

**Southwest Airlines Co.
1982 Annual Report**

Southwest Airlines Opens Up The West

Stig

Table of Contents

Highlights	1
Letter to Stockholders	2
Description of Business	6
Review of Operations	6
Management's Discussion and Analysis of Results of Operations and Financial Condition	8
Quarterly Earnings	16
Common Stock Price Ranges and Dividends	17
Financial Statements	18
Notes to Consolidated Financial Statements	22
Auditor's Report	24
Management's Responsibility for Financial Statements	24
Supplementary Information on Effects of Changing Prices	25
Ten Year Summary of Operations and Financial Results	28
Officers	30
Directors	31
Information for Southwest Airlines Investors	32

Highlights

	1982	1981	Percent Change
OPERATING DATA			
Trips operated	140,030	110,301	27.0%
Passengers carried	7,965,554	6,792,927	17.3
Revenue passenger miles (000)	3,022,142	2,310,181	30.8
Available seat miles (000)	4,907,945	3,633,351	35.1
Passenger load factor	61.6%	63.6%	(3.1)
Average revenue per passenger mile	10.52¢	11.19¢	(6.0)
Number of employees at year-end	2,913	2,129	36.8
INCOME DATA			
Operating revenues	\$331,189,000	\$270,358,000	22.5%
Operating expenses	291,964,000	221,854,000	31.6
Operating income	39,225,000	48,504,000	(19.1)
Net Income—			
Amount	\$ 34,004,000	\$ 34,165,000	(0.5)
Per share			
Primary	\$ 1.60	\$ 1.69	(5.3)
Fully diluted	\$ 1.58	\$ 1.69	(6.5)
Average shares outstanding	21,317,000	20,240,000	5.3
FINANCIAL DATA			
Working capital	\$ 14,256,000	\$ 5,999,000	137.6%
Property and equipment-net	377,390,000	258,982,000	45.7
Capital expenditures	140,084,000	79,377,000	76.5
Stockholders' equity	240,627,000	176,503,000	36.3
Return on stockholders' equity	16.7%	23.5%	N/A
Long-term debt as a % of total invested capital	30.6%	25.0%	N/A
Book value per share	\$ 10.77	\$ 8.48	27.0

Cover: To paraphrase Horace Greeley, Southwest Airlines has "gone west" to give its customers the same efficient service to and from the west coast that it has offered in the southwest for the past 11 years. The Southwest Airlines cowboy is celebrating the event with a newly embroidered shirt appliqued with the western cities of Phoenix, Las Vegas, San Francisco, Los Angeles, San Diego ... and the city with one of the oldest western traditions of all, Kansas City.

Letter to Stockholders

Highlights of 1982



Amid a deep recession; the lingering disruptive effects of the PATCO strike; intense nationwide price and service competi-

tion for the airline passenger; and an industry suffering record financial losses in which three heavy aircraft operators collapsed, Southwest increased its owned aircraft in fleet service by 50%; expanded the number of cities served by 43%; and attained net income of \$34,004,000, a decline of only 0.5% from 1981's record earnings.

Profitability

Operating revenues increased 23% in 1982. Operating expenses, including approximately \$5,000,000 in start-up costs for six new cities, increased 32%, resulting in a 19% reduction in operating profit from 1981. Gains from the sale of tax benefits on three aircraft contributed to a net non-operating income of \$5,165,000 and a resulting net income of \$34,004,000. Earnings per share amounted to \$1.60 (\$1.58 fully diluted) on an average of 5% more shares outstanding, compared to \$1.69 per share (adjusted for the 2-for-1 December 1982 stock split) earned in 1981.

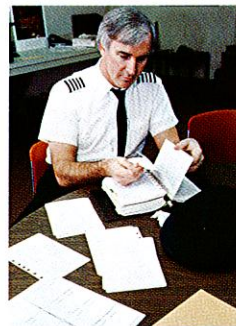


Traffic

7,965,554 passengers were boarded in 1982, a 17% increase over the record established in 1981. Revenue passenger miles increased by 31%, but load factor fell two points, from 63.58% to 61.58%, due to a 35% increase in available seat miles, most of which was devoted to penetrating new markets. The average yield per revenue passenger mile declined 6% to 10.52¢, primarily because the longer hauls generated by the new markets command a lower price per mile. Careful attention to all cost components produced a 3% reduction in cost per available seat mile, from 6.11¢ in 1981 to 5.95¢. Southwest's cost and fare structures continue to be the lowest in the industry for its average length of passenger haul.

Routes

1982 was the year of expansion for Southwest, with record increases in system capacity and number of cities served. We began service to Las Vegas, Phoenix and San Diego on January 31. Service commenced to Kansas City on February 18, Los Angeles on



September 18 and San Francisco on October 31, 1982.

We entered each of these markets with the lowest, generally available, non-introductory fares offered to and from our destinations. Prior to inauguration of our service and subsequently, most competing carriers matched our fares on a generally available or restricted seat basis. Despite this competitive response, the new markets added in January and February achieved break-even within sixty days and system parity performance within six months of their openings. Los Angeles and San Francisco are also developing very satisfactorily.

At the conclusion of 1982, we had 34 daily departures from Phoenix; 19 from Las Vegas; 13 from Los Angeles; 8 from San Diego; 6 from Kansas City; and 5 from San Francisco.

Fleet

During 1982, Southwest placed twelve new Boeing ("B") 737-200 advanced series aircraft in service, bringing the total of such aircraft to 36 owned and one leased at year-end. We accepted another B737-200 in January 1983 and four additional are scheduled for delivery this year, one in the second quarter and three in the third quarter. Also on firm order are ten B737-300s for delivery beginning late in 1984 and continuing

throughout 1985, with options to purchase an additional 30 through 1990.

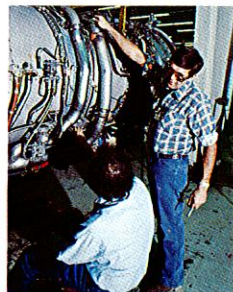
Passenger Service

As the FAA continues to relax Air Traffic Control constraints engendered by the PATCO strike, our on-time and flight completion performance are ascending towards our traditional standards of excellence. We also remain among the industry leaders in the ratio of complaints filed with the Civil Aeronautics Board and ratio of denied boardings to passenger volume.

The three 737-200s deliverable in the third quarter will contain new, lighter seats, affording more comfort, and an entirely new interior decor. If, as we anticipate, these changes are well received by our passengers, we expect that a considerable portion of our 737-200 fleet will be identically refitted.

Management

We strengthened our management group this year through the addition of four officers: Sam Coats, Vice President-External Affairs; Paul Granger, Treasurer; Marcy Lardon, Vice President-Personnel; and Dr. Robert W. Lawless, Vice President-Finance and Chief Financial Officer.



Financial Strategy

In 1982, we again pursued the financial strategy of strengthening our capital structure and reducing our exposure to money market volatility. In May, we sold publicly \$35,000,000 of 10% Convertible Subordinated Debentures Due 2007 and convertible into our common stock at a price of \$46.10 (pre-split) per share, which represents a 25% premium over the market price of our stock at the time of issue. The proceeds from this sale allowed us to discharge all prime debt. In August, we offered 750,000 shares of common stock producing net proceeds of \$33,223,000 to the Company. In addition, we sold tax benefits associated with three aircraft which provided proceeds of \$11,070,000.

These measures enabled us to conclude the year with long-term indebtedness as a percentage of invested capital at 31%, even though we purchased ten new aircraft free of any liens.

We have also retained our financial flexibility and access to funds through maintenance of our \$100,000,000 domestic revolving credit convertible into a term loan and our \$50,000,000 Euro-dollar revolving credit.

We were especially pleased and grateful that *Air Transport World* gave us its "1982 Financial Management Award," stating: "...one of the easiest selections for an award in recent years...."

Stock Split

On December 15, 1982, your Board of Directors declared a 2-for-1 stock split, resulting in the distribution to shareholders of 11,175,958 additional shares on January 21, 1983. The Board reaffirmed its intention to continue its effective, pre-split annualized dividend rate of \$.32 per share, which equals \$.16 per share subsequent to the split.

Outlook 1983

1983 will be another challenging period for the American airline industry. Although it appears, absent an import tax on foreign oil,



that airlines will experience stable or declining fuel prices, they will also be plagued by the slowness of the economic recovery accompanied by "cut-rate" fare wars attributable to significant overcapacity. Slot allocation and flow control procedures will continue to restrain access to new markets, as well as to limit service enhancement in existing markets.

Again, however, we believe Southwest is positioned, by virtue of its strong balance sheet, young efficient fleet of aircraft, low cost structure and philosophy of service, to compete effectively in the current economic environment and to take advantage of any improvement in the economy.

On January 15, 1983, we implemented a general fare increase of approximately ten percent which was matched by all of our competitors. This represented our first general fare increase since January 1981, although we did adjust a limited number of longer haul fares in September of 1982 to

offset a three percent increase in the Federal Excise Tax. This fare increase should be significant in retaining our desired margins.

As we face another difficult and trying year, I continue to base my optimism in our employees who are responsible for the provision of service with pride, dedication and a spirit of caring for our passengers, their comfort, convenience and safety. It is our people's devotion to their Company and to all aspects of passenger service that bolsters my confidence in Southwest's future.

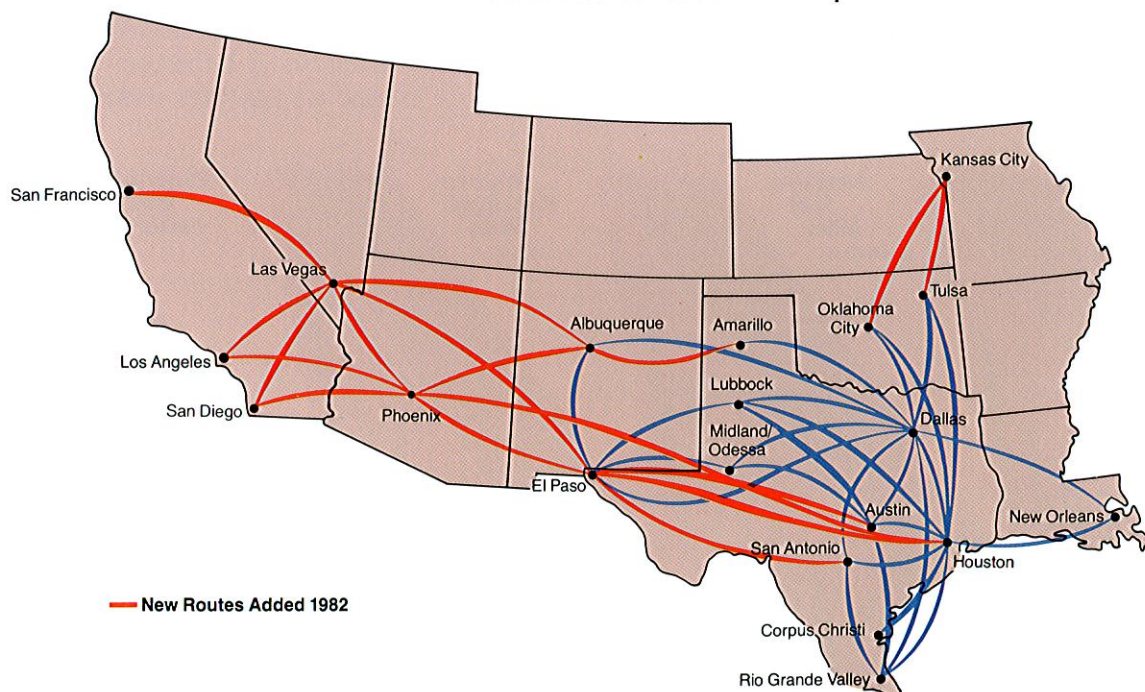
Most sincerely,

Herbert D. Kelleher

Herbert D. Kelleher
Chairman of the Board,
President and
Chief Executive Officer

February 11, 1983

Southwest Airlines Co. Route Map



Description of Business

Southwest Airlines provides single-class, high frequency air service to ten cities in Texas and to New Orleans, Oklahoma City, Tulsa, Albuquerque, Phoenix, Las Vegas, San Diego, Kansas City, Los Angeles, and San Francisco. The Company principally 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, convenient schedules and reliability. The principal hub airports in Southwest's system are Dallas Love Field and Houston Hobby Airport, satellite airports located substantially closer to downtown business centers than the major airports serving these cities. Phoenix was added to the system in 1982 and is being developed as a third hub airport.

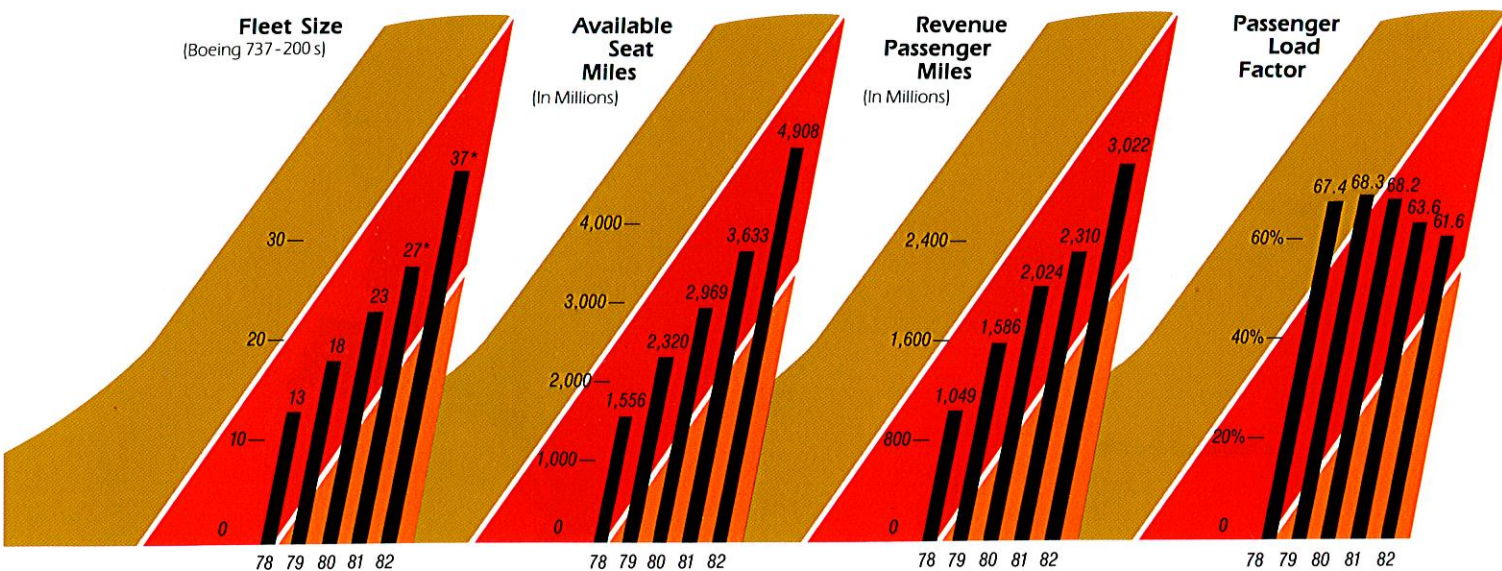
Southwest's two-tier fare structure is designed to provide "Executive Class" travelers with low cost air transportation and "Pleasure Class" travelers with an economically competitive alternative to the various forms of ground transportation. Southwest does not carry the United States mail, interline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

Review of Operations

Capacity

During 1982, Southwest added ten new Boeing 737-200 advanced series aircraft to its fleet bringing the total fleet to 36 owned and one leased aircraft at year-end. Each of the 36 owned aircraft in the all B737-200 fleet are configured to accommodate 118 passengers and the single leased aircraft is configured to accommodate 124 passengers. The weighted average number of aircraft assigned to service during 1982 was 31.67 compared to 24.53 in 1981 and 20.16 in 1980. This 29.1% increase in weighted average number of aircraft for 1982 was the major factor contributing to the 35.1% increase in available seat miles ("ASMs") for the year. Increased aircraft utilization, from 11 hours 36 minutes to 11 hours 46 minutes per aircraft per day and an increase in average stage length from 279 miles to 297 miles also contributed to the increase in available seat miles.

The Company has accepted delivery of one new B737-200 in January 1983 and has four others on order scheduled for delivery in April through September 1983. The Company also has ordered ten B737-300s to be



*Includes one leased B737-200 aircraft.

delivered in late 1984 and throughout 1985. In addition, the Company has options to purchase up to 30 additional B737-300s through 1990.

The leased B737-200 will be returned at the expiration of the lease on April 30, 1983. The changes previously described will result in an annual increase in capacity of 22% for 1983.

The Company's fleet of B737-200s has an average age of only 36 months and is considered the most efficient aircraft for Southwest's type of service. The B737-300 will offer approximately 20% more seating capacity per aircraft and substantial fuel savings compared to the B737-200 due to advancements in engine design and materials technology. In addition, the B737-300 will be significantly quieter than our current fleet or any alternative aircraft presently available.

Routes

In 1982, Southwest aggressively expanded its route system adding six new cities. In conjunction with our expansion to the west, Phoenix is being developed as a

third hub city. In contrast, 1981 was a year in which no new cities were added. The 22.4% increase in capacity (ASMs) in 1981 was utilized to enhance service to existing cities.

The 1982 expansion was accomplished in two stages with Phoenix, Las Vegas, San Diego and Kansas City being added in late January and mid-February, and Los Angeles and San Francisco being added in mid-September and late October, respectively. The new routes added in 1982 were substantially longer hauls than previously flown by Southwest and increased the average trip length to 297 miles from 279 miles in 1981, a 6% increase. Unduplicated route mileage from December 1981 to December 1982 increased by 86% from 8,316 miles to 15,433 miles, respectively.

The capacity which was allocated to markets involving the new cities added in 1982 represented approximately 25.8% of Southwest's total capacity for the month of December as measured by ASMs.



Traffic

The additional capacity in 1982 combined with the new routes resulted in a dramatic increase in the Company's traffic during the year. Other major factors influencing traffic were an intensification of competition in certain markets, the lingering effects of the PATCO strike and the cessation of operations of one of our major competitors, Braniff International. Passengers boarded in 1982 increased 17.3% to 7,965,554 which, when

combined with a 6% increase in the average length of a passenger's journey, created an increase in revenue passenger miles of 30.8%.

In 1981 revenue passenger miles increased by 14% with a 22% increase in available seat miles creating a decrease in load factor from 68.2% in 1980 to 63.6% in 1981. This decrease was primarily associated with the effects of the PATCO strike.

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

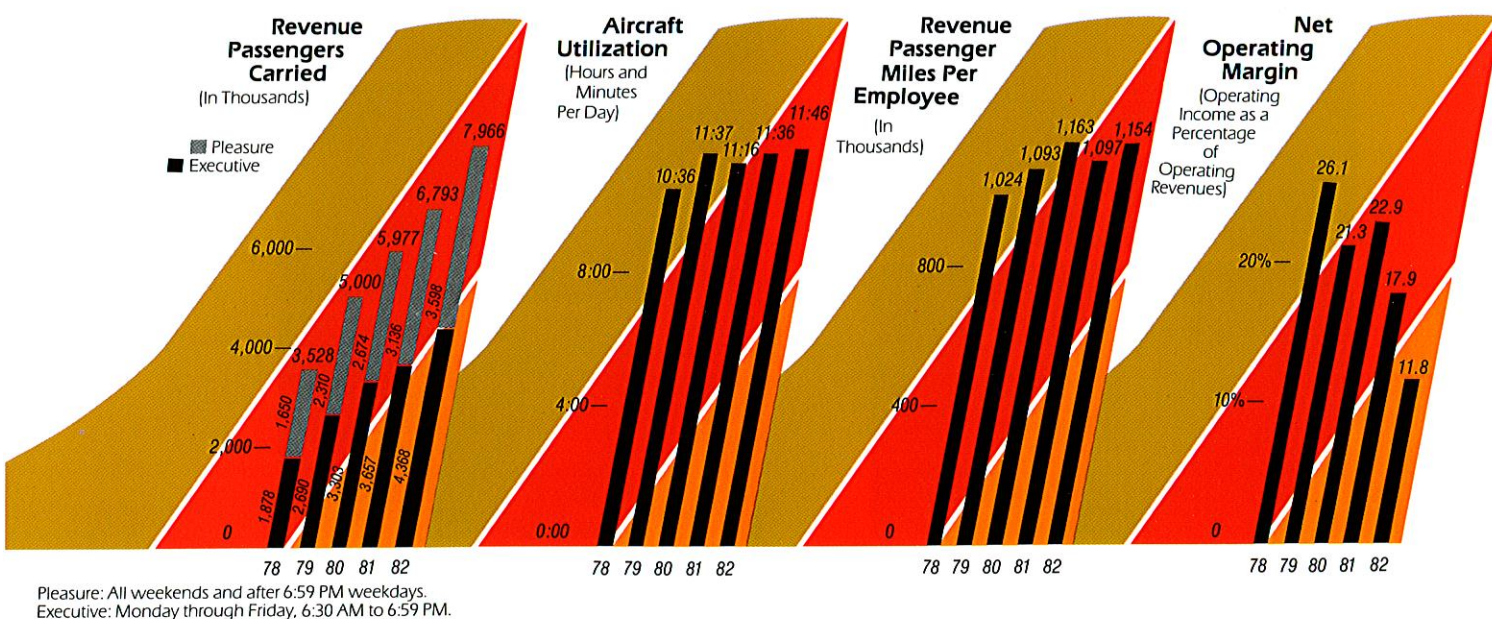
Operating Revenues

Passenger revenues, which have represented slightly more than 96% of total operating revenues over the past several years, increased in 1982 by 23.0% over 1981 primarily due to the net effect of a 30.8% increase in revenue passenger miles flown and a 6.0% decrease in average revenue per passenger mile (yield) from 11.19¢ in 1981 to 10.52¢ in 1982.

The decrease in yield in 1982 can be at-

tributed to two principal factors: no general fare increases by the Company in 1982 except for one in mid-September to recover increased Federal Excise Taxes and the impact of the traditionally lower yields associated with longer haul traffic patterns.

In 1981 passenger revenues increased 26.5% over 1980 due to a 14.1% increase in revenue passenger miles and a 10.9% increase in yield.



Operating Expenses

Southwest's operating expenses for 1982 reflect major cost control efforts, declining fuel prices, and operating efficiencies

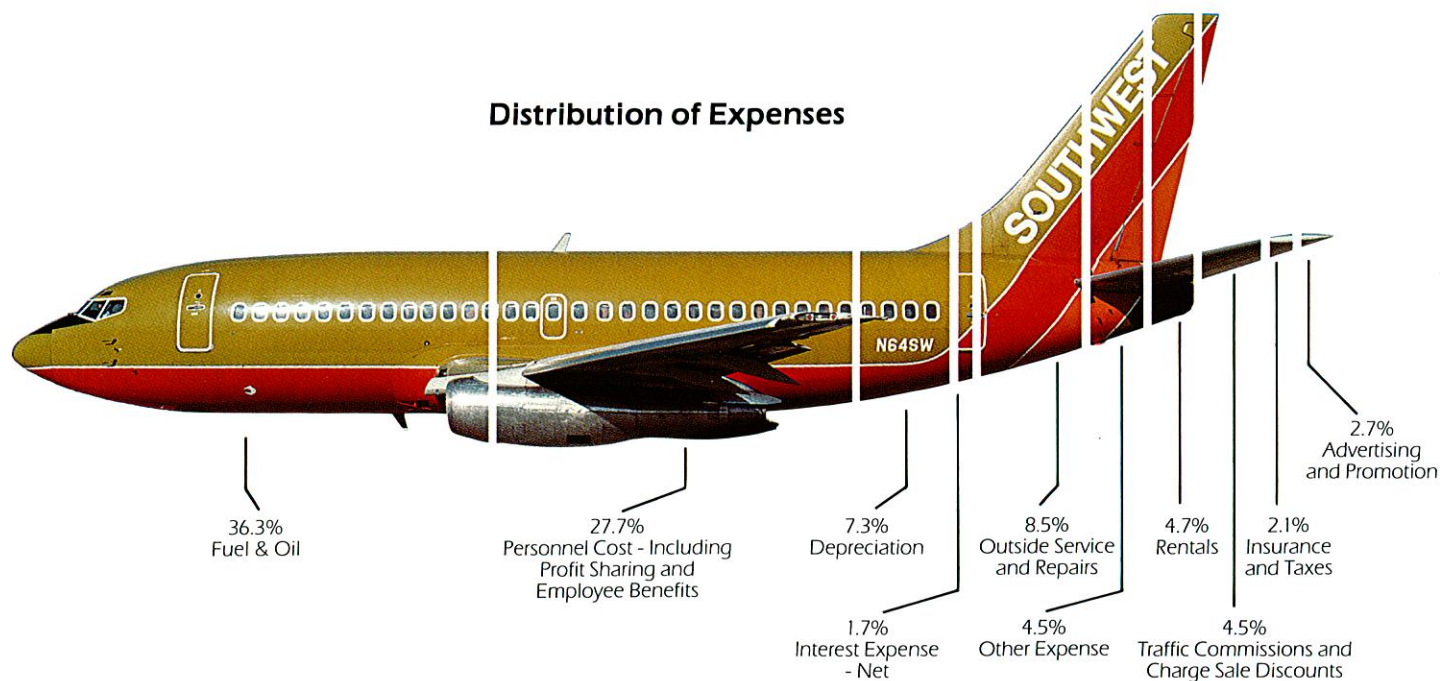
associated with longer haul travel. As the table below indicates, total operating expenses per available seat mile decreased in 1982 by 2.6% from 1981.

Category of Costs	Per Available Seat Mile	Increase (Decrease)	Per Available Seat Mile	Increase (Decrease)	Per Available Seat Mile
	1982		1981		1980
Aircraft fuel & oil	2.20¢	(10.9%)	2.47¢	18.8%	2.08¢
Payroll & related	1.67	(4.6%)	1.75	8.0%	1.62
Landing fees .....	.15	15.4%	.13	8.3%	.12
Aircraft costs .....	.75	2.7%	.73	4.3%	.70
All other	1.18	14.6%	1.03	2.0%	1.01
Total operating costs	<u>5.95¢</u>	(2.6%)	<u>6.11¢</u>	10.5%	<u>5.53¢</u>

The 10.9% decrease in fuel cost per ASM for 1982 is attributable to a 7.0% decrease in average price per gallon of jet fuel and a 3.9% increase in efficiency resulting from longer haul traffic. In 1981 the increase in fuel cost per ASM of 18.8% was the combination of a 19.6% increase in the average price per gallon of jet fuel offset by a 0.8% increase in operating efficiency.

Excluding fuel costs, all other costs per ASM in the aggregate increased only 3.0% in 1982 due primarily to the increased marketing expenses associated with initial promotional activities in the new cities and the higher units costs associated with operations in the majority of these cities. In 1981 operating costs per ASM, excluding fuel, increased by 5.5%.

Distribution of Expenses



Operating Income

Operating income in 1982 amounted to \$39,225,000 reflecting an operating margin of 11.8%, down substantially from the 17.9% operating margin in 1981. This decrease is due principally to the decline in the system-wide load factor from 63.6% in 1981 to 61.6% in 1982. The dilutive impact of initially low load factors associated with the development of new markets and generally depressed economic conditions were the primary factors which contributed to this decline in load factor.

Operating income in 1981 was approximately the same as in 1980 reflecting a decrease in the operating profit margin and average load factor.

Non-Operating Income and Expense

Interest expense increased in 1982 due to the additional debt financing associated with fleet expansion. The issuance of \$35 million of 10% Convertible Subordinated Debentures during the second quarter of 1982 increased interest expense by over \$2 million. The remaining increase in 1982 is

attributable to increased borrowings under the Company's revolving credit line. Interest expense had decreased in 1981 versus the prior year due to a general reduction in outstanding debt.

Capitalized interest increased in both 1982 and 1981 due to the higher average balances of outstanding progress payments on aircraft.

Interest income, which was unusually high in 1981 due to the extended investment of the proceeds from the April 1981 common stock offering, returned to a more normal level in 1982.

Other non-operating income in 1982 represents income derived from the December 1982 sale of tax benefits associated with three new Boeing 737-200 aircraft acquired during the year, net of unrelated legal settlements. Other non-operating income in 1980 resulted from the out-of-court settlement of litigation.

Income Taxes

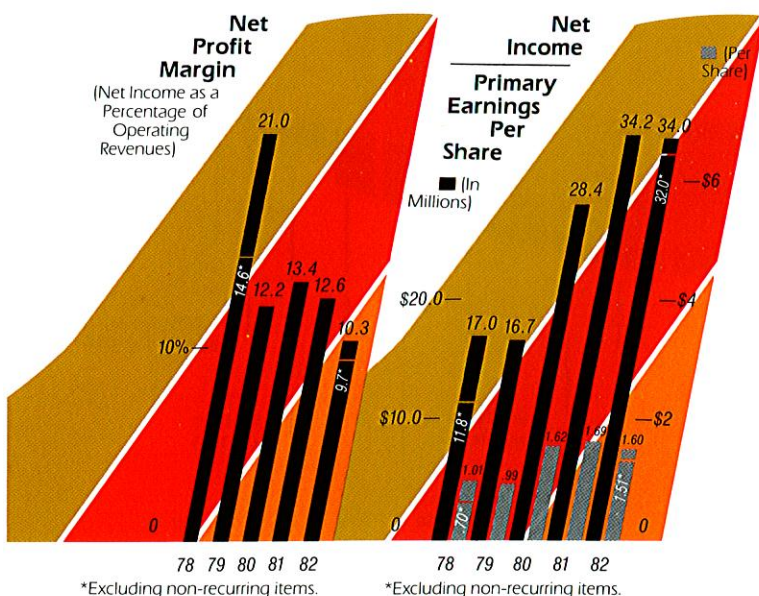
The Company's effective income tax rates for 1980, 1981 and 1982 were 31%, 29% and 23%, respectively. The effective rates were less than the 46% statutory corporate income tax rate in effect during these years due principally to the utilization of investment tax credits generated by new aircraft purchases and other capital expenditures.

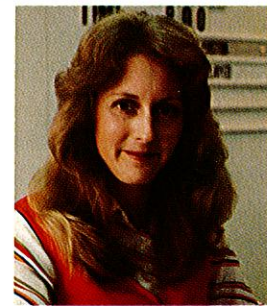
In each of the years 1980 through 1982, payment of the majority of the provisions for federal income taxes was deferred due to timing differences between financial and tax reporting.

For additional analysis of the income tax expense for 1982 and the two prior years, see Note 7 to the Consolidated Financial Statements included herein.

Earnings Per Share

Earnings per share for 1982 decreased by 5.3% on a primary basis to \$1.60 from \$1.69





Southwest Airlines opens up the West with flights to and from San Diego (upper left) and Phoenix (upper right).

in 1981 primarily due to the increased number of shares outstanding from the issuance of an additional 750,000 shares (1,500,000 adjusted for the 2-for-1 split) of common stock in September.

Earnings per share in 1981 increased by 4.3% to \$1.69 as compared to 1980 as a result of a 20% increase in net income and a 15.6% increase in the weighted average number of shares outstanding.

All earnings per share information has been adjusted for stock splits, including the 2-for-1 split which was effective on December 29, 1982.

Stockholders' Equity

Total Stockholders' Equity increased by 36.3% in 1982; 19.0% was attributable to the issuance of 750,000 new shares of Common Stock (1,500,000 shares adjusted for December's 2-for-1 split) and 17.3% to the increase in retained earnings. In 1981, of the 65.0% increase in Stockholders' Equity, 35.7% was attributable to the issuance of new shares and 29.3% to the increase in retained earnings.

Return on Stockholders' Equity for 1982 was 16.7% compared to 23.5% in 1981 and 36.0% in 1980. Book value per share at year-end was \$10.77 in 1982 compared to \$8.48 in 1981 and \$5.65 in 1980.

Profit Sharing Contributions

Virtually each of Southwest's employees participates in the Company's Profit Sharing Plan. This Plan creates a visible linkage for each employee between the overall financial performance of Southwest and his/her compensation. Thus, the Plan provides a significant financial incentive for employee productivity, one of the keys to Southwest's financial success. During 1982, the Profit Sharing Plan added an average of 8% to the compensation of each employee participating in the Plan. The total 1982 provision

for employee profit sharing amounted to \$5,560,000, of which \$4,627,000 was paid to employees in quarterly cash bonuses and contributions to their accounts in the Profit Sharing Trust.

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 a corresponding amount is invested in Southwest Common Stock for the accounts of the individual employees. In 1982, \$933,000 in additional employee compensation resulted from this Plan, at no additional cost to Southwest.

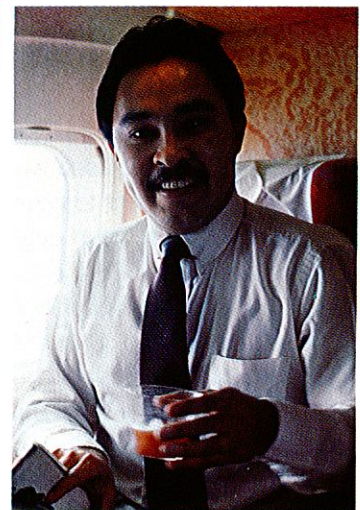
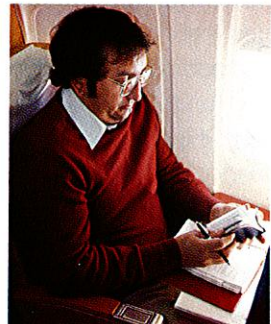
For additional information see Note 6 to Consolidated Financial Statements contained herein.

Liquidity and Capital Resources

At December 31, 1982, the Company's working capital was \$14,256,000 compared to \$5,999,000 and \$9,979,000 at December 31, 1981 and 1980, respectively.

Capital commitments for 1983 and thereafter principally consist of scheduled aircraft acquisitions. In January 1983, one 737-200 was delivered, and four additional 737-200s will be delivered later this year, to the Company at an aggregate cost (including buyer-furnished equipment) of \$70.4 million, offset by progress payments made prior to 1983 amounting to \$14.9 million. In late 1984, the first of ten new 737-300 aircraft will be delivered with the remaining nine aircraft currently on order to be delivered in 1985. The Company estimates the aggregate cost of the 737-300s to approximate \$250 million after giving effect to price escalation provisions in the purchase contract.

The Company has two revolving credit lines available to it: \$100 million from four domestic banks and an additional \$50 million from a group of European banks. At



Southwest Airlines opens up the West with flights to and from San Francisco (top) and Kansas City (middle).

December 31, 1982, the Company had drawn \$12 million under the domestic line of credit.

Historically, the Company has utilized a combination of externally and internally generated funds to finance asset acquisitions. During 1982, approximately \$74 million, net of commissions, fees and expenses was derived from the public sales of the Company's securities. Approximately \$72 million was derived from 1982 operations, \$12 million was borrowed under a bank revolving line of credit and \$11 million was realized from the sale of tax benefits associated with three aircraft acquired during the year.

In 1981, approximately \$59 million was provided by operations and supplemented by \$39 million provided through external financings. In 1980, \$48 million was generated internally and \$44 million externally.

In addition to the use of internally generated funds in 1983 and thereafter, the Company expects to seek substantial external financing to meet its capital needs. Specific external financing sources or methods, other than the existing lines of credit, have not been arranged. The Company is not aware, however, of any restrictions on its ability to raise capital externally through either the debt or equity markets.

Financial Strategy

For several years prior to 1979, the Company's major source of debt was revolving bank debt, and the debt to equity ratio demonstrated a relatively high degree of leverage. Beginning in 1979 the Company began to improve this situation with a series of long-term debt financings at relatively low interest rates and to improve the strength of its balance sheet through public stock offerings.

The Company also maintained lines of

credit on a revolving basis sufficient to cover its annual external working capital requirements so that other sources of funds could be sought at the most advantageous levels.

The following is a summary of the accomplishments of this strategy:

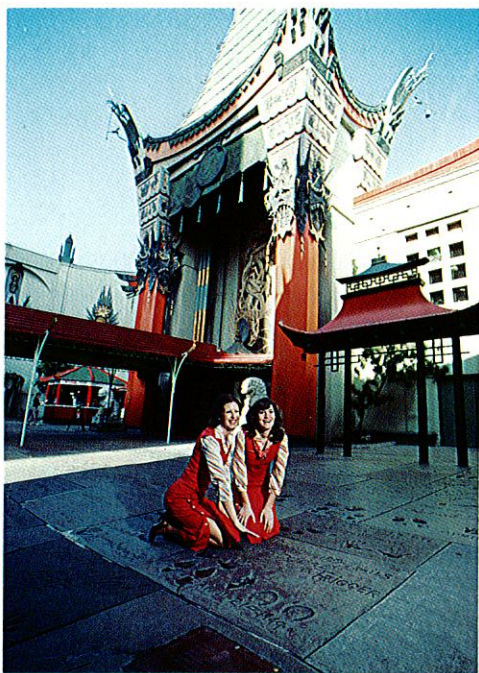
- The repayment of all prime debt from a peak in 1979 of \$72,000,000.
- Placement in late 1979 and early 1980 of fifteen year maturity equipment trust certificates at a 10.3% fixed rate of interest, covering ten of our aircraft.
- Capital availability of up to \$100,000,000 from a domestic bank credit line.
- A \$50,000,000 revolving credit available from European sources.
- Expansion of the equity base in September 1980, April 1981 and August 1982 through public offerings of common stock.
- Purchase of thirteen new aircraft (including one in January 1983) free of any mortgage liens or claims.
- Placement of \$5,400,000 in Industrial Revenue Bonds in 1982.
- Sale of \$35,000,000 Convertible Subordinated Debentures in mid-1982.
- Consummation of a tax benefit transfer for \$11,070,000 in late 1982.
- Reduction of long-term debt as a percentage of total invested capital at year-end from 60% in 1979 to 42% in 1980 to 25% in 1981 and to 31% in 1982.

This financial strategy enabled Southwest to offer its service to six new cities in 1982 and expand its fleet from 26 owned aircraft to 36 by year-end 1982. The Company has maintained a strong balance sheet which will allow it to continue to

have flexibility in choosing the most advantageous methods and timing for future financings.

Public Offering of Common Stock

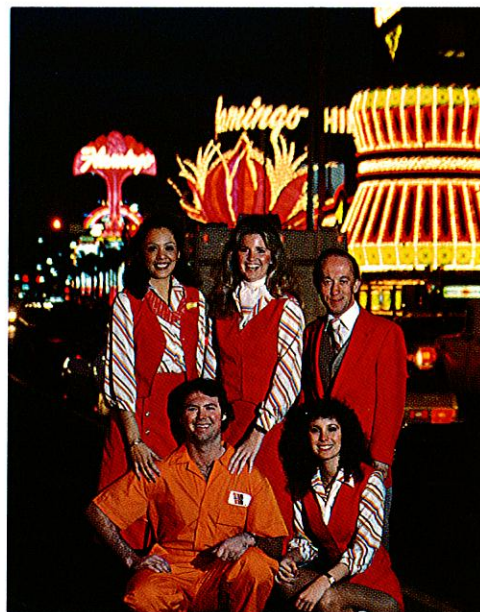
The August, 1982 public offering of 750,000 shares of Company Common Stock (1,500,000 shares as adjusted for the 2-for-1 split on December 29, 1982) generated net proceeds of \$33,223,000, which were applied to the delivery payments of four aircraft in September, October and December 1982. The delivery payments which totalled \$41,125,000 were also partially financed through revolving bank debt.



Convertible Subordinated Debt

The May, 1982 issuance of 10% Convertible Subordinated Debentures Due 2007 generated net proceeds of \$34,070,000 which were applied to the delivery payments of three aircraft in May and June which totalled \$27,004,000. The balance was utilized to reduce bank debt incurred for the delivery payment of an aircraft received in April, 1982. (See also Note 4 to the Consolidated Financial Statements).

For Supplementary Information on Effects of Changing Prices, see page 25 of this Annual Report.



Southwest Airlines opens up the West with flights to and from Los Angeles (upper left) and Las Vegas (upper right).

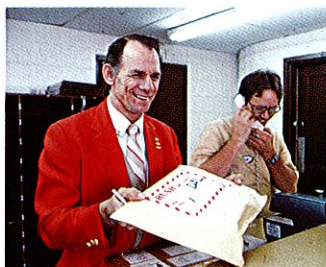
Quarterly Earnings

Unaudited quarterly financial results are summarized as follows (in thousands except per share amounts):

1981	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Revenues	\$62,237	\$72,207	\$70,020	\$65,894
Operating income	12,473	14,833	12,089	9,109
Income before tax	10,890	14,604	12,885	9,886*
Net income	7,027	9,970	9,024	8,144
Income per share:				
Primary . . . . .	.37	.49	.44	.39
Fully diluted . . . . .	.37	.49	.44	.39

1982	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Revenues	\$66,813	\$82,945	\$92,336	\$89,095
Operating income	5,040	13,297	14,795	6,093
Income before tax	4,654	11,973	12,262	15,501
Net income	3,489	9,978	11,102	9,435
Income per share:				
Primary . . . . .	.17	.48	.53	.42
Fully diluted . . . . .	.17	.48	.51	.42

*An additional \$600,000 of investment tax credits were generated in the fourth quarter of 1981 from the discretionary acceleration of progress payments. The effect of this acceleration was the primary reason for the fourth quarter, 1981 effective tax rate of 17% as compared to the 1981 annual effective tax rate of 29%.



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 stock splits in October 1981 and December 1982, were:

<u>Period</u>	<u>Dividend</u>	<u>High</u>	<u>Low</u>
1981			
1st Qtr	\$.032	\$20.80	\$13.25
2nd Qtr . . . . .	.032	24.10	18.80
3rd Qtr . . . . .	.032	21.35	12.20
4th Qtr . . . . .	.040	16.07	12.70
1982			
1st Qtr . . . . .	.040	18.25	13.75
2nd Qtr . . . . .	.040	20.88	16.07
3rd Qtr . . . . .	.040	27.38	18.50
4th Qtr . . . . .	.040	31.88	23.44

At February 1, 1983, there were 3,290 holders of record of Southwest's Common Stock.

Southwest Airlines Co.

Consolidated Balance Sheet

(in thousands except shares)
December 31, 1982 and 1981

	1982	1981
Assets		
CURRENT ASSETS:		
Cash, including short-term investments of \$18,600 (\$16,349 in 1981) (Note 5)	\$ 16,722	\$ 16,983
Accounts receivable	15,870	9,348
Inventories of parts and supplies, at cost	2,271	1,888
Federal income tax refundable	4,798	2,481
Prepaid expense	1,938	1,634
TOTAL CURRENT ASSETS	41,599	32,334
Property and equipment, at cost (Note 2):		
Flight equipment—aircraft (Notes 4 and 5)	359,841	225,845
Other flight and ground equipment	77,564	73,784
Land and building	5,285	5,285
	442,690	304,914
Less allowance for depreciation	65,300	45,932
	377,390	258,982
Deferred charges and other assets	1,553	507
	<u>\$420,542</u>	<u>\$291,823</u>
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 5,073	\$ 5,075
Accounts payable	12,305	8,937
Unearned revenues	1,528	2,390
Accrued liabilities (Note 3)	8,437	9,933
TOTAL CURRENT LIABILITIES	27,343	26,335
Long-term debt less current maturities (Notes 4 and 5)	106,306	58,934
Deferred federal income tax	44,598	29,598
Deferred compensation	742	453
Deferred profit sharing	926	—
Total liabilities	179,915	115,320
Commitments (Notes 2 and 8)		
STOCKHOLDERS' EQUITY:		
Common stock, \$1.00 par value; 30,000,000 shares authorized; 22,351,916 shares issued and outstanding in 1982 (10,407,500 in 1981)	22,352	10,408
Capital in excess of par value	85,943	64,313
Retained earnings	132,332	101,782
Total Stockholders' Equity	240,627	176,503
	<u>\$420,542</u>	<u>\$291,823</u>

See accompanying notes.

Southwest Airlines Co.

Consolidated Statement of Income

(in thousands except for share and per share information)

	Years Ended December 31,		
	1982	1981	1980
OPERATING REVENUES:			
Passenger.....	\$ 320,140	\$ 260,236	\$ 205,764
Package express.....	9,469	8,326	6,080
Other.....	1,580	1,796	1,204
Total operating revenues.....	331,189	270,358	213,048
OPERATING EXPENSES:			
Fuel and oil.....	107,788	89,820	61,887
Flight operations.....	34,042	23,824	16,101
Maintenance.....	24,373	18,779	14,319
Passenger services.....	17,876	11,776	7,992
Terminal operations.....	37,370	27,058	22,170
Promotion and sales.....	23,514	12,146	10,061
Insurance, taxes and administrative.....	19,765	14,750	12,224
Depreciation.....	21,676	15,303	12,172
Employee profit sharing (Note 6).....	5,560	8,398	7,293
Total operating expenses.....	291,964	221,854	164,219
OPERATING INCOME.....	39,225	48,504	48,829
NON-OPERATING INCOME (EXPENSE):			
Interest income.....	1,105	4,383	797
Interest expense (Notes 4 and 5).....	(10,284)	(7,844)	(10,452)
Capitalized interest.....	3,974	3,222	1,216
Other, net (Note 7).....	10,370	—	900
Net non-operating income (expense).....	5,165	(239)	(7,539)
Income before federal income tax.....	44,390	48,265	41,290
Provision for federal income tax (Note 7).....	10,386	14,100	12,843
NET INCOME.....	\$ 34,004	\$ 34,165	\$ 28,447
INCOME PER COMMON SHARE:			
Weighted average common shares outstanding (adjusted for stock splits in each year).....	21,317,000	20,240,000	17,515,000
Net income per share:			
Primary.....	\$1.60	\$1.69	\$1.62
Fully diluted.....	\$1.58	\$1.69	\$1.62

See accompanying notes.

Southwest Airlines Co.
Consolidated Statement of Stockholders' Equity

(in thousands except for per share information)

	Three Years Ended December 31, 1982			
	Common stock	Capital in excess of par value	Retained earnings	Total
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, \$.11 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	7,576	28,999	70,389	106,964
Five-for-four stock split	2,082	(2,086)	—	(4)
Proceeds from issuance of common stock	750	37,319	—	38,069
Cash dividends, \$.14 per share	—	—	(2,772)	(2,772)
Compensation element of executive stock options	—	81	—	81
Net income—1981	—	—	34,165	34,165
BALANCE AT DECEMBER 31, 1981	10,408	64,313	101,782	176,503
Two-for-one stock split	11,176	(11,176)	—	—
Proceeds from issuance of common stock	768	32,667	—	33,435
Cash dividends, \$.16 per share	—	—	(3,454)	(3,454)
Compensation element of executive stock options	—	139	—	139
Net income—1982	—	—	34,004	34,004
BALANCE AT DECEMBER 31, 1982	<u>\$22,352</u>	<u>\$85,943</u>	<u>\$132,332</u>	<u>\$240,627</u>

See accompanying notes.

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

		Years Ended December 31,	
	1982	1981	1980
FINANCIAL RESOURCES WERE PROVIDED BY:			
Working capital provided from operations:			
Net income	\$ 34,004	\$ 34,165	\$28,447
Items not affecting working capital during the current period:			
Depreciation	21,676	15,303	12,172
Deferred compensation and compensation element of executive stock options	478	188	178
Deferred federal income tax	15,000	9,376	7,303
Deferred profit sharing	926	—	—
Total from operations	72,084	59,032	48,100
Issuance of common stock	33,435	38,069	21,900
Issuance of long-term debt	52,400	712	22,187
Total source of funds	157,919	97,813	92,187
FINANCIAL RESOURCES WERE UTILIZED FOR:			
Net additions to property and equipment	140,084	79,377	56,504
Cash dividends	3,454	2,772	1,924
Reduction of long-term debt	5,028	19,670	31,669
Other	1,096	(26)	306
Total application of funds	149,662	101,793	90,403
INCREASE (DECREASE) IN WORKING CAPITAL	\$ 8,257	\$ (3,980)	\$ 1,784
CHANGES IN COMPONENTS OF WORKING CAPITAL:			
Increase (decrease) in current assets:			
Cash, including short-term investments	\$ (261)	\$ (1,096)	\$ 7,672
Accounts receivable	6,522	645	(454)
Inventories	383	537	115
Federal income tax refundable	2,317	2,481	—
Prepaid expense	304	820	525
	9,265	3,387	7,858
Increase (decrease) in current liabilities:			
Current maturities of long-term debt	(2)	2,690	(156)
Accounts payable	3,368	2,683	721
Unearned revenues	(862)	32	2,358
Accrued liabilities	(1,496)	1,962	3,151
	1,008	7,367	6,074
Increase (decrease) in working capital	\$ 8,257	\$ (3,980)	\$ 1,784

See accompanying notes.

Southwest Airlines Co.
Notes to Consolidated Financial
Statements

December 31, 1982

1. Summary of significant accounting policies

Property and equipment—

Depreciation is provided by the straight-line method to residual values over a fifteen-year period for aircraft, over periods ranging from three to twenty years on other flight and ground equipment and over thirty years for buildings. The Company charges major aircraft maintenance costs to operations as incurred.

Investment tax credits—

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

Unearned revenues—

Unearned revenues represent the sale of tickets through travel agents for which transportation has not yet been provided.

Per share amounts—

Primary earnings per share computations are based upon the weighted average number of shares outstanding during the respective periods. Fully diluted earnings per share are computed as if the 10% Convertible Subordinated Debentures were converted into shares of common stock. Per share information has been restated to reflect common stock splits.

2. Flight and ground equipment

At December 31, 1982, the Company has contractual commitments of approximately \$267,660,000, including escalation and net of progress payments made for the purchase of five Boeing 737-200 and ten Boeing 737-300 aircraft to be delivered in 1983 through 1985. These commitments will be due as follows: \$56,577,000 in 1983, \$52,367,000 in 1984 and \$158,716,000 in 1985. In addition, the Company has options to purchase thirty Boeing 737-300 aircraft. Deposits of \$750,000 have been made to secure delivery positions in years 1986 through 1989 in case the Company exercises its purchase options.

Other flight and ground equipment consists of (in thousands):

	<u>1982</u>	<u>1981</u>
Progress payments on aircraft	\$27,060	\$30,867
Support flight equipment.	19,934	18,958
Ground equipment	17,716	13,975
Leasehold improvements	6,551	4,645
Construction in progress	<u>6,303</u>	<u>5,339</u>
	<u>\$77,564</u>	<u>\$73,784</u>

3. Accrued liabilities

Accrued liabilities consist of (in thousands):

	<u>1982</u>	<u>1981</u>
Profit sharing	\$ 790	\$2,466
Interest	3,219	3,251
Vacation pay	2,394	1,700
Ad valorem taxes	860	2,146
Other	<u>1,174</u>	<u>370</u>
	<u>\$8,437</u>	<u>\$9,933</u>

4. Long-term debt

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

	<u>1982</u>	<u>1981</u>
10.40% Equipment Trust Certificates due July 1, 1994	\$ 19,702	\$21,493
10.30% Equipment Trust Certificates due January 1, 1995	16,101	17,500
10.30% Equipment Trust Certificates due July 1, 1995	17,750	9,229
10% Convertible Subordinated Debentures Due 2007	35,000	—
Industrial Revenue Bonds	5,400	—
Credit Agreement (Note 5).	12,000	—
10% notes with interest due quarterly and principal due annually on August 28 through 1984	<u>353</u>	<u>712</u>
Long-term debt less current maturities	<u>\$106,306</u>	<u>\$58,934</u>

The Debentures are convertible into common stock of the Company at any time on or before June 15, 2007, unless previously redeemed, at a conversion price of \$23.05 per share, subject to adjustment in certain events. Interest is payable on December 15 and June 15 of each year. The Debentures are entitled to an annual sinking fund beginning 1992 calculated to retire at least 60% of the Debentures prior to maturity. The Debentures are redeemable at the Company's option at any time on or after June 15, 1984 at prices beginning at 108% of face value in 1984, and declining by 1% per year to 100% in 1992 and thereafter. The indenture covering the Debentures provides certain restrictions on cash dividends. At December 31, 1982, approximately \$65,550,000 of retained earnings were not restricted.

The Industrial Revenue Bonds mature in series annually between 1985 and 1994. Interest is payable semi-annually on January 1 and July 1 at an effective rate of 60% of prime but not less than 7½% or more than 15%. The Bonds are secured by the Company's Reservations Center in San Antonio.

The equipment trust certificates require semi-annual principal and interest payments and are secured by ten Boeing 737-200 advanced series aircraft with a net book value of \$71,281,000 at December 31, 1982.

Long-term debt principal repayments due in each of the next five years are (in thousands):

1983	\$5,076
1984	\$5,076
1985	\$4,995
1986	\$5,270
1987	\$5,270

5. Revolving Credit Agreements

The Credit Agreement with a group of domestic banks permits the Company to borrow on revolving credit up to the lesser of the primary commitment (\$30,000,000 at December 31, 1982), 80% of the net book value or 70% of the market value of aircraft securing the agreement. The primary commitment can be increased to \$100,000,000 by the Company. The Credit Agreement is presently secured by eleven aircraft with a net book value of \$52,346,000. Interest rates on borrowings under the Credit Agreement (9.95% at December 31, 1982) can be, at the option of the Company, the agent bank's prime commercial rate or other rates derived from formulas specified by the Credit Agreement. The commitment fee for the Credit Agreement is 3/8% per annum on the unused portion of the primary commitment and 1/8% per annum on the difference between \$100,000,000 and the amount of the primary commitment.

Balances outstanding under the Credit Agreement are convertible through October 30, 1985 into a seven-year term loan payable in quarterly installments beginning the first day of the calendar quarter following conversion to the term loan. The interest rates available on the term loan are 1/4% over the agent bank's prime commercial rate for the first three years and 1/2% thereafter, or a rate based upon the London Interbank Offered Rate (LIBOR).

The Company will maintain cash balances equal to 5% of borrowings under the Credit Agreement or will pay the banks a quarterly fee equal to the unmaintained balance multiplied by one quarter of the agent bank's prime commercial interest rate. These cash balances are not legally restricted as to withdrawals.

A Letter Agreement with a group of European banks permits the Company to borrow on revolving credit up to \$50,000,000 through January 22, 1985, subject to notice and collateral requirements. Borrowings will bear interest at 1/2% over LIBOR. The agreement provides for the Company to pay a commitment fee of 3/8% per annum on the daily unused portion of the Available Amount as defined, and 1/16% per annum on the difference between the

amount of the loan commitment and the Available Amount, as defined. There have been no loans made under this agreement. Currently the Company could borrow up to \$22,859,000 against the collateral of three Boeing 737-200 aircraft, having a net book value of \$28,574,000 at December 31, 1982.

6. Employee profit sharing and stock ownership 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 Company has 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.

7. Federal income tax

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

	1982	1981	1980
Current	\$ (4,614)	\$ 4,724	\$ 5,540
Deferred	15,000	9,376	7,303
	<u>\$10,386</u>	<u>\$14,100</u>	<u>\$12,843</u>

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

	1982		1981		1980	
	Amount	%	Amount	%	Amount	%
Income tax provision at statutory rate	\$20,419	46	\$22,202	46	\$18,993	46
Investment tax credit	(9,255)	(21)	(7,328)	(15)	(5,576)	(14)
ESOP tax credit	(926)	(2)	(733)	(2)	(557)	(1)
Other	148	—	(41)	—	(17)	—
	<u>\$10,386</u>	<u>23</u>	<u>\$14,100</u>	<u>29</u>	<u>\$12,843</u>	<u>31</u>

Deferred federal income tax results from (in thousands):

	1982	1981	1980
Timing differences in flight and ground equipment ...	\$12,590	\$8,726	\$5,813
Tax benefit transfer	5,150	—	—
Application of investment tax credits	(2,806)	—	884
Other	66	650	606
	<u>\$15,000</u>	<u>\$9,376</u>	<u>\$7,303</u>

Timing differences in flight and ground equipment result principally from the use of accelerated depreciation methods for federal income tax reporting. The proceeds from the sale of tax benefits of approximately \$11,070,000 are included in "Non-operating income," "Other, net."

8. Commitments

Total rental expenses charged to operations in 1982, 1981 and 1980, were \$6,616,000, \$4,802,000 and \$2,281,000, exclusive of landing fees of \$7,389,000, \$4,832,000 and \$3,532,000, 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 and one aircraft are leased through non-cancelable operating leases. Minimum future obligations on such leases are as follows (in thousands):

1983	\$2,899	1987	\$ 1,528
1984	\$1,586	After 1987	\$12,583
1985	\$1,506	Total	\$21,619
1986	\$1,517		

9. Subsequent Event

On February 23, 1983 the Company announced the public offering of 1.2 million shares of its Common Stock.

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, 1982 and 1981, 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, 1982. 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, 1982 and 1981, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Dallas, Texas

January 21, 1983, except as to Note 9, as to which the date is March 2, 1983

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.

Herbert D. Kelleher

Herbert D. Kelleher, Chairman of the Board, President & Chief Executive Officer

Robert W. Lawless

Robert W. Lawless, Vice President—Finance & Chief Financial Officer

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, building and facilities were valued by applying the CPI-U to the appropriate asset account.

b) Depreciation was computed utilizing the same depreciable life assumptions 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 depreciable value of the Company's property and equipment was higher when adjusted for its average 1982 current costs than when adjusted for the effect of general inflation, 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, 1982 of Adjustment for Changing Prices" also presents the changes in values of our "net monetary assets" which occurred during 1982. 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 and accrued vacation pay) are monetary items. Since monetary liabilities during 1982 were greater than monetary assets, an unrealized gain of \$2,621,000 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 1982 dollars, increased during the year by \$9,318,000. For the same period, the increase in net property and equipment as adjusted for the effects of general inflation was \$12,388,000. The difference between the two adjusted amounts reflects the extent to which the general rate of inflation exceeded increases in current costs.

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 1978 and 1979.

Current tax laws do not recognize deductions for current cost of depreciation and amortization expense; therefore, income taxes provided are reported in historical dollars as required by FASB 33.

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.

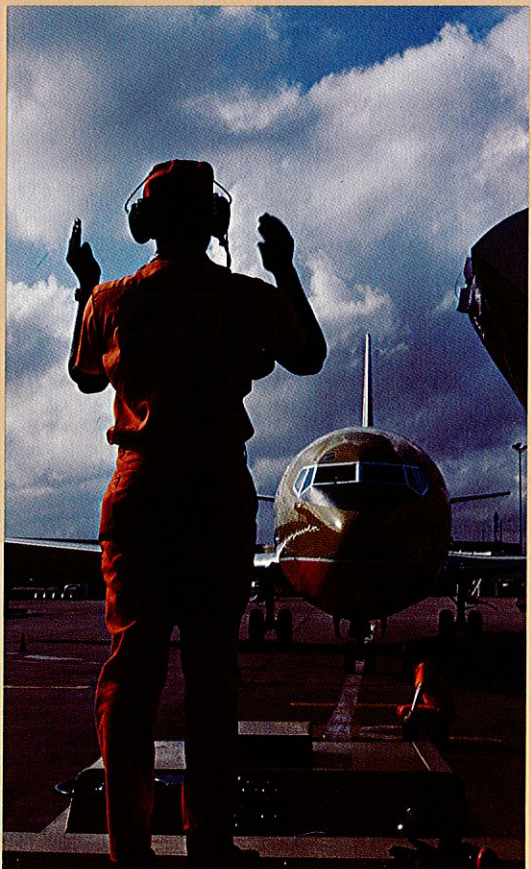
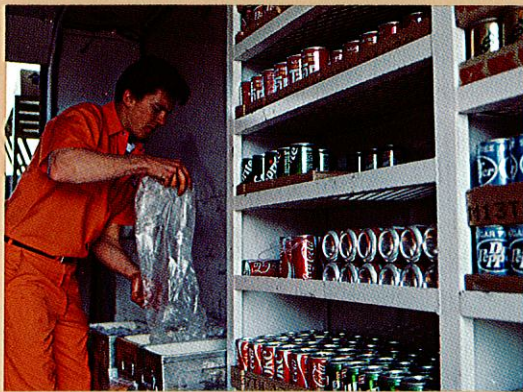
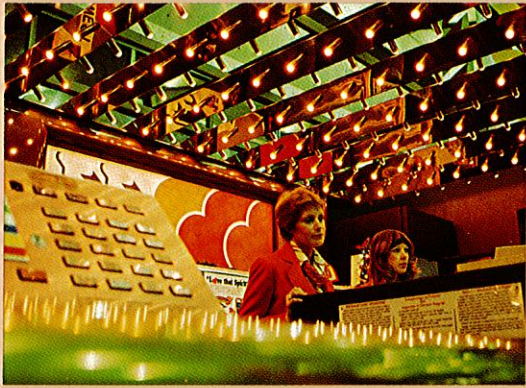
TABLE I

STATEMENT OF INCOME FROM CONTINUING OPERATIONS ADJUSTED FOR CHANGING PRICES FOR THE YEAR ENDED DECEMBER 31, 1982 (000's)				EFFECT ON RELEVANT BALANCE SHEET ACCOUNTS AT DECEMBER 31, 1982 OF ADJUSTMENT FOR CHANGING PRICES (000's)			
	As Reported in the Primary Statements	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Costs)		As Reported in the Primary Statements	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Costs)
Operating revenues	\$331,189	\$331,189	\$331,189	Gain from decline in purchasing power of net amounts owed		\$ 2,621	\$ 2,621
Depreciation expense	21,676	27,524	27,586	Increase in specific prices (current cost) of property and equipment*			\$ 9,318
Other expenses	265,123	265,123	265,123	Increase in general price level (inflation component) of property and equipment. . .			12,388
Provision for income taxes . . .	10,386	10,386	10,386	Excess of increase in general price level over increase in specific prices			\$ 3,070
Total expense	297,185	303,033	303,095	Net assets at year-end	\$240,627	\$301,567	\$298,776
Net Income	\$ 34,004	\$ 28,156	\$ 28,094				
Net Income per Common Share—Primary	\$ 1.60	\$ 1.32	\$ 1.32				

*At December 31, 1982, current cost of property and equipment net of accumulated depreciation was \$406,766,000.

TABLE II

	FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA (000's)				
	Years Ended December 31,				
	1982	1981	1980	1979	1978
Operating revenues	\$331,189	\$286,933	\$249,563	\$181,005	\$119,938
Historical cost information adjusted for general inflation—					
Net income	28,156	28,786	25,354	—	—
Net income per share—primary	1.32	1.42	1.45	—	—
Net assets	301,567	227,538	145,618	—	—
Historical cost information adjusted for specific prices—					
Net income	28,094	30,049	26,456	—	—
Net income per share—primary	1.32	1.48	1.51	—	—
Excess of increase in the general price level over increase in specific prices	3,070	14,865	(2,004)	—	—
Net assets	298,776	229,463	134,368	—	—
Depreciation and amortization	27,586	19,419	14,163	—	—
Gain from decline in purchasing power of net amounts owed	2,621	5,929	9,906	—	—
Cash dividends paid per common share .....	.16	.15	.13	.09	.07
Market price per common share at year-end	26.63	15.32	16.87	8.07	5.16
Average consumer price index (1967 = 100)	289.1	272.4	246.8	217.4	195.4



Ten Year Summary of Operations and Financial Results

	1982	1981	1980	1979
OPERATIONS AND TRAFFIC				
Available seat miles (ASM's) (000)	4,907,945	3,633,351	2,969,448	2,320,371
Trips flown	140,030	110,301	91,143	75,837
Average length of flight segment	297	279	276	264
Size of B-737 fleet at year-end	37†	27†	23	18
Passengers carried	7,965,554	6,792,927	5,976,621	5,000,086
Revenue passenger miles (RPM's) (000)	3,022,142	2,310,181	2,024,097	1,585,539
Average passenger fare	\$ 39.92	\$ 38.07	\$ 34.18	\$ 26.10
Average length of passenger haul	379	340	339	317
Yield per passenger mile	10.52¢	11.19¢	10.09¢	8.23¢
Actual load factor	61.6%	63.6%	68.2%	68.3%
Break-even load factor**	52.9%	48.3%	50.6%	53.6%
FINANCIAL (000)				
Operating revenues	\$ 331,189	\$ 270,358	\$ 213,048	\$ 136,114
Operating expenses	291,964	221,854	164,219	107,128
Operating income	39,225	48,504	48,829	28,986
Income before FIT	44,390	48,265	41,290	20,714
Net income	34,004	34,165	28,447	16,652
INVESTOR STATISTICS				
Avg. no. of common shares outstanding	21,317,000	20,240,000	17,515,000	16,875,000
Common shares outstanding	22,351,916	20,815,000	18,940,000	16,875,000
Earnings per share	\$ 1.60†***	\$ 1.69	\$ 1.62	\$.99
Dividends per share	\$.16	\$.14	\$.11	\$.07
Book Value per share	\$ 10.77	\$ 8.48	\$ 5.65	\$ 3.46
Stockholders' equity (000)	\$ 240,627	\$ 176,503	\$ 106,964	\$ 58,412
Return on Stockholders' equity	16.7%***	23.5%	36.0%	33.1%
CAPITAL STRUCTURE (000)				
Total assets	\$ 420,542	\$ 291,823	\$ 224,442	\$ 172,495
Aftertax return on total assets	9.6%***	13.0%	14.1%	11.7%
Working capital	\$ 14,256	\$ 5,999	\$ 9,979	\$ 8,195
Current ratio	1.52:1	1.23:1	1.53:1	1.64:1
Flight and ground equipment - net	\$ 377,390	\$ 258,982	\$ 194,908	\$ 150,576
Capital expenditures	\$ 140,084	\$ 79,377	\$ 56,504	\$ 54,314
Long-term debt (L-T D)	\$ 106,306	\$ 58,934	\$ 77,892	\$ 87,374
L-T D as a % of total invested capital	30.6%	25.0%	42.1%	59.9%
PRODUCTIVITY AND UNIT COSTS				
Number of employees at year-end	2,913	2,129	1,839	1,630
Average number of employees	2,618	2,106	1,741	1,450
Passengers boarded per employee	3,043	3,226	3,433	3,448
RPM's per employee (000)	1,154	1,097	1,163	1,093
Revenue per employee	\$ 126,505	\$ 128,375	\$ 122,371	\$ 93,872
Fuel costs per available seat mile	2.2¢	2.5¢	2.1¢	1.6¢
All other operating costs per ASM	3.7¢	3.6¢	3.4¢	3.0¢
Total operating cost per ASM	5.9¢	6.1¢	5.5¢	4.6¢
Fuel cost per gallon - average	94.51¢	101.67¢	85.0¢	59.3¢
Fuel cost per gallon - year-end	93.35¢	100.73¢	89.7¢	71.3¢
Fuel as a % of operating costs	36.9%	40.5%	37.7%	35.1%
Daily block hours per aircraft	11:46	11:36	11:16	11:37

*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 \$.31.

**Based on operating revenues per passenger needed to cover total expenses excluding profit sharing and federal income taxes.

†Includes one leased aircraft.

‡Earnings per share - fully diluted \$1.58.

Certain items previously reported have been reclassified to conform to the presentation at December 31, 1982.

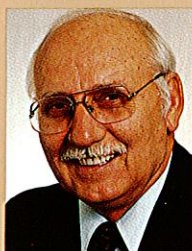
1978	1977	Years Ended December 31,		1974	1973
		1976	1975		
1,556,173	1,011,048	618,732	477,166	314,407	260,616
54,816	35,415	22,311	17,552	12,382	10,619
253	255	248	246	239	236
13	10	6	5	4	3
3,528,105	2,339,524	1,539,113	1,136,318	759,721	543,407
1,048,624	675,668	406,269	298,458	183,596	130,533
\$ 21.99	\$ 20.07	\$ 19.18	\$ 19.07	\$ 18.50	\$ 16.14
297	289	264	263	242	240
7.40¢	6.95¢	7.26¢	7.26¢	7.66¢	6.72¢
67.4%	66.8%	65.7%	62.5%	58.4%	50.1%
49.9%	52.9%	47.0%	49.2%	47.6%	49.0%
\$ 81,065	\$ 49,047	\$ 30,920	\$ 22,817	\$ 14,813	\$ 9,195
59,943	38,785	23,236	17,860	11,354	7,957
21,122	10,262	7,684	4,957	3,459	1,238
23,956	7,545	6,510	3,671	2,141	175
17,004	7,545	4,939	3,400	2,141	175
16,875,000	16,825,670	13,241,340	11,286,560	11,672,760	11,693,938
16,875,000	16,875,000	16,706,250	11,313,538	11,542,058	11,693,932
\$ 1.01*	\$.45	\$.37	\$.30	\$.18	\$.02
\$.05	\$.03	\$.01	—	—	—
\$ 2.54	\$ 1.58	\$ 1.16	\$.66	\$.35	\$.17
\$ 42,889	\$ 26,606	\$ 19,345	\$ 7,415	\$ 4,072	\$ 2,002
50.3%*	33.0%	39.4%	60.1%	67.1%	9.5%
\$ 118,706	\$ 77,967	\$ 43,703	\$ 23,692	\$ 18,566	\$ 14,027
17.2%*	12.4%	15.4%	16.2%	13.1%	1.3%
\$ 9,667	\$ 5,052	\$ 8,026	\$ 1,392	\$ 802	\$ 1,042
3.39:1	2.82:1	3.83:1	2.03:1	1.64:1	2.96:1
\$ 104,744	\$ 69,853	\$ 32,699	\$ 20,787	\$ 16,173	\$ 11,979
\$ 40,204	\$ 41,442	\$ 13,730	\$ 6,294	\$ 6,579	\$ 832
\$ 62,000	\$ 47,000	\$ 20,000	\$ 14,500	\$ 12,197	\$ 11,455
59.1%	63.8%	50.8%	66.2%	75.0%	85.1%
1,119	892	517	392	323	238
1,024	750	457	368	284	215
3,445	3,119	3,368	3,088	2,675	2,527
1,024	901	889	811	646	607
\$ 79,165	\$ 65,395	\$ 67,657	\$ 62,003	\$ 52,158	\$ 42,767
1.1¢	1.0¢	.9¢	.8¢	.7¢	.4¢
2.8¢	2.8¢	2.9¢	2.9¢	2.9¢	2.7¢
3.9¢	3.8¢	3.8¢	3.7¢	3.6¢	3.1¢
38.2¢	36.4¢	30.7¢	30.1¢	22.3¢	11.3¢
37.5¢	37.2¢	33.1¢	31.1¢	28.3¢	11.3¢
27.5%	26.2%	22.8%	22.4%	18.1%	12.1%
10:36	10:14	9:22	8:35	8:16	8:13

***Includes a gain from the sale of tax benefits relating to three aircraft of approximately \$11,070,000 which, after adjustment for tax, increased net income by \$2.0 million and earnings per share by \$.09.

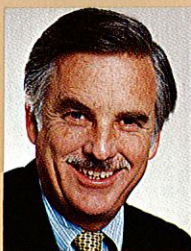
Officers



Kelleher



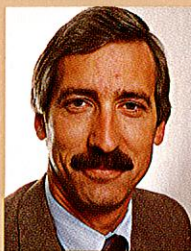
Franklin



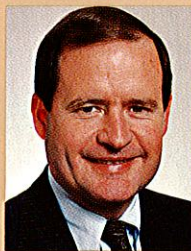
King



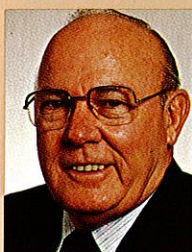
Lawless



Barron



Coats



Herring



Hoff



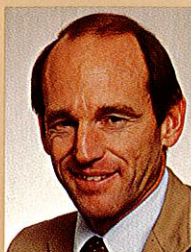
Keith



Lardon



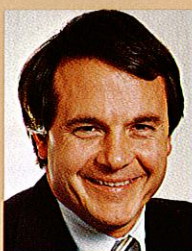
Reilly



ter Kuile



Vidal



Volz



Barrett



Doolin



Granger



Phelps

Herbert D. Kelleher

Chairman of the Board, President
& Chief Executive Officer

William W. Franklin

Executive Vice President
& Chairman of the Operating Committee

Rollin W. King

Advisor—Special Projects

Robert W. Lawless

Vice President—Finance
& Chief Financial Officer

Gary A. Barron

Vice President—Inflight Service

Sam Coats

Vice President—External Affairs

J. L. Herring

Vice President—Energy & Provisioning

Thomas J. Hoff

Vice President—Ground Operations

Camille T. Keith

Vice President—Public Relations

Marcy E. Lardon

Vice President—Personnel

Harold F. Reilly

Vice President—Schedule Planning

Roger C. ter Kuile

Vice President—Flight Operations

John A. Vidal

Vice President—Maintenance

Thomas J. Volz

Vice President—Marketing

Colleen C. Barrett

Secretary

Earl L. Doolin

Controller

Paul A. Granger

Treasurer

Sherry L. Phelps

Assistant Secretary

Directors



Adger



Barshop



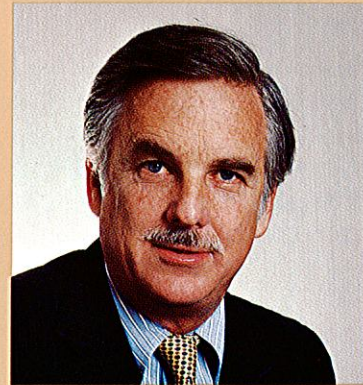
Bishop



Johnson



Kelleher



King

Sidney A. Adger, Senior Vice President,
Milchem, Inc., Houston, Texas
Audit and Compensation Committees

Samuel E. Barshop, Chairman of the Board and
President, La Quinta Motor Inns, Inc.
San Antonio, Texas
Audit and Compensation Committees

Gene H. Bishop, Chairman of the Board and Chief
Executive Officer, Mercantile Texas Corporation,
Dallas, Texas
Audit, Compensation, and Executive Committees

Travis C. Johnson, Johnson & Bowen, El Paso, Texas
Audit Committee

Herbert D. Kelleher, Chairman of the Board and
President of Southwest Airlines Co., Dallas, Texas
Executive Committee

Rollin W. King, Advisor-Special Projects, Southwest
Airlines Co., and Private Investments, Dallas, Texas
Executive 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 26, 1983 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.

Southwest Airlines Co. is dedicated principally to providing high frequency, low fare, on-time, friendly, hospitable, and entertaining air service in short-haul markets, primarily in the economically strong Sunbelt area.

Southwest's philosophy and business strategy encompass:

Simplicity of Operations

- compatible types of aircraft, the Boeing 737-200 advanced series and Boeing 737-300
- simplified passenger reservations, ticketing, check-in, and fares
- no interlining
- no food service

High Productivity

- daily aircraft utilization of 11 hours or more
- 10 minute turnarounds at the jetway between most flights
- 3000 employees, working busily and happily to provide high-quality service because they are appreciated, prideful, and own a substantial portion of their Company

Focus on Passenger Service

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

Attitude

- spirited, loving care and concern for our passengers and empathy with them



Southwest Airlines Co.
P.O. Box 37611
Love Field
Dallas, Texas 75235
214/353-6100