

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, 1998 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 1, 1999:

\$9,947,471,987

Number of shares of Common Stock outstanding as of the close of business on March 1, 1999:

334,405,787 shares

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for Annual Meeting of
Shareholders, May 20, 1999: 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 1998, Southwest operated 280 Boeing 737 aircraft and provided service to 53 airports in 52 cities in 26 states throughout the United States. Southwest commenced service to Manchester, New Hampshire in June 1998, and will commence service to Islip, New York in March 1999 and Raleigh-Durham, North Carolina in June, 1999.

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 splits) of Southwest Common Stock in exchange for all of the outstanding shares of Morris. During 1994, the operations of Morris were substantially integrated with those of Southwest, and Morris ceased service as a certificated air carrier in March 1995. Unless the context requires otherwise, references in this annual report to the "Company" include Southwest and Morris.

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

FUEL

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

<TABLE>

<S>		<C>
	1994	\$.54
	1995	\$.55
	1996	\$.65
	1997	\$.62
	1998	\$.46

</TABLE>

The Company is unable to predict the extent of future fuel cost changes. The Company has standard industry arrangements with major fuel suppliers. Standard industry fuel contracts do not provide material protection against price increases or for assured availability of supplies. 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.

Historically, the Company's principal hedging program utilizes the purchase of crude oil call options at a nominal premium and at volumes of up to 30% of its quarterly fuel requirements. However, in order to provide greater protection against increasing fuel costs during this time of exceedingly low fuel prices, the Company has significantly increased its hedging activities. As of January 1999, the Company had outstanding fixed price swap agreements for hedging fuel prices on 77 percent and 74 percent of its fuel needs in first and second quarter 1999, respectively. For more discussion of current fuel costs, the impact of these costs on the Company's operations, and the effect of hedging transactions, 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. 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 other seven aforementioned 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. 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, 1998, consisted of 23 Stage 2 aircraft and 257 Stage 3 aircraft, yielding a Stage 3 percentage of over 90 percent. As of December 31, 1998, of the 23 Stage 2 aircraft operated by the Company, 12 are leased from third parties and 11 are owned by the Company. 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 exceed the 85 percent compliance requirement by July 1, 1999; however, the Company currently intends to hushkit at least 17 additional aircraft. The Company plans to achieve 100 percent compliance by December 31, 1999.

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 San Diego, Burbank, and Orange County, have established airport restrictions to limit noise, including restrictions on aircraft types to be used and limits on the number of hourly or daily operations or the time of such operations. In some instances, these restrictions have caused curtailments in service or increases in operating costs and such restrictions could limit the ability of Southwest to expand its operations at the affected airports. Local authorities at other airports 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 1998 was 441 miles with an average duration of approximately one hour. At yearend, Southwest served approximately 245 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 75 percent of the Company's Customers fly nonstop. In addition, Southwest serves many conveniently-located satellite or downtown airports such as Dallas Love Field, Houston Hobby, Chicago Midway, Baltimore, Burbank, Manchester, 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 airlines, nor have any commuter feeder relationships.

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

In January 1995, Southwest was the first major airline to introduce a Ticketless travel option, 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 computer reservation system in which Southwest has historically participated to a limited extent, providing for ticketing and automated booking on Southwest in a very cost-effective manner. In 1996, Southwest began offering Ticketless travel through the Company's home page on

the Internet's World Wide Web at <http://www.southwest.com>. At December 31, 1998, approximately 70% 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 Customers can also receive flight credits by using the services of non-airline partners, which include credit card partners, a telephone company, car rental agencies, and the Southwest Airlines Visa card. Rapid Rewards offers two types of travel awards. The Rapid Rewards Award Ticket ("Award Ticket") offers one free roundtrip travel award to any Southwest destination after 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.

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 927,000, 782,000, and 494,000, during 1998, 1997, and 1996, respectively. The amount of free travel award usage as a percentage of total Southwest revenue passengers carried was 3.5 percent in 1998, 3.1 percent in 1997, and 2.0 percent in 1996.

The Company accounts for free travel awards using the incremental cost method, regardless of the source of the credit (such as credit for flights or use of business partner services), 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

4

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, 1998 and 1997 was not material.

The number of Award Tickets for Southwest outstanding at December 31, 1998 and 1997 was approximately 688,000 and 485,000, 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 50-60 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, 1998 and 1997 was approximately 21,000 and 20,000, respectively. The Company currently estimates that three to four trips will be redeemed per outstanding Companion Pass.

EMPLOYEES

At December 31, 1998, Southwest had 25,844 active employees, consisting of 7,898 flight, 1,163 maintenance, 13,719 ground customer service and 3,064 management, accounting, marketing, and clerical personnel.

Southwest has ten collective bargaining agreements covering approximately 83 percent of its employees. Southwest's Customer service and Reservation employees are subject to an agreement with the International Association of Machinists and Aerospace Workers, AFL-CIO ("IAM"), which becomes amendable in November 2002. Flight attendants are subject to an agreement with the Transportation Workers Union of America, AFL-CIO ("TWU"), which becomes amendable in May 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 2004 (described below). Flight dispatchers are represented by the Southwest Airlines Employees Association, pursuant to an agreement which will become amendable in November 2009. Aircraft cleaners and stock clerks, mechanics, and flight simulator technicians are represented by the International Brotherhood of Teamsters pursuant to separate agreements which become amendable in August 2000, August 2000, August 2001, and October 2000,

respectively. The flight/ground school instructors and flight crew training 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 agreement, effective through August 2004, subject to a right by the pilots to terminate the agreement as of August 1999. After a vote of its membership, in September 1998 SWAPA notified the Company that it would not exercise its right to terminate the agreement early, and the parties have executed a side letter providing that the agreement will remain in effect through August 2004. Pilots have received no wage increases (other than seniority and upgrade increases) in the first five years of the agreement, and pursuant to the agreement and side letter will receive three percent wage increases in each of the last five years of the agreement. Initially, the pilots received options to purchase approximately 32.8 million shares of Southwest common stock at \$8.89 per share (adjusted for stock splits) over the term of the contract. The exercise price reflected a premium of approximately five percent over the fair market value of the stock on the date of the grant. Pilots hired subsequently receive additional grants at a five percent premium over the then current fair market value. Up to 40,500,000 shares ultimately can be issued under the pilot stock option plan.

5

ITEM 2. PROPERTIES

AIRCRAFT

Southwest operated a total of 280 Boeing 737 aircraft as of December 31, 1998, of which 99 and 13 were under operating and capital leases, respectively. The remaining 168 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. At December 31, 1998, Southwest had 25 737-700 aircraft in service.

In total, at December 31, 1998, the Company had 105 firm orders to purchase Boeing 737 Aircraft as follows:

<TABLE>
<CAPTION>

Type	Seats	1999	2000	2001	2002	2003	2004
----	-----	----	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
737-700	137	32	21	21	21	5	5

</TABLE>

The Company also has 62 options for deliveries in 2003 through 2006. The Company has also contracted to purchase two used Boeing 737-300 aircraft for delivery in the second quarter 1999.

The average age of the Company's fleet at December 31, 1998 was 8.4 years.

GROUND FACILITIES AND SERVICES

Southwest leases terminal passenger service facilities at each of the airports it serves to which it has added various leasehold improvements. The Company leases land on a long-term basis for its maintenance centers located at Dallas Love Field, Houston Hobby, and Phoenix Sky Harbor, its training center near Love Field which houses five 737 simulators, and its corporate headquarters also located near Love Field. The maintenance, training center, and corporate headquarters buildings on these sites were built and are owned by Southwest. At December 31, 1998, the Company operated nine reservation centers. The reservation centers located in Little Rock, Arkansas; Chicago, Illinois; Albuquerque, New Mexico; and Oklahoma City, Oklahoma occupy leased space. The Company owns its Dallas, Texas; Houston, Texas; Phoenix, Arizona; Salt Lake City, Utah; and San Antonio, Texas reservation centers.

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

6

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.

7

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Southwest, their positions, and their respective ages (as of March 1, 1999) are as follows:

<TABLE>

<CAPTION>

NAME	POSITION	AGE	EXECUTIVE OFFICER CONTINUOUSLY SINCE
----	-----	---	-----
<S>	<C>	<C>	<C>
Herbert D. Kelleher	Chairman of the Board, President, and Chief Executive Officer	67	1967
Colleen C. Barrett	Executive Vice President-Customers and Corporate Secretary	54	1978
John G. Denison	Executive Vice President- Corporate Services	54	1986
James C. Wimberly	Executive Vice President, Chief Operations Officer	46	1985
Gary C. Kelly	Vice President-Finance, Chief Financial Officer	43	1986
James F. Parker	Vice President-General Counsel	52	1986
Ron Ricks	Vice President-Governmental Affairs	49	1986
Dave Ridley	Vice President-Ground Operations	46	1998
Joyce C. Rogge	Vice President - Marketing	41	1997
Elizabeth P. Sartain	Vice President - People	44	1999

</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

June Morris, a Director of the Company, filed a Form 4 reporting transactions pursuant to one sell order in a report due five months earlier and transactions pursuant to one sell order in a report one month late.

8

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, as adjusted for the November 1997 and August 1998 three-for-two stock splits, were:

<TABLE>
<CAPTION>

PERIOD -----		DIVIDEND -----	HIGH ----	LOW ---
<S>	<C>	<C>	<C>	<C>
1998				
	1st Quarter	\$.00667	\$21.42	\$15.33
	2nd Quarter	.00667	20.71	16.83
	3rd Quarter	.00750	23.38	17.19
	4th Quarter	.00750	23.75	15.31
1997				
	1st Quarter	\$.00513	\$11.11	\$9.45
	2nd Quarter	.00513	12.45	9.55
	3rd Quarter	.00513	14.75	11.55
	4th Quarter	.00667	17.50	12.55

</TABLE>

As of March 1, 1999, there were 9,741 holders of record of the Company's common stock.

RECENT SALES OF UNREGISTERED SECURITIES

During 1998, 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>
151,875	\$1.00	1/9/98

</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.

9

ITEM 6. SELECTED FINANCIAL DATA

The following financial information for the five years ended December 31, 1998 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, (1)				
	1998	1997	1996	1995	
1994	----	----	----	----	-
<S>	<C>	<C>	<C>	<C>	<C>
FINANCIAL DATA:					
(in thousands except per share amounts)					
Operating revenues	\$ 4,163,980	\$ 3,816,821	\$ 3,406,170	\$ 2,872,751	\$
2,591,933					
Operating expenses	3,480,369	3,292,585	3,055,335	2,559,220	
2,275,224					
-----	-----	-----	-----	-----	-----
Operating income	683,611	524,236	350,835	313,531	
316,709					
Other expenses, net	(21,501)	7,280	9,473	8,391	
17,186					
-----	-----	-----	-----	-----	-----
Income before income taxes	705,112	516,956	341,362	305,140	
299,523					
Provision for income taxes	271,681	199,184	134,025	122,514	
120,192					
-----	-----	-----	-----	-----	-----
Net income	\$ 433,431	\$ 317,772	\$ 207,337	\$ 182,626	\$
179,331					
=====	=====	=====	=====	=====	=====
Net income per share, basic(1)	\$ 1.30	\$.97	\$.64	\$.56	\$
.56					
Net income per share, diluted(1)	\$ 1.23	\$.93	\$.61	\$.55	\$
.54					
Cash dividends per common share(1)	\$.02834	\$.02206	\$.01955	\$.01778	\$
.01778					
Total assets at period-end	\$ 4,715,996	\$ 4,246,160	\$ 3,723,479	\$ 3,256,122	\$
2,823,071					
Long-term obligations at period-end	\$ 623,309	\$ 628,106	\$ 650,226	\$ 661,010	\$
583,071					
Stockholders' equity at period-end	\$ 2,397,918	\$ 2,009,018	\$ 1,648,312	\$ 1,427,318	\$
1,238,706					
OPERATING DATA:					
Revenue passengers carried	52,586,400	50,399,960	49,621,504	44,785,573	
42,742,602(3)					
Revenue passenger miles (RPMs) (000s) ..	31,419,110	28,355,169	27,083,483	23,327,804	
21,611,266					
Available seat miles (ASMs) (000s)	47,543,515	44,487,496	40,727,495	36,180,001	
32,123,974					
Load factor	66.1%	63.7%	66.5%	64.5%	
67.3%					
Average length of passenger haul (miles)	597	563	546	521	
506					
Trips flown	806,822	786,288	748,634	685,524	
624,476					
Average passenger fare	\$ 75.38	\$ 72.21	\$ 65.88	\$ 61.64	\$
58.44					
Passenger revenue yield per RPM	12.62 (cent)	12.84 (cent)	12.07 (cent)	11.83 (cent)	
11.56 (cent)					
Operating revenue yield per ASM	8.76 (cent)	8.58 (cent)	8.36 (cent)	7.94 (cent)	
8.07 (cent)					
Operating expenses per ASM	7.32 (cent)	7.40 (cent)	7.50 (cent)	7.07 (cent)	
7.08 (cent)					
Fuel cost per gallon (average)	45.67 (cent)	62.46 (cent)	65.47 (cent)	55.22 (cent)	
53.92 (cent)					
Number of employees at year-end	25,844	23,974	22,944	19,933	
16,818					
Size of fleet at year-end (2)	280	261	243	224	
199					

</TABLE>

- -----
- (1) On July 22, 1998 the Company's Board of Directors declared a three for two stock split on the Company's Common Stock, distributed on August 20, 1998. 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, as well as prior stock splits previously disclosed.
 - (2) Includes leased aircraft.
 - (3) Includes certain estimates for Morris.

10

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

YEAR IN REVIEW

In 1998, Southwest posted a record annual profit for the seventh consecutive year and a profit for the 26th consecutive year. The Company also posted record operating revenues; record operating income; the highest net profit margin since 1981 of 10.4 percent; and the highest operating profit margin since 1981 of 16.4 percent. The Company experienced strong revenue growth, low unit costs, and continued strong demand for our product.

At the end of 1998, Southwest served 52 cities in 26 states. We added service to Manchester, New Hampshire, in June 1998 and have been very pleased with the results. We have plans to add new service to Islip, New York, on Long Island in March 1999 and will begin serving at least one other new city in 1999. With the net addition of at least 28 aircraft in 1999 (32 new Boeing 737-700s, two used -300s, and the retirement of six older -200s), we will also continue to add additional flights to cities we already serve. We are actively pursuing the acquisition of additional used 737-300s that would add to our 1999 expansion efforts.

During 1998, Boeing experienced production delays related to the 737 production line. These production delays, for the most part, have been remedied by Boeing and we currently do not anticipate any significant delays in 1999.

Also during 1998, the Company's Customer Service and Reservations Sales Agents, represented by the International Association of Machinists and Aerospace Workers, AFL-CIO, and Flight Dispatchers, represented by the Southwest Airlines Employees Association, ratified collective bargaining agreements which will run through the years 2002 and 2009, respectively. In addition, in September 1998, the Company's pilots voted to continue their ten-year agreement with the Company which next becomes amendable in 2004.

RESULTS OF OPERATIONS

1998 COMPARED WITH 1997 The Company's consolidated net income for 1998 was \$433.4 million (\$1.23 per share, diluted), as compared to the corresponding 1997 amount of \$317.8 million (\$.93 per share, diluted), an increase of 36.4 percent. The prior years' earnings per share amounts have been restated for the 1998 three-for-two stock split (see Note 7 to the Consolidated Financial Statements).

11

OPERATING REVENUES Consolidated operating revenues increased by 9.1 percent in 1998 to \$4,164.0 million, compared to \$3,816.8 million for 1997. This increase in 1998 operating revenues was derived primarily from an 8.9 percent increase in passenger revenues as a result of a 10.8 percent increase in revenue passenger miles (RPMs) offset by a 1.7 percent decrease in passenger revenue yield per RPM. While Southwest's passenger revenues increased 8.9 percent in 1998, the RPM yield decline resulted from the higher load factors, a 6.0 percent increase in passenger trip lengths, and higher federal excise taxes on domestic tickets. Assuming load factors and passenger trip lengths continue to be above year-ago levels, RPM yields will continue this trend. (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, but may not be limited to, competitive responses from other air carriers and general economic conditions.)

The 10.8 percent increase in RPMs in 1998 exceeded the 6.9 percent increase in available seat miles (ASMs), resulting in an increase in load factor from 63.7

percent in 1997 to 66.1 percent in 1998. The 1998 ASM growth resulted from the net addition of 19 aircraft during the year. The load factor was 59.2 percent in January 1999, up 5.2 points from January 1998.

Freight revenues in 1998 were \$98.5 million, compared to \$94.8 million in 1997. The 3.9 percent increase in freight revenues fell short of the 6.9 percent increase in ASMs for the same period. United States mail revenue declined 2.5 percent in 1998 and 9.4 percent for fourth quarter 1998 as the postal service continues to shift away from commercial carriers. This trend is expected to continue in 1999. Other air freight revenues increased 8.5 percent in 1998 due to increased capacity.

Other revenues increased by 22.7 percent in 1998 to \$101.7 million, compared to \$82.9 million in 1997. This increase is primarily due to increased revenues from 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 1998 were \$3,480.4 million, compared to \$3,292.6 million in 1997, an increase of 5.7 percent, compared to the 6.9 percent increase in capacity. Operating expenses per ASM decreased 1.1 percent in 1998, compared to 1997, primarily due to a 26.9 percent decrease in average jet fuel price. The decrease in average jet fuel prices was offset by a \$36.1 million increase in Profitsharing

and Employee savings plan contributions and an increase in maintenance costs primarily due to unusually low aircraft engine overhaul costs in the first half of 1997.

Unit costs are expected to continue to benefit in first quarter 1999, versus first quarter 1998, from lower jet fuel prices. Excluding jet fuel costs, operating expenses per ASM are expected to increase in first quarter 1999 compared to first quarter 1998 primarily due to higher Profitsharing and Employee savings plan contributions and increased advertising primarily related to the opening of Islip, New York, on Long Island on March 14, 1999. (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 1998 and 1997 were as follows:

OPERATING EXPENSES PER ASM

<TABLE>
<CAPTION>

	1998	1997	INCREASE (DECREASE)	PERCENT CHANGE
<S>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits.....	2.35 (cent)	2.26 (cent)	.09 (cent)	4.0%
Employee profitsharing and savings plans....	.35	.30	.05	16.7
Fuel and oil.....	.82	1.11	(.29)	(26.1)
Maintenance materials and repairs.....	.64	.58	.06	10.3
Agency commissions.....	.33	.35	(.02)	(5.7)
Aircraft rentals.....	.43	.45	(.02)	(4.4)
Landing fees and other rentals.....	.45	.46	(.01)	(2.2)
Depreciation.....	.47	.44	.03	6.8
Other.....	1.48	1.45	.03	2.1
Total.....	7.32 (cent)	7.40 (cent)	(.08) (cent)	(1.1)%

</TABLE>

Salaries, wages, and benefits per ASM increased 4.0 percent in 1998. This increase resulted primarily from a 6.9 percent increase in 1998 average salary and benefits cost per Employee. The increase in average salary and benefits cost per Employee primarily is due to higher effective wage rates, lower productivity in 1998 caused by Boeing aircraft delivery delays, and increased health care and

workers' compensation costs.

13

Profitsharing and Employee savings plans expense per ASM increased 16.7 percent in 1998, primarily due to higher earnings available for profitsharing.

Fuel and oil expenses per ASM decreased 26.1 percent in 1998, primarily due to a 26.9 percent decrease from 1997 in the average jet fuel cost per gallon. The average price paid for jet fuel in 1998 was \$.4567 compared to \$.6246 in 1997. During fourth quarter 1998, the average cost per gallon decreased 28.0 percent to \$.4346 compared to \$.6040 in fourth quarter 1997. In January 1999, fuel prices averaged approximately \$.38 per gallon. Year-over-year decreases in jet fuel prices are expected to continue in first quarter 1999 due to the continued oversupply of crude oil and related products, along with the effects of the Company's current fuel hedging positions. (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, but may not be limited to, the largely unpredictable levels of jet fuel prices.)

Maintenance materials and repairs per ASM increased 10.3 percent in 1998, compared to 1997, primarily as a result of an unusually low number of aircraft engine overhauls in the first six months of 1997. Fourth quarter 1998 maintenance materials and repairs per ASM increased 3.2 percent over fourth quarter 1997. We expect modest year-over-year unit-cost growth for maintenance materials and repairs in 1999. (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, but may not be limited to, any unanticipated required aircraft airframe or engine repairs.)

Agency commissions per ASM decreased 5.7 percent in 1998, when compared to 1997, primarily due to a decrease in the percentage of commissionable sales.

Aircraft rentals per ASM decreased 4.4 percent in 1998, compared to 1997, primarily due to a lower percentage of the aircraft fleet being leased.

Depreciation expense per ASM increased 6.8 percent in 1998, compared to 1997, primarily due to a higher percentage of the aircraft fleet being owned. Effective January 1, 1999, the Company will revise its estimated useful lives of its Boeing 737-300/500 aircraft from 20 years to 23 years. This change in accounting estimate will decrease aircraft depreciation by approximately \$25 million in 1999.

14

Other operating expenses per ASM increased 2.1 percent in 1998, compared to 1997, primarily due to increased costs resulting from the Year 2000 remediation program and increased revenue related costs such as credit card processing and communications, offset by lower insurance costs. Advertising costs are expected to increase in first quarter 1999 as a result of opening a new city in March 1999. (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, but may not be limited to, competitive responses from other air carriers and general economic conditions.)

OTHER "Other expenses (income)" included interest expense, capitalized interest, interest income, and nonoperating gains and losses. Interest expense decreased \$7.2 million in 1998 primarily due to the February 1998 redemption of \$100 million of senior unsecured 9 1/4% Notes originally issued in February 1991. Capitalized interest increased \$5.8 million in 1998 as a result of higher 1998 progress payment balances. Interest income for 1998 decreased primarily due to lower invested cash balances. Nonoperating gains in 1998 primarily included contractual penalties due from Boeing as a result of aircraft delivery delays.

INCOME TAXES The provision for income taxes, as a percentage of income before taxes, was unchanged from 1997 to 1998.

1997 COMPARED WITH 1996 The Company's consolidated net income for 1997 was \$317.8 million (\$.93 per share, diluted), as compared to the corresponding 1996 amount of \$207.3 million (\$.61 per share, diluted), an increase of 53.3 percent.

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 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 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

15

activity in 1997. The 1997 ASM growth resulted from the addition of 18 aircraft during the year.

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 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.

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.

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.

16

Maintenance materials and repairs per ASM decreased 6.5 percent in 1997, compared to 1996, primarily as a result of lower engine 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 senior unsecured 7 3/8% Debentures due March 1, 2027. Capitalized interest decreased \$2.5 million in 1997 as a result

17

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.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided from operations was \$886.1 million in 1998, compared to \$610.6 million in 1997.

During 1998, capital expenditures of \$947.1 million primarily were for the purchase of 22 new 737-700 aircraft and four used 737-300 aircraft along with progress payments for future aircraft deliveries. In February 1998, the Company redeemed \$100 million of senior unsecured 9 1/4% Notes originally issued in February 1991. At December 31, 1998, capital commitments of the Company primarily consisted of scheduled aircraft acquisitions and related flight equipment.

As of July 22, 1998, the Board of Directors increased the Company's authorization to repurchase shares of its outstanding common stock to \$100 million. The Company completed this repurchase program during third quarter 1998, resulting in the repurchase of approximately 4.9 million post-split shares.

As of December 31, 1998, Southwest had 105 new 737-700s on firm order, including 32 to be delivered in 1999, with options to purchase another 62. Aggregate funding required for firm commitments approximated \$2,492.5 million through the year 2004, of which \$715.9 million related to 1999. See Note 2 to the Consolidated Financial Statements for further information.

The Company has various options available to meet its capital and operating commitments, including cash on hand at December 31, 1998, of \$378.5 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, 1998). 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 \$318.8 million of public debt securities, which it currently intends to utilize for aircraft financings in 1999 and 2000.

18

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 1998 and 1997 represented approximately 11.2 and 15.0 percent of Southwest's operating expenses, respectively. Southwest endeavors to acquire jet fuel at the lowest prevailing prices possible.

The Company has historically hedged its exposure to jet fuel price market risk only on a conservative, limited basis. In December 1998, in order to take advantage of historically low jet fuel prices, Southwest increased its fuel hedging activity by entering into fixed price swap agreements hedging approximately 77 percent and 56 percent of its jet fuel needs in first and

second quarter 1999, respectively. In January 1999, the Company increased its hedging position for second quarter 1999 to 74 percent. During 1999, the Company may continue its fuel hedging activities at these higher levels to take advantage of the historically low jet fuel prices.

The fair values of outstanding fixed price swap agreements and purchased crude oil call options related to the Company's jet fuel price market risk at December 31, 1998 and 1997, and during the years then ended, were not material. A hypothetical ten percent increase or decrease in the underlying fuel related commodity prices from the December 31, 1998, prices would correspondingly change the fair value of these derivative commodity instruments and their related cash flows by approximately \$10 million.

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 had outstanding unsecured debt of \$500 million and

19

\$600 million at December 31, 1998 and 1997, respectively, of which only \$500 million was long-term at December 31, 1997. This long-term debt represents only 12.1 percent and 14.5 percent of total noncurrent assets at December 31, 1998 and 1997, respectively. The Company currently has an average maturity of ten years for the long-term debt at fixed rates averaging 8.3 percent, which is comparable to average rates prevailing over the last ten years.

At December 31, 1998, the Company operated 112 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 \$379 million and \$623 million at December 31, 1998 and 1997, respectively. 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, the interest rate market risk implicit in these investments at December 31, 1998, 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.

A hypothetical 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.

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

IMPACT OF THE YEAR 2000

The Company is in the process of converting its computer systems to be Year 2000 ready. This project encompasses information technology systems as well as embedded technology assets. The

20

project also includes an assessment of material third-party relationships and associated risks. The project as it relates to internal systems and equipment consists of four phases: identification, assessment, remediation, and testing. This project is expected to be substantially completed by June 30, 1999.

FLIGHT SAFETY SYSTEMS The Company has completed all phases of its Year 2000 project as it relates to its aircraft fleet and onboard support systems. The Company has determined there are no safety issues with these systems.

The Company also utilizes ground computer systems and equipment essential for the maintenance of aircraft and the management of flight operations. The identification, assessment, and remediation phases of the project with respect to these systems and equipment are completed. The Company expects to complete testing by mid-1999.

INTERNAL SYSTEMS The Company's critical internal systems include computer hardware, software, and related equipment for customer reservations, ticketing, flight and crew scheduling, revenue management, accounting functions, and payroll, as well as airport activities including aircraft ground handling, bag handling, and security. The computing hardware and telecommunications equipment in the Company's central data center are essentially Year 2000 ready at this time. The majority of the Company's vital and critical software systems are either in testing or have already been made Year 2000 ready. While some systems are currently in the testing phase, with a small number in the remediation phase, the Company expects the majority of vital and critical systems to be Year 2000 ready by mid-1999.

THIRD PARTIES The Company has categorized its third party vendors with respect to their potential impact on Company operations in the event any such third party vendor has Year 2000 issues which are not dealt with on a timely basis. The Company is also identifying and assessing the impact of Year 2000 issues as they may affect the vendors' businesses (which, in turn, could affect the Company). The Company has made initial contacts with all of its material third party vendors and is in the process of evaluating their statements of Year 2000 compliance. In addition, the Company continues to work with other members of the Air Transport Association, the airline industry trade group, to share information and resources regarding vendors which are common to the entire industry.

In management's experience, it is not always possible to obtain written certification of Year 2000 compliance from third party

21

vendors. Accordingly, in such cases, the Company is basing its assessment on its own testing, other materials made available by such vendors, and other publicly available information. Upon the conclusion of such assessment, the Company will evaluate the need for contingency plans which may be needed in the event any such vendor cannot demonstrate to the Company, on a timely basis, its Year 2000 compliance.

The Company expects this evaluation and assessment will be an ongoing process through the balance of 1999.

YEAR 2000 COSTS The Company has expensed \$11.0 million (\$7.1 million in 1998) of costs incurred to date related to the Year 2000 issue. The total remaining cost of the Year 2000 project is presently estimated at approximately \$7 million, which will be expensed as incurred.

RISK OF YEAR 2000 ISSUES The Company believes its project to convert its computer systems to be Year 2000 ready will be completed in a timely manner and Year 2000 issues will not have a material adverse effect on operations. However, it is possible the Company's or third parties' systems and equipment could fail and result in the reduction or suspension of the Company's operations. The Company is currently in the process of developing contingency plans related to internal business critical systems and for those critical relationships with third parties. There can be no guarantee, however, that the Company's systems and equipment or third parties' systems and equipment on which Southwest relies will be Year 2000 ready in a timely manner or that contingency plans will mitigate the impact of any failure to complete plans in a timely manner.

The costs of the project, the dates on which the Company believes it will complete the Year 2000 modifications and assessments, and the Company's analysis of its risk in this area are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources. 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 code, as well as the cooperation needed from third party vendors and others upon whom the Company must rely.

22

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF ERNST & YOUNG LLP
INDEPENDENT AUDITORS
THE BOARD OF DIRECTORS AND SHAREHOLDERS
SOUTHWEST AIRLINES CO.

We have audited the accompanying consolidated balance sheets of Southwest Airlines Co. as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

/s/ ERNST & YOUNG LLP

Dallas, Texas
January 20, 1999

23

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

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997

<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 378,511	\$ 623,343
Accounts receivable	88,799	76,530
Inventories of parts and supplies,		
at cost	50,035	52,376
Deferred income taxes (Note 10)	20,734	18,843
Prepaid expenses and other current		
assets	36,076	35,324
	-----	-----
Total current assets	574,155	806,416
Property and equipment, at cost		
(Notes 2 and 5):		
Flight equipment	4,709,059	3,987,493
Ground property and equipment	720,604	601,957
Deposits on flight equipment		
purchase contracts	309,356	221,874
	-----	-----
	5,739,019	4,811,324
Less allowance for depreciation	1,601,409	1,375,631
	-----	-----
	4,137,610	3,435,693

Other assets	4,231	4,051
	-----	-----
	\$ 4,715,996	\$ 4,246,160
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 157,415	\$ 160,891
Accrued liabilities (Note 3)	477,448	426,950
Air traffic liability	200,078	153,341
Current maturities of long-term		
debt (Note 4)	11,996	121,324
Other current liabilities	3,716	6,007
	-----	-----
Total current liabilities	850,653	868,513
Long-term debt less current		
maturities (Note 4)	623,309	628,106
Deferred income taxes (Note 10)	549,207	438,981
Deferred gains from sale and		
leaseback of aircraft	238,412	256,255
Other deferred liabilities	56,497	45,287
Commitments and contingencies (Notes 2, 5, and 10)		
Stockholders' equity (Notes 7 and 8):		
Common stock, \$1.00 par value:		
850,000,000 shares authorized;		
335,904,306 and 221,207,083		
shares issued in 1998 and		
1997, respectively		
	335,904	221,207
Capital in excess of par value	89,820	155,696
Retained earnings	2,044,975	1,632,115
Treasury stock, at cost: 3,601,121		
shares in 1998	(72,781)	--
	-----	-----
Total stockholders' equity	2,397,918	2,009,018
	-----	-----
	\$ 4,715,996	\$ 4,246,160
	=====	=====

</TABLE>

SEE ACCOMPANYING NOTES.

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

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996

<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 433,431	\$ 317,772	\$ 207,337
Adjustments to reconcile net income			
to net cash provided by operating			
activities:			
Depreciation	225,212	195,568	183,470
Deferred income taxes	108,335	81,711	67,253
Amortization of deferred gains			
on sale and leaseback of			
aircraft	(15,251)	(15,414)	(18,263)
Amortization of scheduled			
airframe overhauls	22,763	20,540	20,539
Changes in certain assets and			
liabilities:			
Accounts receivable	(12,269)	(3,090)	6,341
Other current assets	1,589	6,243	(19,534)
Accounts payable and			
accrued liabilities	53,194	8,751	132,096
Air traffic liability	46,737	(4,757)	26,942
Other current liabilities	19,293	(4,204)	5,334
Other	3,101	7,468	3,713
	-----	-----	-----
Net cash provided by			

operating activities	886,135	610,588	615,228
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(947,096)	(688,927)	(677,431)
Net cash used in investing activities	(947,096)	(688,927)	(677,431)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt	--	98,764	--
Proceeds from aircraft sale and leaseback transactions	--	--	330,000
Payment of long-term debt and capital lease obligations	(118,859)	(12,665)	(12,695)
Payment of cash dividends	(9,284)	(6,593)	(6,216)
Proceeds from Employee stock plans	44,272	40,335	15,592
Repurchase of common stock	(100,000)	--	--
Net cash provided by (used in) financing activities	(183,871)	119,841	326,681
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(244,832)	41,502	264,478
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	623,343	581,841	317,363
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 378,511	\$ 623,343	\$ 581,841
CASH PAYMENTS FOR:			
Interest, net of amount capitalized	\$ 33,384	\$ 42,372	\$ 36,640
Income taxes	147,447	107,066	66,447

</TABLE>

SEE ACCOMPANYING NOTES.

25

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

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996				
	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TREASURY STOCK	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
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 8)	1,079	14,513	--	--	
15,592					
Tax benefit of options exercised	--	4,433	--	--	
4,433					
Cash dividends, \$.0195 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 7) ..	73,578	(73,578)	--	--	--
Issuance of common stock upon exercise of executive stock options and pursuant to Employee stock option and purchase plans (Note 8)	2,517	37,818	--	--	
40,335					
Tax benefit of options exercised	--	9,806	--	--	
9,806					
Cash dividends, \$.0221 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					
Three-for-two stock split (Note 7) ..	111,894	(111,894)	--	--	--
Purchase of shares of treasury stock (Note 7)	--	--	--	(100,000)	
(100,000)					
Issuance of common and treasury stock upon exercise of executive stock options and pursuant to Employee stock option and purchase plans (Note 8)	2,803	24,434	(10,184)	27,219	
44,272					
Tax benefit of options exercised	--	21,584	--	--	
21,584					
Cash dividends, \$.0283 per share	--	--	(10,387)	--	
(10,387)					
Net income - 1998	--	--	433,431	--	
433,431					
	-----	-----	-----	-----	-----
--					
Balance at December 31, 1998	\$ 335,904	\$ 89,820	\$ 2,044,975	\$ (72,781)	\$
2,397,918					
	=====	=====	=====	=====	
=====					

</TABLE>

SEE ACCOMPANYING NOTES.

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

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996

<S>	<C>	<C>	<C>
OPERATING REVENUES:			
Passenger	\$ 3,963,781	\$ 3,639,193	\$ 3,269,238
Freight	98,500	94,758	80,005
Other	101,699	82,870	56,927
	-----	-----	-----
Total operating revenues	4,163,980	3,816,821	3,406,170
OPERATING EXPENSES:			
Salaries, wages, and benefits (Note 9)	1,285,942	1,136,542	999,719
Fuel and oil	388,348	494,952	484,673
Maintenance materials and repairs	302,431	256,501	253,521
Agency commissions	157,766	157,211	140,940
Aircraft rentals	202,160	201,954	190,663
Landing fees and other rentals	214,907	203,845	187,600
Depreciation	225,212	195,568	183,470
Other operating expenses	703,603	646,012	614,749

Total operating expenses	3,480,369	3,292,585	3,055,335
OPERATING INCOME	683,611	524,236	350,835
OTHER EXPENSES (INCOME):			
Interest expense	56,276	63,454	59,269
Capitalized interest	(25,588)	(19,779)	(22,267)
Interest income	(31,083)	(36,616)	(25,797)
Nonoperating (gains) losses, net	(21,106)	221	(1,732)
Total other expenses (income)	(21,501)	7,280	9,473
INCOME BEFORE INCOME TAXES	705,112	516,956	341,362
PROVISION FOR INCOME TAXES (NOTE 10)	271,681	199,184	134,025
NET INCOME	\$ 433,431	\$ 317,772	\$ 207,337
NET INCOME PER SHARE, BASIC (NOTES 7, 8, AND 11)	\$ 1.30	\$.97	\$.64
NET INCOME PER SHARE, DILUTED (NOTES 7, 8, AND 11)	\$ 1.23	\$.93	\$.61

</TABLE>

SEE ACCOMPANYING NOTES.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1998

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 estimated residual values over periods ranging from 20 to 25 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.

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

REVENUE RECOGNITION 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, 1998, 1997, and 1996 was \$119,739,000, \$112,961,000, and \$109,136,000, 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.

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. The cost of purchased crude oil call options and gains and losses on fixed price swap agreements are deferred and charged or credited 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.

In 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in years beginning after June 15, 1999. SFAS 133 permits early adoption as of the beginning of any fiscal quarter after its issuance. The Company expects to adopt the new

Statement effective January 1, 2000. SFAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what the effect of SFAS 133 will be on the earnings and financial position of the Company.

2. COMMITMENTS

The Company's contractual purchase commitments consist primarily of scheduled aircraft acquisitions. Thirty-two 737-700 aircraft are scheduled for delivery in 1999, 21 in 2000, 21 in 2001, 21 in 2002, five in 2003, and five 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 2000. Aggregate funding needed for firm commitments is approximately \$2,492.5 million, subject to adjustments for inflation, due as follows: \$715.9 million in 1999, \$520.2 million in 2000, \$498.7 million in 2001, \$515.8 million in 2002, \$152.8 million in 2003, and \$89.1 million in 2004.

3. ACCRUED LIABILITIES

<TABLE>

<CAPTION>

(In thousands)	1998	1997
<S>	<C>	<C>
Employee profitsharing and savings plans (Note 9)	\$ 123,195	\$ 92,857
Aircraft rentals	121,868	123,669

Vacation pay	54,781	50,812
Other	177,604	159,612

\$ 477,448	\$ 426,950
------------	------------

</TABLE>

30

4. LONG-TERM DEBT

<TABLE>
<CAPTION>

(In thousands)	1998	1997
<S>	<C>	<C>
9 1/4% Notes due 1998	\$ --	\$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	100,000
Capital leases (Note 5) ..	133,190	152,324
Other	4,481	--
	637,671	752,324
Less current maturities ..	11,996	121,324
Less debt discount	2,366	2,894
	\$623,309	\$628,106

</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 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

31

\$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 9 1/4% Notes due February 15, 1998, were paid in full upon maturity. The remaining Notes are not redeemable prior to maturity.

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 agreement, or prior similar agreements, at December 31, 1998 or 1997.

5. LEASES

Total rental expense for operating leases charged to operations in 1998, 1997, and 1996 was \$306,629,000, \$297,158,000, and \$280,389,000, respectively. The majority of the Company's terminal operations space, as well as 99 aircraft, were under operating leases at December 31, 1998. The amounts applicable to capital leases included in property and equipment were:

<TABLE>
<CAPTION>

(In thousands)	1998	1997
<S>	<C>	<C>
Flight equipment.....	\$230,486	\$227,803
Less accumulated amortization.....	133,073	122,346
	\$ 97,413	\$105,457
	=====	

</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, 1998, were:

32

<TABLE>
<CAPTION>

(In thousands)	CAPITAL LEASES	OPERATING LEASES
<S>	<C>	<C>
1999	\$ 20,245	\$ 247,208
2000	16,871	235,955
2001	17,391	222,688
2002	17,561	208,311
2003	17,750	190,925
After 2003	120,049	1,901,005
Total minimum lease payments	209,867	\$3,006,092
		=====
Less amount representing interest	76,677	

Present value of minimum lease payments	133,190	
Less current portion	9,400	

Long-term portion	\$ 123,790	
	=====	

</TABLE>

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

6. 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. Prior to December 1998, outstanding call options and swap agreements were not material. At December 31, 1998, the Company had hedged its exposure to fuel price fluctuations on approximately 77 percent of its first quarter 1999 and 56 percent of its second quarter 1999 anticipated fuel requirements, or 290 million gallons of fuel products. The fair value of these agreements at December 31, 1998, representing the amount the Company would receive if the agreements were settled early, was not material.

33

Any outstanding call options or fixed swap agreements expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements, but the Company does not expect any of the counterparties to fail to meet its obligations. The credit exposure related to these financial instruments is represented by the fair value of contracts with a positive fair value at the reporting date. To manage credit risks, the Company selects counterparties based on credit ratings, limits its exposure to a single counterparty, and monitors the market position of the program and its relative market position with each counterparty. At December 31, 1998, the Company had no collateral or other security interests supporting these agreements but was in the process of negotiating such agreements with a majority of the counterparties.

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

The fair values of the Company's long-term debt were based on quoted market prices. The carrying amounts and estimated fair values of the Company's long-term debt at December 31, 1998, were as follows:

<TABLE>
<CAPTION>

(In thousands)	CARRYING VALUE	FAIR VALUE

<S>	<C>	<C>
9.4% Notes due 2001	\$100,000	\$108,929
8 3/4% Notes due 2003	100,000	112,702
8% Notes due 2005	100,000	109,648
7 7/8% Notes due 2007	100,000	111,390
7 3/8% Debentures due 2027.....	100,000	106,657
</TABLE>		

The carrying values of all other financial instruments approximate their fair value.

7. 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, 1998, the Company had common stock reserved for issuance pursuant to Employee stock benefit plans (69,453,206 shares) and upon exercise of rights (405,357,512 shares) pursuant to the Common Stock Rights Agreement, as amended (Agreement).

34

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 \$7.41 and is exercisable only in the event of a proposed takeover, as defined by the Agreement. The Company may redeem the Rights at \$.0049 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 \$7.41 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. On July 22, 1998, the Company's Board of Directors declared a three-for-two stock split, distributing 111,894,315 shares on August 20, 1998. 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 splits.

As of July 22, 1998, the Company's Board of Directors increased the Company's authorization to repurchase shares of its outstanding common stock to \$100 million. The Company completed this repurchase program during third quarter 1998, resulting in the repurchase of 4,885,763 shares at an average cost of \$20.47 per share. All of the acquired shares are held as common stock in treasury, less shares reissued under the Employee stock option and purchase plans. When treasury shares are reissued, the Company uses a first-in, first-out method and the excess of repurchase cost over reissuance price, if any, is treated as a reduction of retained earnings.

8. STOCK PLANS

At December 31, 1998, the Company had seven 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.

35

The Company has six fixed option plans. Under the 1991 Incentive Stock Option Plan, the Company may grant options to key Employees for up to 20,250,000 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 1,687,500 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 the 1995 Southwest Airlines Pilots' Association Non-Qualified Stock Option Plan (SWAPA Plan), the Company may grant options to Pilots for up to 40,500,000 shares of common stock. An initial grant of approximately 32,788,000 shares was made on January 12, 1995, at an option price of \$8.89 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, 1998, 1997, and 1996, vest in six annual increments of 16.7 percent, 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.

Under the 1996 Incentive Stock Option Plan, the Company may grant options to key Employees for up to 13,500,000 shares of common stock. Under the 1996 Non-Qualified Stock Option Plan, the Company may grant options to key Employees and non-employee directors for up to 1,293,750 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 1998 Southwest Airlines Employee Association Non-Qualified Stock Option Plan (SAEA Plan), the Company may grant options to Dispatchers for up to 1,050,000 shares of common stock. An initial grant of 738,000 shares was made on September 10, 1998, at an option price of \$19.62 per share, which exceeded the market price of the Company's stock on that date. Options granted under the initial grant vest in annual increments of varying percentages, depending on seniority level, through 2006. On December 1 of each year of the agreement beginning in 1998 and through December 1, 2008, additional options will be granted to Dispatchers that become eligible during that year. No options were granted on December 1, 1998. Options under all grants must

36

be exercised prior to June 30, 2012, or within a specified time upon retirement or termination.

Under all fixed option plans, except the SWAPA and SAEA Plans, the exercise price of each option equals the market price of the Company's stock on the date of grant. Under the SWAPA and SAEA Plans, for additional options granted each September 1 and December 1, respectively, 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 six fixed stock option plans, as adjusted for stock splits, is summarized below:

<TABLE>
<CAPTION>

	INCENTIVE PLANS		NON-QUALIFIED PLANS	
	OPTIONS	AVERAGE EXERCISE PRICE	OPTIONS	AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>
Outstanding December 31, 1995	11,726,729	\$ 5.99	33,421,656	\$ 8.83
Granted - Incentive Plans	3,758,274	11.19	--	--
Granted - SWAPA Plan	--	--	1,048,950	10.59
Granted - Other Non-Qualified Plans .	--	--	155,525	11.19
Exercised	(890,658)	4.57	(653,367)	7.95
Surrendered	(563,504)	8.96	(213,716)	8.89
Outstanding December 31, 1996	14,030,841	7.35	33,759,048	8.91
Granted - Incentive Plans	3,682,737	9.67	--	--
Granted - SWAPA Plan	--	--	1,323,000	13.19
Granted - Other Non-Qualified Plans	--	--	218,109	9.67
Exercised	(1,727,889)	6.03	(2,657,746)	8.85
Surrendered	(1,005,019)	9.72	(148,818)	9.06
Outstanding December 31, 1997	14,980,670	7.91	32,493,593	9.09
Granted - Incentive Plans	2,738,597	17.72	--	--
Granted - SWAPA Plan	--	--	902,475	19.36
Granted - SAEA Plan	--	--	738,013	19.62
Granted - Other Non-Qualified Plans	--	--	256,191	17.69
Exercised	(2,360,733)	6.27	(2,521,455)	9.07
Surrendered	(834,289)	10.52	(247,252)	9.95
Outstanding December 31, 1998	14,524,245	\$ 9.89	31,621,565	\$ 9.69
Exercisable December 31, 1998	3,132,557		12,271,309	
Available for granting in future periods	11,995,971		6,768,712	

</TABLE>

37

The following table summarizes information about stock options outstanding under the six fixed option plans at December 31, 1998:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
	NUMBER OUTSTANDING AT 12/31/98	WEIGHTED- AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED -AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/98	WEIGHTED -AVERAGE EXERCISE PRICE	
<S>	<C>	<C>	<C>	<C>	<C>	
\$2.68 to \$3.47	3,307,850	2.03 yrs.	\$ 2.74	1,195,748	\$ 2.86	
\$5.04 to \$7.50	485,476	3.07	5.35	141,557	5.36	
\$8.36 to \$10.83	32,844,404	7.85	8.97	12,009,216	8.94	
\$11.19 to \$16.64	5,061,066	6.85	12.23	1,472,115	12.99	
\$17.71 to \$19.62	4,447,014	9.59	18.37	585,230	18.57	

\$2.68 to \$19.62	----- 46,145,810 =====	7.44 yrs.	\$ 9.75	----- 15,403,866 =====	\$ 9.19
-------------------	------------------------------	-----------	---------	------------------------------	---------

</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 1998 or 1997. In 1996, the Company granted 325,000 options with an exercise price of \$1.00 per share and 1,125,000 options with an exercise price of \$10.44 per share related to the 1996 employment agreement. At December 31, 1998, 1997, and 1996, total options of 3,688,000, 3,916,000, and 4,270,000 were outstanding, respectively. At December 31, 1998, total options of 3,108,000 were exercisable at exercise prices ranging from \$1.00 to \$10.44 per share. Options for 228,000, 354,000, and 379,500 shares were exercised in 1998, 1997, and 1996, respectively.

Under the 1991 Employee Stock Purchase Plan (ESPP), at December 31, 1998, the Company is authorized to issue up to a balance of 855,000 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 451,000 shares in 1998, 660,000 shares in 1997, and 696,000 shares in 1996 at average prices of \$17.45, \$10.67, and \$10.25, 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

38

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 1998, 1997, and 1996, respectively: dividend yield of .16 percent, .22 percent, and .16 percent; expected volatility of 38.20 percent, 38.23 percent, and 35.37 percent; risk-free interest rate of 4.66 percent, 5.80 percent, and 5.89 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 fixed option plans, except the SAEA Plan, during 1998, 1997, and 1996 was \$7.17, \$4.08, and \$4.52, respectively, for the incentive plans; \$7.14, \$5.11, and \$4.11, respectively, for the SWAPA Plan; and \$7.15, \$4.08, and \$4.52, respectively, for other non-qualified plans. The weighted-average fair value of options granted in 1998 under the SAEA Plan was \$7.25. 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 \$6.21. No such options were granted in 1998 or 1997. The weighted-average fair value of each purchase right under the ESPP granted in 1998, 1997, and 1996, which is equal to the ten percent discount from the market value of the common stock at the end of each purchase period, was \$1.94, \$1.19, and \$1.14, 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 to expense primarily over the vesting period. The Company's pro forma net income and net income per share is as follows:

39

<TABLE>
<CAPTION>

(In thousands except per share amounts)

1998

1997

1996

<S>	<C>	<C>	<C>
NET INCOME:			
As reported	\$433,431	\$317,772	\$207,337
Pro forma	\$421,097	\$306,553	\$196,478
NET INCOME PER SHARE, BASIC:			
As reported	\$ 1.30	\$.97	\$.64
Pro forma	\$ 1.26	\$.93	\$.60
NET INCOME PER SHARE, DILUTED:			
As reported	\$ 1.23	\$.93	\$.61
Pro forma	\$ 1.20	\$.90	\$.60

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.

9. 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 1998, 1997, and 1996 was \$120,697,000, \$91,256,000, and \$59,927,000, 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 1998, 1997, and 1996 were \$46,415,000, \$39,744,000, and \$35,125,000, respectively.

10. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred tax assets and liabilities at December 31, 1998 and 1997 are as follows:

40

<TABLE>
<CAPTION>

(In thousands)	1998	1997
<S>	<C>	<C>
DEFERRED TAX LIABILITIES:		
Accelerated depreciation	\$641,673	\$543,547
Scheduled airframe maintenance ..	40,073	33,202
Other	95,485	83,607
Total deferred tax liabilities	777,231	660,356
DEFERRED TAX ASSETS:		
Deferred gains from sale and leaseback of aircraft	107,157	112,659
Capital and operating leases	61,275	61,747
Other	80,326	65,812
Total deferred tax assets	248,758	240,218
Net deferred tax liability ...	\$528,473	\$420,138

</TABLE>

The provision for income taxes is composed of the following:

<TABLE>
<CAPTION>

(In thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
CURRENT:			
Federal	\$143,989	\$102,938	\$ 59,101
State	19,357	14,535	7,671

Total current	163,346	117,473	66,772
DEFERRED:			
Federal	96,237	75,990	60,967
State	12,098	5,721	6,286
Total deferred	108,335	81,711	67,253
	\$271,681	\$199,184	\$134,025
	=====	=====	=====

</TABLE>

The Company received a statutory notice of deficiency from the Internal Revenue Service (IRS) in July 1995 in which the IRS proposed to disallow deductions claimed by the Company on its federal income tax returns for the taxable years 1989 through 1991 for the costs of certain aircraft inspection and maintenance procedures. 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

41

several years. Management believes the final resolution of this controversy will not have a material adverse effect upon the results of operations of the Company.

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

<TABLE>

<CAPTION>

(In thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Tax at statutory U.S. tax rates	\$ 246,789	\$ 180,935	\$ 119,477
Nondeductible items	5,099	5,893	5,168
State income taxes, net of federal benefit	20,445	13,166	9,072
Other, net	(652)	(810)	308
Total income tax provision	\$ 271,681	\$ 199,184	\$ 134,025
	=====	=====	=====

</TABLE>

11. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

<TABLE>

<CAPTION>

(In thousands except per share amounts)	1998	1997	1996
<S>	<C>	<C>	<C>
NUMERATOR:			
Net income, available to common stockholders-numerator for basic and diluted earnings per share	\$433,431	\$317,772	\$207,337
DENOMINATOR:			
Weighted-average shares outstanding, basic	333,342	328,631	325,676
Dilutive effect of Employee stock options	19,824	12,557	11,810
Adjusted weighted-average shares	-----	-----	-----

outstanding, diluted	353,166	341,188	337,486
	=====	=====	=====
NET INCOME PER SHARE:			
Basic	\$ 1.30	\$.97	\$.64
Diluted	\$ 1.23	\$.93	\$.61
	=====	=====	=====

</TABLE>

42
QUARTERLY FINANCIAL DATA (UNAUDITED)
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED			

1998	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
- - - - -	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Operating revenues	\$942,653	\$1,078,841	\$1,094,830	\$1,047,656
Operating income	111,693	208,548	203,919	159,451
Income before income taxes	114,057	216,547	211,055	163,453
Net income	70,008	133,393	129,645	100,385
Net income per share, basic	.21	.40	.39	.30
Net income per share, diluted	.20	.38	.37	.29

</TABLE>

<TABLE>
<CAPTION>

	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	.16	.29	.28	.24
Net income per share, diluted	.15	.28	.27	.23

</TABLE>

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

See "Election of Directors" incorporated herein by reference, from pages 1-4 of the definitive Proxy Statement for Southwest's Annual Meeting of Shareholders to be held May 20, 1999. 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 20, 1999.

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 20, 1999.

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 20, 1999.

PART IV

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

(a) 1. Financial Statements:

The financial statements included in Item 8 above are filed as part of this annual report.

2. Financial Statement Schedules:

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

3. Exhibits:

- 3.1 Restated Articles of Incorporation of Southwest (incorporated by reference to Exhibit 4.1 to Southwest's Registration Statement on Form S-3 (File No. 33-52155)); Amendment to Restated Articles of Incorporation of Southwest (incorporated by reference to Exhibit 4.1 to Southwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 (File No. 1-7259)); Amendment to Restated Articles of Incorporation of Southwest (incorporated by reference to Exhibit 4.1 to Southwest's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File No. 1-7259)).
- 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.

44

(incorporated by reference to Exhibit 4.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 1-7259)); First Amendment to Competitive Advance and Revolving Credit Facility Agreement dated August 7, 1998; Second Amendment to Competitive Advance and Revolving Credit Facility Agreement dated January 20, 1999.

- 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 Purchase Agreement No. 1810, dated January 19, 1994 between The Boeing Company and Southwest (incorporated by reference to Exhibit 10.4 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)); Supplemental Agreement No. 1. (incorporated by reference to Exhibit 10.3 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-7259)).; Supplemental Agreements No. 2, 3 and 4 (incorporated by reference to Exhibit 10.2 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 1-7259)); Supplemental Agreements Nos. 5, 6, and 7.

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.

45

- 10.2 Form of Executive Employment Agreement between Southwest and certain key employees pursuant to Executive Service Recognition Plan (incorporated by reference to Exhibit 28 to Southwest Quarterly Report on Form 10-Q for the quarter ended June 30, 1987 (File No. 1-7259)).
- 10.3 1992 stock option agreements between Southwest and Herbert D. Kelleher (incorporated by reference to Exhibit 10.8 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).
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- 10.5 1991 Incentive Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 33-40652)).
- 10.6 1991 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8 (File No. 33-40652)).
- 10.7 1991 Employee Stock Purchase Plan as amended May 20, 1992 (incorporated by reference to Exhibit 10.13 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-7259)).
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- 10.9 Southwest Airlines Co. 401(k) Plan (incorporated by reference to Exhibit 10.14 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-7259)).
- 10.10 Southwest Airlines Co. 1995 SWAPA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.14 to Southwest's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 1-7259)).
- 10.11 1996 Incentive Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-20275)).
- 10.12 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 (incorporated by reference to Exhibit 22 to Southwest's Annual Report on form 10-K for the year ended December 31, 1997 (File No. 1-7259)).
- 23 Consent of Ernst & Young LLP, Independent Auditors.
- 27.1 Financial Data Schedule.
- 27.2 Restated 1998 Financial Data Schedule
- 27.3 Restated 1997 Financial Data Schedule
- 27.4 Restated 1996 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 1998.

46

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 18, 1999

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 18, 1999 on behalf of the registrant and in the capacities indicated.

<TABLE>

<CAPTION>

Signature -----	Capacity -----
<S>	<C>
/s/ HERBERT D. KELLEHER ----- Herbert D. Kelleher	Chairman of the Board of Directors, President and Chief Executive Officer
/s/ GARY C. KELLY ----- Gary C. Kelly	Vice President-Finance (Chief Financial and Accounting Officer)
/s/ SAMUEL E. BARSHOP ----- Samuel E. Barshop	Director
/s/ GENE H. BISHOP ----- Gene H. Bishop	Director
/s/ C. WEBB CROCKETT ----- C. Webb Crockett	Director
/s/ WILLIAM P. HOBBY, JR. ----- William P. Hobby, Jr.	Director
/s/ TRAVIS C. JOHNSON ----- Travis C. Johnson	Director
/s/ R.W. KING ----- R. W. King	Director

/s/ WALTER M. MISCHER, SR.

Director

Walter M. Mischer, Sr.

/s/ JUNE M. MORRIS

Director

June M. Morris
</TABLE>

INDEX TO EXHIBITS

<TABLE>
<CAPTION>

EXHIBIT NO. -----	DESCRIPTION -----
-------------------------	----------------------

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</TABLE>

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<S>		<C>
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10.2		Form of Executive Employment Agreement between Southwest and certain key employees pursuant to Executive Service Recognition Plan (incorporated by reference to Exhibit 28 to Southwest Quarterly Report on Form 10-Q for the quarter ended June 30, 1987 (File No. 1- 7259)).
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10.11		1996 Incentive Stock Option Plan (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-20275)).

</TABLE>

<TABLE>

<S>	<C>
10.12	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 (incorporated by reference to Exhibit 22 to Southwest's Annual Report on form 10-K for the year ended December 31, 1997 (File No. 1-7259)).
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27.1	Financial Data Schedule.
27.2	Restated 1998 Financial Data Schedule
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27.4	Restated 1996 Financial Data Schedule

</TABLE>

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 1998.

FIRST AMENDMENT TO COMPETITIVE ADVANCE AND
REVOLVING CREDIT FACILITY AGREEMENT

THIS FIRST AMENDMENT TO COMPETITIVE ADVANCE AND REVOLVING CREDIT FACILITY AGREEMENT (this "Amendment") is entered into as of August 7, 1998, among SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), the banks listed on the signature pages hereof (collectively, the "Banks"), CHASE BANK OF TEXAS, NATIONAL ASSOCIATION (formerly known as 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, N.A. (successor in interest by merger to NationsBank of Texas, N.A.), a national banking association, as syndication agent for the Banks (in such capacity, the "Syndication Agent").

The Administrative Agent, the Auction Administration Agent, the Documentation Agent, the Syndication Agent (collectively, the "Agents"), the Company, and the Banks have entered into that certain Competitive Advance and Revolving Credit Facility Agreement dated as of May 6, 1997 (the "Credit Agreement").

The Company, the Agents and the Banks desire to amend the Credit Agreement to reduce the Total Commitment and to remove ABN AMRO Bank N.V. as a Bank.

NOW, THEREFORE, in consideration of the premises and other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company, the Banks, and the Agents agree as follows:

1. Definitions. Unless otherwise specified herein, terms defined in the Credit Agreement have the same meaning when used herein.

2. Reduction of Total Commitment. Effective as of the date hereof, the Total Commitment is hereby reduced from \$475,000,000 to \$425,000,000. Accordingly, wherever in the Credit Agreement and Exhibits thereto the amount "\$475,000,000" appears, such amount is hereby amended to be "\$425,000,000."

3. Removal of ABN AMRO. Effective as of the date hereof, (a) ABN AMRO Bank N.V. is hereby removed as a Bank and shall no longer be a party to the Credit Agreement; (b) the Commitment of ABN AMRO Bank N.V. is hereby terminated; and (c) Schedule I to the Credit Agreement is amended to delete ABN AMRO Bank N.V. as a Bank.

4. Remaining Banks. The Commitments of the Banks other than ABN AMRO Bank N.V. shall remain unchanged, and the respective pro rata shares of such Banks shall be adjusted accordingly effective as of the date hereof.

5. Waiver of Notice. The Agents and the Banks hereby waive any notice required for a reduction of the Total Commitment under Section 2.6(a) of the Credit Agreement.

6. Conditions Precedent. The effectiveness of this Amendment is subject to the satisfaction of each of the following conditions precedent:

(a) ABN AMRO Bank N.V. shall return to the Administrative Agent, for delivery to the Company, the original Committed Note and Competitive Note, if any, payable to ABN AMRO Bank N.V., which Committed Note and Competitive Note shall be marked "cancelled," or shall confirm to the Administrative Agent in writing that ABN AMRO Bank N.V. does not hold a Committed Note or a Competitive Note.

(b) The Administrative Agent shall have received, in sufficient copies for each Bank, a copy of this Amendment executed by (i) the Banks and (ii) the Company, together with an Officer's Certificate from the Company dated the date hereof certifying true and correct copies of resolutions adopted by the Board of Directors or Executive Committee, as appropriate, of the Company authorizing the Company to effect the transactions contemplated by this Amendment.

(c) The Company shall have paid to the Administrative Agent for the account of ABN AMRO Bank the accrued Facility Fees on the amount of the ABN AMRO Bank's Commitment which is terminated by this Amendment.

7. Ratifications. Except as herein specifically amended and modified,

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

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

9. References. All references in the Loan Papers to the Credit Agreement shall refer to the Credit Agreement as amended by this Amendment, and, because this amendment is a "Loan

2

Paper" referred to in the Credit Agreement, then the provisions relating to Loan Papers set forth in the Credit Agreement are incorporated herein by reference, the same as if set forth herein verbatim.

10. Expenses of the Agents. As provided in the Agreement, Borrower agrees to pay (i) all reasonable costs and expenses of the Agents in connection with (A) the preparation, execution, delivery, and administration of this Amendment, 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 Amendment and the other Loan Papers, and (B) any amendment, modification, supplement, or waiver of any of the terms of this Amendment or the other Loan Papers, 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 Amendment 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 Amendment 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 execution and delivery of this Amendment.

11. Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

12. APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN PAPERS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN DALLAS, DALLAS COUNTY, TEXAS AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

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

14. Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

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

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

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.

SOUTHWEST AIRLINES CO.

By: /s/ GARY C. KELLY

Name: Gary C. Kelly

Title: Vice President & CFO

CHASE BANK OF TEXAS, N.A. (formerly known
as Texas Commerce Bank National
Association), as a Bank and as
Administrative Agent

By: /s/ ALLEN K. KING

Name: Allen K. King

Title: Vice President

THE CHASE MANHATTAN BANK,
as Auction Administration Agent

By: /s/ CHRISTOPHER CONSOMER

Name: Christopher Consomer

Title: Assistant Vice President

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

By: /s/ Craig S. Munro

Name: Craig S. Munro

Title: Managing Director

NATIONSBANK, N.A. (successor in interest
by merger to NationsBank of Texas, N.A.),
as a Bank and as Syndication Agent

By: /s/ S.A.B.

Name: _____

Title: Vice President

BANK OF TOKYO-MITSUBISHI

By: /s/ JOHN W. MCGHEE

Name: John W. McGhee

Title: Vice President & Manager

LANDESBANK SCHESWIG-HOLSTEIN

By: /s/ RICHARD NIX B. CLAUSSEU

Name: Richard Nix B. Clausseu

Title: Vice President Assistant VP

THE MITSUBISHI TRUST AND BANKING
CORPORATION, NEW YORK BRANCH

By: /s/ SCOTT J. PAIGE

Name: Scott J. Paige

Title: Senior Vice President

BANK ONE, TEXAS, N.A.

By: /s/ GINA A. NORRIS

Name: Gina A. Norris

Title: Vice President

FIRST SECURITY BANK, N.A.

By: /s/ STEVEN M. KOHLER

Name: Steven M. Kohler

Title: Vice President

WACHOVIA BANK OF GEORGIA, N.A.

By: /s/ PAIGE D. MESAROS

Name: Paige D. Mesaros

Title: Vice President

ABN AMRO BANK N.V.

By: /s/ W. VAN DER HOEF

Name: W. van der Hoef

Title: Vice President

By: /s/ CLAUDIA C. HELDRING

Name: Claudia C. Heldring

Title: Vice President

SECOND AMENDMENT TO COMPETITIVE ADVANCE AND
REVOLVING CREDIT FACILITY AGREEMENT

THIS SECOND AMENDMENT TO COMPETITIVE ADVANCE AND REVOLVING CREDIT FACILITY AGREEMENT (this "Amendment") is entered into as of January 20, 1999, among SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), the banks listed on the signature pages hereof (collectively, the "Banks"), CHASE BANK OF TEXAS, NATIONAL ASSOCIATION (formerly known as 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, N.A. (successor in interest by merger to NationsBank of Texas, N.A.), a national banking association, as syndication agent for the Banks (in such capacity, the "Syndication Agent").

The Administrative Agent, the Auction Administration Agent, the Documentation Agent, the Syndication Agent (collectively, the "Agents"), the Company, and the Banks have entered into that certain Competitive Advance and Revolving Credit Facility Agreement dated as of May 6, 1997, as amended by that certain First Amendment to Competitive Advance and Revolving Credit Facility Agreement dated as of August 7, 1998 (as amended, the "Credit Agreement").

The Company, the Agents and the Banks desire to amend the Credit Agreement to increase the Total Commitment and to add Citibank, N.A. as a Bank.

NOW, THEREFORE, in consideration of the premises and other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company, the Banks, and the Agents agree as follows:

1. Definitions. Unless otherwise specified herein, terms defined in the Credit Agreement have the same meaning when used herein.

2. Increase of Total Commitment. Effective as of the date hereof, the Total Commitment is hereby increased from \$425,000,000 to \$475,000,000. Accordingly, wherever in the Credit Agreement and Exhibits thereto the amount "\$425,000,000" appears, such amount is hereby amended to be "\$475,000,000."

3. Addition of Citibank, N.A.. Effective as of the date hereof, (a) Citibank, N.A. is hereby added as a Bank and shall be a party to the Credit Agreement in its capacity as a Bank and shall have all of the rights and obligations of a Bank thereunder and under the other Loan Papers; (b) the Commitment of Citibank, N.A. shall be \$50,000,000; and (c) Schedule I to the Credit Agreement is amended to add Citibank, N.A. as a Bank as follows:

<TABLE>
<CAPTION>

Name - ----	Lending Office *** -----	Notice Information -----
<S>	<C>	<C>
Citibank, N.A.	Citibank, N.A. 399 Park Avenue 12th Floor, Zone 2 New York, New York 10043 Telecopy: (212) 793-3734 Attn: Thomas Boyle Managing Director of Global Aviation	Citibank, N.A. 399 Park Avenue 12th Floor, Zone 2 New York, New York 10043 Telecopy: (212) 793-3734 Telephone: (212) 559-6149 Attn: Thomas Boyle Managing Director of Global Aviation

</TABLE>

4. Remaining Banks. The Commitments of the Banks which are currently parties to the Credit Agreement shall remain unchanged, and the respective pro rata shares of such Banks shall be adjusted accordingly effective as of the date hereof.

5. Conditions Precedent. The effectiveness of this Amendment is subject to the satisfaction of each of the following conditions precedent:

(a) The Company shall deliver to the Administrative Agent, if requested by Citibank, N.A., an original Committed Note and Competitive Note payable to Citibank, N.A., which Committed Note and Competitive Note shall be in substantially the forms of Exhibits D-1 and D-2 to the Credit Agreement, respectively.

(b) The Administrative Agent shall have received, in sufficient copies for each Bank, a copy of this Amendment executed by (i) the Banks and (ii) the Company, together with an Officer's Certificate from the Company dated the date hereof certifying true and correct copies of resolutions adopted by the Board of Directors or Executive Committee, as appropriate, of the Company authorizing the Company to effect the transactions contemplated by this Amendment and to execute and deliver this Amendment and the Committed Note and Competitive Note in accordance with subsection (a) above.

6. Ratifications. Except as herein specifically amended and modified, (a) the Credit Agreement is unchanged and continues in full force and effect, and (b) the Company hereby confirms and ratifies the Credit Agreement's

existence and each and every term, condition, and covenant therein contained, to the same extent and as though the same were set out herein in full.

7. Representations and Warranties. The Company hereby represents and warrants to the Banks and the Agents that (a) this Amendment and the Committed Note and Competitive Note (if applicable) have been duly executed and delivered by the Company, (b) no action of, or filing with, any Tribunal is required to authorize, or is otherwise required in connection with, the execution, delivery, and performance by the Company of this Amendment and the Committed Note and Competitive Note (if applicable) except for the routine filing of copies of this Amendment and certain other Loan Papers with the Securities and Exchange Commission, (c) this Amendment and the

2

Committed Note and Competitive Note (if applicable) are valid and binding upon the Company and are enforceable against the Company in accordance with their terms, except as limited by the Bankruptcy Code of the United States of America and all other similar Laws affecting the rights of creditors generally, (d) the execution, delivery and performance by the Company of this Amendment and the Committed Note and Competitive Note (if applicable) do not require the consent of any other Person and do not and will not constitute a violation of any laws, agreement, or understanding to which the Company is a party or by which the Company is bound, (e) the representations and warranties contained in the Credit Agreement, as amended hereby, and any other Loan Paper are true and correct in all material respects on and as of the date of execution hereof as though made as of the date of execution hereof, and (f) as of the date of this Amendment, no Default or Event of Default has occurred and is continuing.

8. Additional Representations and Agreements of Citibank, N.A.. By execution of this Amendment, Citibank, N.A. (a) confirms that it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant thereto and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Amendment and to become a Bank under the Credit Agreement; (b) agrees that it will, independently and without reliance upon any Agent or any 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 the Credit Agreement; (c) appoints and authorizes the Administrative Agent, the Auction Administration Agent and the Documentation Agent to take such action as agent on its behalf and to exercise such powers under the Credit Agreement and the other Loan Papers as are delegated to such Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (d) agrees that it will perform in accordance with their terms all the obligations which by the terms of the Credit Agreement are required to be performed by it as a Bank; and (e) attaches hereto a completed Administrative Questionnaire.

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

10. Expenses of the Agents. As provided in the Agreement, Borrower agrees to pay (i) all reasonable costs and expenses of the Agents in connection with (A) the preparation, execution, delivery, and administration of this Amendment, 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 Amendment and the other Loan Papers, and (B) any amendment, modification, supplement, or waiver of any of the terms of this Amendment or the other Loan Papers, 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 Amendment 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 Amendment 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

3

payable or determined to be payable in connection with the execution and delivery of this Amendment.

11. Severability. Any provision of this Amendment held by a court of

competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

12. APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN PAPERS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN DALLAS, DALLAS COUNTY, TEXAS AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

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

14. Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

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

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

[Balance of page intentionally left blank.]

4

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.

SOUTHWEST AIRLINES CO.

By: /s/ LAURA WRIGHT

Name: Laura Wright

Title: Treasurer

CHASE BANK OF TEXAS, N.A. (formerly known
as Texas Commerce Bank National
Association), as a Bank and as
Administrative Agent

By: /s/ MIKE LISTER

Name: Mike Lister

Title: Vice President

THE CHASE MANHATTAN BANK,
as Auction Administration Agent

By: /s/ CHRISTOPHER CONSOMER

Name: Christopher Consomer

Title: AVP

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

By: /s/ CHAS MCDONELL

Name: Chas McDonell

Title: Vice President

NATIONSBANK, N.A. (successor in interest
by merger to NationsBank of Texas, N.A.),
as a Bank and as Syndication Agent

By: /s/ CHAS MCDONELL

Name: Chas McDonell

Title: Vice President

BANK OF TOKYO-MITSUBISHI

By: /s/ DOUG BARNELL

Name: Doug Barnell

Title: Vice President

LANDESBANK SCHESWIG-HOLSTEIN
GIROZENTRALE

By: /s/ B. CLAUSSEU S. PIEH

Name: Dr. B. Clausseu S. Pieh

Title: Senior Manager Manager

THE MITSUBISHI TRUST AND BANKING
CORPORATION, NEW YORK BRANCH

By: /s/ SCOTT J. PAIGE

Name: Scott J. Paige

Title: Senior Vice President

BANK ONE, TEXAS, N.A.

By: /s/ JERRY KANE

Name: Jerry Kane

Title: Senior Managing Director Large
Corporate

FIRST SECURITY BANK, N.A.

By: /s/ STEVEN M. KOHLER

Name: Steven M. Kohler

Title: Vice President

WACHOVIA BANK OF GEORGIA, N.A.

By: /s/ PAIGE D. MESAROS

Name: Paige D. Mesaros

Title: Vice President

CITIBANK, N.A.

By: /s/ THOMAS BOYLE

Name: Thomas Boyle

Title: Managing Director

Supplemental Agreement No. 5

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 MARCH 13, 1998, by and between THE BOEING COMPANY, a Delaware corporation with its principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with its principal offices in City of Dallas, State of Texas (Buyer);

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

WHEREAS, the parties wish to update the agreement to reflect the acceleration of one (1) Block "L" Aircraft from March 2004 to November 2000;

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

- -----

*** 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
K/SWA

SA-5-1

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 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 reflect the acceleration of the Block "L" March 2004 Aircraft to November 2000. Such new pages 2-1, 2-2 and 2-3 are attached hereto and incorporated into the Agreement by this reference.

3. Article 3, entitled "Price of Aircraft", subparagraph 3.4.1 entitled "Advance Payment Base Price" is revised by deleting the Advance Payment Base Price for the Block "L" March 2004 delivery position. Such new pages 3-1, 3-2, 3-3 and 3-4 are attached hereto and incorporated into the Agreement by this reference.

4. Within three (3) business days of execution of this Supplemental Agreement, Boeing will refund to Buyer***. Such amount reflects the difference in advance payments due as a result of the acceleration of the March 2004 Block "L" Aircraft to November 2000.

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

P.A. NO. 1810SA-5-2

K/SWA

Exhibit 10.1

PURCHASE AGREEMENT

between

THE BOEING COMPANY

and

Southwest Airlines Co.

Relating to Boeing Model 737-7H4 Aircraft

Purchase Agreement Number 1810

*** 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

K/SWA

TABLE OF CONTENTS

	Page Number	SA Number
<TABLE>		
<CAPTION>		
ARTICLES		
- - - - -		
<S>	<C>	<C>
1. Subject Matter of Sale.....	1-1	SA-4
2. Delivery, Title and Risk of Loss.....	2-1	SA-5
3. Price of Aircraft.....	3-1	SA-5
4. Taxes.....	4-1	
5. Payment.....	5-1	
6. Excusable Delay.....	6-1	
7. Changes to the Detail Specification.....	7-1	SA-1
8. Federal Aviation Requirements and Certificates and Export License.....	8-1	
9. Representatives, Inspection, Flights and Test Data.....	9-1	
10. Assignment, Resale or Lease.....	10-1	
11. Termination for Certain Events.....	11-1	
12. Product Assurance; Disclaimer and Release; Exclusion of Liabilities; Customer Support; Indemnification and Insurance.....	12-1	
13. Buyer Furnished Equipment and Spare Parts.....	13-1	

14. Contractual Notices and Requests.....14-1

15. Miscellaneous.....15-1

</TABLE>

P.A. No. 1810 i SA-5

K/SWA

TABLE OF CONTENTS

<TABLE>

<CAPTION>

	SA Number -----
EXHIBITS - -----	
<S>	<C>
A Aircraft Configuration	SA-1
B Product Assurance Document	SA-1
C Customer Support Document	
D Price Adjustments Due to Economic Fluctuations - Aircraft	
E Buyer Furnished Equipment Provisions Document	
F Defined Terms Document	

LETTER AGREEMENTS

1810-1 Waiver of Aircraft Demonstration Flight

</TABLE>

P.A. No. 1810 ii SA-5

K/SWA

TABLE OF CONTENTS

<TABLE>

<CAPTION>

	SA Number -----
RESTRICTED LETTER AGREEMENTS - -----	
<S>	<C>
6-1162-RLL-932 Promotional Support	
6-1162-RLL-933R4 Option Aircraft	SA-4
6-1162-RLL-934R1 Disclosure of Confidential Information	SA-1
6-1162-RLL-935R1 Performance Guarantees	SA-1
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
6-1162-RLL-1856	***	SA-1
6-1162-RLL-1857	Service Ready Validation Program Field Test	SA-1
6-1162-RLL-1858R1	Escalation Matters	SA-4

P.A. No. 1810	iii	
K/SWA		SA-5

TABLE OF CONTENTS CON'T

<TABLE>		
<CAPTION>		
		SA
		Number

RESTRICTED LETTER AGREEMENTS		
- - - - -		
<S>		<C>
6-1162-RLL-2036	Amortization of Costs for Customer Unique Changes	SA-1
6-1162-RLL-2037	Reconciliation of the Aircraft Basic Price	SA-1
6-1162-RLL-2073	Maintenance Training Matters	SA-1

P.A. No. 1810	iv	
K/SWA		SA-5

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:

P.A. No. 1810	1
K/SWA	

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.

P.A. No. 1810
K/SWA

1-1

SA-4

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>		

P.A. No. 1810
K/SWA

2-1

SA-5

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

Block G Aircraft

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	Two (2)
December 2000	One (1)
July 2001	One (1)
September 2001	One (1)
October 2001	One (1)
September 2002	Three (3)
September 2003	Three (3)

</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 reimburse Boeing for all costs incurred by Boeing as a

P.A. No. 1810 2-2 SA-5
K/SWA

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 2-3 SA-5
K/SWA

ARTICLE 3. Price of Aircraft.

3.1 Definitions.

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>

P.A. No. 1810
K/SWA

3-2

SA-5

<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

</TABLE>

P.A. No. 1810
K/SWA

3-3

SA-5

<TABLE>

<S>

<C>

Block K Aircraft***

April 2004
July 2004

Block L Aircraft***

November 2000
December 2000
July 2001
September 2001
October 2001
September 2002
September 2003

</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.

P.A. No. 1810
K/SWA

3-4

SA-5

EXHIBIT 10.1

Supplemental Agreement No. 6

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 AUGUST 24, 1998, by and between THE BOEING COMPANY, a Delaware corporation with its principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with its principal offices in City of Dallas, State of Texas (Buyer);

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

WHEREAS, the parties wish to update the agreement to reflect the acceleration of two (2) Block "L" Aircraft from September 2003 to November 1999 (1) and December 1999 (1), to update model designators for Substitute Aircraft and to correct price adjustment language for Option Aircraft;

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

- -----

*** 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
K/SWA

SA-6-1

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 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 reflect the acceleration of two (2) Block "L" September 2003 Aircraft to November 1999 (1) and December 1999 (1). Such new pages 2-1, 2-2 and 2-3 are attached hereto and incorporated into the Agreement by this reference.

3. Article 3, entitled "Price of Aircraft", subparagraph 3.4.1 entitled "Advance Payment Base Price" is revised by adding the Advance Payment Base Price for the Block "L" November 1999 and December 1999 delivery positions. Such new pages 3-1, 3-2, 3-3 and 3-4 are attached hereto and incorporated into the Agreement by this reference.

4. Letter Agreement No. 6-1162-RLL-933R4 entitled "Option Aircraft" is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-933R5 attached hereto and incorporated herein by this reference. Article 3 entitled "Price", Paragraph 3.2 is revised in the last sentence to change the reference to "...paragraphs 2.3 and 3.2..." to "...paragraphs 2.2 and 3.2...". Attachment A, Paragraph 2.2 is revised to change the title from "Price Adjustments For Option Aircraft Delivering from March 2003 through October 2006" to "Price Adjustments For Option Aircraft Delivering from March 2003 through December 2009". Subparagraph 2.2.2 is revised to change the reference to "...paragraph 2.3.6..." to "...paragraph 2.2.6...". Subparagraph 2.2.5 is revised in the second sentence to change "...for options delivering in 2005 and 2006..." to "...for options delivering in 2005 through 2009...", and in the last sentence "... (July 1992 STE) per year or portion thereof starting in March 2003" is changed to "... (July 1992 STE) for Aircraft delivering in 2005 and by a maximum of*** (July 1992 STE) per year or portion thereof starting in January 2006".

5. Letter Agreement No. 6-1162-RLL-943 entitled "Substitution Rights" is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-943R1 attached

P.A. NO. 1810
K/SWA

SA-6-2

hereto and incorporated herein by this reference. Model designators for Substitute Aircraft are changed in all instances from 737-400STRX to 737-800 and from 737-500X to 737-600. Paragraph 1.1 is deleted and following paragraphs are renumbered accordingly.

6. Concurrent with execution of this Supplemental Agreement, Buyer will pay to Boeing***. Such amount reflects the difference in advance payments due as a result of the acceleration of the two September 2003 Block "L" Aircraft to November 1999 and December 1999.

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
K/SWA

SA-6-3

EXHIBIT 10.1

PURCHASE AGREEMENT

between

THE BOEING COMPANY

and

Relating to Boeing Model 737-7H4 Aircraft

Purchase Agreement Number 1810

- -----

*** 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
K/SWA

SA-6

TABLE OF CONTENTS

<TABLE>
<CAPTION>

		Page Number -----	SA Number -----
ARTICLES			
- -----			
<S>	<C>	<C>	<C>
1.	Subject Matter of Sale.....	1-1	SA-4
2.	Delivery, Title and Risk of Loss.....	2-1	SA-6
3.	Price of Aircraft.....	3-1	SA-6
4.	Taxes.....	4-1	
5.	Payment.....	5-1	
6.	Excusable Delay.....	6-1	
7.	Changes to the Detail Specification.....	7-1	SA-1
8.	Federal Aviation Requirements and Certificates and Export License.....	8-1	
9.	Representatives, Inspection, Flights and Test Data.....	9-1	
10.	Assignment, Resale or Lease.....	10-1	
11.	Termination for Certain Events.....	11-1	
12.	Product Assurance; Disclaimer and Release; Exclusion of Liabilities; Customer Support; Indemnification and Insurance.....	12-1	
13.	Buyer Furnished Equipment and Spare Parts.....	13-1	
14.	Contractual Notices and Requests.....	14-1	
15.	Miscellaneous.....	15-1	

</TABLE>

<TABLE>
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EXHIBITS
- - - - -

<CAPTION>

<S>	<C>
1810-1	Waiver of Aircraft Demonstration Flight

TABLE OF CONTENTS

<TABLE>
<CAPTION>

RESTRICTED LETTER AGREEMENTS

<S>	<C>	<C>
6-1162-RLL-932	Promotional Support	
6-1162-RLL-933R5	Option Aircraft	SA-6
6-1162-RLL-934R1	Disclosure of Confidential Information	SA-1
6-1162-RLL-935R1	Performance Guarantees	SA-1
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-943R1	Substitution Rights	SA-6
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

6-1162-RLL-1856	***	SA-1
6-1162-RLL-1857	Service Ready Validation Program Field Test	SA-1
6-1162-RLL-1858R1	Escalation Matters	SA-4

P.A. NO. 1810	iii	
K/SWA		SA-6

TABLE OF CONTENTS CON'T

<TABLE>		
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		SA
		Number

RESTRICTED LETTER AGREEMENTS		
- -----		
<S>	<C>	<C>
6-1162-RLL-2036	Amortization of Costs for Customer Unique Changes	SA-1
6-1162-RLL-2037	Reconciliation of the Aircraft Basic Price	SA-1
6-1162-RLL-2073	Maintenance Training Matters	SA-1

P.A. NO. 1810	iv	
K/SWA		SA-6

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>

P.A. NO. 1810
K/SWA

2-1

SA-6

<TABLE>
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<C>	<C>
Block G Aircraft	

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 1999	One (1)
December 1999	One (1)
November 2000	Two (2)
December 2000	One (1)
July 2001	One (1)
September 2001	One (1)
October 2001	One (1)
September 2002	Three (3)
September 2003	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 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
K/SWA

2-3

SA-6

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:

P.A. NO. 1810
K/SWA

15-1

<TABLE>
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	BASE AIRCRAFT PRICE	SPECIAL FEATURES	AIRCRAFT BASIC PRICE
<S>	<C>	<C>	<C>
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	

</TABLE>

P.A. NO. 1810
K/SWA

15-2

<TABLE>
<S>

<C>
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
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

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P.A. NO. 1810
K/SWA

15-3

<TABLE>

<S>

<C>

<C>

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

Block L Aircraft***

November 1999
December 1999
November 2000
December 2000
July 2001
September 2001
October 2001
September 2002
September 2003

</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.

P.A. NO. 1810
K/SWA
6-1162-RLL-943R1

15-4

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

Subject: Letter Agreement No. 6-1162-RLL-943R1 to
Purchase Agreement No. 1810 -
Substitution Rights

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

Letter Agreement No. 6-1162-RLL-933R5 dated even date herewith, entitled "Option Aircraft," relating to the sale by Boeing and purchase by Buyer of sixty-two (62) additional Model 737-7H4 aircraft (the Option Aircraft) and fifty-nine (59) 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. Right of Substitution, Model 737-800, 737-600.

Buyer shall have the right to substitute in lieu of any of the Aircraft a Boeing Model 737-800 aircraft or Model 737-600 aircraft, as the case may be, (hereinafter referred to as the "Substitute Aircraft"), on a one-for-one basis, subject to the following terms and conditions:

1.1 Buyer must take delivery of a minimum of twenty-five (25) 737-7H4 aircraft before substituting either the 737-800 or the 737-600. Buyer's right to substitute is also only applicable for Substitute Aircraft delivering after January 1, 1999.

1.2 Buyer agrees to notify Boeing that it is considering the substitution of Aircraft provided herein as soon as possible after such substitution comes under consideration by Buyer and the parties shall thereupon commence technical discussions relating to configuration of the Substitute Aircraft.

- - - - -

*** 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
K/SWA

SA-6

Southwest Airlines Co.
6-1162-RLL-943R1 Page 2

1.3 In order to support the configuration of Buyer's initial Substitute Aircraft, Buyer will provide Boeing with its written or telegraphic notice of its election to substitute the first Substitute Aircraft twenty-four (24) months prior to the then-current scheduled month of delivery of the aircraft for which substitution is being made. Buyer and Boeing will define the initial Substitute Aircraft configuration eighteen (18) months prior to delivery of the aircraft for which substitution is being made.

1.4 For follow on Substitute Aircraft, Buyer shall provide Boeing with its written or telegraphic notice of its election to substitute aircraft and the parties shall execute a definitive agreement for the Substitute Aircraft no later than eighteen (18) months prior to the then-current scheduled month of delivery of the aircraft for which substitution is being made.

1.5 The delivery of the Substitute Aircraft shall occur during the same general time period as the Aircraft for which substitution is being made, unless otherwise agreed by the parties.

1.6 Promptly after receipt of notice from Buyer of its election to substitute, Boeing shall prepare and submit to Buyer appropriate documents amending the Agreement to reflect the manufacture and sale of such Substitute Aircraft to Buyer.

1.7 If Boeing discontinues production of the Model 737-800 or 737-600 aircraft at any time which would affect Boeing's ability to manufacture and deliver any Substitute Aircraft to Buyer, the parties will discuss the substitution of other Boeing model aircraft being offered for delivery during the delivery period of the affected Aircraft. Any such substitution shall be subject to mutually agreeable terms and conditions, recognizing that the delivery month of any substitute aircraft shall be subject to Boeing's then current manufacturing capabilities and other delivery commitments.

2. Price of Substitute Aircraft.

Upon notification by Buyer of Buyers intent to substitute, Boeing will provide the then-current price of such Substitute Aircraft to Buyer.

Southwest Airlines Co.
6-1162-RLL-943R1 Page 3

3. Credit Memorandum - 737-800.

In consideration of Buyer's purchase of the model 737-800 Substitute Aircraft, Boeing will issue to Buyer at the time of delivery of each model 737-800 Substitute 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 model 737-800 Substitute Aircraft for which the credit was issued. The amount of this credit memorandum applicable to each model 737-800 Substitute Aircraft will be *** of the 737-800 Substitute Aircraft Base Price (July 1992 STE \$) ***.

4. Credit Memorandum - 737-600.

In consideration of Buyer's purchase of the model 737-600 Substitute Aircraft, Boeing will issue to Buyer at the time of delivery of each model 737-600 Substitute 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 model 737-600 Substitute Aircraft for which the credit was issued. The amount of this credit memorandum applicable to each model 737-600 Substitute Aircraft will be *** of the model 737-600 Substitute Aircraft Base Price (July 1992 STE \$) ***.

5. Training Matters.

Specific reference is made to Letter Agreement No. 6-1162-RLL-940 "Training Matters" which does apply to the 737-600 substitute aircraft but does not apply in any way to the 737-800 substitute aircraft.

6. Engine Thrust for Substitute Aircraft.

Reference is made to Exhibit A to the Agreement and specifically to Change Request 7200XX3005 where Buyer has selected an increase in thrust from 20,000 pounds to 22,000 pounds thrust. If Buyer exercises its option to substitute in accordance with this Letter Agreement, the additional thrust from 20,000 pounds will be provided free of charge to Buyer. Buyer will be responsible for the price to increase the thrust from 22,000 pounds to such higher thrust that Buyer selects for the 737-800.

P.A No. 1810
K/SWA

SA-6

Southwest Airlines Co.
6-1162-RLL-943R1 Page 4

7. 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-934.

Very truly yours,

THE BOEING COMPANY

By /s/ DAWN S. FOSTER

Its

ACCEPTED AND AGREED TO as of this

date: _____, 1998

Southwest Airlines Co.

By /S/ GARY A. BARRON

Its

P.A. No. 1810
K/SWA

SA-6

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

Subject: Letter Agreement No. 6-1162-RLL-933R5 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 -----	Number of Option Aircraft -----	Option Aircraft Block -----
<S>	<C>	<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>

- -----

*** 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
K/SWA
Southwest Airlines Co.
6-1162-RLL-933R5 Page 2

SA-6

<TABLE>
<CAPTION>

Month and Year of Delivery -----	Number of Option Aircraft -----	Option Aircraft Block -----
<S>	<C>	<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 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.

P.A. No. 1810
K/SWA
Southwest Airlines Co.
6-1162-RLL-933R5 Page 3

SA-6

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 2.2 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).

<TABLE>
<CAPTION>

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

Block M Aircraft***

March 2003

April 2003
July 2003
October 2003

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

</TABLE>

P.A. No. 1810
K/SWA
Southwest Airlines Co.
6-1162-RLL-933R5 Page 4

SA-6

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;
- (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.

P.A. No. 1810
K/SWA
Southwest Airlines Co.
6-1162-RLL-933R5 Page 6

SA-6

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

P.A. No. 1810
K/SWA
Southwest Airlines Co.
6-1162-RLL-933R5 Page 7

SA-6

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: AUGUST 24 , 1998

SOUTHWEST AIRLINES CO.

By /s/ GARY A. BARRON

Its EXECUTIVE VP & COO

Attachments

P.A. No. 1810
K/SWA

SA-6

Attachment A to
6-1162-RLL-933R5
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.

P.A. No. 1810
K/SWA

SA-6

Attachment A to
6-1162-RLL-933R5
Page 2

2. Price Description

2.1 Price Elements Per Aircraft

<TABLE>
<CAPTION>

AIRCRAFT DELIVERY MO. & YR.	1 AIRCRAFT & ESTIMATED SPECIAL FEATURES PRICE (JULY 1992\$)	2 ESTIMATED ESCALATION	3 ESTIMATED ESCALATION SHARING	ADV. PMT. BASE PRICE (Elements) 1 + 2 + 3
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
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	***	***	***	***

</TABLE>

Continued Next Page...

P.A. No. 1810
K/SWA

SA-6

Attachment A to
6-1162-RLL-933R5
Page 3

2. Price Description. (Continued)

2.2 Price Adjustments For Option Aircraft Delivering From March 2003 through December 2009.

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 2.2.6 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 through 2009 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) for Aircraft delivering in 2005 and by a maximum of *** (July 1992 STE) per year or portion thereof starting in January 2006.

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 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.

P.A. No. 1810
K/SWA

SA-6

Attachment A to
6-1162-RLL-933R5
Page 4

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 Advance Payment Base Price)
Due Date of Payment - ----- <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.

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:

$$Pa = \text{Aircraft Price Adjustment.}$$

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

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

$$P = \text{Aircraft Basic Price (as set forth in Article 3.2 of this Agreement).}$$

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.

P.A. NO. 1810
K/SWA

SA-6

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

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.

P.A. No. 1810
K/SWA
Attachment B to
6-1162-RLL-933R5
Page 3

SA-6

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
K/SWA
Attachment B to
6-1162-RLL-933R5
Page 4

SA-6

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
K/SWA

SA-6
EXHIBIT 10.1

Supplemental Agreement No. 7

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 29, 1998, 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 one (1) additional Option Aircraft and to accelerate delivery of that Option Aircraft from October 2006 to December 1999 (1), and to accelerate one Block "H" Aircraft from August 1999 to July 1999, one Block "C" Aircraft from September 1999 to August 1999, one Block "H" Aircraft from October 1999 to September 1999, one Block "L" Aircraft from November 1999 to October 1999, one Block "L" Aircraft from December 1999 to November 1999, two Block "D" Aircraft from January 2000 to November 1999, one Block "D" Aircraft from January 2000 to December 1999 and one Block "L" Aircraft from September 2003 to November 1999;

- -----

*** 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
K/SWA

SA-7-1

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 thirty (130) 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 accelerate one (1) Block "C" Aircraft from September 1999 to August 1999, two (2) Block "D" Aircraft from January 2000 to November 1999, one (1) Block "D" Aircraft from January 2000 to December 1999, one (1) Block "H" Aircraft from August 1999 to July 1999, one (1) Block "H" Aircraft from October 1999 to September 1999, one (1) Block "L Aircraft from November

1999 to October 1999, one (1) Block "L" from December 1999 to November 1999, one (1) Block "L" Aircraft from September 2003 to November 1999 and to add one (1) Block "L" Aircraft for delivery in December 1999. 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 3.4 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 "C" August 1999 Aircraft, for the Block "D" November 1999 and December 1999 Aircraft, for the Block "H" July 1999 Aircraft, and for the Block "L" October 1999 Aircraft and to delete the Advance Payment Base Price for the Block "L" September 2003 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-933R5 entitled "Option Aircraft" is deleted in its entirety and replaced with Letter Agreement No. 6-1162-RLL-933R6 attached hereto and incorporated herein by this reference. The third paragraph is revised to refer to fifty-eight (58) Rollover Option Aircraft. Article 2 entitled "Delivery of Rollover Option Aircraft," paragraph 2.1 is revised to change the

P.A. No. 1810
K/SWA

SA-7-2

quantity of Rollover Option Aircraft from nineteen (19) to eighteen (18) in the year 2009; paragraph 2.2 and subparagraphs 2.2.1 and 2.2.2 are revised by changing the quantity of Rollover Option Aircraft from fifty-nine (59) to fifty-eight (58).

6. 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 thirty (130) Model 737-7H4 Aircraft, sixty-two (62) Model 737-7H4 Option Aircraft and fifty-eight (58) Model 737-7H4 Rollover Option Aircraft, to the extent such reference is not specifically addressed herein.

7. Concurrent with execution of this Supplemental Agreement, Buyer will pay to Boeing***. Such amount reflects the difference in advance payments due as a result of the acceleration of the Aircraft as described above, the exercise of the Option to purchase one Aircraft and the deposit due for one Rollover Option Aircraft converted to an Option Aircraft.

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 V.P. & COO

P.A. No. 1810
K/SWA

SA-7-3

Exhibit 10.1

PURCHASE AGREEMENT

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 Aircraft

Purchase Agreement Number 1810

- -----

*** 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
K/SWA

TABLE OF CONTENTS

<TABLE>
<CAPTION>

	Page Number -----	SA Number -----
ARTICLES - -----		
<S>	<C>	<C>
1.	Subject Matter of Sale.....1-1	SA-7
2.	Delivery, Title and Risk of Loss.....2-1	SA-7
3.	Price of Aircraft.....3-1	SA-7
4.	Taxes.....4-1	
5.	Payment.....5-1	
6.	Excusable Delay.....6-1	
7.	Changes to the Detail Specification.....7-1	SA-1
8.	Federal Aviation Requirements and Certificates and Export License.....8-1	
9.	Representatives, Inspection, Flights and Test Data.....9-1	
10.	Assignment, Resale or Lease.....10-1	
11.	Termination for Certain Events.....11-1	
12.	Product Assurance; Disclaimer and Release; Exclusion of Liabilities; Customer Support; Indemnification and Insurance.....12-1	
13.	Buyer Furnished Equipment and Spare Parts.....13-1	
14.	Contractual Notices and Requests.....14-1	
15.	Miscellaneous.....15-1	

</TABLE>

P.A. No. 1810
K/SWA

i

SA-7

TABLE OF CONTENTS

<TABLE>
<CAPTION>

	SA Number -----
EXHIBITS - -----	
<S>	<C>
A	Aircraft Configuration SA-1
B	Product Assurance Document SA-1
C	Customer Support Document
D	Price Adjustments Due to Economic Fluctuations - Aircraft
E	Buyer Furnished Equipment Provisions Document
F	Defined Terms Document

</TABLE>

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RESTRICTED LETTER AGREEMENTS		SA
-----		Number
<S>	<C>	<C>

6-1162-RLL-2036	Amortization of Costs for Customer Unique Changes	SA-1
6-1162-RLL-2037	Reconciliation of the Aircraft Basic Price	SA-1
6-1162-RLL-2073	Maintenance Training Matters	SA-1
</TABLE>		
P.A. No. 1810	iv	
K/SWA		SA-7

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:

P.A. No. 1810	1
K/SWA	

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 thirty (130) 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	1-1	
K/SWA		SA-7

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)
August 1999	One (1)
September 1999	Three (3)
Block D Aircraft	
November 1999	Two (2)
December 1999	One (1)
January 2000	One (1)
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
K/SWA
<TABLE>

2-1

SA-7

<S>	<C>
Block G Aircraft	
March 1999	Two (2)
Block H Aircraft	
June 1999	Two (2)
July 1999	One (1)
August 1999	One (1)
September 1999	Two (2)
October 1999	One (1)
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	
October 1999	One (1)
November 1999	Two (2)
December 1999	One (1)
November 2000	Two (2)
December 2000	One (1)
July 2001	One (1)
September 2001	One (1)
October 2001	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.

P.A. No. 1810
K/SWA

2-2

SA-7

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
K/SWA

2-3

SA-7

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:

P.A. No. 1810
K/SWA

3-1

SA-7

<TABLE>
<CAPTION>

<S>	Base Aircraft Price <C>	Special Features <C>	Aircraft Basic Price <C>
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	***	***	***

</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, *** 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 ----- <S>	Advance Payment Base Price per Aircraft ----- <C>
Block A Aircraft***	
October 1997	
November 1997	

</TABLE>

P.A. No. 1810
K/SWA

3-2

SA-7

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
August 1999
September 1999

Block D Aircraft***

November 1999
December 1999
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
July 1999
August 1999
September 1999
October 1999
April 2000
October 2000
April 2001
October 2001

P.A. No. 1810
K/SWA

3-3

SA-7

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

Block L Aircraft***

October 1999
November 1999
December 1999
November 2000
December 2000
July 2001
September 2001
October 2001
September 2002

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

P.A. No. 1810
K/SWA

3-4

SA-7

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
K/SWA

3-5

SA-7

6-1162-RLL-933R6

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

Subject: Letter Agreement No. 6-1162-RLL-933R6 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-eight (58) 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 2003	Three (3)	M
April 2003	Two (2)	M
July 2003	Four (4)	M
October 2003	Four (4)	M
January 2004	Four (4)	N

</TABLE>

- -----

*** 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
K/SWA
Southwest Airlines Co.
6-1162-RLL-933R6 Page 2

SA-7

<TABLE>

<S>	<C>	<C>
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>

<TABLE>
<CAPTION>

Month and Year of Delivery -----	Number of Option Aircraft -----	Option Aircraft Block -----
<S>	<C>	<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	Eighteen (18)	S

</TABLE>

2.2 The fifty-eight (58) Rollover Option Aircraft are offered to Buyer subject to the following conditions:

2.2.1 Buyer can exercise any fifty-eight (58) 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-eight (58).

2.2.2 Conversely to Article 2.2.1 above, if Buyer does not exercise a minimum of fifty-eight (58) Option Aircraft, one Rollover Option Aircraft will be deleted for each Option Aircraft not exercised by Buyer.

P.A No. 1810
K/SWA
Southwest Airlines Co.
6-1162-RLL-933R6 Page 3

SA-7

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 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 2.2 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).

P.A No. 1810
K/SWA
Southwest Airlines Co.
6-1162-RLL-933R6 Page 4

SA-7

<TABLE>
<CAPTION>

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

<S>		<C>	
		Block M Aircraft***	
	March 2003		
	April 2003		
	July 2003		
	October 2003		
		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		

</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.

P.A No. 1810
K/SWA

SA-7

Southwest Airlines Co.
6-1162-RLL-933R6 Page 5

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

P.A No. 1810

K/SWA

SA-7

Southwest Airlines Co.

6-1162-RLL-933R6 Page 6

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. 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.

P.A No. 1810

K/SWA

SA-7

Southwest Airlines Co.

6-1162-RLL-933R6 Page 7

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.

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

P.A No. 1810
K/SWA
Southwest Airlines Co.
6-1162-RLL-933R6 Page 8

SA-7

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 29, 1998

SOUTHWEST AIRLINES CO.

By /s/ GARY A. BARRON

Its EXECUTIVE V.P. & COO

Attachments

P.A No. 1810
K/SWA
Attachment A to
6-1162-RLL-933R6
Page 1

SA-7

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.

P.A No. 1810
K/SWA

SA-7

Attachment A to
6-1162-RLL-933
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	ESTIMATED ESCALATION SHARING	ADV. PMT. BASE PRICE (Elements) 1 + 2 + 3
- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
<S>	<C>	<C>	<C>	<C>
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	***	***	***	***
March 2005	***	***	***	***
April 2005	***	***	***	***
July 2005	***	***	***	***
October 2005	***	***	***	***
BLOCK P				
January 2006	***	***	***	***
March 2006	***	***	***	***
April 2006	***	***	***	***
July 2006	***	***	***	***
October 2006	***	***	***	***

</TABLE>

P.A No. 1810
K/SWA

SA-7

Attachment A to
6-1162-RLL-933R6
Page 3

2. Price Description. (Continued)

2.2 Price Adjustments For Option Aircraft Delivering From
March 2003 through December 2009.

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 2.2.6 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 through 2009 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) for Aircraft delivering in 2005 and by a maximum of *** (July 1992 STE) per year or portion thereof starting in January 2006.

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

P.A No. 1810
K/SWA
Attachment A to
6-1162-RLL-933R6
Page 4

SA-7

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.

2.2.7 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.

P.A No. 1810
K/SWA
Attachment A to
6-1162-RLL-933R6
Page 5

SA-7

<TABLE>
<CAPTION>

	Amount Due per Aircraft ----- (Percentage times Advance Payment Base Price)
Due Date of Payment - ----- <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.

P.A No. 1810
K/SWA
Attachment B to
6-1162-RLL-933R6
Page 1

SA-7

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.

P.A No. 1810
K/SWA
Attachment B to
6-1162-RLL-933R6
Page 2

SA-7

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.

P.A No. 1810
K/SWA

SA-7

Attachment B to
6-1162-RLL-933R6
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
K/SWA
Attachment B to
6-1162-RLL-933R6
Page 4

SA-7

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
K/SWA

SA-7

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, 333-64431, 333-67627, and 333-67631, and Form S-3 Nos. 33-29257 and 33-59113) and in the related Prospectuses of our report dated January 21, 1999 with respect to the consolidated financial statements of Southwest Airlines Co. for the year ended December 31, 1998 included in this Annual Report on Form 10-K.

ERNST & YOUNG LLP

/s/ ERNST & YOUNG LLP

Dallas, Texas
March 26, 1999

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<FN>
<F1>On July 22, 1998, the Company's Board of Directors declared a three-for-two stock split on the Company's Common Stock, distributed on August 20, 1998. All per share data in this exhibit have been restated to give effect to the stock split.

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<TOTAL-ASSETS> 4,246,160	3,857,245	4,035,983	4,142,034	
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<FN>
<F1>On July 22, 1998, the Company's Board of Directors declared a three-for-two stock split on the Company's Common Stock, distributed on August 20, 1998. All per share data in this exhibit have been restated to give effect to the stock split.
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<FN>
<F1>On July 22, 1998, the Company's Board of Directors declared a three-for-two stock split on the Company's Common Stock, distributed on August 20, 1998. All per share data in this exhibit have been restated to give effect to the stock split.

</FN>

</TABLE>