

Southwest Airlines Co.
1980 Annual Report
A 10th Anniversary

In its first ten years of service, Southwest Airlines Co., through a unique combination of low fares, frequent service on its short-haul routes, exemplary employee productivity, and high utilization of assets, has:

- Saved over \$450,000,000 in air fares for 21,240,000 passengers served
- Achieved the highest operating profit margin of any major domestic air carrier
- Achieved, over the last five years, an annual return on stockholders' equity of 37 percent
- Created 1,900 new jobs
- And, created and returned \$38,000,000 to its employees through a profit sharing plan unusual within its industry.



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Southwest Airlines Co. is dedicated to serving short-haul, commuter markets in the economically strong Southwest Sunbelt.

Southwest's philosophy and business strategy include:

Simplicity of Operations

- one type of aircraft, the Boeing 737-200 advanced series, with 118 seats
- one crew domicile and maintenance facility in Dallas
- simplified passenger check-in and fare structures
- cash register ticketing
- no interlining of tickets or baggage
- no food service

High Productivity

- daily aircraft utilization of 11 hours
- 10 minute turnaround times between most flights
- 1900 employees, working hard and enjoying providing high-quality service

Focus on Passenger Business

- service only for passengers and small packages
- no large air freight
- no U.S. mail

Serving Short-Haul, Mass Transit Commuter Markets

- flight segments under two hours
- low fare structure competitive with the bus and auto travel
- stimulation of new air travelers from the automobile and the backyard

Highlights

	1980	1979	Percent Change
OPERATING DATA			
Trips operated	91,143	75,837	20.2%
Passengers carried	5,976,621	5,000,086	19.5
Revenue passenger miles (000)	2,024,097	1,585,539	27.7
Available seat miles (000)	2,969,448	2,320,371	28.0
Passenger load factor	68.2%	68.3%	(0.1)
Average revenue per passenger mile	10.09¢	8.23¢	22.6
Number of employees at year-end	1,839	1,630	12.8
INCOME DATA			
Operating revenues	\$213,048,000	\$136,114,000	56.5%
Operating expenses	164,219,000	107,128,000	53.3
Operating income	48,829,000	28,986,000	68.5
Net Income—			
Amount	\$ 28,447,000	\$ 16,652,000	70.8
Per share	\$ 4.06	\$ 2.47	64.4
Average shares outstanding	7,006,000	6,750,000	3.8
FINANCIAL DATA			
Working capital	\$ 9,979,000	\$ 8,195,000	21.8%
Flight and ground equipment-net	194,908,000	150,576,000	29.4
Capital expenditures	56,504,000	54,314,000	4.0
Stockholders' equity	106,964,000	58,412,000	83.1
Return on stockholders' equity	36.0%	33.1%	N/A
Long-term debt as a % of total invested capital	42.1%	59.9%	N/A
Book value per share	\$ 14.12	\$ 8.65	63.2



Letter to Stockholders

10th ANNIVERSARY HIGHLIGHTS

Between 1971, the year we commenced operations, and 1980, trips flown grew from 6,051 to 91,143 . . . passengers carried from 108,554 to 5,976,621 . . . operating revenues from \$2,133,000 to \$213,048,000 . . . operating income (loss) from (\$2,158,000) to \$48,829,000 . . . net income (loss) from (\$3,753,000) to \$28,447,000 . . . total assets from \$22,083,000 to \$224,442,000 . . . stockholders' equity from \$3,318,000 to \$106,964,000 . . . annual employee profit sharing contributions from zero to \$7,293,000 . . . employees from 195 to 1,839 . . . overall, a dazzling decade of proud achievement for the "little airline that could."

HIGHLIGHTS OF 1980

A 68.5% increase in operating income . . . revenues of \$213,048,000 . . . almost 6,000,000 passengers carried . . . expansion of service to Oklahoma and New Mexico . . . jet fuel cost increases of 43.2% . . . completion of a long-term debt financing at attractive fixed rates . . . an equity offering . . . five more new Boeing 737-200 advanced series aircraft . . . return on stockholders' equity of 36% . . . continuing emphasis on low fares . . . a 71% dividend increase . . . a challenging, successful year.

PROFITABILITY

Our revenues increased 56.5% in 1980 to \$213,048,000. Despite continuing fuel and other operating expense escalations, operating expenses rose only 53.3%. Operating income thus increased dramatically by 68.5% to \$48,829,000. Earnings per share, adjusted for stock splits, increased 64.4% from \$2.47 in 1979 to \$4.06 in 1980.

TRAFFIC

A record 5,977,000 passengers were boarded, despite a generally weak traffic year for the industry. This performance confirms to us the importance of our low-fare, frequent service which offers an economically attractive alternative to ground transportation. Revenue passenger miles increased to 2,024 million, up 27.7%. Our load factor for 1980 was 68.2%, virtually unchanged from our record 68.3% in 1979. The average revenue per passenger mile increased to \$.1009, up 22.6% yet still demonstrably lower than that of other short-haul carriers. Our average passenger fare was only \$34.18.

ROUTES

In April, 1980, we added three new interstate destinations to our route structure. This expansion to Oklahoma City, Tulsa, and Albuquerque allowed us to continue capitalizing on the economic vitality of our region while serving new markets that fit our short-haul strategy. The results of these markets surpassed our expectations, with load factors in all three exceeding break-even after only four weeks of service. Additional service was successfully initiated between El Paso and Albuquerque in July. This expansion allowed us to generate local traffic between two cities already served, thereby incurring minimal start-up costs.

Service to Jefferson County Airport, serving Beaumont, Port Arthur, and Orange, was terminated on September 5 after 18 months of operating losses. It appears the close proximity to Houston had diverted too much traffic to the freeway and Houston's airports where a greater variety of air service is available. We regret this action because community support in Jefferson County was very strong; however, our shareholders could not be penalized in the long run by indefinitely subsidizing an unprofitable market.

On September 8, 1980, we began service between Dallas Love Field and North Houston's Intercontinental Airport with our \$24 pleasure class fare on all flights. Texas International also introduced service between these two airports and matched our \$24 fare, as well as providing promotional incentives to its full fare passengers. Texas International discontinued its Love Field service on January 31, 1981.





We currently anticipate adding no new cities in 1981. Rather, we will use our expanded capacity to maximize our service levels and on-time performance in those markets we currently serve. Our route plans beyond 1981 include many potential markets which fit our short-haul criteria and overall business strategy. Specific cities will not be announced until shortly before start-up in view of a deregulated airline industry in which competitive allocations of resources can be made very quickly.

FLEET

We continue to believe that the Boeing 737-200 advanced series airplane offers an excellent mix of size, operating cost, and fuel efficiency for our route structure. Including two delivered in December, 1980, our fleet at year end consisted of 23 of these aircraft with an average age of 28 months. During 1981, we will take delivery of three more new 737-200's. Beyond 1981, we currently hold firm orders for four 1982 deliveries and options to purchase six aircraft in 1983, which, if exercised, would bring our fleet to a total of 36 owned aircraft by mid-1983.

To provide capacity beyond our planned 1981 deliveries, we have leased an additional 737-200 advanced aircraft in our configuration for a period of up to 26 months beginning March 1, 1981.

Our plan for the intermediate term is to continue with only one type of aircraft, a strategy which provides strong operating cost economies. For the longer term, we are currently evaluating alternative short-haul aircraft to assure that we continue to have a modern, attractive fleet with maximum fuel efficiency.

FINANCIAL STRATEGY

The financial strategy begun in 1979, to strengthen Southwest's capital structure and reduce our exposure to more volatile money markets, continued successfully in 1980.

We closed the last of three Equipment Trust Certificate financings in March, 1980. These debt financings of approximately \$70,000,000 have a 15 year maturity and a fixed interest rate of 10.3%.

The restructuring of our bank credit lines to a revolving credit allows us to better utilize our cash flows and match borrowing levels to short-term needs. Our strategy includes using our cash flow to minimize prime-related bank borrowings to the greatest extent possible. From its peak in 1979 of \$72,000,000, prime-tied debt has been reduced to \$15,000,000 at December 31, 1980.

In September, 1980, 600,000 shares of common stock were sold through a public offering at \$29 per share. The proceeds of this offering were used for the acquisition of the three aircraft, two delivered in December, 1980 and one in January, 1981. For the first time, Southwest purchased aircraft free of liens. We believe that owning portions of our fleet will provide additional financing flexibility and strength in the future.

We believe these financing accomplishments have strengthened Southwest by positioning us where we can now go to the appropriate money markets when those markets are attractive, rather than being forced into inopportune markets when aircraft deliveries occur.

Our objective is to retain a capital structure with enough leverage to maximize the return to our shareholders as the Company has done in the past. We believe, however, that a lessened degree of leverage is appropriate and prudent in today's rapidly changing airline industry and volatile financial markets. At December 31, 1980, long-term debt as a percentage of invested capital was 42%, compared to 60% at the beginning of the year.

On August 26, 1980, your Board of Directors declared a 3-for-2 stock split, resulting in the distribution to shareholders of 2,287,000 additional shares on September 22, 1980. Your Board also declared a quarterly dividend of 8 cents per share on the shares outstanding after the stock split, which, coupled with an earlier increase in dividends, produced a total dividend increase during 1980 of 71%. The Board also reaffirmed its intention to continue the 8 cent quarterly dividend.

OPERATING EXPENSES AND PRODUCTIVITY

Effective cost control, high productivity levels from our employees, and maximum utilization of our assets are a hallmark of Southwest and allow us to continue offering the low fares which generate higher demand for air travel.

Our aircraft utilization remained high at 11 hours and 16 minutes per day. A slight reduction from 1979's peak was effectuated to maximize on-time performance, an important aspect of our commuter service.

Jet fuel costs continued to increase, although at a slower overall rate than in 1979. In 1979, fuel was 35.1% of our operating costs. In 1980, it increased to 37.7%. The average price per gallon increased 43%, from 59.35¢ in 1979 to 84.96¢ in 1980. Fuel conservation measures helped mitigate the overall cost impact, however. Jet fuel usage per hour declined from 946 gallons in 1979 to 878 gallons in 1980, saving approximately 5,640,000 gallons of fuel.

Employee productivity remained high, despite the start-up of four new stations in 1980.

PASSENGER SERVICE

In our short-haul commuter service, efficiency and reliability are essential.

Revised scheduling of individual aircraft sequences was begun in 1980 and is being strongly emphasized in 1981 to maximize system-wide on-time performance.

Initial operating results of our new San Antonio Reservations Center indicate that the time required for a passenger to book a reservation will decline appreciably in 1981, as a result of increased reservation capacity.

Our automatic ticket vending machines continue to gain acceptance and, in recent months, are approaching 20% of our total ticketing activity.

In August of 1980, we instituted a revised travel agency program called Ticknet. This program features pre-purchase of Southwest tickets by travel agents at a 10% discount and allows travel agents freedom in reselling tickets on a competitive basis. This program has also simplified administrative procedures for the travel agencies and Southwest.

OUTLOOK 1981

Throughout 1981, we foresee a general intensifying of competitive activity from both existing air carriers and new entrants. We will continue to emphasize those strategies and services which Southwest has successfully used in the past to generate demand for short-haul air travel.

Jet fuel costs have increased rapidly since January 1, 1981. At March 1, 1981, our average cost per gallon of fuel had increased 14% to \$1.04 a gallon, up from \$.91 a gallon only sixty days before. On January 12, 1981, we increased fares by an average of 8.4%, our first price increase in over a year.

An organization called the "Love Field Citizens Action Committee" has proposed that the Dallas City Council adopt restrictions on aircraft operations at Love Field, including a flight curfew. The Council has voted to commission a noise study of Love Field and its environs, to be completed in the fall of this year. It is hoped that a realistic appraisal of operations at 63 year old Love Field and their immense economic significance to the City and its people will cause the Council to reject any such restrictions.

We remain strongly committed to offering the attractive transportation value on which Southwest is based. This value is important not only in relation to other air carriers but also with respect to ground transportation alternatives. Our goal is to keep fares as low as possible. We will continue to defer, as we did in 1980, future fare increases as long as operating costs and traffic levels allow us to do so without impairing the long-term profitability of Southwest.

Although 1981 is emerging as a year of increasing challenges from competition, escalating fuel costs, general inflation, and continuing economic uncertainty, we are confident that

our strengths—productivity, simplicity, and, most of all, our employees—will continue to enable us to meet our commitment to give the best value and most friendly service possible. We are very proud of Southwest's performance during the past decade and the year 1980, and we expect to continue our record of achievement in 1981.

Sincerely yours,

Herbert D. Kelleher

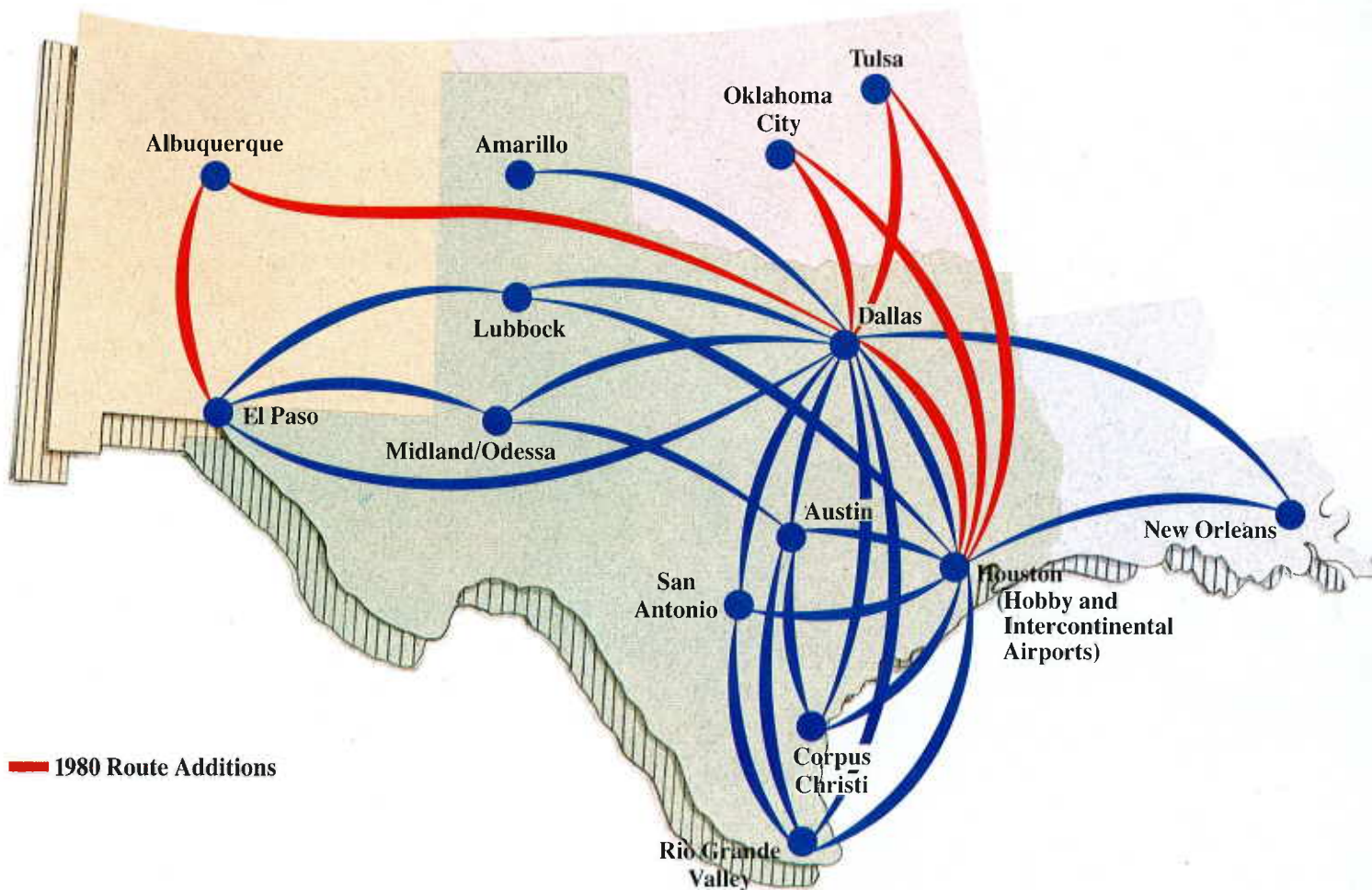
Herbert D. Kelleher
Chairman of the Board

Howard D. Putnam

Howard D. Putnam
President and Chief Executive Officer

February 27, 1981

Southwest Airlines Co. Route Map



Description of Business

Southwest Airlines provides single-class, high frequency air service to cities in Texas and to New Orleans, Oklahoma City, Tulsa and Albuquerque. The Company concentrates on short-haul markets and stresses high levels of aircraft utilization and employee productivity. In the Company's opinion its service is characterized by low fares and convenient schedules. The principal hub airports in Southwest's system are Dallas Love Field and Houston's Hobby Airport, satellite airports located substantially closer to downtown business centers than the major airports serving these cities.

Southwest's two tier fare structure is designed to provide "Executive Class" travelers with low cost air transportation and "Pleasure Class" travelers with an economically competitive alternative to various forms of ground transportation. Southwest does not carry the United States mail, interline passengers or engage in carrying air freight (other than small packages).

Review of Operations

The combination of intensified competition in the airline industry, rapidly escalating jet fuel prices, and the increasing costs of capital have presented major challenges to airline management. These factors have placed an even greater premium than in previous years on the importance of carefully matching routes and fleet. The levels of productivity and cost-effectiveness underlying an airline's fleet and routes also became increasingly more important. Southwest continued to achieve an optimum utilization of its resources in 1980.

FLEET

During 1980, Southwest added five new Boeing 737-200 advanced series aircraft, bringing the total fleet to 23 owned aircraft. This aircraft continues to offer the best overall fuel efficiency of any jet transport currently available for Southwest's route structure. Other advantages of the 737 include an economic combination of high passenger preference levels, quietness, optimum capacity for high frequency commuter markets, and minimal requirements for ground support equipment.

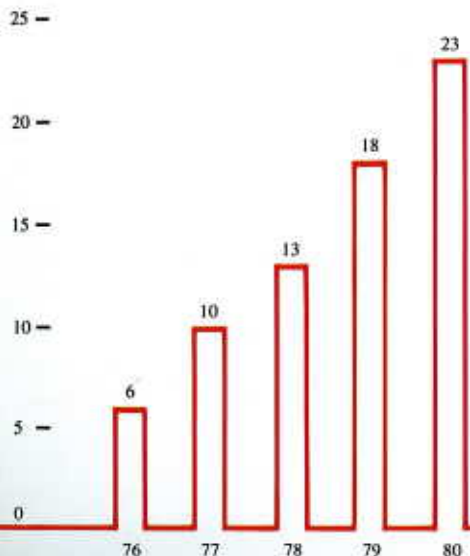
Southwest's fleet had an average age of only 28 months at December 31, 1980, continuing to be one of the youngest commercial jet aircraft fleets in the airline industry.

During 1981, three more new 737's will be delivered. To provide additional capacity beyond owned aircraft and thus maximize service availability in key markets, a 737-200 advanced series aircraft with a configuration highly similar to Southwest's aircraft, was leased from another carrier, for a period of up to 26 months beginning in March, 1981.

Four additional 737 aircraft are currently scheduled for delivery in 1982. Options for up to six aircraft are currently held for 1983 delivery positions.

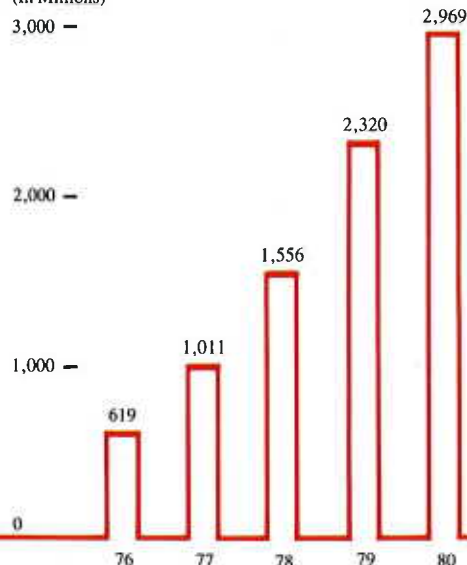


Fleet Size
(Boeing 737-200's)

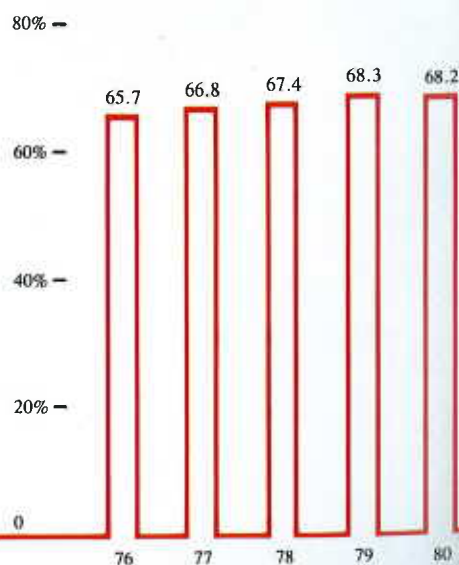


Available Seat Miles

(In Millions)



Passenger Load Factor





The picturesque Big Bend area in Southwest Texas is easily accessible from El Paso or Midland/Odessa, three of the cities served by Southwest.

Southwest hostess Sharon Guthrie serving complimentary drinks to passengers on Executive Class flights.



Southwest's industry leadership in productive use of its aircraft continued in 1980. Daily utilization declined slightly, as planned, from the all-time high of 11 hours 37 minutes in 1979 to 11 hours 16 minutes. This minimal decline reflects a slightly revised aircraft scheduling approach which was devised to improve system-wide on-time performance. From 1979 to 1980, arrivals within 15 minutes of schedule increased from 77.5% to 83.3%. Emphasis is being placed on further improvements in this performance indicator in 1981. Average flight segment time increased two minutes in 1980 to 55 minutes.

ROUTES

Southwest's expansion to other short-haul interstate routes which fit its business strategy continued in 1980 with the addition of service in April to Oklahoma City, Tulsa and Albuquerque. These routes fit Southwest's market criteria well, reflecting both the continuing strength of our regional economy, the vitality of the energy industry, and the importance of the community of interest with cities previously served by Southwest. All three of these routes were profitable within the first month of operations.

Local service between El Paso and Albuquerque was begun successfully in July.

In September, service to Beaumont/Port Arthur/Orange was discontinued for economic reasons and service was commenced between North Houston's Intercontinental Airport and Love Field. No reduction in service to Houston's close-in Hobby Airport, Southwest's primary point of Houston service, is anticipated, nor has any measurable amount of traffic diversion from Hobby been noted, as a result of the inauguration of Intercontinental service.

To respond to increasing traffic demands from the two new Oklahoma markets, non-stop service between these cities and Houston was initiated in December.

The expansion of fleet, combined with the new service in 1980, increased capacity, measured in available seat miles, by 28% over 1979, to a level of 2,969 million.

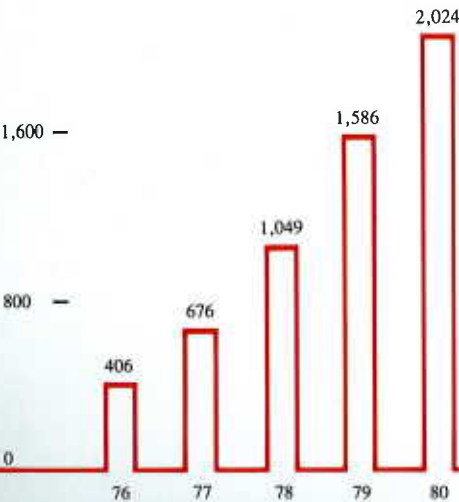
During 1981, no new city expansions are currently planned. Operating and service emphasis in 1981 will concentrate on enhancing service levels in existing markets.

TRAFFIC

Revenue passenger miles increased 28% to 2,024 million, up from 1,586 million in 1979. Passengers carried increased 20% to a total of 5,976,621 passengers in 1980. Load factor was essentially unchanged from 1979 at a level of 68.2%. This efficient load factor continues to emphasize Southwest's industry leadership in operational productivity and asset utilization.

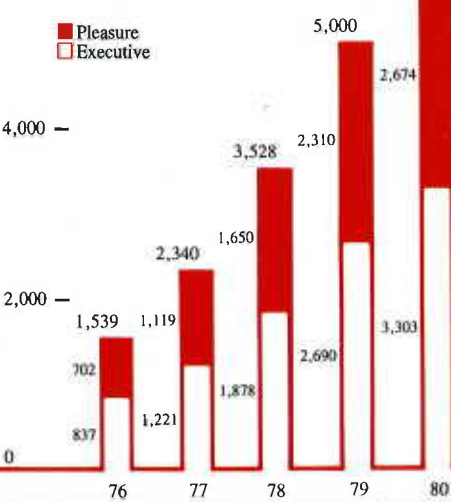
Revenue Passenger Miles

(In Millions)



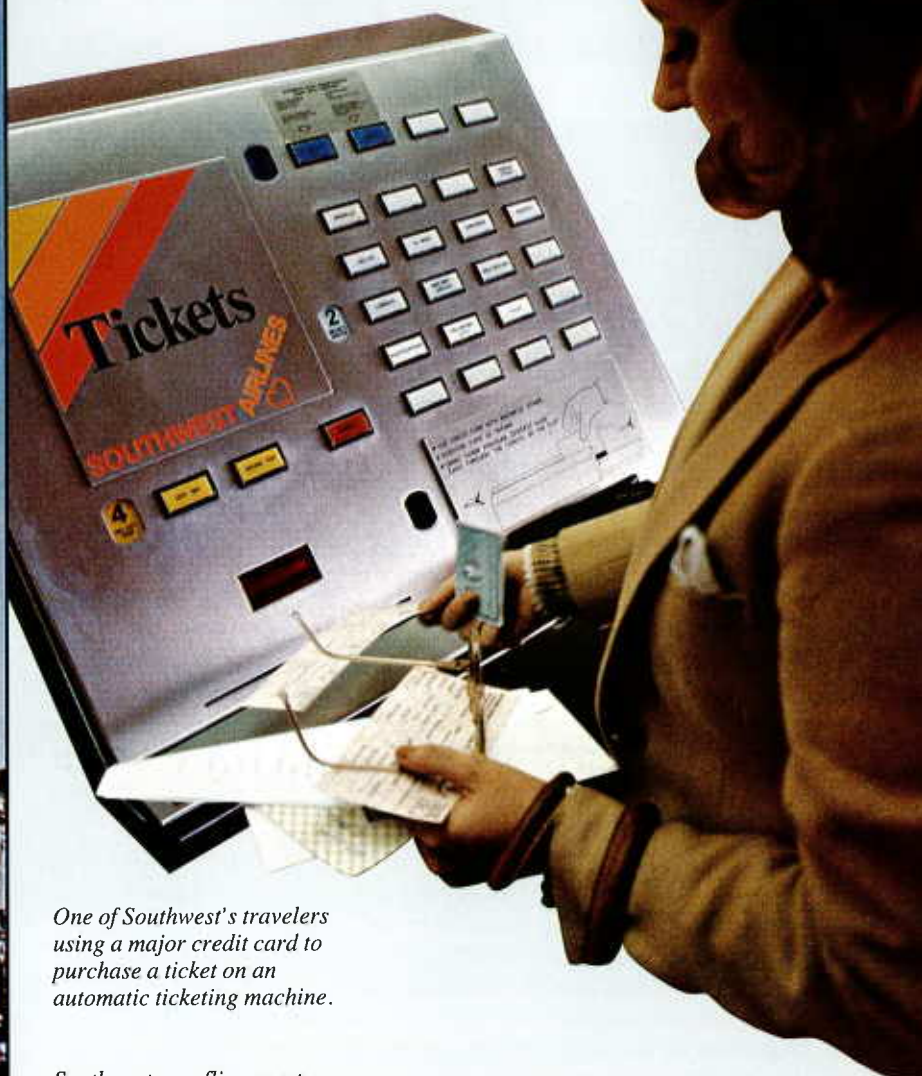
Revenue Passengers Carried

(In Thousands)



Executive: Monday through Friday, 6:30 AM to 6:59 PM
Pleasure: All weekends and after 6:59 PM weekdays.

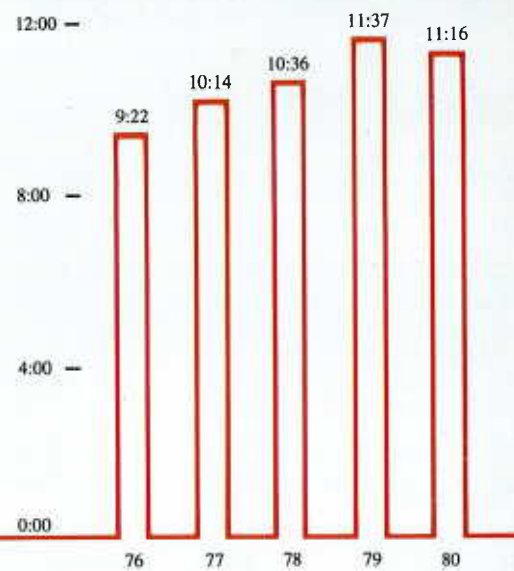




One of Southwest's travelers using a major credit card to purchase a ticket on an automatic ticketing machine.

Southwest now flies nonstop to New Orleans from both Dallas and Houston.

Aircraft Utilization (Hours and Minutes Per Day)



Review of Financial Performance

Southwest's 10 years of financial performance improvements continued in 1980. Revenues, operating income, dividends, stockholders' equity and earnings per share again set new records. Financing activities included completion of equipment trust financing begun in 1979, a public offering of common stock, and Southwest's first purchase of aircraft free of any liens. Cost controls, emphasis on productivity of people, assets, and capital, and a moderation in the rate of jet fuel cost increases held expense increases below revenue increases.

REVENUES AND CASH FLOW

In 1980, revenues increased 57% to \$213,048,000 from \$136,114,000 in 1979. Capacity increases of 28%, along with a 31% increase in average fare, generated this record amount of increased revenues. Despite this increase, Southwest's yield per passenger mile remained at \$.1009, the lowest level of any regional carrier and well below the more rapidly increasing cost per mile to operate an automobile.

Total working capital from operations increased from \$29,357,000 in 1979 to \$48,100,000. Proceeds from financing activities totaled \$44,087,000, thus providing a total source of funds of \$92,187,000.

CAPITAL EXPENDITURES

Total capital expenditures were \$56,504,000, up slightly from \$54,314,000 in 1979. The purchase of five Boeing 737-200 advanced aircraft, plus progress payments on future aircraft deliveries, comprised 82.5% of capital expenditures. The construction of a second reservations facility in San Antonio to provide improved passenger service will total slightly over \$5,000,000, split approximately equally between 1980 and 1981. Other projects in 1980 capital expenditures included the opening of ground facilities at new stations in Oklahoma City, Tulsa, and Albuquerque, improvements at existing stations, and support equipment for the expanded aircraft fleet.

CAPITALIZATION AND FINANCING

Southwest's program to strengthen its capital structure and limit its exposure to volatile money market rates was successful again in 1980. The debt and equity transactions of 1980 are outlined in the Letter to Stockholders and the consolidated financial statements.

The principal accomplishments of this strategy include:

- ... Reduction of prime-tied debt to \$15,000,000 from the 1979 peak of \$72,000,000.
- ... Placement of 15 year maturity equipment trust certificates at a 10.3% fixed rate of interest.
- ... Increasing the average life of debt outstanding from 3.48 to 6.32 years.
- ... Improving working capital efficiency through the revolving line of credit.
- ... Immediate capital availability from the revolving credit of up to \$35,000,000.
- ... Expansion of the equity base through the September, 1980 public offering of common stock.
- ... Ownership of three new aircraft, free of any liens or claims, purchased without additional debt financing.
- ... Reduction of long-term debt as a percentage of invested capital to 42% at December 31, 1980, compared to 60% at January 1, 1980.

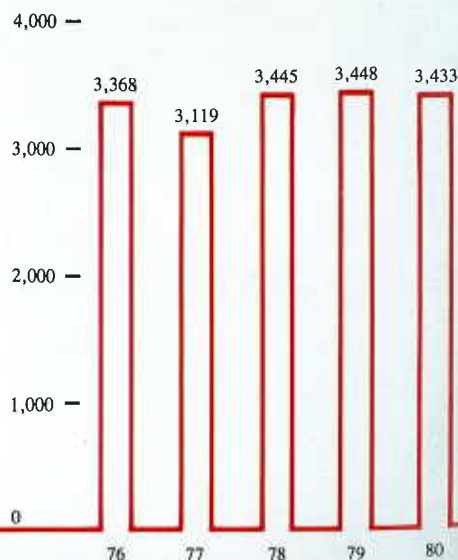
These accomplishments position Southwest to take advantage of future growth opportunities with a greater degree of financial flexibility than in the past. Also, the decrease in financial leverage lessens the impact of capital costs on airline operations while providing an increased level of financial resources important in an increasingly competitive airline industry.

STOCKHOLDERS' EQUITY

Total stockholders' equity increased 83.1% during 1980 from \$58,412,000 to \$106,964,000. Of this increase, \$21,900,000, or 45.1%, is attributable to the issuance of new shares, with the remainder attributable to increases in retained earnings.



Passengers Boarded Per Employee
(Based on Average Month-End Staffing)





Corpus Christi is one of the 15 cities served by Southwest.

Ramp Agent Mitch McConnell loads one of the approximately 12 million pieces of baggage handled annually by Southwest.



Return on stockholders' equity for 1980 was 36.0% compared to 33.1% in 1979. This marks the seventh consecutive year in which the return on stockholders' equity has exceeded 30%.

On August 26, 1980, a 3-for-2 stock split-up was declared, resulting in an additional 2,287,000 shares to shareholders. The Board of Directors also declared a quarterly dividend of 8 cents per share on the new shares, which, coupled with an earlier increase in dividends, generated an effective 71% increase in the dividend rate.

Book value per share at year-end was \$14.12, up 63.2%.

FUEL COSTS AND FARE INCREASES

The catastrophic rate of fuel cost increases of 1979 moderated somewhat in 1980. Although the average fuel cost increase in 1980 was 43.2%, as outlined below quarter-to-quarter increases after the first quarter of 1980 were well below those of 1979:

	Average Price Per Gallon	Percent Increase
1979		
First Quarter	39.45¢	3.1%
Second Quarter	55.25¢	40.0%
Third Quarter	66.90¢	21.1%
Fourth Quarter	70.98¢	6.1%
Year	59.35¢	55.3%
1980		
First Quarter	81.31¢	14.6%
Second Quarter	83.89¢	3.2%
Third Quarter	86.00¢	2.5%
Fourth Quarter	87.97¢	2.3%
Year	84.96¢	43.2%

During 1980, as in 1979, Southwest experienced no flight cancellations due to unavailability of fuel. Previously mandated fuel allocations arising from the February, 1979 decontrol of jet fuel continued. However, wide availability of jet fuel and a price-competitive spot market were experienced. During 1980, approximately 42% of jet fuel purchases were made in the spot market, primarily from multiple independent refiners.

These rapid fuel cost increases forced Southwest to raise its fares on January 8, 1980 by 12%, its only price increase during 1980, which was, in general, a year of frequent fare increases for the bulk of the airline industry.

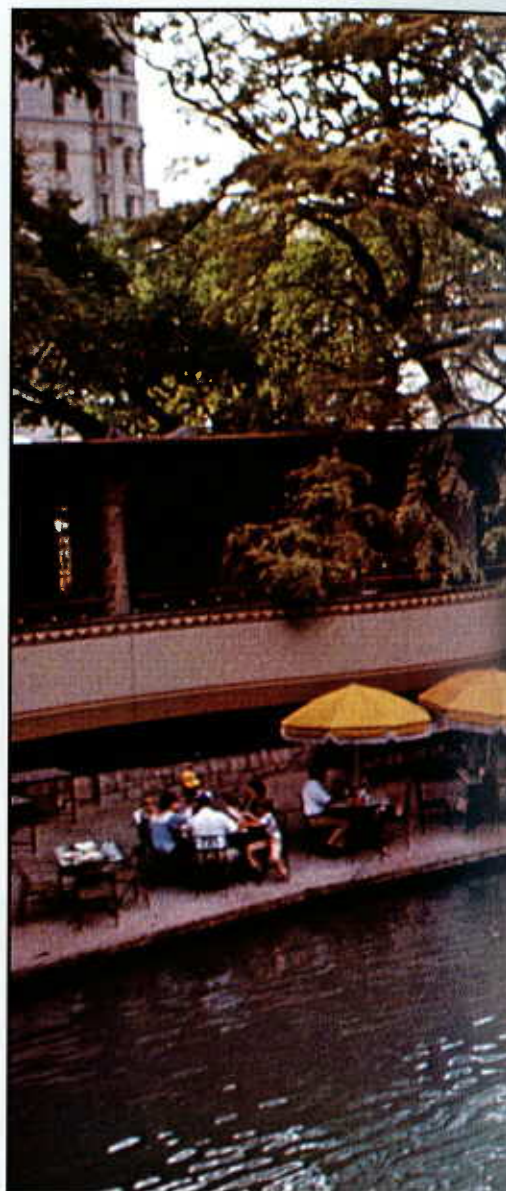
Southwest remains strongly committed to offering the best transportation value available. The comparative value of Southwest's low fares actually improved in 1980 in relation to the generally available unrestricted standard coach fares of other air carriers and particularly in relation to the private automobile, whose operating costs per mile escalated more rapidly.

In the first sixty days of 1981, jet fuel costs have escalated more rapidly than in previous months, moving up 14% from \$.91 per gallon at January 1, 1981, to \$1.04 per gallon at March 1. Southwest reluctantly increased fares on January 12, 1981 by 8.4%. Fuel conservation and other cost controls will continue to be stressed to minimize future fare increases. It remains Southwest's current intention, however, to pass through jet fuel cost increases in the form of fare increases to provide long-term protection of operating margins.

COST STRUCTURE AND PRODUCTIVITY

Southwest's emphasis on employee productivity and a tightly controlled cost structure continue to be extremely significant to Southwest.

During 1980, passenger boardings per employee, a key productivity indicator, remained virtually unchanged from 1979, despite the start-up of four new stations. Operating revenues per employee increased from \$93,872 to \$122,371.



One of Southwest's 1900 employees directing the Boeing 737-200 at Dallas Love Field.



Southwest operates 248 flights per week at San Antonio, a city famous for its River Walk and its cultural heritage.



Ticket Agent Alica Deutschmann serving one of the 6 million passengers which Southwest carried in 1980.

Reflected below in operating cost per available seat mile is the combined impact of high asset utilization and employee productivity.

Category of Costs	Unit Cost Per Available Seat Mile		Percentage Increase (Decrease)
	1980	1979	
Aircraft fuel and oil	2.08¢	1.62¢	28.4%
Payroll and related	1.62	1.40	15.7%
Landing fees .....	.12	.14	(14.3)%
Aircraft costs .....	.70	.55	27.3%
All other	1.01	.91	11.0%
Total operating costs	5.53¢	4.62¢	19.7%

Total unit costs increased 19.7%, slightly less than the 20.0% increase in 1979. Excluding fuel increases, operating expenses increased 15.0% in 1980. According to historical CAB data for trunk and regional air carriers, Southwest's unit cost per available seat mile continues to be the lowest in the industry.

INCOME TAXES

Federal income taxes provided for in 1980 were \$12,843,000, resulting in an effective tax rate of 31% compared to the 1979 effective rate of 20%. The difference between the actual tax rate and the 46% statutory rate is primarily due to the \$5,576,000 of current year investment tax credits generated from the acquisition of five new aircraft which were placed in service during 1980, along with other qualified capital additions. Also lowering the 1980 effective rate was \$557,000 of additional investment tax credit for contribution to an Employee Stock Ownership Plan.

Deferred income taxes at December 31, 1980 were \$20,222,000, arising from the accumulation of timing differences between financial and taxable income. These differences are principally due to the use of accelerated depreciation methods for tax reporting and the deferral of taxes due to the nonrecognition of gain on disposition of aircraft for federal income tax purposes.

For additional analysis of the tax provision and deferred taxes see Note 6 to the consolidated financial statements.

NET INCOME

Operating income increased 68.5% to \$48,829,000 in 1980, compared to \$28,986,000 in 1979.

Earnings per share climbed 64.4% to \$4.06 compared to \$2.47 in 1979, after adjustment for the September, 1980 stock split.

The 1980 net operating margin was 22.9% of total revenues, up from 21.3% in 1979. This improvement in operating margin is primarily attributable to moderating jet fuel cost increases and the full year's impact in 1980 of 1979 fare increases.

The net profit margin showed similar improvement, increasing from 12.2% in 1979 to 13.4% in 1980.

PROFIT SHARING CONTRIBUTIONS

All of Southwest's employees are members of the Company's Profit Sharing Plan. This Plan creates a visible linkage for each employee between his own job performance and the overall financial performance of Southwest. The Plan thus provides a significant financial incentive for employee productivity, one of the keys to Southwest's financial success. During 1980, the Profit Sharing Plan added an average of 21% to the compensation of each employee in the Plan. Total 1980 contributions, paid in quarterly cash bonuses and contributions to the Profit Sharing Trust, were \$6,736,000, up 96% from 1979.



First Officer Steven Rupp showing the cockpit of the Boeing 737 to one of our many young passengers.



In addition to the Profit Sharing Plan, Southwest maintains an Employee Stock Ownership Plan which allows Southwest to generate an additional one percent investment tax credit if this amount is invested in Southwest stock on behalf of the employees. In 1980, \$557,000 in additional employee compensation resulted from this Plan, at no additional cost to Southwest.

QUARTERLY EARNINGS STATEMENTS

Unaudited quarterly financial results are summarized in Note 7 to the consolidated financial statements.

COMMON STOCK PRICE RANGES AND DIVIDENDS

Southwest's Common Stock is listed on the New York Stock Exchange and trades 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, in each case as adjusted for three-for-two stock splits in February, 1979 and September, 1980, were:

Period	Dividend	High	Low
1979			
1st Qtr	\$.0467	\$13.25	\$ 9.00
2nd Qtr . . . . .	.0467	14.92	12.00
3rd Qtr . . . . .	.0467	17.33	13.00
4th Qtr . . . . .	.0467	16.67	13.08
1980			
1st Qtr . . . . .	.0533	15.67	11.67
2nd Qtr . . . . .	.0533	20.58	11.83
3rd Qtr . . . . .	.0800	29.50	19.33
4th Qtr . . . . .	.0800	37.00	26.00

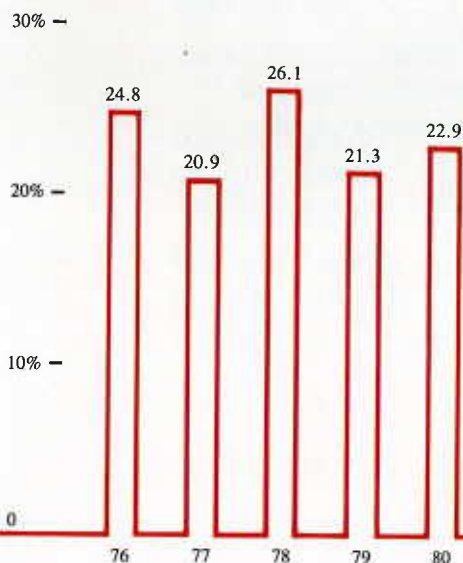
At December 31, 1980 there were 3,356 holders of record of the Company's Common Stock. For certain limitations of the payment of dividends by the Company, see Note 4 to the consolidated financial statements.

* * * * *

The 1980 financial performance of Southwest, as in previous years, is the result of the successful combination of planned, controlled growth guided by the business strategy outlined in the front cover of this report. This performance, aided by the relative strength of the regional economy and the increasing attractiveness of economical, short-haul air travel, should continue to improve Southwest's financial strength and provide the opportunity for long-term increases in both earnings and dividends.

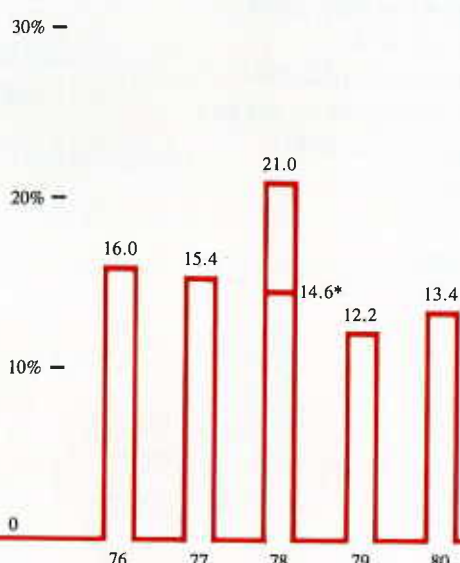
Net Operating Margin

(Operating Income as a Percentage of Operating Revenues)



Net Profit Margin

(Net Income as a Percentage of Operating Revenues)



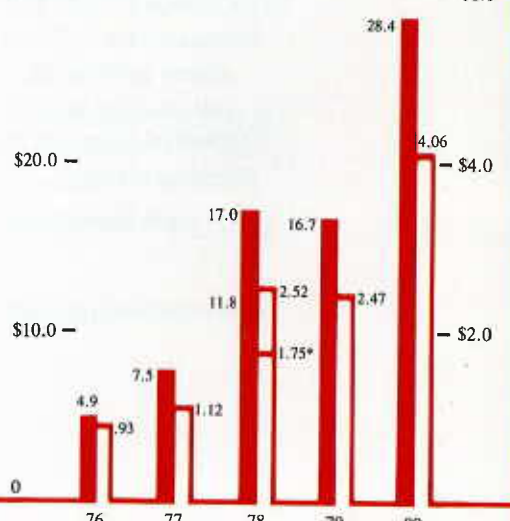
*Excluding non-recurring items.

Net Income

Net Income Per Share

In Millions
\$30.0 —

Per Share
\$6.0 —



*Excluding non-recurring items.

Southwest Airlines Co. Consolidated Balance Sheet

(in thousands except shares)

December 31, 1980 and 1979

	1980	1979
Assets		
CURRENT ASSETS:		
Cash, including short-term investments of \$17,094 (\$6,685 in 1979) (Note 4)	\$ 18,079	\$ 10,407
Accounts receivable	8,703	9,157
Inventories of parts and supplies, at cost	1,351	1,236
Prepaid expenses	814	289
TOTAL CURRENT ASSETS	28,947	21,089
Flight and ground equipment at cost (Note 2):		
Flight equipment—aircraft (Note 4)	188,353	138,390
Other flight and ground equipment	37,477	32,160
	225,830	170,550
Less allowance for depreciation	30,922	19,974
	194,908	150,576
Deferred charges and other assets	587	830
	\$224,442	\$172,495
 Liabilities and Stockholders' Equity		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 2,385	\$ 2,541
Accounts payable	6,254	5,533
Unearned revenues	2,358	—
Accrued liabilities (Note 3)	7,971	4,820
TOTAL CURRENT LIABILITIES	18,968	12,894
Long-term debt less current maturities (Note 4)	77,892	87,374
Deferred federal income tax	20,222	12,919
Deferred compensation	396	397
Deferred profit sharing	—	499
Total liabilities	117,478	114,083
Commitments and contingencies (Notes 2 and 9)		
STOCKHOLDERS' EQUITY (Note 4):		
Common stock, \$1.00 par value; 15,000,000 shares authorized; 7,576,000 shares issued and outstanding in 1980 (4,500,000 in 1979)	7,576	4,500
Capital in excess of par value	28,999	10,046
Retained earnings	70,389	43,866
Total Stockholders' Equity	106,964	58,412
	\$224,442	\$172,495

See accompanying notes.

Southwest Airlines Co.
Consolidated Statement of Income
(in thousands except for share and per share information)

	Years Ended December 31,		
	1980	1979	1978
OPERATING REVENUES:			
Passenger	\$ 205,764	\$ 131,573	\$ 78,537
Package express	6,080	4,057	2,364
Other	1,204	484	164
Total operating revenues	213,048	136,114	81,065
OPERATING EXPENSES:			
Fuel and oil	61,887	37,598	16,509
Flight operations	16,101	12,689	7,049
Maintenance	14,319	7,675	5,711
Passenger services	7,992	5,868	3,723
Terminal operations	22,170	15,321	9,221
Promotion and sales	10,061	6,749	3,718
Insurance, taxes, and administrative	12,224	8,444	5,223
Depreciation	12,172	8,482	6,436
Employee profit sharing (Note 5)	7,293	4,302	2,353
Total operating expenses	164,219	107,128	59,943
OPERATING INCOME	48,829	28,986	21,122
NON-OPERATING EXPENSE (INCOME):			
Interest and other income	(1,697)	(441)	(194)
Interest expense (Note 4)	9,236	8,713	5,882
Net non-operating expense	7,539	8,272	5,688
Income before gain on disposition of aircraft and federal income tax	41,290	20,714	15,434
Gain on disposition of aircraft	—	—	8,522
Income before federal income tax	41,290	20,714	23,956
Provision for federal income tax (Note 6)	12,843	4,062	7,687
Income before accounting change	28,447	16,652	16,269
Net cumulative effect of accounting change (Note 8)	—	—	735
NET INCOME	\$ 28,447	\$ 16,652	\$ 17,004
INCOME PER COMMON SHARE:			
Weighted average common shares outstanding (adjusted for 1979 and 1980 stock splits)	7,006,000	6,750,000	6,750,000
Income before accounting change	\$4.06	\$2.47	\$2.41
Net income	\$4.06	\$2.47	\$2.52

See accompanying notes.

Southwest Airlines Co.

Consolidated Statement of Stockholders' Equity

(in thousands except for per share information)

Three Years Ended December 31, 1980				
	Common stock	Capital in excess of par value	Retained earnings	Total
BALANCE AT DECEMBER 31, 1977	\$2,000	\$12,367	\$12,240	\$ 26,607
Three-for-two stock split	1,000	(1,000)	—	—
Cash dividends, \$.11 per share	—	—	(770)	(770)
Compensation element of executive stock options	—	48	—	48
Net income—1978	—	—	17,004	17,004
BALANCE AT DECEMBER 31, 1978	3,000	11,415	28,474	42,889
Three-for-two stock split	1,500	(1,500)	—	—
Cash dividends, \$.19 per share	—	—	(1,260)	(1,260)
Compensation element of executive stock options	—	131	—	131
Net income—1979	—	—	16,652	16,652
BALANCE AT DECEMBER 31, 1979	4,500	10,046	43,866	58,412
Three-for-two stock split	2,287	(2,287)	—	—
Proceeds from issuance of common stock	615	15,836	—	16,451
Contribution of common stock to profit sharing trust	174	5,275	—	5,449
Cash dividends, \$.27 per share	—	—	(1,924)	(1,924)
Compensation element of executive stock options	—	129	—	129
Net income—1980	—	—	28,447	28,447
BALANCE AT DECEMBER 31, 1980	<u>\$7,576</u>	<u>\$28,999</u>	<u>\$70,389</u>	<u>\$106,964</u>

See accompanying notes.

Southwest Airlines Co.
Consolidated Statement of Changes in Financial Position
(in thousands)

	Years Ended December 31,		
	1980	1979	1978
FINANCIAL RESOURCES WERE PROVIDED BY:			
Working capital provided from operations:			
Income before cumulative effect of accounting change	\$ 28,447	\$16,652	\$16,269
Items not affecting working capital during the current period:			
Depreciation	12,172	8,482	6,436
Deferred compensation and compensation element of executive stock options	178	215	125
Deferred federal income tax	7,303	3,460	7,726
Deferred profit sharing	—	499	—
Other	—	49	—
Total from operations	48,100	29,357	30,556
Issuance of common stock	21,900	—	—
Issuance of long-term debt	22,187	57,865	15,000
Total source of funds	92,187	87,222	45,556
FINANCIAL RESOURCES WERE UTILIZED FOR:			
Net additions to flight and ground equipment	56,504	54,314	40,204
Cash dividends	1,924	1,260	770
Reduction of long-term debt	31,669	32,541	—
Other	306	579	(34)
Total application of funds	90,403	88,694	40,940
INCREASE (DECREASE) IN WORKING CAPITAL	\$ 1,784	\$ (1,472)	\$ 4,616
CHANGES IN COMPONENTS OF WORKING CAPITAL:			
Increase (decrease) in current assets:			
Cash including short-term investments	\$ 7,672	\$ 1,742	\$ 3,818
Accounts receivable	(454)	5,170	1,728
Inventories	115	650	101
Prepaid expenses	525	(184)	235
	7,858	7,378	5,882
Increase (decrease) in current liabilities:			
Current maturities of long-term debt	(156)	2,541	—
Accounts payable	721	2,286	756
Unearned revenues	2,358	—	—
Accrued liabilities	3,151	4,023	510
	6,074	8,850	1,266
Increase (decrease) in working capital	\$ 1,784	\$ (1,472)	\$ 4,616

See accompanying notes.

Southwest Airlines Co.

Notes to Consolidated Financial Statements

December 31, 1980

1. Basis of presentation and summary of significant accounting policies

Basis of presentation—

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Midway (Southwest) Airway Co. All significant intercompany balances and transactions have been eliminated.

Depreciation and overhaul allowances—

Depreciation is provided by the straight-line method to residual values over a fifteen-year period for aircraft and over periods ranging from three to twenty years on other flight and ground equipment.

The Company expenses major aircraft maintenance and overhaul costs as incurred. In years prior to 1978, the Company provided an airworthiness reserve for such costs (see Note 8).

Investment tax credits—

Investment tax credits are accounted for by the flow-through method.

Per share amounts—

Income per share computations are based upon the weighted average number of shares outstanding during the respective periods. Per share information has been restated to reflect common stock splits.

Unearned revenues—

Unearned revenues represent the sale of tickets for which transportation has not yet been provided, under a program for preselling tickets to travel agencies which was begun in 1980.

2. Flight and ground equipment

Other flight and ground equipment is (in thousands):

	1980	1979
Progress payments on additional aircraft	\$ 5,770	\$ 9,562
Support flight equipment	13,878	10,306
Ground equipment	10,088	7,266
Leasehold improvements	3,914	3,810
Construction in progress	3,827	1,216
	<u>\$37,477</u>	<u>\$32,160</u>

At December 31, 1980, the Company had contractual commitments of approximately \$72,726,000 for the purchase of seven Boeing 737-200 aircraft to be delivered in 1981 and 1982.

3. Accrued liabilities

Accrued liabilities consist of (in thousands):

	1980	1979
Profit sharing	\$1,683	\$1,455
Interest	—	1,699
Federal income tax	4,861	602
Ad valorem taxes	581	719
Other	846	345
	<u>\$7,971</u>	<u>\$4,820</u>

4. Long-term debt

Long-term debt less current maturities is (in thousands):

	1980	1979
10.40% Equipment Trust Certificates due July 1, 1994 with semiannual principal and interest payments starting January 1, 1980	\$23,284	\$25,074
10.30% Equipment Trust Certificates due January 1, 1995 with semiannual principal and interest payments starting July 1, 1980	18,900	20,300
10.30% Equipment Trust Certificates due July 1, 1995 with semiannual principal and interest payments starting January 1, 1981	20,708	—
Revolving Credit Agreement	15,000	42,000
Long-term debt less current maturities	<u>\$77,892</u>	<u>\$87,374</u>

In 1979, the Company entered into equipment trust agreements to borrow 80% of the cost of ten Boeing 737-200 advanced series aircraft. These loans are supported by Equipment Trust Certificates, issued by the trustee and guaranteed by the Company. The Company has the option to retire the unpaid balance after certain specified dates. Depending on the conditions surrounding such retirement, there could be a premium required for early retirement.

On July 6, 1979, the Company entered into a Revolving Credit Agreement which provides a \$50,000,000 revolving line of credit expiring March 31, 1982, followed by a six-year term loan repayable in 24 quarterly installments beginning the first day of the calendar quarter following conversion to the term loan. The Revolving Credit Agreement is renewable annually for two-year periods with the consent of the banks.

The interest rate on borrowings under the Revolving Credit Agreement is equal to the agent bank's prime commercial rate and is payable quarterly. The interest rate on the term loan is equal to 1/2% over the agent bank's prime commercial rate. The commitment fee for the Revolving Credit Agreement is 1/2% per annum on the unused portion of the committed credit.

The Revolving Credit Agreement, which is secured by eleven aircraft, also provides for the maintenance of certain minimum net worth levels and working capital ratios and for certain restrictions as to additional borrowings, capital expenditures, and cash dividend payments. At December 31, 1980, the Company had retained earnings in the amount of \$5,689,000 available for payment of cash dividends.

The Company and the various banks have an informal understanding that the Company will endeavor to maintain on deposit average cash balances equal to 10% of the total credit available plus 5% of borrowings under the Revolving Credit Agreement. It is understood between the parties that no such funds are restricted from withdrawal by the Company at any time.

At December 31, 1980, the Company had available \$35,000,000 for future borrowings under the Revolving Credit Agreement.

The Company has free and clear title to two aircraft with a net book value of \$21,346,000 at December 31, 1980. The Equipment Trust Certificates and Revolving Credit Agreement are secured by the remaining aircraft.

Long-term debt principal repayments due in each of the next five years, but excluding the borrowings under the revolving line of credit are (in thousands):

1981	\$2,385
1982	4,720
1983	4,720
1984	4,720
1985	4,720

5. Employee profit sharing and cash bonus plans

Substantially all of the Company's employees are members of a profit sharing plan. The plan provides that the Company may contribute, as determined by the Board of Directors, the lesser of 15% of its adjusted pretax income (as defined by the plan) or the maximum amount deductible for federal income tax purposes.

The plan permits the Company to pay currently a portion of each eligible employee's profit sharing amount in the form of a cash bonus. The remaining profit sharing amount is contributed to the employees' profit sharing trust to be invested as designated by the employee in one or more of four investment media, including the Company's common stock.

During 1979, the Company adopted for both 1978 and 1979, an Employee Stock Ownership Plan which, under Internal Revenue Service regulations, allows the Company to claim an additional 1% investment tax credit if this amount is invested in Company stock on behalf of its employees. The Company has recorded in 1980 an additional \$557,000 (\$873,000 in the fourth quarter of 1979) of profit sharing expense and investment tax credit as a result of adopting the Plan.

6. Federal income tax

Provisions for federal income tax are as follows (in thousands):

	1980	1979	1978
Current	\$ 5,540	\$ 602	\$ —
Deferred	7,303	3,460	7,687
	<u>\$12,843</u>	<u>\$4,062</u>	<u>\$7,687</u>

The provision for federal income tax reconciles to statutory rates as follows (in thousands):

	1980	%	1979	%	1978	%
Income tax provision on income before accounting change at statutory rate	\$18,993	46	\$ 9,528	46	\$11,498	48
Investment tax credit	(5,576)	(14)	(4,915)	(24)	(3,775)	(16)
ESOP tax credit	(557)	(1)	(873)	(4)	—	—
Other	(17)	—	322	2	(36)	—
	<u>\$12,843</u>	<u>31</u>	<u>\$ 4,062</u>	<u>20</u>	<u>\$ 7,687</u>	<u>32</u>

Deferred federal income tax results from (in thousands):

	1980	1979	1978
Timing differences in flight and ground equipment	\$5,813	\$3,967	\$6,761
Application of investment tax credits	884	(409)	1,365
Other	606	(98)	(439)
	<u>\$7,303</u>	<u>\$3,460</u>	<u>\$7,687</u>

Timing differences in flight and ground equipment result principally from the use of accelerated depreciation methods and non-recognition of gain on disposition of aircraft for federal income tax reporting.

7. Quarterly financial data (unaudited)

Summarized quarterly financial data (in thousands except for per share amounts) is:

	Three months ended			
	March 31	June 30	Sept. 30	Dec. 31
1980				
Revenues	\$40,186	\$56,566	\$58,795	\$57,501
Operating income	7,532	14,233	14,678	12,386
Income before tax	6,093	11,359	12,661	11,177
Net income	4,309	7,764	8,423	7,951
Income per share .....	.63	1.14	1.22	1.07

	Three months ended			
	March 31	June 30	Sept. 30	Dec. 31
1979				
Revenues	\$25,677	\$32,272	\$38,071	\$40,094
Operating income	6,198	7,187	8,804	6,797
Income before tax	4,425	5,257	6,743	4,289
Net income	3,328	4,061	4,897	4,366
Income per share .....	.49	.60	.73	.65

	Three months ended			
	March 31	June 30	Sept. 30	Dec. 31
1978				
Revenues	\$16,052	\$19,668	\$22,488	\$22,857
Operating income	3,221	4,927	6,630	6,344
Gain on disposition of aircraft	—	—	5,867	2,655
Income before tax	1,969	3,543	11,055	7,389
Net income before accounting change	1,969	3,012	6,765	4,523
Net income	2,704	3,012	6,765	4,523
Income per share .....	.40	.45	1.00	.67

8. Accounting change

In years prior to 1978, the Company provided an airworthiness reserve for major aircraft maintenance and overhaul costs. These costs were accumulated in the reserve on a per-flight-hour basis. Actual expenditures for major aircraft maintenance and overhaul costs were relieved from the reserve as incurred.

Effective January 1, 1978, the Company changed its method of accounting for major maintenance and overhaul costs from the reserve method to that of expensing such costs as incurred. The change was made to conform the Company's accounting for such costs to the predominant method in the airline industry and, in anticipation of possible interstate route awards, to utilize the established accounting policies of the Civil Aeronautics Board (CAB). The Company believes that the direct expense method is preferable because of changes in the physical manner in which airframes and engines are now being maintained and an increase in the Company's fleet size.

Net income for the year ended December 31, 1978, has been increased by approximately \$735,000 (net of applicable federal income taxes and profit sharing of approximately \$388,000) which represents the cumulative effect on years prior to 1978 of the aforementioned change.

9. Commitments and contingencies

In 1973, the United States District Court for the Northern District of Texas declared that the Cities of Dallas and Fort Worth and the DFW Regional Airport Board could not prevent the Company from serving Dallas Love Field as long as Love Field remained open as an airport. This decision was affirmed by the Fifth Circuit Court of Appeals, and the United States Supreme Court declined to grant review.

Subsequently, in December, 1974, a Civil Aeronautics Board of the United States (CAB) Carrier (the Carrier) filed an action in the Travis County, Texas District Court seeking to exclude the Company from Love Field, or, as one of the alternatives, to close Love Field as an airport. Certain other airlines serving DFW Airport joined the Carrier in requesting this relief. The United States District Court for the Northern District of Texas entered a preliminary injunction prohibiting the Carrier and certain other CAB air carriers serving DFW from proceeding with that portion of the State Court suit which seeks to relitigate the right of the Company to remain at Love Field. Those carriers appealed the entry of the

preliminary injunction to the Fifth Circuit Court of Appeals which Court ruled in favor of the Company. Some of those carriers petitioned the United States Supreme Court to review the Fifth Circuit Court's decision, which petition was denied by the Supreme Court. Since such denial, no action has been taken by any party on the merits of the case, other than the Company's filing a motion for partial summary judgment. Ruling on this motion has been deferred pending the outcome of negotiations between the parties to dismiss both the Company's federal case and the above-described state court case to which it relates.

In December, 1978, the Company became subject to the jurisdiction of the CAB by obtaining authority to commence interstate air service between Houston, Texas and New Orleans, Louisiana. The CAB thereafter issued a certificate to the Company confirming its right to use Love Field in conjunction with its intra-Texas service over routes originally granted by the Texas Aeronautics Commission.

Subsequently, the CAB granted the Company authority to fly between Love Field and New Orleans, Louisiana. This determination was appealed to the District of Columbia Circuit Court of Appeals by certain of the DFW Airport parties and certain homeowner organizations. This appeal was dismissed by stipulation of the parties subsequent to enactment of the federal legislation described below.

In February, 1980, federal legislation was enacted which authorizes, under certain conditions met by the Company, air service between Love Field and any points in Texas, and the four adjacent states of Arkansas, Louisiana, New Mexico, and Oklahoma. Such legislation also validates the Company's right to continue its Love Field-New Orleans air service pursuant to the earlier grant of such authority by the CAB. Since enactment of such legislation, the CAB has granted the Company authority to provide air service between Love Field and Albuquerque, New Mexico; Oklahoma City, Oklahoma; and Tulsa, Oklahoma, which service the Company has been providing since April, 1980.

Based on opinion of counsel, the Company believes that its becoming subject to CAB jurisdiction and receiving a final CAB certificate authorizing use of Love Field in connection with intra-Texas air service, plus the enactment of the described legislation, establishes, as a matter of federal law, the Company's right to continue to use Love Field for such intra-Texas service. Further, based on opinion of counsel, the Company believes that it may continue to operate flights between Love Field and points within Texas and the four adjacent states while furnishing air service from points other than Love Field to points beyond Texas and the four adjacent states.

On September 2, 1980, pursuant to CAB authorization granted over the Company's objection, an interlining, CAB air carrier (the Carrier) introduced air service between Love Field, Houston's Intercontinental Airport, and points in Louisiana. The Company, the Cities of Dallas and Fort Worth, and the DFW Regional Airport Board appealed the CAB's determination to the District of Columbia Circuit Court of Appeals, insofar as such determination permitted an interlining air carrier to provide interstate air service between Love Field and points in the four states adjoining Texas. The Company, which does not interline, and the DFW Airport parties contend that the federal legislation described above prohibits any interstate air service to or from Love Field by an interlining air carrier. Such appeal is presently pending, and the Carrier terminated all air service at Love Field on January 31, 1981.

Insofar as the Love Field lawsuits involve controversy over the continued use and operation of Love Field as an airport, the management of the Company and its legal counsel expect to prosecute and defend successfully both the federal and state court actions. In the event of an adverse decision, no financial liability is indicated, although the effect on future operations is not predictable at this time. The Company is involved in several other legal proceedings, the outcome of which in the opinion of management and counsel will not have a material effect on the financial statements.

Groups and organizations of homeowners in the vicinity of Love Field have proposed that the Dallas City Council adopt restrictions on aircraft operations at Love Field, including a flight curfew. At the present time, it is not known what, if any, action will be taken by the City Council.

Total rental expenses charged to operations in 1980, 1979 and 1978, were \$2,281,000, \$3,127,000 and \$2,248,000, exclusive of landing fees of \$3,532,000, \$2,557,000 and \$856,000, respectively. Landing fees are set by the governing bodies of the airports served by the Company and are based upon usage of airport runways.

The majority of the Company's corporate office and terminal operations space is leased through noncancelable operating leases. Minimum future obligations on all leases in effect are as follows (in thousands):

1981	\$ 2,881
1982	1,361
1983	853
1984	775
1985	742
After 1985	7,543
	<u>\$14,155</u>

Supplementary Information On Effects of Changing Prices (Unaudited)

Financial reporting and changing prices

Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices," requires providing certain information about the effects of general inflation (constant dollar) and the effects of changes in specific prices (current cost). It is hoped that measuring certain assets and expenses in constant dollars and at current costs will provide better information to investors, creditors and others to assess prospective cash flow and current economic resources. The information provided should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

FASB 33 endeavors to measure the effects of inflation in two different ways:

1) Constant dollar—in inflationary periods, the amount of goods and services that a dollar will buy declines. Since financial data involves dollars expended in different years, all dollars are adjusted to a common index level by application of the Consumer Price Index for All Urban Consumers (CPI-U).

2) Current cost—in inflationary periods, prices of goods and services will not all necessarily increase at the same rate. The impact of inflation on a specific company may also be measured by estimates of the change in prices of specific goods and services that the company uses. Current cost amounts reflect changes in specific prices of goods and services and differ from constant dollar amounts to the extent that specific prices have increased

more or less rapidly than prices in general. Neither method purports to represent the amount at which assets could be sold.

Methods of computation

Constant dollar—values were determined by applying the CPI-U to specified data.

Current cost—

a) Property and equipment—current cost was determined by the following methods:

1) Direct pricing—the Company's aircraft fleet is comprised of B737-200 aircraft, which were priced using current new purchase prices and deducting an allowance for the age of each aircraft. Spare rotatable equipment was valued by applying the ratio of the historical cost of the aircraft fleet to its current cost to historical cost of rotatable equipment.

2) Indexing—all ground equipment and facilities were valued by applying the CPI-U to the appropriate asset account.

b) Depreciation was computed utilizing the same depreciable life assumption as used for the historical cost basis financial statements.

Table I "Statement of Income from Continuing Operations Adjusted for Changing Prices" restates net income for the year based upon the restatement of property and equipment adjusted for general inflation and for changes in specific prices.

Since the value of the Company's property and equipment was higher when adjusted for the effect of general inflation than when adjusted for its current costs, the depreciation expense computed on these higher values was therefore greater as reflected in the disclosures of adjusted depreciation expense and adjusted net income in Table I.

Table I "Effect on Relevant Balance Sheet Accounts at December 31, 1980 of Adjustment for Changing Prices" also presents the changes in values of our "net monetary assets" which occurred during 1980. The first item is a gain due to inflation, applicable to both methods, based on the decline in purchasing power of net monetary amounts owed. The Company's current assets (except flight equipment parts, fuel inventories and prepaid expense) and most of its liabilities (except unearned revenue) are monetary items. Since monetary liabilities during 1980 were greater than monetary assets, an unrealized gain of \$9,906,000 resulted. It must be noted, however, that the gain may only be realized when such liabilities are paid in the future with then cheaper dollars.

The next three items in Table I show that the value of the Company's net property and equipment has, as valued in current cost 1980 dollars, increased during the year by \$23,189,000. Of this amount, \$21,185,000 was due to general inflation, and the remainder is therefore attributed to increases in current costs in excess of general inflation.

The final item in Table I shows the effect of restating net assets at year-end for the effects of changing prices.

Table II is a five-year summary of certain selected supplementary financial data as adjusted for general inflation (CPI-U) as required by FASB 33. Certain data is not required for years 1976 through 1979.

FASB 33 requires that income taxes as reflected in the historical consolidated financial statements be left unadjusted. Tax laws do not presently allow deductions for the current costs of depreciation and to that extent do not adequately provide for capital recovery. During periods of persistent inflation and rapidly in-

creasing prices, such tax policies effectively result in a tax on shareholders' investment in the Company and thus do not tend to reflect economic reality.

The information presented in response to FASB 33 will continue to be examined by the Financial Accounting Standards Board in order to determine whether or not both the effect of consumer price index fluctuations and changes in current valuation of certain assets should continue to be shown or whether another method of calculation would be more useful.

TABLE I
STATEMENT OF INCOME FROM CONTINUING OPERATIONS
ADJUSTED FOR CHANGING PRICES FOR THE YEAR ENDED
DECEMBER 31, 1980
(000's)

	As Reported in the Primary Statements	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Costs)
Operating revenues	\$213,048	\$213,048	\$213,048
Depreciation expense	12,172	15,265	14,163
Other expenses	159,586	159,586	159,586
Provision for income taxes	12,843	12,843	12,843
Total expense	184,601	187,694	186,592
Net Income	\$ 28,447	\$ 25,354	\$ 26,456
Net Income per Common Share	\$ 4.06	\$ 3.62	\$ 3.78

EFFECT ON RELEVANT BALANCE SHEET ACCOUNTS AT
DECEMBER 31, 1980 OF ADJUSTMENT FOR CHANGING PRICES
(000's)

	(000 \$)		
Gain from decline in purchasing power of net amounts owed		<u>\$ 9,906</u>	<u>\$ 9,906</u>
Increase in specific prices (current cost) of property and equipment*			\$ 23,189
Increase in general price level (inflation component) of property and equipment			<u>21,185</u>
Excess of increase in specific prices over increases in general price level			<u>\$ 2,004</u>
Net assets at year-end	\$106,964	\$145,618	\$134,368

*At December 31, 1980, current cost of property and equipment net of accumulated depreciation was \$218,952,000.

TABLE II
FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY
FINANCIAL DATA ADJUSTED FOR EFFECTS OF
GENERAL INFLATION (In average 1980 dollars)

	Operating Revenues (000's)	Cash Dividends Per Share	Market Price Per Share At Year-End	Average Consumer Price Index
1976	\$ 44,757	\$.02	\$ 7.63	170.5
1977	\$ 66,693	\$.10	\$ 9.72	181.5
1978	\$102,389	\$.14	\$11.02	195.4
1979	\$154,521	\$.21	\$17.22	217.4
1980	\$213,048	\$.27	\$36.00	246.8

Management's Responsibility for Financial Statements

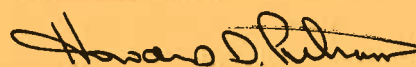
The accompanying consolidated financial statements and related information included in this Annual Report were prepared by the management of Southwest Airlines Co. in conformance with generally accepted accounting principles appropriate in the circumstances applied on a consistent basis. The primary responsibility for the integrity of this financial information rests with management.

Southwest Airlines Co. maintains a system of internal accounting controls. These are augmented by a program of internal audits designed to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and financial records are reliable as a basis for preparation of financial statements.

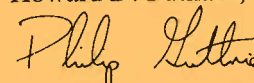
The independent public accountants provide an objective, independent review of management's discharge of its responsibilities as to the fairness of the financial statements. They review the Company's internal accounting controls and perform the necessary tests of procedures

and accounting records to enable them to express their opinion on the fairness of the financial statements.

The Audit Committee of the Board of Directors, composed solely of Directors from outside the Company, meets with the independent public accountants, management and the internal audit staff periodically to review the work of each and ensure that each is properly discharging its responsibilities. The independent public accountants and the internal audit department have free access to this Committee, without management present, to discuss the results of their audit work, the adequacy of internal financial controls and the quality of financial reporting.



Howard D. Putnam, President & Chief Executive Officer



M. Philip Guthrie, Vice President—Finance, Treasurer & Chief Financial Officer

Auditor's Report

The Board of Directors
Southwest Airlines Co.

We have examined the accompanying consolidated balance sheet of Southwest Airlines Co. at December 31, 1980 and 1979, and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Southwest Airlines Co. at December 31, 1980 and 1979, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, made as of January 1, 1978, in the method of accounting for major maintenance and overhaul costs as described in Note 8 to the consolidated financial statements.



Dallas, Texas
January 20, 1981



Bottom Photo

Executive class passengers enjoy the convenient lounges located throughout each aircraft.

A young passenger and Ticket Agent Sunshine Waggoner watching one of Southwest's 25 Boeing 737-200 advanced jet aircraft being prepared for flight.



Management's Discussion and Analysis of Results of Operations and Financial Condition

Following is management's discussion and analysis as required by regulations of the Securities and Exchange Commission.

1978 Compared to 1977

Revenues. Revenues for 1978 increased by 65% over those in 1977. This increase resulted largely from a 55% increase in revenue passenger miles (RPMs) and a general fare increase of 11.5% which was implemented in July 1978. The increase in RPMs is primarily attributable to added capacity from the net addition of three aircraft to Southwest's fleet in 1978. The capacity as measured in available seat miles (ASMs) was 54% greater in 1978 than that available in 1977. These capacity increases, when combined with slight increases in load factor and aircraft utilization, yielded the overall increase in RPMs flown.

Operating Expenses. Operating expenses increased by 55% from 1977 to 1978. The primary factors contributing to this rise were an increase in the number of trips flown and an increase in the average cost of jet fuel. With its expanded fleet of aircraft Southwest flew 55% more trips in 1978 than in 1977. Rising prices of fuel during 1978 increased the per trip cost of fuel by 5% over the 1977 level.

Operating Income. Operating income in 1978 increased 106% over 1977.

Interest Expense. Interest expense increased by 111% over 1977. This resulted from successive increases in the prime rate to which 50% of the Company's long-term debt was tied and the addition of \$15,000,000 of new debt incurred in the acquisition of the new aircraft.

Federal Income Tax. Operating income and the gain on disposition of aircraft generated federal income tax liability

in 1978 of approximately \$11,462,000, which was reduced by investment tax credits of \$3,775,000. In 1977 the tax liability was totally offset by investment tax credits.

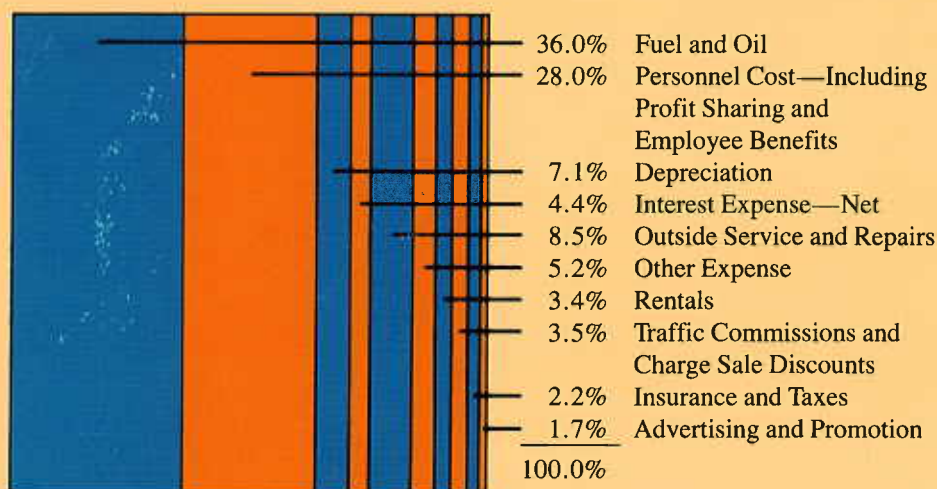
Net Income. Net income for 1978 increased by 125% over 1977. 1978 net income includes \$4,456,000 in after-tax gains on the disposition of three aircraft and \$735,000 cumulative effect of a change in accounting for maintenance expenses. Excluding these nonrecurring items, net operating income for 1978 increased by 57% over that of 1977.

1979 Compared to 1978

Revenues. Revenues for 1979 increased by 68% over those in 1978. This increase resulted largely from a 51% increase in RPMs and general fare increases of 7% and 12% which were implemented in July and September 1979, respectively. The increase in RPMs was primarily attributable to the added capacity created by the addition of five Boeing 737-200 aircraft to Southwest's fleet in 1979 and the use of one Boeing 727-200 which Southwest leased for part of the year. This total capacity, as measured in ASMs, was 49% greater than that available in 1978. In addition, during 1979 all of Southwest's aircraft were converted from a 112 seat to a 118 seat configuration. These capacity increases, when combined with a slight increase in load factor and a fairly substantial increase in aircraft utilization, yielded the overall increase in RPMs flown.

Operating Expenses. Operating expenses increased by 79% from 1978 to 1979. The primary factors contributing to this

Distribution of Expenses—1980



rise were a 38% increase in the number of trips flown and a substantial increase in the average cost of jet fuel. With its expanded fleet of aircraft Southwest flew 21,000 more trips in 1979 than in 1978. Rising prices of fuel during 1979 drove the per trip cost of fuel up by 65% over the 1978 level. The combined effect of more trips and higher jet fuel costs resulted in 1979 total fuel costs being 128% higher than those incurred in 1978.

Operating Income. Operating income in 1979 increased by 37% over 1978.

Interest Expense. Interest expense increased by 48% over 1978. This resulted from successive increases in the prime interest rate to which 48% of the Company's debt at year-end was tied and a net addition of \$27,865,000 of long-term debt incurred in financing the five new aircraft acquired in 1979.

Federal Income Tax. The total tax provision for 1979 was \$4,062,000, a decrease of 47%. In 1979 federal income taxes of \$9,850,000 were reduced by investment tax credits of \$5,788,000 which included \$873,000 generated by the adoption of an Employee Stock Ownership Plan in 1979. This yielded an effective tax rate for 1979 of 20% compared to the 1978 effective tax rate of 32%.

Net Income. Net income for 1979 decreased by 2% as compared to 1978. However, 1978 included \$5,191,000 of after-tax gain resulting from two nonrecurring items: a gain on the disposition of aircraft (including 3 non-advanced series Boeing 737s) and the cumulative effect of a change in accounting for maintenance expenses. From this perspective, 1979 net operating income increased by 41% over that of 1978 excluding 1978's nonrecurring items.

1980 Compared to 1979

Revenues. Revenues for 1980 increased by 57% over those of 1979. This increase resulted largely from a 28% increase in RPMs and a 31% increase in average passenger fare. The increase in RPMs was primarily attributable to added capacity from the addition of three aircraft in the fourth quarter of 1979 and three in the first quarter of 1980. The capacity as measured in ASMs was 28% greater in 1980 than that available in 1979. The increase in average passenger fare is primarily the result of general fare increases in July 1979, September 1979 and January 1980, combined with the effect of a 7% increase in average length of passenger haul.

Operating Expenses. Operating expenses increased by 53% from 1979 to 1980. The primary factors contributing to this rise were an increase of 20% in the number of trips flown and a 43% increase in the average cost of jet fuel.

Operating Income. Operating income for 1980 increased by 68% over 1979.

Interest Expense. Interest expense for 1980 increased only 9% over 1979. This resulted primarily from an overall decrease in long-term debt associated with the September pub-

lic stock offering. Also, in compliance with "Statement of Financial Accounting Standards No. 34—Capitalization of Interest Costs" effective in 1980, Southwest capitalized, for the first time, \$1,216,000, which is not a material amount, of interest on projects under construction and aircraft progress payments during 1980.

Federal Income Tax. Federal income taxes in 1980 increased by 216% over 1979. The effective tax rate for 1980 was 31% compared to an effective rate of 20% for 1979 primarily because of the reduction of investment tax credit as a percentage of income before tax. This higher effective rate, when applied to 99% higher income before tax, yielded the increase in tax provision for the period.

Net Income. Net income increased 71% over 1979. 1980 net income includes approximately \$600,000 in after-tax nonoperating income which resulted from the settlement of a lawsuit in the first quarter. Excluding this nonrecurring item, net operating income for the first half of 1980 increased by 67% over 1979.

Inflation. See pages 22 and 23 for information regarding changing price levels.

Liquidity and Capital Resources

Funds for working capital and capital expenditure requirements during the last three years have been provided by a combination of internally generated funds and external debt and equity financings. At December 31, 1980, the Company's long-term debt to equity ratio was 42.1%, compared to 59.9% at December 31, 1979. Currently, the majority of the Company's debt is represented by 15 year maturity equipment trust certificates issued in 1979 and 1980 bearing fixed interest rates.

At December 31, 1980, the Company's working capital was \$9,979,000 and its current ratio was 1.5 to 1, compared to \$8,195,000 and 1.6 to 1 respectively at December 31, 1979. In addition, the Company has a \$50,000,000 prime-related revolving credit, \$35,000,000 of which is currently available for drawdown.

Capital expenditures in 1980 were \$56,504,000, of which \$46,642,000 is attributable to aircraft. Estimated capital expenditures in 1981 range between \$52,000,000 and \$55,000,000, primarily for aircraft. Beyond 1981, the Company currently has contractual commitments to acquire in 1982 four new aircraft for approximately \$45,000,000, and it has options to purchase, for an estimated \$76,318,000, up to six additional new aircraft for delivery in 1983.

The Company anticipates continued usage of internally generated funds and external financings to meet these capital requirements. Specific external financing of these requirements, other than that available from the revolving credit, has not been arranged. The Company is not aware, however, of any particular restrictions on its ability to raise funds externally, either in the debt or equity markets.

Ten Year Summary of Operations and Financial Results

	1980	Years ended December 31,		1977
	1979	1978		
OPERATIONS AND TRAFFIC				
Available seat miles (ASM's) (000)	2,969,448	2,320,371	1,556,173	1,011,048
Trips flown	91,143	75,837	54,816	35,415
Average length of flight segment	276	264	253	255
Size of B-737 fleet at year-end	23	18	13	10
Passengers carried	5,976,621	5,000,086	3,528,105	2,339,524
Revenue passenger miles (RPM's) (000)	2,024,097	1,585,539	1,048,624	675,668
Average passenger fare	\$ 34.18	\$ 26.10	\$ 21.99	\$ 20.07
Average length of passenger haul	339	317	297	289
Yield per passenger mile	10.09¢	8.23¢	7.40¢	6.95¢
Actual load factor	68.2%	68.3%	67.4%	66.8%
Break-even load factor**	50.2%	53.6%	49.9%	52.9%
FINANCIAL (000)				
Operating revenues	\$ 213,048	\$ 136,114	\$ 81,065	\$ 49,047
Operating expenses	164,219	107,128	59,943	38,785
Operating income (loss)	48,829	28,986	21,122	10,262
Income (loss) before FIT	41,290	20,714	23,956	7,545
Net income (loss)	28,447	16,652	17,004	7,545
INVESTOR STATISTICS				
Avg. no. of common shares outstanding	7,006,000	6,750,000	6,750,000	6,730,268
Common shares outstanding	7,576,000	6,750,000	6,750,000	6,750,000
Earnings per share	\$ 4.06	\$ 2.47	\$ 2.52*	\$ 1.12
Dividends per share	\$.27	\$.19	\$.11	\$.08
Book Value per share	\$ 14.12	\$ 8.65	\$ 6.35	\$ 3.94
Stockholders' equity (000)	\$ 106,964	\$ 58,412	\$ 42,889	\$ 26,606
Return on Stockholders' equity	36.0%	33.1%	50.3%*	33.0%
CAPITAL STRUCTURE (000)				
Total assets	\$ 224,442	\$ 172,495	\$ 118,706	\$ 77,967
Aftertax return on total assets	14.1%	11.7%	17.2%*	12.4%
Working capital	\$ 9,979	\$ 8,195	\$ 9,667	\$ 5,052
Current ratio	1.53:1	1.64:1	3.39:1	2.82:1
Flight and ground equipment-net	\$ 194,908	\$ 150,576	\$ 104,744	\$ 69,853
Capital expenditures	\$ 56,504	\$ 54,314	\$ 40,204	\$ 41,442
Long-term debt (L-T D)	\$ 77,892	\$ 87,374	\$ 62,000	\$ 47,000
L-T D as a % of total invested capital	42.1%	59.9%	59.1%	63.8%
PRODUCTIVITY AND UNIT COSTS				
Number of employees at year-end	1,839	1,630	1,119	892
Average number of employees	1,741	1,450	1,024	750
Passengers boarded per employee	3,433	3,448	3,445	3,119
RPM's per employee (000)	1,163	1,093	1,024	901
Revenue per employee	\$ 122,371	\$ 93,872	\$ 79,165	\$ 65,395
Fuel costs per available seat mile	2.1¢	1.6¢	1.1¢	1.0¢
All other operating costs per ASM	3.4¢	3.0¢	2.8¢	2.8¢
Total operating cost per ASM	5.5¢	4.6¢	3.9¢	3.8¢
Fuel cost per gallon-average	85.0¢	59.3¢	38.2¢	36.4¢
Fuel cost per gallon-year-end	89.7¢	71.3¢	37.5¢	37.2¢
Fuel as a % of operating costs	37.7%	35.1%	27.5%	26.2%
Daily block hours per aircraft	11:16	11:37	10:36	10:14

*Includes a net of tax gain on disposition of aircraft of \$4,456,000 and net cumulative effect of an accounting change of \$735,000 for a total per share amount of \$.77.

**Based on operating revenues per passenger needed to cover total expenses excluding profit sharing and federal income taxes. Certain items previously reported have been reclassified to conform to the presentation at December 31, 1980.

1976	1975	Years ended December 31,			
		1974	1973	1972	1971
618,732	477,166	314,407	260,616	263,808	154,565
22,311	17,552	12,382	10,619	10,576	6,051
248	246	239	236	233	228
6	5	4	3	3	4
1,539,113	1,136,318	759,721	543,407	308,999	108,554
406,269	298,458	183,596	130,533	73,079	24,771
\$ 19.18	\$ 19.07	\$ 18.50	\$ 16.14	\$ 18.17	\$ 17.97
264	263	242	240	237	228
7.26¢	7.26¢	7.66¢	6.72¢	7.68¢	7.68¢
65.7%	62.5%	58.4%	50.1%	27.7%	16.0%
47.0%	49.2%	47.6%	49.0%	39.6%	44.1%
\$ 30,920	\$ 22,817	\$ 14,813	\$ 9,195	\$ 5,912	\$ 2,133
23,236	17,860	11,354	7,957	7,248	4,290
7,684	4,957	3,459	1,238	(1,336)	(2,158)
6,510	3,671	2,141	175	(1,591)	(2,713)
4,939	3,400	2,141	175	(1,591)	(3,753)
5,296,536	4,514,624	4,669,104	4,677,575	4,484,213	4,466,637
6,682,500	4,525,415	4,616,823	4,677,573	4,677,573	4,466,635
\$.93	\$.75	\$.46	\$.04	\$ (.35)	\$ (.87)
\$.01	—	—	—	—	—
\$ 2.89	\$ 1.64	\$.88	\$.43	\$.39	\$.74
\$ 19,345	\$ 7,415	\$ 4,072	\$ 2,002	\$ 1,827	\$ 3,318
39.4%	60.1%	67.1%	9.5%	N/A	N/A
\$ 43,703	\$ 23,692	\$ 18,566	\$ 14,027	\$ 14,086	\$ 22,083
15.4%	16.2%	13.1%	1.3%	N/A	N/A
\$ 8,026	\$ 1,392	\$ 802	\$ 1,042	\$ 709	\$ 3,025
3.83:1	2.03:1	1.64:1	2.96:1	3.24:1	5.25:1
\$ 32,699	\$ 20,787	\$ 16,173	\$ 11,979	\$ 12,658	\$ 17,859
\$ 13,730	\$ 6,294	\$ 6,579	\$ 832	\$ 79	\$ 18,946
\$ 20,000	\$ 14,500	\$ 12,197	\$ 11,455	\$ 11,942	\$ 16,554
50.8%	66.2%	75.0%	85.1%	86.7%	83.3%
517	392	323	238	183	195
457	368	284	215	187	182
3,368	3,088	2,675	2,527	1,652	596
889	811	646	607	391	136
\$ 67,657	\$ 62,003	\$ 52,158	\$ 42,767	\$ 31,615	\$ 11,720
.9¢	.8¢	.7¢	.4¢	.3¢	.3¢
2.9¢	2.9¢	2.9¢	2.7¢	2.4¢	2.5¢
3.8¢	3.7¢	3.6¢	3.1¢	2.7¢	2.8¢
30.7¢	30.1¢	22.3¢	11.3¢	11.2¢	10.6¢
33.1¢	31.1¢	28.3¢	11.3¢	11.2¢	9.2¢
22.8%	22.4%	18.1%	12.1%	12.6%	12.5%
9:22	8:35	8:16	8:13	7:02	7:21

Officers



Kelleher



Putnam



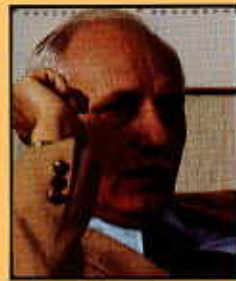
King



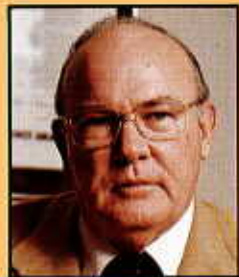
Guthrie



Barron



Franklin



Herring



Keith



Lang



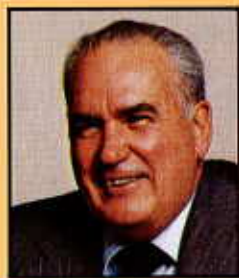
Ogden



Reilly



ter Kuile



Vidal



Volz



Barrett



Phelps



Thomson

	Officer Age	Since
--	----------------	-------

Herbert D. Kelleher <i>Chairman of the Board</i>	50	1967
Howard D. Putnam <i>President & Chief Executive Officer</i>	43	1978
Rollin W. King <i>Advisor-Special Projects</i>	49	1967
M. Philip Guthrie <i>Vice President—Finance, Treasurer & Chief Financial Officer</i>	35	1979
Gary A. Barron <i>Vice President—Inflight Service</i>	36	1978
William W. Franklin <i>Vice President—Ground Operations & Chairman of the Operating Committee</i>	53	1971
J. L. Herring <i>Vice President—Energy & Provisioning</i>	58	1973
Camille T. Keith <i>Vice President—Public Relations</i>	36	1978

	Officer Age	Since
--	----------------	-------

Edward W. Lang <i>Vice President—Personnel</i>	47	1978
Donald G. Ogden <i>Vice President—Flight Operations (Retiring March 31, 1981)</i>	70	1971
Harold F. Reilly <i>Vice President—Schedule Planning</i>	37	1980
Christopher ter Kuile <i>Vice President—Flight Operations</i>	41	1981
John A. Vidal <i>Vice President—Maintenance</i>	62	1971
Thomas J. Volz <i>Vice President—Marketing</i>	37	1978
Colleen C. Barrett <i>Secretary</i>	36	1978
Sherry L. Phelps <i>Assistant Secretary</i>	31	1976
W. James Thomson <i>Assistant Treasurer</i>	32	1976

Directors



Adger



Barshop



Bishop



Johnson



Kelleher



King



Putnam

‡† Sidney A. Adger, *Senior Vice President, Milchem, Inc., Houston, Texas*

‡† Samuel E. Barshop, *Chairman of the Board and President, LaQuinta Motor Inns, Inc., San Antonio, Texas*

‡* Gene H. Bishop, *Chairman of the Board and Chief Executive Officer, Mercantile Texas Corporation, Dallas, Texas*

‡ Travis C. Johnson, *Attorney, Johnson & Bowen, El Paso, Texas*

†* Herbert D. Kelleher, *Attorney, Oppenheimer, Rosenberg, Kelleher & Wheatley, Inc., San Antonio, Texas*

* Rollin W. King, *Advisor-Special Projects, Southwest Airlines Co. and Private Investments, Dallas, Texas*

* Howard D. Putnam, *President and Chief Executive Officer, Southwest Airlines Co., Dallas, Texas*

* Executive Committee

† Compensation Committee

‡ Audit Committee

Information for Southwest Airlines Investors

Transfer Agent and Registrar

Mercantile National Bank
P. O. Box 225415
Dallas, Texas 75265

Stock Exchange Listing

New York Stock Exchange
Ticker Symbol: LUV

Auditors

Arthur Young & Company
Dallas, Texas

General Offices

P. O. Box 37611
Love Field
Dallas, Texas 75235

Annual Meeting

The Annual Meeting of Shareholders of Southwest Airlines Co. will be held at 10:00 a.m. on Tuesday, April 28, 1981 in the Auditorium of the Mercantile Bank Building located on its fourth floor at 1704 Main Street, Dallas, Texas.

SEC Form 10-K

Stockholders may obtain free of charge a copy of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission by writing to the Chief Financial Officer, P.O. Box 37611, Love Field, Dallas, Texas 75235.

Notice to Stockholders

This notice is published in accordance with regulations of the Civil Aeronautics Board (Economic Regulations, Part 245).

Any person acquiring ownership, either beneficially or as trustee, of more than 5 percent, in the aggregate, of any class of the capital stock or capital of Southwest Airlines Co. must file with the Civil Aeronautics Board within 10 days after such acquisition the report required by Civil Aeronautics Board Economic Regulations, Subpart B, Section 245.13. Any person who owns, either beneficially or as trustee, more than 5 percent, in the aggregate, of any class of the capital stock or capital of Southwest Airlines Co. must file with the Civil Aeronautics Board a report containing the information required by Section 245.12 of such regulations on or before April 1 as to such shares or other interest owned as of December 31 of the preceding year. Any bank or broker holding such an interest as trustee on the last day of any quarter of a calendar year must file a report under Section 245.14 of such regulations within 30 days after the end of the quarter. Any person who grants a security interest in more than 5 percent of any class of the capital stock or capital of Southwest Airlines Co. must file a report under Section 245.15 within 30 days after such transaction. Any stockholder who believes that he or she may be required to file a report may obtain further information by writing to the Director, Bureau of Pricing and Domestic Aviation, Civil Aeronautics Board, Washington, D.C. 20428.





P. O. Box 37611
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Dallas, Texas 75235
214/353-6100