

*Southwest Airlines Co.
1983 Annual Report*

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	1983	1982	Percent Change
OPERATING DATA			
Trips operated.....	175,421	140,030	25.3%
Passengers carried.....	9,511,000	7,965,554	19.4
Revenue passenger miles (000).....	3,893,821	3,022,142	28.8
Available seat miles (000).....	6,324,224	4,907,945	28.9
Passenger load factor.....	61.6%	61.6%	—
Average revenue per passenger mile.....	11.13¢	10.52¢	5.8
Number of employees at year-end.....	3,462	2,913	18.8
INCOME DATA			
Operating revenues.....	\$448,236,000	\$331,189,000	35.3%
Operating expenses.....	379,738,000	291,964,000	30.1
Operating income.....	68,498,000	39,225,000	74.6
Net income—			
Amount.....	\$ 40,867,000	\$ 34,004,000	20.2
Per share			
Primary.....	\$ 1.40	\$ 1.28	9.4
Fully diluted.....	\$ 1.38	\$ 1.26	9.5
Average shares outstanding.....	29,193,000	26,646,000	9.6
FINANCIAL DATA			
Working capital.....	\$104,828,000	\$ 14,256,000	635.3%
Property and equipment-net.....	430,790,000	377,390,000	14.1
Capital expenditures.....	83,253,000	140,084,000	(40.6)
Stockholders' equity.....	314,556,000	240,627,000	30.7
Return on stockholders' equity.....	14.2%	16.7%	N/A
Long-term debt as a % of total invested capital.....	33.5%	30.6%	N/A
Book value per share.....	\$ 10.68	\$ 8.61	24.0

Cover: Our camera peers into the throat of a jet engine on one of Southwest Airlines' Boeing 737-200's. Late in 1984, Southwest will move into a new generation of aircraft and service with the initial deliveries of our Boeing 737-300. This larger and more powerful aircraft will simultaneously be quieter and more fuel efficient than our 737-200 and any other airplane of its class in the world. In large part, the remarkable performance of the 737-300 is attributable to its CFM 56-3 engine, manufactured jointly by the General Electric Company and SNECMA of France.

Letter to Stockholders

Highlights of 1983

Record net income of \$40,867,000... record primary earnings per share of \$1.40... record operating income of \$68,498,000... record operating revenues of \$448,236,000... record employee profit sharing of \$9,254,000... record revenue passenger miles of 3,893,821,000... record passengers boarded of 9,511,000... in all, a year of pleasure, pride and progress.

Profitability

Operating revenues increased 35% in 1983. Operating expenses increased 30%, resulting in a 75% increase in operating income from 1982. Net income of \$40,867,000 was up 20% over 1983. The percentage increase in operating income exceeded that in net income primarily because the results of 1982 included nonrecurring, nonoperating income of approximately \$11,070,000 from the sale of tax benefits and the 1982 effective tax rate was 23% as compared to 36% in 1983. Earnings per share amounted to \$1.40 (\$1.38 fully diluted) on an average of 10% more shares outstanding, as compared to \$1.28 per share (\$1.26 fully diluted) earned in 1982 (adjusted for our 5-for-4 January, 1984 stock split).

Traffic

9,511,000 passengers were boarded in 1983, a 19% increase over the record established in 1982. Revenue passenger miles increased by 29%, reflecting an 8% increase in average length of passenger haul. Load factor remained virtually constant at 61.57%, with a 29% increase in available seat miles. The average yield per revenue passenger mile increased 6% to 11.1¢. Operating expense per available seat mile increased .8% to 6.0¢. In its 13th year of operation, Southwest's cost and fare structures remain among the lowest in the industry and provide great strength.

Routes

Denver, with nonstop service from Albuquerque and Phoenix, was our "new city" in 1983. Our 29% increase in available seat miles was principally devoted to upgrading service on our existing system. We not only improved frequency in many city-pair markets, but also inaugurated nonstop service between San Antonio-Phoenix, San Antonio-Los Angeles, El Paso-Los Angeles, San Diego-San Francisco, Lubbock-Albuquerque, Midland/Odessa-Albuquerque, and Houston-Midland/Odessa. 1983 also saw the flowering of our new Phoenix hub as we became the second largest carrier at Phoenix in terms of enplanements and carried 2,032,763 on-board passengers to, from, and through this magnificent city.

Fleet

During 1983, Southwest added to its fleet five owned 737-200's; three leased 737-200's; and two leased 727-200's for longer haul service. At year-end, our fleet consisted of 44 737's and two 727's. The three leased 737-200's are presently scheduled to be returned to their owners in March, 1984 and to be replaced by delivery from Boeing of three new 737's in March. The 727-200's are leased through September, 1984, with an option to renew their lease through September, 1985. Currently, it is anticipated that we will take delivery of three of our 141 seat Boeing 737-300's in November-December, 1984, with seven more to be delivered in 1985 and options on further deliveries through 1990. We are presently negotiating for the acquisition of an additional 737-200 and at least two additional 727-200's in the spring of this year. Our 1984 seat mile capacity increase will be approximately 16% without any such additional aircraft.

Facilities

During the past two years, Southwest has been engaged in a major program to expand and improve its ground facilities. By the end of 1984, all of the airports at which we are the prime lessee of our facilities will have undergone such improvement. Recently, we acquired five gates at Intercontinental Airport in Houston; two additional gates at Moisant Airport in New Orleans; moved into our own space in the new Los Angeles International Terminal commenced renovation and enlargement of our Arlington, Texas reservation center; and will soon occupy four gates in the new San Antonio International Airport Terminal.

Customer Service

The essence of our excellence is our people. Although statistics for the full year are not yet available, through the third quarter of 1983 we maintained our leadership, dating back to 1980, as the domestic air carrier with the fewest CAB customer complaints per 100,000 passengers carried. In a recent customer survey, 62% of our customers also stated that



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



Southwest "cared more" about them than any other carrier on which they flew. The retrofit program on our 737-200's is proceeding at the rate of one aircraft per week and by May or June of 1984 our new, more comfortable seats and warm, rich new interiors will be installed in all of our owned 737-200's.

Financial Strategy

In March of 1983 we offered 1,500,000 shares of common stock (as adjusted for our January, 1984 split) producing net proceeds of \$36,830,000 to the Company. In June, our subsidiary, Southwest Airlines Eurofinance N.V., issued \$35,000,000 of 6¼% Convertible Subordinated Debentures Due 1998 and convertible into our common stock at \$38.30 per share (as adjusted for our January, 1984 split). In November, we completed a fifteen year leverage lease financing on three of our aircraft producing proceeds to the Company of \$42,000,000 at an effective interest rate of less than 8% per annum. As of December 31, 1983, our current ratio was in excess of 3 to 1; our long term indebtedness as a percentage of invested capital was 34%; and stockholders' equity was \$314,556,000, a 31% increase over 1982. This constitutes one of the strongest balance sheets in the American airline industry.

Stock Split

On December 20, 1983, your Board of Directors declared a 5-for-4 stock split, resulting in the distribution to shareholders of 5,888,000 additional shares on January 27, 1984. The Board also announced its intention to pay a regular dividend of 13¢ per annum on the shares outstanding after the split, representing an effective dividend increase of 1.6% per year. One thousand of the original publicly offered shares of Southwest costing \$11,000 now represent 13,183.59 shares worth approximately \$330,000, with a dividend return on the original investment of 15.6% per year. *Fortune Magazine* recently wrote that during the past decade Southwest has produced the highest total return to stockholders among the 50 largest transportation companies in the United States.

Outlook 1984

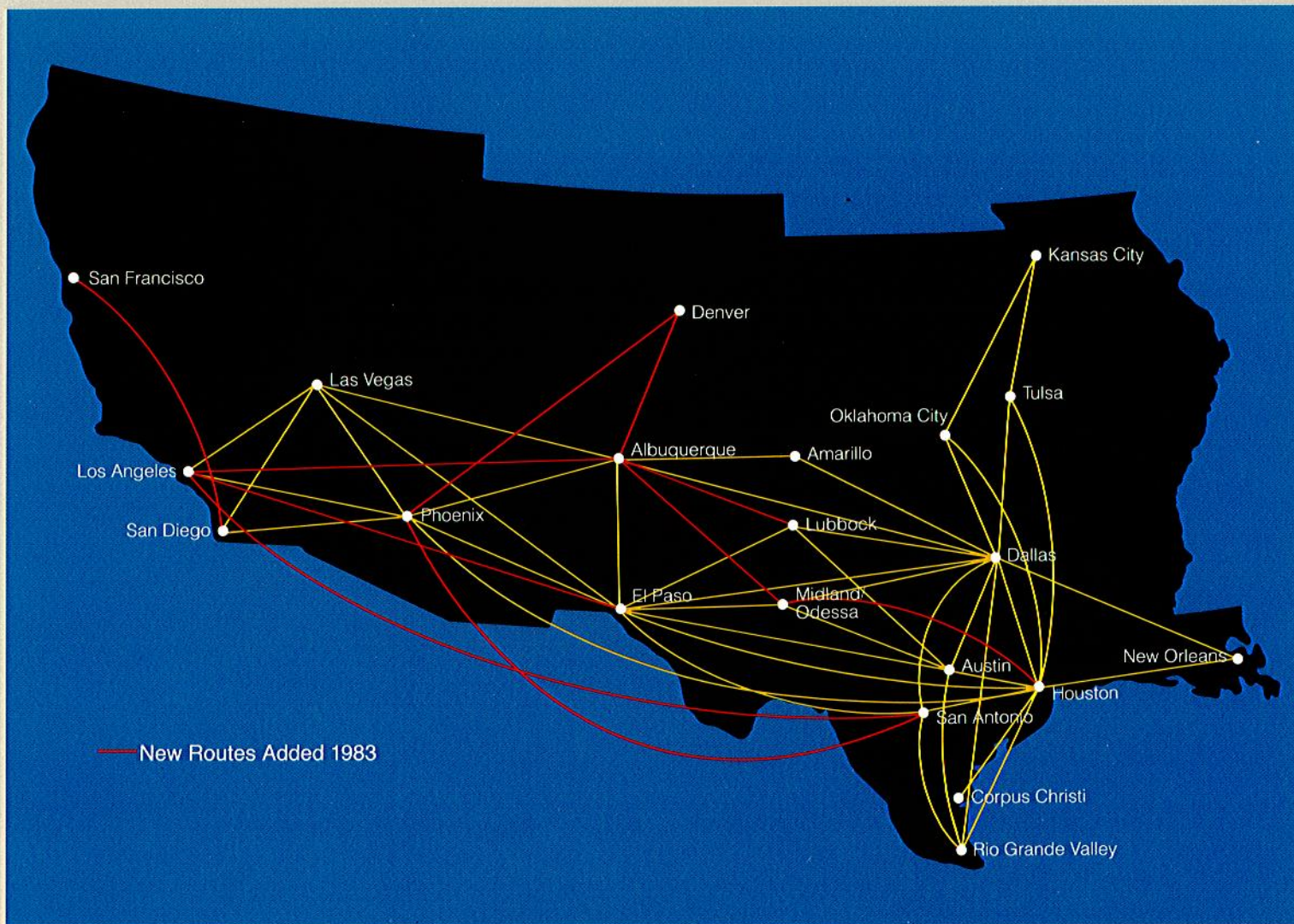
Barring a now unforeseen and substantial escalation in jet fuel prices, 1984 would seem to hold bright prospects for Southwest if the improvement in the nation's economy continues. Possible resumption of the industry fare wars prevalent in early 1983 does not pose a major threat to Southwest, which already charges fares lower than most of its competitors would like to charge under any circumstances. Our principal challenge appears to be the retention of our low cost structure, which enables us to compete effectively against new entrant carriers and those emerging from bankruptcy. Thus far, our dedicated employees have been most cooperative and understanding in recognizing, and coping with, the threat to their job security and profit sharing represented by non-competitive labor costs, and I am confident that they will continue to display that attitude for they are, in short, the industry's best and most farsighted group.

Most sincerely,



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

February 2, 1984



*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, San Francisco and Denver. 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 rapidly becoming 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 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 1983, Southwest added five new Boeing 737-200 advanced series aircraft to its fleet, bringing the total to 41 owned aircraft at year-end. Also in second quarter 1983 the Company returned the B737-200 which it had been leasing and, late in the third quarter and early in the fourth quarter, took delivery of five aircraft on short-term leases, three B737-200's and two B727-200's. The weighted average number of aircraft assigned to service during 1983 was 40.70 compared to 31.67 in 1982 and 24.53 in 1981. This 28.5% increase in weighted average number of aircraft for 1983 was the major factor contributing to the 28.9% increase in available seat miles ("ASMs") for the year. An average stage length increase from 297 miles to 303 miles also contributed to the increase in available seat miles. Aircraft utilization decreased slightly from 11 hours 46 minutes to 11 hours 40 minutes per aircraft per day.

The Company's owned B737-200's have an average age of only 39 months and are considered the most efficient aircraft presently available for Southwest's short-haul service. The ten B737-300's on order, and which will be delivered in 1984 and 1985, will offer approximately 15% more seating capacity per aircraft and, due to advancements in engine design and materials technology, substantial fuel savings compared to the B737-200. In addition, the B737-300 will be significantly quieter than our current fleet or any alternative aircraft presently available.

Routes

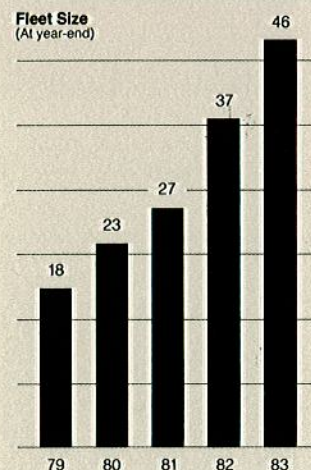
Southwest added Denver to its system in May, 1983, as compared to six new cities in 1982. Southwest's 1983 capacity increase of 28.9% was principally devoted to upgrading service on its existing system. Frequency was improved in a number of city-pair markets, and non-stop service was inaugurated in others.

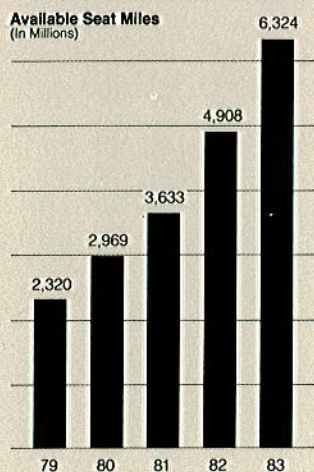
In 1982, expansion was accomplished in two stages, with Phoenix, Las Vegas, San Diego and Kansas City being added in late January and mid-February, and Los Angeles and San Francisco being added in mid-September and late October. These additions increased Southwest's unduplicated route mileage by 86% from December 1981 to December 1982.

Traffic

The additional capacity in 1983, coupled with a continuing increase in demand, resulted in a dramatic increase in the Company's traffic during the year. Passengers boarded in 1983 totalled 9,511,000, representing a 19.4% increase over the prior year. Revenue passenger miles increased 28.8%, while the average length of a passenger journey increased by 7.9% to 409 miles.

Passengers boarded in 1982 increased 17.3% to 7,965,554, which, when combined with an 11.5% increase in the average length of a passenger's journey, created an increase in revenue passenger miles of 30.8%. The new routes increased the average passenger trip to 379 miles in 1982 from 340 miles in 1981.





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 1983 by 36.3% over 1982, primarily due to the combined effect of a 28.8% increase in revenue passenger miles flown and a 5.8% increase in average revenue per passenger mile (yield) from 10.52¢ in 1982 to 11.13¢ in 1983.

The increase in yield in 1983 is principally attributable to a general fare increase by the Company early in 1983, partially offset by the traditionally lower yields associated with longer haul travel.

In 1982 passenger revenues increased 23.0% over 1981 due to the net effect of a 30.8% increase in revenue passenger miles flown and a 6.0% decrease in yield.

Operating Expenses

Southwest's operating expenses for 1983 reflect major cost control efforts, declining fuel prices and operating efficiencies associated with longer haul travel. As the table below depicts, total operating expenses per available seat mile increased by 0.8% over 1982.

Category of Costs	Per Available Seat Mile 1983	Increase (Decrease)	Per Available Seat Mile 1982	Increase (Decrease)	Per Available Seat Mile 1981
Aircraft fuel & oil	1.95¢	(.25¢)	2.20¢	(.27¢)	2.47¢
Payroll & related	1.68	.11	1.57	.05	1.52
Depreciation	.47	.03	.44	.02	.42
Advertising	.18	.02	.16	.05	.11
Agency commissions	.25	.06	.19	.07	.12
Other	1.32	.04	1.28	.04	1.24
Total before profit sharing	5.85	.01	5.84	(.04)	5.88
Profit sharing	.15	.04	.11	(.12)	.23
Total operating costs	6.00¢	.05¢	5.95¢	(.16¢)	6.11¢

The 11.0% decrease in fuel cost per ASM for 1983 is attributable to a 9.1% decrease in average price per gallon of jet fuel and 1.9% to an increase in efficiency resulting from longer haul travel. In 1982 the decrease in fuel cost per ASM of 10.9% was the combination of a 7.0% decrease in the average price per gallon of jet fuel and a 3.9% increase in operating efficiency.

Excluding profit sharing and fuel and oil, all other costs per ASM, in the aggregate, increased 7.1% in 1983 over 1982, due primarily to increased wages and increased travel agency commissions resulting from the proportion of agency sales increasing from approximately one fourth of all sales in 1982 to approximately one third in 1983. In 1982 operating costs per ASM, excluding profit sharing and fuel and oil, increased by 6.7% over 1981.

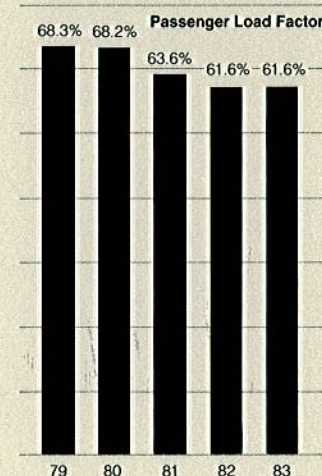
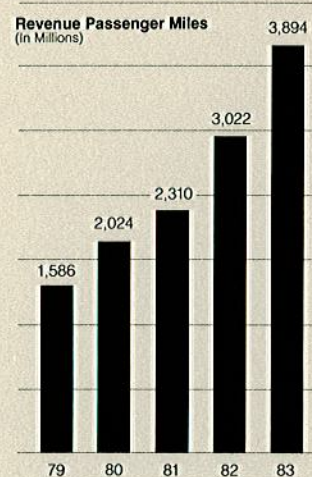
Operating Income

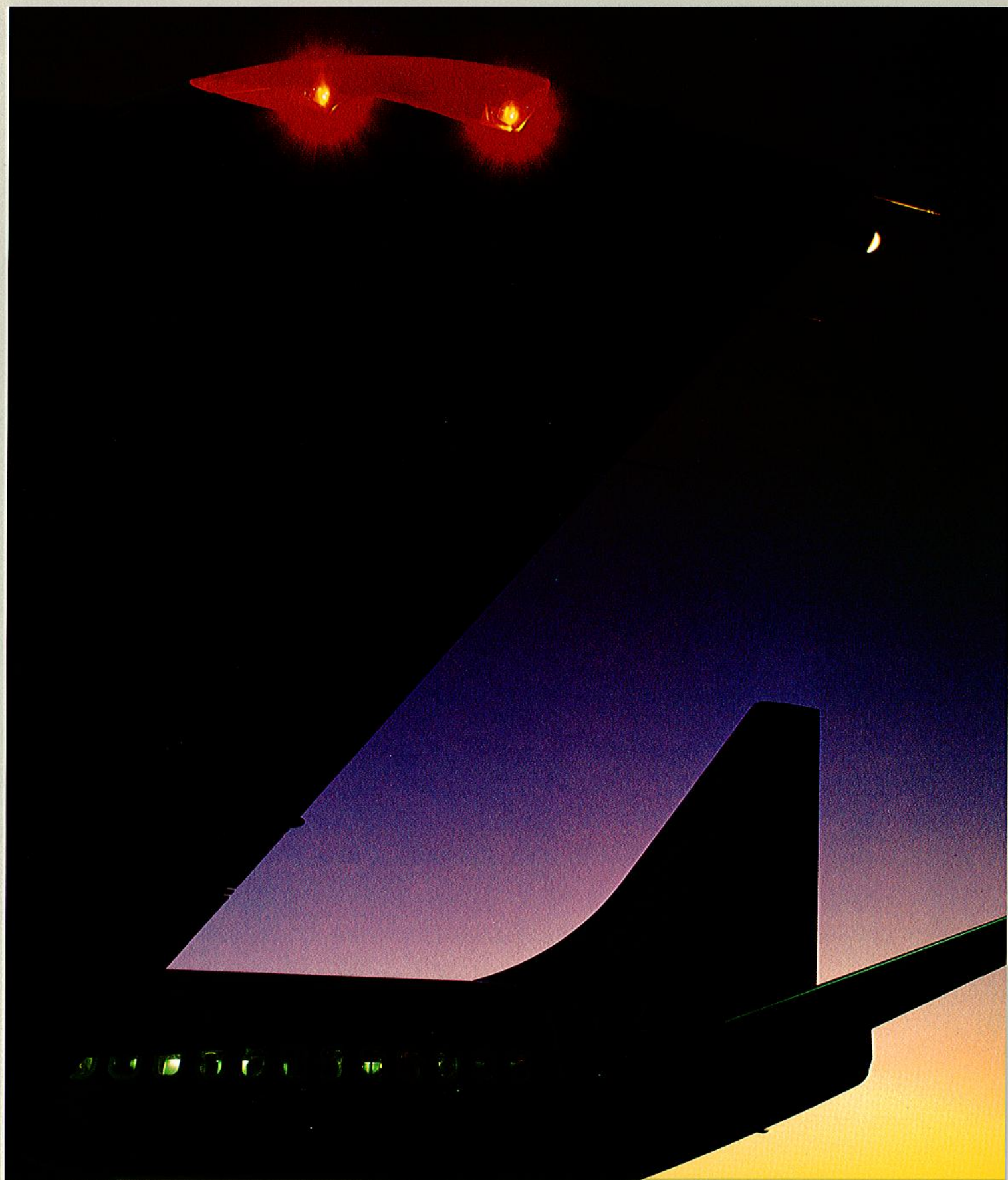
1983 operating income increased 75% to \$68,498,000, representing an operating margin of 15.3%, up substantially from the 11.8% operating margin in 1982. The increase in operating income can be almost completely associated with the increase in yield per revenue passenger mile of 5.8%, which was generated primarily through a general fare increase early in 1983.

Operating income in 1982 was down 19.1% from 1981, primarily reflecting a decrease in average load factor and yield.

Non-Operating Income and Expense

Interest expense increased in 1983 due primarily to the additional financing accomplished through \$35 million of 6¾% Convertible Subordinated Debentures Due 1998 which were issued in July 1983, as well as the effect of a full year's interest expense associated with the \$35 million of 10% Convertible Subordinated Debentures Due 2007 which were issued in May of 1982. Interest associated with capital leases also contributed to the increase in expense for 1983. Interest expense for 1982 was higher than





Management's Discussion

the previous year primarily due to the issuance of the convertible debt described above and increased borrowings under a revolving credit agreement.

Capitalized interest decreased in 1983 due to the lower average balances of outstanding progress payments on aircraft. Capitalized interest increased in 1982 over 1981 due to higher average balances.

Interest income increased dramatically in 1983 due to the investment of proceeds from the \$35 million Convertible Debenture issue and of the overall increase in working capital.

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.

Income Taxes

The Company's effective income tax rates for 1981, 1982 and 1983 were 29%, 23% and 36%, respectively. These 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 1981 through 1983 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 income tax expense for 1983 and the two prior years, see Note 7 to the Consolidated Financial Statements included herein.

Earnings Per Share

On a primary basis, earnings per share for 1983 increased by 9.4%, to \$1.40 from \$1.28 in 1982, primarily due to a 20.2% increase in net income offset partially by an increase of 9.6% in the weighted average number of shares outstanding.

Earnings per share in 1982 decreased by 5.2%, as compared to 1981, primarily due to a 5.3% increase in the number of shares outstanding from the issuance of Common Stock in September, 1982.

All earnings per share information has been adjusted for stock splits, including the 5-for-4 split which was effective on January 3, 1984.

Stockholders' Equity

Total Stockholders' Equity increased by 30.7% in 1983. 15.3% of the increase was attributable to the issuance of 1,200,000 new shares of Common Stock (1,500,000 shares adjusted for the January 1984 5-for-4 split) and 15.4% to an increase in retained earnings. In 1982, of the 36.3% increase in Stockholders' Equity, 19.0% was attributable to the issuance of new shares and 17.3% to an increase in retained earnings.

Return on Stockholders' Equity for 1983 was 14.2%, compared to 16.7% in 1982 and 23.5% in 1981. Book value per share at year-end was \$10.68 in 1983, compared to \$8.61 in 1982 and \$6.78 in 1981.

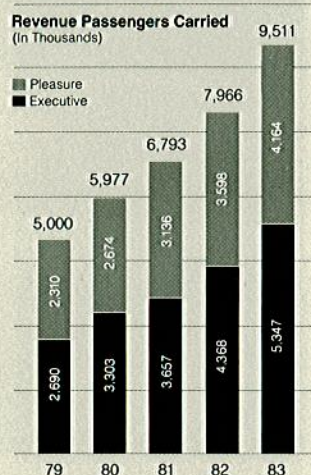
Profit Sharing Contributions

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 1983, the Profit Sharing Plan added an average of 11% to the compensation of each employee participating in the Plan. The total 1983 provision for employee profit sharing amounted to \$8,851,000 of which \$1,959,000 was paid to employees in quarterly cash bonuses.

In addition to the Profit Sharing Plan, Southwest maintains an Employee Stock Ownership Plan which allows a tax credit equal to 1/2% of participants' wages if a corresponding amount is invested in Southwest Common Stock for the accounts of the individual employees. In 1983, \$403,000 in additional employee benefits resulted from this Plan, at no additional cost to Southwest.

Provisions made for profit sharing, including the ESOP credit, were \$5,560,000 in 1982 and \$8,398,000 in 1981, representing 8% and 19% of participants' earnings, respectively.

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





Liquidity and Capital Resources

At December 31, 1983, the Company's working capital was \$104,828,000 as compared to \$14,256,000 and \$5,999,000 at December 31, 1982 and 1981, respectively.

Capital commitments for 1984 and thereafter principally consist of scheduled aircraft acquisitions. Three Boeing 737-200's are scheduled for delivery in March 1984 at an aggregate cost (including buyer-furnished equipment) of \$43.2 million, offset by progress payments made prior to 1984 amounting to \$10.7 million. In late 1984, the first three of ten new 737-300 aircraft will be delivered with the remaining seven aircraft currently on order to be delivered in 1985. The Company estimates the aggregate cost of the 737-300's 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. There were no outstanding loans under either line of credit at December 31, 1983.

Historically, the Company has utilized a combination of externally and internally generated funds to finance asset acquisitions. During 1983, approximately \$72 million, net of commissions, fees and expenses, was derived from the public sale of the Company's securities, \$90 million was generated from operations, another \$42 million was added through the net effect of a sale-leaseback transaction of three aircraft and an additional \$3 million from other debt. The \$91 million increase in working capital for 1983 is the net result of funds generated as described above less the use of funds of approximately \$73 million for aircraft acquisitions and progress payments, \$20 million for the purchase of ground equipment and facilities, \$17 million for retirement of debt and \$6 million for other purposes.

During 1982, approximately \$74 million, net of commissions, fees and expenses, was derived from public sale of the Company's securities. Approximately \$72 million was derived from 1982 operations. \$12 million was borrowed under a bank revolving line of credit. Working capital increased by \$8 million net of capital expenditures of \$140 million and other uses of \$10 million.

In 1981, approximately \$59 million was provided by operations and supplemented by \$39 million provided through external financings. Working capital decreased in 1981 by \$4 million as \$79 million was used for capital acquisitions, \$20 million for reduction of debt and \$3 million for other purposes.

In addition to the use of internally generated funds in 1984 and thereafter, the Company expects to seek 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.

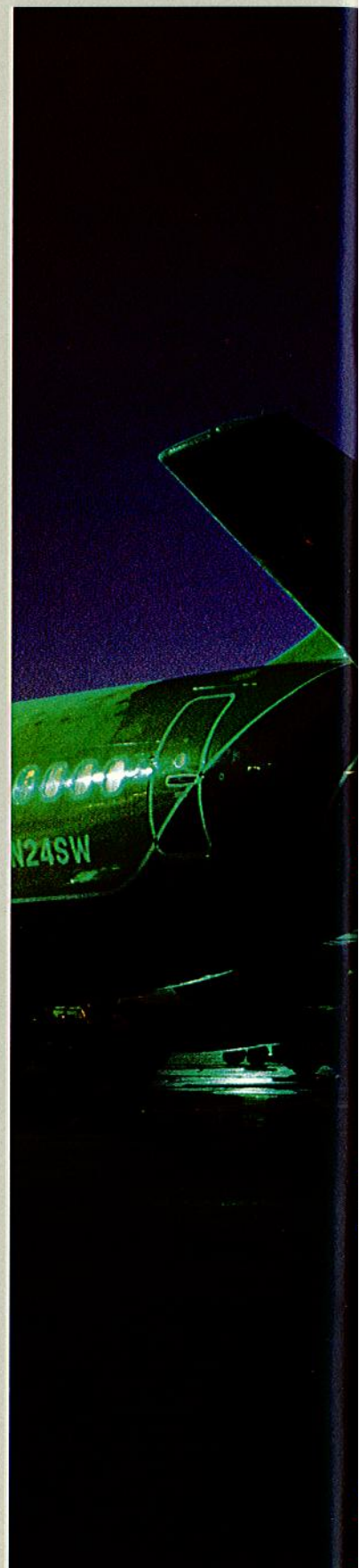
For Supplementary Information on Effects of Changing Prices, see page 26 of this Annual Report.

Financial Strategy

The Company has focused attention over the past several years on strengthening its balance sheet to create thereby a high degree of flexibility for future financings needed to continue the Company's growth plans, avoiding high cost of debt and acquiring the latest technology aircraft such as the B737-300.

The following is a summary of recent financing achievements:

- Capital availability of up to \$150,000,000 through established credit lines.
- Expansion of the equity base in August 1982 and March 1983 through public offerings of common stock.
- Ownership of fourteen new aircraft 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.
- Sale of \$35,000,000 Convertible Subordinated Debentures in mid-1983.
- Leveraged lease financing on three aircraft in the fourth quarter of 1983 generating \$42,000,000 of working capital.
- Long-term debt as a percentage of total invested capital at year-end of 30.6% in 1982 and 33.5% in 1983.





1983 Financings

Public Offering of Common Stock

The March 3, 1983 public offering of 1,200,000 shares of Common Stock (1,500,000 shares as adjusted for the 5-for-4 split on January 3, 1984) generated net proceeds of \$36,830,000 which were applied to the delivery payments on four aircraft in April through June, 1983 and toward progress payments on the ten B737-300 aircraft on firm order for 1984 and 1985 delivery.

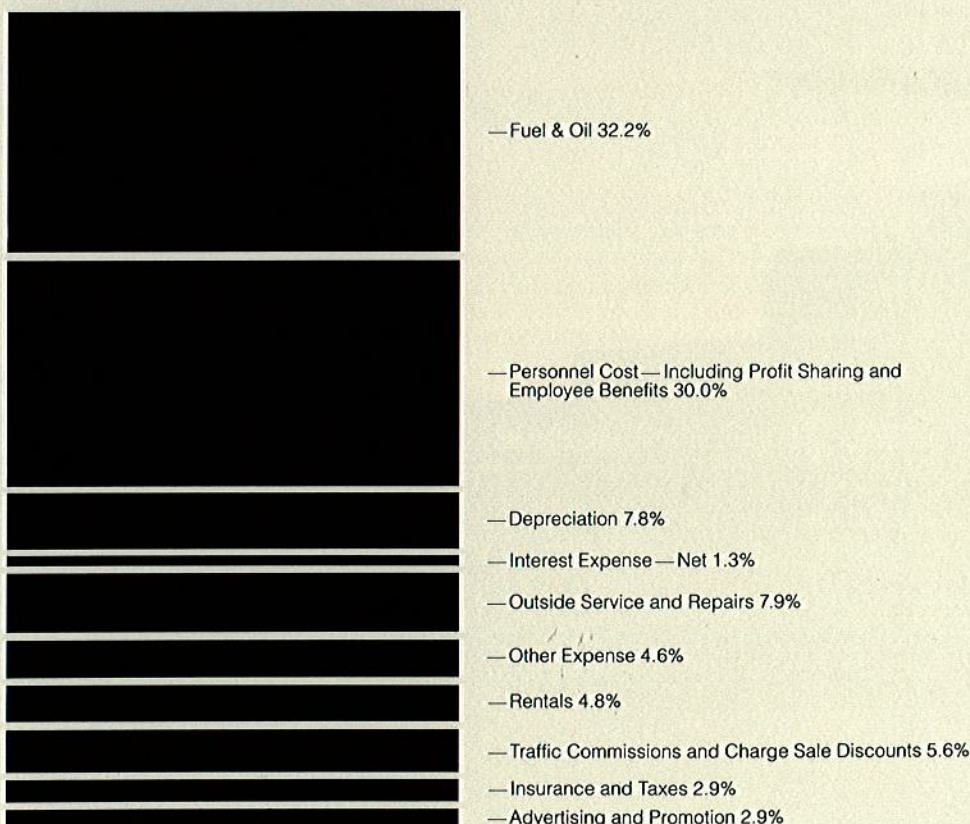
Convertible Subordinated Debt

The July 1983 issuance of 6¾% Convertible Subordinated Debentures Due 1998 generated net proceeds of \$34,125,000, which were added to the Company's working capital and will be utilized in part for progress payments on aircraft to be made in 1984. (See also Note 4 to the Consolidated Financial Statements.)

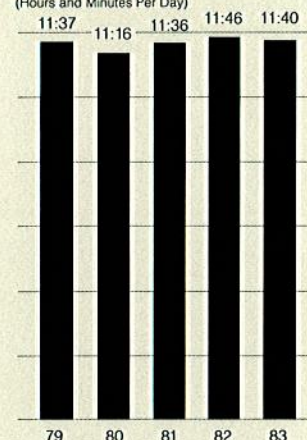
Leveraged Lease Financing

In November 1983 the Company concluded transactions which involved the sale and leaseback of three aircraft delivered in 1983. The transactions, which included a pass through to the Company of investment tax credits, effectively reimbursed the Company for the purchase price of the three aircraft in exchange for a fifteen year lease agreement for the aircraft. The transactions are being accounted for as capital leases. (See Note 8 to the Consolidated Financial Statements for additional details.)

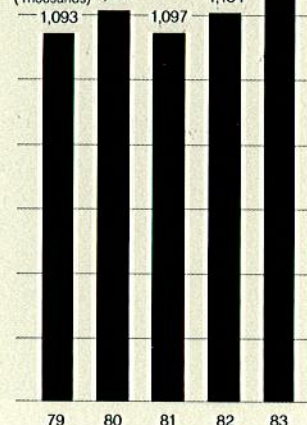
Distribution of Expenses



Aircraft Utilization
(Hours and Minutes Per Day)



Revenue Passenger Miles Per Employee
(Thousands)





Management's Discussion

Quarterly Earnings

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

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 .....	.14	.38	.42	.34
Fully diluted .....	.14	.38	.41	.33

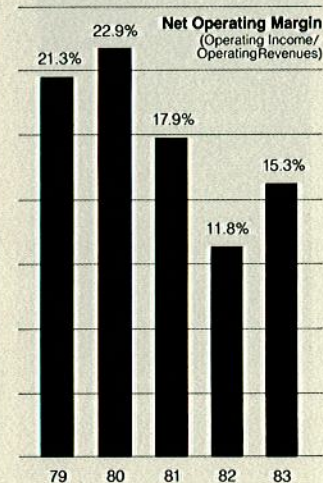
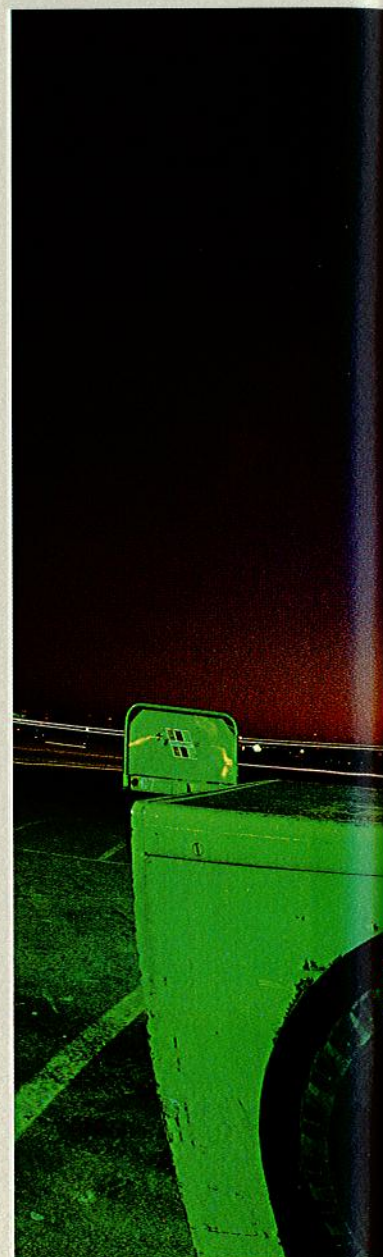
1983	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Revenues	\$94,848	\$111,992	\$115,802	\$125,594
Operating income	10,063	21,676	19,404	17,355
Income before tax	8,167	20,392	18,260	16,752
Net income	5,118	12,941	11,804	11,004
Income per share:				
Primary .....	.18	.44	.41	.37
Fully diluted .....	.18	.43	.40	.37

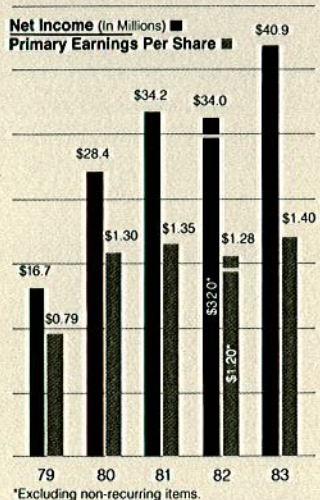
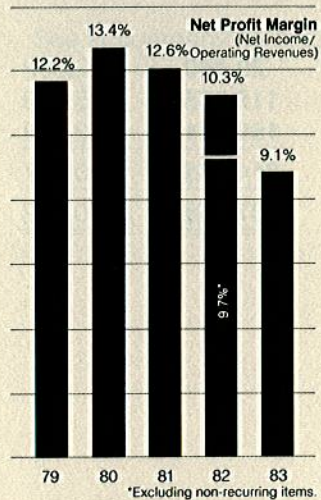
Common Stock Price Ranges and Dividends

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 December 1982 and January 1984, were:

Period	Dividend	High	Low
1982			
1st Qtr	\$.032	\$14.60	\$11.00
2nd Qtr .....	.032	16.70	12.85
3rd Qtr .....	.032	21.90	14.80
4th Qtr .....	.032	25.40	18.75
1983			
1st Qtr .....	.032	27.20	20.00
2nd Qtr .....	.032	35.20	23.20
3rd Qtr .....	.032	35.10	25.30
4th Qtr .....	.032	29.10	24.00

At January 27, 1984 there were 3,633 holders of record of Southwest's Common Stock.





Southwest Airlines Co. Consolidated Balance Sheet

(in thousands except shares)
December 31, 1983 and 1982

	1983	1982
Assets		
CURRENT ASSETS:		
Cash, including short-term investments of \$121,303 (\$18,600 in 1982) (Note 5)	\$130,701	\$ 16,722
Accounts receivable	17,807	15,870
Inventories of parts and supplies, at cost	3,135	2,271
Federal income tax refundable	124	4,798
Prepaid expense	1,453	1,938
TOTAL CURRENT ASSETS	153,220	41,599
Property and equipment, at cost (Notes 2 and 8):		
Flight equipment — aircraft (Notes 4 and 5)	421,233	359,841
Other flight and ground equipment	93,041	77,564
Land and building	8,089	5,285
	522,363	442,690
Less allowance for depreciation	91,573	65,300
	430,790	377,390
Deferred charges and other assets	3,248	1,553
	<u>\$587,258</u>	<u>\$420,542</u>
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 6,460	\$ 5,073
Accounts payable	19,801	12,305
Unearned revenues	2,528	1,528
Accrued liabilities (Note 3)	19,603	8,437
TOTAL CURRENT LIABILITIES	48,392	27,343
Long-term debt less current maturities (Notes 4 and 5)	158,701	106,306
Deferred federal income tax	63,493	44,598
Deferred compensation	1,062	742
Other deferred items	1,054	926
Total liabilities	272,702	179,915
Commitments (Notes 2 and 8)		
STOCKHOLDERS' EQUITY (Note 4):		
Common stock, \$1.00 par value; 75,000,000 shares authorized; 29,439,895 shares issued and outstanding in 1983 (22,351,916 in 1982)	29,440	22,352
Capital in excess of par value	115,685	85,943
Retained earnings	169,431	132,332
TOTAL STOCKHOLDERS' EQUITY	314,556	240,627
	<u>\$587,258</u>	<u>\$420,542</u>

See accompanying notes.

Southwest Airlines Co.

Consolidated Statement of Income

(in thousands except for share and per share information)

		Years Ended December 31,	
	1983	1982	1981
OPERATING REVENUES:			
Passenger	\$ 436,506	\$ 320,140	\$ 260,236
Package express	10,357	9,469	8,326
Other	1,373	1,580	1,796
Total operating revenues	448,236	331,189	270,358
OPERATING EXPENSES:			
Fuel and oil	123,629	107,788	89,820
Salaries, wages and benefits	106,001	76,672	55,087
Maintenance materials and repairs	16,345	15,756	11,442
Agency commissions	15,675	9,532	4,209
Landing fees and rentals	18,542	14,004	9,634
Other operating expenses	60,439	40,976	27,961
Depreciation	29,853	21,676	15,303
Employee profit sharing (Note 6)	9,254	5,560	8,398
Total operating expenses	379,738	291,964	221,854
OPERATING INCOME	68,498	39,225	48,504
NON-OPERATING (INCOME) EXPENSE:			
Interest income	(5,386)	(1,105)	(4,383)
Interest expense (Notes 4 and 5)	12,423	10,284	7,844
Capitalized interest	(2,217)	(3,974)	(3,222)
Other, net (Note 7)	107	(10,370)	—
Net non-operating (income) expense	4,927	(5,165)	239
Income before federal income tax	63,571	44,390	48,265
Provision for federal income tax (Note 7)	22,704	10,386	14,100
NET INCOME	\$ 40,867	\$ 34,004	\$ 34,165
INCOME PER COMMON SHARE:			
Weighted average common shares outstanding (adjusted for stock splits in each year)	29,193,000	26,646,000	25,300,000
Net income per share:			
Primary	\$ 1.40	\$ 1.28	\$ 1.35
Fully diluted	\$ 1.38	\$ 1.26	\$ 1.35

See accompanying notes.

Southwest Airlines Co.

Consolidated Statement of Stockholders' Equity

(in thousands except for per share information)

Three Years Ended December 31, 1983

	Common Stock	Capital in excess of par value	Retained earnings	Total
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, \$.11 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, \$.13 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	22,352	85,943	132,332	240,627
Five-for-four stock split	5,888	(5,888)	—	—
Proceeds from issuance of common stock	1,200	35,630	—	36,830
Cash dividends, \$.13 per share	—	—	(3,768)	(3,768)
Net income — 1983	—	—	40,867	40,867
BALANCE AT DECEMBER 31, 1983	<u>\$29,440</u>	<u>\$115,685</u>	<u>\$169,431</u>	<u>\$314,556</u>

See accompanying notes.

Southwest Airlines Co.

Consolidated Statement of Changes in Financial Position

(in thousands)

	Years Ended December 31,		
	1983	1982	1981
FINANCIAL RESOURCES WERE PROVIDED BY:			
Working capital provided from operations:			
Net income	\$40,867	\$34,004	\$ 34,165
Items not affecting working capital during the current period:			
Depreciation	29,853	21,676	15,303
Deferred compensation and compensation element of executive stock options	370	478	188
Deferred federal income tax	18,895	15,000	9,376
Other deferred items	128	926	—
Total from operations	90,113	72,084	59,032
Issuance of common stock	36,830	33,435	38,069
Issuance of long-term debt	69,504	52,400	712
Total source of funds	196,447	157,919	97,813
FINANCIAL RESOURCES WERE UTILIZED FOR:			
Net additions to property and equipment	83,253	140,084	79,377
Cash dividends	3,768	3,454	2,772
Reduction of long-term debt	17,109	5,028	19,670
Other	1,745	1,096	(26)
Total application of funds	105,875	149,662	101,793
INCREASE (DECREASE) IN WORKING CAPITAL	\$90,572	\$ 8,257	\$ (3,980)
CHANGES IN COMPONENTS OF WORKING CAPITAL			
Increase (decrease) in current assets:			
Cash, including short-term investments	\$113,979	\$ (261)	\$ (1,096)
Accounts receivable	1,936	6,522	645
Inventories	864	383	537
Federal income tax refundable	(4,673)	2,317	2,481
Prepaid expense	(485)	304	820
	111,621	9,265	3,387
Increase (decrease) in current liabilities:			
Current maturities of long-term debt	1,387	(2)	2,690
Accounts payable	7,496	3,368	2,683
Unearned revenues	1,000	(862)	32
Accrued liabilities	11,166	(1,496)	1,962
	21,049	1,008	7,367
Increase (decrease) in working capital	\$ 90,572	\$ 8,257	\$ (3,980)

See accompanying notes.

Southwest Airlines Co. Notes to Consolidated Financial Statements December 31, 1983

1. Summary of significant accounting policies

Basis of presentation —

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Southwest Airlines Eurofinance N.V. All significant intercompany balances and transactions have been eliminated. Reclassifications of amounts previously reported in the financial statements at December 31, 1982, have been made to conform to the presentation at December 31, 1983.

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. Property under capital leases and related obligations are recorded at an amount equal to the present value of future minimum lease payments computed on the basis of the lessee's incremental borrowing rate. Property under capital leases is amortized on a straight-line basis over the fifteen year lease term.

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 travel 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% and the 6¾% Convertible Subordinated Debentures were converted into shares of common stock. Per share information has been restated to reflect the effect of common stock splits, including the most recent 5-for-4 split which was effective for shareholders of record on January 3, 1984.

2. Flight and ground equipment

At December 31, 1983, the Company had contractual commitments of approximately \$241,226,000, including escalation and net of progress payments made for the purchase of three Boeing 737-200 and ten Boeing 737-300 aircraft to be delivered in 1984 and 1985. These commitments will be due as follows: \$82,510,000 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):

	1983	1982
Progress payments on aircraft	\$26,684	\$27,060
Support flight equipment	22,349	19,934
Ground equipment	21,574	17,716
Leasehold improvements	13,730	6,551
Construction in progress	8,704	6,303
	<u>\$93,041</u>	<u>\$77,564</u>

3. Accrued liabilities

Accrued liabilities consist of (in thousands):

	1983	1982
Profit sharing (Note 6)	\$ 4,098	\$ 790
Interest	4,448	3,219
Vacation pay	4,040	2,394
Ad valorem taxes	4,735	860
Other	2,282	1,174
	<u>\$19,603</u>	<u>\$8,437</u>

4. Long-term debt

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

	1983	1982
10.40% Equipment Trust		
Certificates due July 1, 1994	\$ 17,911	\$ 19,702
10.30% Equipment Trust		
Certificates due January 1, 1995	14,701	16,101
10.30% Equipment Trust		
Certificates due July 1, 1995	16,271	17,750
10.00% Convertible Subordinated		
Debentures Due 2007	35,000	35,000
6.75% Convertible Subordinated		
Debentures Due 1998	35,000	—
Capital leases (Note 8)	31,818	—
Industrial Revenue Bonds	5,400	5,400
Credit Agreement (Note 5)	—	12,000
Other	2,600	353
Total long-term debt less current maturities	<u>\$158,701</u>	<u>\$106,306</u>

The 10% 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 \$18.44 per share subject to adjustment in certain events. Interest is payable on December 15 and June 15 of each year. The 10% Debentures are entitled to an annual sinking fund beginning 1992 calculated to retire at least 60% of the Debentures prior to maturity. The 10% 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 10% Debentures provides certain restrictions on cash dividends. At December 31, 1983, approximately

\$102,648,000 of retained earnings were not restricted. The 6¾% Debentures were issued by the Company's wholly owned subsidiary, Southwest Airlines Eurofinance N.V., and are convertible into common stock of the Company at any time on or before July 1, 1998, unless previously redeemed, at a conversion price of \$38.30 per share subject to adjustment in certain events. Interest is payable on July 1 of each year.

The 6¾% Debentures are redeemable at the issuer's option prior to July 1, 1986, if the market price of the Company's common stock has been at least 130% of the conversion price for a certain specified period prior to redemption, at prices beginning at 106% of face value in 1983, and declining by 1% per year to 104% in 1985.

The 6¾% Debentures are redeemable at the issuer's option at any time on or after July 1, 1986 at prices beginning at 103% of face value in 1986, and declining by 1% per year to 100% in 1989 and thereafter.

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 \$65,975,000 at December 31, 1983.

Long-term debt principal repayments, exclusive of capital leases, due in the next five years are (in thousands):

1984	\$6,374
1985	\$6,295
1986	\$6,570
1987	\$5,270
1988	\$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, 1983), 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 \$47,600,000. Interest rates on borrowings under the Credit Agreement 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 ¾% per annum on the unused portion of the primary commitment and ⅙% per annum on the differ-

ence between \$100,000,000 and the amount of the primary commitment.

Balances outstanding under the Credit Agreement are convertible, at the Company's option, 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 ¼% over the agent bank's prime commercial rate for the first three years and ½% 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 ½% over LIBOR. The agreement provides for the Company to pay a commitment fee of ¾% per annum on the daily unused portion of the Available Amount as defined, and ⅙% 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 \$18,730,000 against the collateral of three Boeing 737-200 aircraft, having a net book value of \$26,758,000 at December 31, 1983.

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 a tax credit equal to ½% of the participants' salaries and wages 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):

	1983	1982	1981
Current	\$ 3,809	\$ (4,614)	\$ 4,724
Deferred	18,895	15,000	9,376
	<u>\$22,704</u>	<u>\$ 10,386</u>	<u>\$14,100</u>

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

	1983		1982		1981	
	Amount	%	Amount	%	Amount	%
Income tax provision at statutory rate.....	\$29,243	46	\$20,419	46	\$22,202	46
Investment tax credit.....	(6,723)	(10)	(9,255)	(21)	(7,328)	(15)
ESOP tax credit.....	(403)	(1)	(926)	(2)	(733)	(2)
Other.....	587	1	148	—	(41)	—
	<u>\$22,704</u>	<u>36</u>	<u>\$10,386</u>	<u>23</u>	<u>\$14,100</u>	<u>29</u>

Deferred federal income tax results from (in thousands):

	1983	1982	1981
Timing differences in flight and ground equipment..	\$14,421	\$12,590	\$8,726
Tax benefit transfer.....	120	5,150	—
Application of investment tax credit.....	4,771	(2,806)	—
Other.....	(417)	66	650
	<u>\$18,895</u>	<u>\$15,000</u>	<u>\$9,376</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 in 1982 are included in "Non-operating income," "Other, net."

8. Commitments

Total rental expense charged to operations in 1983, 1982 and 1981, was \$8,329,000, \$6,616,000 and \$4,802,000,

exclusive of landing fees of \$10,213,000, \$7,389,000 and \$4,832,000, 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 eight aircraft are leased. The following amounts applicable to capital leases are included in property and equipment in 1983, none in 1982, (in thousands):

	1983
Flight equipment — aircraft.....	\$31,904
Less accumulated amortization.....	207
	<u>\$31,697</u>

At December 31, 1983, obligations under capital leases and non-cancelable operating leases for future minimum lease payments were as follows (in thousands):

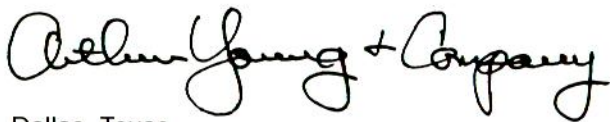
	Capital Leases	Operating Leases
1984.....	\$ 2,142	\$ 4,828
1985.....	4,283	2,751
1986.....	4,283	2,702
1987.....	4,283	2,523
1988.....	5,269	2,647
After 1988.....	55,326	19,180
Total minimum lease payments.....	75,586	<u>\$34,631</u>
Less amount representing interest.....	43,682	
Present value of minimum lease payments.....	31,904	
Less current portion.....	86	
Long-term portion.....	<u>\$31,818</u>	

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, 1983 and 1982, 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, 1983. 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, 1983 and 1982, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis during the period.



Dallas, Texas
January 24, 1984

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, Chairman of the Board, President
& Chief Executive Officer



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 dollar 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 1983 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, 1983 of Adjustment for Changing Prices" also presents the changes in values of our "net monetary assets" which occurred during 1983. 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 1983 were greater than monetary assets, an unrealized gain of \$3,699,000 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 1983 dollars, increased during the year by \$36,792,000. For the same period, the increase in net property and equipment as adjusted for the effects of general inflation was \$16,560,000. The difference between the two adjusted amounts reflects the extent to which current costs exceeded increases in the general rate of 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 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, 1983 (000's)				EFFECT ON RELEVANT BALANCE SHEET ACCOUNTS AT DECEMBER 31, 1983 OF ADJUSTMENT FOR CHANGING PRICES (000's)			
	As Reported in the Primary Statements	Adjusted for General Inflation (Constant Dollar)	Adjusted 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	\$448,236	\$448,236	\$448,236	Gain from decline in purchasing power of net amounts owed		\$ 3,699	\$ 3,699
Depreciation expense	29,853	36,198	38,068				
Other expenses	354,812	354,812	354,812	Increase in specific prices (current costs of property and equipment) *			\$ 36,792
Provision for income taxes	22,704	22,704	22,704	Increase in general price level (inflation component) of property and equipment			16,560
Total expense	407,369	413,714	415,584	Excess of increase in specific prices over increase in general price level			\$ 20,232
Net income	\$ 40,867	\$ 34,522	\$ 32,652	Net assets at year-end	\$314,556	\$378,046	\$399,685
Net income per Common Share—Primary	\$ 1.40	\$ 1.18	\$ 1.12				

*At December 31, 1983, current cost of property and equipment net of accumulated depreciation was \$488,743,000.

TABLE II

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA (000's)					
	Years Ended December 31,				
	1983	1982	1981	1980	1979
Operating revenues	\$448,236	\$341,843	\$296,163	\$257,591	\$186,828
Historical cost information adjusted for general inflation—					
Net income	34,522	28,156	28,786	25,354	—
Net income per share—primary	1.18	1.06	1.14	1.16	—
Net assets	378,046	301,567	227,538	145,618	—
Historical cost information adjusted for specific prices—					
Net income	32,652	28,094	30,049	26,456	—
Net income per share—primary	1.12	1.06	1.18	1.21	—
Excess of increase in specific prices over increase in the general price level	20,232	(3,070)	(14,865)	2,004	—
Net assets	399,685	298,776	229,463	134,368	—
Depreciation and amortization	38,068	27,586	19,419	14,163	—
Gain from decline in purchasing power of net amounts owed	3,699	2,621	5,929	9,906	—
Cash dividends paid per common share .....	.13	.13	.12	.10	.08
Market price per common share at year-end	27.20	21.99	12.65	13.93	6.55
Average consumer price index (1967 = 100)	298.4	289.1	272.4	246.8	217.4

Ten Year Summary of Operations and Financial Results

Years Ended December 31,
1983 1982 1981 1980

OPERATIONS AND TRAFFIC

Available seat miles (ASM's) (000) . .	6,324,224	4,907,945	3,633,351	2,969,448
Trips flown	175,421	140,030	110,301	91,143
Average length of flight segment . .	303	297	279	276
Size of fleet at year-end	46†	37†	27†	23
Passengers carried	9,511,000	7,965,554	6,792,927	5,976,621
Revenue passenger miles (RPM's) (000)	3,893,821	3,022,142	2,310,181	2,024,097
Average passenger fare	\$ 45.57	\$ 39.92	\$ 38.07	\$ 34.18
Average length of passenger haul . .	409	379	340	339
Yield per passenger mile	11.13¢	10.52¢	11.19¢	10.09¢
Actual load factor	61.6%	61.6%	63.6%	68.2%
Break-even load factor**	49.7%	52.9%	48.3%	50.6%

FINANCIAL (000)

Operating revenues	\$ 448,236	\$ 331,189	\$ 270,358	\$ 213,048
Operating expenses	379,738	291,964	221,854	164,219
Operating income	68,498	39,225	48,504	48,829
Income before FIT	63,571	44,390	48,265	41,290
Net income	40,867	34,004	34,165	28,447

INVESTOR STATISTICS

Avg. no. of common shares outstanding	29,193,320	26,646,033	25,299,573	21,893,723
Common shares outstanding	29,439,895	27,939,895	26,018,750	23,675,000
Earnings per share	\$ 1.40‡	\$ 1.28‡***	\$ 1.35	\$ 1.30
Dividends per share	\$.13	\$.13	\$.11	\$.09
Book Value per share	\$ 10.68	\$ 8.61	\$ 6.78	\$ 4.52
Stockholders' equity (000)	\$ 314,556	\$ 240,627	\$ 176,503	\$ 106,964
Return on Stockholders' equity	14.2%	16.7%***	23.5%	36.0%

CAPITAL STRUCTURE (000)

Total assets	\$ 587,258	\$ 420,542	\$ 291,823	\$ 224,442
Aftertax return on total assets	8.1%	9.6%***	13.0%	14.1%
Working capital	\$ 104,828	\$ 14,256	\$ 5,999	\$ 9,979
Current ratio	3.17:1	1.52:1	1.23:1	1.53:1
Flight and ground equipment-net . .	\$ 430,790	\$ 377,390	\$ 258,982	\$ 194,908
Capital expenditures	\$ 83,253	\$ 140,084	\$ 79,377	\$ 56,504
Long-term debt (L-T D)	\$ 158,701	\$ 106,306	\$ 58,934	\$ 77,892
L-T D as a % of total invested capital	33.5%	30.6%	25.0%	42.1%

PRODUCTIVITY AND UNIT COSTS

Number of employees at year-end . . .	3,462	2,913	2,129	1,839
Average number of employees	3,206	2,618	2,106	1,741
Passengers boarded per employee . .	2,967	3,043	3,226	3,433
RPM's per employee (000)	1,215	1,154	1,097	1,163
Revenue per employee	\$ 139,812	\$ 126,505	\$ 128,375	\$ 122,371
Fuel costs per available seat mile . .	2.0¢	2.2¢	2.5¢	2.1¢
All other operating costs per ASM . .	4.0¢	3.7¢	3.6¢	3.4¢
Total operating cost per ASM	6.0¢	5.9¢	6.1¢	5.5¢
Fuel cost per gallon-average	85.92¢	94.51¢	101.67¢	85.0¢
Fuel cost per gallon-year-end	84.10¢	93.35¢	100.73¢	89.7¢
Fuel as a % of operating costs	32.6%	36.9%	40.5%	37.7%
Daily block hours per aircraft	11:40	11:46	11:36	11:16

*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 \$.25.

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

†Includes leased aircraft.

‡Earnings per share - fully diluted \$1.38 in 1983 and \$1.26 in 1982.

Years Ended December 31,					
1979	1978	1977	1976	1975	1974
2,320,371	1,556,173	1,011,048	618,732	477,166	314,407
75,837	54,816	35,415	22,311	17,552	12,382
264	253	255	248	246	239
18	13	10	6	5	4
5,000,086	3,528,105	2,339,524	1,539,113	1,136,318	759,721
1,585,539	1,048,624	675,668	406,269	298,458	183,596
\$ 26.10	\$ 21.99	\$ 20.07	\$ 19.18	\$ 19.07	\$ 18.50
317	297	289	264	263	242
8.23¢	7.40¢	6.95¢	7.26¢	7.26¢	7.66¢
68.3%	67.4%	66.8%	65.7%	62.5%	58.4%
53.6%	49.9%	52.9%	47.0%	49.2%	47.6%
\$ 136,114	\$ 81,065	\$ 49,047	\$ 30,920	\$ 22,817	\$ 14,813
107,128	59,943	38,785	23,236	17,860	11,354
28,986	21,122	10,262	7,684	4,957	3,459
20,714	23,956	7,545	6,510	3,671	2,141
16,652	17,004	7,545	4,939	3,400	2,141
21,093,750	21,093,750	21,032,088	16,551,675	14,108,200	14,590,950
21,093,750	21,093,750	21,093,750	20,882,813	14,141,923	14,427,573
\$.79	\$.81*	\$.36	\$.30	\$.24	\$.15
\$.06	\$.04	\$.02	\$.01	—	—
\$ 2.77	\$ 2.03	\$ 1.26	\$.93	\$.52	\$.28
\$ 58,412	\$ 42,889	\$ 26,606	\$ 19,345	\$ 7,415	\$ 4,072
33.1%	50.3%*	33.0%	39.4%	60.1%	67.1%
\$ 172,495	\$ 118,706	\$ 77,967	\$ 43,703	\$ 23,692	\$ 18,566
11.7%	17.2%*	12.4%	15.4%	16.2%	13.1%
\$ 8,195	\$ 9,667	\$ 5,052	\$ 8,026	\$ 1,392	\$ 802
1.64:1	3.39:1	2.82:1	3.83:1	2.03:1	1.64:1
\$ 150,576	\$ 104,744	\$ 69,853	\$ 32,699	\$ 20,787	\$ 16,173
\$ 54,314	\$ 40,204	\$ 41,442	\$ 13,730	\$ 6,294	\$ 6,579
\$ 87,374	\$ 62,000	\$ 47,000	\$ 20,000	\$ 14,500	\$ 12,197
59.9%	59.1%	63.8%	50.8%	66.2%	75.0%
1,630	1,119	892	517	392	323
1,450	1,024	750	457	368	284
3,448	3,445	3,119	3,368	3,088	2,675
1,093	1,024	901	889	811	646
\$ 93,872	\$ 79,165	\$ 65,395	\$ 67,657	\$ 62,003	\$ 52,158
1.6¢	1.1¢	1.0¢	.9¢	.8¢	.7¢
3.0¢	2.8¢	2.8¢	2.9¢	2.9¢	2.9¢
4.6¢	3.9¢	3.8¢	3.8¢	3.7¢	3.6¢
59.3¢	38.2¢	36.4¢	30.7¢	30.1¢	22.3¢
71.3¢	37.5¢	37.2¢	33.1¢	31.1¢	28.3¢
35.1%	27.5%	26.2%	22.8%	22.4%	18.1%
11:37	10:36	10:14	9:22	8:35	8:16

***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 \$.08.

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

James G. Amos
Vice President —
Flight Operations

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. Kelth
Vice President —
Public Relations

Marcy E. Lardon
Vice President — Personnel

Harold F. Reilly
Vice President —
Schedule Planning

John A. Vidal
Vice President —
Maintenance

Thomas J. Volz
Vice President — Marketing

Colleen C. Barrett
Secretary

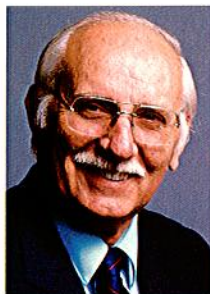
Earl L. Doolin
Controller

Paul A. Granger
Treasurer

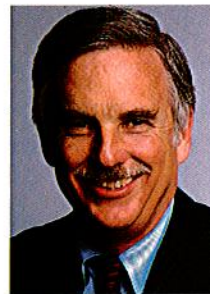
Sherry L. Phelps
Assistant Secretary



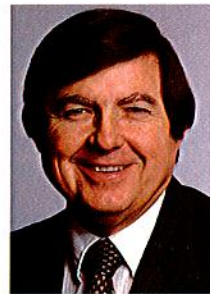
Kelleher



Franklin



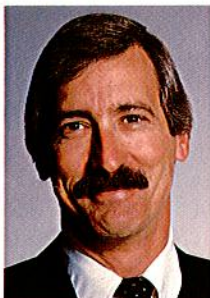
King



Lawless



Amos



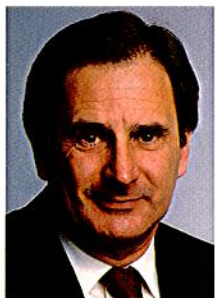
Barron



Coats



Herring



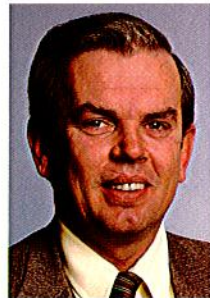
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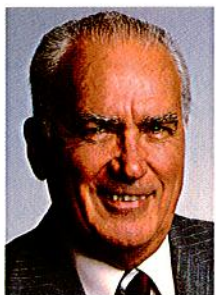
Kelth



Lardon



Reilly



Vidal



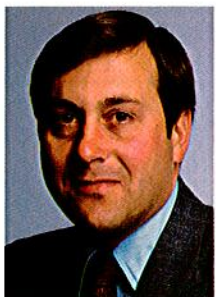
Volz



Barrett



Doolin



Granger



Phelps



Mischer

Bishop

Adger

Johnson

Kelleher

King

Barshop

Sidney A. Adger, Consultant, 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

Walter M. Mischer, Sr., Chairman of the Board, Allied Bancshares, Inc., Chairman of the Board and Chief Executive Officer of the Mischer Corporation, Houston, Texas, Audit Committee

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 24, 1984 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.





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214/353-6100