SOUTHWEST AIRLINES CO.

1991 ANNUAL REPORT

TWENTIETH ANNIVERSARY EDITION

TABLE OF CONTENTS

Net Income
(in millions)

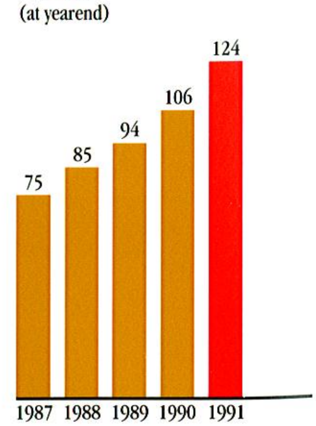
CONSOLIDATED HIGHLIGHTS

(dollars in thousands except per share amounts)

	1991	1990	Percent change
Operating revenues	$1,313,605	$1,186,759	10.7
Operating expenses	$1,250,669	$1,104,880	13.2
Operating income	$62,936	$81,879	(23.1)
Operating margin	4.8%	6.9%	(2.1) pts.
Net income	$26,919	$47,083	(42.8)
Net income per common and common equivalent share	$0.63	$1.10	(42.7)
Stockholders' equity	$628,521	$604,851	3.9
Return on average stockholders' equity	4.4%	7.9%	(3.5) pts.
Long-term debt as a % of total invested capital	49.5%	35.1%	14.4 pts.
Stockholders' equity per common share outstanding	$14.89	$14.35	3.8
Revenue passengers carried	22,669,942	19,830,941	14.3
Revenue passenger miles (RPM) (000s)	11,296,183	9,958,940	13.4
Available seat miles (ASM) (000s)	18,491,003	16,411,115	12.7
Passenger load factor	61.1%	60.7%	0.4 pts.
Passenger revenue yield per RPM	11.22¢	11.49¢	(2.3)
Operating revenue yield per ASM	7.10¢	7.23¢	(1.8)
Operating expenses per ASM	6.76¢	6.73¢	0.4
Number of employees at yearend	9,778	8,620	13.4

Net Income Per Share

Fleet Size
(at yearend)



Your money flies farther on Southwest Airlines, where travelers enjoy the lowest unrestricted fares in the air.

"In 1991, We Made A Profit. Again."

Herbert D. Kelleher

TO OUR SHAREHOLDERS

Our fourth quarter 1991 profit of $8,842,000 ($.21 per share) was not only a welcome improvement over our fourth quarter 1990 loss of $4,581,000 ($.11 per share) but also represented a significant achievement and potentially promising portent for Southwest:

1) We believe that it will be one of the few fourth quarter 1991 profits reported by major air carriers;

2) It marked our third consecutive profitable quarter; and

3) We believe that it augurs a first quarter 1992 improvement over our first quarter 1991 loss of $8,215,000, barring any presently unforeseen adversities.

In 1991, we made a profit – again. Although our earnings of $26,919,000 ($.63 per share) declined 42.8% from our 1990 net income of $47,083,000 ($1.10 per share), we believe that for 1991, as for 1990, we will be the only major air carrier reporting both operating and net income for the year. We also believe that, in the absence of a worsening of the current recession or the occurrence of a presently unanticipated calamitous event, our 1992 earnings will be improved over those for 1991.

Our rapid expansion of intra-California air service, beginning in May of 1991, has already proven to be a successful venture. As measured by originating Customer boardings, Southwest is now the largest air carrier in Oakland, Ontario, Burbank, San Diego, and our new city of Sacramento, and has moved up to fifth at LAX. We intend to augment our intra-California flights in 1992.

We have also made very substantial progress in Arizona and Nevada during 1991. Based on October 1991 boarding figures, our Phoenix market share has increased 30% year over year to 27.6%; our Las Vegas market share has increased 21.6% to 18.0%; and we have become the largest carrier in our new city of Reno. We remain the second largest carrier in both Phoenix and Las Vegas and will enhance the level of our service to both cities in 1992. Under our contemplated June 1992 schedule, Phoenix will become the largest service point on our system in terms of daily flight departures, and we have recently undertaken the construction of a Phoenix maintenance hangar.

With the cessation of service by Midway Airlines in late 1991, we became the largest carrier at Midway Airport in Chicago; were able to obtain additional Midway Airport gates; launched Midway-Indianapolis service in January 1992; announced Midway-Cleveland service beginning in February 1992; acquired a former Midway Airlines maintenance hangar at Midway Airport; and announced our intention to open this spring a Chicago reservations center on the upper level of that hangar. We currently contemplate inaugurating Midway Airport service to at least one additional destination during 1992, and we presently plan to place in service 15, rather than 13, Boeing 737s during this year in order to accelerate our Midway Airport expansion with the two additional aircraft.

Gate 6 at Dallas Love Field is a glimpse into the future of Southwest Airlines' boarding gates – calmly efficient ticket counters, thoughtful service centers, and state-of-the-art boarding procedures.

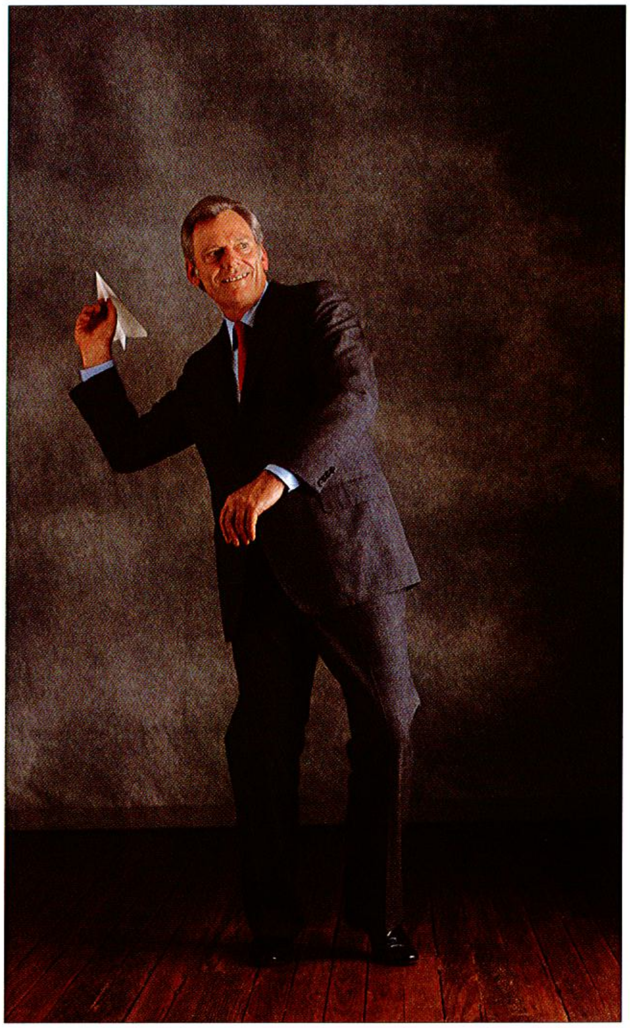
During 1991, we began Kansas City-St. Louis nonstop service; became the largest carrier in Kansas City in terms of daily flight departures and the second largest in terms of originating boardings; announced the commencement of Kansas City-Las Vegas service; increased our market share in St. Louis by 18.6% to 12.1%; and we will shortly begin St. Louis-Cleveland nonstop air service.

At the conclusion of 1991, we served 34 airports and were, in terms of originating boardings, the first or second largest carrier at 79%, or 27, of them.

We proudly and joyously celebrated our 20th Anniversary of operations in 1991, and the wondrous spirits of our marvelous people were never more manifest. Their Legendary Customer Service – to each other and to our Customers – earned the best Customer Satisfaction record among the major U.S. airlines. According to Department of Transportation statistics, in 1991 Southwest had fewer DOT complaints per 100,000 Customers carried than any other major – a complaint ratio of only .46 per 100,000.

We are currently engaged in selling 2,000,000 shares of our common stock in order to preserve the excellent quality of our balance sheet as we capitalize upon the unusual opportunities for profitable expansion presented to us in 1991 and 1992.

Southwest Airlines Co. is the nation's low fare, high Customer satisfaction airline. We primarily serve shorthaul city pairs, providing single class air transportation which targets the business commuter as well as leisure travelers. The Company, incorporated in Texas, commenced Customer service on June 18, 1971 with three Boeing 737 aircraft serving three Texas cities – Dallas, Houston, and San Antonio. At yearend 1991, Southwest operated 124 Boeing 737 aircraft and provided service to 34 airports in 32 cities in the midwestern, southwestern, and western regions of the United States. The Company has one of the best overall Customer Service records, the lowest operating cost structure per available seat mile, and consistently offers the lowest and simplest fares in the domestic airline industry. LUV is our stock exchange symbol, selected to represent our home at Dallas Love Field, as well as the theme of our employee and Customer relationships.



Our motto for 1991 was: "Only the Strong Survive." Because our balance sheet was conservative; because our operating costs were low; because our Customer service was legendary; and because our people have the hearts of lions, the strength of elephants, and the determination of water buffalos we did, indeed, "survive."

As long as we *never* forget the strengths that enable us to endure and grow in the midst of economic catastrophe; as long as we *remember* that such economic catastrophes recur with regularity; and as long as we *never* foolishly dissipate our basic strengths through shortsightedness, selfishness, or pettiness, we will continue to endure; we will continue to grow; and we will continue to prosper.

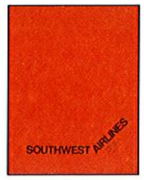
We have denominated 1992 the "Year of Opportunity" for Southwest. We hope and we believe that we are correct.

Most sincerely,

Herbert D. Kelleher

Herbert D. Kelleher
Chairman, President, and
Chief Executive Officer

February 6, 1992



1971

With President Lamar Muse at the helm, Southwest Airlines takes off on our maiden voyage and begins service to Dallas, Houston, and San Antonio. America's unique airline is born.

1972

All Houston service is transferred to Houston's Hobby Airport from Houston Intercontinental. "After all," says Herb Kelleher, co-founder of the airline, "why should our Customers have to drive 45 minutes to take a 40-minute flight?"

1971 Route System

UNIQUE OPERATING AND MARKETING STRATEGY

Since our inception, Southwest has adhered to our point-to-point service in shorthaul markets with low fares; frequent, conveniently timed flights; and friendly, reliable Customer service. Now, 20 years later, Southwest is unique in the airline industry as the nation's only shorthaul, point-to-point, low-fare, high-frequency airline. For example:

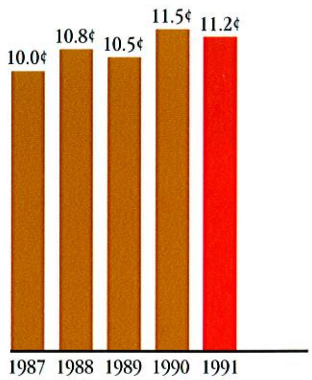
- The Company's average aircraft trip length was 375 miles in 1991 with an average duration of approximately one hour.
- Southwest's average one-way airfare was just under $56 with an average passenger trip length of just under 500 miles.
- Southwest served 92 nonstop city pairs at the end of 1991 with an average weekday frequency of seven roundtrips per city pair.

Southwest's point-to-point route system, as compared to hub-and-spoke, provides for more direct nonstop routings for shorthaul Customers and, therefore, minimizes connections and total trip time. In addition, Southwest serves many conveniently located satellite or downtown airports such as Dallas Love Field, Houston Hobby, Chicago Midway, Detroit City, Burbank, and Oakland airports, which are typically less congested than other airlines' hub airports and enhance our ability to achieve reliable, high on-time performance.

Our fares are purposefully low, as our principal competition in shorthaul markets is often ground transportation. We also recognize that the leisure market, which is highly price-sensitive, is very large and can be stimulated with low fares. As a consequence, we tend to grow our own markets, often stimulating traffic three- and four-fold versus traffic levels existing prior to our service.

Finally, our ticketing and boarding procedures, as well as our in-flight services, are designed to meet the needs of short-trip Customers. Quick and efficient ticketing and boarding procedures are important to minimize the total trip time. Therefore, we offer confirmed but open seating in our all-coach cabin.

Average Revenue Per Passenger Mile
(Southwest only)

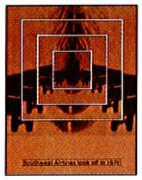


VISUAL: WOMAN RISING OUT OF SPARKLING POOL.
VOICE: Time to rise and shine, Funseekers. Southwest Airlines Fun Fares are back!

VISUAL: BEACH, PARK, SHOPPING, FOOD, & FUN SCENES.
SINGERS: (Beach Boys adaptation) Well, you've waited so long for a fare to get so nice and low now...

1973

What a year it is! Southwest files with the Texas Aeronautics Commission to extend service to the Rio Grande Valley. RUSH Cargo service, which provides same-day airport cargo delivery, is introduced. And Southwest has our first profitable year.



1974

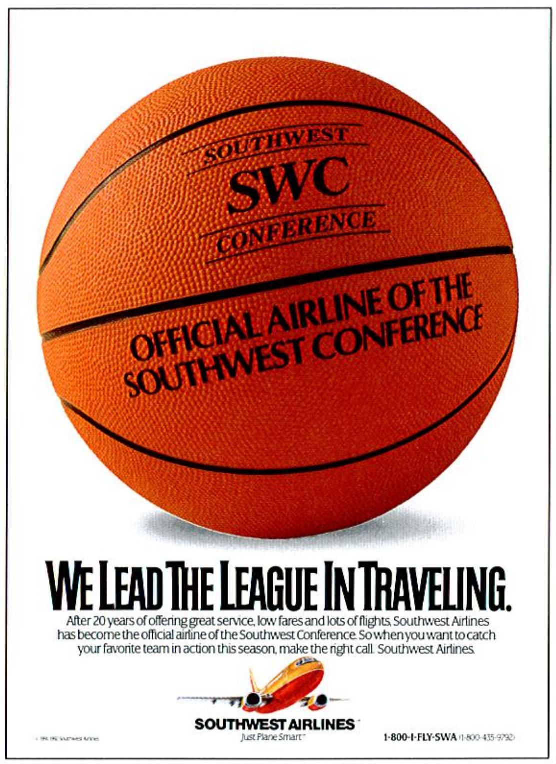
Southwest carries our millionth Customer and spends $400,000 to remodel our terminal at Houston's Hobby Airport by adding two new boarding gates and departure lounges.

1975

Permission is finally granted for Southwest to fly to the Rio Grande Valley via Harlingen Airport, with four roundtrips each business day. South Padre Island, here we come!

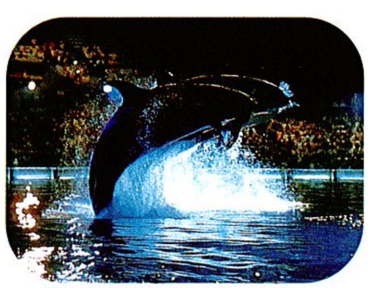
Because the trips are short, no meals are practical, but superior beverage service is provided. While the services are "no frills," the Customer service record is consistently among the best in the U.S. airline industry in terms of on-time performance, Customer complaints ratio, and number of lost bags.

The result of our marketing strategy is a dominant market share position. We consistently rank first in market share in more than 90 percent of our top 50 city-pair markets and, in the aggregate, hold a market share exceeding 50 percent.



Southwest was a major sponsor of sporting events in 1991, including this ad during basketball season for the Official Airline of the Southwest Conference.

VISUAL: MARQUEE LIGHTS, MARDI GRAS, NIGHT FUN.
VOICE: Light up the night! Southwest Airlines' new Fun Fares are so low, now you can fly just for the fun of it!



VISUAL: WHALES LEAPING AT SEA WORLD.
SINGERS: And you'll have fun, fun, fun, flying Southwest on a Fun Fare today!

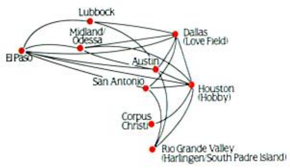
1976

Southwest gets clearance to begin spreading "love" to Austin, Corpus Christi, El Paso, Lubbock, and Midland/Odessa. Within five short years, Southwest places our sixth Boeing 737 into service while flying over 1.5 million satisfied Customers to their destinations.

1977

Southwest carries our five millionth Customer! Southwest stock is listed on the New York Stock Exchange as "LUV."

1977 Route System



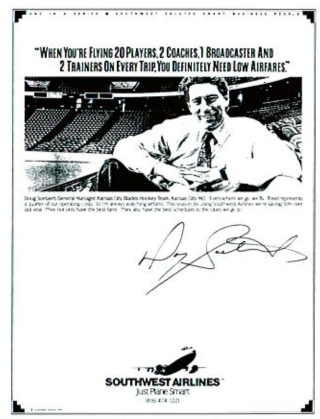
NINETEEN CONSECUTIVE YEARS OF PROFITABILITY

Southwest was the only major U.S. airline profitable in each of the last 19 years. We have consistently ranked among the leaders in the industry in terms of operating and net margins and, in both 1991 and 1990, were the only major airline to record both operating and net profits. The keys to our profitability have been our unique market niche and our low operating cost structure.

Our low operating costs enable us to offer low fares, which are vital to the shorthaul Customer. Our operating costs are the lowest in the airline industry for many reasons.

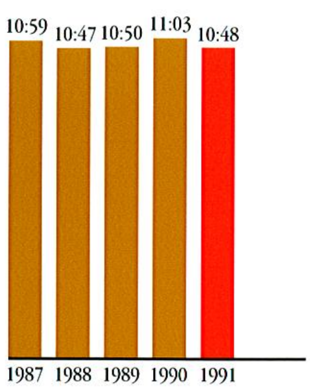
As a result of our focus on the shorthaul, point-to-point market, Southwest is able to achieve the highest asset utilization and employee productivity of any major U.S. airline. Aircraft are scheduled to minimize the amount of time the aircraft is at the gate, generally no more than 15 minutes, thereby reducing the number

Southwest rewards Customers with the shortest route to free trips – a frequent flyer program based on a few short trips, not long mileage.



Doug Soetaert, General Manager, Kansas City Blades Hockey Team, praises Southwest's low fares in this ad saluting smart business people.

Aircraft Utilization
(hours and minutes per day, Southwest only)

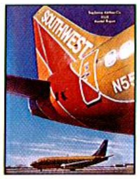


VISUAL: B&W SHOTS OF SOETAERT.
VOICE: How smart is Doug Soetaert? As general manager of a pro hockey team, he's pretty smart.

VISUAL: MORE SOETAERT SHOTS.
VOICE: ...he cut the team's travel costs 30% by flying Southwest...

1978

The 1978 Airline Deregulation Act gives Southwest the opportunity to become an interstate air carrier. Lamar Muse steps down as President. Howard Putnam is elected President and CEO. Herb Kelleher is elected Chairman of the Board.



1979

Quicket self-ticketing machines are introduced in 10 cities to make it faster and more convenient for people to fly Southwest. We begin service to New Orleans from Dallas, our first city outside of Texas.

1980

Southwest adds our 22nd Boeing 737 to the fleet and christens it the "Rollin W. King" in honor of the co-founder of the airline. We also begin service from Love Field to three more interstate destinations: Albuquerque, Oklahoma City, and Tulsa.

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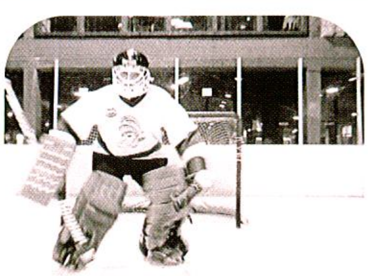
of aircraft and gate facilities that would otherwise be required. Avoiding high-cost, congested airports contributes significantly to our ability to achieve this high asset utilization.

Southwest still operates only Boeing 737 aircraft, having grown from three in 1971 to 124 at the end of 1991. This unique commitment to a single aircraft type significantly simplifies maintenance, flight operations, and training activities. The 737 has proven to be one of aviation's most successful aircraft – it is attractive and comfortable for our Customers and is cost-effective to operate in short- to medium-range markets.

Southwest's fleet had an average age of only 6.5 years at the end of 1991, one of the youngest in the industry. This enables us to keep our aircraft maintenance costs low and, since 60 percent of the fleet have the newer Stage 3 engines, fuel consumption is lower and noise is reduced. Further, since Southwest has the strongest balance sheet and one of the best credit ratings in the industry, we are able to minimize our capital and financing costs.

Our low cost structure, coupled with our aggressive, low-fare approach to marketing, enabled us to report profits while other major U.S. airlines did not. While we are not "recession-proof," as evidenced by our decline in earnings in 1991 from 1990, we are "recession-resistant." Customers tend to shop harder for value in difficult economic times. With one of the best Customer service records and the lowest fares, Southwest proved to be an excellent transportation value in 1991.

A Southwest Airlines-sponsored billboard for our primary charity, Ronald McDonald House, touts the fundraising Galleria Express exhibit as "one train we can all support."

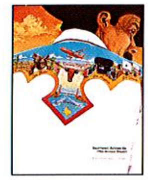


VISUAL: SOETAERT AS GOALIE.
VOICE: Hey, I'm a former goalie. I love a great save.

VISUAL: SOETAERT, SIGNATURE.
SOUTHWEST LOGO, THEME.
VOICE: Doug Soetaert and Southwest Airlines.
Just Plane Smart.

1981

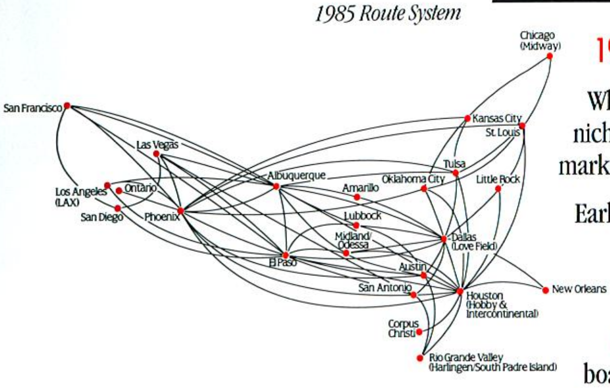
Southwest celebrates a decade of "Love, Southwest Style." With fun, games, and more savings for everyone, Southwest launches our next decade of outstanding service.



1982

Herb Kelleher takes the helm as President, CEO, and Chairman of the Board. Southwest spreads our wings to San Francisco, Los Angeles, San Diego, Las Vegas, Phoenix, and Kansas City.

1985 Route System

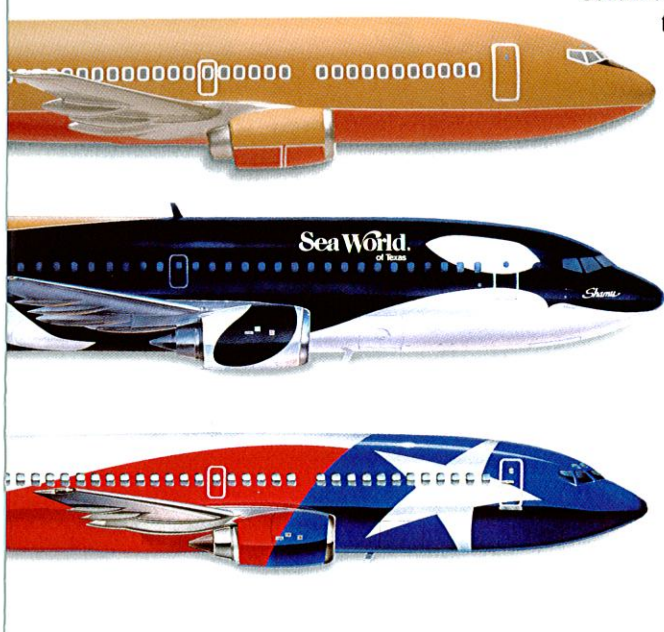


1991 ROUTE SYSTEM EXPANSION

While 1991 presented many challenges, it also offered many opportunities. Our unique market niche, strong financial position, and wide Customer acceptance allowed us to excel in shorthaul markets while some of our competitors contracted.

Early in 1991, USAir announced it would eliminate service to six California airports in May. As a consequence, we accelerated our already-planned California expansion in spring 1991 by acquiring six leased aircraft and implementing service from Oakland to Los Angeles International and initiating service from Sacramento to Burbank, Ontario, and San Diego. Our California expansion was a major success in 1991, and we now rank first in Customer boardings in Oakland, Sacramento, Burbank, Ontario, and San Diego. As of third quarter 1991, we had almost 23 percent of the intra-California market, second only to United Airlines, even though we did not provide nonstop service in the state's largest city-pair market, San Francisco to Los Angeles International. In terms of daily departures, San Diego now ranks fifth on our system, Oakland, seventh, and Los Angeles International, ninth. Roughly 12 percent of our available seat miles were devoted to intra-California service at the end of 1991.

In June 1991, America West Airlines filed bankruptcy and later reduced its service frequencies in Southwest's shorthaul Phoenix markets. As a consequence, Southwest expanded our Phoenix service to a total of 123 departures a day, third largest on our system, further increasing our market share lead. We also added nonstop service between Los Angeles International and Las Vegas. As was the case in 1990, Southwest boasted the number one market share ranking in each of the Phoenix shorthaul markets that we served. Phoenix to Los Angeles remained our second largest market, in terms of daily trips, with Phoenix to San Diego now third and Phoenix to Las Vegas ranked fifth. Our



Southwest's fleet of 124 Boeing 737s includes three flying whales – Shamu® One, Two, and Three – in celebration of our partnership with Sea Worlds of Texas and California. Plus, Lone Star One,℠ a high-flying tribute to our home state of Texas.

Shamu is a registered trademark of Sea World, Inc.

VISUAL: DAUGHTER OFFERS FATHER A DRINK.
VOICE: Ever since Southwest Airlines introduced our Friends Fly Free sale, people have gotten friendlier...

VISUAL: SON OFFERS TO DO YARD WORK.
VOICE: If you make reservations and buy a roundtrip ticket, a friend gets to fly with you...free.

1983

Major schedule increases are adopted, three additional Boeing 737-200s are purchased, and Southwest flies over 9.5 million satisfied Customers.

1984

For the fourth consecutive year, Southwest is ranked Number One in Customer Satisfaction. Our inflight magazine, *Spirit*, celebrates its 13th year. And we unveil the first 300-series aircraft in our 737 fleet, christened the "Spirit of Kitty Hawk."

1985

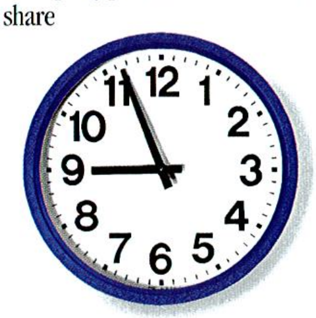
Southwest names the Ronald McDonald House as our primary charity, and launches the "Just Say When" campaign which establishes us as the most convenient point-to-point airline to the cities we serve.

western region (Arizona, California, Nevada, and New Mexico) grew in 1991 to about 51 percent of our total available seat mile capacity.

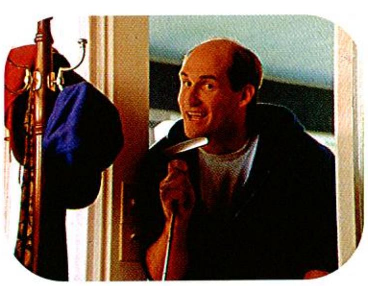
In November 1991, Midway Airlines ceased operations. This allowed us access to additional gate facilities at Chicago's Midway Airport, which had previously been unavailable and thus served to hinder our expansion. Prior to Midway Airlines' shutdown, we operated four gates. We now have access to a total of 12 gates: six that we lease directly from the City of Chicago and six that we are sharing with another carrier. We are negotiating to acquire the leasehold interest to the six gates currently being shared.

Chicago Midway Airport is in the regional route system we refer to as the midwest (Illinois, Indiana, Michigan, Missouri, and Tennessee), which is our smallest and least-developed region with about 13 percent of available seat mile capacity at yearend. We are now the largest carrier at Midway Airport, 10th largest on our system, serving St. Louis, Kansas City, Detroit, and Nashville on a nonstop basis. Chicago to St. Louis is one of our largest nonstop city pair markets in terms of daily roundtrips. In terms of originating passengers boarded, our market share ranked second at St. Louis, our ninth largest airport at yearend in terms of daily departures, and second at Kansas City, our 15th largest airport. We doubled our gate capacity in St. Louis in 1991 to six and added nonstop service to Kansas City in August 1991.

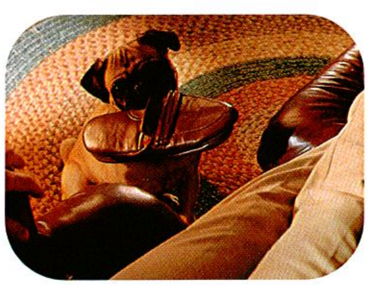
Our original Texas market, along with Oklahoma, Louisiana, Arkansas, and Alabama, is the most mature and stable region with approximately 36 percent of system capacity. Normal growth continued in this region in 1991, and Dallas Love and Houston Hobby continue to rank as our top two airports in terms of departures and Customer traffic. Dallas to Houston remains our top city pair, in terms of daily roundtrips and Customer traffic. Southwest has the number one market share at 10 of the 11 Texas airports we serve with approximately 65 percent of the intra-Texas Customer traffic.



Southwest has more flights to most of our destinations than any other airline. So you can fly when you want to fly and still make it home in time for dinner.

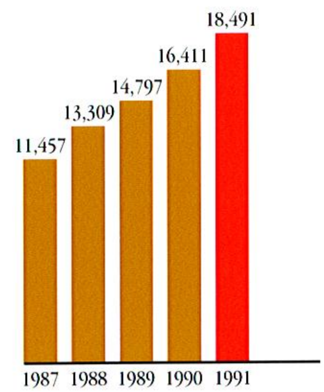


VISUAL: NEIGHBOR RETURNS GOLF CLUB.
VOICE: It's great for your pocketbook...

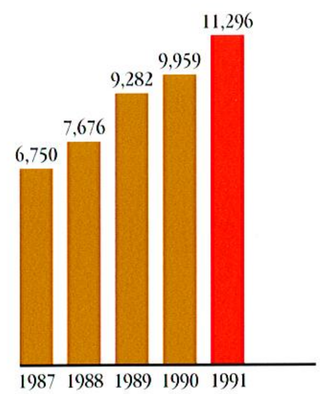


VISUAL: DOG WITH SLIPPERS IN MOUTH.
VOICE: ...And your popularity.

Available Seat Miles
(in millions, Southwest only)



Revenue Passenger Miles
(in millions, Southwest only)



They've Been Walking On Air For 20 Years.

Sue Schaulin, Bill Miller, Mary Ann Sturdevant.
Inflight Services Department

They've Had Our Customers On Cloud Nine For 20 Years.

Jackie York, C.J. Bostic, Sandra Force.
Inflight Services Department

For 20 Years, They've Been Telling People Where To Go.

Dan Johnson, Jim Kolkmeier, Scott Johnson,
Willie Wilson, Charlie Marcell.
Flight Operations Department

WE'RE CELEBRATING OUR 20TH ANNIVERSARY.

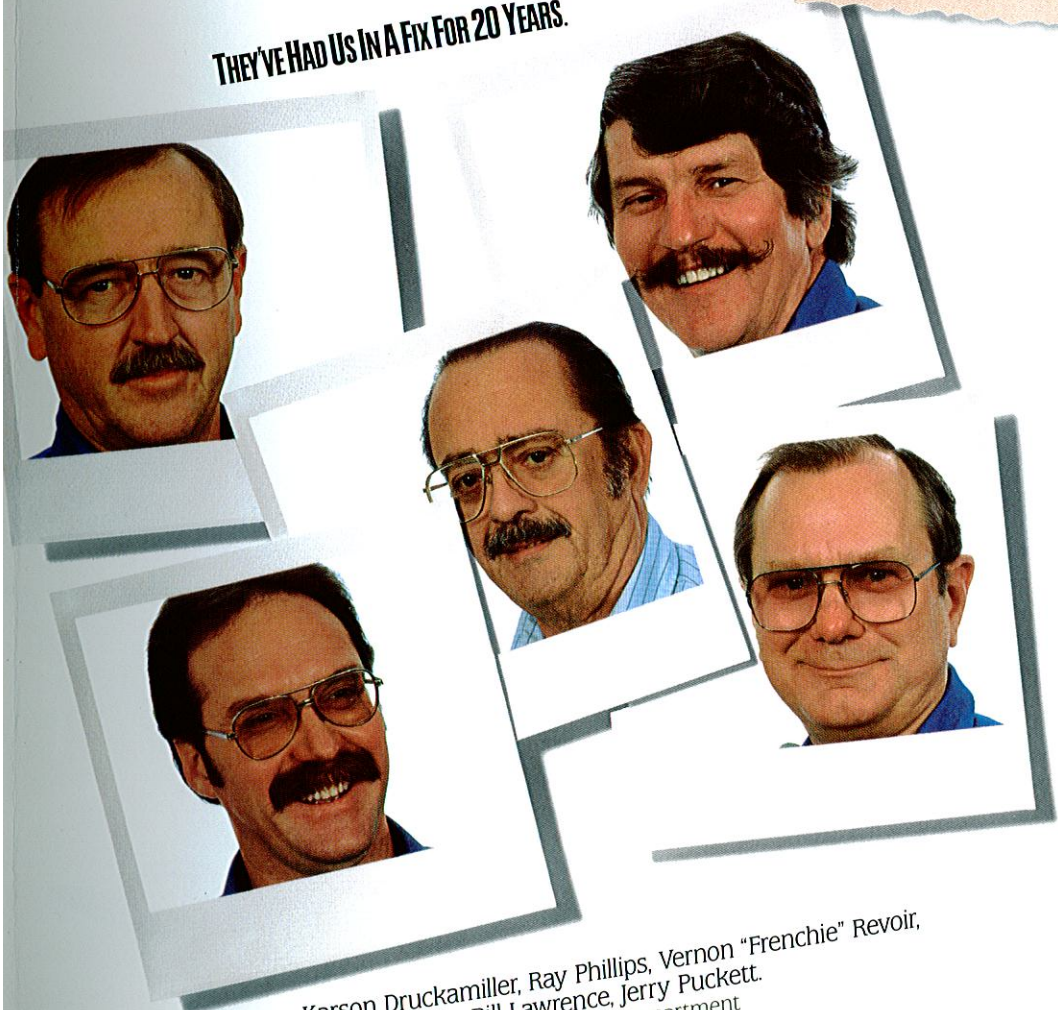
THEY'VE BEEN MAKING HEADLINES FOR 20 YEARS.

A salute to our twenty-year

Sherry Phelps, Camille Keith.
Marketing Department

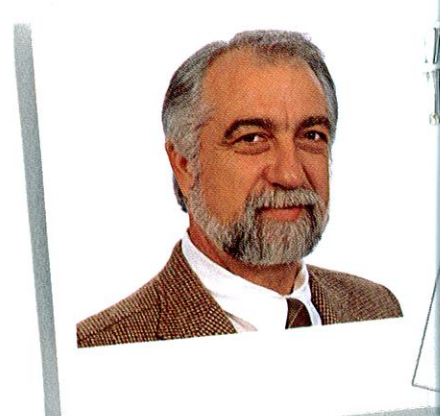
1971

THEY'VE HAD US IN A FIX FOR 20 YEARS.



Karson Druckamiller, Ray Phillips, Vernon "Frenchie" Revoir,
Bill Lawrence, Jerry Puckett.
Maintenance Department

THEY



TIME FLIES WHEN YOU'RE HAVING FUN.

r employees on our anniversary.

HER LINE'S BEEN

Karen Wallace Ordner.
Reservations

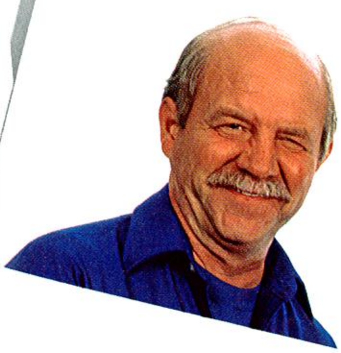
1991

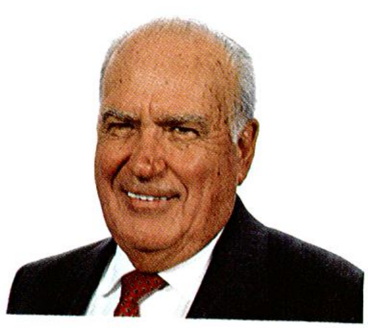
THEY'VE BEEN TAKING OFF EVER SINCE THEY CAME TO WORK.

Captain Sam Cohn, Captain Bob Pratt, Captain Gene VanOverschelde.
Flight Operations Department

THEY'VE HAD

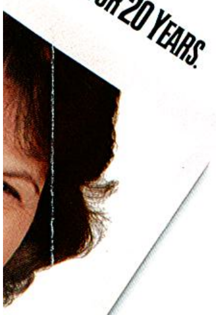
HEY'VE BEEN THE NUTS AND BOLTS OF OUR COMPANY FOR 20 YEARS.





Tony Gobernatz, Jim Eldredge, Jack Vidal.
Maintenance Department

'VE BEEN BUSY FOR 20 YEARS.



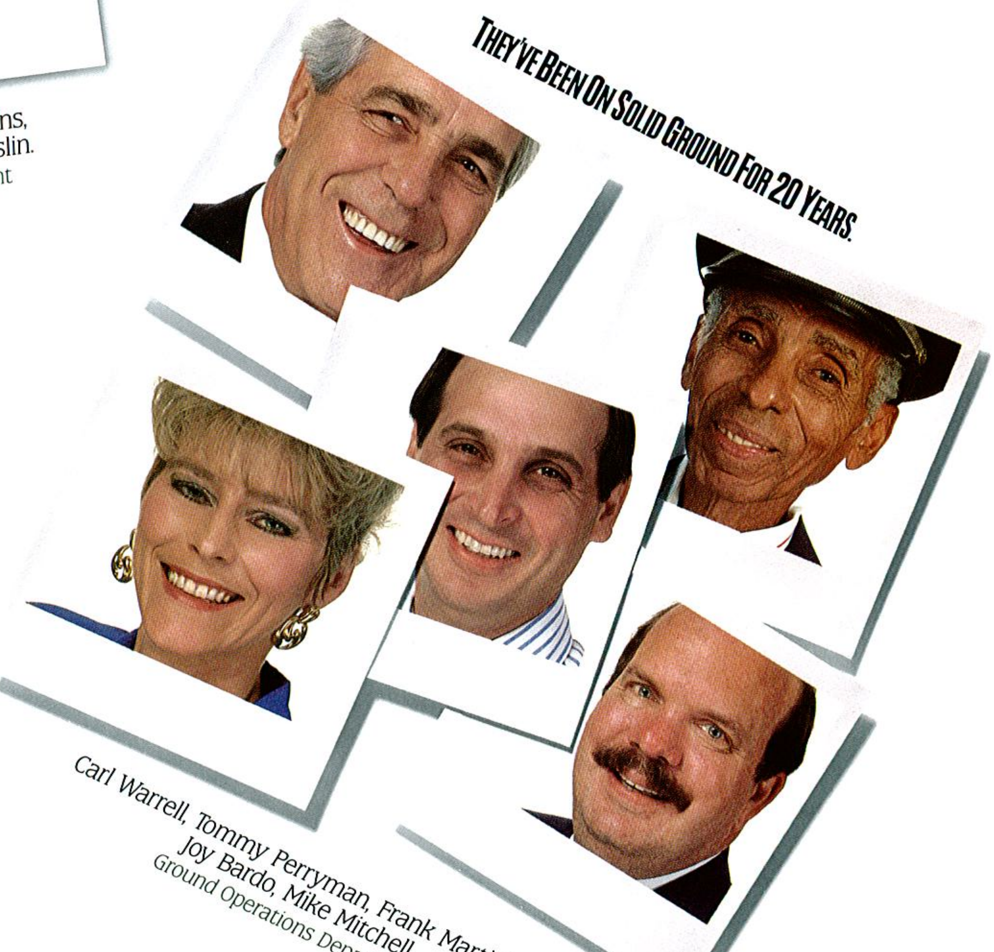
TWENTY YEARS AGO, THEY TAUGHT US HOW TO FLY.

Rollin King, Herb Kelleher, Gary Barron, Colleen Barrett.
Founders & Executive Officers

THEY'VE BEEN HELPING PEOPLE REACH NEW HEIGHTS FOR 20 YEARS.

Deborah Franklin, Mary Goins,
Dennis Lardon, Brenda Gruslin.
Inflight Services Department

THEY'VE BEEN ON SOLID GROUND FOR 20 YEARS.



Carl Warrell, Tommy Perryman, Frank Martiniano,
Joy Bardo, Mike Mitchell.
Ground Operations Department

HAD A LOT OF UPS AND DOWNS IN 20 YEARS.

Linda Pinka,
Deborah Stembridge,
Sandra Bogan.
Inflight Services Department

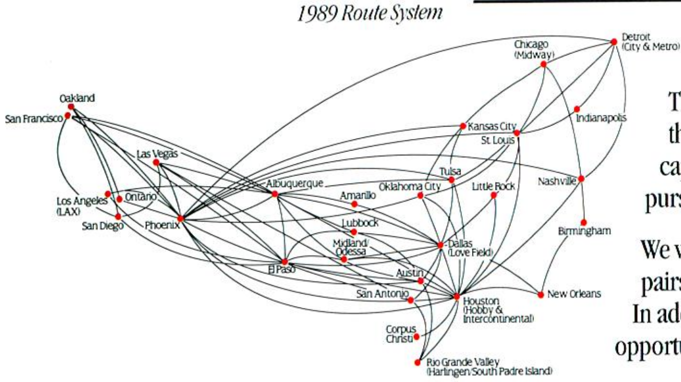
1986

Southwest celebrates 15 years of low fares, good times, and high spirits. Southwest flyers have even more fun with the introduction of even lower advance-purchase Fun Fares. For over 13 million Customers, The Company Plane is the only way to fly!

1987

For the sixth year in a row, Southwest receives the Best Customer Satisfaction record of any continental U.S. airline. Weekend Fun Packs are introduced, and 14-day advance purchase Fun Fares are reduced by as much as 25 percent.

1989 Route System



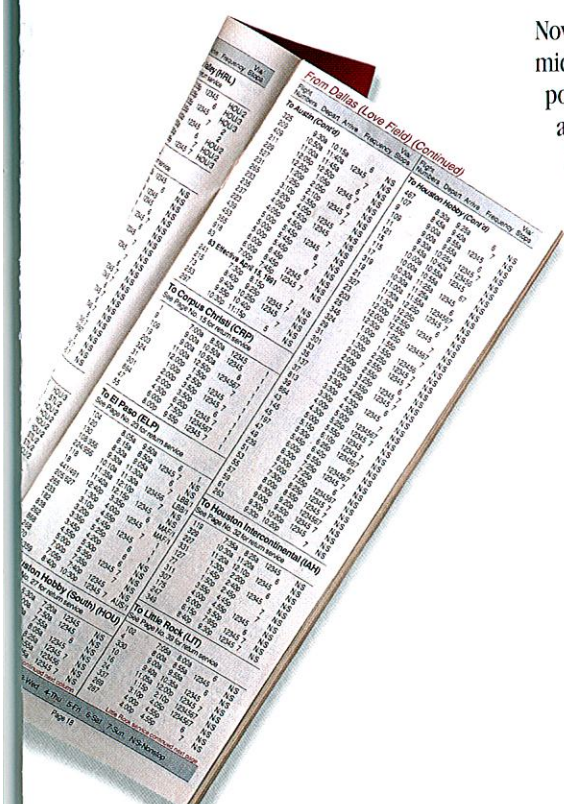
EXPANSION OPPORTUNITIES

The year 1991, while it was a difficult year because of the Persian Gulf War and the recession, proved to be a year of new opportunities. With our strong earnings capability, financial condition, young fleet, and exceptional workforce, we are poised to pursue the numerous U.S. route opportunities that we believe exist in our market niche.

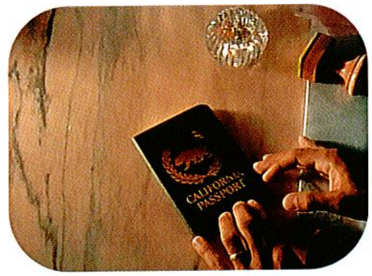
We will continue our California expansion with additional frequencies in existing city pairs and, potentially, by establishing nonstop service between airports we already serve. In addition, we will consider additional western region airports, if further route opportunities become available.

We have announced new nonstop service from Las Vegas, for March 1992, to Sacramento and Kansas City and will also add frequencies to existing Las Vegas city pair markets. Additional frequencies in Phoenix nonstop markets are also planned along with new city pairs.

Now that we have access to additional gate facilities at Chicago Midway, we have the ability to expand our midwest region. Our current plan is to develop the Chicago market over the next several years with the potential to become as large as a Dallas, Houston, or Phoenix. We have begun the Chicago expansion by adding three flights a day in January 1992 to Indianapolis and six flights a day in February 1992 to Cleveland, Ohio. Cleveland thus becomes our 33rd city and 35th airport, with Ohio our 15th state. We also added four nonstop flights per day to St. Louis from Cleveland. Our current intention is to add another new nonstop destination out of Chicago Midway by mid-year 1992. We have recently acquired two used 737-300 aircraft (one in December 1991 and the other in January 1992) to implement this Midway expansion.



We built our schedule to fit your schedule. Even when your plans change, our everyday low fares won't.



VISUAL: HANDS OPEN CALIFORNIA PASSPORT.
VOICE: It's no secret...Californians do most of their traveling right here in California.

VISUAL: HANDS STAMP SAN DIEGO IN PASSPORT.
VOICE: That's why Southwest Airlines is introducing The California State Fare...

1988

Southwest and Sea Worlds of Texas and California celebrate their partnership by teaching a whale how to fly – Shamu® One. And we win the first Triple Crown for Best On-time Record, Best Baggage Handling, and Fewest Customer Complaints in a single month.

1989

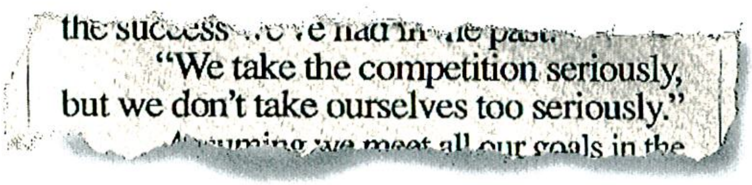
A little more than a year later, Southwest earns our second Triple Crown. Shamu® Two is born. And service begins from Oakland's International Airport.

1990

Southwest surpasses one billion dollars in annual revenues, entering the ranks of the nation's "major" airlines. Terminal 4 in Phoenix opens. Southwest unfurls Lone Star One.℠ And we are the only major airline to report both an operating and a net profit.

We will acquire 13 new 737 aircraft from Boeing in 1992. We have future delivery and option positions with Boeing for new 737 aircraft to adequately meet our expansion needs and maintain a young fleet. At yearend 1991, we had 124 aircraft on hand, of which 33 were subject to long-term leases and 23 of the 737-200s were subject to short-term leases expiring over the next several years. We have the flexibility with respect to these leased aircraft to either return them to the lessor or continue leasing them at the then-current fair market value. We have 39 firm orders through 1994 and 68 options from 1995 through 1999, as follows:

TYPE	SEATS	1991	1992	1993	1994	1995	1996	1997	1998	1999
737-200	122	49	—	—	—	—	—	—	—	—
737-300	137	57	6	13	3	—	—	—	—	—
737-500	122	18	7	—	10	10	10	16	16	16
TOTAL		124	13	13	13	10	10	16	16	16



A philosophy of low fares, lots of flights, and loads of fun clearly sets Southwest apart from other airlines.

Southwest is the seventh largest airline in America, based on domestic originating passengers.

VISUAL: HANDS STAMP STATE FARE OVER SACRAMENTO STAMP.
VOICE: ...One low fare anytime, anywhere we fly within California.

VISUAL: STATE FARE STAMP OVER SOUTHWEST JET.
VOICE: No wonder we're California's fastest growing airline.

1991

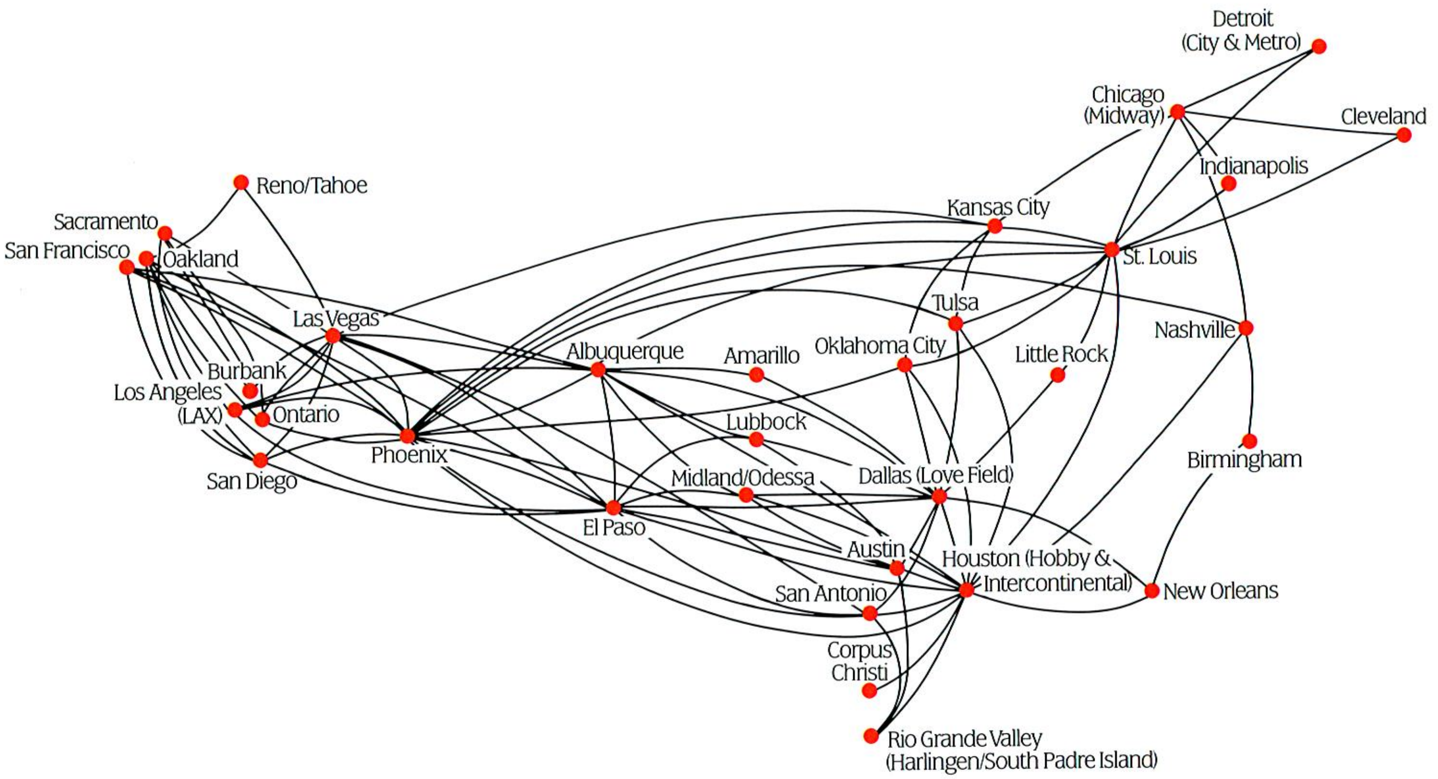
In 20 short years, Southwest is the seventh largest major airline in America. We fly 124 Boeing 737s, the youngest pure jet fleet in the country. We fly over 22 million Customers a year to 32 great cities (34 airports) in 14 states in the West, Southwest, and Midwest.

In a year when the airline industry is expected to lose in excess of $2 billion, Southwest is reporting both an operating and a net profit. Again.

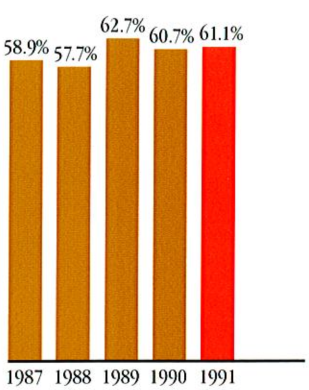
In a moving ceremony at our headquarters in Dallas on our 20th Anniversary, Chairman Kelleher sealed a time capsule containing our memories of the past 20 years and our hopes and dreams for the next 20 years. His stirring words reflect our collective spirit:

"Hats off to the past. Coats off to the future!"

Southwest Airlines Route System as of March 1, 1992.



Passenger Load Factor
(Southwest only)



In 1991, Southwest won an unprecedented fifth Triple Crown for Best On-time Record, Best Baggage Handling, and Fewest Customer Complaints in a single month.

OUTLOOK FOR THE 1990s

1991 has proved to be a year of opportunity, one in which we were successful in capitalizing on several strategic markets: California, Phoenix, Las Vegas, and Chicago. We believe we are well positioned as the nation's only shorthaul, point-to-point, low-fare, high-frequency, high-quality airline.

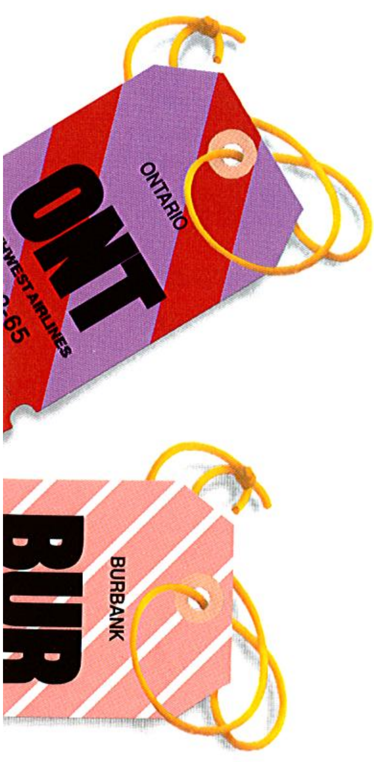
From a marketing perspective, we believe Southwest is the best value for shorthaul transportation – Just Plane Smart – as consumers shed themselves of the excesses of the 1980s and shop for the best values in the 1990s.

From an operating perspective, we believe Southwest is uniquely positioned to capitalize on domestic shorthaul opportunities as we are the only U.S. jet airline with services efficiently designed to meet the needs of shorthaul Customers.

From a financial perspective, we have the lowest operating costs, best profitability margins, youngest fleet, and strongest balance sheet, thereby enabling us to access the capital markets to acquire new aircraft, expand our operations, and continue the patient development of new shorthaul city pair markets.

As we begin 1992, the nation's economy still appears sluggish. A sluggish economy impairs our ability to generate revenues, often leading to reduced fares to stimulate what would otherwise be weak traffic demand. Despite the continued weak economy, our recent revenue results have been encouraging with increased traffic at higher fares as compared to the corresponding period of the prior year. Of course, we cannot predict what our national economy or the highly competitive fare environment will bring in 1992 or 1993.

We continue to experience cost pressures from several different fronts. As an energy-dependent company, we are exposed to the volatility inherent in petroleum products and are continually exploring ways to manage this risk more effectively, in addition to continually adding more fuel-efficient aircraft to the fleet. At yearend 1991, 75 aircraft or 60 percent of the fleet were 737-300s and -500s, the most fuel-efficient aircraft currently available in the 737 family. Aircraft maintenance is another cost category that is volatile and will increase as our fleet continues to age and as we add 737-300s and -500s, which are more expensive to maintain than their 737-200 predecessor. Finally, airport infrastructure costs will continue to rise as airports expand and develop new terminal facilities and runways to meet increased demands. Our largest cost category, salaries, wages, and benefits, is primarily driven by headcount growth, which should approximate available seat mile growth over the next couple of years. Southwest's major labor contracts have five-year terms. No major labor contracts are scheduled for renegotiation until 1994.



Southwest believes in being close to our Customers, flying into convenient downtown airports wherever possible.

DEDICATION

This 1991 Annual Report is dedicated to our 20-year employees. You are, truly, the wind beneath our wings.

DIRECTORS

SAMUEL E. BARSHOP
Chairman of the Board,
La Quinta Motor Inns, Inc.,
San Antonio, Texas; Audit and
Compensation Committees

GENE H. BISHOP
Chairman and Chief Executive Officer, Life Partners Group, Inc., Dallas, Texas; Audit, Compensation, and Executive Committees

WILLIAM P. HOBBY, JR.
Former Lieutenant Governor of Texas;
Chairman of the Board,
H&C Communications, Inc., Houston, Texas;
Audit Committee

TRAVIS C. JOHNSON
Partner, Johnson & Bowen,
Attorneys at Law, El Paso, Texas;
Audit Committee

HERBERT D. KELLEHER
Chairman of the Board, President, and Chief Executive Officer of Southwest Airlines Co., Dallas, Texas; Executive Committee

ROLLIN W. KING
Consultant, Executive Development, Dallas, Texas; Audit and Executive Committees

WALTER M. MISCHER, SR.
Chairman of the Board and Chief Executive Officer, The Mischer Corporation,
Houston, Texas (real estate development);
Audit and Compensation Committees

OFFICERS

HERBERT D. KELLEHER*
Chairman of the Board, President,
and Chief Executive Officer

COLLEEN C. BARRETT*
Executive Vice President–
Customers and Corporate Secretary

GARY A. BARRON*
Executive Vice President,
Chief Operations Officer

JOHN G. DENISON*
Executive Vice President –
Corporate Services

DANIEL W. HAY
Vice President – Systems

CAMILLE T. KEITH
Vice President – Special Marketing

GARY C. KELLY*
Vice President – Finance,
Chief Financial Officer

WILLIAM Q. MILLER
Vice President – Inflight Service

JAMES F. PARKER*
Vice President – General Counsel

PAUL J. QUINN
Vice President – Schedule Planning

MARGARET ANN RHOADES
Vice President – People

RON RICKS*
Vice President – Governmental Affairs

ROGER W. SAARI
Vice President – Fuel and Administrative Purchasing

PAUL E. STERBENZ
Vice President – Flight Operations

DONALD G. VALENTINE*
Vice President – Marketing

JOHN A. VIDAL
Vice President – Maintenance

JAMES C. WIMBERLY*
Vice President – Ground Operations

ALAN S. DAVIS
Director, Internal Audit and Special Projects

WILLIAM D. LYONS
Controller

JOHN D. OWEN
Treasurer

*Member of Executive Planning Committee

We salute the New York Stock Exchange on the eve of its Bicentennial. LUV is our stock exchange symbol, honoring our home at Dallas Love Field.

NEW YORK STOCK EXCHANGE 1792 1992 BICENTENNIAL

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INDUSTRY CONDITIONS

The domestic airline industry, which underwent tremendous change in 1990, continued to experience turbulence during 1991. The economic recession, which had a significant impact on the airline industry in 1990, continued in 1991 and, along with the Persian Gulf War and high jet fuel costs, contributed to additional bankruptcy filings and liquidations of domestic carriers. With the economic recession and Gulf War resulting in weakened traffic demand, domestic competition in 1991 was characterized by heavy fare discounting.

Some of the Company's markets continue to be negatively affected by the weak economic environment. However, the Company's low operating costs and short-haul, low-fare market niche have mitigated to some extent the negative effects of the recession, thereby allowing Southwest to report both operating and net income in 1991. While most other major domestic carriers incurred significant financial losses in 1991, the Company posted net income for its 19th consecutive year. The Company's current cash resources and strong balance sheet should provide the liquidity necessary to survive the current weak economic environment and, potentially, to enhance its already strong competitive position within the industry.

During 1991, due to the downsizing of financially troubled carriers, the Company expanded its original 1991 growth plan from 11 to 18 aircraft, began service to Sacramento, California and increased its flights in the Oakland, San Diego, Phoenix and Las Vegas markets. In addition, as a consequence of the shutdown of Midway Airlines in November 1991, the Company obtained the use of additional gate facilities at Chicago Midway Airport and plans to expand service there in 1992. The Company intends to add Cleveland, Ohio to its route system in February 1992 with nonstop service to Chicago Midway and St. Louis.

RESULTS OF OPERATIONS

1991 COMPARED WITH 1990 The Company's consolidated net income for the year 1991 was \$26.9 million, or \$.63 per share, compared to \$47.1 million, or \$1.10 per share, for 1990, a decrease of 42.8 percent. The decrease in earnings primarily was attributable to: 1) a decrease in operating income of 23.1 percent; 2) a \$7.3 million increase in net interest expense; and 3) a \$4.6 million decrease in nonoperating gains, before the effects of income taxes.

Operating Revenues Operating revenues increased by 10.7 percent in 1991 to an all-time high of \$1,313.6 million. Passenger revenues, which accounted for 96.5 percent of total operating revenues, increased 10.8 percent to \$1,267.9 million while freight revenues increased 19.1 percent to \$26.4 million and other revenues declined by 4.3 percent to \$19.3 million.

Passenger revenue growth was negatively impacted in 1991 by the war in the Persian Gulf and the domestic economic recession. As a result, operating revenue per available seat mile (ASM) declined in 1991 to \$.0710 from 1990's all-time record of \$.0723, or 1.8 percent. The 1991 passenger revenue increase was attributable to a 14.3 percent increase in revenue passengers carried, which resulted from aggressive discount and promotional programs to stimulate an otherwise weak domestic travel market. However, the promotional programs that were successful in stimulating traffic caused passenger revenue yield per revenue passenger mile (RPM) to decline to \$.1122 from \$.1149 in 1990, or 2.3 percent.

The increase in RPMs was 13.4 percent in 1991 as compared to 1990 versus a 12.7 percent increase in ASMs for the same period, resulting in an increase in the load factor from 60.7 percent to 61.1 percent. The 1991 ASM increase primarily resulted from the addition of 18 aircraft that were used primarily to initiate service in Sacramento, California to Ontario, Burbank, and San Diego, California; expand service in Oakland, Los Angeles, Phoenix, and Las Vegas; and initiate service between Kansas City/St. Louis and between Los Angeles/Las Vegas.

During the third quarter 1991, traffic demand began to improve as compared to the preceding months of 1991, considering seasonality. As a result, RPM yields began to improve as compared to earlier 1991 results and load factors were up as compared to the corresponding month of the prior year for the period September through December 1991. Revenues per ASM increased in fourth quarter 1991 versus fourth quarter 1990, the first such favorable quarterly comparison in 1991. The Company believes it benefited from slightly improved economic conditions in its markets; successful expansion into new California markets; and service reductions from competitors in its California, Phoenix, Las Vegas and Chicago markets.

Since the end of 1991, the Company has continued to realize year-over-year load factor gains in January and February 1992, although bookings for March 1992 are soft in comparison to March 1991, in large part due to deep discounts offered in 1991 that are not being repeated in 1992. As a consequence, while the load factors may not be as strong in the 1992 first quarter as they were in first quarter 1991, RPM and ASM yields may improve.

Freight revenues increased 19.1 percent in 1991 to $26.4 million from $22.2 million in 1990. Freight revenues have grown 83.1 percent since 1988, more than double the rate of ASM growth over the same period. This growth has primarily resulted from expanded U.S. Mail services and increased cargo marketing efforts. Other revenues decreased 4.3 percent primarily due to a 20.7 percent decrease in charter revenues resulting from a decline in military activities requiring domestic charters.

Operating Expenses Consolidated operating expenses increased 13.2 percent to $1,250.7 million from $1,104.9 million in 1990. The primary factors contributing to the increase were the 12.7 percent increase in ASMs resulting from the addition of eighteen 737 aircraft and increases in aircraft rentals, terminal rentals and landing fees. These increases were offset by a large decrease in jet fuel costs. The net result was an increase in operating expenses per ASM of only .4 percent over 1990 levels as follows:

Operating expenses per ASM

	1991	1990	Increase (decrease)	Percent change
Salaries, wages and benefits	2.12¢	2.07¢	.05¢	2.4
Profit sharing and employee savings plans	.09	.11	(.02)	(18.2)
Fuel and oil	1.22	1.47	(.25)	(17.0)
Maintenance materials and repairs	.53	.51	.02	3.9
Agency commissions	.44	.44	–	–
Aircraft rentals	.26	.16	.10	62.5
Landing fees and other rentals	.44	.37	.07	18.9
Depreciation	.47	.48	(.01)	(2.1)
Other	1.19	1.12	.07	6.3
Total	6.76¢	6.73¢	.03¢	.4

Salaries, wages and benefits per ASM increased 2.4 percent in 1991 resulting from a 1.8 percent increase in salaries and wages per ASM and a 4.7 percent increase in employee benefits per ASM. The Company continues to implement and monitor programs designed to control the growth of these benefit costs, primarily workers compensation and health benefits. Headcount increased 13.4 percent in 1991, slightly more than the 12.7 percent increase in ASMs. Despite this increase in headcount, employee productivity increased from 2,393 passengers handled per employee in 1990 to 2,451 in 1991. Average salary and benefit costs per employee increased 3.2 percent from 1990 to 1991.

In January 1992, the Company signed a new collective bargaining agreement with the Transportation Worker's Union of America, which represents the Company's flight attendants. The contract extends into 1996.

Profit sharing and employee savings plan expenses on a per-ASM basis decreased 18.2 percent in 1991. The decrease was a result of decreased profitability offset by increased employee eligibility and resulting participation in the employee savings plan matching contributions program. For additional information, see Note 9 to the Consolidated Financial Statements.

Fuel and oil expenses per ASM decreased 17.0 percent in 1991 as the jet fuel average cost per gallon decreased 15.7 percent to 65.69¢ in 1991 from 77.89¢ in 1990. During 1990, crude oil prices and, therefore, jet fuel prices, were very volatile as a result of the invasion of Kuwait and resulting war in the Persian Gulf. Jet fuel prices declined to pre-invasion levels by second quarter 1991. In addition, fuel conservation measures implemented following the Iraqi invasion of Kuwait were continued throughout 1991 reducing fuel burn approximately 4.0 percent from 1990 pre-invasion levels. As a result of declining production rates in the former Soviet Union, coupled with overall supply concerns, jet fuel prices escalated in third and fourth quarters 1991. In late fourth quarter 1991, as a consequence of continued high OPEC production and a relatively mild winter, the supply concerns disappeared based on high inventories of crude oil and refined products, thus precipitating a rapid decline in jet fuel costs. While the Company averaged 65.76¢ per gallon in fourth quarter 1991, in the first half of January 1992, the cost per gallon had declined to as low as 52¢ per gallon. The near-term outlook for fuel costs, barring unforeseen events, is favorable for the airline industry.

Maintenance materials and repairs per ASM increased 3.9 percent in 1991. This increase was primarily a result of the higher cost of engine overhauls for the more expensive 737-300 and -500 high-bypass engines. Although equipment repairs are relatively unpredictable in nature, the Company anticipates a further increase in 1992 maintenance costs per ASM.

Aircraft rentals increased 62.5 percent in 1991 as a result of the 1991 sale/leaseback financing of three new aircraft with long-term operating leases and five older aircraft with short-term operating leases. In addition, in 1991 the Company leased three used 737-300 aircraft under long-term operating leases and three used 737-200 aircraft under short-term operating leases.

Landing fees and other rentals increased on a per-ASM basis by 18.9 percent in 1991 as a result of rate increases and expanded terminal facilities, principally Phoenix Sky Harbor Airport. Other operating expenses increased primarily due to increases in advertising and promotional expenses to stimulate traffic and increases in ad valorem tax rates.

Other Other expenses (income) included interest expense, interest income and nonoperating gains and losses. Interest expense, net of capitalized interest, increased 56.8 percent in 1991 due to issuances of $300 million in senior unsecured notes. See Note 5 to the Consolidated Financial Statements for further information. Interest income increased $3.0 million in 1991 due to higher investment balances, offset by lower interest rates. Net nonoperating gains declined $4.6 million in 1991, as more fully described in Note 10 to the Consolidated Financial Statements.

Income Taxes The provision for income taxes increased in 1991 as a percentage of income before income taxes to 38.6 percent from 37.0 percent in 1990. The increase primarily resulted from increases in state income taxes. See Note 11 to the Consolidated Financial Statements for further information.

1990 COMPARED WITH 1989 The Company's consolidated net income for the year 1990 was $47.1 million, or $1.10 per share, compared to the record $71.6 million, or $1.58 per share for 1989, a decrease of 34.2 percent. The decrease in earnings primarily was attributable to: 1) a decrease in operating income of 16.1 percent resulting from a 31.0 percent increase in jet fuel cost per gallon; 2) a decrease in nonoperating gains of $16.4 million; and 3) an increase in net interest of $4.0 million, before the effects of income taxes.

Operating Revenues Passenger revenues, which accounted for 96.4 percent of total consolidated operating revenues, increased by 17.5 percent in 1990 to $1,144.4 million. This resulted from a 7.3 percent increase in RPMs in 1990 and a 9.5 percent increase in passenger revenue yield per RPM to $.1149 from $.1049 in 1989. The increase in passenger revenue yield per RPM primarily resulted from fare increases implemented during 1990 and a larger percentage of higher-yielding (per mile) shorthaul traffic in 1990 as compared to 1989. The increase in passenger traffic was exceeded by the 10.9 percent increase in ASMs resulting in a 2.0 point decrease in the passenger load factor from 62.7 percent to 60.7 percent. Despite a weakening general economy and slower domestic traffic growth rates for the airline industry as a whole in 1990, the Company achieved above average traffic growth and load factors during the year. The 1990 ASM increase primarily occurred in flights to and from Oakland, Burbank, Las Vegas and Reno.

Freight revenues increased 18.2 percent in 1990 to $22.2 million from $18.8 million in 1989 due to a 30.0 percent increase in U.S. Mail revenues as a result of expanded U.S. Mail services and a 13.9 percent increase in air freight revenue. Other revenues decreased 11.3 percent in 1990 primarily due to a 30.1 percent decrease in charter revenues resulting from a decline in military activities requiring domestic charters.

Operating Expenses Consolidated operating expenses increased 20.4 percent in 1990 to $1,104.9 million from $917.4 million in 1989. The primary factors contributing to the increase were the 10.9 percent increase in ASMs, resulting from the addition of two new 737-300s and 10 new 737-500s to the aircraft fleet, and increases in salaries, wages, benefits and jet fuel. This represents an increase in operating expenses per ASM of 8.5 percent over 1989 levels.

The 6.2 percent increase in salaries, wages and benefits per ASM in 1990 resulted from increases of 4.8 percent in salaries and wages per ASM, or .08¢, and 15.3 percent in employee benefits per ASM, or .04¢. The employee benefits increase resulted from increases in workers compensation and health benefits costs. These increases were caused by the spiraling increase in the cost of providing medical care. In 1990, the Company began implementation of various cost savings initiatives to attempt to control the annual increase in these benefit costs. Headcount increased 11.1 percent in 1990 which approximated the 10.9 percent increase in ASMs and the 10.4 percent increase in revenue passengers carried. Average salary and benefit costs per employee increased 5.7 percent from 1989 to 1990.

In 1990, the Company signed new collective bargaining agreements with the Southwest Airlines Pilot Association (pilots), International Brotherhood of Teamsters Airline Division (mechanics, stock clerks and aircraft cleaners), Ramp, Operations and Provisioning Association (fleet service) and the Southwest Airlines Professional Instructors Association (flight crew instructors) employee groups. These contracts, along with the contract signed in 1989 with the customer service employees, extend into the year 1994 and in some cases 1995.

Although the Company's profit declined in 1990, profit sharing expense increased 37.5 percent on a per-ASM basis as a result of a change in the Company's Profit Sharing Plan and the addition of Company-matching employee savings plan contributions as more fully described in Note 9 to the Consolidated Financial Statements.

Fuel and oil expenses increased 28.9 percent on a per-ASM basis due to an increase in the jet fuel average cost per gallon of 31.0 percent to 77.89¢ in 1990 from 59.46¢ in 1989. In August 1990, Iraq invaded Kuwait and, as a result, crude oil prices soared based on speculative fears of a supply shortage or interruption. As a result, jet fuel prices increased from a July 1990 pre-invasion average of 57.79¢ per gallon to a peak average cost for October 1990 of 114.75¢ per gallon.

Maintenance materials and repairs remained the same on a per-ASM basis for 1990 as compared to 1989.

Agency commissions were largely unchanged from 1989 to 1990 both on a per-ASM basis and as a percentage of passenger revenues. Aircraft rentals increased on a per-ASM basis for 1990 compared to 1989 as a result of the 1990 financing of six new aircraft with long-term operating leases and four older aircraft with short-term operating leases. Landing fees and other rentals per ASM increased in 1990 primarily as a result of rate increases.

Other Other expenses (income) included interest expense, interest income and nonoperating gains and losses. Interest expense decreased slightly in 1990 as a result of lower outstanding debt balances. Capitalized interest increased $3.5 million in 1990 due to higher levels of advance payments on aircraft. Interest income decreased $9.0 million in 1990 due to lower investment balances and interest rates available during most of 1990. See Consolidated Statement of Cash Flows for more information. Net nonoperating gains declined to $3.5 million in 1990 from $20.0 million in 1989, as more fully described in Note 10 to the Consolidated Financial Statements.

Income Taxes The provision for income taxes increased in 1990 as a percentage of income before income taxes to 37.0 percent from 35.5 percent in 1989. The increase was primarily attributable to a reduction in available investment tax credits as a result of certain transitional rules contained in the Tax Reform Act of 1986. There were no investment tax credits available in 1990. The investment tax credits utilized in 1989 for financial reporting purposes, after providing deferred taxes for the corresponding reductions in the tax bases of the related assets, were $1.4 million. See Note 11 to the Consolidated Financial Statements for further information.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided from operations was $103.2 million in 1991 as compared to $111.9 million in 1990. During 1991, additional funds of $296.4 million were generated from issuances of a total of $300 million in senior unsecured notes. See Note 5 to the Consolidated Financial Statements for additional information. In addition, $132.4 million was generated from the sale and leaseback of eight aircraft: three were new 737-500 aircraft subject to long-term operating leases and five were older 737-200 aircraft subject to short-term operating leases (increasing total commitments for operating leases by $218.8 million). These proceeds were primarily used to finance aircraft-related capital expenditures, provide working capital and retire long-term debt.

During 1991, capital expenditures of $341.1 million were primarily for the purchase of three new and one used 737-300 aircraft and eight new 737-500 aircraft delivered during the year along with progress payments for future aircraft deliveries. At December 31, 1991, capital commitments for the Company consisted primarily of scheduled aircraft acquisitions. At yearend, Southwest had thirty-nine 737s on firm order with options to purchase another sixty-eight 737s. Aggregate funding required for these commitments was $784.8 million at yearend. See Note 3 to the Consolidated Financial Statements for further information.

In July 1990, the Board of Directors authorized the Company to purchase, from time to time, 1,500,000 shares of the Company's common stock in the open market. As of January 24, 1992, the Company had purchased 250,000 shares under its stock buy back program. No shares were purchased during 1991.

During 1991, the Company completed the early retirement of the outstanding Equipment Trust Certificates (ETCs) which were all called in 1990. The balance of the 10.3% ETCs due July 1, 1995, or $7.4 million, was retired in February 1991. There were no significant prepayment penalties associated with the early extinguishment of the debt. Of the ten 737-200 aircraft securing the ETCs, four were sold and subsequently leased back in 1990 and five were sold and leased back in 1991. Proceeds from the 1991 sale leasebacks totaled $52.9 million. The remaining 737-200 is currently being marketed by the Company for sale and subsequent short-term leaseback.

In 1991, the Company established a new aircraft airframe maintenance program with the Federal Aviation Administration. This new maintenance program, designed to comply with the current aging aircraft maintenance guidelines, will require a significant increase in the number of airframe overhauls from the number previously performed by the Company on an annual basis. This new maintenance program will require an average of 13 airframe overhauls per year, at a current cost of approximately $1.6 million each, to be performed in each of the next 10 years. By contrast, the Company has averaged four airframe overhauls per year over the last seven years.

In 1991, the Company committed to the construction of a maintenance facility at the Phoenix Sky Harbor Airport. Construction commenced in January 1992 and is expected to be completed by the end of 1992. Total cost for this facility will be approximately $10.0 million.

See Note 2 to the Consolidated Financial Statements regarding "deficiency guarantees" related to specific aircraft leases.

In February 1992, the Company completed the public sale of 2,500,000 shares of its common stock. Net proceeds from the sale of the common stock approximated $87.0 million.

The Company has various options available to meet its capital and operating commitments, including cash on hand at December 31, 1991 of $260.9 million, the net proceeds from the February 1992 sale of common stock, internally generated funds and a revolving credit line with a group of banks of up to $250.0 million (none of which had been drawn at December 31, 1991). In addition, the Company will also consider various borrowing or leasing options to maximize earnings and cash flows.

During 1990, cash generated from operations was $111.9 million. Additional funds of $200.0 million were generated through the sale and leaseback of 10 aircraft: six were new 737-500 aircraft subject to long-term operating leases with four older 737-200 aircraft subject to short-term operating leases (increasing total commitments for operating leases by $381.1 million). These proceeds were primarily used to finance aircraft-related capital expenditures, provide working capital, retire long-term debt, pay dividends and purchase treasury stock.

During 1989, cash generated from operations was $168.0 million. Additional funds of $91.2 million were generated through the sale and leaseback of eight 737-200 aircraft subject to short-term operating leases. As a result of the sale and leaseback transactions, obligations under capital leases increased $72.4 million. The cash from operating activities and the sale and leaseback transactions, along with cash on hand, was primarily used to finance aircraft-related capital expenditures, provide working capital, pay dividends and purchase treasury stock.

QUARTERLY FINANCIAL DATA (UNAUDITED)

(in thousands except per share amounts)

1991	Three months ended March 31	June 30	Sept. 30	Dec. 31
Operating revenues	$282,809	$324,656	$355,256	$350,884
Operating income (loss)	(10,492)	20,449	31,132	21,847
Income (loss) before income taxes	(13,057)	16,877	25,790	14,230
Net income (loss)	(8,215)	10,568	15,724	8,842
Net income (loss) per common and common equivalent share	(0.19)	0.25	0.37	0.21

1990	Three months ended March 31	June 30	Sept. 30	Dec. 31
Operating revenues	$260,579	$308,210	$316,379	$301,591
Operating income (loss)	8,122	41,311	36,670	(4,224)
Income (loss) before income taxes	8,000	37,405	36,552	(7,204)
Net income (loss)	5,094	23,534	23,036	(4,581)
Net income (loss) per common and common equivalent share	0.12	0.55	0.54	(0.11)

COMMON STOCK PRICE RANGES AND DIVIDENDS

Southwest's common stock is listed on the New York Stock Exchange and is traded under the symbol LUV. The high and low sales prices of the common stock on the Composite Tape and the quarterly dividends per share paid on the common stock were:

Period	Dividend	High	Low
1991			
1st Quarter	$0.025	$28.38	$16.38
2nd Quarter	0.025	29.63	21.88
3rd Quarter	0.025	27.25	22.13
4th Quarter	0.025	35.00	24.38
1990			
1st Quarter	$0.023	$16.25	$13.33
2nd Quarter	0.023	18.00	15.58
3rd Quarter	0.025	18.92	12.75
4th Quarter	0.025	20.00	13.25

As of February 28, 1992, there were 5,679 holders of record of the Company's common stock.

SOUTHWEST AIRLINES CO.
CONSOLIDATED BALANCE SHEET
(in thousands except share and per share amounts)

	December 31, 1991	1990
Assets		
Current assets:		
Cash and cash equivalents	$ 260,856	$ 87,507
Accounts receivable	47,507	43,887
Inventories of parts and supplies, at cost	23,036	15,460
Prepaid expenses and other current assets	8,602	10,973
Total current assets	340,001	157,827
Property and equipment, at cost (Notes 3, 5 and 6):		
Flight equipment	1,551,519	1,369,324
Ground property and equipment	218,522	194,118
Deposits on flight equipment purchase contracts	182,932	153,201
	1,952,973	1,716,643
Less allowance for depreciation	458,779	406,106
	1,494,194	1,310,537
Other assets	3,096	2,774
	$1,837,291	$1,471,138
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 54,970	$ 51,172
Accrued liabilities (Note 4)	155,895	112,296
Air traffic liability	42,069	38,562
Income taxes payable	377	9,716
Current maturities of long-term debt	6,583	13,612
Total current liabilities	259,894	225,358
Long-term debt less current maturities (Note 5)	617,016	326,956
Deferred income taxes	105,757	109,273
Deferred gains from sale and leaseback of aircraft	222,818	202,002
Other deferred liabilities	3,285	2,698
Commitments and contingencies (Notes 2, 3 and 6)		
Stockholders' equity (Notes 7, 8 and 13):		
Common stock, $1.00 par value: 200,000,000 shares authorized: 42,437,922 shares issued in 1991 and 42,411,672 shares in 1990	42,438	42,412
Capital in excess of par value	81,987	81,447
Retained earnings	507,259	484,559
	631,684	608,418
Less treasury stock, at cost (217,732 shares in 1991; 254,885 shares in 1990)	3,163	3,567
Total stockholders' equity	628,521	604,851
	$1,837,291	$1,471,138

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF INCOME
(in thousands except per share amounts)

	Years ended December 31, 1991	1990	1989
Operating revenues:			
Passenger	$1,267,897	$1,144,421	$ 973,568
Freight	26,428	22,196	18,771
Other	19,280	20,142	22,713
Total operating revenues	1,313,605	1,186,759	1,015,052
Operating expenses:			
Salaries, wages and benefits (Note 9)	407,961	357,357	301,066
Fuel and oil	225,463	242,001	168,579
Maintenance materials and repairs	97,598	82,887	75,842
Agency commissions	81,245	72,084	61,362
Aircraft rentals	49,171	26,085	21,636
Landing fees and other rentals	83,177	61,167	51,902
Depreciation	86,202	79,429	72,343
Other operating expenses	219,852	183,870	164,696
Total operating expenses	1,250,669	1,104,880	917,426
Operating income	62,936	81,879	97,626
Other expenses (income):			
Interest expense	43,939	32,001	33,496
Capitalized interest	(15,301)	(13,738)	(10,227)
Interest income	(10,631)	(7,595)	(16,637)
Nonoperating losses (gains), net (Note 10)	1,089	(3,542)	(19,988)
Total other expenses (income)	19,096	7,126	(13,356)
Income before income taxes	43,840	74,753	110,982
Provision for income taxes (Note 11)	16,921	27,670	39,424
Net income	$ 26,919	$ 47,083	$ 71,558
Net income per common and common equivalent share (Note 12)	$0.63	$1.10	$1.58

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Three years ended December 31, 1991
(in thousands except per share amounts)

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Total
Balance at December 31, 1988	$ 32,254	$175,170	$374,211	$(14,260)	$567,375
Purchase of treasury stock	–	–	–	(47,439)	(47,439)
Cash dividends, $.0933 per share	–	–	(4,178)	–	(4,178)
Net income – 1989	–	–	71,558	–	71,558
Balance at December 31, 1989	32,254	175,170	441,591	(61,699)	587,316
Three-for-two stock split (Note 7)	14,133	(14,135)	–	–	(2)
Purchase of treasury stock	–	–	–	(25,560)	(25,560)
Retirement of treasury stock (Note 7)	(3,996)	(79,785)	–	83,781	–
Issuance of common stock upon exercise of executive stock options (Note 8)	21	197	–	(89)	129
Cash dividends, $.0967 per share	–	–	(4,115)	–	(4,115)
Net income – 1990	–	–	47,083	–	47,083
Balance at December 31, 1990	42,412	81,447	484,559	(3,567)	604,851
Issuance of common and treasury stock upon exercise of executive stock options and pursuant to employee stock option and purchase plans (Note 8)	26	540	–	404	970
Cash dividends, $.10 per share	–	–	(4,219)	–	(4,219)
Net income – 1991	–	–	26,919	–	26,919
Balance at December 31, 1991	**$ 42,438**	**$ 81,987**	**$507,259**	**$ (3,163)**	**$628,521**

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

	Years ended December 31, 1991	1990	1989
Cash flows from operating activities:			
Net income	$ 26,919	$ 47,083	$ 71,558
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	86,202	79,429	72,343
Deferred income taxes	(3,516)	(9,123)	17,021
Amortization of deferred gains on sale and leaseback of aircraft	(31,484)	(21,626)	(15,092)
Gains from sale and leaseback of aircraft (Note 10)	(454)	(2,645)	(10,818)
Changes in certain assets and liabilities:			
Increase in accounts receivable	(3,620)	(5,936)	(906)
Increase in other current assets	(5,205)	(6,870)	(1,562)
Increase in accounts payable and accrued liabilities	38,972	20,666	31,351
Increase in air traffic liability	3,507	5,624	5,879
Increase (decrease) in other current liabilities	(9,339)	5,726	(418)
Other	1,240	(393)	(1,337)
Net cash provided by operating activities	103,222	111,935	168,019
Cash flows from investing activities:			
Purchases of property and equipment	(341,127)	(317,730)	(261,906)
Proceeds from sales of other property and equipment	97	2,464	574
Net cash used in investing activities	(341,030)	(315,266)	(261,332)
Cash flows from financing activities:			
Issuance of long-term debt	296,378	–	–
Proceeds from aircraft sale and leaseback transactions	132,350	200,000	91,180
Proceeds from note receivable	–	4,200	–
Purchase of treasury stock	–	(25,560)	(47,439)
Payment of long-term debt and capital lease obligations	(13,634)	(29,832)	(9,986)
Payment of cash dividends	(4,219)	(4,115)	(4,178)
Other	282	(219)	117
Net cash provided by financing activities	411,157	144,474	29,694
Net increase (decrease) in cash and cash equivalents	173,349	(58,857)	(63,619)
Cash and cash equivalents at beginning of period	87,507	146,364	209,983
Cash and cash equivalents at end of period	$ 260,856	$ 87,507	$ 146,364
Cash payments for:			
Interest, net of amount capitalized	$ 16,963	$ 19,342	$ 16,915
Income taxes	29,799	31,134	22,829

See accompanying notes.

SOUTHWEST AIRLINES CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1991

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation The consolidated financial statements include the accounts of Southwest Airlines Co. (Southwest) and its wholly owned subsidiaries, TranStar Airlines Corporation (TranStar, see Note 2), Southwest Jet Fuel Co. and Southwest Airlines Eurofinance N.V. (collectively referred to as the Company). All significant intercompany balances and transactions have been eliminated.

Cash and cash equivalents Cash equivalents are primarily investment grade commercial paper issued by major financial institutions that are highly liquid and have original maturity dates of three months or less.

Inventories Inventories of flight equipment expendable parts, materials and supplies are valued at cost. These items are charged to expense when issued for use.

Property and equipment Depreciation is provided by the straight-line method to residual values over periods ranging from 15 to 20 years for flight equipment and three to 30 years for ground property and equipment. Property under capital leases and related obligations are recorded at an amount equal to the present value of future minimum lease payments computed on the basis of the lessee's incremental borrowing rate or, when known, the interest rate implicit in the lease. Amortization of property under capital leases is on a straight-line basis over the lease term and is included in depreciation expense.

Aircraft and engine maintenance Routine maintenance and airframe and engine overhauls are charged to expense as incurred. Modifications that significantly enhance the operating performance or extend the useful lives of aircraft or engines are capitalized and amortized over the remaining life of the asset.

Revenue recognition Passenger revenue is recognized when the transportation is provided. Tickets sold but not yet used are included in "Air traffic liability."

Frequent flyer awards The Company accrues the estimated incremental cost of providing free travel awards earned under its Company Club frequent flyer program.

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

Income taxes The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." This Statement requires an asset and liability approach to accounting for differences between the tax basis of an asset or liability and its reported amount in the financial statements. Under the accounting rules, deferred taxes will be determined by applying the provisions of enacted tax laws, and adjustments will be required for changes in tax laws and rates. The impact the Statement will have on the Company's financial position and results of operations when adopted, which has not been quantified, will depend upon the tax laws in effect at the time of adoption. The Statement, as amended, allows adoption through 1993, although earlier adoption is permitted. The Company has not adopted the Statement as of December 31, 1991 or determined whether, at the time of adoption, prior years will be restated.

Postretirement benefits The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The Statement significantly changes the prevailing practice of accounting for postretirement benefits on a pay-as-you-go (cash) basis by requiring accrual, during the years that the employee renders the necessary service, of the expected cost of providing those benefits to an employee and the employee's beneficiaries and covered dependents. Application of the new pronouncement is required for the year ended December 31, 1993. The Company has not quantified the impact of the Statement or determined whether, at the time of adoption, prior years will be restated. In addition, the Company has not determined if it will adopt the Statement prior to the required date.

2. TRANSTAR

In August 1987, TranStar assigned its rights and obligations pursuant to safe harbor tax benefit transfer agreements for three aircraft and as lessee with respect to nine aircraft to a subsidiary of a major U.S. airline. TranStar remains primary obligor on the assigned agreements in the event of a default by the assignee. However, TranStar ceased operations and was liquidated in 1987. Two of these assigned leases, a lease covering one MD-83 aircraft and a lease covering five DC9-51 aircraft, include "deficiency guarantees" by Southwest respecting debt secured by the leased aircraft. The guarantees provide that, if the lessee defaults and the lender forecloses on the lessor and sells the aircraft, then, to the extent that the sales proceeds are not sufficient to cover a defined portion of the debt, Southwest is liable for such deficiency. At December 31, 1991, the debt in each lease amounted to approximately \$15.1 million and \$32.6 million, respectively. Southwest's deficiency guarantees related to the debt in the above leases amounted to approximately \$3 million and \$20 million, respectively.

In September 1991, the assignee for the lease covering the five DC9-51 aircraft rejected the lease and returned the aircraft to the lessor. The assignee also provided notice rejecting the lease covering the MD-83 aircraft but subsequently reached an agreement with the lessor for continuation of the lease.

To satisfy its guarantee and mitigate any potential losses, Southwest intends to acquire title to the DC9-51 aircraft for the amount of the debt balance. The debt amount on the five DC9-51 aircraft falls within the range of recently published fair market values. However, given the current sluggish aircraft market, management believes it is reasonably possible that the aircraft cannot be remarketed in the near-term or at prices sufficient to avoid losses. Although it is not management's preference, the aircraft can be put into service profitably at Southwest if that is deemed to be the best economic alternative. Management is not currently able to estimate the amount of loss, if any, which may be incurred upon disposition of the aircraft if they are not put into service at Southwest. Management does not believe the outcome of this matter will have a material adverse impact on the Company's financial position.

3. COMMITMENTS

At December 31, 1991, the Company's contractual commitments consisted primarily of scheduled aircraft acquisitions. Six 737-300s are scheduled for delivery in 1992, 13 in 1993 and three in 1994. Seven 737-500s are scheduled for delivery in 1992 and 10 in 1994. In addition, the Company has options to purchase up to sixty-eight 737-500s during 1995-1999. The Company has the option to substitute 737-400s or 737-300s for the 737-500s to be delivered during 1994-1999. Aggregate funding needed for these commitments was approximately $784.8 million at December 31, 1991 due as follows: $293.5 million in 1992, $281.5 million in 1993 and $209.8 million in 1994.

4. ACCRUED LIABILITIES

(in thousands)	1991	1990
Aircraft rentals	$ 45,428	$ 27,118
Interest	23,110	12,051
Unbilled engine repairs and overhauls	20,189	11,183
Vacation pay	18,530	15,880
Taxes, other than income	12,854	10,777
Profit sharing (Note 9)	7,933	12,576
Other	27,851	22,711
	$155,895	$112,296

5. LONG-TERM DEBT

(in thousands)	1991	1990
9% Notes due 1996	$100,000	$100,000
9¼% Notes due 1998	100,000	–
9.4% Notes due 2001	100,000	–
8¾% Notes due 2003	100,000	–
6¾% Convertible Subordinated Debentures due 1998	35,000	35,000
French Export Credit Agreement	5,051	7,576
10.3% ETCs due July 1, 1995	–	7,397
Capital leases (Note 6)	185,374	188,437
Industrial Revenue Bonds	1,725	2,350
Other	223	247
	627,373	341,007
Less current maturities	6,583	13,612
Less debt discount	3,774	439
	$617,016	$326,956

In March 1986, Southwest issued $100 million in senior unsecured 9% Notes due March 1, 1996. Interest is payable semi-annually on March 1 and September 1 and the entire principal balance is payable at maturity. The Notes are redeemable at the issuer's option on or after March 1, 1993 at par plus accrued interest.

During 1991, the Company issued $100 million of senior unsecured 9¼% Notes, $100 million of senior unsecured 9.4% Notes and $100 million of senior unsecured 8¾% Notes due February 15, 1998, July 1, 2001 and October 15, 2003, respectively. Interest on the Notes is payable semi-annually. The Notes are not redeemable by the Company prior to maturity.

The 6¾% Convertible Subordinated Debentures were issued by Southwest Airlines Eurofinance N.V. and are convertible into Common Stock of Southwest at any time on or before July 1, 1998, unless previously redeemed, at a conversion price of $25.53 per share, subject to adjustment in certain events. Interest is payable on July 1 of each year. The Debentures are redeemable at the issuer's option at 100% of face value.

The French Export Credit Agreement requires semi-annual installments of principal and interest through December 20, 1993. The debt is secured by one 737-300 and one 737-200 aircraft and bears interest at 10.5% per annum.

The 10.3% Equipment Trust Certificates (ETCs) due July 1, 1995 were called in December 1990 and retired in February 1991. There were no significant prepayment penalties associated with the early extinguishment of this debt.

The Industrial Revenue Bonds mature in series annually through 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 Southwest's Reservations Center in San Antonio.

In addition to the credit facilities described above, Southwest has a Bank Credit Agreement with a group of domestic banks that permits Southwest to borrow through December 14, 1994 on a revolving credit basis up to $250 million. Interest rates on borrowings under the Credit Agreement can be, at the option of Southwest, the agent bank's prime rate, ¼% over LIBOR or 5/16% over domestic certificate of deposit rates. The commitment fee is 0.15% per annum. There were no outstanding borrowings under this agreement at December 31, 1991 or 1990.

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

1992	$ 3,175
1993	3,225
1994	375
1995	–
1996	100,000

6. LEASES

Total rental expense for operating leases charged to operations in 1991, 1990 and 1989 was $92,546,000, $55,726,000 and $48,112,000, respectively. The majority of the Company's terminal operations space, as well as 46 aircraft, were under operating leases. The amounts applicable to capital leases included in property and equipment were (in thousands):

	1991	1990
Flight equipment	$197,607	$196,664
Less accumulated amortization	46,599	37,242
	$151,008	$159,422

Future minimum lease payments under capital leases and noncancelable operating leases, with initial or remaining terms in excess of one year, at December 31, 1991 were (in thousands):

	Capital leases	Operating leases
1992	$ 18,519	$ 101,187
1993	19,835	94,018
1994	19,830	90,676
1995	19,824	77,521
1996	22,877	70,502
After 1996	258,261	768,150
Total minimum lease payments	359,146	$1,202,054
Less amount representing interest	173,772	
Present value of minimum lease payments	185,374	
Less current portion	3,408	
Long-term portion	$181,966	

7. COMMON STOCK

At December 31, 1991, the Company had common stock reserved for issuance upon the conversion of convertible securities (1,370,757 shares); pursuant to employee stock benefit plans (3,585,729 shares); and upon exercise of rights pursuant to the Common Stock Rights Agreement (Agreement), as amended (47,394,408 shares).

Pursuant to the Agreement, each outstanding share of the Company's common stock is accompanied by one common share purchase right (Right). Each Right entitles its holder to purchase one share of common stock at an exercise price of $50 and is exercisable only in the event of a proposed takeover, as defined by the Agreement. The Company may redeem the Rights at $.0333 per Right prior to the time that 20 percent of the common stock has been acquired by a person or group. If the Company is acquired or if certain self-dealing transactions occur, as defined in the Agreement, each Right will entitle its holder to purchase for $50 that number of the acquiring company's or the Company's common shares, as provided in the Agreement, having a market value of two times the exercise price of the Right. The Rights will expire no later than July 30, 1996.

On July 18, 1990, the Company's Board of Directors declared a three-for-two stock split effected in the form of a stock dividend. The distribution of 14,132,218 shares was made on August 29, 1990 to shareholders of record on August 13, 1990. All per share data in the accompanying consolidated financial statements have been restated to give effect to the stock split. Also on July 18, 1990, the Company's Board of Directors voted to cancel 3,995,800 pre-split shares of treasury stock.

8. STOCK PLANS

In May 1991, the Company's stockholders approved the Incentive Stock Option Plan and the Non-Qualified Stock Option Plan. Under the Incentive Stock Option Plan, options to purchase a maximum of 3,000,000 shares of Southwest Common Stock may be granted to key employees. Under the Non-Qualified Stock Option Plan, options to purchase up to 250,000 shares of Southwest Common Stock may be granted to key employees and non-employee directors. Under each plan, the option price per share may not be less than the fair market value of a share on the date the option is granted, and the maximum term of an option may not exceed 10 years.

Information regarding the stock option plans at December 31, 1991 is summarized below:

	Incentive Plan	Non-Qualified Plan
Granted	1,365,180	96,435
Exercised	(33,361)	(2,160)
Surrendered	(15,500)	–
Outstanding, December 31, 1991	1,316,319	94,275
Exercisable, December 31, 1991	85,679	34,275
Available for granting in future periods	1,650,320	153,565
Average exercise price of options	$18.06	$23.08

In 1991, the Company's stockholders also approved the Employee Stock Purchase Plan that provides for the sale of common stock to employees of the Company at a price equal to 90% of the market value at the end of each purchase period. Common stock purchases are paid for through periodic payroll deductions. Participants under the plan received 13,196 shares at an average purchase price of $24.31 in 1991.

At December 31, 1991, 371,250 options to purchase the Company's common stock were outstanding related to employment contracts with the Company's president and chief executive officer. Exercise prices range from $1.00 to $14.67 per share. Options for 26,250 shares and 20,965 shares were exercised in 1991 and 1990, respectively, with 11,396 and 4,886 shares of treasury stock, respectively, received as full or partial consideration of the exercise prices.

9. EMPLOYEE PROFIT SHARING AND SAVINGS PLANS

Substantially all of the Company's employees are members of the Southwest Airlines Co. Profit Sharing Plan (the Plan). Total profit sharing expense charged to operations in 1991, 1990 and 1989 was $7,929,000, $12,595,000 and $12,398,000, respectively. In 1990, the Company amended the Plan to increase the profit sharing contribution by removing an "earnings threshold" from the calculation of income subject to profit sharing (as defined by the Plan).

The Company also sponsors employee savings plans under Section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time employees. Effective January 1, 1990, the Company began matching employee contributions for certain employees covered by a collective bargaining agreement. Matching contributions for additional employee groups were effective January 1, 1991, with an additional group effective January 1, 1992. The amount of matching contributions varies by employee group. Company contributions generally vest over five years with credit for prior years' service granted. Company matching contributions expensed in 1991 and 1990 were $8,433,000 and $4,800,000, respectively.

10. NONOPERATING GAINS

In 1990 and 1989, gains of $2,645,000 and $10,818,000, respectively, were recognized on the sale and subsequent short-term leaseback of four 737-200 aircraft in 1990 and eight 737-200 aircraft in 1989. The Company realized gains of $3,134,000 and $5,926,000 in 1990 and 1989, respectively, from sales of certain financial assets. Also in 1989, the Company recognized a gain of $2,296,000 from the settlement of a contingency related to the 1987 TranStar aircraft sale.

11. INCOME TAXES

The provision for income taxes differed from the amount that resulted from applying the statutory federal income tax rate (34%) to income before income taxes as follows (in thousands):

	1991	1990	1989
Federal income tax provision at statutory rate	$14,906	$25,416	$37,734
Investment tax credit	–	–	(1,430)
Nondeductible expenses	834	613	530
State income tax provision, net of federal benefit	1,472	1,967	2,283
Other	(291)	(326)	307
	$16,921	$27,670	$39,424

The provision for income taxes included deferred taxes resulting from timing differences in the recognition of revenue and expense for financial and tax reporting purposes. The provision for income taxes consisted of (in thousands):

	1991	1990	1989
Current	$ 20,437	$ 36,793	$ 22,403
Deferred:			
Depreciation	20,222	11,020	24,739
Deferred gains on sale/leaseback	(8,979)	(18,073)	(20,508)
Investment tax credits	–	2,722	15,039
Vacation pay	(1,306)	(1,226)	(961)
Alternative minimum tax	(14,229)	(3,242)	–
Other, net	776	(324)	(1,288)
Total deferred provision (benefit)	(3,516)	(9,123)	17,021
Total	$ 16,921	$ 27,670	$ 39,424

12. NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

Net income per common and common equivalent share is computed based on the weighted average number of common and common equivalent shares outstanding (42,762,000 in 1991, 42,991,000 in 1990 and 45,253,000 in 1989). The weighted average share amounts have been restated for the 1990 three-for-two stock split. Fully diluted earnings per share have not been calculated as the effect of shares issuable upon the conversion of Convertible Subordinated Debentures is anti-dilutive or is not material.

13. SUBSEQUENT EVENT

On January 15, 1992, the Board of Directors authorized the public offering of up to 2,500,000 shares of the Company's common stock. The net proceeds from the sale of the shares will be added to working capital of the Company and will be available for general corporate purposes, including the acquisition of aircraft and related equipment.

REPORT OF ERNST & YOUNG INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Southwest Airlines Co.

We have audited the accompanying consolidated balance sheet of Southwest Airlines Co. as of December 31, 1991 and 1990, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southwest Airlines Co. at December 31, 1991 and 1990, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

Ernst + Young

Dallas, Texas
January 24, 1992

SOUTHWEST AIRLINES CO.
TEN YEAR SUMMARY

SELECTED CONSOLIDATED FINANCIAL DATA (in thousands except per share amounts)	1991	1990	1989	1988
Operating revenues:				
Passenger	$ 1,267,897	$ 1,144,421	$ 973,568	$ 828,343
Freight	26,428	22,196	18,771	14,433
Other	19,280	20,142	22,713	17,658
Total operating revenues	1,313,605	1,186,759	1,015,052	860,434
Operating expenses	1,250,669	1,104,880	917,426	774,454
Operating income	62,936	81,879	97,626	85,980
Other expense (income), net	19,096	7,126 (1)	(13,356) (2)	620 (3)
Income before income taxes	43,840	74,753	110,982	85,360
Provision for income taxes	16,921	27,670	39,424	27,408
Net income	$ 26,919	$ 47,083	$ 71,558	$ 57,952
Net income per common and common equivalent share	$.63	$1.10	$1.58	$1.23
Cash dividends per common share	$.1000	$.0967	$.0933	$.0883
Total assets	$ 1,837,291	$ 1,471,138	$ 1,415,096	$ 1,308,389
Long-term debt	$ 617,016	$ 326,956	$ 354,147	$ 369,541
Stockholders' equity	$ 628,521	$ 604,851	$ 587,316	$ 567,375
CONSOLIDATED FINANCIAL RATIOS				
Return on average total assets	1.6%	3.3%	5.2%	5.1%
Return on average stockholders' equity	4.4%	7.9%	12.4%	10.8%
Debt as a percentage of invested capital	49.5%	35.1%	37.6%	39.4%
CONSOLIDATED OPERATING STATISTICS				
Revenue passengers carried	22,669,942	19,830,941	17,958,263	14,876,582
RPMs (000s)	11,296,183	9,958,940	9,281,992	7,676,257
ASMs (000s)	18,491,003	16,411,115	14,796,732	13,309,044
Load factor	61.1%	60.7%	62.7%	57.7%
Average length of passenger haul	498	502	517	516
Trips flown	382,752	338,108	304,673	274,859
Average passenger fare	$55.93	$57.71	$54.21	$55.68
Passenger revenue yield per RPM	11.22¢	11.49¢	10.49¢	10.79¢
Operating revenue yield per ASM	7.10¢	7.23¢	6.86¢	6.47¢
Operating expenses per ASM	6.76¢	6.73¢	6.20¢	5.82¢
Fuel cost per gallon (average)	65.69¢	77.89¢	59.46¢	51.37¢
Number of employees at yearend	9,778	8,620	7,760	6,467
Size of fleet at yearend (9)	124	106	94	85

(1) Includes $2.6 million gains on sales of aircraft and $3.1 million from the sale of certain financial assets
(2) Includes $10.8 million gains on sales of aircraft, $5.9 million from the sale of certain financial assets and $2.3 million from the settlement of a contingency
(3) Includes $5.6 million gains on sales of aircraft and $3.6 million from the sale of certain financial assets
(4) Includes TranStar's results through June 30, 1987
(5) Includes $10.1 million net gains from the discontinuance of TranStar's operations and $4.3 million from the sale of certain financial assets
(6) Includes a gain of $4 million from the sale of aircraft delivery positions
(7) Includes the accounts of TranStar since June 30, 1985
(8) Includes a gain from the sale of tax benefits relating to three aircraft of $11 million
(9) Includes leased aircraft

1987	1986	1985[7]	1984	1983	1982
$ 751,649	$ 742,287	$ 656,689	$ 519,106	$ 433,388	$ 317,996
13,428	13,621	13,643	12,115	10,357	9,469
13,251	12,882	9,340	4,727	4,491	3,724
778,328	768,790	679,672	535,948	448,236	331,189
747,881	679,827	601,148	467,451	379,738	291,964
30,447[4]	88,963	78,524	68,497	68,498	39,225
1,374[5]	23,517[6]	17,740	649	4,927	(5,165)[8]
29,073	65,446	60,784	67,848	63,571	44,390
8,918	15,411	13,506	18,124	22,704	10,386
$ 20,155	$ 50,035	$ 47,278	$ 49,724	$ 40,867	$ 34,004
$.42	$1.03	$1.03	$1.13	$.93	$.85
$.0867	$.0867	$.0867	$.0867	$.0867	$.0867
$ 1,042,640	$ 1,061,419	$ 1,002,403	$ 646,244	$ 587,258	$ 420,542
$ 251,130	$ 339,069	$ 381,308	$ 153,314	$ 158,701	$ 106,306
$ 514,278	$ 511,850	$ 466,004	$ 361,768	$ 314,556	$ 240,627

1.9%	4.8%	5.6%	8.1%	8.1%	9.6%
4.0%	10.3%	11.4%	14.7%	14.2%	16.7%
32.8%	39.8%	45%	29.8%	33.5%	30.6%

13,503,242	13,637,515	12,651,239	10,697,544	9,511,000	7,965,554
7,789,376	7,388,401	5,971,400	4,669,435	3,893,821	3,022,142
13,331,055	12,574,484	9,884,526	7,983,093	6,324,224	4,907,945
58.4%	58.8%	60.4%	58.5%	61.6%	61.6%
577	542	472	436	409	379
270,559	262,082	230,227	200,124	175,421	140,030
$55.66	$54.43	$51.91	$48.53	$45.57	$39.92
9.65¢	10.05¢	11.00¢	11.12¢	11.13¢	10.52¢
5.84¢	6.11¢	6.88¢	6.71¢	7.09¢	6.75¢
5.61¢	5.41¢	6.08¢	5.86¢	6.00¢	5.95¢
54.31¢	51.42¢	78.17¢	82.44¢	85.92¢	94.51¢
5,765	5,819	5,271	3,934	3,462	2,913
75	79	70	54	46	37

CORPORATE DATA

TRANSFER AGENT AND REGISTRAR
Continental Stock Transfer &
Trust Company
2 Broadway
New York, New York 10004
(212) 509-4000

STOCK EXCHANGE LISTING
New York Stock Exchange
Ticker Symbol: LUV

AUDITORS
Ernst & Young
Dallas, Texas

GENERAL OFFICES
P.O. Box 36611
Dallas, Texas 75235-1611

ANNUAL MEETING
The Annual Meeting of Shareholders of Southwest Airlines Co. will be held at 10:00 a.m. on May 20, 1992 at the Southwest Airlines Corporate Headquarters, 2702 Love Field Drive, Dallas, Texas.

SEC FORM 10-K
Shareholders 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 36611, Dallas, Texas 75235-1611.

Southwest Airlines Co.

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