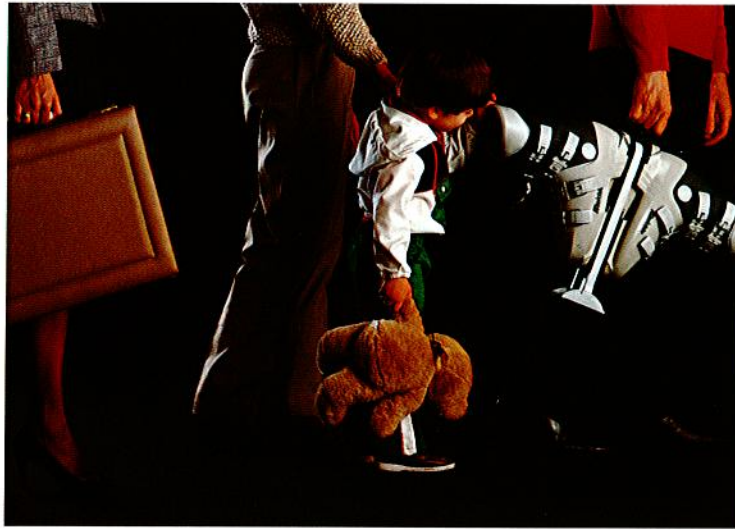


Southwest Airlines Co. 1984 Annual Report



"The essence of our excellence is
our people . . ."

Herbert D. Kelleher

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In tribute to all our employees, special thanks to the following SWA employees pictured in this year's annual report: Clark Saxton, Susan Buschmann, Roy Cook, Judy Christa, Steve Smith, Cheri Faulds, Dave Cassidy, Sunshine Waggoner, Pam Landa, Susan McGinty, and Gayle Grayless.

Highlights

	1984	1983	Percent Change
OPERATING DATA			
Trips operated	200,124	175,421	14.1
Passengers carried	10,697,544	9,511,000	12.5
Revenue passenger miles (000) . .	4,669,435	3,893,821	19.9
Available seat miles (000)	7,983,093	6,324,224	26.2
Passenger load factor	58.5%	61.6%	—
Average revenue per passenger mile	11.12¢	11.13¢	(0.1)
Number of employees at year-end	3,934	3,462	13.6
INCOME DATA			
Operating revenues	\$535,948,000	\$448,236,000	19.6
Operating expenses	467,451,000	379,738,000	23.1
Operating income	68,497,000	68,498,000	—
Net income —			
Amount	\$ 49,724,000	\$ 40,867,000	21.7
Per share:			
Primary	\$ 1.69	\$ 1.40	20.7
Fully diluted	\$ 1.64	\$ 1.38	18.8
Average shares outstanding	29,472,000	29,193,000	1.0
FINANCIAL DATA			
Working capital	\$ 15,459,000	\$104,828,000	(85.3)
Property and equipment-net	580,109,000	430,790,000	34.7
Capital expenditures	184,259,000	83,253,000	121.3
Stockholders' equity	361,768,000	314,556,000	15.0
Return on stockholders' equity . . .	14.7%	14.2%	n/a
Long-term debt as a % of total invested capital	29.8%	33.5%	n/a
Book value per share	\$ 12.25	\$ 10.68	14.5

Letter to Stockholders

Highlights of 1984

Record net income of \$49,724,000 ... record primary earnings per share of \$1.69 ... record operating revenues of \$535,948,000 ... record employee profit sharing of \$10,038,000 ... record revenue passenger miles of 4,669,435,000 ... record passengers boarded of 10,697,544 ... an excellent year for a superb airline.

Profitability

Operating revenues increased 19.6% in 1984. Operating expenses increased 23.1%. Operating income of \$68,497,000 was insubstantially less than the \$68,498,000 of 1983. Net income of \$49,724,000 was up 21.7% over 1983. Operating income was flat because of a 1984 decline in yield and load factor from 1983. Net income increased because of a substantial reduction in net non-operating expense and a lower tax rate than in 1983. Earnings per share amounted to \$1.69 (\$1.64 fully diluted) on an average of 1% more shares outstanding, as compared to \$1.40 per share (\$1.38 fully diluted) earned in 1983.

Traffic

10,697,544 passengers were boarded in 1984, a 12.5% increase over the record established in 1983. Revenue passenger miles increased by 19.9%, reflecting a 6.6% increase in average length of passenger haul. Load factor was down from 61.6% in 1983 to 58.5%, with a 26.2% increase in available seat miles. The average yield per revenue passenger mile decreased from 11.13¢ in 1983 to 11.12¢ in 1984. Operating expense per available seat mile decreased from 6.0¢ to 5.9¢ and breakeven load factor from 49.7% to 48.3%. In its fourteenth year of operation and the sixth year since federal deregulation of the airline industry, Southwest's cost and fare structures continue to remain among the lowest in the industry and provide great competitive strength.

Routes

We have recently announced that we will add St. Louis and Chicago to our route system on March 17, 1985. Non-stop service will be provided between Houston Hobby/Kansas City/New Orleans-St. Louis and between St. Louis and Chicago's downtown Midway Airport. These additions will increase our route system to 24 cities and 25 airports in 11 states.

Fleet

In December, 1984, three 737-300's arrived from The Boeing Co., and seven more will be delivered in 1985. We celebrated the advent of this new generation aircraft in our fleet with a dinner in Dallas, at which Mr. Bob Hope was the surprise feature entertainer and General Charles E. (Chuck) Yeager, first pilot to penetrate the sound barrier, was our honored guest. The following day, December 17, our first -300 took off from Dallas Love Field at precisely 10:35 a.m., the date and time of the Wright Brothers' first powered flight at Kitty Hawk, N.C. In commemoration of this stunning achievement of Wilbur and Orville Wright, our first -300 is named "The Spirit of Kitty Hawk." General Yeager accompanied us as "The Spirit of Kitty Hawk" flew our original triangle route system of Dallas-Houston-San Antonio with celebrations and public viewing of the aircraft at each city.

Thus far, the -300's have exceeded our expectations in terms of fuel efficiency, reliability, interior and exterior quietude, and customer enthusiasm. They represent a continuation of Southwest Airlines' airline industry leadership and another augury of our future success.

A new 737-200 will also be joining our fleet in March, 1985, and it is presently anticipated that our leased 727-200's will have been returned to their owner by the end of this year. As of this writing, our net increase in capacity during 1985 is estimated to approximate 16%.

Customer Service

Although statistics for the full year are not yet available, through the third quarter of 1984 we maintained our leadership, dating back to 1980, as the domestic air carrier with the fewest CAB customer complaints per 100,000 customers carried. In major part, this is attributable to the splendid attitudes of our very special employees. As described in a letter of January 25, 1985 from a first-time California customer:

"... Being totally honest, from my first encounter with the ticket agent through the departure and landing in Los Angeles, I could not be more pleased. ... I know what good people can mean to any organization. The people I have come in contact with at Southwest Airlines have displayed a living definition for customer service. ... Thank you for the experience and thank your personnel for making a weary traveler, like myself, feel like I really belong on this earth with everyone else. Keep up the superb effort, as well as the profits of the airline, and may you and all your company employees share in this success."

Financial Strategy

As of December 31, 1984, our current ratio was 1.3 to 1; our long term indebtedness as a percentage of invested capital was 29.8%; stockholders' equity was \$361,768,000, a 15% increase over 1983; and our unused bank line of credit was \$200,000,000. Our continued strengthening of our balance sheet and enhancement of our credit resources preserve our position as one of the most financially sound carriers in our industry.



Outlook 1985

In the hotly competitive post-deregulation airline world, the primary financial requisites for a consistently successful airline are low operating costs (5.9¢ per ASM); low total costs (5.9¢ per ASM); and a conservative debt-equity ratio (29.8% to 70.2%).

The primary marketing requisites are low prices (e.g., \$45.00 Executive Class and \$30.00 Pleasure Class Dallas-Houston); high frequency and convenient schedules (e.g., up to 82 flights per day between Dallas and Houston); high quality of service (e.g., perennial leader in fewest customer complaints); and effective marketing programs (e.g., consistently among the industry's most aggressive).

In short, Southwest represents an amalgam of all the important factors necessary to produce success today and to presage success for the future, plus one extra ingredient — the magic elixir of our beautiful people who each day share their special spirit with our customers and make them want to bask in its warmth again. As long as the glowing ambience of our people persists, Southwest Airlines itself will both persist and prevail. Our loving people are the heart and soul of Southwest Airlines — today, tomorrow, and forever.

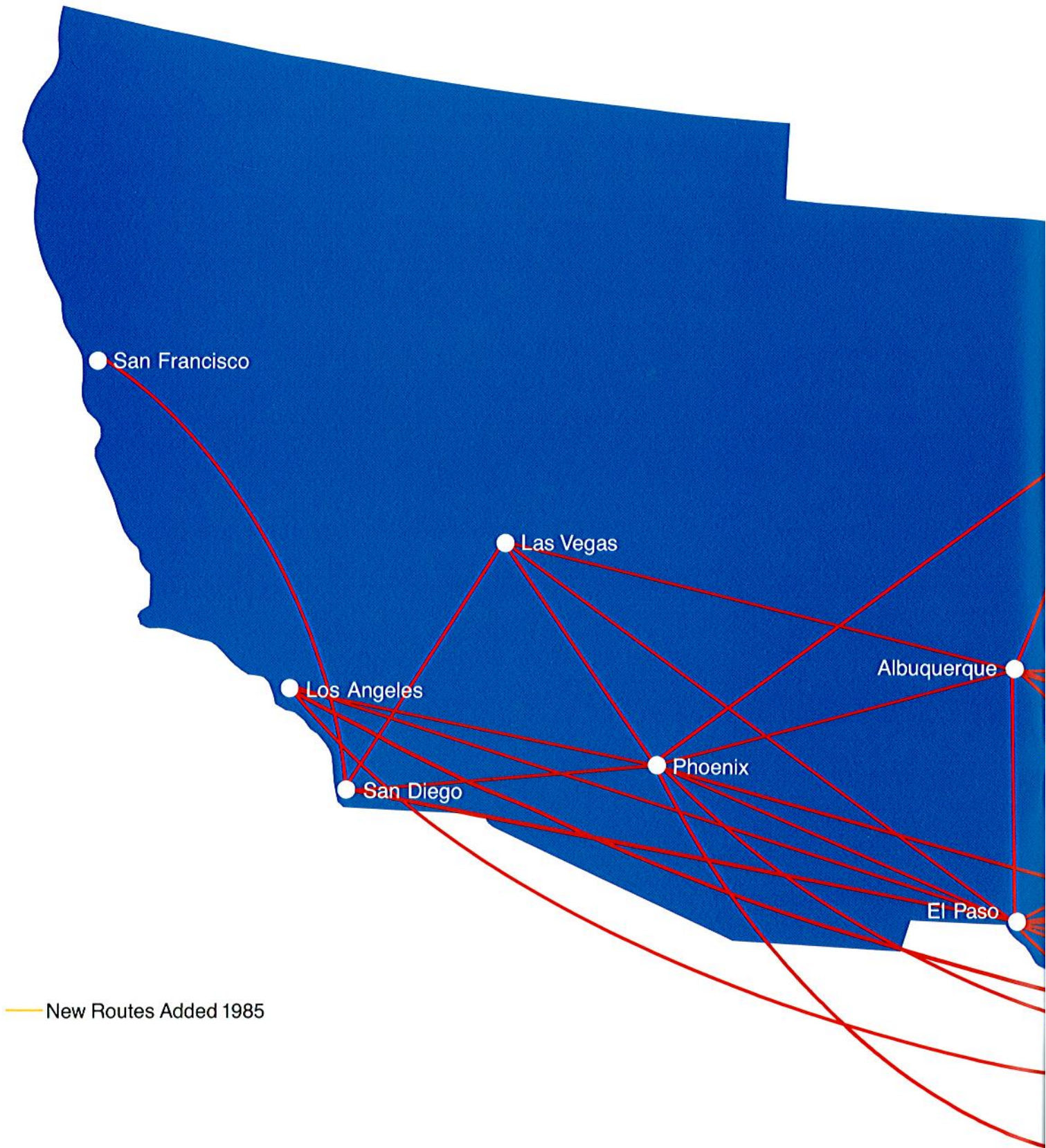
Most sincerely,

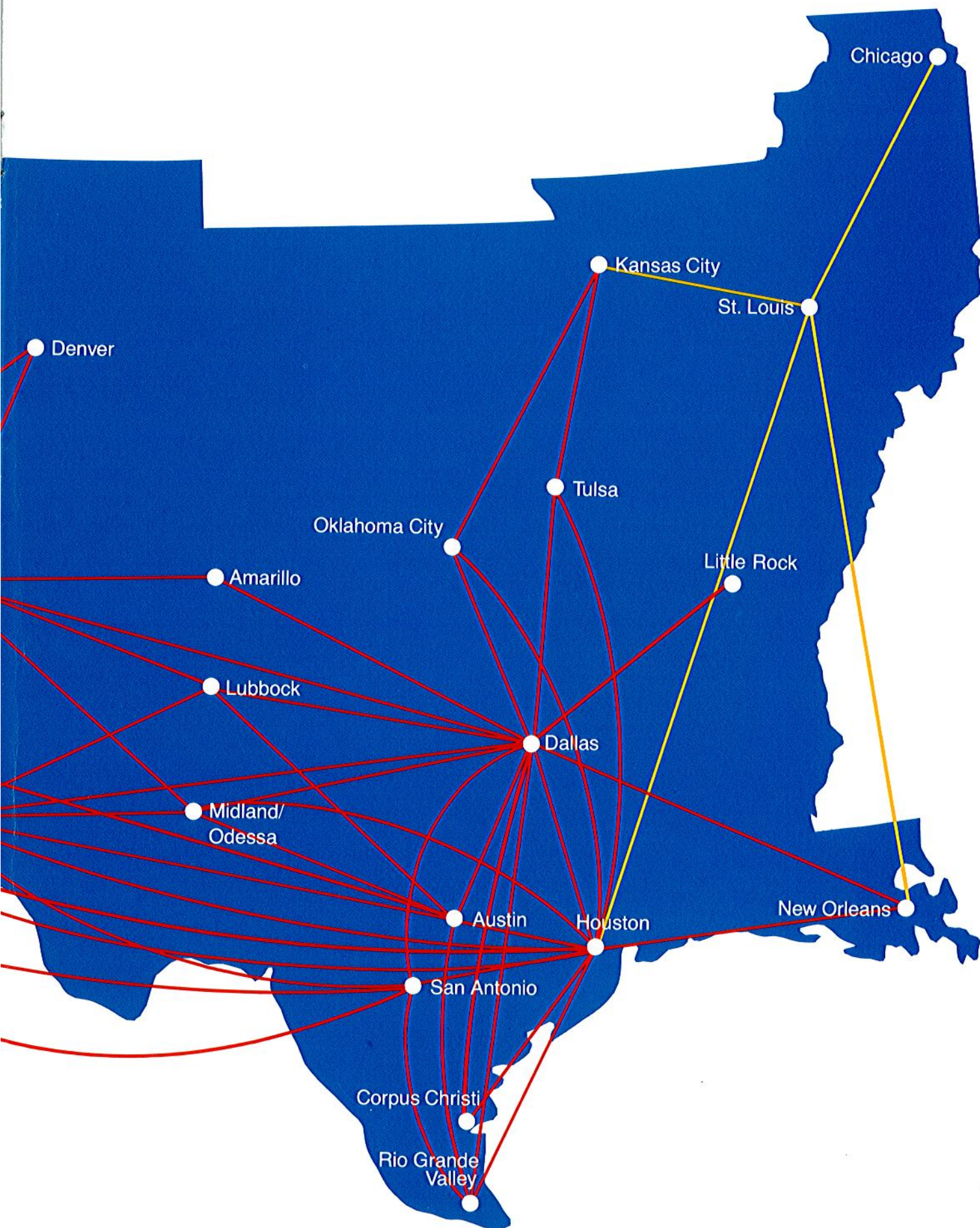
Herbert D. Kelleher

Herbert D. Kelleher
Chairman, President, CEO

February 4, 1985

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, Denver, and Little Rock. 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.

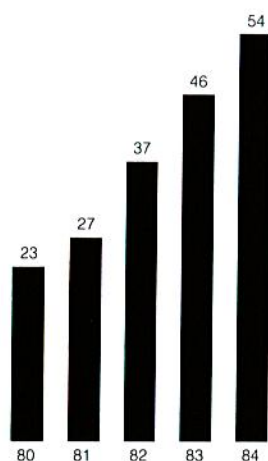
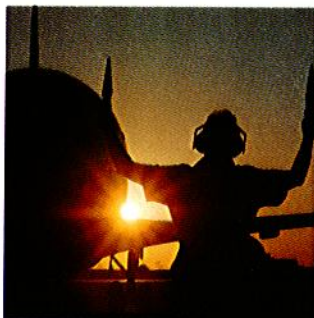
Review Of Operations

Capacity

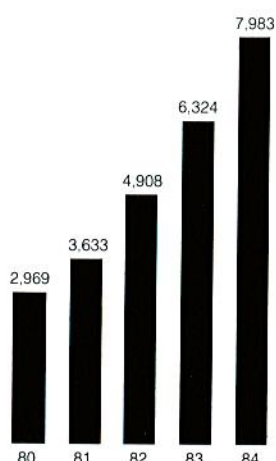
During 1984, Southwest added three new and one used Boeing 737-200 and three Boeing 737-300 advanced series aircraft to its fleet, bringing the total to 48 owned aircraft at year-end. Also, in the first quarter

1984 the Company returned two of the three B737-200's which it had been leasing and, in the first quarter and second quarter, took delivery of four additional B727-200 aircraft on short-term leases. In November 1984 the Company purchased a B737-200 which it had previously been leasing. The weighted average number of aircraft assigned to service during 1984 was 48.96 compared to 40.70 in 1983 and 31.67 in 1982. This 20.3% increase in weighted average number of aircraft for 1984 was the major factor contributing to the 26.2% increase in available seat miles ("ASMs") for the year. The remaining increase is attributable to higher average enroute speed associated with an increase in average stage length from 303 miles to 321 miles offset somewhat by a decrease in aircraft utilization from 11 hours 40 minutes to 11 hours 28 minutes per aircraft per day.

The Company's owned B737-200's and B737-300's have an average age of only 48 months and are considered



Fleet Size
(At year-end)



Available Seat Miles
(in Millions)





the most efficient aircraft presently available for Southwest's short-haul service. The B737-300's on order for delivery in 1985 through 1989 offer approximately 12% more seating capacity per aircraft and, due to advancements in engine design and materials technology, provide substantial fuel savings compared to the B737-200. In addition, the B737-300 is significantly quieter than any alternative aircraft presently available.

Routes

Southwest added Little Rock, Arkansas to its system on February 27, 1984. Southwest's 1984 capacity increase of 26.2% was principally devoted to upgrading service on its existing system by improving frequency in a number of city-pair markets and inaugurating non-stop service in others.

Traffic

The additional capacity in 1984, coupled with a continuing increase in demand, resulted in a significant increase in the Company's traffic during the year. Passengers boarded in 1984 totaled 10,697,544, representing a 12.5% increase over the prior year. Revenue passenger miles increased 19.9%, while the average length of a passenger's journey increased by 6.6% to 436 miles.

Passengers boarded in 1983 increased 19.4% to 9,511,000, which, when combined with a 7.9% increase in the average length of a passenger's journey, created an increase in revenue passenger miles of 28.8%.

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

Operating Revenues

Passenger revenues, which continued to represent more than 96% of total operating revenues, increased in 1984 by 19.8% over 1983 due to the 19.9% increase in revenue passenger miles flown while the average revenue per passenger mile (yield) remained almost unchanged, 11.12¢ in 1984 and 11.13¢ in 1983.

In 1983 passenger revenues increased 36.3% over 1982 due to the net effect of a 28.8% increase in revenue passenger miles flown and a 5.8% increase in yield.

Operating Expenses

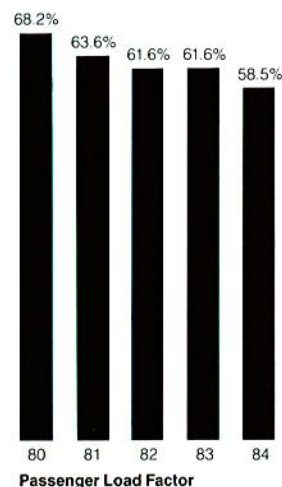
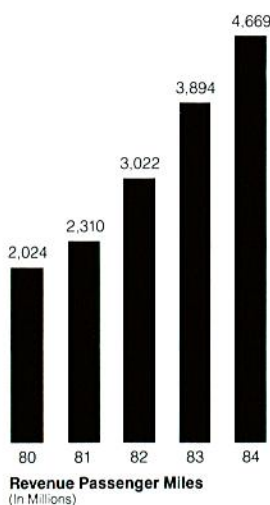
Category of Costs	Per Available Seat Mile	Increase (Decrease)	Per Available Seat Mile	Increase (Decrease)	Per Available Seat Mile
	1984		1983		1982
Aircraft fuel & oil	1.83¢	(.12¢)	1.95¢	(.25¢)	2.20¢
Wages & benefits	1.54	—	1.54	.10	1.44
Maintenance	.32	.06	.26	(.06)	.32
Agency commissions	.25	—	.25	.06	.19
Landing fees & rentals	.40	.11	.29	—	.29
Other	.95	(.14)	1.09	.13	.96
Depreciation	.44	(.03)	.47	.03	.44
Profit sharing	.13	(.02)	.15	.04	.11
Total operating costs	5.86¢	(.14¢)	6.00¢	.05¢	5.95¢

Southwest's operating expenses for 1984 reflect major cost control efforts, declining fuel prices, and operating efficiencies associated with longer haul travel. As the table above depicts, total operating expenses per available seat mile decreased by 2.3% from 1983.

The 6.2% decrease in fuel cost per ASM for 1984 is attributable to a 4.1% decrease in average price per gallon of jet fuel and a 2.1% increase in efficiency resulting from longer haul travel. In 1983 the decrease in fuel cost per ASM of 11.0% was the combination of a 9.1% decrease in the average price per gallon of jet fuel and a 1.9% increase in operating efficiency.

Excluding profit sharing and fuel and oil, all other costs per ASM, in the aggregate, remained constant in 1984 compared to 1983 due primarily to the fact that increases in maintenance costs and aircraft rentals in 1984 were substantially offset by a decrease in other expenses which includes among others advertising, charge sale discounts, out-

side ground handling costs, communications and utilities costs, and state and local taxes. In 1983 operating costs per ASM, excluding profit sharing and fuel and oil, increased by 7.1% over 1982 due primarily to increased wages and increased travel agency commissions, resulting from an increase in the proportion of agency sales to total sales, plus an increase in other expenses partially offset by a decrease in maintenance expense.



Operating Income

1984 operating income of \$68,497,000 was unchanged from the prior year and represents an operating margin of 12.8% which compares to a 15.3% operating margin in 1983. The decrease in operating margin is associated with the decrease in system load factor offset somewhat by a decrease in operating expenses per available seat mile of 2.4%.

Operating income in 1983 was up 74.6% from 1982, primarily reflecting an increase in yield per revenue passenger mile generated primarily through a general fare increase early in the year.

Non-Operating Income and Expense

Interest expense increased in 1984 due primarily to the effect of a full year's interest expense associated with the \$35 million of 6¾% Convertible Subordinated Debentures due 1998 which were issued in July of 1983. A full year of interest associated with capital leases also contributed to the increase in expense for 1984. Interest expense for 1983 was higher than the previous year primarily due to the issuance of the convertible debt described above, the effect of a full year's interest expense associated with the issuance of \$35 million of 10% Convertible Subordinated Debentures due 2002 in mid-1982 and interest expense associated with capital leases.

Capitalized interest increased in 1984 due to the significantly higher average balances of outstanding progress payments on aircraft. Capitalized interest had decreased in 1983 due to lower balances.

Interest income increased dramatically in both 1984 and 1983 due to the interim investment of excess working capital generated through financings and cash flow from operations.

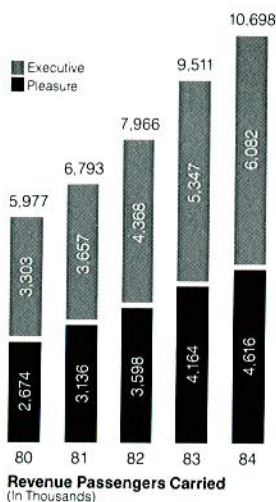
Other non-operating income in 1982 represents income derived from the December 1982 sale of tax benefits associated with three new Boeing 737-200 aircraft acquired during the year, net of unrelated legal settlements.

Income Taxes

The Company's effective income tax rates per books for 1982, 1983, and 1984 were 23%, 36%, and 27%, 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.

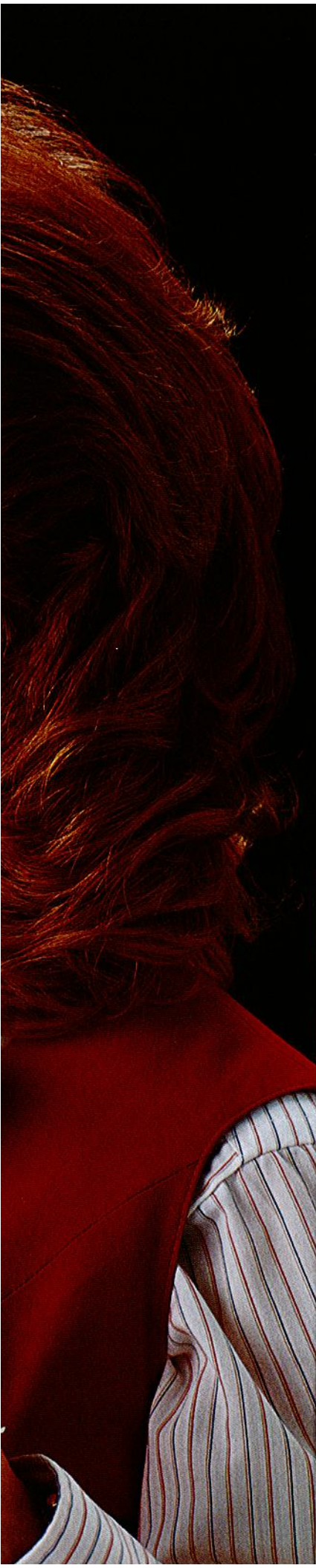
In each of the years 1982 through 1984 payment of the majority of the provisions for federal income taxes was deferred due to timing differences between financial and tax reporting.

For additional analysis of income tax expense for 1984 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 1984 increased by 20.7%, to \$1.69 from \$1.40 in 1983, primarily due to a 21.7% increase in net income offset partially by an increase of 1.0% in the weighted average number of shares outstanding.

Earnings per share in 1983 increased by 9.4%, as compared to 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.

All earnings per share information has been adjusted for stock splits.

Stockholders' Equity

The increase of 15.0% in Total Stockholders' Equity in 1984 was attributable to increased retained earnings. In 1983, of the 30.7% increase in Stockholders' Equity, 15.3% was attributable to the issuance of new shares of Common Stock and 15.4% to an increase in retained earnings.

Return on Stockholders' Equity for 1984 was 14.7%, compared to 14.2% in 1983 and 16.7% in 1982. Book value per share at year-end was \$12.25 in 1984, compared to \$10.68 in 1983 and \$8.61 in 1982.

Profit Sharing Contributions

Each of Southwest's employees is eligible to participate 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. The



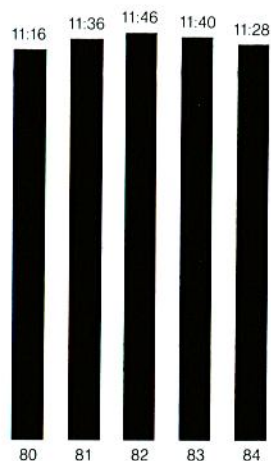
total 1984 provision for employee profit sharing amounted to \$9,526,000 of which \$2,342,000 was paid to employees in quarterly cash bonuses.

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 1984, \$512,000 in additional employee benefits resulted from this Plan, at no additional cost to Southwest.

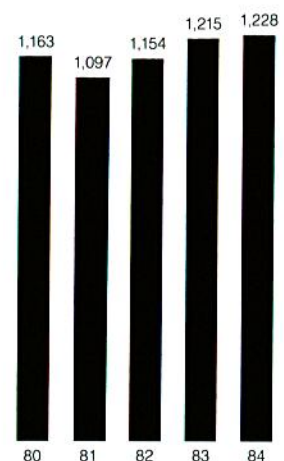
During 1984, the Profit Sharing Plan and ESOP combined provided an average of 10% in additional compensation of each participating employee.

Similar provisions made in the prior two years were \$9,254,000 in 1983 and \$5,560,000 in 1982, representing 11% and 8% of participants' earnings, respectively.

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



Aircraft Utilization
(Hours and Minutes Per Day)



Revenue Passenger Miles Per Employee
(In Thousands)

Liquidity and Capital Resources

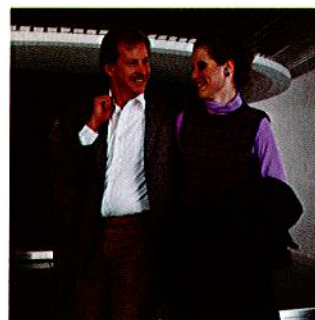
At December 31, 1984, the Company's working capital was \$15,459,000 as compared to \$104,828,000 and \$14,256,000 at December 31, 1983 and 1982, respectively.

Capital commitments for 1985 and thereafter principally consist of scheduled aircraft acquisitions. One Boeing 737-200 is scheduled for delivery in March 1985. Seven Boeing 737-300's are scheduled for delivery in 1985, six additional -300's will be delivered each year in 1986 through 1988 and three in 1989. The Company also has spare engines on order for delivery in 1985 and 1986 and a flight simulator scheduled for completion in 1986. The remainder of payments due on these capital commitments (including escalation and buyer-furnished equipment) is \$571,543,000. In addition the Company has options to purchase fourteen -300's for delivery in 1986 through 1989.

The Company has two revolving credit lines available to it: \$150 million from six 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, 1984.

Historically, the Company has utilized a combination of externally and internally generated funds to finance asset acquisitions. In 1984, however, of the \$196 million of funds utilized, \$104 million was generated through operations and \$89 million derived from prior year's accumulated working capital, while only \$3 million came from other sources. Funds of \$154 million were utilized for aircraft acquisitions and progress payments and \$30 million was used to purchase support flight equipment, ground equipment and facilities, \$7 million for retirement of debt and \$5 million for the payment of dividends and other purposes.

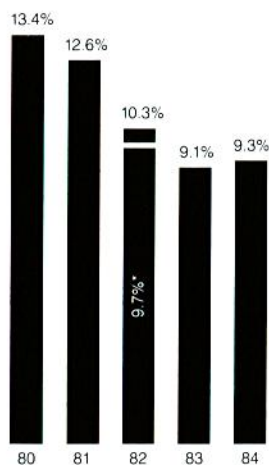
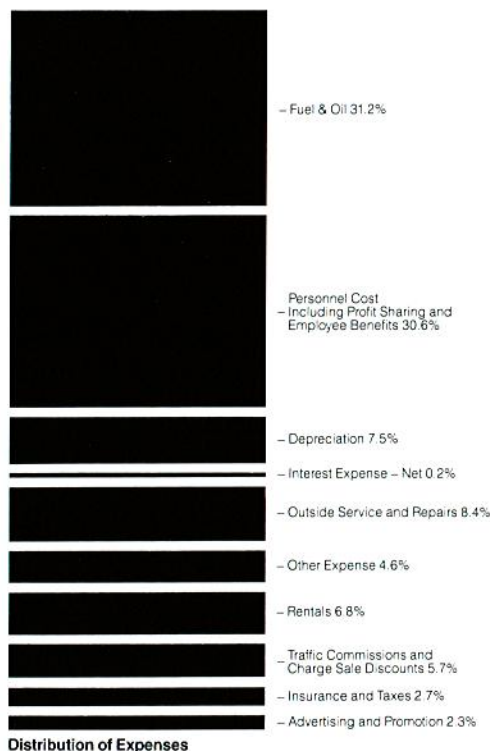
During 1983, net proceeds of approximately \$72 million were derived from public sales of the Company's securities, \$90 million was generated from operations, another \$42 million was added through the net effect of a sale-leaseback of three aircraft and an additional \$3 million was obtained from other debt. The \$91 million increase in working capital for 1983 was the net result of funds generated less the use of approximately \$73 million for aircraft acquisitions and progress payments, \$20 million for the purchase of other flight equipment, ground equipment and facilities, \$17 million for retirement of debt and \$6 million for other purposes.



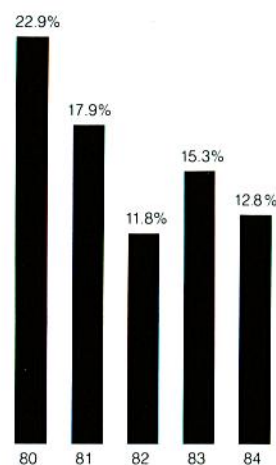
During 1982, net proceeds of approximately \$74 million were derived from public sales of the Company's securities. Approximately \$72 million was derived from 1982 operations, and \$12 million was borrowed under a bank revolving line of credit. Working capital increased by \$8 million net of capital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

In addition to the use of internally generated funds in 1985 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 30 of this Annual Report.



Net Profit Margin
(Net Income/Operating Revenues)
*Excluding non-recurring items



Net Operating Margin
(Operating Income/Operating Revenues)







Quarterly Earnings

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

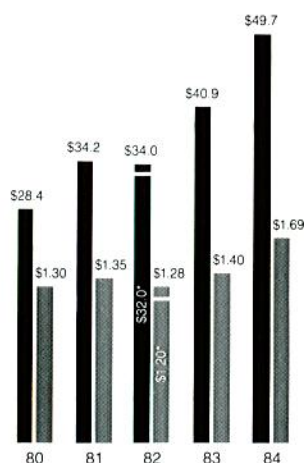
1983	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Revenues	\$94,848	\$111,992	\$115,802	\$125,594
Operating income	10,063	21,676	19,404	17,355
Income before tax	8,167	20,392	18,260	16,752
Net income	5,118	12,941	11,804	11,004
Income per share:				
Primary .....	.18	.44	.41	.37
Fully diluted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

1984	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Revenues	\$125,068	\$137,565	\$139,806	\$133,509
Operating income	15,547	19,343	17,985	15,622
Income before tax	15,491	18,926	18,197	15,234
Net income	10,224	13,921	14,159	11,420
Income per share:				
Primary .....	.35	.47	.48	.39
Fully diluted .....	.34	.46	.46	.38

Common Stock Price Ranges and Dividends

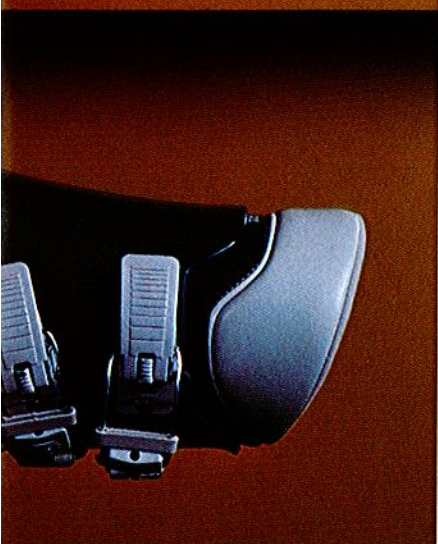
Southwest's Common Stock is listed on the New York Stock Exchange and trades under the symbol "LUV". The high and low sales prices of the Common Stock on the Composite Tape, and the quarterly dividends per share paid on the Common Stock, as adjusted for the January 1984 stock split, were:

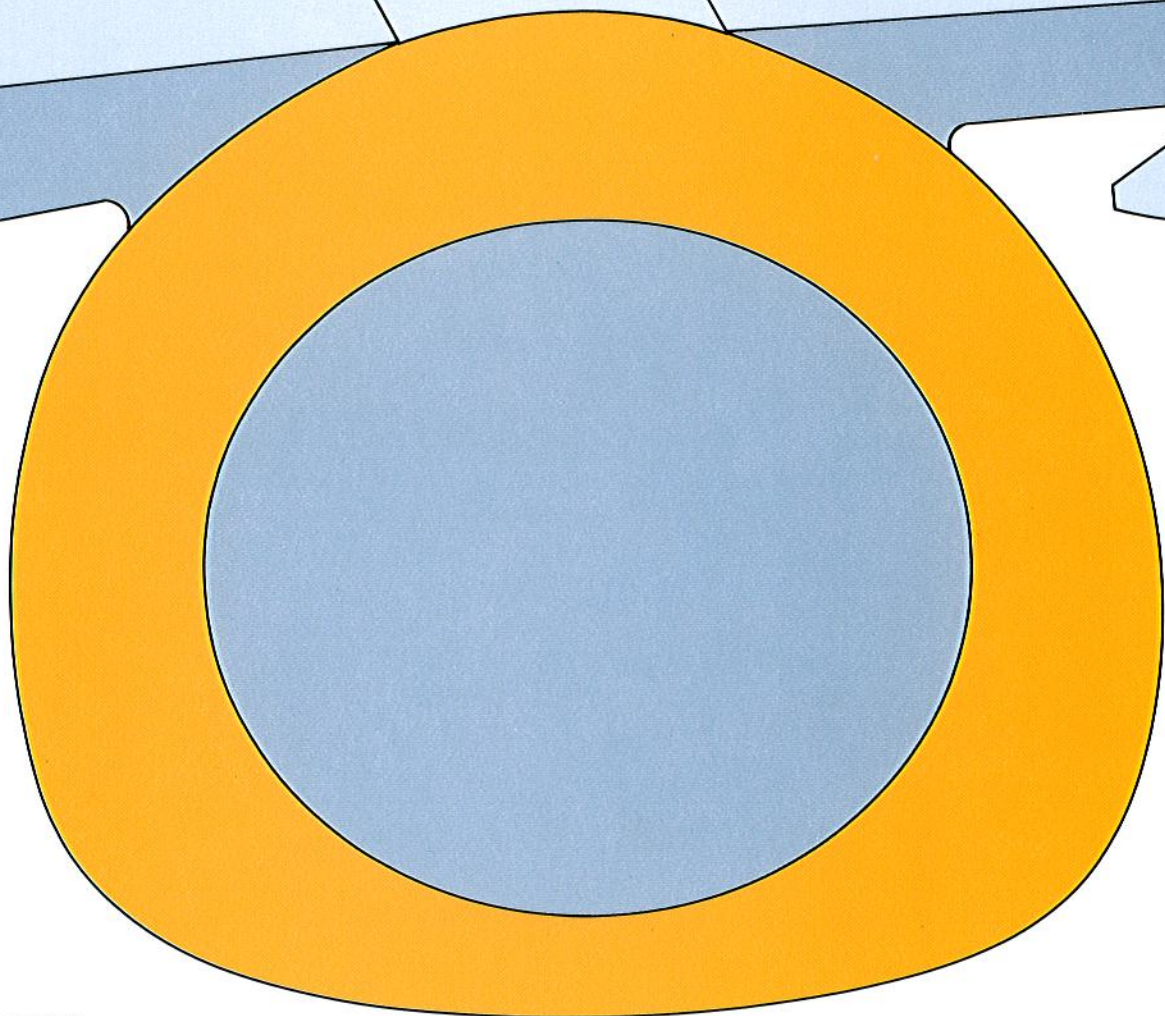
Period	Dividend	High	Low
1983			
1st Qtr.	\$.032	\$27.20	\$20.00
2nd Qtr. ....	.032	35.20	23.20
3rd Qtr. ....	.032	35.10	25.30
4th Qtr. ....	.032	29.10	24.00
1984			
1st Qtr. ....	.032	29.38	19.00
2nd Qtr. ....	.032	24.38	19.75
3rd Qtr. ....	.032	23.00	14.75
4th Qtr. ....	.032	23.38	16.88



Net Income (in Millions) ■
Primary Earnings Per Share ■

*Excluding non-recurring items





"Third Generation" is a term generally used to describe the technology incorporated in state-of-the-art commercial aircraft. One of the principal features is a newly designed engine which utilizes a high bypass ratio to achieve impressive fuel efficiencies and significantly reduce noise emissions.

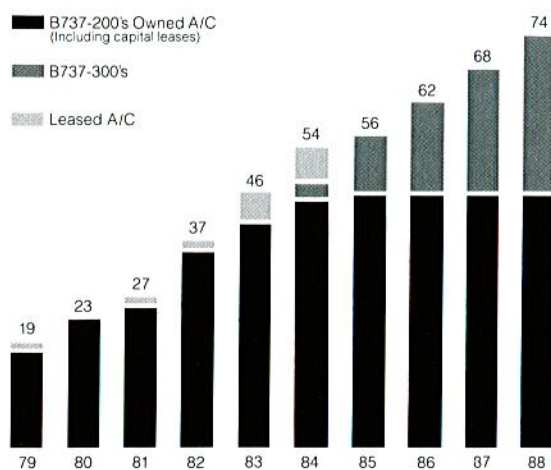
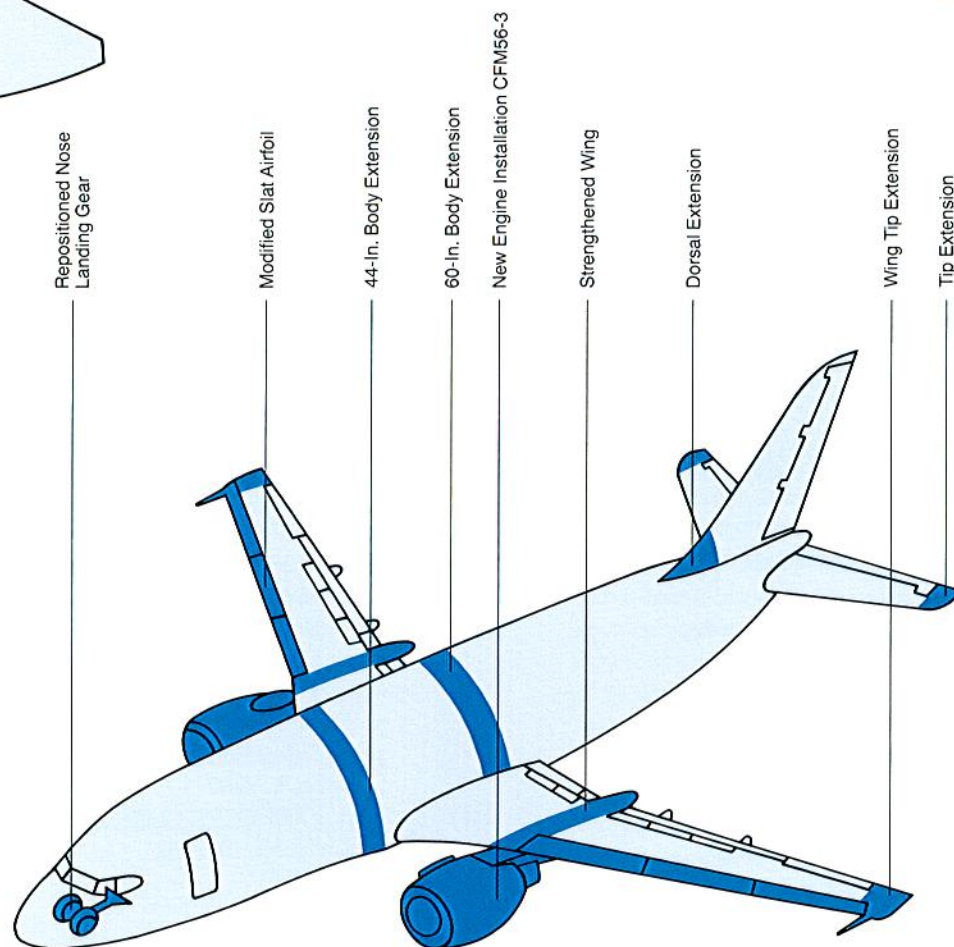
The newest third generation aircraft are being produced by The Boeing Company. One member of that family is the Boeing 737-300 which was introduced into Southwest's fleet in December, 1984. The 737-300 is a stretched adaption of the 737-200 with new engines, cockpit, wing design and nose landing gear. The -300 is constructed with stronger lighter-weight metals and new composite materials to reduce aircraft weight.

The engine which Boeing selected to power its -300's is the CFM56-3 built by an international joint-venture between General Electric and a French manufacturer, SNECMA. Although the CFM56-3 is built specifically for the -300, it is actually a derivative of an earlier successful design. Its appearance is as sharply different as its performance. It is much larger in diameter and shorter in length. It is placed forward on the wing and does not extend beyond mid-wing. The engine cowling is an advanced composite material and painted in Southwest's colors distinguishing this model from the -200

with polished metal engines. The -300 engine also presents a different visual image, appearing slightly triangular rather than round when viewed from the front.

With engines that are both more powerful and more fuel-efficient, the -300 has a longer range yet can take off with shorter runway lengths, increasing operational safety aspects.

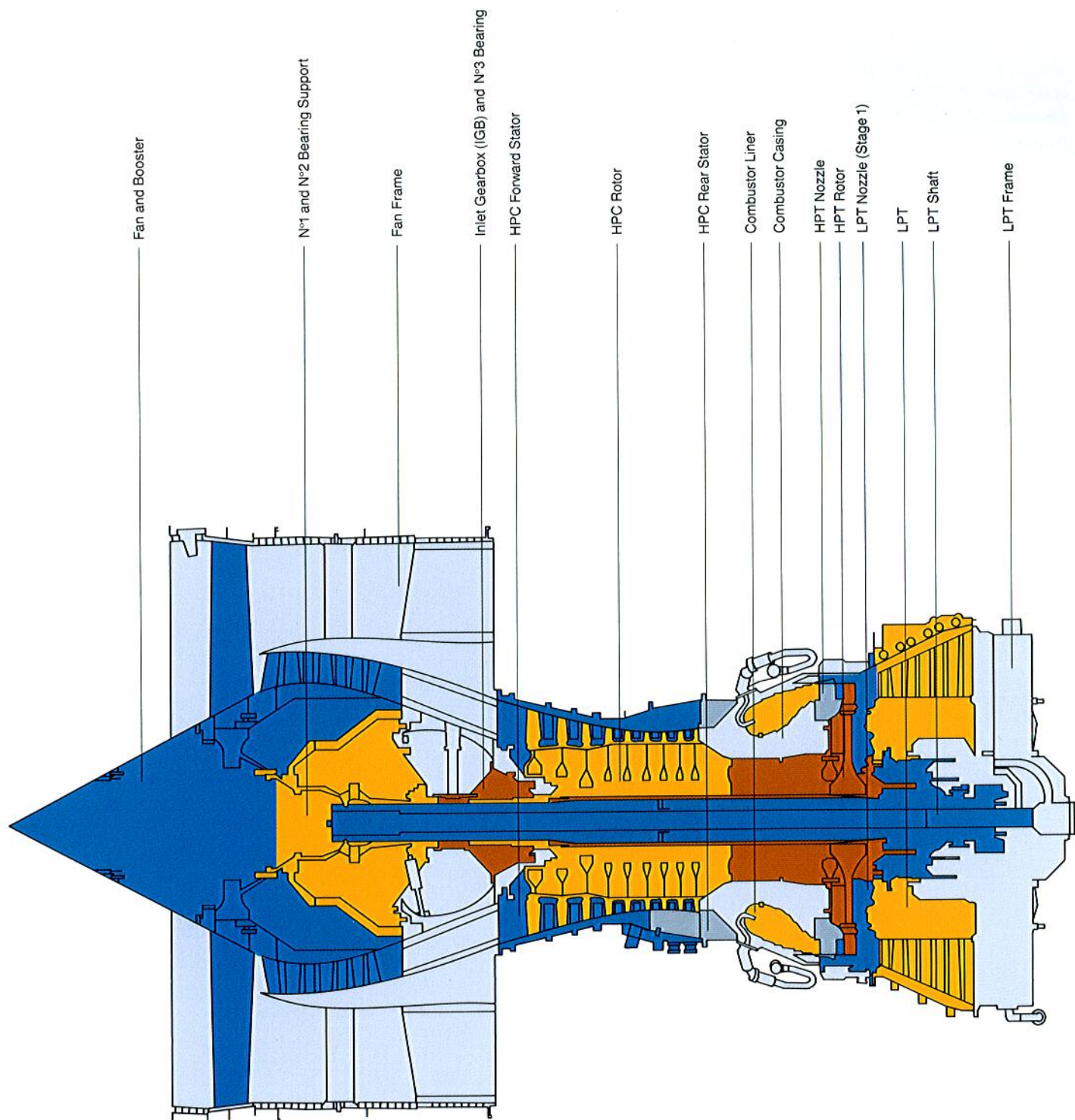
Southwest's -300's are configured in a single class with 137 seats. These aircraft accommodate fifteen more people than each of our forty-five 737-200's with 122 seats and twelve fewer than our leased 727-200's outfitted with 149 seats.



Actual and Projected Fleet
(At Year-End)

Southwest stepped into the third generation by taking delivery of its first -300 in November, 1984, and added two more to the fleet in December, 1984. These three are the first of ten aircraft ordered in 1981 when Southwest and one other airline placed the launching order for the -300. Southwest was the first airline to place the -300 into commercial service. The remaining seven will be delivered in 1985 beginning in April. In June of 1984, Southwest ordered twenty-one additional -300's to be delivered in 1986 through 1989. This fleet expansion, averaging six aircraft every twelve months, represents an average compound growth rate of approximately 11%.

The -300 promises to reduce our operating expenses on a per trip basis, translating into even greater reduction on an available seat mile basis. Southwest is extremely proud to be an integral part of the new generation. The long awaited, anxiously anticipated aircraft of tomorrow has now become a reality, the aircraft of today, the Boeing 737-300.

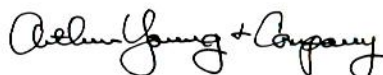


Auditor's Report

The Board of Directors
Southwest Airlines Co.

We have examined the accompanying consolidated balance sheet of Southwest Airlines Co. at December 31, 1984 and 1983, 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, 1984. 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, 1984 and 1983, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis during the period.



Dallas, Texas
January 24, 1985

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 consolidated financial statements.

The independent public accountants provide an objective, independent review of management's discharge of its responsibilities as to the fairness of the consolidated 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 consolidated 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

Directors



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, MCorp, 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, Private Investments, Dallas, Texas, Audit and Executive Committees

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 and Compensation Committees

Officers

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

William W. Franklin
Executive Vice President
& Chairman of the
Operating Committee

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

James G. Amos
Vice President —
Flight Operations

Gary A. Barron
Vice President — General Counsel

J.L. Herring
Vice President —
Energy & Provisioning

Thomas J. Hoff
Vice President —
Ground Operations

Camille T. Keith
Vice President —
Special Marketing

Marcy E. Lardon
Vice President — Personnel

William Q. Miller
Vice President — Inflight Service

Paul J. Quinn
Vice President — Schedule
Planning

Donald G. Valentine
Vice President — Marketing

John A. Vidal
Vice President — Maintenance

Colleen C. Barrett
Secretary

Earl L. Doolin
Controller

John D. Owen
Treasurer

Southwest Airlines Co.
Consolidated Balance Sheet

(in thousands except shares)
 December 31, 1984 and 1983

	1984	1983
Assets		
CURRENT ASSETS:		
Cash, including short-term investments of \$25,797 (\$121,303 in 1983)	\$ 26,498	\$130,701
Accounts receivable	19,524	17,807
Inventories of parts and supplies, at cost	4,564	3,135
Federal income tax refundable	5,460	124
Prepaid and other	6,713	1,453
TOTAL CURRENT ASSETS	62,759	153,220
Property and equipment, at cost (Notes 2 and 8):		
Flight equipment — aircraft (Notes 4 and 5)	540,504	421,233
Other flight and ground equipment	156,617	93,041
Land and building	8,665	8,089
	705,786	522,363
Less allowance for depreciation	125,677	91,573
	580,109	430,709
Deferred charges and other assets	3,376	3,248
	<u>\$646,244</u>	<u>\$587,258</u>
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 6,761	\$ 6,460
Accounts payable	19,648	19,801
Unearned revenues	2,528	2,528
Accrued liabilities (Note 3)	18,363	19,603
TOTAL CURRENT LIABILITIES	47,300	48,392
Long-term debt less current maturities (Notes 4 and 5)	153,314	158,701
Deferred federal income tax	82,364	63,493
Deferred compensation	515	1,062
Other deferred items	983	1,054
Total liabilities	284,476	272,702
Commitments (Notes 2 and 8)		
STOCKHOLDERS' EQUITY (Note 4):		
Common stock, \$1.00 par value; 75,000,000 shares authorized; 29,532,572 shares issued and outstanding in 1984 (29,439,895 in 1983)	29,570	29,440
Capital in excess of par value	117,643	115,685
Retained earnings	215,322	169,431
	362,535	314,556
Less 37,200 shares of treasury stock, at cost	767	—
TOTAL STOCKHOLDERS' EQUITY	361,768	314,556
	<u>\$646,244</u>	<u>\$587,258</u>

See accompanying notes.

Southwest Airlines Co.
Consolidated Statement of Income

(in thousands except for share and per share information)

		Years Ended December 31,	
	1984	1983	1982
OPERATING REVENUES:			
Passenger	\$ 519,106	\$ 433,388	\$ 317,996
Package express	12,115	10,357	9,469
Other	4,727	4,491	3,724
Total operating revenues	535,948	448,236	331,189
OPERATING EXPENSES:			
Fuel and oil	146,232	123,629	107,788
Salaries, wages and benefits	123,024	97,681	70,796
Maintenance materials and repairs	25,312	16,345	15,756
Agency commissions	19,925	15,675	9,532
Landing fees and rentals	31,864	18,542	14,004
Other operating expenses	76,116	68,759	46,852
Depreciation	34,940	29,853	21,676
Employee profit sharing (Note 6)	10,038	9,254	5,560
Total operating expenses	467,451	379,738	291,964
OPERATING INCOME	68,497	68,498	39,225
NON-OPERATING (INCOME) EXPENSE:			
Interest income	(10,241)	(5,386)	(1,105)
Interest expense (Notes 4 and 5)	16,145	12,423	10,284
Capitalized interest	(5,147)	(2,217)	(3,974)
Other, net (Note 7)	(108)	107	(10,370)
Net non-operating (income) expense	649	4,927	(5,165)
Income before federal income tax	67,848	63,571	44,390
Provision for federal income tax (Note 7)	18,124	22,704	10,386
NET INCOME	\$ 49,724	\$ 40,867	\$ 34,004
INCOME PER COMMON SHARE:			
Weighted average common shares outstanding (adjusted for stock splits)	29,472,000	29,193,000	26,646,000
Net income per share:			
Primary	\$ 1.69	\$ 1.40	\$ 1.28
Fully diluted	\$ 1.64	\$ 1.38	\$ 1.26

See accompanying notes.

Southwest Airlines Co.**Consolidated Statement of Stockholders' Equity**

(in thousands except for per share information)

	Three Years Ended December 31, 1984				
	Common Stock	Capital in excess of par value	Retained earnings	Treasury Stock	Total
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	29,440	115,685	169,431	—	314,556
Proceeds from issuance of common stock	130	1,958	—	(767)	1,321
Cash dividends, \$.13 per share	—	—	(3,833)	—	(3,833)
Net income — 1984	—	—	49,724	—	49,724
BALANCE AT DECEMBER 31, 1984	<u>\$29,570</u>	<u>\$117,643</u>	<u>\$215,322</u>	<u>\$(767)</u>	<u>\$361,768</u>

See accompanying notes.

Southwest Airlines Co.
Consolidated Statement of Changes in Financial Position

(in thousands)

Years Ended
December 31,

	1984	1983	1982
FINANCIAL RESOURCES WERE PROVIDED BY:			
Working capital provided from operations:			
Net income	\$ 49,724	\$ 40,867	\$ 34,004
Items not affecting working capital during the current period:			
Depreciation	34,940	29,853	21,676
Deferred compensation and compensation element of executive stock options	325	370	478
Deferred federal income tax	19,033	18,895	15,000
Other deferred items	(71)	128	926
Total from operations	103,951	90,113	72,084
Issuance of common stock	1,321	36,830	33,435
Issuance of long-term debt	1,320	69,504	52,400
Total source of funds	106,592	196,447	157,919
FINANCIAL RESOURCES WERE UTILIZED FOR:			
Net additions to property and equipment	184,259	83,253	140,084
Cash dividends	3,833	3,768	3,454
Reduction of long-term debt	6,707	17,109	5,028
Other	1,162	1,745	1,096
Total application of funds	195,961	105,875	149,662
INCREASE (DECREASE) IN WORKING CAPITAL	\$ (89,369)	\$ 90,572	\$ 8,257
CHANGES IN COMPONENTS OF WORKING CAPITAL			
Increase (decrease) in current assets:			
Cash, including short-term investments	\$(104,203)	\$113,979	\$ (261)
Accounts receivable	1,717	1,936	6,522
Inventories	1,429	864	383
Federal income tax refundable	5,336	(4,673)	2,317
Prepaid and other	5,260	(485)	304
	(90,461)	111,621	9,265
Increase (decrease) in current liabilities:			
Current maturities of long-term debt	301	1,387	(2)
Accounts payable	(153)	7,496	3,368
Unearned revenues	—	1,000	(862)
Accrued liabilities	(1,240)	11,166	(1,496)
	(1,092)	21,049	1,008
Increase (decrease) in working capital	\$ (89,369)	\$ 90,572	\$ 8,257

See accompanying notes.

Southwest Airlines Co.
Notes to Consolidated Financial Statements
December 31, 1984

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, 1983, have been made to conform to the presentation at December 31, 1984.

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.

2. Flight and ground equipment

At December 31, 1984, the Company had contractual commitments of approximately \$571,543,000, including escalation and net of progress payments made for the purchase of one Boeing 737-200, twenty-eight Boeing 737-300 aircraft and related equipment to be delivered in 1985 through 1989. These commitments will be due as follows: \$179,675,000 in 1985, \$116,284,000 in 1986, \$121,564,000 in 1987, \$106,821,000 in 1988 and \$47,199,000 in 1989. In addition, the Company has options to purchase fourteen Boeing 737-300 aircraft. Deposits of \$350,000 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):

	1984	1983
Progress payments on aircraft	\$59,106	\$26,684
Support flight equipment	38,759	22,349
Ground equipment	29,527	21,574
Leasehold improvements	16,659	13,730
Construction in progress	12,566	8,704
	<u>\$156,617</u>	<u>\$93,041</u>

3. Accrued liabilities

Accrued liabilities consist of (in thousands):

	1984	1983
Profit sharing (Note 6)	\$ 3,207	\$ 4,098
Interest	5,611	4,448
Vacation pay	4,850	4,040
Ad valorem taxes	3,505	4,735
Other	1,190	2,282
	<u>\$18,363</u>	<u>\$19,603</u>

4. Long-term debt

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

	1984	1983
10.40% Equipment Trust Certificates due July 1, 1994	\$ 16,120	\$ 17,911
10.30% Equipment Trust Certificates due January 1, 1995	13,301	14,701
10.30% Equipment Trust Certificates due July 1, 1995	14,792	16,271
10.00% Convertible Subordinated Debentures Due 2007	34,887	35,000
6.75% Convertible Subordinated Debentures Due 1998	35,000	35,000
Capital leases (Note 8)	31,634	31,818
Industrial Revenue Bonds	5,400	5,400
Other	2,180	2,600
Total long-term debt less current maturities	<u>\$153,314</u>	<u>\$158,701</u>

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 \$61,271,000 at December 31, 1984.

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 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, 1984, approximately \$148,540,000 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.

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

1985	\$6,295
1986	\$6,570
1987	\$5,270
1988	\$5,270
1989	\$5,270

5. Revolving Credit Agreements

The Credit Agreement with a group of domestic banks permits the Company to borrow through December 18, 1988 on revolving credit on an unsecured basis up to the lesser of the primary commitment (\$40,000,000 at December 31, 1984) or a specified percentage of the net book value of the Company's unencumbered aircraft (\$256,449,000 at December 31, 1984). The primary commitment can be increased to \$150,000,000 by the Company. 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 ¼% per annum on the difference between \$150,000,000 and the amount of the primary commitment.

A Letter Agreement with a group of European banks permits the Company to borrow on revolving credit up to \$50,000,000 through March 1, 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 ¼% 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 \$19,937,000 against the collateral of three Boeing 737-200 aircraft, having a net book value of \$24,921,000 at December 31, 1984.

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 Company's salary and wages expense 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):

	1984	1983	1982
Current.....	\$ (909)	\$ 3,809	\$ (4,614)
Deferred.....	19,033	18,895	15,000
	<u>\$18,124</u>	<u>\$22,704</u>	<u>\$10,386</u>

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

	1984		1983		1982	
	Amount	%	Amount	%	Amount	%
Income tax provision at statutory rate.....	\$31,210	46	\$29,243	46	\$20,419	46
Investment tax credit.....	(12,853)	(19)	(6,723)	(10)	(9,255)	(21)
ESOP tax credit.....	(512)	(1)	(403)	(1)	(926)	(2)
Other	279	1	587	1	148	—
	<u>\$18,124</u>	<u>27</u>	<u>\$22,704</u>	<u>36</u>	<u>\$10,386</u>	<u>23</u>

Deferred federal income tax results from (in thousands):

	1984	1983	1982
Timing differences in flight and ground equipment.....	\$22,990	\$15,644	\$12,431
Tax benefit transfer	(970)	(1,192)	5,150
Capitalized interest	2,162	519	1,715
Capital leases	(1,533)	(735)	—
Application of investment tax credit	(3,755)	3,731	(3,731)
Other	139	928	(565)
	<u>\$19,033</u>	<u>\$18,895</u>	<u>\$15,000</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 1984, 1983 and 1982 was \$19,465,000, \$8,329,000 and \$6,616,000, exclusive of landing fees of \$12,399,000, \$10,213,000 and \$7,389,000, 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 six aircraft are leased. The following amounts applicable to capital leases are included in property and equipment in 1984 and 1983, (in thousands):

	1984	1983
Flight equipment — aircraft.....	\$31,904	\$31,904
Less accumulated amortization	2,334	207
	<u>\$29,570</u>	<u>\$31,697</u>

At December 31, 1984, obligations under capital leases and non-cancelable operating leases for future minimum lease payments were as follows (in thousands):

	Capital Leases	Operating Leases
1985.....	4,283	9,946
1986.....	4,283	5,184
1987.....	4,283	4,554
1988.....	5,269	4,477
1989.....	5,269	4,250
After 1989.....	50,057	20,668
Total minimum lease payments	73,444	49,079
Less amount representing interest	41,626	—
Present value of minimum lease payments ...	31,818	—
Less current portion.....	184	—
Long-term portion.....	<u>\$31,634</u>	—

Supplementary Information on Effects of Changing Prices (Unaudited)

Financial reporting and changing prices

Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices," requires providing certain information about the effects of changes in specific prices (current costs). It is hoped that measuring certain assets and expenses 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. 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.

Methods of computation

The current cost of property and equipment was determined by the following methods:

a) Direct pricing — the Company's aircraft fleet is comprised of B737-200 and B737-300 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.

b) Indexing — all ground equipment, building and facilities were valued by applying the Consumer Price Index for All Urban Consumers (CPI-U) to the appropriate asset account.

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 changes in specific prices.

Since the depreciable value of the Company's property and equipment was higher when adjusted for its average 1984 current costs than its historical cost, the depreciation expense computed on this higher value

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, 1984 of Adjustment for Changing Prices" also presents the changes in values of our "net monetary assets" which occurred during 1984. The first item is a gain due to inflation based on the decline in purchasing power of net monetary amounts owed. The Company's current assets (except flight equipment parts, fuel inventories and pre-paid expenses) and most of its liabilities (except unearned revenue and accrued vacation pay) are monetary items. Since monetary liabilities during 1984 were greater than monetary assets, an unrealized gain of \$4,323,000 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 1984 dollars, increased during the year by \$8,054,000. For the same period, the increase in net property and equipment as adjusted for the effects of general inflation was \$19,487.00. The difference between the two adjusted amounts reflects the extent to which increases in the general rate of inflation exceeded 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.

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 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, 1984 (000's)			EFFECT ON RELEVANT BALANCE SHEET ACCOUNTS AT DECEMBER 31, 1984 OF ADJUSTMENT FOR CHANGING PRICES (000's)	
	As Reported in the Primary Statements	Adjusted for Changes in Specific Prices (Current Costs)		Adjusted for Changes in Specific Prices (Current Costs)
Operating revenues	\$535,948	\$535,948	Gain from decline in purchasing power of net amounts owed	\$ 4,323
Depreciation expense	34,940	42,480	Increase in specific prices (current costs of property and equipment)*	\$ 8,054
Other expenses	433,160	433,160	Increase in general price level (inflation component) of property and equipment	19,487
Provision for income taxes	18,124	18,124	Excess of increase in general price level over increase in specific prices	\$ 11,433
Total expense	486,224	493,764	Net assets at year-end	\$361,768
Net income	\$ 49,724	\$ 42,184		\$417,575
Net income per common share — primary	\$ 1.69	\$ 1.43		

*At December 31, 1984, current cost of property and equipment net of accumulated depreciation was \$572,226,000.

TABLE II

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA (000's)

	Years Ended December 31,				
	1984	1983	1982	1981	1980
Operating revenues	\$535,948	\$448,236	\$341,843	\$296,163	\$257,591
Historical cost information adjusted for specific prices —					
Net income	42,184	33,856	28,094	30,049	26,456
Net income per share — primary	1.43	1.16	1.06	1.18	1.21
Excess of increase in the general price level over increase in specific prices	11,433	4,107	3,070	14,865	(2,004)
Net assets	417,575	370,944	298,776	229,463	134,368
Depreciation and amortization	42,480	36,864	27,586	19,419	14,163
Gain from decline in purchasing power of net amounts owed	4,323	3,699	2,621	5,929	9,906
Cash dividends paid per common share	0.13	0.13	0.13	0.12	0.10
Market price per common share at year-end	22.00	27.20	21.99	12.65	13.93
Average consumer price index (1967 = 100)	311.1	298.4	289.1	272.4	246.8

Ten Year Summary of Operations and Financial Results

	1984	1983	1982	1981
OPERATIONS AND TRAFFIC				
Available seat miles (ASM's) (000)	7,983,093	6,324,224	4,907,945	3,633,351
Trips flown	200,124	175,421	140,030	110,301
Average length of flight segment	321	303	297	279
Size of fleet at year-end	54†	46†	37†	27†
Passengers carried	10,697,544	9,511,000	7,965,554	6,792,927
Revenue passenger miles (RPM's) (000)	4,669,435	3,893,821	3,022,142	2,310,181
Average passenger fare	\$ 48.53	\$ 45.57	\$ 39.92	\$ 38.07
Average length of passenger haul	436	409	379	340
Yield per passenger mile	11.12¢	11.13¢	10.52¢	11.19¢
Actual load factor	58.5%	61.6%	61.6%	63.6%
Break-even load factor**	48.3%	49.7%	52.9%	48.3%
FINANCIAL (000)				
Operating revenues	\$ 535,948	\$ 448,236	\$ 331,189	\$ 270,358
Operating expenses	467,451	379,738	291,964	221,854
Operating income	68,497	68,498	39,225	48,504
Income before FIT	67,848	63,571	44,390	48,265
Net income	49,724	40,867	34,004	34,165
INVESTOR STATISTICS				
Avg. no. of common shares outstanding	29,472,428	29,193,320	26,646,033	25,299,573
Common shares outstanding	29,532,572	29,439,895	27,939,895	26,018,750
Earnings per share	\$ 1.69‡	\$ 1.40‡	\$ 1.28†***	\$ 1.35
Dividends per share	\$.13	\$.13	\$.13	\$.11
Book Value per share	\$ 12.25	\$ 10.68	\$ 8.61	\$ 6.78
Stockholders' equity (000)	\$ 361,768	\$ 314,556	\$ 240,627	\$ 176,503
Return on Stockholders' equity	14.7%	14.2%	16.7%***	23.5%
CAPITAL STRUCTURE (000)				
Total assets	\$ 646,244	\$ 587,258	\$ 420,542	\$ 291,823
Aftertax return on total assets	8.1%	8.1%	9.6%***	13.0%
Working capital	\$ 15,459	\$ 104,828	\$ 14,256	\$ 5,999
Current ratio	1.33:1	3.17:1	1.52:1	1.23:1
Flight and ground equipment-net	\$ 580,109	\$ 430,790	\$ 377,390	\$ 258,982
Capital expenditures	\$ 184,259	\$ 83,253	\$ 140,084	\$ 79,377
Long-term debt (L-T D)	\$ 153,314	\$ 158,701	\$ 106,306	\$ 58,934
L-T D as a % of total invested capital	29.8%	33.5%	30.6%	25.0%
PRODUCTIVITY AND UNIT COSTS				
Number of employees at year-end	3,934	3,462	2,913	2,129
Average number of employees	3,804	3,206	2,618	2,106
Passengers boarded per employee	2,812	2,967	3,043	3,226
RPM's per employee (000)	1,228	1,215	1,154	1,097
Revenue per employee	\$ 140,891	\$ 139,812	\$ 126,505	\$ 128,375
Fuel costs per available seat mile	1.8¢	2.0¢	2.2¢	2.5¢
All other operating costs per ASM	4.1¢	4.0¢	3.7¢	3.6¢
Total operating cost per ASM	5.9¢	6.0¢	5.9¢	6.1¢
Fuel cost per gallon-average	82.44¢	85.92¢	94.51¢	101.67¢
Fuel cost per gallon-year-end	80.53¢	84.10¢	93.35¢	100.73¢
Fuel as a % of operating costs	31.3%	32.6%	36.9%	40.5%
Daily block hours per aircraft	11:28	11:40	11:46	11:36

*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 \$1.64 in 1984, \$1.38 in 1983 and \$1.26 in 1982.

Years Ended December 31,					
1980	1979	1978	1977	1976	1975
2,969,448	2,320,371	1,556,173	1,011,048	618,732	477,166
91,143	75,837	54,816	35,415	22,311	17,552
276	264	253	255	248	246
23	18	13	10	6	5
5,976,621	5,000,086	3,528,105	2,339,524	1,539,113	1,136,318
2,024,097	1,585,539	1,048,624	675,668	406,269	298,458
\$ 34.18	\$ 26.10	\$ 21.99	\$ 20.07	\$ 19.18	\$ 19.07
339	317	297	289	264	263
10.09¢	8.23¢	7.40¢	6.95¢	7.26¢	7.26¢
68.2%	68.3%	67.4%	66.8%	65.7%	62.5%
50.6%	53.6%	49.9%	52.9%	47.0%	49.2%
\$ 213,048	\$ 136,114	\$ 81,065	\$ 49,047	\$ 30,920	\$ 22,817
164,219	107,128	59,943	38,785	23,236	17,860
48,829	28,986	21,122	10,262	7,684	4,957
41,290	20,714	23,956	7,545	6,510	3,671
28,447	16,652	17,004	7,545	4,939	3,400
21,893,723	21,093,750	21,093,750	21,032,088	16,551,675	14,108,200
23,675,000	21,093,750	21,093,750	21,093,750	20,882,813	14,141,923
\$ 1.30	\$.79	\$.81*	\$.36	\$.30	\$.24
\$.09	\$.06	\$.04	\$.02	\$.01	—
\$ 4.52	\$ 2.77	\$ 2.03	\$ 1.26	\$.93	\$.52
\$ 106,964	\$ 58,412	\$ 42,889	\$ 26,606	\$ 19,345	\$ 7,415
36.0%	33.1%	50.3%*	33.0%	39.4%	60.1%
\$ 224,442	\$ 172,495	\$ 118,706	\$ 77,967	\$ 43,703	\$ 23,692
14.1%	11.7%	17.2%*	12.4%	15.4%	16.2%
\$ 9,979	\$ 8,195	\$ 9,667	\$ 5,052	\$ 8,026	\$ 1,392
1.53:1	1.64:1	3.39:1	2.82:1	3.83:1	2.03:1
\$ 194,908	\$ 150,576	\$ 104,744	\$ 69,853	\$ 32,699	\$ 20,787
\$ 56,504	\$ 54,314	\$ 40,204	\$ 41,442	\$ 13,730	\$ 6,294
\$ 77,892	\$ 87,374	\$ 62,000	\$ 47,000	\$ 20,000	\$ 14,500
42.1%	59.9%	59.1%	63.8%	50.8%	66.2%
1,839	1,630	1,119	892	517	392
1,741	1,450	1,024	750	457	368
3,433	3,448	3,445	3,119	3,368	3,088
1,163	1,093	1,024	901	889	811
\$ 122,371	\$ 93,872	\$ 79,165	\$ 65,395	\$ 67,657	\$ 62,003
2.1¢	1.6¢	1.1¢	1.0¢	.9¢	.8¢
3.4¢	3.0¢	2.8¢	2.8¢	2.9¢	2.9¢
5.5¢	4.6¢	3.9¢	3.8¢	3.8¢	3.7¢
85.0¢	59.3¢	38.2¢	36.4¢	30.7¢	30.1¢
89.7¢	71.3¢	37.5¢	37.2¢	33.1¢	31.1¢
37.7%	35.1%	27.5%	26.2%	22.8%	22.4%
11:16	11:37	10:36	10:14	9:22	8:35

***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.

Corporate Data

Transfer Agent and Registrar

MBank Dallas N.A.
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 23, 1985 in the Auditorium of the MBank 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.



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