.

The average age of the Company's fleet at December 31, 1997 was 8.3 years.

The Company has an agreement with CFM International, Inc. (CFM) (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, -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 five 737 simulators, and its corporate headquarters also located near Love Field. The maintenance, training center, and corporate headquarters buildings on these sites were built and are owned by Southwest. At December 31, 1997, the Company operated nine reservation centers. The reservation centers located in Little Rock, Arkansas; Chicago, Illinois; Albuquerque, New Mexico; and Oklahoma City, Oklahoma occupy leased space. The Company owns its Dallas, Texas; Houston, Texas; Phoenix, Arizona; Salt Lake City, Utah; and San Antonio, Texas reservation centers.

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

The Company received a statutory notice of deficiency from the Internal Revenue Service (the "IRS") in which the IRS proposed to disallow deductions claimed by the Company on its federal income tax returns for the taxable years 1989 through 1991 for the costs of certain aircraft inspection and maintenance procedures. The IRS has proposed similar adjustments to the tax returns of numerous other members of the airline industry. In response to the statutory notice of deficiency, the Company filed a petition in the United States Tax Court on October 30, 1997, seeking a determination that the IRS erred in disallowing the deductions claimed by the Company and that there is no deficiency in the Company's tax liability for the taxable years in issue. It is expected that the Tax Court's decision will not be entered for several years. Management believes that the final resolution of this controversy will not have a materially adverse effect upon the financial condition or results of operations of the Company. This forward-looking statement is based on management's current understanding of the relevant law and facts; it is subject to various contingencies including the views of legal counsel, changes in the IRS' position, the potential cost and risk associated with litigation and the actions of the IRS, judges, and juries.

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

None to be reported.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Southwest, their positions, and their respective ages (as of March 1, 1998) are as follows:

<TABLE>
<CAPTION>

NAME ----	POSITION -----	AGE ---	OFFICER CONTINUOUSLY SINCE -----
<S>	<C>	<C>	<C>
Herbert D. Kelleher	Chairman of the Board, President, and Chief Executive Officer	66	1967
Colleen C. Barrett	Executive Vice President-Customers and Corporate Secretary	53	1978
Gary A. Barron	Executive Vice President, Chief Operations Officer	53	1978
John G. Denison	Executive Vice President- Corporate Services	53	1986
Gary C. Kelly	Vice President-Finance, Chief Financial Officer	42	1986
James F. Parker	Vice President-General Counsel	51	1986
Ron Ricks	Vice President-Governmental Affairs	48	1986
Joyce C. Rogge	Vice President - Advertising and Promotions	40	1994
James C. Wimberly	Vice President-Ground Operations	45	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.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Due to a clerical error, Colleen C. Barrett, Executive Vice President - Customers and Corporate Secretary filed a Form 4, reporting an exercise of employee stock options, which was one week late.

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>
1997				
	1st Quarter	\$.00770	\$16.67	\$14.17
	2nd Quarter	.00770	18.67	14.33
	3rd Quarter	.00770	22.13	17.33
	4th Quarter	.01000	26.25	18.83
1996				
	1st Quarter	\$.00733	\$22.00	\$14.75
	2nd Quarter	.00733	22.17	17.17
	3rd Quarter	.00733	19.33	14.25
	4th Quarter	.00733	17.33	13.75

</TABLE>

As of March 2, 1998, there were 9,141 holders of record of the Company's common stock.

RECENT SALES OF UNREGISTERED SECURITIES

During 1997, Herbert D. Kelleher, President and Chief Executive Officer, exercised unregistered options to purchase Southwest Common Stock as follows (the numbers have not been adjusted for the subsequent stock split):

<TABLE> <CAPTION>			
Number of Shares Purchased -----	Exercise Price -----	Date of Exercise -----	
<S>	<C>	<C>	
123,750	\$1.00	01/14/97	
33,750	4.889	01/14/97	

</TABLE>

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 each of the five years ended December 31, 1997 has been derived from the Company's consolidated financial statements. This information should be read in conjunction with the Consolidated Financial Statements and related notes thereto included elsewhere herein.

<TABLE> <CAPTION>				
	YEARS ENDED DECEMBER 31, -----			
	1997	1996	1995	1994
	-----	-----	-----	-----
	1993			

<S>	<C>	<C>	<C>	<C>	<C>
FINANCIAL DATA:					
(in thousands except per share amounts)					
Operating revenues	\$ 3,816,821	\$ 3,406,170	\$ 2,872,751	\$ 2,591,933	\$
2,296,673					
Operating expenses	3,292,585	3,055,335	2,559,220	2,275,224	
2,004,700					
---	-----	-----	-----	-----	-----
Operating income	524,236	350,835	313,531	316,709	
291,973					
Other expenses, net	7,280	9,473	8,391	17,186	
32,336					
---	-----	-----	-----	-----	-----
Income before income taxes and cumula-					
tive effect of accounting changes	516,956	341,362	305,140	299,523	
259,637					
Provision for income taxes	199,184	134,025	122,514	120,192	
105,353					
---	-----	-----	-----	-----	-----
Income before cumulative effect of					
accounting changes	317,772	207,337	182,626	179,331	
154,284					
Cumulative effect of accounting changes	--	--	--	--	
15,259 (2)					
---	-----	-----	-----	-----	-----
Net income	\$ 317,772	\$ 207,337	\$ 182,626	\$ 179,331	\$
169,543					
=====	=====	=====	=====	=====	
Net income per share, basic(1)	\$ 1.45	\$.95	\$.85	\$.84	\$
.72 (3)					
Net income per share, diluted(1)	\$ 1.40	\$.92	\$.82	\$.82	\$
.70 (3)					
Cash dividends per common share(1)	\$.0331	\$.02932	\$.02667	\$.02667	\$
.02578					
Total assets at period-end	\$ 4,246,160	\$ 3,723,479	\$ 3,256,122	\$ 2,823,071	\$
2,576,037					
Long-term obligations at period-end	\$ 628,106	\$ 650,226	\$ 661,010	\$ 583,071	\$
639,136					
Stockholders' equity at period-end	\$ 2,009,018	\$ 1,648,312	\$ 1,427,318	\$ 1,238,706	\$
1,054,019					
OPERATING DATA:					
Revenue passengers carried	50,399,960	49,621,504	44,785,573	42,742,602 (5)	
36,955,221 (5)					
Revenue passenger miles (RPMs) (000s)	28,355,169	27,083,483	23,327,804	21,611,266	
18,827,288					
Available seat miles (ASMs) (000s)	44,487,496	40,727,495	36,180,001	32,123,974	
27,511,000					
Load factor	63.7%	66.5%	64.5%	67.3%	
68.4%					
Average length of passenger haul (miles)..	563	546	521	506	
509					
Trips flown	786,288	748,634	685,524	624,476	
546,297					
Average passenger fare	\$ 72.21	\$ 65.88	\$ 61.64	\$ 58.44	\$
59.97					
Passenger revenue yield per RPM	12.84 c.	12.07 c.	11.83 c.	11.56 c.	
11.77 c.					
Operating revenue yield per ASM	8.58 c.	8.36 c.	7.94 c.	8.07 c.	
8.35 c.					
Operating expenses per ASM	7.40 c.	7.50 c.	7.07 c.	7.08 c.	
7.25 c.(6)					
Fuel cost per gallon (average)	62.46 c.	65.47 c.	55.22 c.	53.92 c.	
59.15 c.					
Number of employees at year end	23,974	22,944	19,933	16,818	
15,175					
Size of fleet at year end (4)	261	243	224	199	
178					
</TABLE>					

(1) On September 25, 1997 the Company's Board of Directors declared a three-for-two stock split on the Company's Common Stock, distributed on November 26, 1997. Except as specifically noted elsewhere, all share and per share data in this annual report have been restated to give effect to the stock split. Net income per share data has been restated in accordance with Statement of Financial Accounting Standards No. 128, Earnings per Share.

- (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) Before cumulative effect of accounting change.
- (4) Includes leased aircraft.
- (5) Includes certain estimates for Morris.
- (6) Excludes merger expenses of \$10.8 million.

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

YEAR IN REVIEW

In 1997, Southwest posted a record annual profit for the sixth consecutive year and a profit for the 25th consecutive year. Net income for 1997 benefited from record passenger revenue yields and continued cost control, widening our industry-leading cost advantage.

At the end of 1997, Southwest served 51 cities in 25 states. We added service to Jacksonville, Florida and Jackson, Mississippi in 1997 and have been very pleased with the results, thus far. We also expanded our existing service to certain cities in 1997, especially Nashville, Providence, and our Florida markets. Plans for 1998 include the addition of 14 more aircraft, net, and service to two new cities. We will continue to add additional flights to cities we already serve. Any further expansion in 1998 will be dependent upon additional aircraft availability.

We were the launch customer for the new Boeing 737-700 aircraft, taking our first delivery in December 1997. The -700 is expected to contribute to our low cost advantage as it is more fuel efficient, less maintenance intensive, and has a lower capital outlay than the -300. We added 18 new Boeing 737s to our fleet in 1997: 15 -300s and three -700s. In 1998, we are currently scheduled to receive 22 -700s and retire eight older -200s (three in first quarter 1998; one in second quarter 1998; and four in fourth quarter 1998). We currently are interested in adding more 737 aircraft in 1998 if we can find aircraft at reasonable prices.

At the present time, Boeing is experiencing production delays related to the 737 production line. Thus far, these delays have not had a significant impact on our operations as we were able to defer the retirement of some older -200s and have earned cash penalty payments from Boeing. Boeing currently expects delays to continue in 1998, which temporarily delays our expansion. Boeing will continue to compensate Southwest for these production delays.

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In August 1997, the Taxpayer Relief Act of 1997 was enacted, which included, among other things, a revision of the then current ten percent federal excise tax on domestic tickets. Effective October 1, 1997, through September 30, 1998, the tax rate was reduced to nine percent of the amount paid for transportation beginning on or after October 1, 1997, and a new \$1.00 flight segment tax was imposed. From October 1, 1998 to September 30, 1999, the tax rate will decrease to eight percent and the segment tax will increase to \$2.00. Beginning October 1, 1999, the tax rate will change to 7.5 percent of the ticket price. The segment tax will increase to \$2.25 from October 1, 1999 to December 31, 1999; \$2.50 during 2000; \$2.75 during 2001; and \$3.00 per segment during 2002. Thereafter, the \$3.00 segment tax will be indexed to changes in the Consumer Price Index (CPI). The legislation also included a new tax on the sale of frequent flier miles, raised the international departure fee, and instituted a new international arrival fee.

Management estimates these changes may increase Southwest's tax burden by roughly \$30 million in 1998 as the effect of the new tax is to shift an increasing portion of the excise tax burden to low fare, shorthaul carriers such as Southwest. Effective October 1, 1997, the Company raised fares to offset the increased excise taxes. While the fare increases mitigated the additional tax burden in fourth quarter 1997, management cannot accurately predict the future effects of tax or fare increases. (This paragraph contains forward-looking statements which involve uncertainties that could result in actual results differing materially from expected results. Some significant factors include, but may not be limited to, regulations implementing the tax, competitors' responses to the tax, and the ability to pass through the tax in the form of fare increases.)

On October 27, 1997, the International Air Transportation Competition Act of 1979 was amended to allow scheduled service from Dallas Love Field to Alabama,

Mississippi, and Kansas. The Company now offers scheduled service from Dallas Love Field to Jackson via connecting flights through Houston and service from Dallas Love Field to Birmingham via connecting flights through New Orleans and Houston. No additional flights have been added, thus far, from Dallas Love Field to Alabama, Mississippi, or Kansas.

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RESULTS OF OPERATIONS

1997 COMPARED WITH 1996 The Company's consolidated net income for 1997 was \$317.8 million (\$1.40 per share, diluted), as compared to the corresponding 1996 amount of \$207.3 million (\$.92 per share, diluted), an increase of 53.3 percent. The prior years' earnings per share amounts have been restated for the 1997 three-for-two stock split (see Note 6 to the Consolidated Financial Statements).

OPERATING REVENUES Consolidated operating revenues increased by 12.1 percent in 1997 to \$3,816.8 million, compared to \$3,406.2 million for 1996. This increase in 1997 operating revenues was derived primarily from an 11.3 percent increase in passenger revenues as a result of a 4.7 percent increase in revenue passenger miles (RPMs) and a 6.4 percent increase in passenger revenue yield per RPM. Southwest's passenger revenues benefited from a strong U.S. economy, strong demand for air travel, increased fares, and a favorable mix of higher yielding fares.

The 4.7 percent increase in RPMs in 1997, coupled with a 9.2 percent increase in available seat miles (ASMs), resulted in a decrease in load factor from 66.5 percent in 1996 to 63.7 percent in 1997. The decrease in load factor was primarily the result of less promotional fare activity in 1997. The 1997 ASM growth resulted from the addition of 18 aircraft during the year.

The January 1998 load factor decreased to 54.0 percent from 60.2 percent in January 1997 due to heavy promotional fare activities in the 1997 period. However, revenue yield per passenger mile continues to be strong in January 1998 despite difficult comparisons due to the lapse of the federal excise tax from January 1 to March 7, 1997. Comparisons in February and March will be more difficult due to fare increases in February 1997. (The immediately preceding sentence is a forward-looking statement which involves uncertainties that could result in actual results differing materially from expected results. Some significant factors include, but may not be limited to, competitive pressure such as fare sales and capacity changes by other carriers, general economic conditions, and variations in advance booking trends.)

Freight revenues in 1997 were \$94.8 million, compared to \$80.0 million in 1996. The 18.4 percent increase in freight revenues exceeded the 9.2 percent increase in ASMs for the same period primarily due to an increase in United States mail services and

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increased air freight volumes resulting, in part, from the United Parcel Service labor strike during third quarter 1997.

Other revenues increased by 45.6 percent in 1997 to \$82.9 million, compared to \$56.9 million in 1996. This increase is primarily due to the sale of frequent flyer segment credits to participating partners in the Company's Rapid Rewards frequent flyer program.

OPERATING EXPENSES Consolidated operating expenses for 1997 were \$3,292.6 million, compared to \$3,055.3 million in 1996, an increase of 7.8 percent, compared to the 9.2 percent increase in capacity. Operating expenses per ASM decreased 1.3 percent in 1997, compared to 1996, primarily due to lower jet fuel prices; lower aircraft engine repair costs; and favorable results from numerous Companywide cost reduction efforts.

Unit costs are expected to benefit in first quarter 1998, versus first quarter 1997, from lower jet fuel prices. Excluding jet fuel costs, operating expenses per ASM are expected to increase primarily due to higher maintenance costs as management believes first quarter 1998 maintenance unit costs will be higher than the same period in 1997 due to an unusually low number of aircraft engine overhauls performed in first quarter 1997. (The immediately preceding two sentences are forward-looking statements which involve uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, the largely unpredictable levels of jet fuel prices.)

Operating expenses per ASM for 1997 and 1996 were as follows:

OPERATING EXPENSES PER ASM

<TABLE>
<CAPTION>

	1997	1996	INCREASE (DECREASE)	PERCENT CHANGE
	----	----	-----	-----
<S>	<C>	<C>	<C>	<C>

Salaries, wages, and benefits	2.26 c.	2.22 c.	.04 c.	1.8%
Employee profitsharing and savings plans	.30	.23	.07	30.4
Fuel and oil	1.11	1.19	(.08)	(6.7)
Maintenance materials and repairs	.58	.62	(.04)	(6.5)
Agency commissions	.35	.35	--	--
Aircraft rentals	.45	.47	(.02)	(4.3)
Landing fees and other rentals	.46	.46	--	--
Depreciation	.44	.45	(.01)	(2.2)
Other	1.45	1.51	(.06)	(4.0)
	----	----	----	----
TOTAL	7.40 c.	7.50 c.	(.10) c.	(1.3)%
	----	----	----	----

</TABLE>

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Salaries, wages, and benefits per ASM increased 1.8 percent in 1997. This increase resulted primarily from a 2.4 percent increase in 1997 average salary and benefits cost per Employee, partially offset by slower growth in the number of Employees. The increase in average salary and benefits cost per Employee primarily is due to increased health care costs.

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. The Company reached an agreement with the TWU, which was ratified by its membership in December 1997. The new contract becomes amendable in May 2002.

The Company's Customer Service and Reservations Sales Agents are subject to an agreement with the International Association of Machinists and Aerospace Workers, AFL-CIO (IAM), which became amendable in November 1997 and is currently under negotiation. Flight Dispatchers are represented by the Southwest Airlines Employees Association, pursuant to an agreement which became amendable in November 1997 and is also currently under negotiation.

Profitsharing and Employee savings plans expense per ASM increased 30.4 percent in 1997, primarily due to higher earnings available for profitsharing.

Fuel and oil expenses per ASM decreased 6.7 percent in 1997, primarily due to a 4.6 percent decrease from 1996 in the average jet fuel cost per gallon, coupled with a slight decrease in the average fuel burn rate from 1996. The average price paid for jet fuel in 1997 was \$.6246 compared to \$.6547 in 1996. During fourth quarter 1997, the average cost per gallon decreased 17.5 percent to \$.6040 compared to \$.7323 in fourth quarter 1996. In January 1998, fuel prices averaged approximately \$.53 per gallon.

Maintenance materials and repairs per ASM decreased 6.5 percent in 1997, compared to 1996, primarily as a result of lower engine

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overhaul costs in the first three quarters of 1997, when compared to the same periods in 1996.

On August 1, 1997, the Company signed a ten-year engine maintenance contract with General Electric Engine Services, Inc. (General Electric). Under the terms of the contract, Southwest will pay General Electric a rate per flight hour in exchange for General Electric performing substantially all engine maintenance for the CFM56-3 engines on the 737-300 and 737-500 aircraft. The Company has a similar agreement with General Electric with respect to the engines on the 737-700 aircraft. Maintenance on the Pratt & Whitney JT8-D engines on the 737-200 aircraft will continue to be performed by General Electric on a time and materials basis. By consolidating its engine repair work and committing to ten years, Southwest believes it will spend substantially less over the course of the contract versus what it would have spent absent this new agreement. (The immediately preceding sentence is a forward-looking statement which involves uncertainties that could result in actual results differing materially from expected results; such uncertainties include the number of unscheduled engine removals, labor rates, and competition in the engine overhaul market.)

Agency commissions per ASM remained unchanged in 1997, when compared to 1996, as the mix of commissionable sales was relatively unchanged.

Aircraft rentals per ASM decreased 4.3 percent in 1997, compared to 1996, primarily due to a lower percentage of the aircraft fleet being leased.

Depreciation expense per ASM decreased 2.2 percent in 1997, compared to 1996, due to an increase in the average life of depreciable assets.

Other operating expenses per ASM decreased 4.0 percent in 1997, compared to 1996, primarily due to lower credit card processing costs, insurance rates, passenger costs, communications costs, and favorable results from numerous other Companywide cost reduction efforts.

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

interest income, and nonoperating gains and losses. Interest expense increased \$4.2 million in 1997 primarily due to the February 1997 issuance of \$100 million of

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senior unsecured 7 3/8% Debentures due March 1, 2027. Capitalized interest decreased \$2.5 million in 1997 as a result of the timing of payments related to aircraft purchase contracts. Interest income for 1997 increased \$10.8 million primarily due to higher invested cash balances.

INCOME TAXES The provision for income taxes, as a percentage of income before taxes, decreased in 1997 to 38.5 percent from 39.3 percent in 1996. The decrease resulted from lower effective state tax rates, including a reduced California income tax rate.

1996 COMPARED WITH 1995 The Company's consolidated net income for 1996 was \$207.3 million (\$.92 per share, diluted), as compared to the corresponding 1995 amount of \$182.6 million (\$.82 per share, diluted), 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 million for 1995. This increase in 1996 operating revenues was derived primarily from an 18.4 percent increase in passenger revenues. RPMs increased 16.1 percent in 1996, compared to a 12.6 percent increase in 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 excise tax to lapse. This benefited Southwest's revenues until late August 1996 when Congress reimposed the tax through December 31, 1996. The reimposition of the excise tax negatively impacted revenue trends 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 1996 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 telephone line congestion experienced during the sale, revenues for September and October 1996 were positively impacted with very heavy passenger volumes.

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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.

Other revenues increased by 23.3 percent in 1996 to \$56.9 million, compared to \$46.2 million in 1995. This increase primarily was 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 a 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.

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 .8 percent decrease in average salary and benefits cost per Employee. The 16.2 percent increase in average headcount primarily was 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.

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.

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 cent 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 primarily was the result of lower effective state tax rates.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided from operations was \$610.6 million in 1997, compared to \$615.2 million in 1996. (Operating cash flows in 1996 were inflated by \$79.4 million due to a one-time deferral allowed by the federal government for payment of excise taxes. On a pro forma basis, operating cash flows would have been \$690.0 million in 1997 versus \$535.8 million in 1996.)

During 1997, additional funds of \$98.8 million were generated from the February issuance of \$100 million of senior unsecured 7 3/8% Debentures due March 1, 2027. These proceeds primarily were used to finance aircraft-related capital expenditures and to provide working capital.

During 1997, capital expenditures of \$688.9 million primarily were for the purchase of 15 new 737-300 aircraft and three new 737-700 aircraft along with progress payments for future aircraft deliveries. At December 31, 1997, capital commitments of the Company primarily consisted of scheduled aircraft acquisitions and related flight equipment.

As of December 31, 1997, Southwest had 126 new 737-700s on firm order, including 22 to be delivered in 1998, with options to purchase another 62. Aggregate funding required for firm commitments approximated \$3,109.8 million through the year 2004, of which \$565.7 million related to 1998. See Note 2 to the Consolidated Financial Statements for further information.

As of December 31, 1997, the Company had authority from its Board of Directors to purchase up to 2,500,000 shares of its common stock from time to time on the open market. No shares have been purchased since 1990.

The Company has various options available to meet its capital and operating commitments, including cash on hand at December 31, 1997, of \$623.3 million, internally generated funds, and a revolving credit line with a group of banks of up to \$475 million (none of which had been drawn at December 31, 1997). 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 \$414.4 million of public debt securities, which it currently intends to utilize for aircraft financings in 1998 and 1999.

MARKET RISK

In 1997, the Securities and Exchange Commission issued new rules (Item 305 of Regulation S-K), which require disclosure of material risks, as defined in Item 305, related to market risk sensitive financial instruments. As defined, Southwest currently has market risk sensitive instruments related to jet fuel prices and interest rates.

Airline operators are inherently dependent upon energy to operate and, therefore, are impacted by changes in jet fuel prices. Jet fuel consumed in 1997 represented approximately 15.0 percent of

Southwest's operating expenses. Southwest endeavors to acquire jet fuel at the

lowest prevailing prices possible.

The Company hedges its exposure to jet fuel price market risk only on a conservative, limited basis. The fair value of outstanding derivative commodity instruments (primarily purchased crude oil call options) related to the Company's jet fuel price market risk during 1997 and at December 31, 1997 was immaterial. For further discussion, see Note 1 to the Consolidated Financial Statements.

Airline operators are also inherently capital intensive, as the vast majority of the Company's assets are aircraft, which are long lived. The Company's strategy is to capitalize itself conservatively and grow capacity steadily and profitably. While Southwest does use financial leverage, it has maintained a strong balance sheet and "A-" or equivalent credit ratings on its senior unsecured debt with three rating agencies (Standard & Poor's, Moody's, and Duff & Phelps).

As disclosed in Note 4 to the Consolidated Financial Statements, the Company has outstanding unsecured debt of \$600 million at December 31, 1997, of which only \$500 million is long-term. This long-term debt represents only 14.5 percent of total noncurrent assets at December 31, 1997. The Company has an average maturity of 11 years for the long-term debt at fixed rates averaging 7.8 percent, which is below average rates prevailing over the last ten years.

At December 31, 1997, the Company operated 119 aircraft under operating and capital leases at rates that are substantially fixed. As defined in Item 305, leases are not market risk sensitive financial instruments and, therefore, are not included in the interest rate sensitivity analysis below. Commitments related to leases are disclosed in Note 5 to the Consolidated Financial Statements.

The Company does not have significant exposure to changing interest rates on its long-term debt because the interest rates are fixed and the financial leverage is modest. Additionally, the Company does not have significant exposure to changing interest rates on invested cash, which was \$623 million at December 31, 1997. The Company invests available cash in certificates of deposit and investment grade commercial paper that have maturities of three months or less. As a result,

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the interest rate market risk implicit in these investments at December 31, 1997, is low, as the investments mature within three months. The Company has not undertaken any additional actions to cover interest rate market risk and is not a party to any other interest rate market risk management activities.

The Company does not purchase or hold any derivative financial instruments for trading purposes.

INTEREST RATE SENSITIVITY A ten percent change in market interest rates over the next year would not impact the Company's earnings or cash flow as the interest rates on the Company's long-term debt are fixed and its cash investments are short-term. A ten percent change in market interest rates would not have a material effect on the fair value of the Company's publicly traded long-term debt or its short-term cash investments.

IMPACT OF THE YEAR 2000

Based on a recently completed assessment, the Company has determined that it will be required to modify, upgrade, or replace significant portions of its internal software, including financial, reservations, maintenance, and human resources related software, so that its computer systems will properly utilize dates beyond December 31, 1999. As of December 31, 1997, the Company has commenced its year 2000 remediation program, has secured substantially all the required resources, and expects to substantially complete its internal year 2000 efforts by March 31, 1999. The Company believes that by completing the planned remediation program, the year 2000 issue will not adversely impact the Company's operations or operating results. However, if the program is not completed, or not completed timely, the year 2000 issue could have a material impact on the operations of the Company.

In addition, the Company has contacted its critical suppliers and other entities to determine the extent to which the Company's interface systems are vulnerable to those third parties' failure to remediate their own year 2000 issues. While the Company has not been informed of any material risks associated with these entities, there is no guarantee that the systems of these critical suppliers or other entities, including the Federal Aviation Administration, on which the Company relies, will be

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timely converted and will not have an adverse effect on the Company's systems or operations.

The Company has expensed \$4.0 million of costs incurred to date related to the

year 2000 issue. The total remaining cost of the year 2000 project is presently estimated at \$15 million, which will be expensed as incurred. These amounts include only costs directly related to resolving the year 2000 issue. The costs of the project and the date on which the Company believes it will complete the year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area and the ability to locate and correct all relevant computer codes.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Management's Discussion and Analysis of Financial Condition and Results of Operation-Market Risk."

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL 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, 1997 and 1996, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. 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, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Dallas, Texas
January 23, 1998

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

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1997	1996
	-----	-----
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 623,343	\$ 581,841
Accounts receivable	76,530	73,440
Inventories of parts and supplies,		
at cost	52,376	51,094
Deferred income taxes (Note 9)	18,843	11,560
Prepaid expenses and other current		

assets	35,324	33,055
Total current assets	806,416	750,990
Property and equipment, at cost (Notes 2 and 5):		
Flight equipment	3,987,493	3,435,304
Ground property and equipment	601,957	523,958
Deposits on flight equipment		
purchase contracts	221,874	198,366
	4,811,324	4,157,628
Less allowance for depreciation	1,375,631	1,188,405
	3,435,693	2,969,223
Other assets	4,051	3,266
	\$4,246,160	\$3,723,479
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 160,891	\$ 214,232
Accrued liabilities (Note 3)	426,950	368,625
Air traffic liability	153,341	158,098
Current maturities of long-term		
debt (Note 4)	121,324	12,327
Other current liabilities	6,007	12,122
	-----	-----
Total current liabilities	868,513	765,404
Long-term debt less current		
maturities (Note 4)	628,106	650,226
Deferred income taxes (Note 9)	438,981	349,987
Deferred gains from sale and		
leaseback of aircraft	256,255	274,891
Other deferred liabilities	45,287	34,659
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;		
221,207,083 and 145,112,090		
shares issued and		
outstanding in 1997 and		
1996, respectively	221,207	145,112
Capital in excess of par value	155,696	181,650
Retained earnings	1,632,115	1,321,550
	-----	-----
Total stockholders' equity	2,009,018	1,648,312
	-----	-----
	\$4,246,160	\$3,723,479
	=====	=====

</TABLE>

SEE ACCOMPANYING NOTES.

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

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
<S>	<C>	<C>	<C>
OPERATING REVENUES:			
Passenger	\$ 3,639,193	\$ 3,269,238	\$ 2,760,756
Freight	94,758	80,005	65,825
Other	82,870	56,927	46,170
	-----	-----	-----
Total operating revenues	3,816,821	3,406,170	2,872,751
OPERATING EXPENSES:			
Salaries, wages, and			
benefits (Note 8)	1,136,542	999,719	867,984
Fuel and oil	494,952	484,673	365,670
Maintenance materials and			
repairs	256,501	253,521	217,259
Agency commissions	157,211	140,940	123,380
Aircraft rentals	201,954	190,663	169,461

Landing fees and other rentals	203,845	187,600	160,322
Depreciation	195,568	183,470	156,771
Other operating expenses	646,012	614,749	498,373
Total operating expenses	3,292,585	3,055,335	2,559,220
OPERATING INCOME	524,236	350,835	313,531
OTHER EXPENSES (INCOME):			
Interest expense	63,454	59,269	58,810
Capitalized interest	(19,779)	(22,267)	(31,371)
Interest income	(36,616)	(25,797)	(20,095)
Nonoperating (gains) losses, net	221	(1,732)	1,047
Total other expenses	7,280	9,473	8,391
INCOME BEFORE INCOME TAXES	516,956	341,362	305,140
PROVISION FOR INCOME TAXES (NOTE 9)	199,184	134,025	122,514
NET INCOME	\$ 317,772	\$ 207,337	\$ 182,626
NET INCOME PER SHARE, BASIC (NOTES 6, 7, AND 10)	\$ 1.45	\$.95	\$.85
NET INCOME PER SHARE, DILUTED (NOTES 6, 7, AND 10)	\$ 1.40	\$.92	\$.82

</TABLE>

SEE ACCOMPANYING NOTES.

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SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995			
	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TOTAL
<S>	<C>	<C>	<C>	<C>
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, \$.02667 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, \$.02932 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
Three-for-two stock split (Note 6) ...	73,578	(73,578)	--	--
Issuance of common stock upon exercise of executive stock options and pursuant to Employee stock option and purchase plans (Note 7)	2,517	37,818	--	40,335
Tax benefit of options exercised	--	9,806	--	9,806
Cash dividends, \$.0331 per share	--	--	(7,207)	(7,207)
Net income - 1997	--	--	317,772	317,772

Balance at December 31, 1997	\$ 221,207	\$ 155,696	\$ 1,632,115	\$ 2,009,018
	=====	=====	=====	=====

</TABLE>

SEE ACCOMPANYING NOTES.

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

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 317,772	\$ 207,337	\$ 182,626
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	195,568	183,470	156,771
Deferred income taxes	81,711	67,253	48,147
Amortization of deferred gains on sale and leaseback of aircraft	(15,414)	(18,263)	(24,286)
Amortization of scheduled airframe overhauls	20,540	20,539	17,337
Changes in certain assets and liabilities:			
Accounts receivable	(3,090)	6,341	(4,089)
Other current assets	6,243	(19,534)	(11,857)
Accounts payable and accrued liabilities	8,751	132,096	61,937
Air traffic liability	(4,757)	26,942	25,017
Other current liabilities	(4,204)	5,334	1,050
Other	7,468	3,713	3,789
	-----	-----	-----
Net cash provided by operating activities	610,588	615,228	456,442
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(688,927)	(677,431)	(728,643)
	-----	-----	-----
Net cash used in investing activities	(688,927)	(677,431)	(728,643)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt	98,764	--	98,811
Proceeds from aircraft sale and leaseback transactions	--	330,000	321,650
Payment of long-term debt and capital lease obligations	(12,665)	(12,695)	(10,379)
Payment of cash dividends	(6,593)	(6,216)	(5,749)
Proceeds from Employee stock plans	40,335	15,592	10,693
	-----	-----	-----
Net cash provided by financing activities	119,841	326,681	415,026
	-----	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	41,502	264,478	142,825
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	581,841	317,363	174,538
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 623,343	\$ 581,841	\$ 317,363
	=====	=====	=====
CASH PAYMENTS FOR:			
Interest, net of amount capitalized	\$ 42,372	\$ 36,640	\$ 25,277
Income taxes	107,066	66,447	73,928

</TABLE>

SEE ACCOMPANYING NOTES.

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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 maturities of three months or less. Cash and cash equivalents are carried at cost, which approximates market value.

INVENTORIES Inventories of flight equipment expendable parts, materials, and supplies are carried at average cost. These items are 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. 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.

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AIRCRAFT AND ENGINE MAINTENANCE The cost of engine overhauls and routine maintenance costs for aircraft and engines are charged to maintenance expense as incurred. Scheduled airframe overhaul costs are capitalized and amortized over the estimated period benefited, presently ten 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 PROGRAM The Company accrues the estimated incremental cost of providing free travel awards earned under its Rapid Rewards frequent flyer program. The Company also sells flight segment credits to companies participating in its Rapid Rewards frequent flyer program. The revenue from the sale of flight segment credits is recognized when the credits are sold.

ADVERTISING The Company expenses the costs of advertising as incurred. Advertising expense for the years ended December 31, 1997, 1996, and 1995 was \$112,961,000, \$109,136,000, and \$92,087,000, 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.

EARNINGS PER SHARE In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 (SFAS 128), Earnings per Share. SFAS 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of stock options. Diluted earnings

per share is similar to the previously reported fully diluted earnings per share. Earnings per share amounts for all periods have been restated and presented to conform to the SFAS 128 requirements.

DERIVATIVE FINANCIAL INSTRUMENTS The Company utilizes purchased crude oil call options and fixed price swap agreements to hedge a portion of its exposure to fuel price fluctuations. At December 31, 1997, 1996, and 1995, and during the years then ended, outstanding call options and swap agreements were immaterial.

The cost of purchased crude oil call options and gains and losses on fixed price swap agreements are deferred and expensed to fuel expense in the same month that the underlying fuel being hedged is used. Gains and losses resulting from hedging positions terminated or settled early are recorded to fuel expense in the month of termination or settlement. Gains and losses on hedging transactions have not been material.

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

The Company does not hold or issue any financial instruments for trading purposes.

2. COMMITMENTS

The Company's contractual purchase commitments consist primarily of scheduled aircraft acquisitions. Twenty-two 737-700 aircraft are scheduled for delivery in 1998, 25 in 1999, 23 in 2000, 21 in 2001, 21 in 2002, eight in 2003, and six in 2004. In addition, the Company has options to purchase up to 62 -700s during 2003-2006. 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 scheduled subsequent to 1999. Aggregate funding needed for these commitments is approximately \$3,109.8 million, subject to adjustments for inflation, due as follows: \$565.7 million in 1998, \$747.1 million in 1999, \$574.1 million in 2000, \$510.1 million in 2001, \$434.5 million in 2002, \$172.8 million in 2003, and \$105.5 million in 2004.

3. ACCRUED LIABILITIES (IN THOUSANDS)

<TABLE>
<CAPTION>

	1997	1996
	-----	-----
<S>	<C>	<C>
Aircraft rentals	\$123,669	\$121,384
Employee profitsharing and savings plans (Note 8)	92,857	61,286
Vacation pay	50,812	44,763
Other	159,612	141,192
	-----	-----
	\$426,950	\$368,625
	=====	=====

</TABLE>

4. LONG-TERM DEBT (IN THOUSANDS)

<TABLE>
<CAPTION>

	1997	1996
	-----	-----
<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
8% Notes due 2005	100,000	100,000
7 7/8% Notes due 2007	100,000	100,000
7 3/8% Debentures due 2027	100,000	--
Capital leases (Note 5)	152,324	165,610
Other	--	10
	-----	-----
	752,324	665,620
Less current maturities	121,324	12,327
Less debt discount	2,894	3,067
	-----	-----
	\$628,106	\$650,226
	=====	=====

</TABLE>

On February 28, 1997, the Company issued \$100 million of senior unsecured 7 3/8% Debentures due March 1, 2027. Interest is payable semi-annually on March 1 and September 1. The Debentures may be redeemed, at the option of the Company, in whole at any time or in part from time to time, at a redemption price equal to the greater of the principal amount of the Debentures plus accrued interest at the date of redemption or the sum of the present values of the remaining scheduled payments of principal and

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interest thereon, discounted to the date of redemption at the comparable treasury rate plus 20 basis points, plus accrued interest at the date of redemption.

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

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

During 1991, the Company issued \$100 million of senior unsecured 9 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 securities at December 31, 1997, were as follows (in thousands):

<TABLE>	
<S>	<C>
9 1/4% Notes due 1998	\$100,350
9.4% Notes due 2001	110,150
8 3/4% Notes due 2003	111,630
8% Notes due 2005	108,920
7 7/8% Notes due 2007.....	109,410
7 3/8% Debentures due 2027.....	105,660
</TABLE>	

In addition to the credit facilities described above, Southwest has an unsecured Bank Credit Agreement with a group of banks that permits Southwest to borrow through May 6, 2002, on a revolving credit basis, up to \$475 million. Interest rates on borrowings under the Credit Agreement can be, at the option of Southwest, the greater of the agent bank's prime rate or the federal funds rate plus .5 percent, .17 percent over LIBOR, or a fixed rate offered by the banks at the time of borrowing. The commitment fee is .08 percent per annum. There were no outstanding borrowings under this

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agreement, or prior similar agreements, at December 31, 1997 or 1996.

5. LEASES

Total rental expense for operating leases charged to operations in 1997, 1996, and 1995 was \$297,158,000, \$280,389,000, and \$247,033,000, respectively. The majority of the Company's terminal operations space, as well as 106 aircraft, were under operating leases at December 31, 1997. The amounts applicable to capital leases included in property and equipment were (in thousands):

<TABLE>		
<CAPTION>		
	1997	1996
	-----	-----
<S>	<C>	<C>
Flight equipment	\$227,803	\$226,677
Less accumulated amortization	122,346	111,815
	-----	-----
	\$105,457	\$114,862
	=====	=====
</TABLE>		

Future minimum lease payments under capital leases and noncancelable operating leases with initial or remaining terms in excess of one year at December 31, 1997, were (in thousands):

<TABLE>
<CAPTION>

	CAPITAL LEASES	OPERATING LEASES
<S>	<C>	<C>
1998	\$ 32,026	\$ 234,828
1999	20,245	227,679
2000	16,871	224,302
2001	17,391	209,862
2002	17,561	196,410
After 2002	137,799	2,147,915
Total minimum lease payments ...	241,893	\$3,240,996
Less amount representing interest	89,569	=====
Present value of minimum lease payments	152,324	
Less current portion	21,324	
Long-term portion	\$131,000	

</TABLE>

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

6. COMMON STOCK

The Company has one class of common stock. Holders of shares of common stock are entitled to receive dividends when and if declared by the Board of Directors and are entitled to one vote per share on all matters submitted to a vote of the shareholders.

At December 31, 1997, the Company had common stock reserved for issuance pursuant to Employee stock benefit plans (49,254,768 shares) and upon exercise of rights (270,461,851 shares) pursuant to the Common Stock Rights Agreement, as amended (Agreement).

Pursuant to the Agreement, each outstanding share of the Company's common stock is accompanied by one common share purchase right (Right). Each Right entitles its holder to purchase one share of common stock at an exercise price of \$11.11 and is exercisable only in the event of a proposed takeover, as defined by the Agreement. The Company may redeem the Rights at \$.0074 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 \$11.11 that number of the acquiring company's or the Company's common shares, as provided in the Agreement, having a market value of two times the exercise price of the Right. The Rights will expire no later than July 30, 2006.

On September 25, 1997, the Company's Board of Directors declared a three-for-two stock split, distributing 73,577,983 shares on November 26, 1997. Unless otherwise stated, all per share data presented in the accompanying consolidated financial statements and notes thereto have been restated to give effect to the stock split.

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7. STOCK PLANS

At December 31, 1997, 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 expense is recognized for its fixed option plans because the exercise prices of the Company's Employee stock options equal or exceed the market prices of the underlying stock on the dates of the grants. Compensation expense for other stock options is not material.

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 13,500,000 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 1,125,000 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 the 1995 Southwest Airlines Pilots' Association Non-Qualified Stock Option Plan (SWAPA Plan), the Company may grant options to Pilots for up to 27,000,000 shares of common stock. An initial grant of approximately 21,750,000 shares was made on January 12, 1995, at an option price of \$13.33 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 in 1996, additional options will be granted to Pilots that become eligible during that year. Additional options granted on September 1, 1997 and 1996, vest in seven annual increments of 14.3 percent and eight annual increments of 12.5 percent, respectively. Options under all 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 9,000,000 shares of common stock. Under the 1996 Non-Qualified Stock Option Plan, the Company may grant options to key Employees and non-employee

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directors for up to 862,500 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, the exercise price will be equal to 105 percent of the fair value of such stock on the date of the grant.

Information regarding the Company's five fixed stock option plans, as adjusted for the three-for-two stock split on November 26, 1997, is summarized below:

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<TABLE>
<CAPTION>

	INCENTIVE PLANS		NON-QUALIFIED PLANS	
	OPTIONS	AVERAGE EXERCISE PRICE	OPTIONS	AVERAGE EXERCISE PRICE
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Outstanding December 31, 1994.....	7,217,943	\$ 8.05	532,883	\$ 9.07
Granted - Incentive Plans.....	1,474,821	12.53	--	--
Granted - SWAPA Plan.....	--	--	21,790,575	13.33
Granted - Other Non-Qualified Plans.....	--	--	139,973	12.51
Exercised.....	(412,587)	5.67	(90,765)	10.08
Surrendered.....	(462,358)	8.47	(91,562)	13.07
	-----		-----	
Outstanding December 31, 1995.....	7,817,819	8.98	22,281,104	13.24
Granted - Incentive Plans.....	2,505,516	16.79	--	--
Granted - SWAPA Plan.....	--	--	699,300	15.88
Granted - Other Non-Qualified				

Plans.....	--	--	103,683	16.78
Exercised.....	(593,772)	6.85	(435,578)	11.93
Surrendered.....	(375,669)	13.44	(142,477)	13.33
	-----		-----	
Outstanding December 31, 1996.....	9,353,894	11.03	22,506,032	13.36
Granted - Incentive Plans.....	2,455,158	14.51	--	--
Granted - SWAPA Plan.....	--	--	882,000	19.79
Granted - Other Non-Qualified Plans.....	--	--	145,406	14.51
Exercised.....	(1,151,926)	9.04	(1,771,831)	13.27
Surrendered.....	(670,013)	14.58	(99,212)	13.59
	-----		-----	
Outstanding December 31, 1997.....	9,987,113	\$11.87	21,662,395	\$13.63
	=====		=====	
Exercisable December 31, 1997.....	2,081,222		7,132,653	
Available for granting in future periods.....	9,244,087		4,853,562	

</TABLE>

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The following table summarizes information about stock options outstanding under the five fixed option plans at December 31, 1997:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT 12/31/97	WEIGHTED- AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/97	WEIGHTED- AVERAGE EXERCISE PRICE
-----	-----	----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
\$ 4.01 to \$ 5.21	3,084,861	3.04 yrs.	\$ 4.09	993,711	\$ 4.25
\$ 7.56 to \$ 8.04	415,464	4.03	7.97	92,589	7.83
\$11.25 to \$16.79	26,244,958	8.81	13.73	7,621,620	13.54
\$17.29 to \$24.96	1,904,225	7.55	19.82	505,955	21.85
	-----			-----	
\$ 4.01 to \$24.96	31,649,508	8.11 yrs.	\$13.08	9,213,875	\$ 12.93
	=====			=====	

</TABLE>

The Company has granted options to purchase the Company's common stock related to employment contracts with the Company's president and chief executive officer. Depending upon the grant, these options have terms of ten years from the date of grant or ten years from the date exercisable and vest and become fully exercisable over three or four years. No options were granted in 1997 or 1995. In 1996, the Company granted 217,000 options with an exercise price of \$1.00 per share and 750,000 options with an exercise price of \$15.67 per share related to the 1996 employment agreement. At December 31, 1997, 1996, and 1995, total options of 2,611,000, 2,847,000, and 2,133,000 were outstanding, respectively. At December 31, 1997, total options of 2,031,000 were exercisable at exercise prices ranging from \$1.00 to \$15.67 per share. Options for 236,000, 253,000, and 101,000 shares were exercised in 1997, 1996, and 1995, respectively.

Under the 1991 Employee Stock Purchase Plan (ESPP), at December 31, 1997, the Company is authorized to issue up to a balance of 871,000 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 440,000 shares in 1997, 464,000 shares in 1996, and 583,000 shares in 1995 at average prices of \$16.00, \$15.37, and \$12.79, respectively.

Pro forma information regarding net income and net income per share is required by SFAS 123 and has been determined as if the Company had accounted for its Employee stock-based compensation plans and other stock options under the fair value method of SFAS 123. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants under the fixed option plans in 1997, 1996, and 1995, respectively: dividend yield of .22 percent, .16 percent, and .21 percent; expected volatility of 38.23 percent, 35.37 percent, and 36.85 percent; risk-free interest rate of 5.80 percent, 5.89 percent, and 7.79 percent; and expected lives of 5.0 years for all 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 weighted-average fair value of options granted under the five fixed option plans during 1997, 1996, and 1995 was \$6.12, \$6.78, and \$5.61, respectively, for the incentive plans; \$7.67, \$6.16, and \$5.31, respectively, for the SWAPA Plan; and \$6.12, \$6.78, and \$5.61, 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 relative to an employment contract was \$9.32. No such options were granted in 1997 or 1995. The weighted-average fair value of each purchase right under the ESPP granted in 1997, 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 \$1.78, \$1.71, and \$1.43, respectively.

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

For purposes of pro forma disclosures, the estimated fair value of stock-based compensation plans and other options is amortized

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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>

		1997	1996	1995
		----	----	----
<S>		<C>	<C>	<C>
NET INCOME:	As reported	\$317,772	\$207,337	\$182,626
	Pro forma	\$306,553	\$196,478	\$167,907
NET INCOME PER SHARE, BASIC:	As reported	\$ 1.45	\$.95	\$.85
	Pro forma	\$ 1.40	\$.90	\$.78
NET INCOME PER SHARE, DILUTED:	As reported	\$ 1.40	\$.92	\$.82
	Pro forma	\$ 1.34	\$.89	\$.76

</TABLE>

As required, the pro forma disclosures above include only options granted since January 1, 1995. Consequently, the effects of applying SFAS 123 for providing pro forma disclosures may not be representative of the effects on reported net income for future years until all options outstanding are included in the pro forma disclosures.

8. EMPLOYEE PROFITSHARING AND SAVINGS PLANS

Substantially all of Southwest's Employees are members of the Southwest Airlines Co. Profitsharing Plan. Total profitsharing expense charged to operations in 1997, 1996, and 1995 was \$91,256,000, \$59,927,000, and \$54,033,000, 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 1997, 1996, and 1995 were \$39,744,000, \$35,125,000, and \$28,954,000, 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

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and liabilities at December 31, 1997 and 1996 are as follows (in thousands):

<TABLE> <CAPTION>		
	1997	1996
	-----	-----
<S>	<C>	<C>
DEFERRED TAX LIABILITIES:		
Accelerated depreciation.....	\$543,547	\$467,372
Scheduled airframe maintenance.....	33,202	30,984
Other.....	83,607	78,195
	-----	-----
Total deferred tax liabilities.....	660,356	576,551
DEFERRED TAX ASSETS:		
Deferred gains from sale and leaseback of aircraft.....	112,659	114,514
Capital and operating leases.....	61,747	58,252
Alternative minimum tax credit carryforward.....	--	6,019
Other.....	65,812	59,339
	-----	-----
Total deferred tax assets	240,218	238,124
	-----	-----
Net deferred tax liability	\$420,138	\$338,427
	=====	=====

</TABLE>

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

<TABLE> <CAPTION>			
	1997	1996	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
CURRENT:			
Federal	\$102,938	\$ 59,101	\$ 64,420
State	14,535	7,671	9,947
	-----	-----	-----
Total current	117,473	66,772	74,367
DEFERRED:			
Federal	75,990	60,967	44,580
State	5,721	6,286	3,567
	-----	-----	-----
Total deferred	81,711	67,253	48,147
	-----	-----	-----
	\$199,184	\$134,025	\$122,514
	=====	=====	=====

</TABLE>

Southwest has received examination reports from the Internal Revenue Service (IRS) proposing certain adjustments to Southwest's income tax returns for 1989 through 1991. The adjustments relate to aircraft maintenance costs incurred by Southwest, as well as

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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):

	1997	1996	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
Tax at statutory			
U.S. tax rates	\$ 180,935	\$ 119,477	\$ 106,799
Nondeductible items	5,893	5,168	4,488
State income taxes, net of federal benefit	13,166	9,072	8,784
Other, net	(810)	308	2,443
	-----	-----	-----
Total income tax provision	\$ 199,184	\$ 134,025	\$ 122,514
	=====	=====	=====

10. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in thousands except per share amounts):

	1997	1996	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
NUMERATOR:			
Net income, available to common stockholders-numerator for basic and diluted earnings per share	\$317,772	\$207,337	\$182,626
	=====	=====	=====
DENOMINATOR:			
Weighted-average shares outstanding, basic	219,088	217,118	215,517
Dilutive effect of Employee stock options	8,371	7,873	6,247
	-----	-----	-----
Adjusted weighted-average shares outstanding, diluted	227,459	224,991	221,764
	=====	=====	=====
NET INCOME PER SHARE:			
Basic	\$ 1.45	\$.95	\$.85
	=====	=====	=====
Diluted	\$ 1.40	\$.92	\$.82
	=====	=====	=====

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

	THREE MONTHS ENDED			

1997	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
- - - - -	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Operating revenues	\$887,095	\$956,892	\$997,241	\$975,593
Operating income	87,203	156,407	151,770	128,856
Income before income taxes	83,401	153,823	150,387	129,345
Net income	50,874	93,832	92,511	80,555
Net income per share, basic	.23	.43	.42	.36
Net income per share, diluted	.23	.42	.41	.35

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 share, basic	.15	.39	.28	.13
Net income per share, diluted	.15	.38	.27	.13

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 21, 1998. 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 21, 1998.

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 21, 1998.

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 21, 1998.

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)).

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 Restated Credit Agreement dated May 6, 1997, between Southwest and Bank of America National Trust and Savings Association, and the other banks named therein, and such banks.

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

Southwest is not filing any other instruments evidencing any indebtedness because the total amount of securities authorized under any single such instrument does not exceed 10% of its total consolidated assets. Copies of such instruments will be furnished to the Securities and Exchange Commission upon request.

- 10.1 General Terms Agreement between CFM International, Inc. and Southwest (with all amendments through March 29, 1990) dated May 28, 1981 (incorporated by reference to Exhibit 10.2 on Southwest's Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 1-7259)); Amendments from November 6, 1989 through March 29, 1993 (incorporated by reference to Exhibit 10.2 on Southwest's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-7259)); Amendments from March 29, 1993 through March 29, 1994 (incorporated by reference to Exhibit 10.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)); Amendment No. 7 and Letter Agreement No. 11, each dated as of January 19, 1994 (incorporated by reference to Exhibit 10.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)).
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Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

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

- 10.3 Form of Executive Employment Agreement between Southwest and certain key employees pursuant to Executive Service Recognition Plan (incorporated by reference to Exhibit 28 to Southwest

Quarterly Report on Form 10-Q for the quarter ended June 30, 1987 (File No. 1-7259)).

- 10.4 1992 stock option agreements between Southwest and Herbert D. Kelleher (incorporated by reference to Exhibit 10.8 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).
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- 10.14 1996 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 333-20275)).

22 Subsidiaries of Southwest.

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23 Consent of Ernst & Young LLP, Independent Auditors.

27 Financial Data Schedule.

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 1997.

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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 19, 1998

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 19, 1998 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

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

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.

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COMPETITIVE ADVANCE AND REVOLVING CREDIT FACILITY AGREEMENT

among

SOUTHWEST AIRLINES CO.,

THE BANKS PARTY HERETO,

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION,
as Documentation Agent,

NATIONSBANK OF TEXAS, N.A.,
as Syndication Agent,

THE CHASE MANHATTAN BANK,
as Auction Administration Agent,

and

TEXAS COMMERCE BANK NATIONAL ASSOCIATION,
as Administrative Agent

As of May 6, 1997

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</TABLE>

"Company"), the Banks, TEXAS COMMERCE BANK NATIONAL ASSOCIATION, a national banking association, as administrative agent for the Banks (in such capacity, the "Administrative Agent"), THE CHASE MANHATTAN BANK, a New York banking corporation, as auction administration agent for the Banks (in such capacity, the "Auction Administration Agent"), BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, a national banking association, as documentation agent for the Banks (in such capacity, the "Documentation Agent"), and NATIONSBANK OF TEXAS, N.A., a national banking association, as syndication agent for the Banks (in such capacity, the "Syndication Agent").

The Company has requested the Banks to extend credit to the Company in order to enable it to borrow on a revolving credit basis on and after the Effective Date and at any time and from time to time prior to the Termination Date (each as herein defined) a principal amount not in excess of \$475,000,000 at any time outstanding. The Company has also requested the Banks to provide a procedure pursuant to which the Company may designate that all of the Banks be invited to bid on an uncommitted basis on borrowings by the Company scheduled to mature on or prior to the Termination Date. The Banks are willing to extend such credit to the Company on the terms and conditions herein set forth. Accordingly, the Company, the Agents, and the Banks agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

Section 1.1 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Adjusted Pre-Tax Income" of any Person means, with respect to any period, net income before taxes of such Person for such period, but excluding (i) any gain or loss arising from the sale of capital assets other than capital assets consisting of Aircraft, (ii) any

gain or loss arising from any write-up or write-down of assets, (iii) income or loss of any other Person, substantially all of the assets of which have been acquired by such Person in any manner, to the extent that such income or loss was realized by such other Person prior to the date of such acquisition, (iv) net income or loss of any other Person (other than a Subsidiary) in which such Person has an ownership interest, (v) the income or loss of any other Person to which assets of such Person shall have been sold, transferred, or disposed of, or into which such Person shall have merged, to the extent that such income or loss arises prior to the date of such transaction, (vi) any gain or loss arising from the acquisition of any securities of such Person, (vii) gains or losses reported as extraordinary in accordance with GAAP not previously excluded in clauses (i) through (vi), and (viii) the cumulative effect of changes in accounting methods permitted by GAAP during such period.

"Administrative Agent" is defined in the introduction to this Agreement.

"Administrative Questionnaire" means an Administrative Questionnaire substantially in the form of Exhibit F hereto, which each Bank shall complete and provide to the Administrative Agent.

"Affiliate" means a Person that directly, or indirectly through one or more intermediaries, controls or is controlled by or is under common control with another Person.

"Agents" means the Administrative Agent, the Auction Administration Agent, the Documentation Agent and the Syndication Agent.

"Agreed Maximum Rate" means, for any date, the Alternate Base Rate plus 1% per annum.

"Agreement" means this Competitive Advance and Revolving Credit Facility Agreement, as the same may be amended, supplemented, or modified from time to time.

"Aircraft" means, collectively, airframes and aircraft engines now owned or hereafter acquired by the Company, together with all appliances, equipment, instruments, and accessories (including radio and radar) from time to time belonging to, installed in, or appurtenant to such airframes and aircraft engines; provided, however, the term "Aircraft" shall not include airframes and engines leased by the Company.

"Aircraft Rentals" means the operating expense attributable to rental of aircraft, calculated in accordance with the line item described as such in the Current Financials.

"Alternate Base Loan" means any Committed Loan with respect to which the Company shall have selected an interest rate based on the Alternate Base Rate in accordance with the provisions of Article II.

"Alternate Base Rate" means, for any date, a rate per annum (rounded upwards, if not already a whole multiple of 1/100 of 1%, to the next higher 1/100 of 1%) equal to the greater of (i) the Prime Rate in effect on such day, and (ii) the Federal Funds Effective Rate in effect for such day plus 1/2 of 1%. For purposes hereof, the term "Prime Rate" means, as of a particular date, the prime rate most recently announced by TCB and thereafter entered in the minutes of TCB's Loan and Discount Committee, automatically fluctuating upward and downward with and at the time specified in each such announcement without special notice to the Company or any other Person, which prime rate may not necessarily represent the lowest or best rate actually charged to a customer. "Federal Funds Effective Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by it. Any change in the Alternate Base Rate due to a change in the Federal Funds Effective Rate shall be effective on the effective date of such change in the Federal Funds Effective Rate. If for any reason the Administrative Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including, without limitation, the inability of the Administrative Agent to obtain sufficient quotations or publications in accordance with the terms hereof, the Alternate Base Rate shall be the Prime Rate until the circumstances giving rise to such inability no longer exist.

"Applicable Law" means the Laws of the United States of America applicable to contracts made or performed in the State of Texas, including, without limitation, 12 U.S.C. Section 86(a), as amended, and any other statute of the United States of America now or at any time hereafter prescribing maximum rates of interest on loans, advances, and extensions of credit, and the Laws of the State of Texas, including, without limitation, Article 5069-1.04 and 5069-1.07(a), Title 79, Revised Civil Statutes of Texas, 1925 (Art. 5069-1.04 and Art. 5069-1.07(a), Vernon's Annotated Texas Statutes), as amended ("Article 1.04"), and any other statute of, or any provisions of the Constitution of, the State of Texas now or at any time hereafter prescribing maximum rates of interest on loans, advances, and extensions of credit.

"Applicable Lending Office" means, with respect to each Bank, such Bank's Domestic Lending Office in the case of an Alternate Base Loan or a Fixed Rate Loan and such Bank's Eurodollar Lending Office in the case of a Eurodollar Loan.

"Applicable Margin" means, as of any date, in the case of Eurodollar Loans that are Committed Loans, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

<TABLE>

<CAPTION>

Applicable Margin for Eurodollar Loans that are Committed Loans	
Public Debt Rating S&P/Moody's	

<S>	<C>
A/A2 or better	.155%

A-/A3	.17%

BBB+/Baa1	.20%

BBB/Baa2	.225%

BBB-/Baa3	.30%

BB+/Ba1 or below	.50%
=====	

</TABLE>

For purposes of determining the Applicable Margin on any date, the Public Debt Rating shall be determined as set forth in the definition of the term Public Debt Rating.

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"Appraisal" means a "desk-top" appraisal report substantially in the form of Exhibit I, which will not include physical inspection of aircraft, engines or maintenance records and will assume the equipment is half life in its maintenance cycle, dated the date of delivery thereof to the Banks pursuant to the terms of this Agreement, by one or more independent appraisal firms of recognized national standing selected by the Company (such firm to be reasonably satisfactory, at the time of such Appraisal, to the Administrative Agent) setting forth the fair market value, as determined in accordance with the definition of "fair market value" promulgated by the International Society of Transport Aircraft Trading, as of the date of such appraisal, of each Pool Asset or a proposed Pool Asset, as the case may be.

"Appraisal Delivery Date" means (a) the Asset Pool Date, (b) each date of replacement, removal or addition of any Pool Assets, and (c) if no Appraisal of all of the Pool Assets shall have been provided in any two-year period, at the end of each such two-year period.

"Appraised Value" means, as of any date of determination, the aggregate fair market value as of such date of each Pool Asset or proposed Pool Asset, as the case may be, as provided in the most recently delivered Appraisal.

"Article 1.04" is defined in the definition of the term Applicable Law.

"Asset Pool Date" means the earlier of (a) the termination of the Bond Indenture or (b) February 15, 1998.

"Assignment and Acceptance" is defined in Section 8.11(c).

"Auction Administration Agent " is defined in the introduction to this Agreement.

"Auditors" means independent certified public accountants of recognized national standing selected by the Company.

"Banks" means those banks signatory hereto and other banks which from time to time become party hereto pursuant to the provisions of this Agreement.

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"B of A" means Bank of America National Trust and Savings Association.

"Board" means the Board of Governors of the Federal Reserve System of the United States.

"Bond Indenture" means the Indenture dated December 1, 1985, between the Company and TCB, as trustee thereunder.

"Borrowing" means a Competitive Borrowing or a Committed Borrowing.

"Borrowing Date" means the Business Day upon which the proceeds of any Borrowing are to be made available to the Company.

"Business Day" means a day when the Agents and each Bank's Applicable Lending Office are open for business, other than a Saturday or Sunday, and if the applicable Business Day relates to any Eurodollar Loan, a day on which dealings in dollar deposits are carried on in the Eurodollar Interbank Market and commercial banks are open for domestic or international business in London, England, in New York, New York, and in Houston, Texas.

"Chase" means The Chase Manhattan Bank.

"Collateral Coverage Test" means, on any date, the requirement that the Appraised Value of the Pool Assets on such date shall not be less than an amount equal to 1.5 times the sum of the total Commitments on such date (or, after termination of the Commitments, the sum of the aggregate amount of Loans outstanding).

"Commitment" means, with respect to each Bank, the amount set forth opposite the name of such Bank on the signature pages hereof, and, if applicable, amendments hereto, as such amount may be permanently terminated or

reduced from time to time pursuant to Section 2.6, Section 2.13(d) and Section 6.2, and as such amount may be increased or reduced from time to time by assignment or assumption pursuant to Section 2.13(d) and Section 8.11(c). The Commitments shall automatically and permanently terminate on the Termination Date.

"Committed Borrowing" means a borrowing consisting of simultaneous Committed Loans from each of the Banks distributed ratably among the Banks in accordance with their respective Commitments.

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"Committed Loan" means a loan by a Bank to the Company pursuant to Section 2.1, and shall be either a Eurodollar Loan or an Alternate Base Loan.

"Committed Note" means a promissory note which a Bank may require the Company to execute in accordance with Section 2.8(b), payable to the order of such Bank, in substantially the form of Exhibit D-2 hereto, with the blanks appropriately completed, to evidence the aggregate indebtedness of the Company to such Bank resulting from the Committed Loans made by such Bank to the Company, together with all modifications, extensions, renewals, and rearrangements thereof.

"Communications" is defined in Section 8.2.

"Company" is defined in the introduction to this Agreement.

"Competitive Bid" means an offer by a Bank to make a Competitive Loan pursuant to Section 2.2.

"Competitive Bid Rate" means, as to any Competitive Bid made by a Bank pursuant to Section 2.2(b), (i) in the case of a Eurodollar Loan, the Margin (which will be added to or subtracted from the LIBO Rate), and (ii) in the case of a Fixed Rate Loan, the fixed rate of interest, in each case, offered by the Bank making such Competitive Bid.

"Competitive Bid Request" means a request for Competitive Bids made pursuant to Section 2.2(a) substantially in the form of Exhibit A-1.

"Competitive Borrowing" means a borrowing consisting of a single Competitive Loan from a Bank or simultaneous Competitive Loans from one or more of the Banks, in each case, whose Competitive Bid as all or as a part of such Borrowing, as the case may be, has been accepted by the Company under the bidding procedure described in Section 2.2.

"Competitive Loan" means a loan from a Bank to the Company pursuant to the bidding procedure described in Section 2.2, and shall be either a Eurodollar Loan or a Fixed Rate Loan.

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"Competitive Note" means a promissory note which a Bank may require the Company to execute in accordance with Section 2.8(b), payable to the order of such Bank, in substantially the form of Exhibit D-1 hereto, with the blanks appropriately completed, to evidence the aggregate indebtedness of the Company to such Bank resulting from the Competitive Loans made by such Bank to the Company, together with all modifications, extensions, renewals, and rearrangements thereof.

"Competitive Reduction" is defined in Section 2.1.

"Consolidated Long-Term Debt" means, as of any date, all consolidated Debt of the Company and its Subsidiaries which is classified as "long term" in accordance with GAAP, together with the aggregate of all portions of Consolidated Long-Term Debt classified as "current maturities" in accordance with GAAP.

"Consolidated Net Tangible Assets" means the total amount of assets appearing on the Company's consolidated balance sheet, less, without duplication, (i) all current liabilities (excluding any thereof which are extendible or renewable by their terms or replaceable or refundable pursuant to enforceable commitments at the option of the obligor thereon without requiring the consent of the obligee to a time more than twelve months after the time as of which the amount thereof is being computed and excluding current maturities of Consolidated Long-Term Debt); (ii) all reserves for depreciation and other asset valuation reserves but excluding any reserves for deferred federal income Tax arising from accelerated amortization or otherwise; (iii) all goodwill, trademarks, trade names, patents, unamortized debt discount and expense, and other like intangible assets carried as an asset on said balance sheet; and

(iv) all appropriate adjustments for minority interests of other Persons holding common stock in any Subsidiary. Consolidated Net Tangible Assets shall be determined in accordance with GAAP and as of a date not more than ninety days prior to the happening of the event for which such determination is being made.

"Coverage Ratio" means, as of any date, the ratio of (i) for the four fiscal quarter period for which the Company's annual or quarterly Financial Statements have been most recently required to have been delivered pursuant to Section 5.10(a) and Section 5.10(b), the Company's and its Subsidiaries' consolidated Adjusted Pre-Tax Income, plus Aircraft Rentals, plus consolidated Net Interest Expense, depreciation, and amortization, and minus

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cash dividends paid by the Company, to (ii) current maturities of Consolidated Long-Term Debt, consolidated Net Interest Expense, and Aircraft Rentals paid within such four-quarter period.

"Current Financials" means the Financial Statements of the Company and its Subsidiaries for the fiscal year ended December 31, 1996.

"Debt" means, without duplication, (a) any indebtedness for borrowed money or incurred in connection with the acquisition or construction of any Property, (b) any obligation under any lease of any Property entered into after the date of this Agreement which is required under GAAP to be capitalized on the lessee's balance sheet, and (c) any direct or indirect guarantee or assumption of indebtedness or obligations described in clause (a) or (b), including without limitation any agreement to provide funds to or otherwise assure the ability of an obligor to repay indebtedness or meet its obligations.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of America and all other applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization, fraudulent transfer or conveyance, suspension of payments, or similar Laws from time to time in effect affecting the Rights of creditors generally.

"Default" means the occurrence of any event which with the giving of notice or the passage of time or both would become an Event of Default.

"Documentation Agent" is defined in the introduction to this Agreement.

"dollars" and the symbol "\$" mean the lawful currency of the United States of America.

"Domestic Lending Office" means, with respect to any Bank, the office of such Bank specified as its "Domestic Lending Office" on Schedule I to this Agreement or such other office of such Bank as such Bank may from time to time specify to the Company, the Administrative Agent and the Auction Administration Agent.

"Effective Date" means the date on which the conditions set forth in Section 3.1 are first met.

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"Eligible Assignee" means (i) a commercial bank organized under the Laws of the United States, or any state thereof, and having total assets in excess of \$1,000,000,000; (ii) a commercial bank organized under the Laws of France, Germany, the Netherlands or the United Kingdom, or under the Laws of a political subdivision of any such country, and having total assets in excess of \$1,000,000,000; provided that such bank is acting through a branch or agency located in such country or the United States; and (iii) a commercial bank organized under the Laws of any other country which is a member of the OECD, or under the Laws of a political subdivision of any such country, and having total assets in excess of \$1,000,000,000; provided that such bank is acting through a branch or agency located in the United States.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated thereunder.

"Eurocurrency Liabilities" is defined in Regulation D.

"Eurodollar Interbank Market" means the London eurodollar interbank market.

"Eurodollar Lending Office" means, with respect to each Bank, the branches or affiliates of such Bank which such Bank has designated on Schedule

I as its "Eurodollar Lending Office" or may hereafter designate from time to time as its "Eurodollar Lending Office" by notice to the Company, the Administrative Agent and the Auction Administration Agent.

"Eurodollar Loan" means any loan with respect to which the Company shall have selected an interest rate based on the LIBO Rate in accordance with the provisions of Article II.

"Event of Default" means any of the events described in Article VI, provided there has been satisfied any requirement in connection therewith for the giving of notice, lapse of time, or happening of any further condition, event, or act.

"Execution Date" means the date of execution and delivery of the Agreement by all of the parties hereto.

"Facility Fee" is defined in Section 2.5.

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"Facility Fee Percentage" means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

<TABLE>
<CAPTION>

Public Debt Rating S&P/Moody's		Percentage
<S>		<C>
A/A2 or better		.07%
A-/A3		.08%
BBB+/Baa1		.10%
BBB/Baa2		.125%
BBB-/Baa3		.15%
BB+/Ba1 or below		.25%

</TABLE>

For purposes of determining the Facility Fee Percentage on any date, the Public Debt Rating shall be determined as set forth in the definition of the term Public Debt Rating.

"Federal Funds Effective Rate" is defined in the definition of the term Alternate Base Rate.

"Financial Report Certificate" means a certificate substantially in the form of Exhibit G.

"Financial Statements" means balance sheets, income and loss statements, statements of stockholders' equity, and statements of cash flow prepared in accordance with GAAP and in comparative form to the corresponding period of the preceding fiscal year.

"Fixed Rate Loan" means any Competitive Loan made by a Bank pursuant to Section 2.2 based upon an actual percentage rate per annum offered by such Bank, expressed as a decimal (to no more than four decimal places), and accepted by the Company.

"GAAP" means generally accepted accounting principles of the Accounting Principles Board of the American Institute of Certified Public Accountants and the Financial Accounting Standards Board which are applicable as of the date in question for the purpose of the definition of "Financial Statements."

"Highest Lawful Rate" means at the particular time in question the maximum rate of interest which, under Applicable Law, the Banks are then permitted to charge the Company on the Obligation. If the maximum rate of interest which, under Applicable Law, the Banks are

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permitted to charge the Company on the Obligation shall change after the date

hereof, the Highest Lawful Rate shall be automatically increased or decreased, as the case may be, as of the effective time of such change without notice to the Company. For purposes of determining the Highest Lawful Rate under Applicable Law, the applicable rate ceiling shall be (i) the indicated rate ceiling described in and computed in accordance with the provisions of Section (a)(1) of Article 1.04; or (ii) provided notice is given as required in Section (h)(1) of Article 1.04, either the annualized ceiling or quarterly ceiling computed pursuant to Section (d) of Article 1.04; provided, however, that at any time such ceiling shall be less than 18% per annum or more than 24% per annum, the provisions of Section (b)(1) and (2) of Article 1.04 shall control for purposes of such determination, as applicable.

"Interest Payment Date" means (i) with respect to any Alternate Base Loan, each Quarterly Payment Date, or if earlier the Termination Date or the date of prepayment of such Loan or conversion of such Loan to a Eurodollar Loan, (ii) with respect to any Eurodollar Loan, the last day of the Interest Period applicable thereto and, in addition in the case of a Eurodollar Loan with an Interest Period longer than three months each day that would have been the Interest Payment Date for such Loan had successive Interest Periods of three months been applicable to such Loan, and (iii) in the case of a Fixed Rate Loan, the last day of the Interest Period applicable thereto and, in the case of a Fixed Rate Loan with an Interest Period of more than 90 days, on the numerically corresponding day which occurs during such Interest Period every three months from the first day of such Interest Period (or, if there is no such corresponding day in any such month, the last day of such month).

"Interest Period" means:

(i) as to any Eurodollar Loan, the period commencing on the date of such Loan and ending on the numerically corresponding day (or if there is no corresponding day, the last day) in the calendar month that is one, two, three, six, nine, or twelve months thereafter, as the Company may elect; and

(ii) as to any Fixed Rate Loan, the period commencing on the date of such Loan and ending on the date specified in the Competitive Bid in which the offer to make the Fixed Rate Loan was extended;

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provided, however, that each such period shall have a duration of not less than seven calendar days nor more than 360 calendar days;

provided, further, that (x) if any Interest Period would end on a day which shall not be a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, with respect to Eurodollar Loans only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, and (y) no Interest Period may be selected that ends later than the Termination Date. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Laws" means all applicable statutes, laws, treaties, ordinances, rules, regulations, orders, writs, injunctions, decrees, judgments, or opinions of any Tribunal.

"LIBO Rate" means, for any Eurodollar Loan for any Interest Period therefor, the rate (rounded upwards, if not already a whole multiple of 1/100 of 1%, to the next higher 1/100 of 1%) equal to the annual rate of interest shown on the Dow Jones Telerate Screen (Page 3750) for a period equal to such Interest Period or, if the Dow Jones Telerate Screen is not available, the annual rate of interest at which dollar deposits approximately equal in principal amount to TCB's portion of the Committed Borrowing of which such Eurodollar Loan forms a part (or, in the case of a Competitive Loan, a principal amount which would have been TCB's portion of the Committed Borrowing of which such Eurodollar Loan would have formed a part had such Competitive Borrowing been a Committed Borrowing) and with a maturity equal to the applicable Interest Period are offered in immediately available funds to the principal office of TCB in London, England (or if TCB does not at the time any such determination is made maintain an office in London, England, the principal office of any Affiliate of TCB in London, England), in the Eurodollar Interbank Market, at 11:00 a.m., London time (or as soon thereafter as practicable), two Business Days before the first day of such Interest Period. The LIBO Rate for the Interest Period for each Eurodollar Loan comprising part of the same Borrowing shall be determined by the Administrative Agent.

"Lien" means any mortgage, lien, pledge, adverse claim, charge, security interest or other encumbrance in or on, or any interest or title of any vendor, lessor, lender or other secured

party to or of any Person under any conditional sale or other title retention agreement or lease with respect to, any Property or asset of such Person.

"Litigation" means any action conducted, pending, or threatened by or before any Tribunal.

"Loan" means a Competitive Loan, a Committed Loan, a Eurodollar Loan, a Fixed Rate Loan, or an Alternate Base Loan.

"Loan Papers" means (i) this Agreement, certificates delivered pursuant to this Agreement, and exhibits and schedules hereto, (ii) any notes, security documents, guaranties, and other agreements in favor of the Agents and Banks, or any or some of them, ever delivered in connection with this Agreement, and (iii) all renewals, extensions, or restatements of, or amendments or supplements to, any of the foregoing.

"Majority Banks" means at any time (i) the Majority Committed Banks and (ii) Banks holding at least 66-2/3% of the then aggregate unpaid principal amount of the Competitive Loans.

"Majority Committed Banks" means at any time Banks holding at least 66-2/3% of the then aggregate unpaid principal amount of the Committed Loans or if no Committed Loans are outstanding, Banks having at least 66-2/3% of the available Commitments (determined without considering the effect of any Competitive Reduction).

"Margin" means, as to any Competitive Bid made by a Bank relating to a Eurodollar Loan, the margin (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) to be added to or subtracted from the LIBO Rate for any such Loan in order to determine the interest rate acceptable to such Bank with respect to such Eurodollar Loan.

"Margin Stock" means "margin stock" within the meaning of Regulations G, T, U, or X of the Board.

"Material Adverse Change" or "Material Adverse Effect" means an act, event or circumstance which materially and adversely affects the business, financial condition or results of operations of the Company and its Subsidiaries on a consolidated basis or the ability of the Company to perform its obligations under this Agreement or any Loan Paper.

"Material Subsidiary" means, at any time, any Subsidiary of the Company having at such time either (i) total assets, as of the last day of the preceding fiscal quarter, having a net book value greater than or equal to 10% of the total assets of the Company and all of its Subsidiaries on a consolidated basis or (ii) Adjusted Pre-Tax Income, as of the last day of the preceding fiscal quarter, greater than or equal to 10% of the total Adjusted Pre-Tax Income of the Company and all of its Subsidiaries on a consolidated basis.

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

"NationsBank" means NationsBank of Texas, N.A.

"Net Interest Expense" means interest expense minus interest income, excluding in either case capitalized interest, but including payments in the nature of interest under capital leases if and to the extent characterized as such in accordance with GAAP.

"Note" means a Competitive Note or a Committed Note.

"Notice of Committed Borrowing" is defined in Section 2.3.

"Obligation" means all present and future indebtedness, obligations, and liabilities, and all renewals, extensions, and modifications thereof, owed to the Agents and Banks, or any or some of them, by the Company, arising pursuant to any Loan Paper, together with all interest thereon and costs, expenses, and reasonable attorneys' fees incurred in the enforcement or collection thereof.

"OECD" means the Organization for Economic Cooperation and Development as constituted on the date hereof (excluding Mexico, Poland and the Czech Republic).

"Officer's Certificate" means a certificate signed in the name of the Company by either its Chairman, one of its Vice Chairmen, its President, one of its Vice Presidents, its Treasurer, or its Assistant Treasurer, in each case without personal liability.

"Original Termination Date" means May 6, 2002.

"Permitted Liens" means: (a) Liens for taxes, assessments and governmental charges or levies which either are not yet due and payable or are being contested in good faith by appropriate

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proceedings and for which adequate reserves are established in accordance with GAAP; (b) Liens securing judgments, but only to the extent, for an amount and for a period not resulting in an Event of Default under Section 6.1(d); (c) Liens arising under this Agreement; (d) Liens constituting normal operational usage of the affected Property, including charter, third party maintenance, leasing, pooling or interchange thereof; and (e) Liens imposed by law such as materialmen's, mechanics', carriers', workmen's and repairmen's Liens and other similar Liens arising in the ordinary course of business securing obligations that (i) are not overdue for a period of more than 30 days, provided that no enforcement, collection, execution, levy or foreclosure proceeding shall have been commenced with respect thereto, or (ii) are being contested in good faith and for which adequate reserves are established in accordance with GAAP.

"Person" means and includes an individual, partnership, joint venture, corporation, trust, limited liability company or other entity, Tribunal, unincorporated organization, or government, or any department, agency, or political subdivision thereof.

"Plan" means any plan defined in Section 4021(a) of ERISA in respect of which the Company is an "employer" or a "substantial employer" as such terms are defined in ERISA.

"Pool Assets" means assets of the Company listed on Schedule II (which Schedule shall be prepared by the Company, shall be reasonably satisfactory to the Majority Banks, and shall be delivered to the Administrative Agent prior to the Asset Pool Date), to the extent modified pursuant to Section 5.12(b) and shall include only Stage 3 Equipment owned legally by the Company.

"Prime Rate" is defined in the definition of the term Alternate Base Rate.

"Principal Office" of the Administrative Agent means 1111 Fannin St., 9th Floor, MS46, Houston, Texas 77002, or such other office as the Administrative Agent may hereafter designate from time to time as its "Principal Office" by notice to the Company, the Banks and the Auction Administration Agent.

"Property" means all types of real, personal, tangible, intangible, or mixed property.

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"Public Debt Rating" means, as of any date, the rating that has been most recently announced by S&P and Moody's for that class of non-credit enhanced, senior unsecured debt with an original term of longer than one year issued by the Company which has the lowest rating of all classes of non-credit enhanced, senior unsecured debt with an original term of longer than one year issued by the Company. For purposes of the foregoing, (a) if only one of S&P and Moody's shall have in effect a Public Debt Rating, the Applicable Margin and the Facility Fee Percentage shall be determined by reference to the available rating; (b) if the ratings established by S&P and Moody's shall fall within different levels, the Applicable Margin and the Facility Fee Percentage shall be based upon the higher rating, except that if the difference is two or more levels, the Applicable Margin and Facility Fee Percentage shall be based on the rating that is one level below the higher rating; (c) if any rating established by S&P or Moody's shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; (d) if S&P or Moody's shall change the basis on which ratings are established, each reference to the Public Debt Rating announced by S&P or Moody's, as the case may be, shall refer to the then equivalent rating by S&P or Moody's, as the case may be; (e) if neither S&P nor Moody's shall have in effect a Public Debt Rating but at least one of S&P and Moody's has in effect a rating for any class of senior secured debt with an original term of longer than one year issued by the Company, the Applicable Margin and Facility Fee Percentage shall be determined by reference to a rating that is two levels lower than the rating that has been most recently announced by S&P and Moody's for such class of debt; and (f) if neither S&P nor Moody's shall have in effect either a Public Debt Rating or a rating for any class of senior secured debt with an original term of longer than one year issued by the Company, the Applicable Margin and the Facility Fee Percentage shall be set in

accordance with the lowest level rating and highest percentage rate set forth in the respective tables in the definitions of "Applicable Margin" and "Facility Fee Percentage", as the case may be.

"Quarterly Payment Date" means the 15th day of each March, June, September and December of each year, the first of which shall be the first such day after the Effective Date.

"Register" is defined in Section 8.11(e).

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"Regulation D" means Regulation D of the Board, as the same is from time to time in effect, and all official rulings and interpretations thereunder or thereof.

"Regulatory Change" means, with respect to any Bank, (a) any adoption or change after the Execution Date of or in United States federal, state or foreign laws, rules, regulations (including Regulation D) or guidelines applying to a class of banks including such Bank, (b) the adoption or making after the Execution Date of any interpretations, directives or requests applying to a class of banks including such Bank of or under any United States federal, state or foreign laws, rules, regulations or guidelines (whether or not having the force of law) by any Tribunal, monetary authority, central bank, or comparable agency charged with the interpretation or administration thereof, or (c) any change in the interpretation or administration of any United States federal, state or foreign laws, rules, regulations or guidelines applying to a class of banks including such Bank by any Tribunal, monetary authority, central bank, or comparable agency charged with the interpretation or administration thereof.

"Reserve Percentage" of any Bank for the Interest Period for any Eurodollar Loan means the reserve percentage applicable during such Interest Period under regulations issued from time to time by the Board (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) for determining the maximum reserve requirement (including, without limitation, any marginal reserve requirement) for such Bank with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"Rights" means rights, remedies, powers, and privileges.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"Sale-Leaseback Debt" means, as to any particular lease entered into in a Sale-Leaseback Transaction, at any date as of which the amount thereof is to be determined, the total net amount of rent required to be paid under such lease during the remaining term thereof, discounted from the respective due dates thereof to such date at the rate per annum which would then be used to

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determine the lease classification under GAAP. The net amount of rent required to be paid under any such lease for any such period shall be the aggregate amount of the rent payable by the lessee with respect to such period after excluding amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water rates, and similar charges. The term "Sale-Leaseback Debt" shall exclude any part thereof representing any extension, renewal, or replacement (or successive extensions, renewals, or replacements) of Debt secured by any Lien existing on the date hereof or any Lien referred to in clauses (1) through (8) inclusive of Section 5.13(a), provided that the Sale-Leaseback Transaction resulting in such Sale-Leaseback Debt shall be limited to all or a part of the Property (plus improvements and construction on such Property) which was subject to the Lien securing the Debt so extended, renewed, or replaced.

"Sale-Leaseback Transaction" means any sale by the Company or any of its Subsidiaries to any Person (other than the Company or another of its Subsidiaries) of any Property owned by the Company or such Subsidiary, which sale occurs more than 270 days after the later of the acquisition, completion of construction, or commencement of commercial operation of such Property by the Company or such Subsidiary, if, as part of the same transaction or series of transactions, the Company or any of its Subsidiaries shall lease as lessee the same Property or other substantially equivalent Property which it intends to use for substantially the same purposes.

"Stage 3 Airframes" and "Stage 3 Engines" mean airframes or engines,

respectively, owned by the Company and qualifying as Stage 3 airplanes, as set forth in Federal Aviation Regulation 36.1(f)(6), 14 C.F.R. Section 36.1 (f)(6) or any successor regulation, as amended; and "Stage 3 Engines" also include spare engines which are suitable for use on Stage 3 Airframes and are being maintained according to the Company's normal and customary standards.

"Stage 3 Equipment" means Stage 3 Airframes and not less than two nor more than four Stage 3 Engines per Stage 3 Airframe.

"Stated Rate" is defined in Section 8.8.

"Subsidiary" of a Person means any entity of which an aggregate of more than 50% (in number of votes) of the stock (or equivalent interests) is owned of record or beneficially, directly or indirectly, by such Person.

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"Syndication Agent" is defined in the introduction to this Agreement.

"Taxes" means all taxes, assessments, fees, or other similar charges at any time imposed by any Laws or Tribunal.

"TCB" means Texas Commerce Bank National Association.

"Termination Date" means, at any time, the Original Termination Date or the earlier date of termination in whole of the Total Commitment pursuant to Section 2.6 or Section 6.2.

"Total Commitment" means at any time the aggregate amount of the Banks' Commitments, as in effect at such time.

"Tribunal" means any municipal, state, commonwealth, federal, foreign, territorial, or other court, governmental body, subdivision, agency, department, commission, board, bureau, or instrumentality.

"Type" refers to the distinction between Committed Loans that are Alternate Base Loans and Committed Loans that are Eurodollar Loans.

"United States" and "U.S." each means United States of America.

Section 2 Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding."

ARTICLE I

LOANS

Section 2.1 Commitments. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank, severally and not jointly, agrees to make revolving credit loans to the Company, at any time and from time to time on and after the Effective Date and until the earlier

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of the Termination Date and the termination of the Commitment of such Bank in accordance with the terms hereof. Notwithstanding the foregoing, (a) the aggregate principal amount at any time outstanding of all Committed Loans of a Bank shall not exceed such Bank's Commitment and (b) the Total Commitment shall be deemed used from time to time to the extent of the aggregate principal amount of the Competitive Loans then outstanding, and such deemed use of the Total Commitment shall be applied to the Banks ratably according to their respective Commitments (such deemed use of the Total Commitment being a "Competitive Reduction"), subject, however, to the conditions that (i) at no time shall (A) the sum of (x) the outstanding aggregate principal amount of all Committed Loans made by all Banks plus (y) the outstanding aggregate principal amount of all Competitive Loans made by all Banks exceed (B) the Total Commitment and (ii) at all times the outstanding aggregate principal amount of all Committed Loans made by a Bank shall equal the product of (x) the percentage which its Commitment represents of the Total Commitment times (y) the outstanding aggregate principal amount of all Committed Loans obligated to have been made by all Banks.

Within the foregoing limits, the Company may borrow, repay, prepay, and reborrow hereunder, on and after the Effective Date and prior to the Termination Date, subject to the terms, provisions, and limitations set forth herein.

(a) In order to request Competitive Bids, the Company shall hand deliver or telecopy to the Administrative Agent and the Auction Administration Agent a duly completed Competitive Bid Request, to be received by the Administrative Agent and the Auction Administration Agent (i) in the case of Eurodollar Loans, not later than 9:00 a.m., Houston, Texas time, four Business Days before the Borrowing Date specified for a proposed Competitive Borrowing and (ii) in the case of Fixed Rate Loans, not later than 9:00 a.m., Houston, Texas time, one Business Day before the Borrowing Date specified for a proposed Competitive Borrowing. No Alternate Base Loan shall be requested in, or, except pursuant to Section 2.14, made pursuant to, a Competitive Bid Request. A Competitive Bid Request that does not conform substantially to the format of Exhibit A-1 may be rejected at the Auction Administration Agent's sole discretion, and the Auction Administration Agent

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shall promptly notify the Company of such rejection by telecopier. Each Competitive Bid Request shall in each case refer to this Agreement and specify (x) whether the Competitive Loans then being requested are to be Eurodollar Loans or Fixed Rate Loans, (y) the Borrowing Date of such Competitive Loans (which shall be a Business Day) and the aggregate principal amount thereof (which shall not be less than \$10,000,000 or greater than the unused Total Commitment on such Borrowing Date and shall be an integral multiple of \$1,000,000), and (z) the Interest Period with respect thereto (which may not end after the Termination Date). Promptly after its receipt of a Competitive Bid Request that is not rejected as aforesaid, the Auction Administration Agent shall invite by telecopier (substantially in the form set forth in Exhibit B hereto) the Banks to bid, on the terms and conditions of this Agreement, to make Competitive Loans pursuant to such Competitive Bid Request.

(b) Each Bank may, in its sole discretion, make one or more Competitive Bids to the Company responsive to each Competitive Bid Request. Each Competitive Bid by a Bank must be received by the Auction Administration Agent via telecopier, substantially in the form of Exhibit C hereto, (i) in the case of Eurodollar Loans, not later than 9:00 a.m., Houston, Texas time, three Business Days before the Borrowing Date specified for a proposed Competitive Borrowing and (ii) in the case of Fixed Rate Loans, not later than 8:30 a.m., Houston, Texas time, on the day of a proposed Competitive Borrowing. Competitive Bids that do not conform substantially to the format of Exhibit C may be rejected by the Auction Administration Agent after conferring with, and upon the instruction of, the Company, and the Auction Administration Agent shall notify the non-conforming Bank of such rejection as soon as practicable. Each Competitive Bid shall refer to this Agreement and (x) specify the principal amount (which shall be in a minimum principal amount of \$5,000,000 and in an integral multiple of \$1,000,000 and which may equal the entire principal amount of the Competitive Borrowing requested by the Company) of the Competitive Loan the Bank is willing to make to the Company, (y) specify the Competitive Bid Rate(s) at which the Bank is prepared to make the Competitive Loan and (z) confirm the Interest Period with respect thereto specified by the Company in its Competitive Bid Request. A Competitive Bid submitted by a Bank pursuant to this paragraph (b) shall be irrevocable.

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(c) The Auction Administration Agent shall promptly notify the Company by telecopier of all the Competitive Bids made, the Competitive Bid Rate and the principal amount of each Competitive Loan in respect of which a Competitive Bid was made and the identity of the Bank that made each bid. The Auction Administration Agent shall send a copy of all Competitive Bids to the Company for its records as soon as practicable after completion of the bidding process set forth in this Section 2.2.

(d) The Company may in its sole and absolute discretion, subject only to the provisions of this Section 2.2(d), accept or reject any or all of the Competitive Bids referred to in paragraph (c) above; provided, however, that the aggregate amount of the Competitive Bids so accepted by the Company may not exceed the principal amount of the Competitive Borrowing requested by the

Company. The Company shall notify the Auction Administration Agent by telecopier whether and to what extent it has decided to accept or reject any or all of the bids referred to in paragraph (c) above, (i) in the case of Eurodollar Loans, not later than 11:00 a.m., Houston, Texas time, three Business Days before the Borrowing Date specified for a proposed Competitive Borrowing and (ii) in the case of Fixed Rate Loans, not later than 9:30 a.m., Houston, Texas time, on the day specified for a proposed Competitive Borrowing; provided, however, that (w) the failure by the Company to give such notice shall be deemed to be a rejection of all the bids referred to in paragraph (c) above, (x) the Company shall not accept a bid made at a particular Competitive Bid Rate if the Company has decided to reject a bid made at a lower Competitive Bid Rate, (y) if the Company shall accept bids made at a particular Competitive Bid Rate but shall be restricted by other conditions hereof from borrowing the full principal amount of Competitive Loans in respect of which bids at such Competitive Bid Rate have been made or shall not require the full amount offered thereby, then the Company shall accept a pro rata portion of each bid made at such Competitive Bid Rate based as nearly as possible on the respective principal amounts of Competitive Loans for which such bids were made and (z) no bid shall be accepted for a Competitive Loan unless such Competitive Loan is in a

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minimum principal amount of \$5,000,000 and an integral multiple of \$1,000,000. Notwithstanding the foregoing clause (z), if it is necessary for the Company to accept a pro rata allocation of the bids made in response to a Competitive Bid Request (whether pursuant to the events specified in clause (y) above or otherwise) and the available principal amount of Competitive Loans to be allocated among the Banks is not sufficient to enable Competitive Loans to be allocated to each Bank in a minimum principal amount of \$5,000,000 and in integral multiples of \$1,000,000, then the Company shall select the Banks to be allocated such Competitive Loans and shall round allocations up or down to the next higher or lower multiple of \$500,000 as it shall deem appropriate. A notice given by the Company pursuant to this paragraph (d) shall be irrevocable.

(e) The Auction Administration Agent shall promptly notify each bidding Bank whether or not its Competitive Bid has been accepted (and if so, in what amount and at what Competitive Bid Rate) by telecopier, and each successful bidder will thereupon become bound, subject to the other applicable conditions hereof, to make the Competitive Loan in respect of which its bid has been accepted. After completing the notifications referred to in the immediately preceding sentence, the Auction Administration Agent shall (i) notify the Administrative Agent of each Competitive Bid that has been accepted, the amount thereof and the Competitive Bid Rate therefor and (ii) notify each Bank of the aggregate principal amount of all Competitive Bids accepted.

(f) Upon receipt from the Administrative Agent of the LIBO Rate applicable to any Eurodollar Loan to be made by any Bank pursuant to a Competitive Bid that has been accepted by the Company pursuant to Section 2.2(d), the Auction Administration Agent shall notify such Bank of (i) the applicable LIBO Rate and (ii) the sum of the applicable LIBO Rate plus the Margin bid by such Bank.

(g) No Competitive Bid Request shall be made within five Business Days of the date of any other Competitive Bid Request, unless the Company and the Auction Administration Agent shall mutually agree otherwise.

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(h) If the Auction Administration Agent shall at any time have a Commitment hereunder and shall elect to submit a Competitive Bid in its capacity as a Bank, it shall submit such bid directly to the Company one quarter of an hour earlier than the latest time at which the other Banks are required to submit their bids to the Auction Administration Agent pursuant to paragraph (b) above.

(i) All notices required by this Section 2.2 shall be made in accordance with Section 8.2.

Section 2.3 Committed Borrowing Procedure. In order to effect a Committed Borrowing, the Company shall hand deliver or telecopy to the Administrative Agent a duly completed request for Committed Borrowing,

substantially in the form of Exhibit A-2 hereto (a "Notice of Committed Borrowing"), (i) in the case of Eurodollar Loans, not later than 10:00 a.m., Houston, Texas time, three Business Days before the Borrowing Date specified for a proposed Committed Borrowing, and (ii) in the case of Alternate Base Loans, not later than 10:00 a.m., Houston, Texas time, on the Business Day which is the Borrowing Date specified for a proposed Committed Borrowing. No Fixed Rate Loan shall be requested or made pursuant to a Notice of Committed Borrowing. Such notice shall be irrevocable and shall in each case refer to this Agreement and specify (x) whether the Loans then being requested are to be Eurodollar Loans, or Alternate Base Loans, (y) the Borrowing Date of such Loans (which shall be a Business Day) and the aggregate amount thereof (which shall not be less than \$10,000,000 and shall be an integral multiple of \$1,000,000) and (z) in the case of a Eurodollar Loan, the Interest Period with respect thereto (which shall not end later than the Termination Date). If no Interest Period with respect to any Eurodollar Loan is specified in any such Notice of Committed Borrowing, then the Company shall be deemed to have selected an Interest Period of one month's duration. Promptly, and in any event on the same day the Administrative Agent receives a Notice of Committed Borrowing pursuant to this Section 2.3 if such notice is received by 10:00 a.m., Houston, Texas time on a Business Day and otherwise on the next succeeding Business Day, the Administrative Agent shall advise the other Banks of such Notice of Committed Borrowing and of each Bank's portion of the requested Committed Borrowing by telecopier. Each Committed Borrowing shall consist of Loans of the same Type made on the same day and having the same Interest Period.

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Section 2.4 Refinancings; Conversions.

(a) The Company may refinance all or any part of any Loan with a Loan of the same or a different type made pursuant to Section 2.2 or Section 2.3, subject to the conditions and limitations set forth herein and elsewhere in this Agreement, including, without limitation, refinancings of Competitive Loans with Committed Loans and Committed Loans with Competitive Loans. Any Loan or part thereof so refinanced shall be deemed to be repaid in accordance with Section 2.18 with the proceeds of a new Borrowing hereunder and the proceeds of the new Loan, to the extent they do not exceed the principal amount of the Loan being refinanced, shall not be paid by the Banks to the Administrative Agent or by the Administrative Agent to the Company pursuant to Section 2.7(c); provided, however, that (i) if the principal amount extended by a Bank in a refinancing is greater than the principal amount extended by such Bank in the Borrowing being refinanced, then such Bank shall pay such difference to the Administrative Agent for distribution to the Banks described in (ii) below, (ii) if the principal amount extended by a Bank in the Borrowing being refinanced is greater than the principal amount being extended by such Bank in the refinancing, the Administrative Agent shall return the difference to such Bank out of amounts received pursuant to (i) above, (iii) to the extent any Bank fails to pay the Administrative Agent amounts due from it pursuant to (i) above, any Loan or portion thereof being refinanced shall not be deemed repaid in accordance with Section 2.18 to the extent of such failure and the Company shall pay such amount to the Administrative Agent pursuant to Section 2.18 and (iv) to the extent the Company fails to pay to the Administrative Agent any amounts due in accordance with Section 2.18 as a result of the failure of a Bank to pay the Administrative Agent any amounts due as described in (iii) above, the portion of any refinanced Loan deemed not repaid shall be deemed to be outstanding solely to the Bank which has failed to pay the Administrative Agent amounts due from it pursuant to (i) above to the full extent of such Bank's portion of such refinanced Loan.

(b) Subject to the conditions and limitations set forth in this Agreement, the Company shall have the right from time to time to convert all or part of one Type of Committed Loan

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into another Type of Committed Loan or to continue all or a part of any Committed Loan that is a Eurodollar Loan from one Interest Period to another Interest Period by giving the Administrative Agent written notice (by means of a Notice of Committed Borrowing) (i) in the case of Eurodollar Loans, not later than 10:00 a.m., Houston, Texas time, three Business Days before the date specified for such proposed conversion or continuation, and (ii) in the case of Alternate Base Loans, not later than 10:00 a.m., Houston, Texas time, on the Business Day which is the date specified for such proposed conversion or continuation. Such notice shall specify (A) the proposed date for

conversion or continuation, (B) the amount of the Committed Loan to be converted or continued, (C) in the case of conversions, the Type of Committed Loan to be converted into, and (D) in the case of a continuation of or conversion into a Eurodollar Loan, the duration of the Interest Period applicable thereto; provided that (1) Eurodollar Loans may be converted only on the last day of the applicable Interest Period, (2) except for conversions to Alternate Base Loans, no conversion shall be made while a Default or Event of Default has occurred and is continuing and no continuations of any Eurodollar Loan from one Interest Period to another Interest Period shall be made while a Default or Event of Default has occurred and is continuing, unless such conversion or continuation has been approved by Majority Committed Banks, and (3) each such conversion or continuation shall be in an amount not less than \$10,000,000 and shall be an integral multiple of \$1,000,000. All notices given under this Section shall be irrevocable. If the Company shall fail to give the Administrative Agent the notice as specified above for continuation or conversion of a Eurodollar Loan prior to the end of the Interest Period with respect thereto, such Eurodollar Loan shall automatically be converted into an Alternate Base Loan on the last day of the Interest Period for such Eurodollar Loan.

Section 2.5 Fees. The Company agrees to pay to each Bank, through the Administrative Agent, on each Quarterly Payment Date and on the Termination Date, in immediately available funds, a facility fee (a "Facility Fee") calculated by multiplying the Facility Fee Percentage by the amount of the average daily Commitment of such Bank, whether used or unused, during the preceding three-month period (or shorter period commencing with the Effective Date and/or ending with the Termination Date). All

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Facility Fees shall be computed by the Administrative Agent on the basis of the actual number of days elapsed in a year of 360 days, and shall be conclusive and binding for all purposes, absent manifest error. The Facility Fee due to each Bank shall commence to accrue on the Effective Date and shall cease to accrue on the earlier of the Termination Date and the termination of the Commitment of such Bank as provided herein. Notwithstanding the foregoing, in no event shall any Bank be permitted to receive any compensation hereunder constituting interest in excess of the Highest Lawful Rate.

Section 2.6 Termination and Reduction of Commitments.

(a) Subject to Section 2.12(b), the Company may permanently terminate, or from time to time in part permanently reduce, the Total Commitment, in each case upon at least three Business Days' prior written notice to the Administrative Agent (who shall promptly forward a copy thereof to each Bank and the Auction Administration Agent). Such notice shall specify the date and the amount of the termination or reduction of the Total Commitment. Each such partial reduction of the Total Commitment shall be in a minimum aggregate principal amount of \$10,000,000 and in an integral multiple of \$1,000,000.

(b) On the Termination Date the Total Commitment shall be zero.

(c) Each reduction in the Total Commitment pursuant to this Section 2.6 shall be made ratably among the Banks in accordance with their respective Commitments. Simultaneously with any termination of Commitments pursuant to this Section, the Company shall pay to the Administrative Agent for the accounts of the Banks the Facility Fees on the amount of the Total Commitment so terminated, accrued through the date of such termination.

Section 2.7 Loans.

(a) Each Borrowing made by the Company on any date shall be (i) in the case of Competitive Loans, in an integral multiple of \$1,000,000 and in a minimum aggregate principal amount of \$5,000,000 and (ii) in the case of Committed Loans, in an integral multiple of \$1,000,000 and in a minimum

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aggregate principal amount of \$10,000,000. Competitive Loans shall be made by the Banks in accordance with Section 2.2(d), and Committed Loans shall be made by the Banks ratably in accordance with their respective Commitments on the Borrowing Date of the Committed

Borrowing; provided, however, that the failure of any Bank to make any Loan shall not in itself relieve any other Bank of its obligation to lend hereunder.

(b) Each Competitive Loan shall be a Eurodollar Loan or a Fixed Rate Loan, and each Committed Loan shall be a Eurodollar Loan or an Alternate Base Loan, as the Company may request subject to and in accordance with Section 2.2, Section 2.3 or Section 2.4(b), as applicable. Each Bank may at its option make any Eurodollar Loan by causing a foreign branch or Affiliate of such Bank to make such Loan; provided, however, that any exercise of such option shall not affect the obligation of the Company to repay such Loan in accordance with the terms of this Agreement. Loans of more than one interest rate option may be outstanding at the same time; provided, however, that the Company shall not be entitled to request any Loan which, if made, would result in an aggregate of more than ten separate Interest Periods being outstanding hereunder at any one time. For purposes of the foregoing, Loans having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Loans.

(c) Subject to Section 2.4, each Bank shall make its portion of each Competitive Borrowing and each Committed Borrowing on the proposed Borrowing Date thereof by paying the amount required to the Administrative Agent at the Principal Office in immediately available funds not later than 12:00 noon, Houston, Texas time, and the Administrative Agent shall by 2:00 p.m., Houston, Texas time, credit the amounts so received to the general deposit account of the Company with the Administrative Agent or, if Loans are not made on such date because any condition precedent to a Borrowing herein specified shall not have been met, return the amounts so received to the respective Banks as soon as practicable; provided, however, if and to the extent the Administrative Agent fails to return any such amounts to a Bank on the Borrowing Date for such Borrowing, the Administrative Agent shall pay interest on such unreturned amounts, for each day from such Borrowing Date to the date such amounts are returned to such Bank, at the Federal Funds Effective Rate.

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(d) The outstanding principal amount of each Competitive Loan shall be due and payable on the last day of the Interest Period applicable to such Competitive Loan, and the outstanding principal balance of each Committed Loan shall be due and payable on the Termination Date.

Section 2.8 Loan Accounts.

(a) The Loans made by each Bank shall be evidenced by one or more loan accounts or records maintained by such Bank in the ordinary course of business. Absent manifest error, the loan accounts or records maintained by the Administrative Agent and each Bank shall be prima facie evidence of the amount of the Loans made by the Banks to the Company and the interest and payments thereon. Any failure so to record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Company hereunder to pay any amount owing with respect to the Loans.

(b) Upon the request of any Bank made through the Administrative Agent, the Loans made by such Bank may be evidenced by one or more Notes, instead of or in addition to loan accounts, and upon any such request the Company shall execute and deliver such Notes to such Bank. Each such Bank shall, and is hereby authorized by the Company to, endorse on the schedule attached to the relevant Note held by such Bank (or on a continuation of such schedule attached to each such Note and made a part thereof) or in its records relating to such Note an appropriate notation evidencing the date and amount of each Competitive Loan or Committed Loan, as applicable, of such Bank, each payment or prepayment of principal of any Competitive Loan or Committed Loan, as applicable, and the other information provided for on such schedule. The failure of any Bank to make such a notation or any error therein shall not in any manner affect the obligation of the Company to repay the Competitive Loans or Committed Loans, as applicable, made by such Bank in accordance with the terms of the relevant Note.

(a) Subject to the provisions of Section 2.10, each Eurodollar Loan shall bear interest at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the lesser of (i) the Highest Lawful Rate and (ii) the LIBO Rate for the Interest Period in effect for such Loan (A) plus or minus, as the case may be, in the case of each Competitive Loan, the Margin specified by a Bank with respect to such Loan in its Competitive Bid submitted pursuant to Section 2.2(b) or (B) plus, in the case of each Committed Loan, the Applicable Margin. Interest on each Eurodollar Loan shall be payable on each Interest Payment Date applicable thereto. The applicable LIBO Rate for each Interest Period shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

(b) Subject to the provisions of Section 2.10, each Alternate Base Loan shall bear interest at the rate per annum equal to the lesser of (i) the Highest Lawful Rate and (ii) the Alternate Base Rate (if the Alternate Base Rate is based on the Prime Rate, computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be; if the Alternate Base Rate is based on the Federal Funds Effective Rate, computed on the basis of the actual number of days elapsed over a year of 360 days). Interest on each Alternate Base Loan shall be payable on each Interest Payment Date applicable thereto. The applicable Alternate Base Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

(c) Subject to the provisions of Section 2.10, each Fixed Rate Loan shall bear interest at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the fixed rate of interest offered by the Bank making such Loan and accepted by the Company pursuant to Section 2.2. Interest on each Fixed Rate Loan shall be payable on each Interest Payment Date applicable thereto.

(d) The Company shall pay to the Administrative Agent for the account of each Bank that has made a Eurodollar Loan to the Company, so long as such Bank shall be required under

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regulations of the Board to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each such Eurodollar Loan of such Bank, from the date of such Loan until such principal amount is paid in full, at an interest rate per annum for such number of days during the Interest Period for such Loan as shall be pertinent equal to the remainder obtained by subtracting (i) the LIBO Rate for such Interest Period from (ii) the rate obtained by dividing such LIBO Rate referred to in clause (i) above by that percentage equal to 100% minus the Reserve Percentage of such Bank for such Interest Period, payable on the next Interest Payment Date applicable to such Loan; provided, however, in no event shall any Bank be permitted to receive interest hereunder in excess of the Highest Lawful Rate. Such additional interest shall be determined by such Bank as, if and to the extent incurred, and shall be payable as aforesaid upon notification thereof by such Bank to the Company through the Administrative Agent. Each determination by a Bank of additional interest under this Section 2.9(d) shall be conclusive and binding for all purposes in the absence of manifest error.

Section 2.10 Interest on Overdue Amounts. If the Company shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, the Company shall on demand from time to time pay interest, to the extent permitted by Law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at a rate per annum equal to the lesser of (i) the Highest Lawful Rate and (ii) the Agreed Maximum Rate (if the Alternate Base Rate is based on the Prime Rate, computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be; if the Alternate Base Rate is based on the Federal Funds Effective Rate, computed on the basis of the actual number of days elapsed over a year of 360 days).

Section 2.11 Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Loan that is a Committed Loan, the Administrative Agent shall have determined that dollar deposits in the amount of the requested principal amount of such Eurodollar Loan are not generally available in the Eurodollar Interbank Market, or that dollar deposits are not

generally available in the Eurodollar Interbank Market for the requested Interest Period, or that the rate at which such dollar deposits are being offered will not adequately and fairly reflect the cost to any Bank of making or maintaining such Eurodollar Loan during such Interest Period, or that reasonable means do not exist for ascertaining the LIBO Rate, the Administrative Agent shall, as soon as practicable thereafter, give telecopy notice of such determination to the Company, the Auction Administration Agent, and the Banks. In the event of any such determination, any request by the Company for a Eurodollar Loan that is a Committed Loan shall, until the circumstances giving rise to such notice no longer exist, be deemed to be a request for an Alternate Base Loan. Each determination by the Administrative Agent hereunder shall be conclusive absent manifest error.

Section 2.12 Prepayment of Loans.

(a) Prior to the Termination Date, the Company shall have the right at any time to prepay any Committed Borrowing, in whole or in part, subject to the requirements of Section 2.15 or Section 2.16 but otherwise without premium or penalty, upon at least five Business Days prior written notice to the Administrative Agent; provided, however, that each such partial prepayment shall be in an integral multiple of \$1,000,000 and in a minimum aggregate principal amount of \$5,000,000. Each notice of prepayment shall specify the prepayment date and the aggregate principal amount of each Borrowing to be prepaid, shall be irrevocable and shall commit the Company to prepay such Borrowing by the amount stated therein. The Company shall not have the right to prepay any Competitive Borrowing.

(b) On the date of any termination or reduction of the Total Commitment pursuant to Section 2.6(a), the Company shall pay or prepay so much of the Loans as shall be necessary in order that the aggregate principal amount of the Loans outstanding will not exceed the Total Commitment following such termination or reduction. Subject to the foregoing, any such payment or prepayment shall be applied to such Borrowing or Borrowings as the Company shall select. All prepayments under this paragraph shall be subject to Section 2.15 and Section 2.16.

(c) All prepayments under this Section 2.12 shall be accompanied by accrued interest on the principal amount being prepaid to the date of prepayment.

Section 2.13 Reserve Requirements; Change in Circumstances.

(a) Notwithstanding any other provision herein, if after the date of this Agreement any Regulatory Change (i) shall change the basis of taxation of payments to any Bank of the principal of or interest on any Eurodollar Loan or Fixed Rate Loan made by such Bank or any other fees or amounts payable hereunder (other than (x) Taxes imposed on or measured by the capital, receipts or franchises of such Bank or the overall gross or net income of such Bank by the jurisdiction in which such Bank has its principal office or by any political subdivision or taxing authority therein (or any Tax which is enacted or adopted by such jurisdiction, political subdivision, or taxing authority as a direct substitute for any such Taxes) or (y) any Tax, assessment, or other governmental charge that would not have been imposed but for the failure of any Bank to comply with any certification, information, documentation, or other reporting requirement), (ii) shall impose, modify, or deem applicable any reserve, special deposit, or similar requirement with respect to any Eurodollar Loan against assets of, deposits with or for the account of, or credit extended by, such Bank under this Agreement (without duplication of any amounts paid pursuant to Section 2.9(d)), or (iii) with respect to any Eurodollar Loan, shall impose on such Bank or the Eurodollar Interbank Market any other condition affecting this Agreement or any Eurodollar Loan made by such Bank, and the result of any of the foregoing shall be to materially increase the actual cost to such Bank of maintaining its Commitment or of making or maintaining any Eurodollar Loan or Fixed Rate Loan or to materially reduce the amount of any sum received or receivable by such Bank hereunder (whether of principal, interest, or otherwise) in respect thereof, then the Company shall pay to the Administrative Agent for the account of such Bank, within ten days following delivery to the Company of the certificate specified in paragraph (c) below by such Bank, such additional amount or amounts as will reimburse such Bank for such

increase or reduction to such Bank to the extent reasonably allocable to this Agreement. Notwithstanding the foregoing, in no event shall any Bank be permitted to receive any payment hereunder constituting interest in excess of the Highest Lawful Rate.

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(b) If any Bank shall have determined in good faith that any Regulatory Change regarding capital adequacy or compliance by any Bank (or its parent or any lending office of such Bank) with any request or directive regarding capital adequacy (whether or not having the force of Law) of any Tribunal, monetary authority, central bank, or comparable agency, has or would have the effect of reducing the rate of return on such Bank's (or its parent's) capital as a consequence of its obligations hereunder to a level below that which such Bank (or its parent) could have achieved but for such Regulatory Change, or compliance (taking into consideration such Bank's policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, the Company shall pay to the Administrative Agent for the account of such Bank, within ten days following delivery to the Company of the certificate specified in paragraph (c) below by such Bank, such additional amount or amounts as will reimburse such Bank (or its parent) for such reduction. Notwithstanding the foregoing, in no event shall any Bank be permitted to receive any payment hereunder constituting interest in excess of the Highest Lawful Rate.

(c) Each Bank shall notify the Company of any event occurring after the date hereof entitling such Bank to compensation under paragraph (a) or (b) of this Section 2.13 (together with a good faith estimate of the amounts it would be entitled to claim in respect of such event) as promptly as practicable, but in any event on or before the date which is 60 days after the related Regulatory Change or other event; provided that (i) if such Bank fails to give such notice by such date, such Bank shall, with respect to compensation payable pursuant to paragraph (a) or (b) of this Section 2.13 in respect of any costs resulting from such Regulatory Change or other event, only be entitled to payment under paragraph (a) or (b) of this Section 2.13 for costs incurred from and after the date of such notice and (ii) such Bank will take such reasonable actions, if any (including the designation of a different Applicable Lending Office for the Loans of such Bank affected by such event) to avoid the need for, or reduce the amount of, such compensation so long as such actions will not, in the reasonable opinion of such Bank,

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be materially disadvantageous to such Bank. A certificate of a Bank setting forth in reasonable detail (i) the Regulatory Change or other event giving rise to any costs, (ii) such amount or amounts as shall be necessary to reimburse such Bank (or participating banks or other entities pursuant to Section 8.11) as specified in paragraph (a) or (b) of this Section 2.13, as the case may be, and (iii) the calculation of such amount or amounts, shall be delivered to the Company (with a copy to the Administrative Agent) promptly after such Bank determines it is entitled to payment under this Section 2.13, and shall be conclusive and binding absent manifest error. In preparing such certificate, such Bank may employ such assumptions and allocations of costs and expenses as it shall in good faith deem reasonable and may use any reasonable averaging and attribution method.

(d) In the event any Bank shall seek payment pursuant to this Section 2.13 or the events contemplated under Section 2.11 or Section 2.14 shall have occurred with respect to any Bank, the Company may, provided no Event of Default has occurred and is continuing, give notice to such Bank (with copies to the Agents) that it wishes to seek one or more Eligible Assignees (which may be one or more of the Banks, but which may not be a Person who would be entitled at such time to claim payment pursuant to this Section 2.13 or with respect to which any of the events contemplated under Section 2.11 or Section 2.14 would exist at such time if such Person were a Bank under this Agreement) to assume the Commitment of such Bank and to purchase its outstanding Loans and Notes (if any). Each Bank requesting payment pursuant to this Section 2.13, or with respect to which any of the events contemplated under Section 2.11 or Section 2.14 have occurred, agrees to sell its Commitment, Loans, Notes (if any), and interest in this Agreement and the other Loan Papers pursuant to Section 8.11(c) to any such Eligible Assignee approved by the Company and the

Administrative Agent for an amount equal to the sum of the outstanding unpaid principal of and accrued interest on such Loans and Notes (if any) plus all other fees and amounts (including, without limitation, any payment claimed by such Bank under this Section 2.13 and as to which such Bank has delivered the certificate required by Section 2.13(c) on or before the date such Commitment, Loans, and Notes (if any) are purchased) due such Bank hereunder calculated, in each case, to the date such Commitment, Loans,

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Notes (if any) and interest are purchased, whereupon such Bank shall have no further Commitment or other obligation to the Company hereunder or under any other Loan Paper.

(e) Notwithstanding anything herein to the contrary, no Bank or participant shall be entitled to any payment under this Section 2.13 with respect to any Competitive Loan.

(f) Without prejudice to the survival of any other obligations of the Company hereunder, the obligations of the Company under this Section 2.13 shall survive for one year after the termination of this Agreement and/or the payment or assignment of any of the Loans or Notes.

Section 2.14 Change in Legality.

(a) Notwithstanding anything to the contrary herein contained, if any Regulatory Change shall make it unlawful for any Bank to make or maintain any Eurodollar Loan or to give effect to its obligations in respect of Eurodollar Loans as contemplated hereby, then, by prompt written notice to the Company and to the Administrative Agent and the Auction Administration Agent, such Bank may:

(i) declare that Eurodollar Loans will not thereafter be made by such Bank hereunder, whereupon the Company shall be prohibited from requesting Eurodollar Loans from such Bank hereunder unless such declaration is subsequently withdrawn; and

(ii) if such unlawfulness shall be effective prior to the end of any Interest Period of an outstanding Eurodollar Loan, require that all outstanding Eurodollar Loans with such Interest Periods made by it be converted to Alternate Base Loans, in which event (A) all such Eurodollar Loans shall be automatically converted to Alternate Base Loans as of the effective date of such notice as provided in paragraph (b) below and (B) all payments and prepayments of principal which would otherwise have been applied to repay the converted Eurodollar Loans shall instead be applied to repay the Alternate Base Loans resulting from the conversion of such Eurodollar Loans.

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(b) For purposes of this Section 2.14, a notice to the Company (with a copy to the Administrative Agent and the Auction Administration Agent) by any Bank pursuant to paragraph (a) above shall be effective on the date of receipt thereof by the Company. Any Bank having furnished such a notice agrees to withdraw the same promptly following any Regulatory Change that makes it lawful for such Bank to make and maintain Eurodollar Loans.

(c) If, with respect to any Bank, a condition arises or an event occurs which would, or would upon the giving of notice, result in the payment of amounts pursuant to Section 2.13 or permit such Bank, pursuant to this Section 2.14, to suspend its obligation to make Eurodollar Loans, such Bank, promptly upon becoming aware of the same, shall notify the Company thereof and shall take such steps as may reasonably be available to it (including, without limitation, changing its Applicable Lending Office) to mitigate the effects of such condition or event, provided that such Bank shall be under no obligation to take any step that, in its good faith opinion, would (a) result in its incurring any additional costs in performing its obligations hereunder and under any outstanding Loan (unless the Company has notified such Bank of the Company's agreement to reimburse it for the same) or (b) be otherwise adverse to such Bank in a material respect.

Section 2.15 INDEMNITY. THE COMPANY SHALL INDEMNIFY EACH BANK AGAINST ANY LOSS OR REASONABLE EXPENSE WHICH SUCH BANK MAY SUSTAIN OR INCUR AS A CONSEQUENCE OF (A) ANY FAILURE BY THE COMPANY TO FULFILL ON THE DATE OF ANY BORROWING HEREUNDER THE APPLICABLE CONDITIONS SET FORTH IN ARTICLE III, (B) ANY FAILURE BY THE COMPANY TO BORROW HEREUNDER AFTER A NOTICE OF COMMITTED BORROWING PURSUANT TO ARTICLE II HAS BEEN GIVEN OR AFTER COMPETITIVE BIDS HAVE BEEN ACCEPTED, (C) ANY PAYMENT, PREPAYMENT, OR CONVERSION OF A EURODOLLAR LOAN OR FIXED RATE LOAN REQUIRED BY ANY OTHER PROVISION OF THIS AGREEMENT OR OTHERWISE MADE ON A DATE OTHER THAN THE LAST DAY OF THE APPLICABLE INTEREST PERIOD FOR ANY REASON, INCLUDING WITHOUT LIMITATION THE ACCELERATION OF OUTSTANDING LOANS AS A RESULT OF ANY EVENT OF DEFAULT, (D) ANY FAILURE BY THE COMPANY FOR ANY REASON (INCLUDING WITHOUT LIMITATION THE EXISTENCE OF A DEFAULT OR AN EVENT OF DEFAULT) TO PAY, PREPAY OR CONVERT A EURODOLLAR LOAN ON THE DATE FOR SUCH PAYMENT, PREPAYMENT OR CONVERSION, SPECIFIED IN THE RELEVANT NOTICE OF PAYMENT, PREPAYMENT OR CONVERSION UNDER

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THIS AGREEMENT. THE INDEMNITY OF THE COMPANY PURSUANT TO THE IMMEDIATELY PRECEDING SENTENCE SHALL INCLUDE, BUT NOT BE LIMITED TO, ANY LOSS OR REASONABLE EXPENSE SUSTAINED OR INCURRED OR TO BE SUSTAINED OR INCURRED IN LIQUIDATING OR EMPLOYING DEPOSITS FROM THIRD PARTIES ACQUIRED TO EFFECT OR MAINTAIN SUCH LOAN OR ANY PART THEREOF AS A EURODOLLAR LOAN OR FIXED RATE LOAN. SUCH LOSS OR REASONABLE EXPENSE SHALL INCLUDE, WITHOUT LIMITATION, AN AMOUNT EQUAL TO THE EXCESS, IF ANY, AS REASONABLY DETERMINED BY EACH BANK OF (I) ITS COST OF OBTAINING THE FUNDS FOR THE LOAN BEING PAID, PREPAID, OR CONVERTED OR NOT BORROWED, PAID, PREPAID OR CONVERTED (BASED ON THE LIBO RATE OR, IN THE CASE OF A FIXED RATE LOAN, THE FIXED RATE OF INTEREST APPLICABLE THERETO) FOR THE PERIOD FROM THE DATE OF SUCH PAYMENT, PREPAYMENT, OR CONVERSION OR FAILURE TO BORROW, PAY, PREPAY OR CONVERT TO THE LAST DAY OF THE INTEREST PERIOD FOR SUCH LOAN (OR, IN THE CASE OF A FAILURE TO BORROW, PAY, PREPAY OR CONVERT, THE INTEREST PERIOD FOR THE LOAN WHICH WOULD HAVE COMMENCED ON THE DATE OF SUCH FAILURE TO BORROW, PAY, PREPAY OR CONVERT) OVER (II) THE AMOUNT OF INTEREST (AS REASONABLY DETERMINED BY SUCH BANK) THAT WOULD BE REALIZED BY SUCH BANK IN REEMPLOYING THE FUNDS SO PAID, PREPAID, OR CONVERTED OR NOT BORROWED, PAID, PREPAID OR CONVERTED FOR SUCH PERIOD OR INTEREST PERIOD, AS THE CASE MAY BE. A CERTIFICATE OF EACH BANK SETTING FORTH ANY AMOUNT OR AMOUNTS AND, IN REASONABLE DETAIL, THE COMPUTATIONS THEREOF, WHICH SUCH BANK IS ENTITLED TO RECEIVE PURSUANT TO THIS SECTION 2.15 SHALL BE DELIVERED TO THE COMPANY (WITH A COPY TO THE ADMINISTRATIVE AGENT) AND SHALL BE CONCLUSIVE, IF MADE IN GOOD FAITH, ABSENT MANIFEST ERROR. THE COMPANY SHALL PAY TO THE ADMINISTRATIVE AGENT FOR THE ACCOUNT OF EACH BANK THE AMOUNT SHOWN AS DUE ON ANY CERTIFICATE WITHIN 30 DAYS AFTER ITS RECEIPT OF THE SAME. NOTWITHSTANDING THE FOREGOING, IN NO EVENT SHALL ANY BANK BE PERMITTED TO RECEIVE ANY COMPENSATION HEREUNDER CONSTITUTING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE. WITHOUT PREJUDICE TO THE SURVIVAL OF ANY OTHER OBLIGATIONS OF THE COMPANY HEREUNDER, THE OBLIGATIONS OF THE COMPANY UNDER THIS SECTION 2.15 SHALL SURVIVE FOR ONE YEAR AFTER THE TERMINATION OF THIS AGREEMENT AND/OR THE PAYMENT OR ASSIGNMENT OF ANY OF THE LOANS OR NOTES.

Section 2.16 Pro Rata Treatment. Except as permitted under Section 2.9(d), Section 2.13(c) and Section 2.15 with respect to interest, (a) each payment or prepayment of principal and each payment of interest with respect to a Competitive Borrowing (at a particular Competitive Bid Rate) or a Committed Borrowing shall be made pro rata among the Banks in accordance with the respective

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principal amounts of the Loans extended by each Bank, if any, with respect to such Competitive Borrowing or Committed Borrowing, and (b) conversions of Committed Loans to Committed Loans of another Type, continuations of Committed Loans that are Eurodollar Loans from one Interest Period to another Interest Period, refinancings of Competitive Loans with Committed Loans, and Committed Loans which are not refinancings of other Loans shall be made pro rata among the Banks in accordance with their respective Commitments.

Section 2.17 Sharing of Setoffs. Each Bank agrees that if it shall through the exercise of a right of banker's lien, setoff, or counterclaim against the Company (pursuant to Section 8.6 or otherwise), including, but not limited to, a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Bank under any applicable Debtor Relief Law or otherwise, obtain payment (voluntary or involuntary) in respect of the Committed Loans held by it (other than pursuant to Section 2.9(d), Section 2.13, or Section 2.15) as a result of which the unpaid principal portion of the Committed Loans held by it shall be proportionately less than the unpaid principal portion of the Committed Loans held by any other Bank, it shall be

deemed to have simultaneously purchased from such other Bank a participation in the Committed Loans held by such other Bank, so that the aggregate unpaid principal amount of the Committed Loans and participations in Committed Loans pursuant to this Section 2.17 held by each Bank shall be in the same proportion to the aggregate unpaid principal amount of all Committed Loans then outstanding as the principal amount of the Committed Loans held by it prior to such exercise of banker's lien, setoff, or counterclaim was to the principal amount of all Committed Loans outstanding prior to such exercise of banker's lien, setoff, or counterclaim; provided, however, that if any such purchase or purchases or adjustments shall be made pursuant to this Section 2.17 and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Company expressly consents to the foregoing arrangements and agrees that any Bank holding a participation in a Committed Loan deemed to have been so purchased may exercise any and all rights of banker's lien, setoff, or counterclaim with respect to any and all moneys owing by the Company to such Bank as fully as if such Bank had made a Committed Loan directly to the Company in the amount of such participation.

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Section 2.18 Payments.

(a) The Company shall make each payment hereunder and under any instrument delivered hereunder not later than 11:00 a.m. (Houston, Texas time) on the day when due in dollars to the Administrative Agent at its Principal Office for the account of the Banks, in federal or other immediately available funds. The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal of or interest on Committed Loans (other than pursuant to Section 2.9(d), Section 2.13, and Section 2.15) or Facility Fees ratably to the Banks and like funds relating to the payment of any other amount (including, without limitation, payments of principal or interest on Competitive Loans which are not made ratably to the Banks) payable to any Bank to such Bank for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement.

(b) Whenever any payment hereunder or under any Note shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in all such cases be included in the computation of payment of interest or Facility Fee, as the case may be; provided, however, if such extension would cause payment of interest on or principal of a Eurodollar Loan to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(c) Unless the Administrative Agent shall have received notice from the Company prior to the date on which any payment is due to the Banks hereunder that the Company will not make such payment in full, the Administrative Agent may assume that the Company has made or will make such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent the Company shall not have so made such payment in full to the Administrative Agent, each Bank shall repay to the Administrative Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Administrative Agent, at the Federal Funds Effective Rate.

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(d) Except as expressly provided in Section 2.19, all payments (whether of principal, interest, fees, reimbursements, or otherwise) by the Company under this Agreement shall be made without setoff or counterclaim and shall be made free and clear of and without deduction for any present or future Tax, levy, impost, or any other charge, if any, of any nature whatsoever now or hereafter imposed by any Tribunal. Except as otherwise provided in Section 2.19, if the making of such payments by the Company is prohibited by Law unless such a Tax, levy, impost, or other charge is deducted or withheld therefrom, the Company shall pay to the Administrative Agent, on the date of each such payment, such additional amounts (without duplication of any other amounts required to be paid by the Company

pursuant to Section 2.13) as may be necessary in order that the net amounts received by the Banks after such deduction or withholding shall equal the amounts which would have been received if such deduction or withholding were not required. The Company shall confirm that all applicable Taxes, if any, imposed on this Agreement or transactions hereunder shall have been properly and legally paid by it to the appropriate taxing authorities by sending official Tax receipts or notarized copies of such receipts to the Administrative Agent within 30 days after payment of any applicable Tax.

Section 2.19 Tax Forms. With respect to each Bank which is organized under the Laws of a jurisdiction outside the United States, within 30 days after the Execution Date, and from time to time thereafter if requested by the Company or the Administrative Agent, or as otherwise required by law, each such Bank shall provide the Administrative Agent and the Company with the forms prescribed by the Internal Revenue Service of the United States certifying as to such Bank's status for purposes of determining exemption from United States withholding Taxes with respect to all payments to be made to such Bank hereunder or other documents satisfactory to the Company and the Administrative Agent indicating that all payments to be made to such Bank hereunder are subject to such Tax at a rate reduced by an applicable Tax treaty. Unless the Company and the Administrative Agent have received such forms or such documents indicating that payments hereunder are not subject to United States withholding Tax, the Company or the Administrative

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Agent (after notice from the Administrative Agent to such Bank of such non-receipt) shall withhold Taxes from such payments at the applicable statutory rate (or any reduced applicable Tax treaty rate) in the case of payments to or for any Bank organized under the Laws of a jurisdiction outside the United States.

Section 2.20 Calculation of LIBO Rates. The provisions of this Agreement relating to calculation of the LIBO Rate are included only for the purpose of determining the rate of interest or other amounts to be paid hereunder that are based upon such rate, it being understood that each Bank shall be entitled to fund and maintain its funding of all or any part of a Eurodollar Loan as it sees fit. All such determinations hereunder, however, shall be made as if each Bank had actually funded and maintained funding of each Eurodollar Loan through the purchase in the Eurodollar InterBank Market of one or more eurodollar deposits in an amount equal to the principal amount of such Loan and having a maturity corresponding to the Interest Period for such Loan.

Section 2.21 Booking Loans. Subject to Section 2.19, any Bank may make, carry, or, transfer Loans at, to, or for the account of any of its branch offices or the office of any Affiliate.

Section 2.22 Quotation of Rates. It is hereby acknowledged that the Company may call the Administrative Agent on or before the date on which notice of a Borrowing is to be delivered by the Company in order to receive an indication of the rate or rates then in effect, but that such projection shall not be binding upon the Administrative Agent or any Bank nor affect the rate of interest which thereafter is actually in effect when the election is made.

ARTICLE II

CONDITIONS OF LENDING

Section 3.1 Conditions Precedent to Initial Borrowing. The obligation of each Bank to make its initial Loan is subject to the condition precedent that the Administrative Agent shall have received on or before the initial Borrowing Date the following, each dated (unless otherwise indicated) such day and in sufficient copies for each Bank:

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(a) Officer's Certificates dated the Execution Date certifying, inter alia, (i) true and correct copies of resolutions adopted by the Board of Directors or Executive Committee, as appropriate, of the Company authorizing the Company to borrow and effect other transactions hereunder, (ii) a true and correct copy of the Company's bylaws in effect on the date hereof, (iii) the incumbency and specimen signatures of the Persons executing any documents on behalf of the Company, (iv) the truth of the representations and warranties made by the Company in this Agreement

(or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date), and (v) the absence of the occurrence and continuance of any Default or Event of Default.

(b) A copy of the Company's charter and all amendments thereto, accompanied by certificates that such copy is correct and complete, one certificate dated within twenty days prior to the Execution Date and issued by the Secretary of State of Texas and one certificate dated the Execution Date and executed by the corporate secretary or assistant secretary of the Company.

(c) Certificates (dated within twenty days prior to the Execution Date) of existence and good standing of the Company from appropriate officials of Texas.

(d) The written opinions of counsel to the Company and counsel to the Agents, substantially in the form set out in Exhibits E-1 and E-2, respectively, each dated the Effective Date.

(e) An Administrative Questionnaire (dated any date prior to the Effective Date) completed by each Bank which is a party hereto on the Effective Date.

(f) Such other agreements, documents, instruments, opinions, certificates, and evidences as the Administrative Agent may reasonably request prior to the Effective Date.

Section 3.2 Conditions Precedent to Each Committed Borrowing. The obligation of each Bank to make a Committed Loan on the occasion of any Committed Borrowing (including the initial Committed Borrowing) shall be subject to the further conditions

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precedent that on the date of such Committed Borrowing the following statements shall be true (and each of the giving of the applicable Notice of Committed Borrowing and the acceptance by the Company of the proceeds of such Committed Borrowing shall constitute a representation and warranty by the Company that on the date of such Committed Borrowing such statements are true):

(a) The representations and warranties contained in Article IV (except Section 4.5) are correct in all material respects on and as of the date of such Committed Borrowing (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date), before and after giving effect to such Committed Borrowing, as though made on and as of such date;

(b) No event has occurred and is continuing, or would result from such Committed Borrowing, which constitutes either a Default or an Event of Default; and

(c) Following the making of such Committed Borrowing and all other Borrowings to be made on the same day under this Agreement, the aggregate principal amount of all Loans then outstanding shall not exceed the Total Commitment.

Section 3.3 Conditions Precedent to Each Competitive Borrowing. The obligation of each Bank to make a Competitive Loan as part of a Competitive Borrowing (including the initial Competitive Borrowing) is subject to the further conditions precedent that (a) the Auction Administration Agent and the Administrative Agent shall have received a Competitive Bid Request with respect thereto, and (b) on the date of such Competitive Borrowing the following statements shall be true (and each of the giving of the applicable Competitive Bid Request and the acceptance by the Company of the proceeds of such Competitive Borrowing shall constitute a representation and warranty by the Company that on the date of such Competitive Borrowing such statements are true):

(a) The representations and warranties contained in Article IV (except Section 4.5) are correct in all material respects on and as of the date of such Competitive Borrowing (or if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date), before and after giving effect to such Competitive Borrowing, as though made on and as of such date;

(b) No event has occurred and is continuing, or would result from such Competitive Borrowing, which constitutes either a Default or an Event of Default; and

(c) Following the making of such Competitive Borrowing and all other Borrowings to be made on the same day under this Agreement, the aggregate principal amount of all Loans then outstanding shall not exceed the Total Commitment.

Section 3.4 Legal Details. All documents executed or submitted pursuant hereto by the Company shall be reasonably satisfactory in form and substance to the Documentation Agent and the Administrative Agent and their counsel. The Administrative Agent shall, promptly following satisfaction of the conditions specified in Section 3.1, notify the Company and each of the Banks of such satisfaction and the date of the Effective Date. The Administrative Agent and its counsel shall receive all information, and such counterpart originals or certified or other copies of such materials, as they may reasonably deem necessary or appropriate. All legal matters incident to the transactions contemplated by this Agreement (including without limitation matters arising from time to time as a result of changes occurring with respect to any Laws) shall be reasonably satisfactory to counsel to the Documentation Agent and the Administrative Agent.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Agents and Banks as follows:

Section 4.1 Organization, Authority, and Qualifications.

(a) The Company and each of its Material Subsidiaries is a corporation duly organized, validly existing, and in good standing under the Laws of the jurisdiction of its incorporation;

(b) The Company has the corporate power and authority to execute, deliver, and perform this Agreement and the other Loan Papers and to borrow hereunder;

(c) On the Execution Date, the Company and each of its Material Subsidiaries is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction where the character of its Properties or nature of its activities make such qualification necessary, except where the failure to be so qualified or in good standing would not have a Material Adverse Effect; and

(d) On the Execution Date, the Company has no Material Subsidiaries.

Section 4.2 Financial Statements. The Current Financials present fairly the consolidated financial position of the Company and its Subsidiaries on the date thereof and the consolidated results of operations and changes in financial position of the Company and its Subsidiaries for the period then ended, all in conformity with GAAP. Except for transactions related to or contemplated by the Loan Papers and transactions disclosed in writing to the Administrative Agent before the Execution Date, there has been no Material Adverse Change between the date or dates of the Current Financials and the Execution Date.

Section 4.3 Compliance with Agreement and Laws. On the Execution Date, neither the Company nor any of its Material Subsidiaries is in default in any material respect under the provisions of any instrument evidencing any material obligation, indebtedness, or liability of the Company or any of its Material Subsidiaries or of any agreement relating thereto. Neither the Company nor any of its Material Subsidiaries is in violation of any Law, which default or violation would have a Material Adverse Effect.

Section 4.4 Authorization; No Breach; and Valid Agreements. The execution, delivery, and performance of this Agreement, the borrowings hereunder, and the execution, delivery, and performance of the other Loan Papers by the Company have been duly authorized by all requisite corporate action on the part of the Company and will not violate its charter or bylaws and will not violate any Law or any order of any Tribunal, and will not conflict with, result in a breach of the provisions of or constitute a default under, or result in the imposition of any Lien upon the Property of the Company pursuant to the provisions of, any material loan agreement, credit agreement, indenture, mortgage, deed of trust, franchise, permit, license, note, contract,

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instrument to which the Company is now a party. The Loan Documents are the valid and binding obligations of the Company and are enforceable in accordance with their respective terms.

Section 4.5 Litigation and Judgments. Except as previously disclosed to the Administrative Agent in writing, neither the Company nor any of its Subsidiaries is either party to or aware of the threat of any Litigation which has, in the Company's opinion, a reasonable probability of success and which, if determined adversely to the Company or such Subsidiary, would have a Material Adverse Effect. To the knowledge of the Company, on the Execution Date there is no outstanding unsatisfied money judgment against the Company or any of its Subsidiaries in an amount in excess of \$50,000,000, and there are no outstanding unsatisfied money judgments against the Company or any of its Subsidiaries which individually or in the aggregate have or would have a Material Adverse Effect.

Section 4.6 Ownership of Properties. The Company and each of its Material Subsidiaries has good and marketable title (except for Permitted Liens) or valid leasehold interests in all of its material Properties which are owned or used in connection with its business.

Section 4.7 Taxes. To the extent that failure to do so would have a Material Adverse Effect, the Company and each of its Material Subsidiaries has filed all Tax returns or reports required of it and has paid all Tax liability shown thereon as due to the extent the same has become due and before it may have become delinquent (except to the extent being contested in good faith by appropriate proceedings and for which adequate reserves have been established). The federal income tax liability of the Company and its Subsidiaries has been audited by the Internal Revenue Service and has been finally determined and satisfied for all taxable years up to and including the taxable year ended December 31, 1986.

Section 4.8 Approvals Required. Neither the execution and delivery of this Agreement and the other Loan Papers by the Company, nor the consummation by the Company of any of the transactions contemplated hereby or thereby requires the consent or approval of, the giving of notice to, or the registration, recording, or filing of any document with, or the taking of any other action in respect of any Tribunal except for the routine filing of copies of this Agreement and certain other Loan Papers with the Securities and Exchange Commission, except for any of the foregoing required of any Bank or Agent.

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Section 4.9 Business; Status as Air Carrier. The Company is an air carrier engaged in scheduled air transportation and is in all material respects duly qualified and licensed under all applicable Laws to carry on its business as a scheduled airline currently subject to regulation by the Federal Aviation Administration and the Department of Transportation.

Section 4.10 ERISA Compliance. The Company is in compliance in all material respects with ERISA and the rules and regulations thereunder. The Company has no material unfunded vested liability under any Plan.

Section 4.11 Insurance. The Company maintains with insurance companies or associations of recognized responsibility (or, as to workers' compensation or similar insurance, with an insurance fund or by self-insurance authorized by the jurisdictions in which it operates) insurance concerning its Properties and businesses against such casualties and contingencies and of such types and in such amounts (and with co-insurance, self-insurance and deductibles) as is customary in the case of same or similar businesses.

Section 4.12 Purpose of Loan. Less than 25% of the value of the assets of the Company (individually) and the Company and its Subsidiaries (determined on a consolidated basis) that are subject to the restrictions in Section 5.12 and Section 5.13 is attributable to Margin Stock. The proceeds of the Loans will be used for general corporate purposes, including acquisitions, and no part of the proceeds of any Loan will be used for any purpose which would violate, or be inconsistent with, any of the margin regulations of the Board.

Section 4.13 Investment Company Act. Neither the Company nor any of its Subsidiaries is an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company", as such terms are defined in the Investment Company Act of 1940, as amended.

Section 4.14 General. As of the Execution Date, there is no material fact or condition relating to the Loan Papers or the financial condition and business of the Company and its

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Subsidiaries which has a Material Adverse Effect and which has not been related, in writing, to the Administrative Agent, other than industry-wide risks in the ordinary course of business associated with the types of business conducted by the Company and its Subsidiaries. All writings exhibited or delivered to any of the Agents and Banks by or on behalf of the Company are and will be genuine and in all material respects what they purport and appear to be.

ARTICLE V

COVENANTS

So long as the Company may borrow hereunder and until the Obligation has been paid in full, the Company covenants as follows:

Section 5.1 Performance of Obligations. The Company shall duly and punctually pay and perform each of the Obligations under this Agreement and the other Loan Papers.

Section 5.2 Compliance with Laws. The Company shall comply, and shall cause each of its Material Subsidiaries to comply, in all material respects with all applicable Laws, except for any noncompliance which individually or in the aggregate would not have a Material Adverse Effect, and such compliance shall include, without limitation, paying before the same become delinquent all Taxes imposed upon the Company or any of its Material Subsidiaries or its or their Properties, except to the extent contested diligently and in good faith by proper proceedings, and for which adequate reserves are established in accordance with GAAP.

Section 5.3 Maintenance of Existence, Licenses and Franchises; Compliance With Agreements. Except to the extent otherwise permitted in Article V, the Company shall maintain, and shall cause each of its Material Subsidiaries to maintain, its existence, and the Company shall preserve and maintain, and shall cause each of its Material Subsidiaries to preserve and maintain, all material licenses, privileges, franchises, certificates, authorizations, and other permits and agreements necessary for the operation of its business. The Company shall comply, and shall cause each of its Material Subsidiaries to comply, with all material agreements binding on it or affecting its properties or business, except for any noncompliance which individually or in the aggregate would not have a Material Adverse Effect.

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Section 5.4 Maintenance of Properties. The Company shall, and shall cause each of its Material Subsidiaries to, cause all of its Properties used or useful in the conduct of its business to be maintained and kept in good condition, repair, and working order, and supplied with all necessary equipment, and cause to be made all necessary repairs, renewals, replacements, betterments, and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times. Subject to the provisions of this Section 5.4, the Company shall, at its expense, maintain, service, repair, overhaul, improve, and rebuild the Aircraft so as to keep all Aircraft in as good a condition as presently exists or as when acquired by the Company if any Aircraft are hereafter acquired (ordinary wear and tear excepted), and as required to meet the air-worthiness standards of the Federal Aviation Administration and the Department of Transportation (to the extent such standards are applicable to the Aircraft) or the standards observed by the Company with respect to Property of similar type, whichever is higher. The Company shall comply with all applicable mandatory maintenance, service, repair, and overhaul manuals issued by the respective manufacturers of the Aircraft. The Company shall comply with all Laws of Tribunals having jurisdiction over the Company or the Aircraft, including all applicable requirements of the Federal Aviation Administration and the Department of Transportation as to operation, maintenance, or use of the Aircraft. In the event that any such Law requires alteration of any Aircraft, the Company shall conform thereto or obtain conformance therewith at no expense to the Agents or the Banks and will maintain such Aircraft in proper operating condition under such Laws; provided, however, that the Company may, in good faith, contest the validity or application of any such Law in any reasonable manner which does not materially adversely affect the Rights of the Agents or the Banks.

Section 5.5 Maintenance of Books and Records. The Company shall, and shall cause each of its Subsidiaries to, maintain proper books of record and account in which full, true, and correct entries in accordance with GAAP consistently applied (except for any change with which the Company's independent auditors concur) will be made of all dealings and transactions in relation to their business and activities.

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Section 5.6 Inspection. At reasonable times and upon reasonable notice, the Company shall permit, and shall cause each of its Material Subsidiaries to permit, any employees and other representatives of the Administrative Agent or any Bank to visit and inspect any Properties, to examine all books of account, records, reports, and other papers, to make copies and extracts therefrom (subject to any confidentiality agreements, copyright restrictions, and similar limitations), and to discuss the Company's and Material Subsidiaries' affairs, finances, Properties, condition (financial or otherwise) and accounts with the Company's and Material Subsidiaries' officers, employees and independent certified public accountants, at such times and as often as may be reasonably requested; provided, however, that (a) any such inspection which includes Aircraft shall be a visual, walk-around inspection and may not include opening any panels, bays or the like of any Aircraft, (b) no exercise of any inspection rights provided for in this Section 5.6 shall interfere with the normal operation or maintenance of the Aircraft by, or the business of, the Company, and (c) the Administrative Agent and each Bank shall cause their respective employees and representatives to hold in strict confidence all information acquired pursuant to such Agent's or Bank's Rights under this Section 5.6, except for necessary disclosure to participants in the Loans or Commitments, disclosure in connection with disputes relating to the Loan Papers, or disclosure compelled by judicial or administrative process or by other requirements of Law.

Section 5.7 Insurance. The Company shall maintain insurance with such insurers, in such amounts (including by way of self-insurance and deductibles), in such forms and covering such risks as may be then customary in the domestic airlines industry. Without in any way limiting the foregoing, the Company shall maintain such insurance on the Aircraft, including "all-risk" hull insurance and aviation liability insurance.

Section 5.8 Appraisals. On each Appraisal Delivery Date, the Company shall submit an Appraisal of the Pool Assets to the Administrative Agent as of the date which is 30 days prior to such Appraisal Delivery Date; provided, however, that if such Appraisal is to be delivered on such Appraisal Delivery Date as a consequence of clause (b) of the definition thereof, the Appraisal to be delivered on such date shall only be in respect of the assets to be removed from and/or added to the Pool Assets.

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Section 5.9 Coverage Ratio. The Company shall maintain at all times a Coverage Ratio of not less than 1.25 to 1.0.

Section 5.10 Reporting Requirements. The Company shall furnish to the Administrative Agent (with sufficient copies for each Bank):

(a) Within 120 days after the last day of each fiscal year of the Company, Financial Statements (it being understood that delivery of the Company's annual report on Form 10-K for any fiscal year as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, will satisfy this requirement with respect to such fiscal year) showing the consolidated financial condition and results of operations of the Company and its Subsidiaries as of, and for the year ended on, such last day, accompanied by (i) the opinion, without material qualification, of Auditors, based on an audit using generally accepted auditing standards, that such Financial Statements were prepared in accordance with GAAP and present fairly the consolidated financial condition and results of operations of the Company and its consolidated Subsidiaries and (ii) a Financial Report Certificate;

(b) Within 60 days after the last day of each of the first three fiscal quarters of the Company (i) Financial Statements showing the consolidated financial condition and results of operations of the Company and its consolidated Subsidiaries as of, and for the period from the beginning of the current fiscal year to, such last day (it being understood that delivery of the Company's quarterly report on Form 10-Q for any fiscal quarter as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934,

as amended, will satisfy this requirement with respect to such fiscal quarter and, if applicable, the portion of the Company's fiscal year ended at the end of such quarter), and (ii) a Financial Report Certificate;

(c) (i) Promptly after mailing, true copies of all reports, statements, documents, plans, and other written communications furnished by or on behalf of the Company or any of its Subsidiaries to stockholders generally and (ii) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any

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registration statements on Form S-8 or its equivalent) and reports on Forms 10-K, 10-Q and 8-K (or their equivalents) which the Company shall have filed with the Securities and Exchange Commission;

(d) Notice, promptly after the Company or any of its Material Subsidiaries knows or has reason to know of a Default or Event of Default, specifying the nature thereof and what action the Company or any Subsidiary has taken, is taking, or proposes to take with respect thereto;

(e) Prompt notice of any legal or arbitral proceedings, and of all proceedings by or before any governmental or regulatory authority or agency, and any material development in respect of such legal or other proceedings, affecting the Company, except proceedings which, if adversely determined, would not have a Material Adverse Effect or proceedings with respect to which the Company, in good faith and upon consultation with outside counsel, believes an adverse determination in respect thereof to be unlikely; and

(f) Promptly upon the Administrative Agent's reasonable request, such other relevant information (not otherwise required to be furnished under the Loan Papers) respecting the business affairs, assets, and liabilities of the Company and any of its Material Subsidiaries.

Section 5.11 Use of Proceeds. Proceeds advanced hereunder shall be used only as represented herein.

Section 5.12 Restrictions on Sale-Leaseback Transactions; Pool Assets.

(a) At all times prior to the Asset Pool Date, neither the Company nor any of its consolidated Subsidiaries will engage in any Sale-Leaseback Transaction unless the amount of Sale-Leaseback Debt resulting from such transaction, plus the aggregate of all other Sale-Leaseback Debt then existing, does not at the time exceed 10% of Consolidated Net Tangible Assets; provided, however, if a Sale-Leaseback Transaction would result in Sale-Leaseback Debt exceeding such 10% limitation, then such Sale-Leaseback Transaction shall be permitted if such excess amount of the Sale-Leaseback Debt (i) were treated as Debt secured by a Lien, and (ii) would not,

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together with all other Debt of the Company and its Subsidiaries existing at the time and secured by Liens not excepted pursuant to Section 5.13(a), exceed the limitation imposed by Section 5.13(b).

(b) At all times on or after the Asset Pool Date, the Company (i) will ensure that the Appraised Value of the Pool Assets shall satisfy the Collateral Coverage Test (based upon the most recent Appraisal delivered to the Administrative Agent and the Banks pursuant to the provisions of Section 5.8), and (ii) will not convey, sell, lease, transfer or otherwise dispose of, whether voluntarily or involuntarily (it being understood that loss of property due to theft, destruction, confiscation, prohibition on use or similar event shall constitute a disposal for purposes of this covenant), or remove or substitute, any Pool Asset (or any engine included in the Pool Assets unless such engine is replaced by another working engine or engines of comparable value, assuming half-time condition) or agree to do any of the foregoing at any future time, except that:

(1) so long as no Event of Default exists, the Company may replace a Pool Asset with another

asset of the Company (and Schedule II shall be modified to reflect such replacement), provided that (A) such replacement shall be made on a dollar-for-dollar basis based upon (x) in the case of the asset being removed from the Pool Assets, the Appraised Value of such Pool Asset (as determined by the most recently delivered Appraisal with respect to such Pool Asset) and (y) in the case of the asset being added to the Pool Assets, the Appraised Value of such asset (as determined by an Appraisal performed at the time of such replacement), and (B) prior to effecting the replacement, the Company shall have delivered a certificate of the Company signed by its duly authorized officer to the Administrative Agent certifying compliance with this Section 5.12(b) and attaching to such certificate the Appraisal required by Section 5.8;

(2) so long as no Event of Default exists or would result therefrom, the Company may remove an asset from the Pool Assets (and Schedule II shall be modified to reflect such removal), provided that (A) after giving effect to such removal, the Appraised Value of the

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remaining Pool Assets (as determined by an Appraisal of all Pool Assets performed at the time of such removal) shall satisfy the Collateral Coverage Test, and (B) prior to effecting the removal, the Company shall have delivered a certificate of the Company signed by its duly authorized officer to the Administrative Agent certifying that, and providing calculations demonstrating that, after giving effect to such removal, the Appraised Value of the Pool Assets shall satisfy the Collateral Coverage Test, and otherwise certifying compliance with this Section 5.12(b) and attaching to such certificate Appraisals of all Pool Assets obtained in connection with such removal; and

(3) in the event (x) that an Appraisal furnished pursuant to Section 5.8 discloses that the Collateral Coverage Test is not satisfied or (y) the Collateral Coverage Test is not satisfied following an involuntary disposal of any Pool Asset (or any engine included in the Pool Assets unless such engine is replaced by another working engine or engines of comparable value, assuming half-time condition) (whether by loss of property due to theft, destruction, confiscation, prohibition on use, any similar event or otherwise), based upon the most recent Appraisal of the Pool Assets (from which the appraised values of the Pool Assets which are the subject of the involuntary disposition shall be subtracted) furnished pursuant to Section 5.8, the Company shall within 60 days after the date of such Appraisal or involuntary disposal, as the case may be, designate additional assets as Pool Assets to the extent that, after giving effect to such designation the Appraised Value of the Pool Assets, based on the most recently delivered Appraisal with respect to assets already constituting Pool Assets and based on an Appraisal performed at the time of such addition with respect to assets being added to Pool Assets, shall satisfy the Collateral Coverage Test (and Schedule II shall be modified to reflect such addition), provided that (A) at the time of such addition, the Administrative Agent and the Banks shall have received a certificate of the Company signed by its duly authorized officer certifying that the conditions set forth in this Section 5.12(b) shall have been satisfied after giving effect to such addition and attaching thereto such Appraisal, and (B) the asset being added shall constitute Stage 3 Equipment.

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Section 5.13 Restrictions on Liens.

(a) At all times prior to the Asset Pool Date, the Company will not, nor will it permit any Material Subsidiary to, issue, assume or guarantee any Debt directly or indirectly secured or collateralized by any Lien of or upon any Property of the Company or any Material Subsidiary (including without limitation shares of capital stock or indebtedness issued by any Material Subsidiary), whether such Property is owned at the date of this Agreement or hereafter acquired, without making effective provision whereby the

Obligation (together with, if the Company shall so determine, any other Debt issued, assumed or guaranteed by the Company or any Material Subsidiary ranking equally with the Obligation and then existing or thereafter created) shall be secured by such Lien equally and ratably with (or, at the option of the Company, prior to) such Debt, so long as such Debt shall be so secured or collateralized; provided that the foregoing shall not apply to, nor prevent the creation or existence of, any of the following:

(1) Liens of or upon any Property owned by the Company or any Material Subsidiary at the date of this Agreement or thereafter acquired or constructed by the Company or any Material Subsidiary, to secure any Debt issued, assumed or guaranteed by the Company or any Material Subsidiary (i) for the purpose of financing or refinancing all or any part of the purchase price or cost of construction of such Property and (ii) prior to, at the time of, or within 270 days after the later of the acquisition, completion of construction or commencement of commercial operation of such Property;

(2) in addition to Liens contemplated by clauses (3) and (4) below, Liens of or upon any Property which existed at the time of acquisition of such Property (provided such Liens shall not extend to any Property theretofore owned by the Company or any Material Subsidiary);

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(3) Liens of or upon any Property of a corporation, which Liens exist at the time such corporation is merged with or into or consolidated with the Company or any Material Subsidiary;

(4) Liens of or upon any Property of a corporation, which Liens exist at the time such corporation becomes a Material Subsidiary;

(5) Liens to secure Debt of any Material Subsidiary to the Company or to another Material Subsidiary or to secure Debt of the Company to any Material Subsidiary;

(6) Liens in favor of any Tribunal to secure partial, progress, advance or other payments pursuant to any contract or statute or to secure any Debt incurred for the purpose of financing all or any part of the purchase price or cost of constructing or improving the Property subject to such Liens, including without limitation Liens to secure Debt of the industrial revenue bond type;

(7) Liens of or upon deposits of cash or cash equivalents in favor of banks or other depository institutions;

(8) any Lien created as a result of a Sale-Leaseback Transaction permitted by Section 5.12(a), other than a Sale-Leaseback Transaction permitted by virtue of the proviso clause thereof;

(9) Permitted Liens;

(10) pledges or deposits under worker's compensation, unemployment insurance and other social security legislation (other than ERISA);

(11) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

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(12) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business and encumbrances consisting of zoning restrictions, easements, licenses, restrictions on the use of Property or minor imperfections in title thereto which, in the aggregate, are not material in amount, and which do not in any case materially detract from the value of the Property

subject thereto or interfere with the ordinary conduct of the business of the Company or any of its Material Subsidiaries;
or

(13) any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part of Debt secured by any Lien existing at the date of this Agreement or any Lien referred to in the foregoing clauses (1) through (12), inclusive; provided, however, that the principal amount of Debt secured thereby shall not exceed the principal amount of Debt so secured at the time of such extension, renewal or replacement, and that such extension, renewal or replacement shall be limited to all or a part of the Property (plus improvements and construction on such Property), which was subject to the Lien securing the Debt so extended, renewed or replaced.

(b) Notwithstanding the provisions of subsection (a) of this Section 5.13, the Company or any Material Subsidiary may, without equally and ratably securing the Obligation, issue, assume or guarantee any Debt secured by a Lien not excepted by clauses (1) through (13) of such subsection (a), if the aggregate amount of such Debt, together with all other Debt of the Company and its Material Subsidiaries existing at such time and secured by Liens not so excepted, does not at the time exceed 10% of Consolidated Net Tangible Assets.

(c) In the event the Company shall directly or indirectly secure or collateralize any Debt by any Lien of or upon any Aircraft, then the Company shall be deemed to have satisfied any resulting obligations under subsection (a) of this Section 5.13 to secure the Obligation equally and ratably with such Debt, if it shall secure or collateralize the Obligation with a Lien of the same type and rank of or upon other Aircraft, which other Aircraft shall have no less equivalent value relative to the aggregate principal amount of

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the Obligation than the Aircraft first referred to have in relation to the aggregate principal amount of such Debt. All such Liens granted to or for the benefit of the Banks shall be granted and perfected pursuant to documentation reasonably satisfactory to the Administrative Agent and its counsel.

(d) At all times on or after the Asset Pool Date, the Company will not, nor will it permit any Material Subsidiary to, create, assume or suffer to exist any Lien upon or with respect to the Pool Assets, or enter into any arrangement with any Person that would materially negatively impact the value of any Pool Asset realizable by any third party or assign any right to receive the proceeds from the sale, transfer or disposition of any of the Pool Assets, or file or suffer to exist the filing with respect to any of the Pool Assets of any financing statement naming the Company or any Material Subsidiary as debtor under the Uniform Commercial Code or any similar notice of Lien naming the Company or any Material Subsidiary as debtor under any similar recording or notice statute (including, without limitation, any filing under Title 49, United States Code, Section 44107), other than Permitted Liens affecting Pool Assets.

(e) At all times on or after the Asset Pool Date, the Company will not enter into or suffer to exist, and will not permit any of its Material Subsidiaries to enter into or suffer to exist, any agreement prohibiting or conditioning the creation or assumption of any Lien upon any Pool Asset.

Section 5.14 Mergers and Dissolutions. Neither the Company nor any Subsidiary will merge or consolidate with any Person other than any merger or consolidation whereby the Company (or, if the Company is not involved, the Subsidiary) is the surviving corporation and no Default or Event of Default exists or would result therefrom. Neither the Company nor any Subsidiary (excluding any Subsidiary existing on the Execution Date to the extent that it does not contribute more than two percent of the consolidated net income or own more than two percent of the consolidated assets of the Company and its Subsidiaries at the time of any such liquidation or dissolution) will liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution).

Section 5.15 Assignment. The Company will not assign or transfer any of its Rights, duties, or obligations under any of the Loan Papers.

ARTICLE VI

EVENTS OF DEFAULT; REMEDIES

Section 6.1 Events of Default. Any one or more of the following events shall be "Events of Default" hereunder (which shall include by definition the expiration of any grace period with respect thereto), whether the same shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of Law or otherwise):

(a) Payment of Obligation. Failure to pay any installment of principal on any Loan when due whether at maturity, by declaration as authorized by this Agreement, or otherwise; or failure to pay, within 10 days after the due date thereof, any interest on any Loan; or failure to pay, within 10 days after the due date thereof, or if no due date therefor is herein specified within 10 days after written demand therefor is given to the Company by the Administrative Agent, any other amount payable by the Company hereunder or under any of the other Loan Papers.

(b) Covenants. Default shall be made in the observance or performance of any other of the covenants, conditions, and agreements on the part of the Company contained herein, or in any other Loan Papers and such default shall continue for a period of 30 days after the Administrative Agent shall have given the Company notice thereof in writing.

(c) Debtor Relief. The Company or any Material Subsidiary shall file a voluntary petition in bankruptcy or a petition or answer seeking reorganization, arrangement, composition, liquidation, receivership, or similar relief under any Debtor Relief Law, or shall file a petition to take advantage of any Debtor Relief Law, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts as they become due, or shall fail generally to pay its debts as they become due, or

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shall consent to the appointment of any receiver, trustee, custodian or liquidator of it or all or a substantial part of its Property; or a proceeding or action shall be instituted or commenced against the Company or any Material Subsidiary seeking an order for relief or a reorganization, arrangement, composition, liquidation, receivership, or similar relief under any Debtor Relief Law or seeking the appointment, without the consent of the Company or any Material Subsidiary, of any receiver, trustee, custodian or liquidator of it or all or a substantial part of the Property of the Company or any Material Subsidiary and such proceeding or action shall remain undismissed or unstayed for a period of 90 days; or an order, decree, or judgment for an involuntary petition adjudicating the Company or any Subsidiary insolvent shall be entered by any court of competent jurisdiction and shall remain undismissed or unstayed for a period of 90 days.

(d) Payment of Judgments. The Company or any of its Material Subsidiaries fails to pay any judgment or order for the payment of money in excess of \$25,000,000 rendered against it or any of its assets (exclusive of judgment amounts fully covered by insurance where the insurer has admitted liability in respect thereof) and either (i) any enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) the same shall not be discharged (or provisions shall not be made for such discharge), or a stay of execution thereof shall not be procured, within 30 days from the date of entry thereof and the Company or the relevant Material Subsidiary shall not, within said period of 30 days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal.

(e) Default on Other Debt or Security. The Company or any Material Subsidiary shall (i) fail to pay any principal or interest on any Debt (other than the Obligation) the principal or face amount of which exceeds \$25,000,000 when due (or, where permitted, within any applicable grace period), whether by scheduled maturity, required prepayment, acceleration, demand or otherwise and such default continues unremedied for five Business Days after such due

date or applicable grace period, or (ii) fail to perform or observe any other provision (other than a provision that is substantially identical to a provision in this Agreement)

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contained in any agreement securing or relating to such Debt (or any other breach or default under such Debt agreement occurs) if the effect of such failure to perform or observe such other provisions (or breach or default) is to cause such Debt to become due prior to its stated maturity; provided, however, that if any such failure, breach or default shall be waived or cured (as evidenced by a writing from such holder or trustee) then, to the extent of such waiver or cure, the Event of Default hereunder by reason of such failure, breach or default shall be deemed likewise to have been thereupon waived or cured.

(f) ERISA. Any "Reportable Event" as such term is defined in ERISA under any Plan, or the appointment by an appropriate Tribunal of a trustee to administer any Plan, or the termination of any Plan within the meaning of Title IV of ERISA, and any of the foregoing results in a material liability to the Pension Benefit Guaranty Corporation; or any material accumulated funding deficiency within the meaning of ERISA exists under any Plan.

(g) Misrepresentation. Any representation or warranty made by the Company is untrue in any material respect, or any certificate, schedule, statement, report, notice or writing (excluding any Appraisal, for which the Company makes no representation) furnished by the Company to the Agents or to the Banks, or any of them, is untrue in any material respect on the date as of which the facts set forth are stated or certified, shall remain material at the time of discovery and shall, if curable, remain incorrect in any material respect after 30 days after written notice thereof to the Company (any failure to include within any such schedule, statement, report, notice, or writing information which failure would cause the material included to be misleading shall be as much an untruth as a false statement contained therein).

Section 6.2 Remedies Upon Default. If an Event of Default specified in Section 6.1(c) occurs, the Commitments of the Banks shall thereupon automatically terminate and the aggregate unpaid principal balance of and accrued interest on the Obligation shall thereupon become due and payable concurrently therewith, without any action by the Administrative Agent or any Bank and without diligence, presentment, demand, protest, notice of protest or intent to accelerate, or notice of any other kind, all of which are

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hereby expressly waived. Except as set forth in the preceding sentence, should any Event of Default occur and be continuing, the Administrative Agent may, and if requested by the Majority Banks, shall, do any one or more of the following:

(a) Acceleration. Declare (by written notice to the Company) the entire unpaid balance of the Obligation, or any part thereof, immediately due and payable, whereupon it shall be due and payable, without diligence, presentment, demand, protest, notice of protest or intent to accelerate, or other notice of any kind (except any notice or demand specified in this Agreement), all of which are hereby expressly waived.

(b) Termination. Terminate the Commitments by written notice to the Company.

(c) Judgment. Reduce any claim to judgment.

(d) Rights. Exercise any and all legal and equitable Rights available to it.

Section 6.3 Remedies in General. If any Event of Default shall occur and be continuing, the Administrative Agent may immediately proceed to protect and enforce all or any Rights with respect thereto contained in this Agreement or any other Loan Papers or may enforce any other legal or equitable Rights. Any Right may be exercised from time to time, independently or concurrently, and as often as shall be deemed expedient. No waiver of any Event of Default shall extend to any subsequent Event of Default.

Section 7.1 Authorization and Action. Each Bank hereby irrevocably appoints and authorizes (a) TCB to act as its Administrative Agent hereunder and under each of the other Loan Papers, (b) Chase to act as its Auction Administration Agent hereunder and under each of the other Loan Papers, (c) B of A to act as its Documentation Agent hereunder and under each of the other Loan Papers, and (d) NationsBank to act as Syndication Agent hereunder. TCB consents to such appointment and agrees to perform

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the duties of the Administrative Agent hereunder and under the other Loan Papers. Chase consents to such appointment and agrees to perform the duties of the Auction Administration Agent hereunder and under the other Loan Papers. B of A consents to such appointment and agrees to perform the duties of the Documentation Agent hereunder and under the other Loan Papers. NationsBank consents to such appointment and agrees, in consultation with the Company and the other Agents, to select a syndicate of Banks to participate in the Commitments. Each Bank authorizes and directs the Administrative Agent, the Auction Administration Agent and the Documentation Agent to act on its behalf and to exercise such powers under this Agreement as are specifically delegated to or required of such Agent by the terms hereto, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement or the other Loan Papers (including, without limitation, enforcement or collection of the Loans or Notes), the Administrative Agent, the Auction Administration Agent and the Documentation Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Majority Banks, and such instructions shall be binding upon all Banks and all holders of Loans or Notes; provided, however, that no Agent shall be required to take any action which exposes such Agent to personal liability or which is contrary to this Agreement or applicable Law.

Section 7.2 Agents' Reliance, Etc. None of the Agents and none of their respective Affiliates, directors, officers, agents, or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with the Loan Papers (i) with the consent or at the request of the Majority Banks (or the Majority Committed Banks or all the Banks, if required) or (ii) in the absence of its or their own gross negligence or willful misconduct (it being the express intention of the parties that the Agents and their respective directors, officers, agents, and employees shall have no liability for actions and omissions under this Section 7.2 resulting from their ordinary contributory negligence). Without limitation of the generality of the foregoing, each Agent (i) may treat the payee of each Loan or Note as the holder thereof until such Agent receives written notice of the assignment or transfer thereof signed by such payee and in form satisfactory to such Agent; (ii) may consult with legal counsel (including counsel for the Company), independent public

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accountants, and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants, or experts; (iii) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties, or representations made by or on behalf of the Company in or in connection with any Loan Paper; (iv) except as otherwise expressly provided herein, shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants, or conditions of any Loan Paper or to inspect the property (including the books and records) of the Company or any of its Subsidiaries; (v) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, sufficiency, or value of any Loan Paper or any other instrument or document furnished pursuant hereto or thereto; and (vi) shall incur no liability under or in respect of any Loan Paper by acting upon any notice, consent, certificate, or other instrument or writing (which may be by telecopier) reasonably believed by it to be genuine and signed or sent by the proper party or parties.

Section 7.3 Rights of Agents as Banks. With respect to their Commitments, the Loans, if any, made by them and the Notes, if any, issued to them, each Bank that is an Agent (including any Agent that hereafter becomes a holder of a Loan or Note) and its Affiliates shall have the same rights and powers under this Agreement or any other Loan Paper as any other Bank and may exercise the same as though it were not an Agent; and the term "Bank" or "Banks" shall, unless otherwise expressly indicated, include each Bank that is

an Agent (including any Agent that hereafter becomes a holder of a Loan or Note), in its individual capacity. Each Bank that is an Agent (including any Agent that hereafter becomes a holder of a Loan or Note) and its Affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, the Company, any of the Subsidiaries and any Person who may do business with or own securities of the Company or of the Subsidiaries, all as if such Bank were not an Agent, and without any duty to account therefor to the Banks.

Section 7.4 Bank Credit Decision. Each Bank acknowledges and agrees that it has, independently and without reliance upon any of the Agents or any other Bank and based on the Current Financials and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter

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into this Agreement. Each Bank also acknowledges and agrees that it will, independently and without reliance upon any of the Agents or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 7.5 AGENTS' INDEMNITY. NONE OF THE AGENTS SHALL BE REQUIRED TO TAKE ANY ACTION HEREUNDER OR TO PROSECUTE OR DEFEND ANY SUIT IN RESPECT OF THIS AGREEMENT OR THE LOANS OR NOTES UNLESS INDEMNIFIED TO SUCH AGENT'S SATISFACTION BY THE BANKS AGAINST LOSS, COST, LIABILITY, AND EXPENSE. IF ANY INDEMNITY FURNISHED TO SUCH AGENT SHALL BECOME IMPAIRED, IT MAY CALL FOR ADDITIONAL INDEMNITY AND CEASE TO DO THE ACTS INDEMNIFIED AGAINST UNTIL SUCH ADDITIONAL INDEMNITY IS GIVEN. IN ADDITION, THE BANKS AGREE TO INDEMNIFY EACH AGENT OTHER THAN THE SYNDICATION AGENT (TO THE EXTENT NOT REIMBURSED BY THE COMPANY), RATABLY ACCORDING TO THE RESPECTIVE PRINCIPAL AMOUNTS OF THE COMMITTED LOANS THEN HELD BY EACH OF THEM (OR IF NO COMMITTED LOANS ARE AT THE TIME OUTSTANDING, RATABLY ACCORDING TO EITHER (I) THE RESPECTIVE AMOUNTS OF THEIR COMMITMENTS, OR (II) IF THE COMMITMENTS HAVE TERMINATED, THE RESPECTIVE AMOUNTS OF THE COMMITMENTS IMMEDIATELY PRIOR TO SUCH TERMINATION), FROM AND AGAINST ANY AND ALL LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES, OR DISBURSEMENTS OF ANY KIND OR NATURE WHATSOEVER WHICH MAY BE IMPOSED ON, INCURRED BY, OR ASSERTED AGAINST SUCH AGENT IN ANY WAY RELATING TO OR ARISING OUT OF THIS AGREEMENT OR ANY ACTION TAKEN OR OMITTED BY SUCH AGENT UNDER THIS AGREEMENT OR THE OTHER LOAN PAPERS (INCLUDING, WITHOUT LIMITATION, ANY ACTION TAKEN OR OMITTED UNDER ARTICLE II OF THIS AGREEMENT); PROVIDED THAT NO BANK SHALL BE LIABLE FOR ANY PORTION OF SUCH LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES, OR DISBURSEMENTS RESULTING FROM SUCH AGENT'S FRAUD, GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. EACH BANK AGREES, HOWEVER, THAT IT EXPRESSLY INTENDS, UNDER THIS SECTION 7.5, TO INDEMNIFY EACH AGENT RATABLY AS AFORESAID FOR ALL SUCH LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES, AND DISBURSEMENTS ARISING OUT OF OR RESULTING FROM SUCH AGENT'S ORDINARY OR CONTRIBUTORY NEGLIGENCE. WITHOUT LIMITATION OF THE FOREGOING, EACH BANK AGREES TO REIMBURSE EACH AGENT (OTHER THAN THE SYNDICATION AGENT) PROMPTLY UPON DEMAND FOR ITS RATABLE SHARE OF ANY OUT-OF-POCKET EXPENSES (INCLUDING REASONABLE COUNSEL FEES) INCURRED BY SUCH AGENT IN CONNECTION WITH THE PREPARATION, EXECUTION, ADMINISTRATION, OR ENFORCEMENT OF, OR LEGAL ADVICE IN RESPECT OF RIGHTS OR RESPONSIBILITIES UNDER, THIS

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AGREEMENT AND THE OTHER LOAN PAPERS TO THE EXTENT THAT SUCH AGENT IS NOT REIMBURSED FOR SUCH EXPENSES BY THE COMPANY. THE PROVISIONS OF THIS SECTION 7.5 SHALL SURVIVE THE TERMINATION OF THIS AGREEMENT AND/OR THE PAYMENT OR ASSIGNMENT OF ANY OF THE LOANS OR NOTES.

Section 7.6 Successor Administrative Agent. The Administrative Agent may resign at any time by giving written notice thereof to the Banks, the Auction Administration Agent, and the Company and may be removed as Administrative Agent under this Agreement and the other Loan Papers at any time with or without cause by the Majority Banks. Upon any such resignation or removal, the Majority Committed Banks or, after termination of the Commitments, the Majority Banks shall have the right, with the consent of the Company (provided that the Company's consent shall not be required during the continuance of a Default or an Event of Default), to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed and shall have accepted such appointment within 30 calendar days after the retiring Administrative Agent's giving notice of resignation or the Majority Banks' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Banks, with the consent of the Company (provided that the Company's consent shall not be required during the

continuance of a Default or Event of Default), appoint a successor Administrative Agent, which shall be a commercial bank organized under the Laws of the United States of America or of any state thereof and having a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder and under the other Loan Papers by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under this Agreement and the other Loan Papers. After any retiring Administrative Agent's resignation or removal as the Administrative Agent hereunder and under the other Loan Papers, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was the Administrative Agent under this Agreement and the other Loan Papers.

Section 7.7 Successor Auction Administration Agent. The Auction Administration Agent may resign at any time by giving written notice thereof to the Banks, the Administrative Agent, and the Company and may be removed as Auction Administration Agent

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under this Agreement and the other Loan Papers at any time with or without cause by the Majority Banks. Upon any such resignation or removal, the Majority Committed Banks or, after termination of the Commitments, the Majority Banks shall have the right, with the consent of the Company (provided that the Company's consent shall not be required during the continuance of a Default or an Event of Default), to appoint a successor Auction Administration Agent. If no successor Auction Administration Agent shall have been so appointed and shall have accepted such appointment within 30 calendar days after the retiring Auction Administration Agent's giving notice of resignation or the Majority Banks' removal of the retiring Auction Administration Agent, then the retiring Auction Administration Agent may, on behalf of the Banks, appoint a successor Auction Administration Agent, with the consent of the Company (provided that the Company's consent shall not be required during the continuance of a Default or Event of Default), which shall be a commercial bank organized under the Laws of the United States of America or of any state thereof and having a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Auction Administration Agent hereunder and under the other Loan Papers by a successor Auction Administration Agent, such successor Auction Administration Agent shall thereupon succeed to and become vested with all the rights, powers, privileges, and duties of the retiring Auction Administration Agent, and the retiring Auction Administration Agent shall be discharged from its duties and obligations under this Agreement and the other Loan Papers. After any retiring Auction Administration Agent's resignation or removal as the Auction Administration Agent hereunder and under the other Loan Papers, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was the Auction Administration Agent under this Agreement and the other Loan Papers.

Section 7.8 Successor Documentation Agent. The Documentation Agent may resign at any time by giving written notice thereof to the Banks, the Administrative Agent, the Auction Administration Agent, and the Company and may be removed as Documentation Agent under this Agreement and the other Loan Papers at any time with or without cause by the Majority Banks. Upon any such resignation or removal, the Majority Committed Banks or, after termination of the Commitments, the Majority Banks shall have the right, with the consent of the Company (provided that the Company's consent shall not be required during the continuance of a Default or an Event of Default), to appoint a successor Documentation

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Agent. If no successor Documentation Agent shall have been so appointed and shall have accepted such appointment within 30 calendar days after the retiring Documentation Agent's giving notice of resignation or the Majority Banks' removal of the retiring Documentation Agent, then the retiring Documentation Agent may, on behalf of the Banks, appoint a successor Documentation Agent, with the consent of the Company (provided that the Company's consent shall not be required during the continuance of a Default or an Event of Default), which shall be a commercial bank organized under the Laws of the United States of America or of any state thereof and having a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Documentation Agent hereunder and under the other Loan Papers by a successor Documentation Agent, such successor Documentation Agent shall thereupon succeed to and become vested with all the rights, powers, privileges, and duties of the retiring Documentation Agent, and the retiring Documentation Agent shall be discharged from its duties and obligations under this Agreement and the other Loan Papers. After any retiring Documentation Agent's resignation or removal as the

Documentation Agent hereunder and under the other Loan Papers, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was the Documentation Agent under this Agreement and the other Loan Papers.

Section 7.9 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Administrative Agent shall have received notice from a Bank or the Company referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default." If the Administrative Agent receives such a notice, the Administrative Agent shall give notice thereof to the Banks and the Auction Administration Agent; provided, however, if such notice is received from a Bank, the Administrative Agent also shall give notice thereof to the Company. The Administrative Agent shall be entitled to take action or refrain from taking action with respect to such Default or Event of Default as provided in Section 7.1 and Section 7.2.

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ARTICLE VIII

MISCELLANEOUS

Section 8.1 Amendments, Etc. No amendment or waiver of any provision of this Agreement or any other Loan Paper, nor consent to any departure by the Company herefrom or therefrom, shall in any event be effective unless the same shall be in writing and signed by the Majority Committed Banks, or after termination of the Commitments, the Majority Banks (or the Administrative Agent with the consent of the Majority Committed Banks, or after termination of the Commitments, the Majority Banks) in all cases, and then, in any case, such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver, or consent shall, unless in writing and signed by all the Banks (or the Administrative Agent with the consent of all the Banks), do any of the following: (a) waive any of the conditions specified in Section 3.1, 3.2, or 3.3 (if and to the extent that the Borrowing which is the subject of such waiver would involve an increase in the aggregate outstanding amount of Loans over the aggregate amount of Loans outstanding immediately prior to such Borrowing), (b) reduce or increase the amount or alter the terms of the Commitments of any Banks or subject any Banks to any additional obligations, (c) reduce the principal of, or rate or amount of interest applicable to, any Loan other than as provided in this Agreement, or any fees hereunder, (d) postpone any date fixed for any payment of principal of, or interest on, the Loans or any fees hereunder, (e) change this Section 8.1, or (f) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans, or the number of Banks, which shall be required for the Banks or any of them to take any action hereunder; and provided, further, that no amendment, waiver, or consent shall, unless in writing and signed by the Administrative Agent in addition to the Banks required above to take such action, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Paper; and provided, further, that no amendment, waiver, or consent shall, unless in writing and signed by the Auction Administration Agent in addition to the Banks required to take such action, affect the rights or duties of the Auction Administration Agent pursuant to this Agreement or any other Loan Paper; and provided, further, that no amendment, waiver, or consent shall, unless in writing and signed by the Documentation Agent in addition to the Banks required to take such action, affect the rights or duties of the Documentation Agent pursuant to this Agreement or any other Loan Paper.

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Section 8.2 Notices, Etc. Any Agent, any Bank, or the holder of any Loan or Note giving consent or notice or making any request of the Company provided for hereunder, shall notify each Bank, the Administrative Agent, and the Auction Administration Agent thereof. In the event that the holder of any Loan or Note (including any Bank) shall transfer such Loan or Note, it shall promptly so advise the Administrative Agent and the Auction Administration Agent which shall be entitled to assume conclusively that no transfer of any Loan or Note has been made by any holder (including any Bank) unless and until such Agent receives written notice to the contrary. Notices, consents, requests, approvals, demands, and other communications (collectively "Communications") provided for herein shall be in writing (including telecopy Communications) and mailed, telecopied or delivered:

- (a) If to the Company, to it at:
P.O. Box 36611
Love Field
Dallas, Texas 75235
Telecopy Number: (214) 792-4022
Attention: John D. Owen, Treasurer

- (b) If to the Administrative Agent, to it at:
2200 Ross Avenue, 3rd Floor
Dallas, Texas 75201
Telecopy Number: (214) 922-2990
Attention: Dallas Corporate Department
- (c) If to the Auction Administration Agent, to it at:
One Chase Manhattan Plaza, 8th Floor
New York, New York 10081
Telecopy Number: (212) 552-5627
Attention: Chris Consomer
Loan and Agency Services Group
- (d) If to any Bank or any other Agent, as specified on
Schedule I hereto or, in the case of any party, such other address or
telecopy number as such party may hereafter specify for such purpose
by notice to the other parties. All Communications shall, when
mailed, telecopied or delivered, be effective and shall be deemed to
have been duly given when

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sent by telecopier to any party or the telecopier number as set forth
herein or on the signature pages hereof (or other telecopy number
designated by such party in a written notice to the other parties
hereto), or five days after being mailed to the address as set forth
herein (or such other address designated by such party in a written
notice to the other parties hereto) respectively, or when delivered to
such address; provided, however, Communications to any Agent pursuant
to Article II or Article VII shall not be effective until received by
such Agent.

Section 8.3 No Waiver; Remedies. No failure on the part of
any Bank or any Agent to exercise, and no delay in exercising, any Right
hereunder or under any other Loan Paper shall operate as a waiver thereof; nor
shall any single or partial exercise of any such Right, or any abandonment or
discontinuance of any steps to enforce such Right, preclude any other or
further exercise thereof or the exercise of any other Right. No notice to or
demand on the Company in any case shall entitle the Company to any other or
further notice or demand in similar or other circumstances. The Rights herein
provided are cumulative and not exclusive of any Rights provided by Law.

Section 8.4 Costs, Expenses and Taxes. The Company agrees to
pay or reimburse the Agents for paying: (i) all reasonable costs and expenses
of the Agents in connection with (A) the preparation, execution, delivery, and
administration of this Agreement and the other Loan Papers, including, without
limitation, the reasonable fees and out-of-pocket expenses of counsel for the
Agents with respect thereto and with respect to advising the Agents as to their
respective Rights and responsibilities under this Agreement and the other Loan
Papers, and (B) any amendment, modification, supplement, or waiver of any of
the terms of this Agreement, and (ii) all reasonable costs and expenses of the
Banks and the Agents (including reasonable counsel's fees, and including
reasonable allocated in-house counsel fees for any Bank or any Agent) in
connection with the enforcement of this Agreement and the other Loan Papers.
In addition, the Company shall pay any and all Taxes payable or determined to
be payable in connection with the execution and delivery of this Agreement and
the other Loan Papers, and agrees to save the Agents and each Bank harmless
from and against any and all liabilities with respect to or resulting from any
delay in paying or omitting to pay such Taxes, if any, which may be payable or
determined to be payable in connection with the

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execution and delivery of this Agreement or any other Loan Paper. The
obligations of the Company under this Section 8.4 shall survive the termination
of this Agreement and/or repayment of the Loans.

SECTION 8.5 INDEMNITY. THE COMPANY AGREES TO INDEMNIFY AND
HOLD HARMLESS THE AGENTS AND THE BANKS AND EACH OF THEIR RESPECTIVE AFFILIATES,
OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, ADVISORS AND REPRESENTATIVES AGAINST
ANY AND ALL LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS,
JUDGMENTS, SUITS, CLAIMS, COSTS, DEFICIENCIES, EXPENSES, AND DISBURSEMENTS OF
ANY KIND OR NATURE WHATSOEVER WHICH MAY BE IMPOSED ON, INCURRED BY OR ASSERTED
AGAINST ANY AGENT, ANY BANK, OR ANY OF THEIR RESPECTIVE AFFILIATES, OFFICERS,
DIRECTORS, EMPLOYEES, AGENTS, ADVISORS OR OTHER REPRESENTATIVES IN ANY WAY
RELATING TO OR ARISING OUT OF THE LOAN PAPERS, ANY TRANSACTION RELATED HERETO,
OR ANY ACT, OMISSION, OR TRANSACTION OF THE COMPANY, ITS SUBSIDIARIES, AND

AFFILIATES, OR ANY OF THEIR EMPLOYEES, OFFICERS, DIRECTORS OR OTHER REPRESENTATIVES, TO THE EXTENT THAT ANY OF THE SAME RESULTS, DIRECTLY OR INDIRECTLY, FROM ANY CLAIMS MADE OR ACTIONS, SUITS, OR PROCEEDINGS COMMENCED BY OR ON BEHALF OF ANY PERSON OTHER THAN AN AGENT OR A BANK. THE OBLIGATION OF THE COMPANY UNDER THIS SECTION SHALL CONTINUE FOR A PERIOD OF ONE YEAR AFTER PAYMENT OF THE OBLIGATION AND TERMINATION OF ANY OR ALL LOAN PAPERS, AND SHALL NOT BE RELIEVED BY ANY CLAIM OR ALLEGATION OF NEGLIGENCE BY ANY AGENT OR ANY BANK; PROVIDED, HOWEVER, THAT ALTHOUGH EACH INDEMNIFIED PARTY SHALL HAVE THE RIGHT TO BE INDEMNIFIED FROM ITS OWN ORDINARY NEGLIGENCE, NO INDEMNIFIED PARTY SHALL HAVE THE RIGHT TO BE INDEMNIFIED HEREUNDER FOR ITS OWN FRAUD, GROSS NEGLIGENCE, OR WILLFUL MISCONDUCT.

Section 8.6 Right of Setoff. If any Event of Default shall have occurred and be continuing, each Bank is hereby authorized at any time from time to time, to the fullest extent permitted by Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of the Company against any and all obligations of the Company now or hereafter existing under this Agreement and the Loans held by such Bank, irrespective of whether or not such Bank shall have made any demand under this Agreement or any Note and although such obligations may be unmatured. Each Bank agrees promptly to notify the Company and the Administrative Agent after any such setoff and application made by such Bank, but the failure to give such notice shall not affect the validity of such setoff

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and application. The Rights of each Bank under this Section 8.6 are in addition to the Rights and remedies (including, without limitation, other Rights of setoff) which such Bank may have.

SECTION 8.7 GOVERNING LAW; VENUE; SERVICE OF process.

(a) THIS AGREEMENT AND ALL OTHER LOAN PAPERS SHALL BE DEEMED TO BE CONTRACTS AND AGREEMENTS EXECUTED BY THE COMPANY, THE AGENTS, AND THE BANKS UNDER THE LAWS OF THE STATE OF TEXAS AND OF THE UNITED STATES AND FOR ALL PURPOSES SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF SAID STATE AND OF THE UNITED STATES. Without limitation of the foregoing, nothing in this Agreement or in any Note shall be deemed to constitute a waiver of any Rights which any Bank may have under applicable federal legislation relating to the amount of interest which such Bank may contract for, take, receive, or charge in respect of any Loans, including any Right to take, receive, reserve, and charge interest at the rate allowed by the Law of the states where such Bank is located. The provisions of Chapter 15 of Article 5069 of the Texas Revised Civil Statutes do not apply to this Agreement or any Note issued hereunder.

(b) TO THE EXTENT PERMITTED BY APPLICABLE LAW, ANY ACTION OR PROCEEDING AGAINST THE COMPANY UNDER OR IN CONNECTION WITH ANY OF THE LOAN PAPERS MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT IN DALLAS COUNTY, TEXAS. TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE COMPANY HEREBY IRREVOCABLY (A) SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURTS, AND (B) WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT OR THAT ANY SUCH COURT IS AN INCONVENIENT FORUM. THE COMPANY AGREES THAT SERVICE OF PROCESS UPON IT MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, AT ITS ADDRESS SPECIFIED OR DETERMINED IN ACCORDANCE WITH THE PROVISIONS OF SECTION 8.2. NOTHING HEREIN OR IN ANY OF THE OTHER LOAN PAPERS SHALL AFFECT THE RIGHT OF ANY AGENT OR ANY BANK TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT OF ANY AGENT OR ANY BANK TO BRING ANY ACTION OR PROCEEDING AGAINST THE COMPANY OR WITH RESPECT TO ANY OF ITS PROPERTY IN COURTS IN OTHER JURISDICTIONS. ANY ACTION OR PROCEEDING BY THE COMPANY AGAINST ANY AGENT OR ANY BANK SHALL BE BROUGHT ONLY IN A COURT LOCATED IN DALLAS COUNTY, TEXAS.

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Section 8.8 Usury Not Intended. The Company and the Banks intend to strictly comply with all applicable Laws, including Applicable Laws. Accordingly, the provisions of this Section 8.8 shall govern and control over every other provision of this Agreement and any Note, whenever executed, which conflicts with this Section 8.8, even if such provision declares that it controls (unless such provision expressly identifies and refers to this Section 8.8 and specifically states that it will control over this Section 8.8). As used in this Section 8.8, the term "interest" includes the aggregate of all charges which constitute interest under Applicable Laws, provided that, to the

maximum extent permitted by Applicable Laws, (a) any non-principal payment shall be characterized as an expense or fee or something other than compensation for the use, forbearance, or detention of money and not as interest, and (b) all interest at any time contracted for, reserved, charged, or received shall be amortized, prorated, allocated, and spread, in equal or unequal parts throughout the entire contemplated term of the Borrowings so that interest for the entire term does not exceed the maximum rate permitted by Applicable Laws. In no event shall the Company or any other Person be obligated to pay, or any Bank have any right or privilege to contract for, reserve, receive, retain, or charge (a) any interest in excess of the maximum amount of nonusurious interest permitted under Applicable Laws, or (b) total interest in excess of the amount which such Bank could lawfully have contracted for, reserved, received, retained, or charged had the interest been calculated for the full term of the Borrowings at the Highest Lawful Rate. On each day, if any, that the interest rate (the "Stated Rate") called for under this Agreement or under any Note or other related document exceeds the Highest Lawful Rate, the rate at which interest shall accrue shall automatically be fixed by operation of this sentence at the Highest Lawful Rate for that day, and shall remain fixed at the Highest Lawful Rate (or at any time no Highest Lawful Rate shall exist, at the Agreed Maximum Rate) for each day thereafter until the total amount of interest accrued equals the total amount of interest which would have accrued if there were no such ceiling rate as is imposed by this sentence. Thereafter, interest shall accrue at the Stated Rate unless and until the Stated Rate again exceeds the Highest Lawful Rate when the provisions of the immediately preceding sentence shall again automatically operate to limit the interest accrual rate. The daily interest rates to be used in calculating interest at the Highest Lawful Rate shall be determined by dividing the applicable Highest Lawful Rate per annum by the number of days in the calendar

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year for which such calculation is being made. None of the terms and provisions contained in this Agreement, any Note, or any other Loan Paper which directly or indirectly relate to interest shall ever be construed without reference to this Section 8.8 or construed to create a contract to pay for the use, forbearance, or detention of money at an interest rate in excess of the Highest Lawful Rate. If the term of any Loan is shortened by reason of acceleration of maturity as a result of any Event of Default or other cause, or by reason of any required or permitted prepayment, and if for that (or any other) reason any Bank at any time (including but not limited to the stated maturity of any Borrowing) is owed or receives (and/or has received) interest in excess of interest calculated at the Highest Lawful Rate, then and in any such event all of any such excess interest shall be cancelled automatically as of the date of such acceleration, prepayment, or other event which produces the excess, and, if such excess interest has been paid to a Bank, it shall be credited pro tanto against the then-outstanding principal balance of the Company's obligations to such Bank, effective as of the date or dates when the event occurs which causes it to be excess interest, until such excess is exhausted or all of such principal has been fully paid and satisfied, whichever occurs first, and any remaining balance of such excess shall be promptly refunded to its payor.

Section 8.9 Survival of Representations and Warranties. All representations and warranties contained herein or made in writing by the Company in connection herewith shall survive the execution and delivery of this Agreement and the other Loan Papers, and no investigation by any Agent or any Bank or any closing shall affect the representations and warranties or the Right of any Agent or any Bank to rely upon them.

Section 8.10 Binding Effect. This Agreement shall become effective when it shall have been executed by the Company, the Agents, and each Bank and thereafter shall be binding upon and inure to the benefit of the Company (subject to the provisions of Section 8.11), the Agents, each Bank and their respective successors and assigns.

Section 8.11 Successors and Assigns; Participations.

(a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and permitted assigns of such party; and all

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covenants, promises, agreements, representations and warranties by or on behalf of the Company, the Agents or the Banks that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns. The Company may not assign or transfer any its rights or obligations hereunder without the prior

written consent of all of the Banks.

(b) Each Bank may without the consent of the Company sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the Loans owing to it and any Note or Notes held by it); provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Bank shall remain the holder of its Loans and Notes (if any) for all purposes of this Agreement, (iv) the participating banks or other entities shall be entitled to the cost protection provisions contained in Article II and Section 8.4, but only to the extent that such protection would have been available to such Bank, calculated as if no such participations had been sold, and the indemnity protection provisions contained in Section 8.5, (v) the Company, the Agents, and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, and (vi) such Bank shall not sell a participation that conveys to the participant the right to vote or give or withhold consents under this Agreement or any other Loan Papers, other than the right to vote upon or consent to (y) amendments, modifications, or waivers with respect to any fees payable hereunder (including the dates fixed for the payment of any such fees) or the amount of principal or the rate of interest payable on, or the dates fixed for any payment of principal of or interest on, the Loans and (z) any extension of the Termination Date.

(c) Each Bank may assign, with the prior written consent of the Company (which consent shall not be unreasonably withheld and shall not be required after the occurrence or during the continuance of a Default or Event of Default) and the Administrative Agent, to one or more Eligible Assignees, all or a portion of its interests, rights, and obligations

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under this Agreement (including, without limitation, all or a portion of its Commitment and the same portion of the Committed Loans at the time owing to it; provided, however, that (i) each Bank's Commitment (including Loans owing to it) shall not be less than \$10,000,000, minus reductions pursuant to Section 2.6(a), (ii) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Agreement (other than any Competitive Loans, any Competitive Notes and any right to make Competitive Loans), (iii) the assignee thereof shall deliver to the Company and the Administrative Agent any Internal Revenue Service forms required by Section 2.19, and (iv) the parties to each such assignment shall execute and deliver to the Administrative Agent, for its acceptance and recording in the Register (as defined below), an Assignment and Acceptance substantially in the form of Exhibit H hereto (an "Assignment and Acceptance"), together with a properly completed Administration Questionnaire, any Note or Notes subject to such assignment and a processing and recordation fee of \$2,000 (or such lesser amount as shall be acceptable to the Administrative Agent); provided, however, no such fee shall be required in the case of any assignment requested by the Company pursuant to Article II of this Agreement. Upon such execution, delivery, acceptance, and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof (unless a shorter period shall be agreed to by the Company, the Administrative Agent, and the assignor Bank), (x) the Eligible Assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Bank hereunder and under the other Loan Papers and (y) the assignor Bank thereunder shall, to the extent provided in such Assignment and Acceptance, be released from its obligations under this Agreement and the other Loan Papers (and, in the case of an Assignment and Acceptance covering all of the remaining portion of an assigning Bank's rights and obligations under this Agreement and the other Loan Papers, such Bank shall cease to be a party hereto and thereto).

(d) By executing and delivering an Assignment and Acceptance, the Bank assignor thereunder and the Eligible Assignee confirm to and agree with each other and the other

parties hereto as follows: (i) other than the representation and warranty that it is a legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim, such Bank assignor makes no representation or warranty and assumes no responsibility with respect to any statements, warranties, or representations made in or in connection with this Agreement or any other Loan Paper or the execution, legality, validity, enforceability, genuineness, sufficiency, or value of this Agreement, any other Loan Paper or any other instrument or document furnished pursuant hereto; (ii) such Bank assignor makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Company or the performance or observance of its respective obligations under this Agreement, any other Loan Paper or any other instrument or document furnished pursuant hereto or thereto; (iii) such Eligible Assignee confirms that it has received a copy of this Agreement together with copies of financial information and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such Eligible Assignee will, independently and without reliance upon the Agents, such Bank assignor, or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such Eligible Assignee appoints and authorizes the Administrative Agent, the Auction Administration Agent and the Documentation Agent to take such action on behalf of such Eligible Assignee and to exercise such powers under this Agreement and the other Loan Papers as are delegated to each such Agent by the terms hereof and thereof, together with such powers as are reasonably incidental thereto; (vi) such Eligible Assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Bank; and (vii) such Eligible Assignee confirms that it is an Eligible Assignee as defined above.

(e) The Administrative Agent shall maintain at its office a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Banks and the Commitment of, and principal amount of the Loan owing to, each Bank from time to time (the "Register"). The entries in the Register shall be conclusive,

in the absence of manifest error, and the Company, the Agents, and the Banks may treat each Person whose name is recorded in the Register as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Company, any Bank, the Administrative Agent, or the Auction Administration Agent at any reasonable time and from time to time upon reasonable prior notice.

(f) Upon its receipt of an Assignment and Acceptance executed by an assigning Bank and an Eligible Assignee together with any Note or Notes subject to such assignment and the written consent to such assignment, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is substantially in the form of Exhibit H hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register, and (iii) give prompt notice thereof to the Banks, the Administrative Agent, the Auction Administration Agent, and the Company. Within five Business Days after receipt of such notice, the Company, at its own expense, shall execute and deliver to the Administrative Agent in exchange for the surrendered Note or Notes, if any, (x) a new Committed Note or Committed Notes to the order of such Eligible Assignee in an amount equal to its portion of the Commitment assumed by it pursuant to such Assignment and Acceptance, (y) if the assigning Bank has retained its Competitive Note, a new Competitive Note to the order of the Eligible Assignee, and (z) if the assigning Bank has retained any Commitment hereunder, new Committed Notes to the order of the assigning Bank in an amount equal to the Commitment retained by it hereunder. Such new Committed Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Committed Notes. Such new Committed Notes and Competitive Notes shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibit D-1 or D-2 as applicable, hereto. Cancelled Notes shall be returned to the Company.

(g) Notwithstanding any other provision herein, any Bank may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 8.11, disclose to the assignee or participant or proposed assignee or participant any information relating to the Company and its

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on behalf of the Company; provided, that prior to any such disclosure, each such assignee or participant or proposed assignee or participant shall agree for the benefit of the Company to preserve the confidentiality of any confidential information relating to the Company received from such Bank.

(h) Notwithstanding any other provision set forth in this Agreement, any Bank may at any time create a security interest in all or any portion of its Rights under this Agreement (including, without limitation, the Loans owing to it and any Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Board.

Section 8.12 Independence of Covenants. All covenants contained in this Agreement shall be given independent effect so that if a particular action or condition is not permitted by any such covenants, the fact that such action or condition would be permitted by an exception to, or otherwise be within the limitations of, another covenant shall not avoid the occurrence of a Default or Event of Default if such action is taken or condition exists.

Section 8.13 Severability. Should any clause, sentence, paragraph, or Section of this Agreement be judicially declared to be invalid, unenforceable, or void, such decision will not have the effect of invalidating or voiding the remainder of this Agreement, and the parties hereto agree that the part or parts of this Agreement so held to be invalid, unenforceable, or void will be deemed to have been stricken herefrom and the remainder will have the same force and effectiveness as if such part or parts had never been included herein.

Section 8.14 Entire Agreement. THIS AGREEMENT, THE FEE LETTERS BETWEEN THE COMPANY AND THE RESPECTIVE AGENTS, AND THE OTHER LOAN PAPERS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES HERETO AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS, AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF, AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. Without in any way limiting the foregoing, this Agreement supersedes that certain Competitive Advance and Revolving Credit Facility Agreement dated as of December 14, 1990, as amended, among the Company and the Banks and Agents named therein, and the commitments of such Banks thereunder are hereby terminated.

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Section 8.15 Descriptive Headings. The section headings appearing in this Agreement have been inserted for convenience only and shall be given no substantive meaning or significance whatever in construing the terms and provisions of this Agreement.

Section 8.16 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

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Section 8.17 WAIVER OF JURY TRIAL. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE COMPANY, THE AGENTS AND THE BANKS HEREBY IRREVOCABLY AND EXPRESSLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO ANY OF THE LOAN PAPERS OR THE TRANSACTIONS CONTEMPLATED THEREBY OR THE ACTIONS OF ANY AGENT OR ANY BANK IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT THEREOF.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

By: /s/ John D. Owen

Name: John D. Owen

Title: Treasurer

\$80,000,000

TEXAS COMMERCE BANK NATIONAL ASSOCIATION, as
a Bank and as Administrative Agent

By: /s/ Mark J. Denton

Name: Mark J. Denton

Title: Senior Vice President

THE CHASE MANHATTAN BANK,
as Auction Administration Agent

By: /s/ Lawrence Palumbo

Name: Lawrence Palumbo

Title: Vice President

\$80,000,000

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BANK OF AMERICA NATIONAL TRUST AND
SAVINGS ASSOCIATION, as a Bank and
as Documentation Agent

By: /s/ Lori Y. Kannegieter

Name: Lori Y. Kannegieter

Title: Managing Director

\$80,000,000

NATIONSBANK OF TEXAS, N.A.,
as a Bank and as Syndication Agent

By: /s/ Jeff Susman

Name: Jeff Susman

Title: Senior Vice President

\$50,000,000

ABN AMRO BANK N.V.

By: /s/ Robert L. Decker

Name: Robert L. Decker

Title: Vice President

By: /s/ Lukas van der Hoel

Name: Lukas van der Hoel

Title: Vice President

\$50,000,000

ROYAL BANK OF CANADA

By: /s/ D.G. Calancie

Name: D.G. Calancie

Title: Industry Manager

\$40,000,000

THE MITSUBISHI TRUST AND BANKING
CORPORATION, NEW YORK BRANCH

By: /s/ Scott J. Paige

Name: Scott J. Paige

Title: Senior Vice President

\$40,000,000

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BANK ONE, TEXAS, N.A.

By: /s/ Gina Norris

Name: Gina Norris

Title: Vice President

\$30,000,000

FIRST SECURITY BANK, N.A.

By: /s/ Steven M. Kohler

Name: Steven M. Kohler

Title: Vice President

\$25,000,000

WACHOVIA BANK OF GEORGIA, N.A.

By: /s/ Joel K. Wood

Name: Joel K. Wood

Title: Vice President

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SCHEDULE I
SOUTHWEST AIRLINES CO.
Competitive Advance and
Revolving Credit Agreement

<TABLE>
<CAPTION>

=====		
===		
NAME	LENDING OFFICE***	NOTICE INFORMATION

<S> TEXAS COMMERCE BANK NATIONAL ASSOCIATION	<C> Texas Commerce Bank National Association 712 Main Street Houston, TX 77002 Telecopy (713) 546-2339 Attn.: Gale Manning	<C> Texas Commerce Bank National Association 2200 Ross Avenue, 3rd Floor Dallas, TX 75201 Telecopy (214) 965-2044 Telephone (214) 965-2246 Attn.: Mark Denton

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION	Bank of America National Trust and Savings Association North American Division Airlines Group 5770 555 South Flower Street Los Angeles, CA 90071	Bank of America National Trust and Savings Association North American Division Airlines Group 5770 555 South Flower Street Unit 5413, 11th Floor Los Angeles, CA 90071 Telecopy (213) 228-2756

Telephone (213) 228-3443
Attn.: Patrick P. Horan

NATIONS BANK OF TEXAS, N.A.	NationsBank of Texas, N.A. 901 Main Street Dallas, TX 75202	NationsBank of Texas, N.A. 901 Main Street, 67th Floor Dallas, TX 75202 Telecopy (214) 508-0980 Telephone (214) 508-0964 Attn.: Jeff Susman
-----------------------------	---	--

</TABLE>

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<TABLE>		
<S>	<C>	<C>

ABN AMRO BANK N.V.	ABN AMRO Bank N.V. 135 S. LaSalle Street Suite 760 Chicago, IL 60674-9135	ABN AMRO Bank N.V. 135 S. LaSalle Street Suite 760 Chicago, IL 60674-9135 Telecopy (312) 606-8428 Telephone (312) 904-2836 Attn.: Lukas van der Hoef
--------------------	--	--

ROYAL BANK OF CANADA	Royal Bank of Canada Grand Cayman (North America No. 1) Branch c/o New York Branch Financial Square, 23rd Floor 32 Old Slip New York, NY 10005-3531	Royal Bank of Canada Grand Cayman (North America No. 1) Branch c/o New York Branch Financial Square, 23rd Floor 32 Old Slip New York, NY 10005-3531 Telecopy: (212) 428-2372 Telephone: (212) 428-6204 Attention: Manager, Credit Administration Royal Bank of Canada Financial Square, 24th Floor New York, NY 10005-3531 Telecopy (212) 428-6459 Telephone (212) 428-6445 Attn.: Don Calancie
----------------------	--	---

THE MITSUBISHI TRUST AND BANKING CORPORATION, NEW YORK BRANCH	The Mitsubishi Trust and Banking Corporation, New York Branch 520 Madison Avenue New York, NY 10022	The Mitsubishi Trust and Banking Corporation, New York Branch 520 Madison Avenue New York, NY 10022 Telecopy (212) 644-6825 Telephone (212) 891-8216 Attn.: Scott J. Paige
---	---	---

</TABLE>

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<TABLE>		
<S>	<C>	<C>

BANK ONE, TEXAS, N.A.	Bank One, Texas, N.A. 1717 Main Street Dallas, TX 75201 Telecopy (214) 290-2765 Attn.: Michael Silverman	Bank One, Texas, N.A. 1717 Main Street Dallas, TX 75201 Telecopy (214) 290-2765 Telephone (214) 290-2713 Attn.: Gina Norris
-----------------------	--	--

FIRST SECURITY BANK, N.A.	First Security Bank, N.A. 15 East 100 South 2nd Floor Salt Lake City, UT 84111	First Security Bank, N.A. 15 East 100 South 2nd Floor Salt Lake City, UT 84111 Telecopy (801) 246-5532
---------------------------	---	--

Telephone (801) 246-5228
Attn.: Steven M. Kohler

WACHOVIA BANK OF GEORGIA, N.A.

Wachovia Bank of Georgia, N.A.
191 Peachtree St., N.E. MC-GA370
Atlanta, GA 30303

Wachovia Bank of Georgia, N.A.
191 Peachtree St., N.E. MC-GA370
Atlanta, GA 30303
Telecopy (404) 332-1159
Telephone (404) 332-6898
Attn.: Joel K. Wood

</TABLE>

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SCHEDULE II
SOUTHWEST AIRLINES CO.
Competitive Advance and
Revolving Credit Agreement

INITIAL SCHEDULE II LISTING POOL ASSETS
SHALL BE DELIVERED PRIOR TO THE ASSET POOL DATE

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Supplemental Agreement No. 2

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 June 24, 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, Buyer has agreed to exercise the option to purchase five (5) additional Option Aircraft delivering in October 1998 (1), November 1998 (2) and December 1998 (2), (Block "F" Aircraft) offered pursuant to Letter Agreement 6-1162-RLL-933R1;

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

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.

- -----
*** Pursuant to 17 CFR, 240.246-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

P.A. No. 1810

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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 revised to reflect sixty-eight (68) Aircraft. Such new page 1-1 is attached hereto and incorporated into the Agreement by this reference.

3. Article 2, entitled "Delivery, Title and Risk of Loss," paragraph 2.1, entitled "Time of Delivery," is deleted in its entirety and replaced by a new paragraph 2.1 revised to add five (5) Block "F" Aircraft. Such new pages 2-1 and 2-2 are attached hereto and incorporated into the Agreement by this reference.

4. Article 3, entitled "Price of Aircraft", paragraph 3.2 entitled "Aircraft Basic Price" is revised by adding a Aircraft Basic Price for the Block "F" Aircraft. Paragraph 3.3 entitled "Aircraft Price," subparagraph 3.3.1 is revised by adding a Aircraft Basic Price for the Block "F" Aircraft. Paragraph 3.4 entitled "Advance Payment Base Price," subparagraph 3.4.1 entitled "Advance Payment Base Price" is revised by adding Advance Payment Base Prices for the Block "F" Aircraft. Such new pages 3-1, 3-2 and 3-3 are attached hereto and incorporated into the Agreement by this reference.

5. Letter Agreement No. 6-1162-RLL-933R1 entitled "Option Aircraft" is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-933R2 attached hereto and incorporated herein by this reference. The letter agreement was revised to reflect the exercise of five (5) Block "F" Aircraft and the conversion of five (5) Block "M" Rolling Option Aircraft to Option

Aircraft. Article 1, entitled "Delivery of Option Aircraft" is revised by deleting five (5) Option Aircraft from the Block "F" delivery stream and adding five (5) Block "M" Aircraft in August, 2004 (2) and September, 2004 (3). Article 2 entitled "Delivery of Rollover Option Aircraft," paragraph 2.1 is revised to delete five (5) Block "M" Rolling Option Aircraft; paragraph 2.2 and subparagraphs 2.2.1 and 2.2.2 are revised by changing the quantity of Rolling Option Aircraft from forty-nine (49) to forty-four (44). *** Attachment A, Paragraph 2 entitled "Price Description," subparagraph 2.1 entitled "Price Elements Per Aircraft" is revised by deleting the October 1998, November 1998 and December 1998 Option Aircraft and adding the August 2004 and September 2004 Option Aircraft, subparagraph 2.2 entitled "Price Adjustments For Option Aircraft Delivering from October 1998 to October 2001", is revised to be entitled "Price Adjustment For Option Aircraft Delivering From March 1999 to October 2001", and subparagraph 2.2.2 is revised to change October 1998 to March 1999.

P.A. No. 1810

SA-2-2

6. Letter Agreement No. 6-1162-RLL-936R1 entitled "Certain Contractual Matters" is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-936R2 attached hereto and incorporated herein by this reference. The letter agreement was revised to reflect the exercise of five (5) Block "F" Aircraft and the conversion of five (5) Block "M" Rolling Option Aircraft to Option Aircraft. Article 1 entitled "Credit Memorandum - Aircraft - Firm Aircraft," is revised to add the credit memorandum amount for the Block "F" Aircraft.

7. Letter Agreement No. 6-1162-RLL-1855 entitled "Additional Contractual Matters," is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-1855R1 attached hereto and incorporated herein by this reference. The letter agreement was revised to reflect the exercise of five (5) Block "F" Aircraft. Article 2 entitled *** for the Option Aircraft delivering from October 1998 through December 31, 2001," is revised to be entitled *** for the Option Aircraft Delivering from March 1999 through December 31, 2001.

8. Concurrent with execution of this Supplemental Agreement, Buyer will pay to Boeing *** The net amount due Boeing as a result of the exercise of the Option Aircraft, and the conversion of Rolling Option Aircraft to Option Aircraft is *** with the difference to be accounted for in the advance payments due at 12 months prior to delivery of the five (5) exercised Option Aircraft.

9. All references in the Letter Agreements associated with Purchase Agreement No. 1810 shall be deemed to refer to the purchase by Buyer of sixty-eight (68) Model 737-7H4 Aircraft and forty-four (44) Model 737-7H4 Rollover Option Aircraft, to the extent such reference is not specifically addressed herein.

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

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

THE BOEING COMPANY

SOUTHWEST AIRLINES CO.

By: /s/ Dawn S. Foster

By: /s/ Gary A. Barron

Its: Attorney-In-Fact

Its: Executive VP and COO

P.A. No. 1810

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PURCHASE AGREEMENT

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 Aircraft

Purchase Agreement Number 1810

P.A. No. 1810

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PURCHASE AGREEMENT NO. 1810

Relating to

BOEING MODEL 737-7H4 AIRCRAFT

This Agreement is entered into as of January 19th 1994, by and between The Boeing Company, a Delaware corporation, with its principal office in Seattle, Washington (Boeing), and Southwest Airlines Co., a Texas corporation, with its principal office in the City of Dallas, State of Texas (Buyer).

Accordingly, Boeing and Buyer agree as follows:

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-eight (68) 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.

P.A. No. 1810

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ARTICLE 2. Delivery, Title and Risk of Loss.

2.1 Time of Delivery. The Aircraft will be delivered to Buyer by Boeing, assembled and ready for flight and Buyer will accept delivery of the Aircraft, in accordance with the following schedule:

<TABLE>

<CAPTION>

Month and Year of Delivery ----- <S>	Quantity of Aircraft ----- <C>
Block A Aircraft	
October 1997	Two (2)
November 1997	Two (2)
Block B Aircraft	
January 1998	Two (2)
February 1998	Three (3)
March 1998	Two (2)
April 1998	Two (2)
May 1998	Two (2)
June 1998	One (1)
July 1998	Two (2)
September 1998	Two (2)
Block C Aircraft	
February 1999	Four (4)
May 1999	Four (4)
July 1999	Four (4)
September 1999	Four (4)
Block D Aircraft	
January 2000	Four (4)
March 2000	Four (4)
July 2000	Four (4)
September 2000	Three (3)
Block E Aircraft	
January 2001	Three (3)
March 2001	Three (3)
July 2001	Three (3)
September 2001	Three (3)
Block F Aircraft	
October 1998	One (1)
November 1998	Two (2)
December 1998	Two (2)

</TABLE>

P.A. No. 1810

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2.2 Notice of Target Delivery Date. Boeing will give Buyer notice of the Target Delivery Date of the Aircraft approximately 30 days prior to the scheduled month of delivery.

2.3 Notice of Delivery Date. If Boeing gives Buyer at least 7 days' notice of the delivery date of the Aircraft, and an Aircraft delivery is delayed beyond such delivery date due to the responsibility of Buyer, Buyer will reimburse Boeing for all costs incurred by Boeing as a result of such delay, including amounts for storage, insurance, Taxes, preservation or protection of the Aircraft and interest on payments due.

2.4 Place of Delivery. The Aircraft will be delivered at an airport facility selected by Boeing in the State of Washington, unless mutually agreed

otherwise.

2.5 Title and Risk of Loss. Title to and risk of loss of an Aircraft will pass from Boeing to Buyer upon delivery of such Aircraft, but not prior thereto.

2.6 Bill of Sale. Upon delivery of an Aircraft Boeing will deliver to Buyer a bill of sale conveying good title to such Aircraft, free of all liens, claims, charges and encumbrances of every kind whatsoever, and such other appropriate documents of title as Buyer may reasonably request.

P.A. No. 1810 2-2 SA-2

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:

<TABLE>
<CAPTION>

	Block A, B, C, D & E Aircraft -----	Block F Aircraft -----
<S>	<C>	<C>
Base Aircraft Price:	\$***	\$***
Special Features	\$***	\$***
Aircraft Basic Price	\$***	\$***

</TABLE>

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 *** for the Block A, B, C, D and E Aircraft and *** for the Block F Aircraft; 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.

P.A. No. 1810 3-1 SA-2

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:

Month and Year of Scheduled Delivery	Advance Payment Base Price per Aircraft
---	--

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

Block E Aircraft ***

January 2001
March 2001
July 2001

P.A. No. 1810

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Block E Aircraft ***
(Continued)

September 2001

Block F Aircraft ***

October 1998
November 1998
December 1998

3.4.2 Adjustment of Advance Payment Base Prices - Long-Lead Aircraft. For Aircraft scheduled for delivery 36 months or more after the date of this Agreement, the Advance Payment Base Prices appearing in Article 3.4.1 will be used to determine the amount of the first advance payment to be made by Buyer on the Aircraft. No later than 25 months before the scheduled month of delivery of each affected Aircraft, Boeing will increase or decrease the Advance Payment Base Price of such Aircraft as required to reflect the effects of (i) any adjustments in the Aircraft Basic Price pursuant to this Agreement and (ii) the then-current forecasted escalation factors used by Boeing. Boeing will provide the adjusted Advance Payment Base Prices for each affected Aircraft to Buyer, and the advance payment schedule will be considered amended to substitute such adjusted Advance Payment Base Prices.

P.A. No. 1810

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6-1162-RLL-933R2

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

Subject: Letter Agreement No. 6-1162-RLL-933R2 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-four (44) 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>
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
April 2001	Three (3)	I
October 2001	Three (3)	I

</TABLE>

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Southwest Airlines Co.
6-1162-RLL-933R2 Page 2

<TABLE>

<CAPTION>

Month and Year of Delivery -----	Number of Option Aircraft -----	Option Aircraft Block -----
(continued)		
<S>	<C>	<C>
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
August 2004	Two (2)	M
September 2004	Three (3)	M

</TABLE>

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	Eight (8)	M
2005	Eighteen (18)	N
2006	Eighteen (18)	O

</TABLE>

2.2 The forty-four (44) Rollover Option Aircraft are offered to Buyer subject to the following conditions:

2.2.1 Buyer can exercise any forty-four (44) 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-four (44).

2.2.2 Conversely to Article 2.2.1 above, if Buyer does not exercise a minimum of forty-four (44) Option Aircraft, one Rollover Option Aircraft will be deleted for each Option Aircraft not exercised by Buyer.

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Southwest Airlines Co.
6-1162-RLL-933R2 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).

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Southwest Airlines Co.
6-1162-RLL-933R2 Page 4

<TABLE>
<CAPTION>

Month and Year of Delivery -----	Advance Payment Base Price per Option Aircraft -----
<S>	<C>
	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	
	Block M Aircraft *** -----
August 2004	
September 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 Aircraft escalation provisions contained in the definitive agreement to purchase the Option

Southwest Airlines Co.
6-1162-RLL-933R2 Page 5

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 \$100,000 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

Southwest Airlines Co.
6-1162-RLL-933R2 Page 6

specify the revised option exercise dates, which will not be earlier than 30 days after the date 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.

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.

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Southwest Airlines Co.
6-1162-RLL-933R2 Page 7

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.

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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/ Dawn S. Foster

Its Attorney-in-Fact

ACCEPTED AND AGREED TO this

date: June 24, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its Executive VP & COO

Attachments

P.A. No. 1810

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Attachment A to
6-1162-RLL-933R2
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.

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Attachment A to
6-1162-RLL-933R2
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>
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	***	***	***
August 2004	***	***	***
September 2004	***	***	***

</TABLE>

Continued Next Page...

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Attachment A to
6-1162-RLL-933R2
Page 3

2. Price Description. (Continued)

2.2 Price Adjustments For Option Aircraft Delivering From March 1999 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 March 1999 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.

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Attachment A to
6-1162-RLL-933R2
Page 4

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 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.

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Attachment A to
6-1162-RLL-933R2
Page 5

<TABLE>
<CAPTION>

Amount Due per Aircraft	

(Percentage times	
Due Date of Payment	Advance Payment Base Price)

<S>	<C>
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%

</TABLE>

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.

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Attachment B to
6-1162-RLL-933R2
Page 1

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.

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

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

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.

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Attachment B to
6-1162-RLL-933R2
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.

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Attachment B to
6-1162-RLL-933R2
Page 3

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

P.A. NO. 1810

SA-2

Attachment B to

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.

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6-1162-RLL-936R2

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

Subject: Letter Agreement No. 6-1162-RLL-936R2 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-933R2, 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-four (44) 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 Block A, B, C, D and E Aircraft will be *** of the Aircraft Basic Price (July 1992 STE \$) ***. The amount of this credit memorandum applicable to each Block F 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 \$) ***.

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 \$) *** 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.

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Southwest Airlines Co.
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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 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/ Dawn S. Foster

Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of this

date: June 24, 1997

SOUTHWEST AIRLINES CO.

By Gary A. Barron

Its Executive VP & COO

P.A. No. 1810
6-1162-RLL-1855R1

SA-2

Southwest Airlines Co.
P.O. Box 36611
Dallas, Texas 75235-1611

Subject: Letter Agreement No. 6-1162-RLL-1855R1 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-eight (68) Model 737-7H4 aircraft (the Aircraft) and Letter Agreement 6-1162-RLL-933R2, 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.

1. ***
for the Aircraft.

In further consideration of Buyer's purchase of the Aircraft, Boeing will issue at the time of delivery of each Aircraft a *** (July 1992 STE) escalated to the month of delivery of the specific Aircraft in accordance with Exhibit D "Aircraft Price adjustment" to be used by Buyer for the purchase of Boeing and or CFMI goods and services or applied to the final delivery payment for the Aircraft for which such ***.

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Southwest Airlines Co.
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2. *** for the Option Aircraft delivering from March 1999 through December 31, 2001.

In further consideration of Buyer's purchase of the Option Aircraft delivering from March 1999 through December 31, 2001, Boeing will issue at the time of delivery of each such Option Aircraft *** (July 1992 STE) escalated to the month of delivery of the specific Aircraft in accordance with Exhibit D "Aircraft Price adjustment" to be used by Buyer for the purchase of Boeing and or CFMI goods and services or applied to the final delivery payment for the Option Aircraft for which such ***.

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.

Very truly yours,

THE BOEING COMPANY

By /s/ Dawn S. Foster

Its Attorney-In-Fact

P.A. No. 1810

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ACCEPTED AND AGREED TO this

Date: June 24, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its Executive VP & COO

P.A. No. 1810

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Exhibit 10.2

Supplemental Agreement No. 3

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 October 6, 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, Buyer has agreed to exercise the option to purchase two (2) additional Option Aircraft delivering in March 1999 (Block "G" Aircraft) offered pursuant to Letter Agreement 6-1162-RLL-933R2;

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

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,"

*** Pursuant to 17 CFR, 240.246-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

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paragraph 1.1 entitled "The Aircraft" is deleted in its entirety and replaced by a new paragraph 1.1 revised to reflect seventy (70) Aircraft. Such new page 1-1 is attached hereto and incorporated into the Agreement by this reference.

3. Article 2, entitled "Delivery, Title and Risk of Loss," paragraph 2.1, entitled "Time of Delivery," is deleted in its entirety and replaced by a new paragraph 2.1 revised to add two (2) Block "G" Aircraft. Such new pages 2-1 and 2-2 are attached hereto and incorporated into the Agreement by this reference.

4. Article 3, entitled "Price of Aircraft", paragraph 3.2 entitled "Aircraft Basic Price" is revised by adding Block "G" to the Aircraft Basic Price for the Block "F" Aircraft. Paragraph 3.3 entitled "Aircraft Price," subparagraph 3.3.1 is revised by adding Block "G" to the Aircraft Basic Price for the Block "F" Aircraft. Paragraph 3.4 entitled "Advance Payment Base Price," subparagraph 3.4.1 entitled "Advance Payment Base Price" is revised by adding Advance Payment Base Prices for the Block "G" Aircraft. Such new pages 3-1, 3-2 and 3-3 are attached hereto and incorporated into the Agreement by this reference.

5. Letter Agreement No. 6-1162-RLL-933R2 entitled "Option Aircraft" is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-933R3 attached hereto and incorporated herein by this reference. The letter agreement was revised to reflect the exercise of two (2) Block "G" Aircraft and the conversion of two (2) Block "M" Rolling Option Aircraft to Option Aircraft. Article 1, entitled "Delivery of Option Aircraft" is revised by deleting two (2) Option Aircraft from the Block "G" delivery stream and adding two (2) Block "M" Aircraft in October 2004. Article 2 entitled "Delivery of Rollover Option Aircraft," paragraph 2.1 is revised to delete two (2) Block "M" Rolling Option Aircraft; paragraph 2.2 and subparagraphs 2.2.1 and 2.2.2 are revised by changing the quantity of Rolling Option Aircraft from forty-four (44) to forty-two (42). Article 3 entitled "Price" paragraph 3.3 is revised to delete the Block "G" Option Aircraft Advance Payment Base Prices and to add Block "M" Advance Payment Base Prices. Attachment A, Paragraph 2 entitled "Price Description," subparagraph 2.1 entitled "Price Elements Per Aircraft" is revised by deleting the March 1999 Option Aircraft and adding the October 2004 Option Aircraft, subparagraph 2.2 entitled "Price Adjustments For Option Aircraft Delivering from March 1999 to October 2001", is revised to be entitled "Price Adjustment For Option Aircraft Delivering From June 1999 to October 2001", and subparagraph 2.2.2 is revised to change March 1999 to June 1999.

6. Letter Agreement No. 6-1162-RLL-936R2 entitled "Certain Contractual Matters" is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-936R3 attached hereto and incorporated herein by this reference. The letter agreement was revised to reflect the exercise of two (2) Block "G" Aircraft and

P.A. No. 1810 SA-3-2
the conversion of two (2) Block "M" Rolling Option Aircraft to Option Aircraft. Article 1 entitled "Credit Memorandum - Aircraft - Firm Aircraft," is revised to add the credit memorandum amount for the Block "G" Aircraft.

7. Letter Agreement No. 6-1162-RLL-1855R1 entitled "Additional Contractual Matters," is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-1855R2 attached hereto and incorporated herein by this reference. The letter agreement was revised to reflect the exercise of two (2) Block "G" Aircraft. Article 2 entitled *** for the Option Aircraft delivering from March 1999 through December 31, 2001," is revised to be entitled *** for the Option Aircraft Delivering from June 1999 through December 31, 2001.

8. The amount due Boeing as a result of the conversion of two Rolling Option Aircraft to Option Aircraft is ***. However, as a result of the Option exercise Buyer has overpaid the advance payments due at 18 months prior to delivery of the 2 exercised Option Aircraft, resulting in ***. Accordingly, concurrent with execution of this Supplemental Agreement, Buyer will pay to Boeing ***.

9. All references in the Letter Agreements associated with Purchase Agreement No. 1810 shall be deemed to refer to the purchase by Buyer of seventy (70) Model 737-7H4 Aircraft and forty-two (42) Model 737-7H4 Rollover Option Aircraft, to the extent such reference is not specifically addressed herein.

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

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

THE BOEING COMPANY

SOUTHWEST AIRLINES CO.

By: /s/ Dawn S. Foster

By: /s/ Gary A. Barron

Its: Attorney-In-Fact

Its: Executive VP and COO

PURCHASE AGREEMENT
between
THE BOEING COMPANY
and
SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 Aircraft
Purchase Agreement Number 1810

P.A. No. 1810

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PURCHASE AGREEMENT NO. 1810

Relating to

BOEING MODEL 737-7H4 AIRCRAFT

- - - - -

This Agreement is entered into as of January 19th 1994, by and between The Boeing Company, a Delaware corporation, with its principal office in Seattle, Washington (Boeing), and Southwest Airlines Co., a Texas corporation, with its principal office in the City of Dallas, State of Texas (Buyer).

Accordingly, Boeing and Buyer agree as follows:

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 seventy (70) 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 2. Delivery, Title and Risk of Loss.

2.1 Time of Delivery. The Aircraft will be delivered to Buyer by Boeing, assembled and ready for flight and Buyer will accept delivery of the Aircraft, in accordance with the following schedule:

<TABLE>

<CAPTION>

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

Block A Aircraft

October 1997	Two (2)
November 1997	Two (2)

Block B Aircraft

January 1998	Two (2)
February 1998	Three (3)
March 1998	Two (2)
April 1998	Two (2)
May 1998	Two (2)
June 1998	One (1)
July 1998	Two (2)
September 1998	Two (2)

Block C Aircraft

February 1999	Four (4)
May 1999	Four (4)
July 1999	Four (4)
September 1999	Four (4)

Block D Aircraft

January 2000	Four (4)
March 2000	Four (4)
July 2000	Four (4)
September 2000	Three (3)

Block E Aircraft

January 2001	Three (3)
March 2001	Three (3)
July 2001	Three (3)
September 2001	Three (3)

Block F Aircraft

October 1998	One (1)
November 1998	Two (2)
December 1998	Two (2)

</TABLE>

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Block G Aircraft

March 1999

Two (2)

2.2 Notice of Target Delivery Date. Boeing will give Buyer notice of the Target Delivery Date of the Aircraft approximately 30 days prior to the scheduled month of delivery.

2.3 Notice of Delivery Date. If Boeing gives Buyer at least 7 days' notice of the delivery date of the Aircraft, and an Aircraft delivery is delayed beyond such delivery date due to the responsibility of Buyer, Buyer will reimburse Boeing for all costs incurred by Boeing as a result of such delay, including amounts for storage, insurance, Taxes, preservation or protection of the Aircraft and interest on payments due.

2.4 Place of Delivery. The Aircraft will be delivered at an airport facility selected by Boeing in the State of Washington, unless mutually agreed otherwise.

2.5 Title and Risk of Loss. Title to and risk of loss of an Aircraft will pass from Boeing to Buyer upon delivery of such Aircraft, but not prior thereto.

2.6 Bill of Sale. Upon delivery of an Aircraft Boeing will deliver to Buyer a bill of sale conveying good title to such Aircraft, free of all liens, claims, charges and encumbrances of every kind whatsoever, and such other appropriate documents of title as Buyer may reasonably request.

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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:

<TABLE>
<CAPTION>

	Block A, B, C, D & E Aircraft -----	Block F & G Aircraft -----
<S>	<C>	<C>
Base Aircraft Price:	\$***	\$***
Special Features	\$***	\$***
Aircraft Basic Price	\$***	\$***

</TABLE>

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 *** for the Block A, B, C, D and E Aircraft and *** for the Block F and Block G Aircraft; 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.

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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>

<CAPTION>

Month and Year of Scheduled Delivery	Advance Payment Base Price per Aircraft
<S>	<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	
	Block E Aircraft ***
January 2001	
March 2001	
July 2001	

</TABLE>

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<TABLE>

<S>	<C>
	Block E Aircraft ***
	(Continued)
September 2001	
	Block F Aircraft ***
October 1998	
November 1998	
December 1998	
	Block G Aircraft ***

</TABLE>

March 1999

3.4.2 Adjustment of Advance Payment Base Prices - Long-Lead Aircraft. For Aircraft scheduled for delivery 36 months or more after the date of this Agreement, the Advance Payment Base Prices appearing in Article 3.4.1 will be

used to determine the amount of the first advance payment to be made by Buyer on the Aircraft. No later than 25 months before the scheduled month of delivery of each affected Aircraft, Boeing will increase or decrease the Advance Payment Base Price of such Aircraft as required to reflect the effects of (i) any adjustments in the Aircraft Basic Price pursuant to this Agreement and (ii) the then-current forecasted escalation factors used by Boeing. Boeing will provide the adjusted Advance Payment Base Prices for each affected Aircraft to Buyer, and the advance payment schedule will be considered amended to substitute such adjusted Advance Payment Base Prices.

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6-1162-RLL-933R3

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

Subject: Letter Agreement No. 6-1162-RLL-933R3 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-two (42) 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>
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
April 2001	Three (3)	I
October 2001	Three (3)	I

</TABLE>

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Southwest Airlines Co.
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<TABLE>
<CAPTION>

Month and Year of Delivery -----	Number of Option Aircraft -----	Option Aircraft Block -----
(continued)		
<S>	<C>	<C>
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
August 2004	Two (2)	M
September 2004	Three (3)	M
October 2004	Two (2)	M

</TABLE>

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	Six (6)	M
2005	Eighteen (18)	N
2006	Eighteen (18)	O

</TABLE>

2.2 The forty-two (42) Rollover Option Aircraft are offered to Buyer subject to the following conditions:

2.2.1 Buyer can exercise any forty-two (42) 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-two (42).

2.2.2 Conversely to Article 2.2.1 above, if Buyer does not exercise a minimum of forty-two (42) Option Aircraft, one Rollover Option Aircraft will be deleted for each Option Aircraft not exercised by Buyer.

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Southwest Airlines Co.
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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

3.3 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).

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Southwest Airlines Co.
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<TABLE>
<CAPTION>

Month and Year of Delivery -----	Advance Payment Base Price per Option Aircraft -----
<S>	<C>
Block G Aircraft *** -----	
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	
Block M Aircraft *** -----	
August 2004 September 2004 October 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 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 \$100,000 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 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.

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;

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Southwest Airlines Co.
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(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.

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Southwest Airlines Co.
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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/ Dawn S. Foster

Its Attorney-in-Fact

ACCEPTED AND AGREED TO this

date: October 6, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its Executive VP & COO

Attachments

P.A. No. 1810
Attachment A to
6-1162-RLL-933R3
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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.

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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>
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	***	***	***
August 2004	***	***	***
September 2004	***	***	***
October 2004	***	***	***

</TABLE>

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2. Price Description. (Continued)

2.2 Price Adjustments For Option Aircraft Delivering From
June 1999 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 June 1999 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.

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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 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.

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<TABLE>
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	Amount Due per Aircraft ----- (Percentage times Advance Payment Base Price)
Due Date of Payment - -----	
<S> Deposit	<C> \$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%

</TABLE>

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.

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.

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>

January
February
March
April
May
June
July
August
September
October
November
December
</TABLE>

<C>

June B, July B, Aug. B
July B, Aug. B, Sept. B
Aug. B, Sept. B, Oct. B
Sept. B, Oct. B, Nov. B
Oct. B, Nov. B, Dec. B
Nov. B, Dec. B, Jan. D
Dec. B, Jan. D, Feb. D
Jan. D, Feb. D, Mar. D
Feb. D, Mar. D, Apr. D
Mar. D, Apr. D, May D
Apr. D, May D, June D
May D, June D, July D

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.

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

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Attachment B to
6-1162-RLL-933R3

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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.

P.A. NO. 1810
6-1162-RLL-936R3

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

Subject: Letter Agreement No. 6-1162-RLL-936R3 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-933R3, 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-two (42) 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 Block A, B, C, D and E Aircraft will be *** of the Aircraft Basic Price (July 1992 STE \$) ***. The amount of this credit memorandum applicable to each Block F and Block G 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

P.A. No. 1810
Southwest Airlines Co.
6-1162-RLL-936R3 Page 2

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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 \$) ***.

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 \$) *** 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.

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Southwest Airlines Co.
6-1162-RLL-936R3 Page 3

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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 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/ Dawn S. Foster

Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of this

date: October 6, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its Executive VP & COO

P.A. No. 1810
6-1162-RLL-1855R2

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Southwest Airlines Co.
P.O. Box 36611
Dallas, Texas 75235-1611

Subject: Letter Agreement No. 6-1162-RLL-1855R2 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 seventy (70) Model 737-7H4 aircraft (the Aircraft) and Letter Agreement 6-1162-RLL-933R3, 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.

1. ***
for the Aircraft.

In further consideration of Buyer's purchase of the Aircraft, Boeing will issue at the time of delivery of each Aircraft a *** (July 1992 STE) escalated to the month of delivery of the specific Aircraft in accordance with Exhibit D "Aircraft Price adjustment" to be used by Buyer for the purchase of Boeing and or CFMI goods and services or applied to the final delivery payment for the Aircraft for which such ***.

2. ***
for the Option Aircraft delivering from June
1999 through December 31, 2001.

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Southwest Airlines Co.
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In further consideration of Buyer's purchase of the Option Aircraft delivering from June 1999 through December 31, 2001, Boeing will issue at the time of delivery of each such Option Aircraft *** (July 1992 STE) escalated to the month of delivery of the specific Aircraft in accordance with Exhibit D "Aircraft Price adjustment" to be used by Buyer for the purchase of Boeing and or CFMI goods and services or applied to the final delivery payment for the Option Aircraft for which such ***.

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.

Very truly yours,

THE BOEING COMPANY

By /s/ Dawn S. Foster

Its Attorney-In-Fact

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Southwest Airlines Co.
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ACCEPTED AND AGREED TO this

Date: October 6, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Supplemental Agreement No. 4

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 December 19, 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, Buyer has agreed to exercise the option to purchase forty seven (47) additional Option Aircraft delivering in June 1999 (2), August 1999 (2), September 1999 (1), October 1999 (2), April 2000 (3), October 2000 (3), April 2001 (3), October 2001 (3), January 2002 (4), March 2002 (4), April 2002 (2), July 2002 (4), October 2002 (4), January 2003 (4), March 2003 (1), April 2004 (2) and July 2004 (3) offered pursuant to Letter Agreement 6-1162-RLL-933R3 and;

WHEREAS, Buyer has agreed to purchase twelve (12) additional Aircraft delivering in November 2000 (1), December 2000 (1), July 2001 (1), September 2001 (1), October 2001 (1), September 2002 (3), September 2003 (3) and March 2004 (1);

*** Pursuant to 17 CFR, 240.246-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

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

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 revised to reflect one hundred twenty-nine (129) Aircraft. Such new page 1-1 is attached hereto and incorporated into the Agreement by this reference.

3. Article 2, entitled "Delivery, Title and Risk of Loss," paragraph 2.1, entitled "Time of Delivery," is deleted in its entirety and replaced by a new paragraph 2.1 revised to add nineteen (19) Block "H" Aircraft, Eighteen (18) Block "I" Aircraft, five (5) Block "J" Aircraft, five (5) Block "K" Aircraft and twelve (12) Block "L" Aircraft. Such new pages 2-1, 2-2 and 2-3 are attached hereto and incorporated into the Agreement by this reference.

4. Article 3, entitled "Price of Aircraft", paragraph 3.2 entitled "Aircraft Basic Price" is revised by adding Aircraft Basic Prices for the Block "H", Block "I", Block "J", Block "K" and Block "L" Aircraft. Paragraph 3.3 entitled "Aircraft Price," subparagraph 3.3.1 is revised by adding Aircraft Basic Prices for the Block "H", Block "I", Block "J", Block "K" and Block "L" Aircraft.

Paragraph 3.4 entitled "Advance Payment Base Price," subparagraph 3.4.1 entitled "Advance Payment Base Price" is revised by adding Advance Payment Base Prices for the Block "H", "I", "J", "K" and "L" Aircraft. Such new pages 3-1, 3-2, 3-3 and 3-4 are attached hereto and incorporated into the Agreement by this reference.

5. Letter Agreement No. 6-1162-RLL-933R3 entitled "Option Aircraft" is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-933R4 attached hereto and incorporated herein by this reference. Article 1, entitled "Delivery of Option Aircraft" is revised by deleting forty-seven (47) Option Aircraft from the Block "G", "H", "I", "J", "K" and "L" delivery stream and adding forty-two (42) Block "M", "N", "O" and "P" Option Aircraft. Article 2 entitled "Delivery of Rollover Option

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Aircraft," paragraph 2.1 is revised to delete forty-two (42) Block "M", "N" and "O" Rolling Option Aircraft and add fifty-nine (59) Block "Q", "R" and "S" Rolling Option Aircraft; paragraph 2.2 and subparagraphs 2.2.1 and 2.2.2 are revised by changing the quantity of Rolling Option Aircraft from forty-two (42) to fifty-nine (59), subparagraph 2.2.1 is also revised to change the quantity of Option Aircraft from sixty-seven (67) to sixty-two (62). Article 3 entitled "Price" paragraph 3.2 is revised to change 2001 to 2002, paragraph 3.3 is revised to delete the Block "G", "H", "I", "J", "K" and "L" Option Aircraft Advance Payment Base Prices and to add Block "M", "N", "O" and "P" Advance Payment Base Prices. Attachment A, Paragraph 2 entitled "Price Description," subparagraph 2.1 entitled "Price Elements Per Aircraft" is revised by deleting the forty-seven (47) Block "G", "H", "I", "J", "K" and "L" Option Aircraft, adding the forty-two (42) Block "M", "N", "O" and "P" Option Aircraft and adding a column for escalation sharing, subparagraph 2.2 entitled "Price Adjustments For Option Aircraft Delivering from June 1999 to October 2001", is deleted. Subparagraph 2.3 entitled "Price Adjustments For Option Aircraft Delivering From January 2002 through December 2006," is renumbered to 2.2 and the title revised to "Price Adjustments For Option Aircraft Delivering From March 2003 through October 2006." Subparagraph 2.2.2 is revised to change 2001 to 2002, subparagraph 2.2.5 is revised to change January 2002 through December 2006 to March 2003 through October 2006, to change *** for Option deliveries in 2003, *** for Option deliveries in 2004 and *** for Option deliveries in 2005 and 2006, and to change January 2002 to March 2003. Subparagraph 2.2.6 entitled "Prices for Long Lead Aircraft" is revised to change 2002 to 2003.

6. Letter Agreement No. 6-1162-RLL-936R3 entitled "Certain Contractual Matters" is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-936R4 attached hereto and incorporated herein by this reference. Article 1 entitled "Credit Memorandum - Aircraft - Firm Aircraft," is revised to add the credit memorandum amount for the Block "H", "I", "J", "K" and "L" Aircraft.

7. Letter Agreement No. 6-1162-RLL-1855R2 entitled "Additional Contractual Matters," is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-1855R3 attached hereto and incorporated herein by this reference. Article 2 entitled *** for the Option Aircraft delivering from June 1999 through December 31, 2001," is deleted. A new Article 2 entitled *** for the Aircraft," and a new Article 3 entitled "Applicable Aircraft," are added.

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8. Letter Agreement No. 6-1162-RLL-1858 entitled "Escalation Matters," is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-1858R1 attached hereto and incorporated herein by this reference. Article 4 entitled "Escalating Credits (STE)," is revised in the first sentence to add reference to Letter Agreement No. 6-1162-RLL-1855.

9. This agreement is contingent upon the approval of the Southwest Airlines Co. Board of Directors, such approval to be granted no later than January 23, 1998. Until such approval, the amount due Boeing as a result of this supplemental agreement is ***. Concurrent with Board approval, the balance due for advance payments and option deposits, per the existing terms and conditions of the contract, will be forwarded to Boeing.

10. All references in the Letter Agreements associated with Purchase Agreement No. 1810 shall be deemed to refer to the purchase by Buyer of one hundred twenty-nine (129) Model 737-7H4 Aircraft, sixty-two (62) Model 737-7H4 Option Aircraft and fifty-nine (59) Model 737-7H4 Rollover Option Aircraft, to the extent such reference is not specifically addressed herein.

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

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

THE BOEING COMPANY

SOUTHWEST AIRLINES CO.

By: /s/ Dawn S. Foster By: /s/ Gary A. Barron

Its: Attorney-In-Fact Its: Executive VP and COO

P.A. No. 1810 SA-4-4

PURCHASE AGREEMENT

 between

THE BOEING COMPANY

 and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 Aircraft

Purchase Agreement Number 1810

P.A. No. 1810

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6-1162-RLL-936R4	Certain Contractual Matters	SA-4
6-1162-RLL-937	Alternate Advance Payment Schedule	
6-1162-RLL-938	***	
6-1162-RLL-939R1	Certification Flight Test Aircraft	SA-1
6-1162-RLL-940R1	Training Matters	SA-1
6-1162-RLL-941R1	Other Matters	SA-1
6-1162-RLL-942	Open Configuration Matters	
6-1162-RLL-943	Substitution Rights	
6-1162-RLL-944	Airframe Maintenance Material Cost Protection Program	
6-1162-RLL-945	Comparison of 737-7H4 and 737-3H4 Block Fuel Burn	
6-1162-RLL-1855R3	Additional Contractual Matters	SA-4
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This Agreement is entered into as of January 19th 1994, by and between The Boeing Company, a Delaware corporation, with its principal office in Seattle, Washington (Boeing), and Southwest Airlines Co., a Texas corporation, with its principal office in the City of Dallas, State of Texas (Buyer).

Accordingly, Boeing and Buyer agree as follows:

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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 one hundred twenty-nine (129) 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 2. Delivery, Title and Risk of Loss.

2.1 Time of Delivery. The Aircraft will be delivered to Buyer by Boeing, assembled and ready for flight and Buyer will accept delivery of the Aircraft, in accordance with the following schedule:

<TABLE>

<CAPTION>

Month and Year of Delivery -----	Quantity of Aircraft -----
<S>	<C>
	Block A Aircraft -----
October 1997	Two (2)
November 1997	Two (2)
	Block B Aircraft -----
January 1998	Two (2)
February 1998	Three (3)
March 1998	Two (2)
April 1998	Two (2)
May 1998	Two (2)
June 1998	One (1)

July 1998		Two (2)
September 1998		Two (2)
	Block C Aircraft -----	
February 1999		Four (4)
May 1999		Four (4)
July 1999		Four (4)
September 1999		Four (4)
	Block D Aircraft -----	
January 2000		Four (4)
March 2000		Four (4)
July 2000		Four (4)
September 2000		Three (3)
	Block E Aircraft -----	
January 2001		Three (3)
March 2001		Three (3)
July 2001		Three (3)
September 2001		Three (3)
	Block F Aircraft -----	
October 1998		One (1)
November 1998		Two (2)
December 1998		Two (2)
</TABLE>		
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<TABLE>		
<S>	<C> Block G Aircraft -----	<C>
March 1999		Two (2)
	Block H Aircraft -----	
June 1999		Two (2)
August 1999		Two (2)
September 1999		One (1)
October 1999		Two (2)
April 2000		Three (3)
October 2000		Three (3)
April 2001		Three (3)
October 2001		Three (3)
	Block I Aircraft -----	
January 2002		Four (4)
March 2002		Four (4)
April 2002		Two (2)
July 2002		Four (4)
October 2002		Four (4)
	Block J Aircraft -----	
January 2003		Four (4)
March 2003		One (1)
	Block K Aircraft -----	
April 2004		Two (2)
July 2004		Three (3)
	Block L Aircraft -----	
November 2000		One (1)

December 2000	One (1)
July 2001	One (1)
September 2001	One (1)
October 2001	One (1)
September 2002	Three (3)
September 2003	Three (3)
March 2004	One (1)

</TABLE>

2.2 Notice of Target Delivery Date. Boeing will give Buyer notice of the Target Delivery Date of the Aircraft approximately 30 days prior to the scheduled month of delivery.

2.3 Notice of Delivery Date. If Boeing gives Buyer at least 7 days' notice of the delivery date of the Aircraft, and an Aircraft delivery is delayed beyond such delivery date due to the responsibility of Buyer, Buyer will

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reimburse Boeing for all costs incurred by Boeing as a result of such delay, including amounts for storage, insurance, Taxes, preservation or protection of the Aircraft and interest on payments due.

2.4 Place of Delivery. The Aircraft will be delivered at an airport facility selected by Boeing in the State of Washington, unless mutually agreed otherwise.

2.5 Title and Risk of Loss. Title to and risk of loss of an Aircraft will pass from Boeing to Buyer upon delivery of such Aircraft, but not prior thereto.

2.6 Bill of Sale. Upon delivery of an Aircraft Boeing will deliver to Buyer a bill of sale conveying good title to such Aircraft, free of all liens, claims, charges and encumbrances of every kind whatsoever, and such other appropriate documents of title as Buyer may reasonably request.

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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:

<TABLE>

<CAPTION>

	Base Aircraft Price ----- <C>	Special Features ----- <C>	Aircraft Basic Price ----- <C>
<S>			
Block A, B, C, D & E Aircraft	***	***	***
Block F & G Aircraft	***	***	***
Block H Aircraft	***	***	***
Block I Aircraft	***	***	***
Block J			

Aircraft	***	***	***
Block K			
Aircraft	***	***	***
Block L			
Aircraft	***	***	***

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 *** for the Block A, B, C, D and E Aircraft, *** for the Block F and G Aircraft, *** for the Block H Aircraft, *** for the

Block I Aircraft, *** for the Block J Aircraft, *** for the Block K Aircraft and *** for the Block L Aircraft; 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>

<CAPTION>

Month and Year of Scheduled Delivery -----	Advance Payment Base Price per Aircraft -----
<S>	<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	

</TABLE>

<TABLE>		
	<S>	<C>
		Block D Aircraft ***

	January 2000	
	March 2000	
	July 2000	
	September 2000	
		Block E Aircraft ***

	January 2001	
	March 2001	
	July 2001	
	September 2001	
		Block F Aircraft ***

	October 1998	
	November 1998	
	December 1998	
		Block G Aircraft ***

	March 1999	
		Block H Aircraft ***

	June 1999	
	August 1999	
	September 1999	
	October 1999	
	April 2000	
	October 2000	
	April 2001	
	October 2001	
		Block I Aircraft ***

	January 2002	
	March 2002	
	April 2002	
	July 2002	
	October 2002	
		Block J Aircraft ***

	January 2003	
	March 2003	
		Block K Aircraft ***

	April 2004	
	July 2004	
</TABLE>		

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<TABLE>		
	<S>	<C>
		Block L Aircraft ***

	November 2000	
	December 2000	
	July 2001	
	September 2001	
	October 2001	
	September 2002	
	September 2003	
	March 2004	
</TABLE>		

3.4.2 Adjustment of Advance Payment Base Prices - Long-Lead Aircraft. For Aircraft scheduled for delivery 36 months or more after the date of this Agreement, the Advance Payment Base Prices appearing in Article 3.4.1 will be used to determine the amount of the first advance payment to be made by Buyer on the Aircraft. No later than 25 months before the scheduled month of delivery of each affected Aircraft, Boeing will increase or decrease the Advance Payment Base Price of such Aircraft as required to reflect the effects of (i) any adjustments in the Aircraft Basic Price pursuant to this Agreement and (ii) the then-current forecasted escalation factors used by Boeing. Boeing will provide the adjusted Advance Payment Base Prices for each affected Aircraft to Buyer, and the advance payment schedule will be considered amended to substitute such adjusted Advance Payment Base Prices.

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

Subject: Letter Agreement No. 6-1162-RLL-933R4 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-two (62) additional Model 737-7H4 aircraft as described in paragraph 1 of Attachment A hereto (Option Aircraft) and fifty-nine (59) 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 ----- <S>	Number of Option Aircraft ----- <C>	Option Aircraft Block ----- <C>
March 2003	Three (3)	M
April 2003	Two (2)	M
July 2003	Four (4)	M
October 2003	Four (4)	M
January 2004	Four (4)	N
March 2004	One (1)	N
April 2004	One (1)	N
August 2004	Two (2)	N
September 2004	Three (3)	N
October 2004	Two (2)	N

</TABLE>

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<TABLE>
<CAPTION>

Month and Year of Delivery ----- <S>	Number of Option Aircraft ----- <C>	Option Aircraft Block ----- <C>
January 2005	Four (4)	O
March 2005	Four (4)	O
April 2005	Two (2)	O

July 2005	Four (4)	O
October 2005	Four (4)	O
January 2006	Four (4)	P
March 2006	Four (4)	P
April 2006	Two (2)	P
July 2006	Four (4)	P
October 2006	Four (4)	P

</TABLE>

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>
2007	Twenty (20)	Q
2008	Twenty (20)	R
2009	Nineteen (19)	S

</TABLE>

2.2 The fifty-nine (59) Rollover Option Aircraft are offered to Buyer subject to the following conditions:

2.2.1 Buyer can exercise any fifty-nine (59) of the sixty-two (62) Option Aircraft, and will be offered a Rollover Option Aircraft for each option aircraft exercised up to and including fifty-nine (59).

2.2.2 Conversely to Article 2.2.1 above, if Buyer does not exercise a minimum of fifty-nine (59) Option Aircraft, one Rollover Option Aircraft will be deleted for each Option Aircraft not exercised by Buyer.

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

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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 2002, 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 2002, 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 2002 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).

Month and Year

Advance Payment Base

of Delivery

Price per Option Aircraft

Block M Aircraft ***

March 2003
April 2003
July 2003
October 2003

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Month and Year
of Delivery

Advance Payment Base
Price per Option Aircraft

Block N Aircraft ***

January 2004
March 2004
April 2004
August 2004
September 2004
October 2004

Block O Aircraft ***

January 2005
March 2005
April 2005
July 2005
October 2005

Block P Aircraft ***

January 2006
March 2006
April 2006
July 2006
October 2006

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 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 \$100,000 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

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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 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

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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.

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.

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Southwest Airlines Co.

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.

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/ Dawn S. Foster

Its Attorney-in-Fact

ACCEPTED AND AGREED TO this

date: December 19, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its Executive VP & COO

Attachments

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Attachment A to
6-1162-RLL-933R4
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.

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Attachment A to
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Page 2

2. Price Description

2.1 Price Elements Per Aircraft

	1	2	3	
	-	-	-	
AIRCRAFT & DELIVERY MO. & YR.	AIRCRAFT & ESTIMATED SPECIAL FEATURES PRICE (JULY 1992\$)	ESTIMATED ESCALATION	ESTIMATED ESCALATION SHARING	ADV. PMT. BASE PRICE (ELEMENTS) 1 + 2 + 3
- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
BLOCK M				
- - - - -				
March 2003	***	***	***	***
April 2003	***	***	***	***
July 2003	***	***	***	***
October 2003	***	***	***	***
BLOCK N				
- - - - -				
January 2004	***	***	***	***
March 2004	***	***	***	***
April 2004	***	***	***	***
August 2004	***	***	***	***
September 2004	***	***	***	***
October 2004	***	***	***	***
BLOCK O				
- - - - -				
January 2005	***	***	***	***
March 2005	***	***	***	***
April 2005	***	***	***	***
July 2005	***	***	***	***
October 2005	***	***	***	***
BLOCK P				
- - - - -				
January 2006	***	***	***	***
March 2006	***	***	***	***
April 2006	***	***	***	***
July 2006	***	***	***	***
October 2006	***	***	***	***

Continued Next Page...

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2. Price Description. (Continued)

2.2 Price Adjustments For Option Aircraft Delivering From
March 2003 through October 2006.

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 escalation provisions
applicable to Option Aircraft delivering after 2002, see paragraph 2.3.6 below.

2.2.3 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.

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

2.2.5 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 in 2003 is \$*** (July 1992 STE), for options delivering in
2004 is \$*** (July 1992 STE), for options delivering in 2005 and 2006 is \$***
(July 1992 STE). Such Aircraft Basic Price may increase in accordance with
paragraphs 2.2.1, 2.2.2, 2.2.3 and 2.2.4. 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 March 2003.

2.2.6 Prices for Long Lead Time Aircraft. Boeing has not
established escalation provisions for Model 737-700 aircraft for delivery 2003
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

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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.

2.2.7 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.

<TABLE>
<CAPTION>

Amount Due per Aircraft

(Percentage times

Due Date of Payment
- -----

Advance Payment Base Price)

<S>		<C>	
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%	

</TABLE>

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.

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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.

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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.

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Attachment B to
6-1162-RLL-933R4
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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>
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Month of Scheduled Aircraft Delivery - - - - -	Months to be Utilized in Determining the Value of ECI and ICI - - - - -
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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.

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Attachment B to
6-1162-RLL-933R4
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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 Price Adjustment for the Aircraft from that determined at the time of delivery of such Aircraft.

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Attachment B to
6-1162-RLL-933R4
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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.

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6-1162-RLL-936R4

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

Subject: Letter Agreement No. 6-1162-RLL-936R4 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-933R4, dated even date herewith, entitled "Option Aircraft", relating to the sale by Boeing and the purchase by Buyer of sixty-two (62) additional Model 737-7H4 aircraft (the Option Aircraft) and fifty-nine (59) 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 Block A, B, C, D and E Aircraft will be *** of the Aircraft Basic Price (July 1992 STE \$) ***. The amount of this credit memorandum applicable to each Block F, G, H, I, J, K and L 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

P.A. No. 1810

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Southwest Airlines Co.
6-1162-RLL-936R4 Page 2

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 \$) ***.

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 \$) *** 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.

P.A. No. 1810

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 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/ Dawn S. Foster

Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of this

date: December 19, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its Executive VP & COO

P.A. No. 1810

6-1162-RLL-1855R3

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Southwest Airlines Co.
P.O. Box 36611
Dallas, Texas 75235-1611

Subject: Letter Agreement No. 6-1162-RLL-1855R3 to
Purchase Agreement No. 1810
Additional Contractual Matters

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 one hundred twenty-nine (129) Model 737-7H4 aircraft (the Aircraft) and Letter Agreement 6-1162-RLL-933R4, dated even date herewith, entitled "Option Aircraft", relating to the sale by Boeing and the purchase by Buyer of sixty-two (62) additional Model 737-7H4 aircraft (the Option Aircraft) and fifty-nine (59) Rollover Option Aircraft (the Rollover Option Aircraft) and Letter Agreement No. 6-1162-RLL-938, dated January 19, 1994 entitled "Most Favored Customer" relating to terms of the Agreement.

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

1. ***
for the Aircraft.

In further consideration of Buyer's purchase of the Aircraft, Boeing will issue at the time of delivery of each Aircraft (whether Model 737-700, 737-600 or 737-800) *** (July 1992 STE) escalated to the month of delivery of the specific Aircraft in accordance with Exhibit D "Aircraft Price adjustment" to be used by Buyer for the purchase of Boeing and or CFMI goods

and services or applied to the final delivery payment for the Aircraft for which such ***.

2. ***
for the Aircraft.

3. Applicable Aircraft.

For the avoidance of doubt, ***

4. 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/ Dawn S. Foster

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 19, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its Executive VP & COO

Southwest Airlines Co.
P.O. Box 36611
Dallas, Texas 75235-1611

Subject: Letter Agreement No. 6-1162-RLL-1858R1 to
Purchase Agreement No. 1810
Escalation 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 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-two (62) additional Model 737-7H4 aircraft (the Option Aircraft) and fifty-nine (59) 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. Escalation Sharing Commitment

Boeing agrees to share one-half of the escalation up to a maximum of three percent (3%) per year in each of the years 1997 and 1998, as more fully described in paragraph 2 below, for any Aircraft scheduled to be delivered after

December 31, 1996 (the Eligible Aircraft).

All escalation calculations under this Letter Agreement will be made in accordance with Exhibit D to the Agreement entitled "Price Adjustment Due to Economic

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Southwest Airlines Co.
6-1162-RLL-1858R1 Page 2

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Fluctuations - Aircraft Price Adjustment" (the Exhibit D), using actual escalation indices published for the applicable period.

2. Calculation of Escalation Credit Memo

2.1 Eligible Aircraft Delivering in 1997

At the time of delivery of each Eligible Aircraft delivering in 1997, Boeing will issue to Buyer a credit memorandum (the 1997 Credit Memorandum) which shall be applied to the Aircraft Price of such Aircraft. The 1997 Credit Memorandum for each Eligible Aircraft delivering in 1997 shall be calculated as follows:

One-half of the difference between the Base Aircraft Price and Special Features escalation amount calculated for a December 1996 aircraft delivery position, and such escalation amount calculated for the month of delivery of each 1997 Eligible Aircraft; provided however;

The maximum amount of the 1997 Credit Memorandum shall not exceed three percent (3%) pursuant to the following calculation:

At the time of the delivery of each 1997 Eligible Aircraft, the Aircraft Basic Price will be escalated in accordance with the Exhibit D formula to a December 1996 delivery month. The December 1996 escalated price will be referred to in the following formula as the "December 1996 Index Amount". The 1997 Credit Memorandum for each 1997 Eligible Aircraft will not exceed an amount equal to the December 1996 Index Amount times 0.03.

2.2 Eligible Aircraft Delivering in 1998

At the time of delivery of each Eligible Aircraft delivering in 1998, Boeing will issue to Buyer a credit memorandum (the 1998 Credit Memorandum) which shall be applied to the Aircraft Price of such Aircraft. The 1998 Credit Memorandum for each Eligible Aircraft delivering in 1998 shall be calculated as follows:

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Southwest Airlines Co.
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(i) One-half of the difference between the Aircraft Basic Price escalation amount calculated for a December 1997 aircraft delivery position, and such escalation amount calculated for the month of delivery of each 1998 Eligible Aircraft, provided however;

The maximum amount of the portion of the 1998 Credit Memorandum calculated pursuant to this paragraph 2.2 (i) shall not exceed three (3%) percent pursuant to the following calculation:

At the time of the delivery of each 1998 Eligible Aircraft, the Aircraft Basic Price will be escalated in accordance with the Exhibit D formula to a December 1997 delivery month. The December 1997 escalated price will be referred to in the following formula as the "December 1997 Index Amount." The portion of the 1998 Credit Memorandum calculated pursuant to this paragraph 2.2 (i) for the 1998 Eligible Aircraft will not exceed an amount equal to the December 1997 Index Amount times 0.03, plus;

(ii) The amount calculated above in paragraph 2.1 for the 1997 Credit Memorandum calculated through December 1997.

2.3 Eligible Aircraft Delivering after 1998

For each Eligible Aircraft delivering after the calendar year 1998, the amount of the Credit Memorandum will be the amount calculated pursuant to paragraph 2.2 above through a December 1998 aircraft delivery position.

3. Advance Payment Base Price

It is agreed that the Advance Payment Base Prices for the Eligible Aircraft set forth in Article 3.4 of the Agreement include an estimate for the escalation sharing Credit Memoranda pursuant to this Letter Agreement.

4. Escalating Credits (STE)

The credit memoranda specified in Article 1 of Letter Agreement No. 6-1162-RLL-936, as revised, and in Article 2 of Letter Agreement No. 6-1162-RLL-1855, as revised, which are expressed as a percentage of the escalated purchase price of the Aircraft, will be calculated using the same factors used to develop the adjusted aircraft escalation pursuant to this Letter 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/ Dawn S. Foster

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 19, 1997

SOUTHWEST AIRLINES CO.

By /s/ Gary A. Barron

Its Executive VP & COO

SOUTHWEST AIRLINES CO.
SUBSIDIARIES OF THE COMPANY

Southwest Airlines Co. has five wholly owned subsidiaries:

API Terminal, Inc., TranStar Airlines Corporation, Southwest Jet Fuel Co., and Southwest ABQ RES Center, Inc., which are incorporated under the laws of Texas and Triple Crown Insurance Ltd. a Bermuda limited liability company.

CONSENT OF 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, 1998 with respect to the consolidated financial statements of Southwest Airlines Co. for the year ended December 31, 1997 included in this Annual Report on Form 10-K.

ERNST & YOUNG LLP

/s/ Ernst & Young LLP

Dallas, Texas
March 16, 1998

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