

SOUTHWEST AIRLINES CO.
1993 ANNUAL REPORT

THE
HUMANITY
OF
SOUTHWEST
AIRLINES



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Consolidated Highlights

(dollars in thousands except per share amounts)

	1993	1992	Percent change
Operating revenues _____	\$2,296,673	\$1,802,979	27.4
Operating expenses _____	\$2,004,700	\$1,609,175	24.6
Operating income _____	\$291,973	\$193,804	50.7
Operating margin _____	12.7%	10.7%	2.0pts.
Net income (1) _____	\$154,284	\$97,385 (2)	58.4
Net margin (1) _____	6.7%	5.4% (2)	1.3pts.
Net income per common and common equivalent share (1) _____	\$1.05	\$.68 (2)	54.4
Stockholders' equity _____	\$1,054,019	\$879,536	19.8
Return on average stockholders' equity (1) _____	16.0%	12.9% (2)	3.1pts.
Debt as a percentage of invested capital _____	37.7%	45.5%	(7.8)pts.
Stockholders' equity per common share outstanding _____	\$7.38	\$6.18	19.4
Revenue passengers carried (3) _____	36,955,221	27,839,284	32.7
Revenue passenger miles (RPM) (000s) (3) _____	18,827,288	13,787,005	36.6
Available seat miles (ASM) (000s) (3) _	27,511,000	21,366,642	28.8
Passenger load factor (3) _____	68.4%	64.5%	3.9pts.
Passenger revenue yield per RPM (3) _____	11.77¢	11.78¢	(.1)
Operating revenue yield per ASM (3) _____	8.35¢	7.89¢	5.8
Operating expenses per ASM (3) _____	7.25¢	7.03¢	3.1
Number of Employees at yearend (3) _	15,175	11,397	33.1

(1) Excludes cumulative effect of accounting changes

(2) Pro forma assuming Morris, an S-Corporation in 1992, was taxed at statutory rates

(3) Prior to 1993, Morris operated as a charter carrier; therefore, no Morris statistics are included for 1992

Net Income*

(in millions)

\$74.5



\$50.6



\$33.1



\$97.4



\$154.3



Net Income Per Share*

\$.54



\$.39



\$.25



\$.68



\$1.05



89

90

91

92

93

* 1993 and 1992 exclude cumulative effect of accounting changes. 1989 through 1992 include pro forma income tax expense for Morris.

SOUTHWEST AIRLINES

COMPANY CLUB

EXPIRATION DATE
12/93

A Southwest Airlines Company Club membership card. The card is dark blue with a lighter blue border. It features the Southwest Airlines logo at the top, which consists of the words "SOUTHWEST AIRLINES" in a white box with a red and yellow swoosh above it. Below the logo, the words "COMPANY CLUB" are written in a large, white, stylized font. At the bottom right, the text "EXPIRATION DATE" is printed above the date "12/93". There are also several small, white, stylized bird icons scattered around the text.

SOUTHWEST AIRLINES CO.

To Our Shareholders

In the year 1993, Southwest Airlines again produced a substantial profit even though the airline industry as a whole again produced a substantial loss.

Considered alone, and eliminating the cumulative effect of accounting changes, Southwest's net income for the year 1993 was \$149,815,000 (\$1.04 per share), an increase of 64.6 percent over the \$91,021,000 (\$.65 per share) of 1992. When consolidated on a "pooling of interests" basis with Morris Air, acquired on December 31, 1993, Southwest's income, before the cumulative effect of accounting changes, for the year was \$154,284,000 (\$1.05 per share), an increase of 69.5 percent over the unconsolidated 1992 net earnings for Southwest alone. Presently, we anticipate that our 1994 profits will exceed those of 1993.

Because fourth quarter 1993 financial results include the nonrecurring impact of a consolidated charge of \$10,803,000 for acquisition expenses and a provision for costs associated with combining the operations of Southwest and Morris Air, it is extremely difficult to formulate an especially meaningful quarter over quarter, as opposed to year over year, comparison of financial results. Suffice it to say that Southwest's consolidated fourth quarter 1993 earnings of \$38,369,000 (\$.26 per share), after the "merger expenses" charge of \$10,803,000, were 41.2 percent higher than Southwest's unconsolidated earnings of \$27,170,000 (\$.19 per share) for fourth quarter 1992 and 43.4 percent higher than Southwest's consolidated fourth quarter 1992 earnings of \$26,762,000 (\$.18 per share).

It is presently anticipated that the operations of Morris Air will be fully integrated with those of Southwest Airlines no later than March 31, 1995 and that the first phase of such integration will occur in June-July 1994, when six Morris aircraft will have been transferred to Southwest's fleet

registration and Southwest will begin service, under its own name, to Orange County; Portland; Seattle; and Spokane; provided that suitable terminal facilities and, in the case of Orange County, aircraft departure slots are made available to Southwest. Most of the Morris Air people who want fulltime positions will be offered employment opportunities with Southwest, and we are indeed deeply gratified that Ms. June Morris, the founder of Morris Air, has agreed to become a member of Southwest's Board of Directors. We are also grateful to the Morris family and to all of the people of Morris Air, who, with great good will, energy, and creativity, are working with the splendid people of Southwest to accomplish a smooth and successful integration of our two companies. The opening of Orange County; Portland; Seattle; and Spokane will cost Southwest approximately \$12-15 million in one-time costs in second quarter 1994.

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 1993, Southwest, together with newly acquired Morris Air, operated 178 Boeing 737 aircraft and provided service to 52 airports in 51 cities principally in the midwestern, southwestern, and western regions of the United States. Southwest has one of the best overall Customer Service records, the lowest operating cost structure, 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.



During the first quarter of 1994, we announced the execution of a definitive contract with The Boeing Co. to purchase sixty-three 737-700 aircraft in the years 1997 through 2001, attended by commensurate options-to-purchase through those years and beyond. This is the third new Boeing 737 model that Southwest has launched, and we eagerly await the arrival in our fleet of this quieter; more fuel efficient; and more easily maintainable aircraft, which will also have a higher flight ceiling and greater speed and range than our existing 737-300s. We thank The Boeing Co., our "partner" for 22 years, for conceiving and agreeing to produce this latest, most competitive addition to our fleet, and we also thank CFMI (GE and Snecma) for agreeing to develop the new generation (CFM56-7) engines that will power this superior aircraft.

The new cities that we added to our route system during 1993 — San Jose, Louisville, and Baltimore — have each been very rewarding for Southwest and each will receive more of our service in 1994.

The Dallas Cowboys achieved a magnificent "double" in 1994 by winning the Super Bowl for the second consecutive year. But the people of Southwest achieved their own equivalent by winning the Triple Crown for the second consecutive year: best ontime performance; best baggage handling record; and best Customer complaint record among major air carriers — for all of 1993. And no other air carrier has ever won a single monthly Triple Crown, much less two consecutive annual Triple Crowns.

The excellence of Southwest — in all aspects of its performance — is attributable to the affirmative, caring, compassionate, unified, proud, and Customer-focused dedication of our wondrous people. Thanks to them, Southwest has not only escaped the worst ravages of the economic holocaust that literally decimated our industry during the past four years; Southwest also, in 1993, reported the type of financial results that are necessary, on a consistent basis, to withstand existent and impending competition while providing total job security, as well as the job opportunities offered by Company expansion. Our people are not opportunists focused only on the middle of next week. Our people are visionaries focused on the middle of the next decade. As long as they continue to maintain their long-term vision, Southwest will prosper and succeed, as it has done in the past. I have every confidence in their maintenance of that vision because they are truly superb!

Most sincerely,



Herbert D. Kelleher
Chairman, President, and
Chief Executive Officer
January 30, 1994



SOUTHWEST AIRLINES CO.

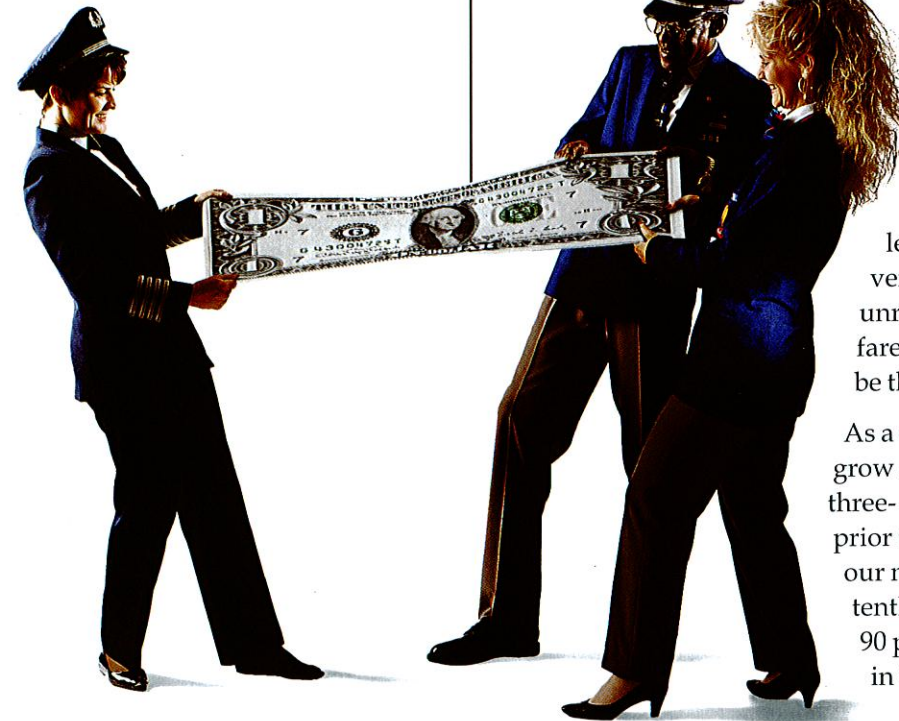
Low Cost

Southwest is the only major U.S. airline that has been profitable in each of the last 21 years. We have consistently led the industry in operating and net margins. The key to our profitability has been our low operating cost structure, which has enabled us to develop a unique shorthaul market niche.

Our operating costs are the lowest in the airline industry. Those low operating costs enable us to offer low fares, which are essential to attract our shorthaul Customer since our principal competition in shorthaul markets is often ground transportation. Southwest is unquestionably the low-fare leader in the U.S. airline industry. We have a very simple fare structure, maintaining low, unrestricted, unlimited seating, everyday coach fares, which our Customers can depend upon to be the lowest available.

As a consequence of our low-fare approach, we grow our own markets, often stimulating traffic three- and four-fold versus traffic levels existing prior to our service. Concomitantly, we dominate our markets in terms of passenger traffic, consistently ranking first in market share in more than 90 percent of our top 100 city-pair markets and, in the aggregate, holding a market share exceeding 60 percent.

Maintaining the lowest cost structure in the airline industry has been and remains our single, most important priority to survive in this intensely competitive business.



▲ Southwest Airlines has the lowest operating cost structure in the domestic airline industry, which allows us to offer our Customers the lowest, simplest fares. Captain Sherri Phillips, Skycap Clarence Hutson, and Ops Agent Kimberly Colby-Bibb str-r-r-etch your hard-earned dollars.



Visual: MAN ON HIGHWAY YELLING THROUGH BULLHORN.

Voice: Attention! There's a better way to get there! Park the car and fly Southwest!



Visual: CARS, MOTORCYCLE PASS BY MAN WITH BULLHORN.

Voice: Free yourself from the oppression of the wheel! Let your spirit soar! Hey, we got peanuts!



Visual: MAN CHASES CAR.

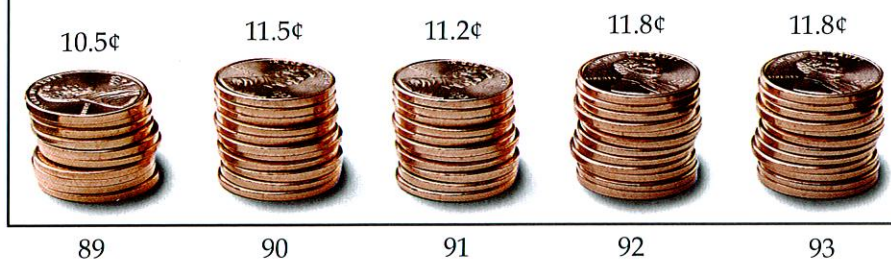
Voice: Get off the road and take the real highway. Fly Southwest Airlines at Louisville's Standiford Field. It's Just Plane Smart.



Visual: MAN WALKING AWAY, TALKING TO HIMSELF.

Voice: The weather was a little spotty, but I really think we're getting through to them...

Average Revenue Per Passenger Mile*



* Scheduled service only

ONE IN A SERIES ■ SOUTHWEST SALUTES SMART BUSINESS PEOPLE

**"AS A BANKER, I APPRECIATE SAVING MONEY.
AS A PERSON, I LIKE BEING APPRECIATED."**

William E. Martin, President, Chief Executive Officer, Pioneer Citizens Bank, Las Vegas, Nevada. "I fly between Reno and Las Vegas at least twice a month, so it's great to know that no matter when I fly, I'll always get the lowest fare on Southwest. And time after time, the attitude of the Southwest people never ceases to amaze me. I guess I came for the price and I'm staying for the service."

SOUTHWEST AIRLINES
Just Plane Smart™
1-800-I-FLY-SWA
(1-800-435-9792)

Southwest Airlines 1993

▲ One in a series of testimonial ads saluting smart business people. William E. Martin is Chief Executive Officer of Pioneer Citizens Bank of Las Vegas, Nevada.



SOUTHWEST AIRLINES CO.

High Productivity

Southwest's service is provided to communities that benefit by high-frequency, low-cost air transportation and that have sufficient local traffic to support our operations profitably. Because our focus is on local (not connecting) shorthaul traffic, we schedule our aircraft on a point-to-point basis and do not interline with other jet airlines or have any commuter feeder relationships. As a consequence, approximately 80 percent of our Customers fly nonstop.

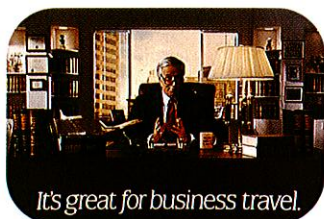
Southwest's point-to-point route system, as compared to hub-and-spoke, provides for more direct nonstop routings for shorthaul Customers and, therefore, minimizes connections, delays, and total trip time. In addition, Southwest serves many conveniently located satellite or downtown airports such as Dallas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

As a result of our focus on the shorthaul, point-to-point market, and the dedicated efforts of our Employees, Southwest is continually able to achieve the highest asset utilization and Employee productivity of any U.S. airline. Aircraft are scheduled to minimize the amount of time the aircraft is at the gate, generally less than 20 minutes, thereby reducing the number of aircraft and gate facilities that would otherwise be required. Avoiding high-cost, congested airports contributes significantly to our ability to achieve high asset utilization, so we don't have to sacrifice aircraft

utilization to achieve high ontime performance.



▶ Southwest Airlines continues to achieve the highest aircraft utilization and Employee productivity of any major U.S. airline. Mechanic Leroy Boykin and Ramp Agent Glenn Pangilinan make your time fly.



It's great for business travel.

Visual: LAWYER, SUBTITLE: "IT'S GREAT FOR BUSINESS TRAVEL."

Voice: Friends Fly Free is exemplary for migratory commerce.



No advance purchase necessary. Fully refundable.

Visual: LAWYER, SUBTITLE: "NO ADVANCE PURCHASE NECESSARY. FULLY REFUNDABLE."

Voice: Prior procurement is nonessential and remuneration is made for vouchers held in abeyance.



Friends Fly Free saves your company money.

Visual: LAWYER, SUBTITLE: "FRIENDS FLY FREE SAVES YOUR COMPANY MONEY."

Voice: In short, Friends Fly Free minimizes the aforementioned expenditures.



Visual: SOUTHWEST JET, TITLE.

Voice: Friends Fly Free on Southwest Airlines. It's Just Plane Smart.

Aircraft Utilization*

(hours and minutes per day)



89 90 91 92 93

* Scheduled service only

The point-to-point route system, high aircraft utilization, and high Employee productivity produce a very efficient, cost-effective operation with exceptional ontime performance. Also, we still operate only one aircraft type, the Boeing 737. At December 31, 1993, we had 178 in our fleet. This commitment to a single aircraft type significantly simplifies scheduling, 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 the short- to medium-range markets.



WE'D LIKE TO THANK SOME PEOPLE WHO ALWAYS GET OVERLOOKED.

To all our Southwest Airlines Ramp Service Agents who work behind the scenes loading and unloading tons of cargo and mail each and every day, thanks. Even if you do sometimes get overlooked, your results never will.

SOUTHWEST AIRLINES
CARGO

© 1993 Southwest Airlines

Our Ramp Agents work behind the scenes, loading and unloading tons of cargo and mail every day. Sometimes "overlooked," the result of their efforts is clearly visible.

EVERY
MINUTE
OF EVERY
DAY...



SOUTHWEST AIRLINES CO.

Triple Crown™ Customer Service

Southwest was specifically built to meet the needs of our shorthaul Customers, and it works. In 1993, we won the Triple Crown for the second consecutive year — best ontime performance; best baggage handling; and highest Customer satisfaction of any major U.S. airline.

Our superb, consistent ontime performance record results from a combination of efficient aircraft scheduling; careful selection of airports served; and the proficient and dedicated efforts of our Southwest Employees.

Our superior baggage handling is achieved despite our quick aircraft turns at the gate. In addition, this record has been compiled at a time when Southwest is carrying record and ever-increasing amounts of cargo and U.S. mail. Combined freight revenues grew faster than capacity in 1993, or 29.6 percent. Our streamlined approach to shorthaul flights, coupled with the caring and dedicated attitudes of our Ground Operations Employees, enables us to control and handle our Customers' baggage efficiently with minimal loss.

While our Employees deliver our high-quality Customer Service in a caring and enthusiastic manner, our unique marketing and operating strategy, designed with our Customers' needs in mind, facilitates this exceptional service. Since our inception, Southwest has adhered to point-to-point service in shorthaul markets, offering the

lowest fares; frequent, conveniently timed flights; and friendly, reliable Customer Service. We are unique in the airline industry as the nation's only shorthaul, point-to-point, low-fare, high-frequency airline. We also reward our frequent Customers with free travel awards through membership in The Company Club. The rules are simple: Awards are earned based on trips rather than mileage and are issued to the member automatically upon being earned. The awards are valid for travel anywhere on the Southwest system, are transferable, and expire one year after they have been earned.

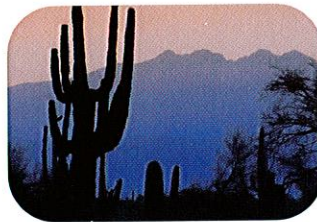


▲ *Teamwork is the key to Southwest's success. Over 13,000 Employees share one common goal: Treat every Customer like your only Customer. As a result, Southwest has just won an unprecedented second annual Triple Crown for 1993. Flight Attendant Gary Lopez and Customer Service Agents Liz Ramirez and Colleen Crowe treat our Customers like royalty.*



Visual: SUNRISE ACROSS VALLEY OF THE SUN.

Voice: Nothing is more symbolic of promise and opportunity than a sunrise.



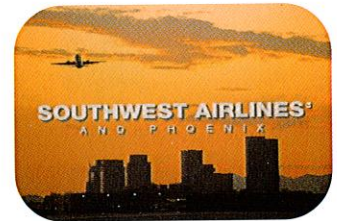
Visual: DESERT MOUNTAINS AND CACTUS.

Voice: And no place does the sun shine as bright, or feel more at home, than in this valley that bears its name.



Visual: COWBOY AND HIS DOG.

Voice: Maybe that's what gives Phoenix such a powerful spirit of optimism.

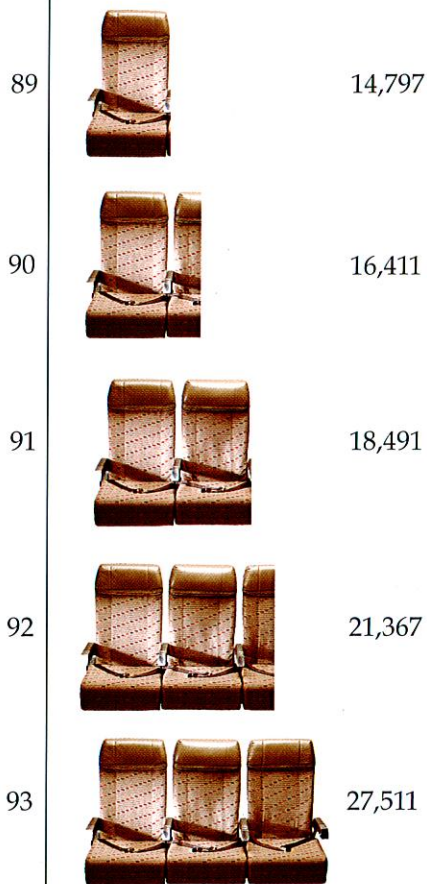


Visual: SOUTHWEST JET, TITLE.

Voice: Maybe that's why we're so proud to be here, serving a community with a future so bright.

Available Seat Miles*

(in millions)

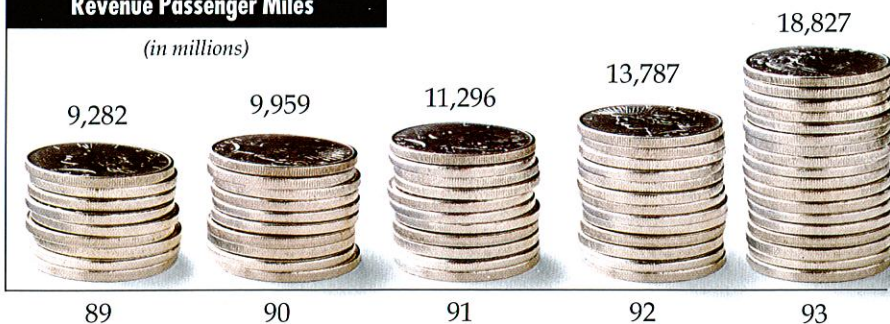


* Scheduled service only

Finally, our ticketing and boarding procedures, as well as our in-flight services, are designed and built to meet the needs of shorthaul 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. Because the trips are short, no meals are practical or necessary, but superior beverage service is provided. While the services may be "low frills," our Customer Satisfaction consistently ranks best in the industry because we deliver what the Customer wants in shorthaul markets.

Revenue Passenger Miles*

(in millions)



* Scheduled service only

WE CAME. WE SAW. WE KICKED TAIL.

Make that, tails. Head-to-head against all the major airlines in America, Southwest Airlines just won the first annual Triple Crown ever: Number One in On-time Performance, Number One in Customer Satisfaction for all of 1992. We doubled this achievement again for 1993.

SOUTHWEST AIRLINES
Just Plane Smart.

Based on on-time arrival, baggage handling and complaint data for all major airlines for January through December 1992. As published in DOT consumer reports © 1993 Southwest Airlines

▲ Head-to-head against all major airlines in America, Southwest won the first annual Triple Crown ever: Number One in On-time Performance, Number One in Baggage Handling, and Number One in Customer Satisfaction for all of 1992. We doubled this achievement again for 1993.



Heroes of the Heart

Beginning this year, Southwest Airlines honors our unsung heroes—Southwest Employees who go above and beyond the call of duty, often behind the scenes, to ensure Legendary Customer Service. The 1993 honorees are our Ground Operations Administrative Coordinators. We salute these true Heroes of the Heart with a signature Boeing 737 that proudly heralds their achievement.

"Heroes of the Heart" Honorees – Administrative Coordinators

Albuquerque

Teri Anderson
Melody Nieto

Amarillo

Rhonda Ferguson

Austin

Kathryn Alger
Connie Compton

Birmingham

Annette Cox

Burbank

Christine Chachi
Levie Mae Diapo

Cleveland

Julie Figlioli

Columbus

Beth Norris

Corpus Christi

Jo Dene Cazalas

Dallas

Joy Bardo
Max Chamberlin
Mandi Davis
Amy Heath
Peggy Hueffner
Sheryl McClendon
Jennifer McKnight
Donna Pomroy
Tommie Walden
Sharmon Walters

Detroit

Wilma Healy

El Paso

Trishia Dean
Joni Giles

Houston

Rob Bounds
Teri Clemishaw
Cynthia Collins
Ollie Holmes
Barbara Huey
Linda Kerr
Mary Kerr
Wilma Romar

Harlingen

Shay Ezell

Houston Intercontinental

Kathy Brown

Indianapolis

Traci Beck

Las Vegas

Genita Bogle
Sherry Hoying
Katie Gottuso
Sandy Whitley
Michelle McCarty

Los Angeles

P.J. Gunderson
Jorja Perea
Linda Tunison

Lubbock

Karlena Hanna

Little Rock

Sheila Bratton

Midland/Odessa

Dorothy Vaughan

Kansas City

Kristi Kisker
Jill Lundy

Chicago Midway

Cathy Altobelli
Christine Hummcutt
Christine Lovely

New Orleans

Blenda Miles

Oakland

Dorothy Bradley
Michele James

Oklahoma City

Julie Tadlock

Ontario

Linda Coogan
Sue Rosales

Phoenix

Rita Bjork
Debi Digirolamo
Cheri Dotter
Carole McClellan
Ann Peterson
Yvonne Travis
Maria Villamar
Melanee Winters

Reno

Patti Davidson

San Diego

Roberta Doerner
Michelle Gibbs
Zipporah Shepard

San Antonio

Jane Collette
Kim Lawson

San Francisco

Marion Kulzer

Sacramento

Maggie Baggenstos
Jeff Eigbrett

St. Louis

Lori Brown
Kelly Hargrave

Tulsa

Debbie Couch





▶ Administrative Coordinator Cathy Altobelli and Vice President of Ground Operations and Provisioning Jim Wimberly christen our Boeing 737 "Heroes of the Heart."

AIRLINES CO.





SOUTHWEST AIRLINES CO.

System Map – 1993 Expansion

1993 marked the third year in a row of accelerated growth for Southwest, culminating with the acquisition of Morris Air on December 31, 1993. Our unique market niche, strong financial position, and wide Customer acceptance allowed for this rapid expansion, while still achieving record traffic and profits.

Southwest's intra-California traffic surged again in 1993. Reduced service by competitors and the addition of San Jose to our already dominant route network were significant contributors to 1993 traffic growth in California. We serve nine California airports and rank first in total passenger boardings at most of our California airports. As of second quarter 1993, we had the highest share of intra-California traffic among the airlines, with 43 percent of the market, even though we do not serve all California airports and city pairs. Of the routes we served, however, we had the highest share of passenger traffic in every city pair with over 80 percent of the market share.

Our mature intra-Texas market grew a steady 5.4 percent in 1993. Southwest ranks first in passenger boardings at ten of the 11 Texas airports served and has an intra-Texas traffic market share as of second quarter 1993 of 69.4 percent.

Our Chicago Midway Airport development began in earnest in 1992 with the acquisition of 18 gates from Northwest Airlines. Southwest successfully opened two new cities from Midway in 1993 – Baltimore, Maryland, and Louisville, Kentucky. Detroit operations were consolidated in September 1993 at Metro Airport, resulting in the closing of our City airport operation. We were the largest carrier at Midway in 1993 by a wide margin.

The acquisition of Morris Air added twenty-one 737-300 aircraft and 10 new cities (excluding Eugene, Oregon; Fresno, California; Palm Springs, California; and Laughlin, Nevada, which will cease service by mid-1994) in the western U.S., including Salt Lake City. Morris will be absorbed into Southwest by March 1995, commencing with the transfer of six aircraft in June 1994. At that time, Southwest will inaugurate service to four cities served by Morris: Orange County, California; Portland, Oregon; Seattle, Washington; and Spokane, Washington.

Southwest Airlines Destinations:

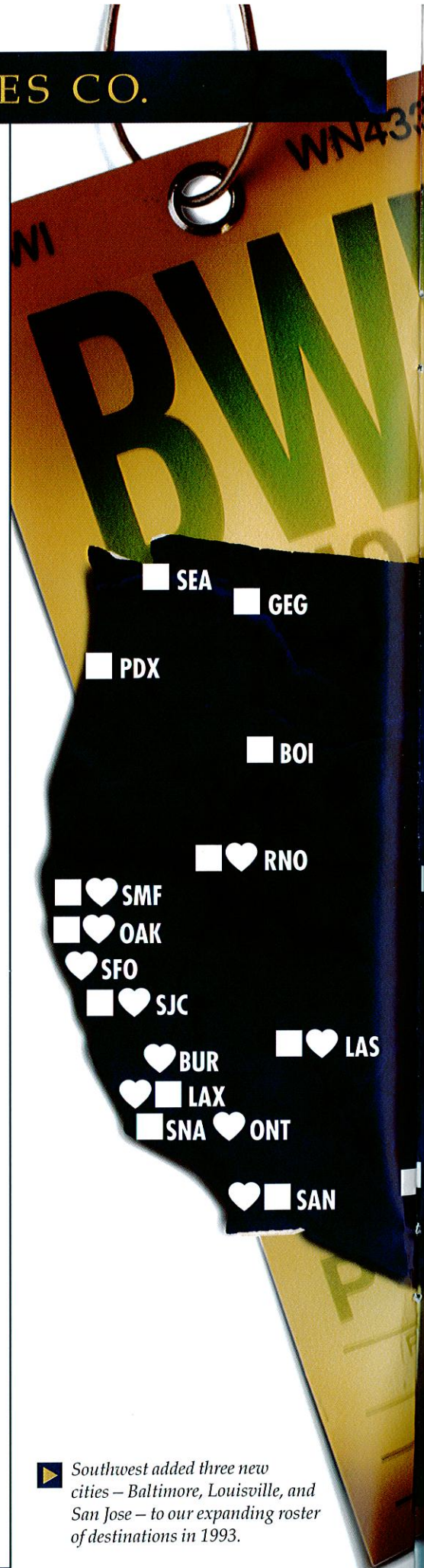
Albuquerque (ABQ)	Indianapolis (IND)
Amarillo (AMA)	Kansas City (MCI)
Anchorage (ANC)* (not shown)	Las Vegas (LAS)**
Austin (AUS)	Little Rock (LIT)
Baltimore (BWI)	Los Angeles (LAX)**
Birmingham (BHM)	Louisville (SDF)
Boise (BOI)*	Lubbock (LBB)
Burbank (BUR)	Midland/Odessa (MAF)
Chicago Midway (MDW)	Nashville (BNA)
Cleveland (CLE)	New Orleans (MSY)
Colorado Springs (COS)*	Oakland (OAK)**
Columbus (CMH)	Oklahoma City (OKC)
Corpus Christi (CRP)	Ontario (ONT)
Dallas Love Field (DAL)	Orange County (SNA)***
Denver (DEN)*	Phoenix (PHX)**
Detroit Metro (DTW)	Portland (PDX)***
El Paso (ELP)	Reno/Tahoe (RNO)**
Harlingen (HRL)	Sacramento (SMF)**
Houston Hobby (HOU)	Salt Lake City (SLC)*
Houston Intercontinental (IAH)	St. Louis (STL)

San Antonio (SAT)
 San Diego (SAN)**
 San Francisco (SFO)
 San Jose (SJC)**
 Seattle (SEA)***
 Spokane (GEG)***
 Tucson (TUS)*
 Tulsa (TUL)

* Currently served only by Morris Air.
 ** Currently served by Morris and Southwest.
 *** Currently served by Morris but will also receive service by Southwest in June/July 1994.

♥ Southwest Airlines

■ Morris Air



▶ Southwest added three new cities – Baltimore, Louisville, and San Jose – to our expanding roster of destinations in 1993.



WN491

SDF

SJC

WN492

SJC

65-71-2

SLC

■ DEN

■ COS

♥ MCI

♥ STL

♥ IND

♥ SDF

♥ CMH

♥ BWI

♥ BNA

♥ BHM

♥ TUL

♥ OKC

♥ LIT

♥ DAL

♥ AMA

♥ ABQ

♥ LBB

♥ MAF

♥ ELP

♥ PHX

■ TUS

AUS ♥

IAH ♥ HOU

MSY ♥

SAT ♥

CRP ♥

HRL ♥

FLIGHTS

LC

FRA/PER

DAMAGED

SOUTHWEST AIRLINES CO.

Outlook

While the last four years have been devastating for the airline industry, Southwest has remained profitable and financially strong. Our profit margins improved again in 1993. This was not only desirable but necessary for Southwest to maintain our financial stability. These results must be sustained to support future growth, combat unrelenting competitive pressures, and protect against wide volatility in energy and capital markets. Therefore, we cannot be satisfied with these results, which still fall below our profit margin and return on investment goals. We are, however, well positioned to meet the challenges of the 1990s and will continue our strategy of controlled growth, operating cost control, and outstanding Customer Service.

As we begin 1994, our traffic demand remains strong with generally stable fare levels. Our operating cost structure, based on our 1994 plans, also looks stable, and we are currently enjoying somewhat lower jet fuel costs.

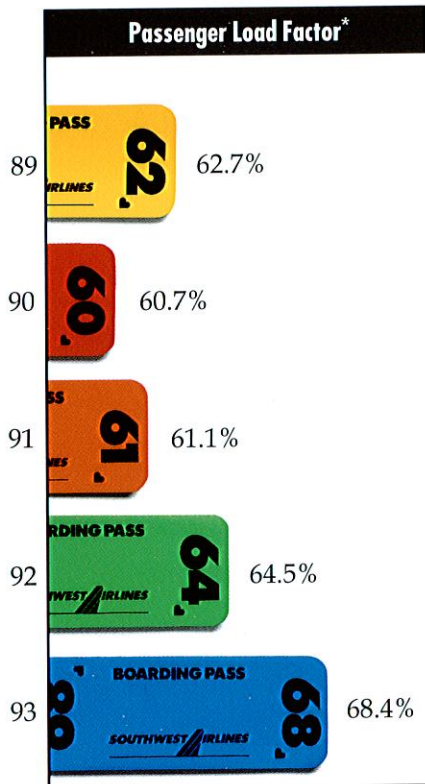
Several of our larger competitors have initiated or have plans to initiate low-cost, shorthaul service, which represents a more direct competitive threat in our market niche. To meet these challenges, we have taken steps to better control our cost structure so that we will maintain a significant cost advantage; increased our fleet with the acquisition of Morris Air in order to expand more rapidly; stepped-up our advertising as the low-fare leader; and reconfirmed our fare structure as the lowest in the airline industry. While this is an intensely competitive industry, we are continually preparing ourselves to remain the airline of choice in shorthaul travel.

We have achieved market dominance as the nation's only shorthaul, point-to-point, low-fare, high-frequency, high-quality airline.

From a Customer perspective, we believe Southwest is the best value for shorthaul transportation — *Just Plane Smart* — as Customers want low fares and high-quality service.

From an operating perspective, Southwest is uniquely positioned to expand in shorthaul markets because our services are specifically and uniquely designed to meet the needs of shorthaul Customers.

From a financial perspective, we have the lowest operating costs, best profit margins, strongest balance sheet, and highest credit ratings in the airline

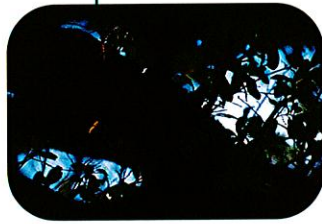


* Scheduled service only



Visual: TREE, AS SEEN THROUGH BINOCULARS.

Voice: If you're having trouble spotting the State Bird of Texas...



Visual: BINOCULARS SEARCH TREE FOR BIRD.

Voice: ...just look for an unusually large wing span...



Visual: BINOCULARS TILT UP TO SOUTHWEST JET IN SKY.

Voice: ...and very distinctive coloring.



Visual: SOUTHWEST LOGO, TITLE.

Voice: Southwest Airlines. It's Just Plane Smart.

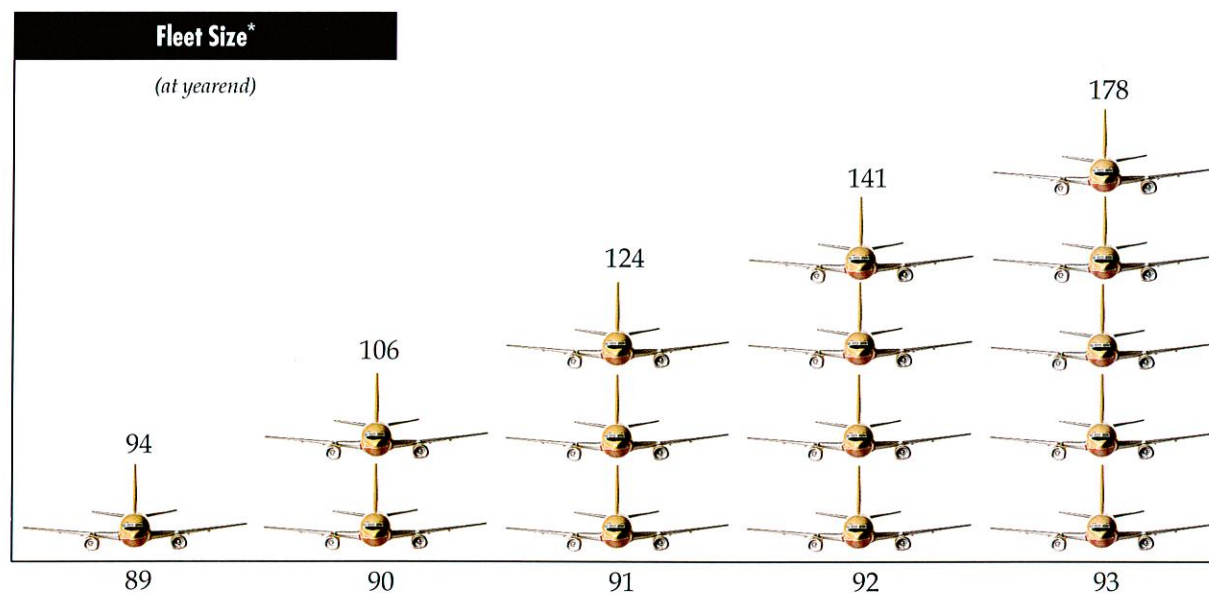
industry, enabling us to access the capital markets to acquire new aircraft, hire qualified Employees, expand our operations, and continue the patient development of new shorthaul city-pair markets.

Of course, our fleet is very young, too, with an average age at the end of 1993 of 7.3 years, one of the youngest in the airline industry. This enables us to keep our maintenance costs low and our aircraft in service. Since over 70 percent of our fleet have the newer Stage 3 engines, fuel consumption is lower and noise is reduced.

We will acquire 16 new 737 aircraft from Boeing in 1994. We have future delivery and option positions with Boeing for enough new 737 aircraft to adequately meet our expansion needs and maintain a young fleet. At yearend 1993, we had 178 aircraft on hand, of which 66 were subject to long-term leases and 24 of the -200s were subject to short-term leases expiring over the next several years. We have the flexibility with respect to these aircraft either to return them to the lessors or continue leasing them at the then-current fair market value. In December 1993, Southwest agreed to be the launch customer for Boeing's new 737-700 aircraft. In our all-coach configuration, this aircraft will have 137 seats, like the -300, but will operate more cost-effectively with respect to ownership, fuel, and maintenance costs.

We have one used -300 lease commitment in first quarter 1994, 113 firm purchase orders through 2001, and 74 purchase options from 1997 through 2004, as follows:

Type	Seats	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
737-200	122	50	-	-	-	-	-	-	-	-	-	-	-
737-300	137	103	17	12	12	21	-	-	-	-	-	-	-
737-500	122	25	-	-	-	-	-	-	-	-	-	-	-
737-700	137	-	-	-	-	4	21	21	21	18	18	18	5
TOTAL		178	17	12	12	25	21	21	21	18	18	18	5



* Scheduled service only

SOUTHWEST AIRLINES CO.

Dedication



▲ This 1993 Annual Report is dedicated to our many People Projects, including, but not limited to, Ronald McDonald Houses, Phoenix South Mountain Park Cleanup, Midwest Flood Relief, Fiesta Texas Heroes Exhibit, Dallas Hearts & Hammers Project, Adopt-A-School Programs, Kevin Nishimura Fund, North Pole Project, and Dallas Salvation Army.

Directors

SAMUEL E. BARSHOP
Chairman of the Board,
La Quinta 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

C. WEBB CROCKETT
Shareholder, Fennemore Craig,
Attorneys at Law, Phoenix, Arizona;
Audit Committee

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

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, Dallas, Texas; Audit
and Executive Committees

WALTER M. MISCHER, SR.
Chairman of the Board and Chief
Executive Officer, Southern Investors
Service Co., Inc., Houston, Texas
(real estate development); Audit
and Compensation Committees

JUNE M. MORRIS
Founder and former Chief Executive
Officer of Morris Air Corporation,
Salt Lake City, Utah; Audit Committee

Officers

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Chairman of the Board, President,
and Chief Executive Officer

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Executive Vice President—
Customers and Corporate Secretary

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

JOHN G. DENISON*
Executive Vice President—
Corporate Services

CAROLYN R. BATES
Vice President—Reservations

ALAN S. DAVIS
Vice President—Internal Audit and
Special Projects

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

ROBERT W. RAPP, JR.
Vice President—Systems

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

JOHN A. VIDAL
Vice President—Maintenance

JAMES C. WIMBERLY*
Vice President—Ground Operations
and Provisioning

WILLIAM D. LYONS
Controller

JOHN D. OWEN
Treasurer

* Member of Executive Planning Committee

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**WE,
THE
PEOPLE
OF
SOUTHWEST
AIRLINES...**



1993 ANNUAL REPORT

SOUTHWEST AIRLINES CO.

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

INDUSTRY CONDITIONS

Southwest's low operating costs and shorthaul, point-to-point, low fare, high frequency service continued to be its strengths in 1993 in the competitive and volatile airline industry. While most other major carriers were reducing capital expenditures, retiring aircraft, laying off employees, negotiating labor concessions, and incurring losses, Southwest reported a profit for its 21st consecutive year.

As a result of the success of Southwest, other major carriers have established, or are evaluating, their own low cost, shorthaul operations based on the operation of Southwest. In addition, many startup carriers are also attempting to imitate Southwest. However, Southwest is committed to maintaining its leadership as the low fare carrier. Southwest's strong financial position, dominant market share, and low cost structure position the Company to compete effectively with new entrants into Southwest's traditional market niche.

To accelerate its expansion, on December 31, 1993, Southwest acquired all the outstanding stock of Morris Air (see Note 2 to the Consolidated Financial Statements for further information). Like Southwest, Morris has been profitable during the last four turbulent years of the airline industry: prior to 1993 as a charter carrier and in 1993 as a scheduled service carrier. At the end of 1993, Morris operated twenty-one 737-300 aircraft, serving 22 cities in the western and northwestern regions of the U.S. Morris is an excellent fit, having modelled much of its operation after Southwest. Although Southwest and Morris serve eight common cities, there are no competing flights. Southwest will not continue serving all of the 22 Morris cities; however, the markets retained will give Southwest an immediate presence in the northwestern region of the U.S. and Salt Lake City.

During 1994, Southwest will continue to focus on controlling costs, excelling in high quality Customer Service, and expanding shorthaul markets, particularly in the western region of our system. In addition, Southwest will begin merging the Morris operation into Southwest in second quarter 1994 with the transfer of six aircraft and the opening of four cities: Seattle and Spokane, Washington; Portland, Oregon; and Santa Ana (Orange County), California. One-time costs of approximately \$12-15 million will also be incurred to open these four cities. Effectively, Southwest is adding 21 aircraft from Morris, which will be phased into Southwest over the next five quarters; 16 new aircraft from Boeing; and one used 737, for a total of 38 aircraft, which is 27 percent of 1993's Southwest ASM capacity, without Morris.

During second quarter 1994, Morris will begin the conversion of its aircraft to conform to Southwest's specifications, reducing aircraft available for flying by two until first quarter 1995, which will decrease aircraft utilization and, therefore, increase unit costs. Also during second quarter 1994, however, Southwest will transfer various Morris functions to Southwest, such as ground handling at airports; purchasing of aircraft parts, fuel, and corporate insurance; aircraft maintenance; and dispatch and crew scheduling. These activities will reduce unit costs for Morris.

RESULTS OF OPERATIONS

1993 COMPARED WITH 1992 The acquisition of Morris has been accounted for as a pooling of interests. Consequently, the following analysis of the results of operations and financial condition has been prepared on a consolidated basis. All previously issued Consolidated Financial Statements have been restated to include the financial results of Morris. In addition, pro forma income tax and income amounts have been presented for 1992 and 1991 in the Consolidated Statement of Income to reflect the effect of pro forma income taxes assuming Morris, an S-Corporation in 1992 and 1991, was taxed at statutory rates.

Prior to 1993, Morris operated as a charter carrier. In 1993, Morris began operating as an FAR 121 Certified Air Carrier, or scheduled service carrier, consistent with Southwest. For comparability from 1993 to 1992, the statistical and operating data for 1992 are based on scheduled passenger service only (i.e., Southwest). Consequently, revenue passenger miles (RPMs) and available seat miles (ASMs) for 1992 relate only to scheduled carrier operations.

The Company's consolidated income for the year 1993 was \$154.3 million (\$1.05 per share), before the cumulative effect of accounting changes, compared to pro forma consolidated income of \$97.4 million (\$.68 per share) for 1992, an increase of 58.4 percent. The 1992 earnings per share have been restated for the 1993 three-for-two stock split (see Note 8 to the Consolidated Financial Statements). The increase in earnings was primarily attributable to an increase in operating income of 50.7 percent and achieved despite an increase in the federal income tax rate, which increased the provision for income taxes \$6.5 million, or \$.04 per share.

Consolidated Operating Revenues Consolidated operating revenues increased by 27.4 percent in 1993 to \$2,296.7 million. Operating revenue per ASM for scheduled service carrier operations increased in 1993 to \$.0835 from \$.0789 in 1992. The increase in consolidated operating revenues was primarily related to a 36.5 percent increase in passenger revenues, which accounted for 96.5 percent of total operating revenues in 1993 versus 90.1 percent in 1992.

Consolidated RPMs increased 36.6 percent in 1993, which exceeded the 28.8 percent increase in ASMs, resulting in an increase in the load factor from 64.5 percent to 68.4 percent. The 1993 ASM increase resulted from the acquisition of Morris Air, which flew 21 aircraft at the end of 1993, and the addition of 16 aircraft to the Southwest fleet. The additional 16 Southwest aircraft were primarily used to expand California, St. Louis, and Chicago markets and to initiate service from Louisville, Baltimore, and San Jose.

Freight revenues increased in 1993 to \$42.9 million from \$33.1 million in 1992. The 29.6 percent increase in freight revenue exceeded the 28.8 percent ASM increase primarily due to further expansion of United States mail services and increased freight marketing programs.

Charter and other revenues decreased in 1993 from 1992 on a consolidated basis as Morris converted its operations in 1993 to scheduled service from charter operations in previous years. In 1993, consistent with the beginning of scheduled carrier service, Morris revenues were primarily derived from scheduled operations and, accordingly, classified as "passenger" revenues. Morris charter revenues totalled \$117.8 million in 1992 and \$65.7 million in 1991.

Consolidated Operating Expenses Consolidated operating expenses increased 24.6 percent to \$2,004.7 million from \$1,609.2 million in 1992. The primary factors contributing to the increase were the 28.8 percent increase in ASMs; increased contributions to profit-sharing and Employee savings plans; higher agency commissions; higher aircraft rentals; and increased maintenance costs.

On a consolidated basis, the Company incurred \$10.8 million of one-time merger expenses in connection with the December 1993 Morris acquisition. These expenses included \$1.9 million of various professional fees; \$4.7 million for disposal of duplicate or incompatible property and equipment; and \$4.2 million for Employee relocation and severance costs related to elimination of duplicate or incompatible operations. As required for financial reporting purposes, these expenses have been reported as operating expenses. However, these nonrecurring expenses have been excluded from operating expenses per ASM as set forth below.

On a per-ASM basis, for scheduled carrier operations only and excluding one-time merger expenses, operating expenses increased 3.1 percent in 1993 as follows:

Operating expenses per ASM
(Scheduled carrier operations)

	1993	1992	Increase (decrease)	Percent change
Salaries, wages, and benefits	2.12¢	2.17¢	(.05)¢	(2.3)%
Profitsharing and Employee savings plans	.21	.18	.03	16.7
Fuel and oil	1.11	1.14	(.03)	(2.6)
Maintenance materials and repairs	.59	.56	.03	5.4
Agency commissions	.53	.50	.03	6.0
Aircraft rentals	.39	.30	.09	30.0
Landing fees and other rentals	.47	.48	(.01)	(2.1)
Depreciation	.43	.47	(.04)	(8.5)
Other	1.40	1.23	.17	13.8
Total	7.25¢	7.03¢	.22¢	3.1%

Salaries, wages, and benefits per ASM decreased 2.3 percent in 1993. Excluding the effects of Morris, Southwest's cost per ASM for salaries, wages, and benefits increased .9 percent from 1992 to 1993. This increase resulted from a 2.2 percent increase in salaries and wages, offset by a 5.0 percent decrease in health and workers' compensation costs per ASM. Headcount for Southwest increased 17.0 percent in 1993, slightly more than the 15.9 percent increase in ASMs. However, Employee productivity improved to 2,672 passengers handled per employee in 1993 from 2,597 in 1992.

Morris contracts out all ground handling services, which are included in "other operating expenses." Consequently, salaries, wages, and benefits on a per-ASM basis are considerably lower for Morris than for Southwest contributing to the decrease in consolidated salaries, wages, and benefits per ASM. In 1994, Southwest will begin ground handling certain Morris flights.

Profitsharing and Employee savings plan expenses per ASM increased 16.7 percent in 1993. The increase was primarily the result of higher earnings in 1993. For additional information, see Note 10 to the Consolidated Financial Statements.

Fuel and oil expenses per ASM decreased 2.6 percent in 1993 due to a 2.7 percent reduction in the average cost per gallon of jet fuel from 1992. Jet fuel prices remained relatively stable throughout 1993, continuing the trend which began in 1992, with quarterly averages ranging from 56.57¢ to 62.51¢ per gallon. Although fuel prices can be volatile and difficult to predict, the prospect of stable fuel prices for first quarter 1994 appears favorable.

Maintenance materials and repairs per ASM increased 5.4 percent in 1993. This increase was primarily the result of higher airframe component repairs and higher amortization of capitalized scheduled airframe overhauls. Aircraft maintenance costs are expected to increase again in 1994.

Agency commissions per ASM increased 6.0 percent in 1993 primarily due to passenger revenue growth exceeding ASM growth.

Aircraft rentals per ASM increased 30.0 percent in 1993. The increase was primarily attributable to the acquisition of Morris, which leased 18 of its 21 aircraft, 11 of which were leased in 1993. Additionally, the increase partially resulted from the sale/lease-back financing by Southwest, since late 1992, of seven 737-300 aircraft with long-term operating leases. Also in 1993, Southwest leased one used 737-300 aircraft under a long-term operating lease and one used 737-200 aircraft under a short-term operating lease.

Depreciation expense per ASM decreased 8.5 percent in 1993 due to the acquisition of Morris, which, as stated above, consisted primarily of a leased aircraft fleet.

Other operating expenses per ASM increased 13.8 percent from 1992 to 1993. This increase is primarily the result of higher usage of contract services at Morris. As previously discussed, Morris contracts for all ground handling service, along with various other services that are handled internally at Southwest.

Excluding Morris, Southwest's other operating expenses increased 3.3 percent on a per-ASM basis. This increase resulted primarily from increases in ad valorem tax rates, advertising, and passenger-related costs. Passenger-related costs increased per ASM due to the significant increase in passengers carried, which exceeded ASM capacity growth for 1993.

Other "Other expenses (income)" included interest expense, interest income, and nonoperating gains and losses. Interest expense, net of capitalized interest, decreased 7.0 percent in 1993 due to the March 1, 1993 early redemption of \$100 million in senior unsecured 9% Notes due 1996. See Note 6 to the Consolidated Financial Statements for further information. Net nonoperating losses in 1993 resulted from the write-down of certain internal system development costs and the settlement of certain employment-related litigation for \$1.7 million.

Income Taxes The provision for income taxes increased in 1993, as a percentage of income before income taxes and cumulative effect of accounting changes, to 40.6 percent from pro forma 38.1 percent in 1992. The increase was primarily the result of the increase in the federal income tax rate. See Note 11 to the Consolidated Financial Statements for further information.

1992 COMPARED WITH 1991 As previously discussed, the Consolidated Financial Statements for 1992 and 1991 have been restated to include the financial statements of Morris as required for pooling-of-interests accounting. In addition, pro forma tax and income amounts have been presented for 1992 and 1991 in the Consolidated Statement of Income to reflect the effect of pro forma income taxes assuming Morris, an S-Corporation in 1992 and 1991, was taxed at the statutory rates. Accordingly, the following discussion includes operations of Morris.

SOUTHWEST AIRLINES CO.

Southwest's pro forma consolidated income for the year 1992 was \$97.4 million (\$.68 per share), before the cumulative effect of a change in accounting principle, compared to \$33.1 million (\$.25 per share) for 1991, an increase of 193.8 percent. The 1992 and 1991 earnings per share amounts have been restated for the 1993 three-for-two stock split (see Note 8 to the Consolidated Financial Statements).

The increase in earnings was attributable to an increase in operating income of 166.9 percent.

Consolidated Operating Revenues Consolidated operating revenues increased by 30.7 percent in 1992 to \$1,803.0 million. Operating revenue per ASM, for scheduled service operations, increased in 1992 to \$.0789 from \$.0710 in 1991. Operating revenues increased as follows: a 28.1 percent increase in passenger revenues; a 25.2 percent increase in freight revenues; and a 71.9 percent increase in charter and other revenues.

The increase in passenger revenues resulted from a 22.1 percent increase in RPMs in 1992 and a 5.0 percent increase in revenue passenger yield per RPM. The increase in RPMs of 22.1 percent in 1992 exceeded the increase in ASMs of 15.6 percent for the same period and resulted in an increase in the load factor from 61.1 percent to 64.5 percent. The 1992 ASM increase primarily resulted from the addition of 17 aircraft, which were primarily used to expand California, Las Vegas, Phoenix, and Chicago markets.

Freight revenues increased in 1992 to \$33.1 million from \$26.4 million in 1991. The 25.2 percent increase in freight revenues exceeded the 15.6 percent ASM increase for the same period primarily due to further expansion of United States mail services and increased freight marketing programs.

Charter and other revenues increased 71.9 percent primarily as a result of charter revenues. Charter revenues increased significantly due to the expansion of service of Morris from 1991 to 1992, prior to becoming a scheduled service carrier.

Consolidated Operating Expenses Consolidated operating expenses increased 23.2 percent to \$1,609.2 million from \$1,306.7 million in 1991. The primary factors contributing to the increase were the 15.6 percent increase in ASMs; increased contributions to profit-sharing and Employee savings plans; higher agency commissions; higher aircraft rentals; increased maintenance costs; and the expansion of Morris charter operations. On a per-ASM basis for scheduled service operations only, operating expenses increased 4.0 percent in 1992 from 6.76¢ to 7.03¢.

Scheduled Service Operating Expenses The increase in salaries, wages, and benefits per ASM in 1992 of 2.4 percent resulted from a 16.1 percent increase in Employee benefits per ASM. Salaries and wages per ASM remained constant. The increase in Employee benefits per ASM resulted from increases in workers' compensation and health benefit costs. Headcount increased 16.6 percent in 1992, slightly more than the 15.6 percent increase in ASMs. However, Employee productivity improved from 2,451 passengers handled per Employee in 1991 to 2,597 in 1992.

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.

Profitsharing and Employee savings plan expenses per ASM doubled in 1992. This significant increase was primarily the result of a significantly more profitable year. For additional information, see Note 10 to the Consolidated Financial Statements.

Fuel and oil expenses per ASM decreased 6.6 percent in 1992 due to a 7.4 percent reduction in the average jet fuel cost per gallon from 1991. The average price of jet fuel decreased from 65.69¢ in 1991 to 60.82¢ in 1992.

Maintenance materials and repairs per ASM increased 5.7 percent in 1992. This increase was primarily the result of performing more airframe and engine overhaul work in 1992. The Company performed 13 scheduled airframe overhauls in 1992, as compared to three in 1991, as a result of the recent modification of its airframe overhaul maintenance program with the Federal Aviation Administration (FAA) and growth of the Company's fleet. In addition, the Company changed its method of accounting for scheduled airframe overhaul costs from the direct expense method to that of capitalizing and amortizing the costs over the periods benefited. See Note 3 to the Consolidated Financial Statements for further information. Airframe overhauls were also more costly in 1992 as compared to 1991. Consequently, amortization of 1992 capitalized airframe overhauls, along with amortization of the cumulative effect adjustment related to the accounting change, exceeded overhauls directly expensed in 1991. Engine overhauls were also more expensive in 1992 due to the higher cost to repair 737-300 and -500 high-bypass engines, which represent an increasing percentage of the fleet.

Agency commissions per ASM increased 13.6 percent in 1992 primarily due to passenger revenue growth exceeding ASM growth coupled with a higher mix of travel agency sales.

Aircraft rentals per ASM increased 15.4 percent in 1992. The increase was the result of the Company leasing four used 737-300 aircraft in 1992 under long-term operating leases, along with incurring a full year's rent on the 14 aircraft acquired, or converted to operating leases, in 1991 through various leasing arrangements. On December 31, 1992, the Company completed the financing through sale/leasebacks of four 737-300 aircraft delivered in 1992; however, rent expense was not recorded on these leases until 1993.

The increase in landing fees and other rentals per ASM of 9.1 percent resulted from an increase of 12.1 percent in landing fees per ASM, or .03¢, and a 2.1 percent increase in other rentals per ASM, or .01¢. The increase in landing fees per ASM is primarily attributable to overall rate increases, with significant increases in New Orleans and Chicago. The increase in other rentals per ASM is also primarily due to rate increases.

Depreciation expense per ASM remained constant in 1992. However, had the Company not changed the estimated remaining useful lives of its 737-200 aircraft as discussed in Note 3 to the Consolidated Financial Statements, depreciation expense per ASM would have increased 4.3 percent, or .02¢ per ASM in 1992. The increase is primarily the result of acquiring more aircraft.

Other operating expenses per ASM increased 3.4 percent primarily due to increases in ad valorem tax rates and passenger-related costs. Passenger-related costs increased per ASM due to the 22.8 percent increase in passengers carried, which exceeded ASM capacity growth for 1992.

Charter Carrier Operating Expenses In 1992 and 1991, Morris operated as a charter carrier and had a significantly different operation than in 1993. Most of the Morris flights were operated under charter contract arrangements with other carriers and were not operated by Morris. Morris employed very few flight crew or maintenance operations personnel prior to changing to a scheduled service carrier. In addition, Morris purchased outside services for a majority of its operating costs in 1992 and 1991.

Morris operating expenses increased 90.4 percent from 1991 to 1992. This increase corresponded to the 79.4 percent increase in Morris's charter revenues. The growth in operating expenses exceeded the growth in revenues as a result of higher landing fees and other airport rentals due to expansion of markets served; increased depreciation from the acquisition of two aircraft; and higher advertising and promotion expenses to promote expanding services.

Other "Other expenses (income)" included interest expense, interest income, and nonoperating gains and losses. Interest expense, net of capitalized interest, increased 52.1 percent in 1992 due primarily to 1991-92 issuances of \$400 million in senior unsecured notes. See Note 6 to the Consolidated Financial Statements for further information. Interest income decreased \$316,000 in 1992 due to lower interest rates offset by higher investment balances. Net nonoperating losses consisted primarily of payments related to satisfy certain deficiency guarantees.

Income Taxes The pro forma provision for income taxes decreased in 1992 as a percentage of income, before income taxes and cumulative effect of accounting change, to 38.1 percent from 38.5 percent in 1991. The decrease was primarily the result of a reduction in state income taxes versus previous estimates. See Note 11 to the Consolidated Financial Statements for further information.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided from operations was \$392.7 million in 1993 as compared to \$282.1 million in 1992. During 1993, additional funds of \$90.0 million were generated from the sale and leaseback of three new 737-300 aircraft subject to long-term operating leases (increasing total commitments for operating leases by \$145.0 million). In addition, Morris received funds of \$17.8 million from certain bank borrowings. These proceeds were primarily used to finance aircraft-related capital expenditures and provide working capital.

During 1993, capital expenditures of \$524.2 million were primarily for the purchase of 13 new and two used 737-300 aircraft delivered during the year along with progress payments for future aircraft deliveries. At December 31, 1993, capital commitments of the Company consisted primarily of scheduled aircraft acquisitions. As of January 1994, Southwest had one hundred thirteen 737s on firm order with options to purchase another 74. Aggregate funding required for these commitments approximated \$3,108.9 million through the year 2001. See Note 4 to the Consolidated Financial Statements for further information.

As of December 31, 1993, the Company had 3,750,000 shares available from a 1990 authorization by its Board of Directors to purchase shares of its common stock from time to time on the open market. No shares have been purchased since 1990.

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," and Statement of Financial Accounting Standards No. 106, "Accounting for Postretirement Benefits Other Than Pensions." See Note 3 to the Consolidated Financial Statements for additional information.

In August 1993, the Revenue Reconciliation Act of 1993 was enacted, which, among other things, included an increase in the federal income tax rate from 34 percent to 35 percent effective January 1, 1993 (see Note 11 to the Consolidated Financial Statements for further information) and a 4.3 cents per

gallon transportation fuels tax beginning on October 1, 1993. However, an exemption from the fuels tax is provided until September 30, 1995 for jet fuel used in commercial aviation. These measures will increase the Company's costs and, potentially, reduce its net earnings.

The Company currently has \$54.0 million of outstanding long-term debt related to certain bank loans secured primarily by flight equipment. This debt was incurred by Morris to purchase aircraft and engines in 1992 and 1993. The Company currently has plans to retire this debt in first quarter 1994.

The Company has various options available to meet its capital and operating commitments, including cash on hand at December 31, 1993 of \$295.6 million, internally generated funds, and a revolving credit line with a group of banks of up to \$250 million (none of which had been drawn at December 31, 1993). In addition, the Company will also consider various borrowing or leasing options to maximize earnings and cash flows.

Cash provided from operations was \$282.1 million in 1992 as compared to \$112.3 million in 1991. During 1992, additional funds of \$98.5 million were generated from the September 1992 issuance of \$100 million in senior unsecured 7 ⁷/₈ % notes due in 2007 (see Note 6 to the Consolidated Financial Statements for additional information); \$120.0 million were generated from the sale and leaseback of four new 737-300 aircraft subject to long-term operating leases (increasing total commitments for operating leases by \$245.0 million); and \$86.9 million were generated from the sale of 2,500,000 shares (unadjusted for the subsequent 1993 and 1992 stock splits) of its common stock in a public offering (see Note 8 to the Consolidated Financial Statements). Morris also generated \$15.3 million from various bank borrowings and \$14.6 million from issuing preferred stock. These proceeds were primarily used to finance aircraft-related capital expenditures and provide working capital.

SOUTHWEST AIRLINES CO.

CONSOLIDATED BALANCE SHEET

(in thousands except share and per share amounts)

	December 31,	
	1993	1992
Assets		
Current assets:		
Cash and cash equivalents	\$ 295,571	\$ 437,989
Accounts receivable	70,484	57,355
Inventories of parts and supplies, at cost	31,707	30,758
Deferred income taxes (Note 11)	10,475	—
Prepaid expenses and other current assets	23,787	15,792
Total current assets	432,024	541,894
Property and equipment, at cost (Notes 3, 4, 6, and 7):		
Flight equipment	2,257,809	1,874,085
Ground property and equipment	329,605	294,458
Deposits on flight equipment purchase contracts	242,230	214,584
	2,829,644	2,383,127
Less allowance for depreciation	688,280	559,034
	2,141,364	1,824,093
Other assets	2,649	2,869
	<u>\$ 2,576,037</u>	<u>\$ 2,368,856</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 94,040	\$ 82,023
Accrued liabilities (Note 5)	265,333	208,357
Air traffic liability	96,146	65,934
Income taxes payable	7,025	6,744
Current maturities of long-term debt	16,068	16,234
Total current liabilities	478,612	379,292
Long-term debt less current maturities (Note 6)	639,136	735,754
Deferred income taxes (Note 11)	183,616	136,462
Deferred gains from sale and leaseback of aircraft	199,362	224,645
Other deferred liabilities	21,292	13,167
Commitments and contingencies (Notes 4, 7, and 11)		
Stockholders' equity (Notes 8 and 9):		
Common stock, \$1.00 par value: 500,000,000 shares authorized; 142,756,308 shares issued in 1993 and 96,047,411 shares in 1992	142,756	96,047
Capital in excess of par value	141,168	177,647
Retained earnings	770,095	605,928
	1,054,019	879,622
Less treasury stock, at cost (2,904 shares in 1992)	—	86
Total stockholders' equity	<u>1,054,019</u>	<u>879,536</u>
	<u>\$ 2,576,037</u>	<u>\$ 2,368,856</u>

See accompanying notes.

SOUTHWEST AIRLINES CO.

CONSOLIDATED STATEMENT OF INCOME (in thousands except per share amounts)

	Years ended December 31,		
	1993	1992	1991
Operating revenues:			
Passenger _____	\$ 2,216,342	\$ 1,623,828	\$ 1,267,897
Freight _____	42,897	33,088	26,428
Charter and other (Note 2) _____	37,434	146,063	84,961
Total operating revenues _____	2,296,673	1,802,979	1,379,286
Operating expenses:			
Salaries, wages, and benefits (Note 10) _____	641,747	512,983	414,447
Fuel and oil _____	304,424	257,481	230,245
Maintenance materials and repairs _____	163,395	122,561	97,598
Agency commissions _____	144,941	113,504	85,837
Aircraft rentals _____	107,885	77,472	49,171
Landing fees and other rentals _____	129,222	105,929	83,847
Depreciation _____	119,338	101,976	86,430
Other operating expenses _____	382,945	317,269	259,100
Merger expenses (Note 2) _____	10,803	—	—
Total operating expenses _____	2,004,700	1,609,175	1,306,675
Operating income _____	291,973	193,804	72,611
Other expenses (income):			
Interest expense _____	58,460	59,084	44,054
Capitalized interest _____	(17,770)	(15,350)	(15,301)
Interest income _____	(11,093)	(10,672)	(10,988)
Nonoperating losses, net _____	2,739	3,299	960
Total other expenses _____	32,336	36,361	18,725
Income before income taxes and cumulative effect of accounting changes _____	259,637	157,443	53,886
Provision for income taxes (Note 11) _____	105,353	55,816	16,921
Income before cumulative effect of accounting changes _____	154,284	101,627	36,965
Cumulative effect of accounting changes (Note 3) _____	15,259	12,538	—
Net income _____	<u>\$ 169,543</u>	<u>\$ 114,165</u>	<u>\$ 36,965</u>
Per share amounts (Notes 3, 8, and 12):			
Income before cumulative effect of accounting changes _____	\$ 1.05	\$.71	\$.28
Cumulative effect of accounting changes _____	.10	.09	—
Net income _____	<u>\$ 1.15</u>	<u>\$.80</u>	<u>\$.28</u>
Pro forma amounts assuming pooled company, an S-Corporation in 1992 and 1991, was taxed at statutory rates (Note 2):			
Income before income taxes and cumulative effect of accounting changes _____	\$ 259,637	\$ 157,443	\$ 53,886
Provision for income taxes _____	105,353	60,058	20,738
Income before cumulative effect of accounting changes _____	<u>\$ 154,284</u>	<u>\$ 97,385</u>	<u>\$ 33,148</u>
Net income _____	<u>\$ 169,543</u>	<u>\$ 109,923</u>	<u>\$ 33,148</u>
Per share amounts:			
Income before cumulative effect of accounting changes _____	\$ 1.05	\$.68	\$.25
Net income _____	<u>\$ 1.15</u>	<u>\$.77</u>	<u>\$.25</u>

See accompanying notes.

SOUTHWEST AIRLINES CO.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Years ended December 31, 1993, 1992, and 1991

(in thousands except per share amounts)

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Total
Balance at December 31, 1990, as previously reported	\$ 42,412	\$ 81,447	\$ 484,559	\$ (3,567)	\$ 604,851
Adjustments for pooling of interests with pooled company (Note 2)	2,827	(2,747)	3,780	(1,417)	2,443
Balance at December 31, 1990, as restated	45,239	78,700	488,339	(4,984)	607,294
Issuance of common and treasury stock upon exercise of executive stock options and pursuant to Employee stock option and purchase plans and related tax benefit (Note 9)	26	540	-	387	953
Cash dividends, \$.03333 per share	-	-	(4,219)	-	(4,219)
Cash distributions of pooled company (Note 2)	-	-	(5,200)	-	(5,200)
Net income - 1991	-	-	36,965	-	36,965
Balance at December 31, 1991	45,265	79,240	515,885	(4,597)	635,793
Public common stock offering (Note 8)	2,328	82,094	-	2,524	86,946
Conversion of debentures (Note 6)	1,371	34,678	-	-	36,049
Two-for-one stock split (Note 8)	46,180	(46,180)	-	-	-
Sale (retirement) of treasury stock, pooled company	(307)	60	-	1,434	1,187
Issuance of common and treasury stock upon exercise of executive stock options and pursuant to Employee stock option and purchase plans and related tax benefit (Note 9)	156	3,359	-	553	4,068
Sale of preferred stock, pooled company	1,054	13,584	-	-	14,638
Cash dividends, \$.03533 per share	-	-	(4,890)	-	(4,890)
Cash distributions of pooled company (Note 2)	-	-	(5,388)	-	(5,388)
Reclassification of retained earnings, pooled company (Note 2)	-	13,844	(13,844)	-	-
Reinstatement of deferred taxes, pooled company (Note 2)	-	(3,032)	-	-	(3,032)
Net income - 1992	-	-	114,165	-	114,165
Balance at December 31, 1992	96,047	177,647	605,928	(86)	879,536
Three-for-two stock split (Note 8)	46,325	(46,325)	-	-	-
Issuance of common and treasury stock upon exercise of executive stock options and pursuant to Employee stock option and purchase plans and related tax benefit (Note 9)	384	9,846	-	86	10,316
Cash dividends, \$.03867 per share	-	-	(5,376)	-	(5,376)
Net income - 1993	-	-	169,543	-	169,543
Balance at December 31, 1993	<u>\$ 142,756</u>	<u>\$ 141,168</u>	<u>\$ 770,095</u>	<u>\$ -</u>	<u>\$1,054,019</u>

See accompanying notes.

SOUTHWEST AIRLINES CO.

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands)

	Years ended December 31,		
	1993	1992	1991
Cash flows from operating activities:			
Net income	\$ 169,543	\$ 114,165	\$ 36,965
Cumulative effect of accounting changes (Note 3)	(15,259)	(12,538)	—
Income before cumulative effect of accounting changes	154,284	101,627	36,965
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	119,338	101,976	86,430
Deferred income taxes	53,200	21,260	(3,516)
Amortization of deferred gains on sale and leaseback of aircraft	(32,509)	(32,719)	(31,484)
Amortization of scheduled airframe overhauls	11,630	6,930	—
Gains from sale and leaseback of aircraft	—	—	(454)
Changes in certain assets and liabilities:			
Increase in accounts receivable	(14,253)	(7,440)	(4,683)
Increase in other current assets	(9,641)	(12,000)	(7,269)
Increase in accounts payable and accrued liabilities	67,585	65,706	40,298
Increase in air traffic liability	30,212	18,602	4,986
Increase (decrease) in other current liabilities	2,393	12,179	(9,339)
Other	10,440	5,978	367
Net cash provided by operating activities	392,679	282,099	112,301
Cash flows from investing activities:			
Purchases of property and equipment	(524,169)	(432,528)	(342,576)
Net cash used in investing activities	(524,169)	(432,528)	(342,576)
Cash flows from financing activities:			
Issuance of long-term debt	17,810	113,827	296,378
Proceeds from public common stock offering (Note 8)	—	86,946	—
Proceeds from aircraft sale and leaseback transactions	90,000	120,000	132,350
Proceeds from sale of preferred stock, pooled company	—	14,638	—
Payment of long-term debt and capital lease obligations	(120,098)	(10,358)	(13,771)
Payment of cash dividends	(5,376)	(4,890)	(4,219)
Cash distributions of pooled company (Note 2)	—	(5,389)	(5,200)
Proceeds from Employee stock plans	6,743	3,517	970
Other	(7)	803	(1,101)
Net cash provided by (used in) financing activities	(10,928)	319,094	405,407
Net increase (decrease) in cash and cash equivalents	(142,418)	168,665	175,132
Cash and cash equivalents at beginning of period	437,989	269,324	94,192
Cash and cash equivalents at end of period	<u>\$ 295,571</u>	<u>\$ 437,989</u>	<u>\$ 269,324</u>
Cash payments for:			
Interest, net of amount capitalized	\$ 43,161	\$ 39,936	\$ 17,078
Income taxes	45,292	27,728	29,799

See accompanying notes.

SOUTHWEST AIRLINES CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1993

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 (the Company). All significant intercompany balances and transactions have been eliminated. Certain prior year amounts have been reclassified for comparison purposes.

Cash and cash equivalents Cash equivalents consist of primarily investment grade commercial paper issued by major financial institutions that are highly liquid and have original maturity dates of three months or less. Cash and cash equivalents are carried at cost, which approximates market value.

Inventories Inventories of flight equipment expendable parts, materials, and supplies are carried at average 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 (see Note 3) 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 The cost of engine overhauls and routine maintenance costs for aircraft and engine maintenance are charged to maintenance expense as incurred. Scheduled airframe overhaul costs are capitalized and amortized over the estimated periods benefited (see Note 3). 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.

2. ACQUISITION

On December 31, 1993, Southwest exchanged 3,574,656 newly issued shares of its common stock for all of the outstanding stock of Morris Air Corporation (Morris), a low fare commercial/charter air carrier based in Salt Lake City. The acquisition has been accounted for as a pooling of interests and, accordingly, the Company's consolidated financial statements have been restated to include the accounts and operations of Morris for all periods prior to the acquisition.

For periods prior to 1993, results of operations included in the Consolidated Statement of Income reflect Morris's revenues and expenses from providing charter services. Consequently, these revenues and expenses are presented consistent with Southwest's presentation of charter activities.

Prior to 1993, Morris was treated as an S-Corporation for federal and state income tax purposes under applicable provisions of the Internal Revenue Code and various state tax laws. Therefore, no provision for income taxes was made prior to 1993. Morris made regular cash distributions to its shareholders sufficient to meet their tax liabilities. Upon termination of S-Corporation status on December 31, 1992, the undistributed S-Corporation retained earnings were reclassified to capital in excess of par value. Additionally, Morris established \$3,032,000 of deferred income taxes for the cumulative differences in the timing of reporting certain items for financial statement and income tax purposes. These deferred taxes related primarily to depreciation. The establishment of deferred taxes was offset by a reduction of capital in excess of par value. Effective for 1993, Morris is no longer an S-Corporation. For comparative purposes, a pro forma presentation has been included in the Consolidated Statement of Income to present the combined results of Southwest as if Morris had been taxed at statutory rates during 1992 and 1991.

Separate and combined results of Southwest and Morris (pro forma for 1992 and 1991 as discussed above) are as follows (in thousands, except per share amounts):

	1993	1992	1991
Revenues:			
Southwest _____	\$2,067,519	\$1,685,178	\$1,313,605
Morris _____	229,154	117,801	65,681
Combined _____	<u>\$2,296,673</u>	<u>\$1,802,979</u>	<u>\$1,379,286</u>
Income before cumulative effect of accounting changes:			
Southwest _____	\$ 149,815	\$ 91,021	\$ 26,919
Morris _____	4,469	6,364	6,229
Combined _____	<u>\$ 154,284</u>	<u>\$ 97,385</u>	<u>\$ 33,148</u>
Net income:			
Southwest _____	\$ 165,074	\$ 103,559	\$ 26,919
Morris _____	4,469	6,364	6,229
Combined _____	<u>\$ 169,543</u>	<u>\$ 109,923</u>	<u>\$ 33,148</u>
Per share amounts:			
Income before cumulative effect of accounting changes:			
Southwest _____	\$ 1.02	\$.64	\$.21
Morris _____	.03	.04	.04
Combined _____	<u>1.05</u>	<u>.68</u>	<u>.25</u>
Net income:			
Southwest _____	\$ 1.12	\$.73	\$.21
Morris _____	.03	.04	.04
Combined _____	<u>1.15</u>	<u>.77</u>	<u>.25</u>

Merger expenses of \$10,803,000 relating to the merger of Southwest and Morris have been included in operating expenses as required for financial reporting purposes; however, these expenses have been separately reported as "merger expenses" to reflect the impact of the nonrecurring expenses on operating results. Included in these one-time costs resulting from the merger are

\$1,900,000 of various professional fees; \$4,703,000 for disposal of duplicate or incompatible property and equipment; and \$4,200,000 for employee relocation and severance costs related to elimination of duplicate or incompatible operations.

3. ACCOUNTING CHANGES

Income Taxes Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). As permitted by the new rules, prior years' financial statements have not been restated to reflect the change in accounting method. Under the provisions of SFAS 109, deferred tax assets and liabilities are computed based on income tax rates currently in effect rather than at the tax rate in effect when the taxes were provided. As a result of adopting SFAS 109, the Company recorded deferred tax assets of \$6,977,000 and reduced deferred tax liabilities by \$9,048,000 at January 1, 1993, which resulted in an increase to the Company's 1993 net income of \$16,025,000 (\$.11 per share) for the cumulative effect of the accounting change.

Postretirement Benefits Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106), which requires that the projected future cost of providing postretirement benefits, such as health care and life insurance, be recognized as an expense as Employees render service rather than when the benefits are paid. The cumulative effect of this change in accounting method at January 1, 1993 reduced 1993 net income by \$766,000 (net of benefit from income taxes of \$469,000) or \$.01 per share. The effect of adopting SFAS 106 on 1993 income before cumulative effect of accounting changes was not material.

Scheduled Airframe Overhauls Prior to January 1, 1992, the Company expensed scheduled airframe overhaul costs as incurred. This practice was adopted at a time when costs were relatively constant from year to year and consistent with the growth of the fleet.

Given the significant growth of the Company's fleet and the Company's 1991 modification of its airframe overhaul maintenance program with the Federal Aviation Administration (FAA), Southwest changed its method of accounting for scheduled airframe overhaul costs from the direct expense method to that of capitalizing and amortizing the costs over the periods benefited, currently estimated to be ten years. At December 31, 1993, amounts capitalized, including the net book value of the aircraft, were below the fair market value of the related aircraft. The Company believes this method is preferable because it results in charges to expense that are consistent with the growth in the fleet; improves financial reporting; and better matches revenues and expenses.

For the year ended December 31, 1991, the Company incurred and expensed approximately \$3,700,000 in scheduled airframe overhaul costs using the direct expense method. Had the Company capitalized and amortized airframe overhaul costs over the periods benefited, the expense recognized would have been approximately \$3,400,000. The Company recognized approximately \$6,900,000 during the year ended December 31, 1992 in amortization of airframe overhaul expense. Had the direct expense method been used to provide for scheduled airframe overhaul costs during the year ended December 31, 1992, income before cumulative effect of accounting change would have been reduced by approximately

\$9,800,000 (net of provision for income taxes and profitsharing of approximately \$8,800,000), or approximately \$.07 per share.

This change in accounting principle had the effect of a one-time adjustment increasing net income for the year ended December 31, 1992 by approximately \$12,500,000 (net of provision for income taxes and profitsharing of approximately \$11,500,000).

Change in Accounting Estimate Effective January 1, 1992, the Company revised the estimated useful lives of its 737-200 aircraft from 15 years to 15-19 years. This change was the result of the Company's assessment of the remaining useful lives of its 737-200 aircraft following the recent promulgations of rules by the FAA for the phase out of Stage 2 aircraft by December 31, 1999. The effect of this change was to reduce depreciation expense approximately \$3,680,000, or \$.03 per share, for the year ended December 31, 1992.

4. COMMITMENTS

The Company's contractual commitments consist primarily of scheduled aircraft acquisitions. In January 1994, Southwest entered into a new contract with Boeing to purchase sixty-three 737-700s with the option to purchase an additional sixty-three 737-700s. The following commitments include the aircraft associated with the new contract. Sixteen 737-300 aircraft are scheduled for delivery in 1994, 12 in 1995, 12 in 1996, and ten in 1997. Four 737-700s are scheduled for delivery in 1997, 16 in 1998, 16 in 1999, 15 in 2000, and 12 in 2001. In addition, the Company has options to purchase up to eleven 737-300s in 1997 and up to sixty-three 737-700s during 1998-2004. The Company has the option to substitute 737-400s or 737-500s for the 737-300s to be delivered during 1996-1997. Aggregate funding needed for these commitments was approximately \$3,108.9 million, subject to adjustments for inflation, due as follows: \$423.7 million in 1994, \$344.5 million in 1995, \$390.1 million in 1996, \$447.8 million in 1997, \$445.4 million in 1998, \$452.9 million in 1999, \$366.0 million in 2000, and \$238.5 million in 2001.

5. ACCRUED LIABILITIES

(in thousands)

	1993	1992
Aircraft rentals	\$ 55,459	\$ 41,762
Profitsharing and savings plans (Note 10)	45,691	30,528
Aircraft maintenance costs	37,853	36,863
Vacation pay	26,781	23,031
Interest	21,311	24,975
Taxes, other than income	19,183	14,957
Merger expenses	8,527	-
Other	50,528	36,241
	<u>\$265,333</u>	<u>\$208,357</u>

6. LONG-TERM DEBT
(in thousands)

	1993	1992
9 % Notes due 1996	\$ —	\$100,000
9 1/4 % Notes due 1998	100,000	100,000
9.4 % Notes due 2001	100,000	100,000
8 3/4 % Notes due 2003	100,000	100,000
7 7/8 % Notes due 2007	100,000	100,000
French Export Credit Agreement	—	2,525
Capital leases (Note 7)	204,904	211,982
Secured notes payable to financing institutions	53,950	40,154
Industrial Revenue Bonds, repaid in January 1994	375	1,075
Other	13	1,029
	<u>659,242</u>	<u>756,765</u>
Less current maturities	16,068	16,234
Less debt discount	4,038	4,777
	<u>\$639,136</u>	<u>\$735,754</u>

On March 1, 1993, the Company redeemed the \$100 million in senior unsecured 9% Notes due March 1, 1996 issued in March 1986. The Notes were redeemed at par plus accrued interest.

On September 9, 1992, Southwest issued \$100 million in senior unsecured 7 7/8 % Notes due September 1, 2007. Interest is payable semi-annually on March 1 and September 1. The Notes are not redeemable prior to maturity.

During 1991, the Company issued \$100 million of senior unsecured 9 1/4 % Notes, \$100 million of senior unsecured 9.4% Notes, and \$100 million of senior unsecured 8 3/4 % 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 fair values, based on quoted market prices, of these Notes at December 31, 1993 were as follows (in thousands):

9 1/4 % Notes due 1998	\$111,044
9.4% Notes due 2001	117,168
8 3/4 % Notes due 2003	114,540
7 7/8 % Notes due 2007	107,634

The secured notes issued by Morris to financial institutions are due in varying monthly payments from 1994 through 2000 with interest ranging from LIBOR plus 1.75% to prime plus 2.25%. The debt is secured by flight equipment having a net book value of approximately \$62,000,000. The carrying value of these notes approximates their fair value due to their variable rates.

In 1992, certain Convertible Subordinated Debentures issued by Southwest Airlines Eurofinance N.V. were redeemed. The principal amount of \$35,000,000 was converted into 1,370,902 shares (unadjusted for the 1993 and 1992 stock splits) of Southwest's common stock at the conversion price of \$25.53 per share. The conversion was primarily a noncash transaction and therefore was excluded from the Statement of Cash Flows.

In addition to the credit facilities described above, Southwest has an unsecured Bank Credit Agreement with a group of domestic banks that permits Southwest to borrow through December 14, 1995 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, 1/2 % over LIBOR, or 3/16 % over domestic certificate of deposit rates. The commitment fee is 0.25% per annum. There were no outstanding borrowings under this agreement at December 31, 1993 or 1992.

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

1994	\$ 7,043
1995	5,937
1996	5,176
1997	9,736
1998	110,285

7. LEASES

Total rental expense for operating leases charged to operations in 1993, 1992, and 1991 was \$167,303,000, \$125,835,000, and \$93,146,000, respectively. The majority of the Company's terminal operations space, as well as 77 aircraft, were under operating leases. The amounts applicable to capital leases included in property and equipment were (in thousands):

	1993	1992
Flight equipment	\$232,853	\$231,609
Less accumulated amortization	<u>74,234</u>	<u>59,986</u>
	<u>\$158,619</u>	<u>\$171,623</u>

Future minimum lease payments under capital leases and non-cancelable operating leases, with initial or remaining terms in excess of one year, at December 31, 1993 were (in thousands):

	Capital leases	Operating leases
1994	\$ 26,616	\$ 169,203
1995	26,315	154,550
1996	28,971	139,983
1997	26,917	129,251
1998	32,928	105,487
After 1998	<u>211,967</u>	<u>1,028,805</u>
Total minimum lease payments	353,714	<u>\$1,727,279</u>
Less amount representing interest	<u>148,810</u>	
Present value of minimum lease payments	204,904	
Less current portion	<u>9,025</u>	
Long-term portion	<u>\$195,879</u>	

The aircraft leases can generally be renewed at rates based on fair market value at the end of the lease term for one to five years. Most aircraft leases have purchase options at or near the end of the lease term at fair market value, but generally not to exceed a stated percentage of the lessor's cost of the aircraft.

8. COMMON STOCK

At December 31, 1993, the Company had common stock reserved for issuance pursuant to Employee stock benefit plans (12,499,446 shares); and upon exercise of rights pursuant to the Common Stock Rights Agreement (Agreement), as amended (155,255,752 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 \$16.67 and is exercisable only in the event of a proposed takeover, as defined by the Agreement. The Company may redeem the Rights at \$.0111 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 \$16.67 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 May 19, 1993, the Company's Board of Directors declared a three-for-two stock split, distributing 46,325,147 shares on July 15, 1993. On May 20, 1992, the Company's Board of Directors declared a two-for-one stock split, distributing 46,180,531 shares on July 15, 1992. Unless otherwise stated, all per share data included in the accompanying consolidated financial statements have been restated to give effect to the stock splits.

In February 1992, the Company sold 2,500,000 shares (unadjusted for the subsequent 1993 and 1992 stock splits) of its common stock (2,327,892 new shares and 172,108 shares from treasury) in a public offering. Net proceeds from the sale of approximately \$86,946,000 were added to the working capital of the Company for general corporate purposes, including the acquisition of aircraft and related equipment.

9. 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 9,000,000 shares of Southwest Common Stock may be granted to key Employees. Under the Non-Qualified Stock Option Plan, options to purchase up to 750,000 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, as adjusted for the three-for-two and the two-for-one stock splits on July 15, 1993 and July 15, 1992, respectively, is summarized below:

	Incentive Plan	Non-Qualified Plan
Granted	4,095,540	289,305
Exercised	(100,083)	(6,480)
Surrendered	(46,500)	—
Outstanding December 31, 1991	3,948,957	282,825
Granted	430,974	97,950
Exercised	(251,817)	(4,350)
Surrendered	(111,210)	(1,800)
Outstanding December 31, 1992	4,016,904	374,625
Granted	724,646	22,512
Exercised	(198,285)*	(94,810)**
Surrendered	(230,978)	(1,050)
Outstanding December 31, 1993	4,312,287	301,277
Exercisable:		
1993	314,322	108,509
1992	198,474	142,575
1991	257,037	102,825
Available for granting in future periods:		
1993	4,137,528	343,083
1992	4,631,196	364,545
1991	4,950,960	460,695
Average price of exercised options:		
1993	\$7.14	\$7.37
1992	\$6.10	\$11.36
1991	\$6.02	\$6.02

* Includes 108,113 pre-split shares and 36,115 post-split shares, of which 5,476 pre-split shares and 72 post-split shares were issued from treasury.

** Includes 12,740 pre-split shares and 75,700 post-split shares.

The exercise price of outstanding options ranged from \$6.02 to \$19.71 in 1993, \$6.02 to \$12.06 in 1992, and was \$6.02 in 1991.

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 182,459 shares (59,442 pre-split shares and 93,296 post-split shares) in 1993, 166,436 shares in 1992, and 39,588 shares in 1991 at average purchase prices of \$25.25, \$12.89, and \$8.11, respectively.

At December 31, 1993, 1992, and 1991, 1,504,752, 1,512,252, and 1,113,750 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 \$11.33 per share. Options for 7,500 shares (5,000 pre-split shares, of which 968 shares were issued from treasury), 22,500 shares and 78,750 shares were exercised in 1993, 1992, and 1991 respectively. In 1991, 34,188 shares of treasury stock were received as full consideration of the exercise price.

10. EMPLOYEE PROFITSHARING AND SAVINGS PLANS

Substantially all of Southwest's Employees are members of the Southwest Airlines Co. Profitsharing Plan (the Plan). Total profit-sharing expense charged to operations in 1993, 1992, and 1991 was \$44,959,000, \$26,363,000, and \$7,929,000, respectively. The Company also elected to contribute \$3,605,000 in 1992 as a result of an accounting change (see Note 3).

The Company also sponsors Employee savings plans under Section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time Employees. 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 1993, 1992, and 1991 were \$13,986,000, \$11,611,000, and \$8,433,000, respectively.

11. INCOME TAXES

Effective January 1, 1993, the Company changed its method of accounting for income taxes from the deferred method to the liability method as required by SFAS 109 (see Note 3).

Under SFAS 109, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred tax assets and liabilities at December 31, 1993 are as follows (in thousands):

Deferred tax liabilities:	
Accelerated depreciation	\$299,195
Scheduled airframe overhauls	21,512
Other	45,734
Total deferred tax liabilities	366,441
Deferred tax assets:	
Deferred gains from sale and leaseback of aircraft	87,358
Capital and operating leases	33,637
Alternative minimum tax credit carryforward	32,122
Other	40,183
Total deferred tax assets	193,300
Net deferred tax liability	<u>\$173,141</u>

In August 1993, the Revenue Reconciliation Act of 1993 (the "1993 Act") was enacted, which contains numerous provision changes including an increase in the federal corporate income tax rate from 34 percent to 35 percent effective January 1, 1993. As a result, the Company recognized approximately \$4.0 million of additional expense related to deferred tax liabilities existing on January 1, 1993. The 1993 Act also includes a 4.3 cents per gallon transportation fuels tax beginning on October 1, 1993. However, an exemption from the fuels tax is provided until September 30, 1995 for jet fuel used in commercial aviation.

The provision for income taxes before the cumulative effect of accounting changes is comprised of the following (in thousands):

	Liability Method	Deferred Method	
	1993	1992	1991
Current:			
Federal	\$ 46,744	\$ 30,586	\$ 20,271
State	5,409	3,970	166
Total current	<u>52,153</u>	<u>34,556</u>	<u>20,437</u>
Deferred:			
Federal	48,524	18,144	(5,095)
State	4,676	3,116	1,579
Total deferred	<u>53,200</u>	<u>21,260</u>	<u>(3,516)</u>
	<u>\$105,353</u>	<u>\$ 55,816</u>	<u>\$ 16,921</u>

The components of the provision for deferred income taxes as reported under the previous method of accounting for the years ended December 31, 1992 and 1991 are as follows (in thousands):

	1992	1991
Depreciation	\$ 27,947	\$ 20,222
Deferred gains on sale/leasebacks	(4,275)	(8,979)
Scheduled airframe overhauls	6,336	-
Vacation pay	(1,220)	(1,306)
Alternative minimum tax	(10,645)	(14,229)
Other, net	3,117	776
	<u>\$ 21,260</u>	<u>\$ (3,516)</u>

In January 1994, Southwest received an examination report from the Internal Revenue Service proposing certain adjustments to Southwest's income tax returns for 1987 and 1988. The adjustments relate to certain types of aircraft financings consummated by Southwest, as well as other members of the aviation industry, during that time period. Southwest intends to vigorously protest the adjustments made with which it does not agree. The industry's difference with the IRS involves complex issues of law and fact which are likely to take a substantial period of time to resolve. Management believes that final resolution of such protest will not have a materially adverse effect upon the consolidated financial position of Southwest.

The effective tax rate on income before cumulative effect of accounting changes differed from the federal income tax statutory rate for the following reasons:

	Liability Method	Deferred Method	
	1993	1992	1991
Tax at statutory			
U.S. tax rates _____	\$ 90,873	\$ 53,531	\$ 18,321
Less amount associated with S-Corporation earnings of Morris (Note 2) _____	—	(3,607)	(3,415)
	90,873	49,924	14,906
Nondeductible items _____	1,361	1,131	834
State income taxes, net of federal benefit _____	6,632	5,124	1,472
Effect of increase in U.S. statutory rates _____	3,957	—	—
Other, net _____	2,530	(363)	(291)
Total income tax provision	<u>\$105,353</u>	<u>\$ 55,816</u>	<u>\$ 16,921</u>

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 (147,144,568 in 1993, 142,945,890 in 1992, and 130,708,589 in 1991). The weighted average share amounts have been restated for the 1993 three-for-two stock split and the 1992 two-for-one stock split. Fully diluted earnings per share have not been presented as the fully dilutive effect of shares issuable upon the exercise of options under the Company's Stock Option Plans or conversion of Convertible Subordinated Debentures is anti-dilutive or is not material.

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, 1993 and 1992, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1993. 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, 1993 and 1992, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 3, during 1993, the Company changed its method of accounting for income taxes and postretirement benefits. Also as discussed in Note 3, during 1992, the Company changed its method of accounting for scheduled airframe overhauls.

Ernst & Young

Dallas, Texas
January 31, 1994

SOUTHWEST AIRLINES CO.

QUARTERLY FINANCIAL DATA (UNAUDITED)

(in thousands except per share amounts)

1993	Three months ended (1)			
	March 31	June 30	Sept. 30	Dec. 31
Operating revenues	\$498,943	\$568,251	\$620,918	\$608,561
Operating income	48,784	75,812	95,820	71,557
Income before income taxes	40,393	68,241	86,214	64,789
Net income	24,933 (2)	42,149	48,833	38,369
Net income per common and common equivalent share	.17 (2)	.29	.33	.26

1992	Three months ended (1)			
	March 31	June 30	Sept. 30	Dec. 31
Operating revenues	\$398,442	\$440,601	\$480,675	\$483,261
Operating income	35,584	46,563	59,473	52,184
Income before income taxes	26,437	39,432	49,510	42,064
Net income (3)	16,179 (2)	24,196	30,248	26,762
Net income per common and common equivalent share (3)	.12 (2)	.17	.21	.18

(1) Amounts differ from those previously reported in Form 10-Q due to the acquisition of Morris, which was accounted for as a pooling of interests, as described in Note 2 to the Consolidated Financial Statements

(2) Excludes cumulative effect of accounting changes

(3) Pro forma assuming Morris, an S-Corporation in 1992, was taxed at statutory rates

SOUTHWEST AIRLINES CO.

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, as adjusted for the July 1993 three-for-two and the July 1992 two-for-one stock splits, respectively, were:

Period	Dividend	High	Low
1993			
1st Quarter	\$.00933	\$25.17	\$18.17
2nd Quarter	.00933	30.00	22.17
3rd Quarter	.01000	37.63	28.00
4th Quarter	.01000	37.63	29.88
1992			
1st Quarter	\$.00833	\$13.83	\$10.79
2nd Quarter	.00833	15.71	11.67
3rd Quarter	.00933	14.79	13.33
4th Quarter	.00933	19.92	14.75

As of February 28, 1994, there were 8,207 holders of record of the Company's common stock.

SOUTHWEST AIRLINES CO.

TEN YEAR SUMMARY

Selected Consolidated Financial Data (1) (in thousands except per share amounts)

	1993	1992	1991	1990
Operating revenues:				
Passenger	\$ 2,216,342	\$ 1,623,828	\$ 1,267,897	\$ 1,144,421
Freight	42,897	33,088	26,428	22,196
Charter and other	37,434	146,063	84,961	70,659
Total operating revenues	2,296,673	1,802,979	1,379,286	1,237,276
Operating expenses	2,004,700	1,609,175	1,306,675	1,150,015
Operating income	291,973	193,804	72,611	87,261
Other expenses (income), net	32,336	36,361	18,725	6,827 (6)
Income before income taxes	259,637	157,443	53,886	80,434
Provision for income taxes (3)	105,353	60,058	20,738	29,829
Net income (3)	\$ 154,284 (4)	\$ 97,385 (5)	\$ 33,148	\$ 50,605
Net income per common and common equivalent share (3)	\$1.05 (4)	\$.68 (5)	\$.25	\$.39
Cash dividends per common share	\$.03867	\$.03533	\$.03333	\$.03223
Total assets	\$ 2,576,037	\$ 2,368,856	\$ 1,854,331	\$ 1,480,813
Long-term debt	\$ 639,136	\$ 735,754	\$ 617,434	\$ 327,553
Stockholders' equity	\$ 1,054,019	\$ 879,536	\$ 635,793	\$ 607,294

Consolidated Financial Ratios (1)

Return on average total assets	6.2% (4)	4.6% (5)	2.0%	3.5%
Return on average stockholders' equity	16.0% (4)	12.9% (5)	5.3%	8.4%
Debt as a percentage of invested capital	37.7%	45.5%	49.3%	35.0%

Consolidated Operating Statistics (2)

Revenue passengers carried	36,955,221 (13)	27,839,284	22,669,942	19,830,941
RPMs (000s)	18,827,288	13,787,005	11,296,183	9,958,940
ASMs (000s)	27,511,000	21,366,642	18,491,003	16,411,115
Load factor	68.4%	64.5%	61.1%	60.7%
Average length of passenger haul	509	495	498	502
Trips flown	546,297	438,184	382,752	338,108
Average passenger fare	\$59.97	\$58.33	\$55.93	\$57.71
Passenger revenue yield per RPM	11.77¢	11.78¢	11.22¢	11.49¢
Operating revenue yield per ASM	8.35¢	7.89¢	7.10¢	7.23¢
Operating expenses per ASM	7.25¢ (14)	7.03¢	6.76¢	6.73¢
Fuel cost per gallon (average)	59.15¢	60.82¢	65.69¢	77.89¢
Number of Employees at yearend	15,175	11,397	9,778	8,620
Size of fleet at yearend (15)	178	141	124	106

(1) The Selected Consolidated Financial Data and Consolidated Financial Ratios for 1992 through 1989 have been restated to include the financial results of Morris. Years prior to 1989 were immaterial for restatement purposes

(2) Prior to 1993, Morris operated as a charter carrier; therefore, no Morris statistics are included for these years

(3) Pro forma assuming Morris, an S-Corporation prior to 1993, was taxed at statutory rates

(4) Excludes cumulative effect of accounting changes of \$15.3 million (\$.10 per share)

(5) Excludes cumulative effect of accounting change of \$12.5 million (\$.09 per share)

(6) Includes \$2.6 million gains on sales of aircraft and \$3.1 million from the sale of certain financial assets

(7) 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

1989	1988	1987	1986	1985 (12)	1984
\$ 973,568	\$ 828,343	\$ 751,649	\$ 742,287	\$ 656,689	\$ 519,106
18,771	14,433	13,428	13,621	13,643	12,115
65,390	17,658	13,251	12,882	9,340	4,727
1,057,729	860,434	778,328	768,790	679,672	535,948
955,689	774,454	747,881	679,827	601,148	467,451
102,040	85,980	30,447 (9)	88,963	78,524	68,497
(13,696) (7)	620 (8)	1,374 (10)	23,517 (11)	17,740	649
115,736	85,360	29,073	65,446	60,784	67,848
41,231	27,408	8,918	15,411	13,506	18,124
\$ 74,505	\$ 57,952	\$ 20,155	\$ 50,035	\$ 47,278	\$ 49,724
\$.54	\$.41	\$.14	\$.34	\$.34	\$.38
\$.03110	\$.02943	\$.02890	\$.02890	\$.02890	\$.02890
\$ 1,423,298	\$ 1,308,389	\$ 1,042,640	\$ 1,061,419	\$ 1,002,403	\$ 646,244
\$ 354,150	\$ 369,541	\$ 251,130	\$ 339,069	\$ 381,308	\$ 153,314
\$ 591,794	\$ 567,375	\$ 514,278	\$ 511,850	\$ 466,004	\$ 361,768
5.5%	5.1%	1.9%	4.8%	5.6%	8.1%
12.9%	10.8%	4.0%	10.3%	11.4%	14.7%
37.4%	39.4%	32.8%	39.8%	45.0%	29.8%
17,958,263	14,876,582	13,503,242	13,637,515	12,651,239	10,697,544
9,281,992	7,676,257	7,789,376	7,388,401	5,971,400	4,669,435
14,796,732	13,309,044	13,331,055	12,574,484	9,884,526	7,983,093
62.7%	57.7%	58.4%	58.8%	60.4%	58.5%
517	516	577	542	472	436
304,673	274,859	270,559	262,082	230,227	200,124
\$54.21	\$55.68	\$55.66	\$54.43	\$51.91	\$48.53
10.49¢	10.79¢	9.65¢	10.05¢	11.00¢	11.12¢
6.86¢	6.47¢	5.84¢	6.11¢	6.88¢	6.71¢
6.20¢	5.82¢	5.61¢	5.41¢	6.08¢	5.86¢
59.46¢	51.37¢	54.31¢	51.42¢	78.17¢	82.44¢
7,760	6,467	5,765	5,819	5,271	3,934
94	85	75	79	70	54

(8) Includes \$5.6 million gains on sales of aircraft and \$3.6 million from the sale of certain financial assets

(9) Includes TranStar's results through June 30, 1987

(10) Includes \$10.1 million net gains from the discontinuance of TranStar's operations and \$4.3 million from the sale of certain financial assets

(11) Includes a gain of \$4 million from the sale of aircraft delivery positions

(12) Includes the accounts of TranStar since June 30, 1985

(13) Includes certain estimates for Morris

(14) Excludes merger expenses of \$10.8 million

(15) Includes leased aircraft

SOUTHWEST AIRLINES CO.

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 19, 1994 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.

THE SOUTHWEST AIRLINES
CUSTOMER PLEDGE

WE, THE PEOPLE OF
SOUTHWEST AIRLINES,
SAY TO YOU,
OUR LOYAL CUSTOMER,
THANK YOU,
OUR SHAREHOLDERS,
AND PLEDGE TO SERVE,
HONOR, AND PROTECT YOU,
EVERY MINUTE
OF EVERY DAY,
ON THE GROUND,
IN THE AIR,
AND IN OUR HEARTS.



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