

Southwest Airlines Co.

“In 1990,  
we made a  
profit.”



*Herbert A. Kelleher*

1990 Annual Report

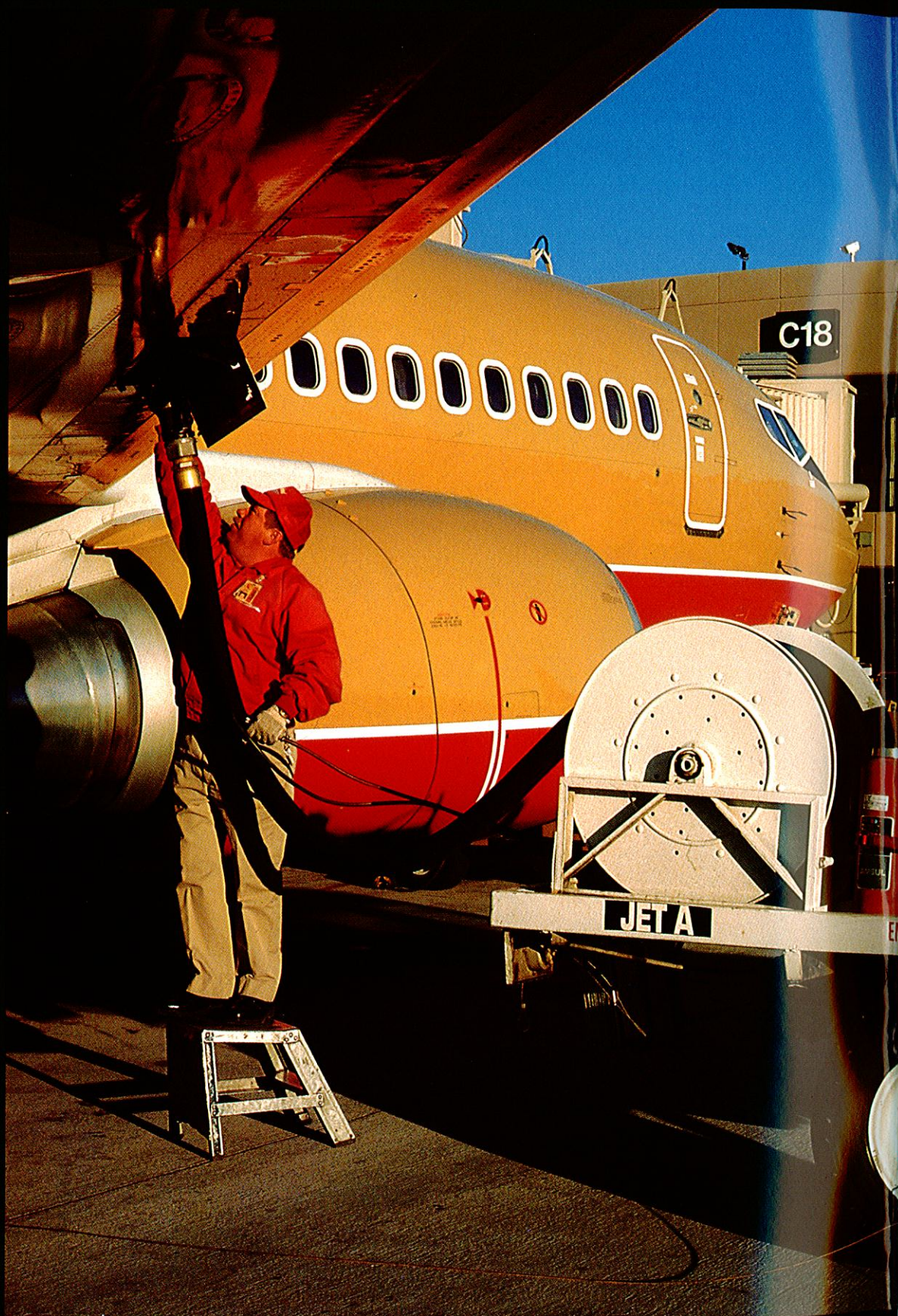
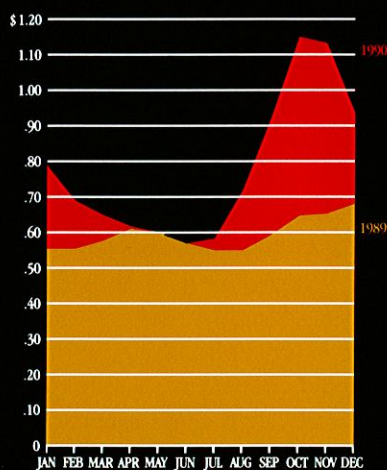




## FUELING THE PROFIT SQUEEZE

Dramatic increases in the cost of jet fuel, particularly in the third and fourth quarters, robbed Southwest of what might have been a record year. The chart below shows the unprecedented rise in fuel costs month-to-month between 1989 and 1990. Each one cent change in the jet fuel cost per gallon equated to about \$3.1 million per year, or \$260,000 per month. Nevertheless, Southwest was one of the few airlines in the world to make a profit in 1990. ►

**Monthly Average  
Fuel Cost Per Gallon**





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## CONSOLIDATED HIGHLIGHTS

(dollars in thousands, except per share amounts)

	1990	1989	Percent change
Operating revenues .....	\$1,186,759	\$1,015,052	16.9
Operating expenses .....	\$1,104,880	\$917,426	20.4
Operating income .....	\$81,879	\$97,626	(16.1)
Operating margin .....	6.9%	9.6%	(2.7) pts.
Net income .....	\$47,083	\$71,558	(34.2)
Net income per common and common equivalent share .....	\$1.10	\$1.58	(30.4)
Stockholders' equity .....	\$604,851	\$587,316	3.0
Return on average stockholders' equity .....	7.9%	12.4%	(4.5) pts.
Long-term debt as a % of total invested capital .....	35.1%	37.6%	(2.5) pts.
Stockholders' equity per common share outstanding .....	\$14.35	\$13.40	7.1
Revenue passengers carried .....	19,830,941	17,958,263	10.4
Revenue passenger miles (RPM) (000s) .....	9,958,940	9,281,992	7.3
Available seat miles (ASM) (000s) .....	16,411,115	14,796,732	10.9
Passenger load factor .....	60.7%	62.7%	(2.0) pts.
Passenger revenue yield per RPM .....	11.49¢	10.49¢	9.5
Operating revenue yield per ASM .....	7.23¢	6.86¢	5.4
Operating expenses per ASM .....	6.73¢	6.20¢	8.5
Number of employees at yearend .....	8,620	7,760	11.1

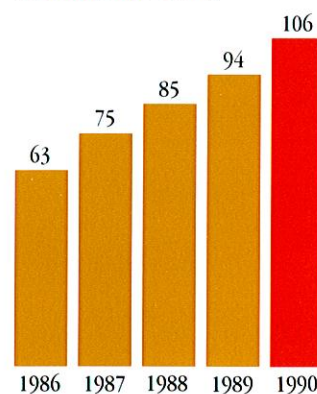
**Net Income**  
(in millions)



**Net Income Per Share**



**Fleet Size**  
(at yearend, Southwest only)





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 1990, Southwest operated 106 Boeing 737 aircraft and provided service to 33 airports in 31 cities in the midwestern, southwestern, and western regions of the United States. The Company has one of the best overall Customer service records, the lowest operating cost structure per average stage length, 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.





## TO OUR SHAREHOLDERS

A quarterly loss has been a rarity at Southwest Airlines since 1973. Nonetheless, we report our fourth quarter 1990 loss of \$4,581,000 (\$.11 per share) with pride rather than despond. It is the smallest by far of the quarterly losses reported by the major U.S. carriers. And it is, therefore, both a token of Southwest's strength and a favorable augury; not a sign nor a harbinger of disability.

**In 1990, we made a profit.** That profit of \$47,083,000 (\$1.10 per share) is also a source of pride in an industry devastated by the synergetic effect of recession and wartime fuel prices. Although our annual earnings declined by 34.2 percent from 1989's record \$71,558,000, a profit was an uncommon accomplishment for an airline. And our net profit margin of 3.97 percent should lead the major carriers and, possibly, the domestic industry.

Southwest did *not* suffer in 1990 from declining demand occasioned by a declining economy. Our Customers boarded increased by 10.4 percent; our revenue per revenue passenger mile by 9.53 percent; our operating revenue per available seat mile by 5.4 percent; and our total operating revenues by 16.9 percent. Fourth quarter 1990 operating revenues exceeded those of fourth quarter 1989 by 18.0 percent.

*Neither* did Southwest suffer in 1990 from undue escalation of nonfuel costs. Our operating costs per available seat mile, absent fuel, increased by 3.95 percent year over year and by 3.50 percent quarter over quarter.

Despite a \$16,450,000 diminution in pretax nonoperating gains from 1989 to 1990, Southwest would have reported record profits for the fourth quarter and year 1990 had it not been for a precipitous rise in jet fuel prices. Jet fuel increased 63.4 percent per gallon from fourth quarter 1989 to fourth quarter 1990 (65.54 cents to 107.11 cents) and 31.0 percent per gallon year over year (59.46 cents to 77.89 cents). If there had been no increase from 1989 to 1990, Southwest's fourth quarter 1990 jet fuel costs would have been reduced by \$32,000,000 and our year 1990 fuel costs by \$57,000,000. Fuel price escalation alone caused our fourth quarter 1990 loss and our failure in 1990 to achieve our third consecutive year of record net earnings.

High energy prices have accelerated and accentuated our nation's recession. War has dampened consumer travel demand. Discounted fares are begetting discounted fares; ticket sales are begetting ticket sales; and frequent flyer bonuses are begetting frequent flyer bonuses. The first quarter of 1991 will not be auspicious for our country, our industry, or our Company. With comparatively low costs; superb marketing capabilities; no scheduled aircraft deliveries; cash resources of approximately \$300,000,000; and perhaps a degree of service contraction by some of our competitors, Southwest should fare *comparatively* well in first quarter 1991, however. Profound uncertainties with respect to world and national economic conditions obviously preclude a definitive forecast.

For multitudinous years I have written about the dedication, warmth, and special accomplishments of the people of Southwest. Their feats are legendary; their will indomitable; and their hearts huge. Their caring for their Company has caused them to establish voluntarily a "Fuel from the Heart" program whereby many are incurring payroll deductions in order to purchase fuel for Southwest, demonstrating once more that ours is not just a corporation; not only a business; but a lovely and loving family.

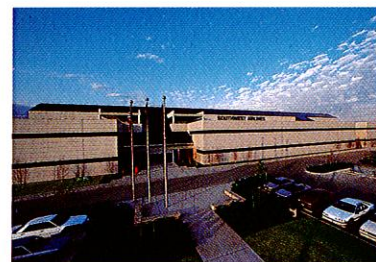
With tears in my eyes and heartfelt thanksgiving, I dedicate this Letter to the "Fuel from the Heart" program. Thank you!

Most sincerely,



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

January 27, 1991



Solving the dilemma was simple:  
What to call our striking new  
corporate headquarters at Dallas  
Love Field? We call it, "Home."



## THE WEST

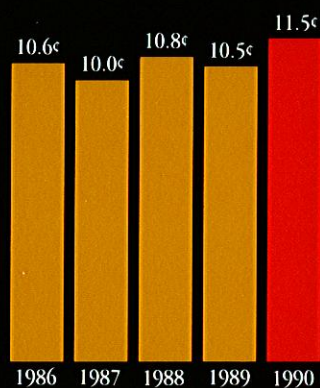


Convenient Oakland International Airport is a strategic link in Southwest's intrastate California operation. Southwest is the fastest growing major airline in the state and the second to United in terms of Oakland Customers boarded. ▶



### Average Revenue Per Passenger Mile

(Southwest only)





**If Southwest is the native son airline of Texas, we are fast becoming the favorite son airline of California.**

There is a nostalgia, a longing for the return of a low fare, high frequency airline, and Southwest is the closest thing in the American airline industry to the former PSA or Air Cal.

We are the nation's only shorthaul, low fare, high frequency, noninterlining, point-to-point carrier. Carriers such as PSA and Air Cal, on a comparative basis, fared better during recessionary times than longer-haul carriers.

**THE WEST IN REVIEW.** Our low fare, high frequency, point-to-point service has been received very well in our western markets, which cover New Mexico, Arizona, Nevada, and California. We currently have 48 percent of our system capacity, as expressed in available seat miles (ASMs), in this geographic region. This region contains 11 cities, including El Paso, Texas, and has been the focus of our expansion activities over the last several years. Service was initiated in Oakland, California, in 1989 and in Burbank, California, and Reno, Nevada, in 1990. We now offer 22 weekday roundtrips between the San Francisco Bay area and the Los Angeles basin and 14 weekday roundtrips between the San Francisco Bay area and San Diego. Despite the intense competition in these markets, we have been quite successful with our formula of low fares, frequent flights, and fun Customer service. We have substantial operations in El Paso, Phoenix, Las Vegas, Albuquerque, San Diego, and Oakland, each having daily departures of 40 or more. We recently acquired more gate facilities at Oakland, nearly doubling our capacity for future Oakland flight operations. Phoenix now ranks third on our system in terms of originating Customer boardings; Las Vegas, fourth; San Diego, fifth; Los Angeles International, sixth; Albuquerque, seventh; El Paso, eighth; Oakland, tenth; Ontario, fourteenth; and Burbank, eighteenth. This region should continue to provide expansion opportunities for Southwest Airlines in the years to come.

*Southwest's major promotion with Kentucky Fried Chicken was a high-flying success. Customers flocked to the restaurants for a free roundtrip companion ticket.*



VISUAL: MUSIC BOX, BABY CRYING.  
ANNCR: For 20 years, Southwest Airlines people have made flying fun simply by being friendlier.



VISUAL: ANOTHER CRYING BABY.  
ANNCR: And since we believe friendly people are born, not made...



VISUAL: HAPPY SMILING BABY WEARING SOUTHWEST WINGS.  
ANNCR: ... we recruit them as early as possible.



ANNCR: Southwest Airlines. Celebrating 20 years of loving you.



## PHOENIX

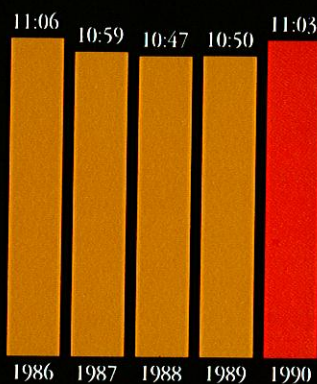


The striking new Terminal Four facility at Phoenix Sky Harbor Airport is a bold statement of our commitment to this burgeoning western market. We fully expect Phoenix to become the largest daily departure point on our system. ▶



### Aircraft Utilization

(hours and minutes per day, Southwest only)





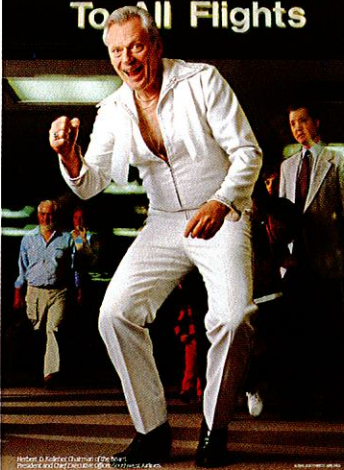
**If our former facility at Phoenix was a diamond in the rough, our new Terminal Four facility at Phoenix Sky Harbor Airport is a carefully polished gem.**

Sparkling copper and cool jade green announce our arrival in this traveler's oasis, a convenient connection with our westernmost destinations, Las Vegas, San Diego, San Francisco, Oakland, Los Angeles, Burbank, and Ontario. To the east are Albuquerque, El Paso, and our Heartland destinations.

Phoenix was vital to our western expansion in the '80s and remains a pivotal point in our plans for the coming decade.

**PHOENIX IN REVIEW.** Southwest's service to Phoenix, Arizona, has been expanded dramatically over the last five years and offers many opportunities for future expansion as well. With the move into the new Terminal Four facility, we have greatly enhanced our presence and expansion capability. This facility is now the finest on our system and will likely become the largest in terms of daily departures. Phoenix now offers 116 weekday departures, third largest on our system. We boasted the number one market share ranking in each of our Phoenix short-haul, nonstop markets as of third quarter 1990. The Phoenix to Los Angeles International market was our second largest, in terms of nonstop Customers, with Phoenix to San Diego ranked fourth and Phoenix to Las Vegas, eighth.

*Potential recruits for Southwest Airlines get a healthy dose of Southwest Spirit in this advertisement for "fun-loving, friendly people." Qualifications? "It helps to be outgoing. Maybe even a bit off-center. And be prepared to stay awhile." Southwest has the lowest employee turnover rate in the industry.*



## To All Flights

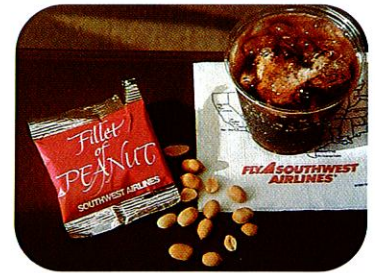
# WORK IN A PLACE WHERE ELVIS HAS BEEN SPOTTED.

No doubt about it, Southwest Airlines has a distinct personality. For instance, how many major airlines have the King of Rock and Roll for a CEO? Or pilots who do impersonations? Right attendants who sing or solicit agents who do stand-up comedy? And how many have a success story to make ours? If they were one of the fastest growing companies around which means we're always looking for more fun-loving, friendly people.

The qualifications? It helps to be outgoing. Maybe even a bit off-center. And be prepared to stay awhile. After all, we have the lowest employee turnover rate in the industry. We also offer outstanding growth opportunities, profit sharing and lots of neat places to live. If this sounds good to you, just phone our toll-free line at 1-800-444-4863 or just send us your resume to P.O. Box 9601, Dallas, Texas 75209-1601. Attention: BVA.

If you come aboard, we can't promise a free Cadillac, but there's a good chance you'll meet the King. If he's spotted, Elvis! Meridian, ignore him! We're trying to break him of that!

**SOUTHWEST AIRLINES**



**VISUAL:** PEANUTS ON SEATBACK TRAY.  
**ANNCR:** Because most of Southwest Airlines' flights are short, we serve snacks...



**VISUAL:** TYPICAL AIRLINE MEAL.  
**ANNCR:** ... which saves you money, because you don't have to pay for an airline meal...



**VISUAL:** ANTACID TABLETS IN GLASS.  
**ANNCR:** ... or anything associated with an airline meal.



**ANNCR:** Southwest Airlines. We save you time and money.



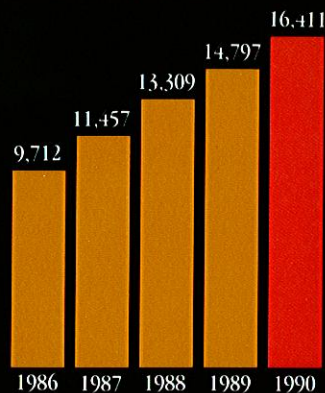
## THE HEARTLAND



The Southwest Maintenance Operations Center at Houston Hobby Airport encompasses 13 acres and currently employs 150 people. The facility, which can service up to six Boeing 737s, began operation on July 4, 1989. ▶

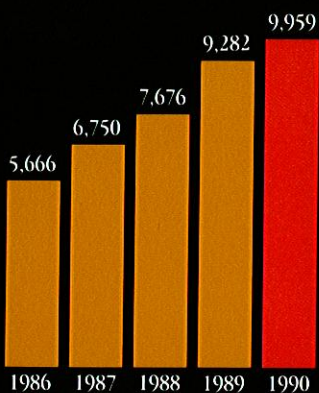
### Available Seat Miles

(in millions, Southwest only)



### Revenue Passenger Miles

(in millions, Southwest only)





## LONE STAR ONE

On November 7, 1990, Southwest Airlines proudly unfurled Lone Star One, a flagship in our Boeing 737 fleet and a high-flying tribute to the indomitable spirit that makes Texas a true state of mind. The celebration in Austin marked the beginning of a year-long celebration of our upcoming systemwide Twentieth Anniversary. ►





WEST

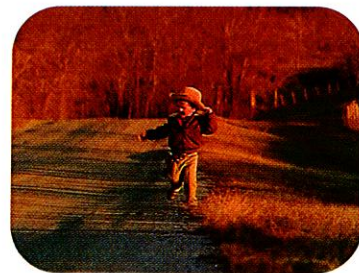
N352SW











SINGER: I grew up in Texas, with black-top roads...



SINGER: And horny toads...



SINGER: And starry, starry nights...

ANNCR: On this, our Twentieth Anniversary, Southwest Airlines proudly unfurls Lone Star One...



SINGERS: Shinin' in the Texas sky,  
The Lone Star is flyin' high.





**With LUV as our stock exchange symbol, it is not surprising that we call our original Texas markets, Oklahoma, Louisiana, Arkansas, and neighboring Alabama, "The Heartland."**

The Heartland is our most mature region. From our original "Texas Triangle" – Dallas, Houston, and San Antonio – Southwest has become a dominant force in shorthaul, point-to-point travel to the destinations we serve.

We are encouraged with the success of, and the continuing growth opportunities in, this key region.

**THE HEARTLAND IN REVIEW.** Our Heartland markets encompass the traditional energy belt states of Texas, Oklahoma, and Louisiana, as well as Arkansas and Alabama. In all, the Heartland includes 15 airport locations. Excluding El Paso, we have 10 Texas airports, at nine of which we are number one in Customer boardings. Further, we have captured over 60 percent of the intra-Texas market with our focus on shorthaul, point-to-point traffic and our low fare, high frequency service. This region is the most mature and includes approximately 41 percent of our overall system capacity. It also includes two of our three largest departure points: Houston Hobby, with 127 weekday departures, and Dallas Love, with 124 weekday departures. The next largest cities, San Antonio and Austin, have 41 and 36 weekday departures, respectively. Dallas-Houston was our number one city pair market in terms of Customer traffic with 83 flights each weekday. Dallas-San Antonio ranked third; Dallas-Austin, fifth, Houston-New Orleans, seventh; and Houston-San Antonio, ninth. Growth opportunities in this region consist primarily of additional frequencies in existing markets.

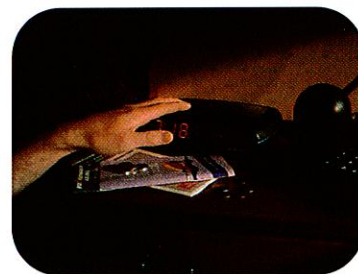
*Shamu® Three is the latest arrival of proud parents Shamu One and Shamu Two, our phenomenally popular flying whales – Boeing 737s that signal the partnership between Southwest Airlines and Sea Worlds of Texas and California.*



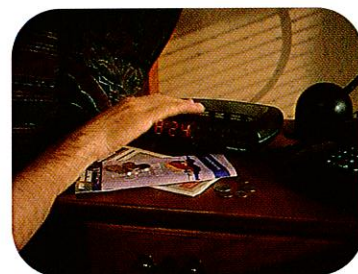
Shamu is a registered trademark of Sea World, Inc.



AUDIO: ALARM BUZZER GOES OFF.  
ANNCR: Because Southwest Airlines has more flights a day than other airlines...



AUDIO: ALARM GOES OFF AGAIN.  
ANNCR: ...if you miss one, you can probably catch the next one.



AUDIO: ALARM GOES OFF AGAIN AND AGAIN.  
ANNCR: Or the next one... Or the next one...



ANNCR: Southwest Airlines. We'll save you time and money.



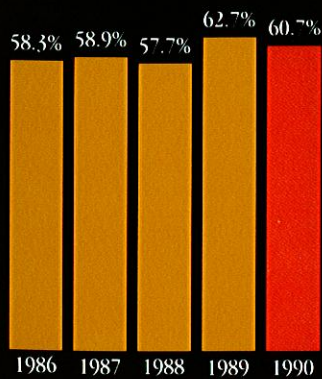
## THE MIDWEST



Activity in Southwest's facility in the East Terminal of St. Louis Lambert International Airport underscores the opportunity in this growing region. Southwest is currently the second largest carrier in terms of Customers boarded in St. Louis. ▶



**Passenger Load Factor**  
(Southwest only)





**The Midwest, while our youngest region, reflects many of the growth characteristics of the Heartland.**

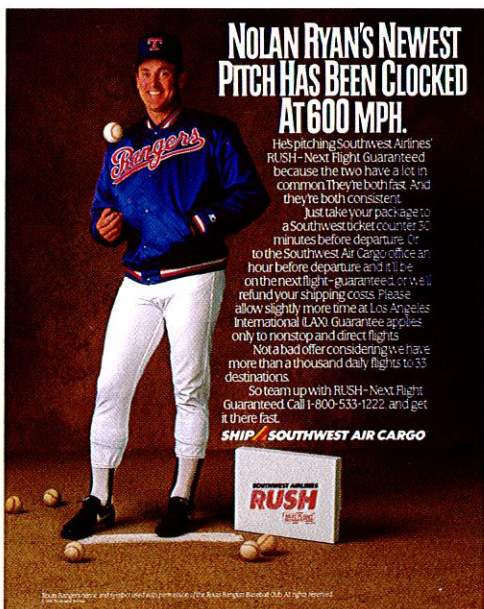
There are convenient downtown airports like Chicago Midway and Detroit City, coupled with the proximity of neighboring destinations like St. Louis, Indianapolis, and Kansas City.

We are firmly committed to the continued expansion of this region, and we remain particularly responsive to the needs of our business commuters.

**THE MIDWEST IN REVIEW.** This region is our youngest and smallest with approximately 11 percent of total available seat mile capacity. The Midwest region includes seven airports, the largest of which are St. Louis and Chicago Midway with 39 weekday departures each. In terms of originating boardings, Midway ranked thirteenth on our system with St. Louis, sixteenth. Detroit-Chicago ranked as our sixth largest city pair in terms of Customer traffic with Chicago-St. Louis twelfth. Expansion opportunities in this region are numerous and, most recently, have included Indianapolis and Detroit. We plan to expand our gate facilities in St. Louis in 1991.

As we continue to expand in the Midwest region, we believe our Customer service performance will enhance our results. Over 80 percent of our flights were on time in 1990. And, since 1987, we ranked second among the major airlines in ontime performance. We also had the best baggage handling and ran a close second in terms of fewest Customer complaints.

*In a repeat performance, Texas Ranger superstar Nolan Ryan pitches Southwest's RUSH Next Flight Guaranteed Air Cargo service. He also managed to pitch an all-time major league record sixth no-bitter, virtually assuring him Hall of Fame status.*



**NOLAN RYAN'S NEWEST PITCH HAS BEEN CLOCKED AT 600 MPH.**

He's pitching Southwest Airlines' RUSH-Next Flight Guaranteed because the two have a lot in common. They're both fast. And they're both consistent.

Just take your package to a Southwest ticket counter 90 minutes before departure. Or to the Southwest Air Cargo office an hour before departure and it'll be on the next flight-guaranteed, or we'll refund your shipping costs. Please allow slightly more time at Los Angeles International (LAX). Guarantee applies only to nonstop and direct flights. Not a bad offer considering we have more than a thousand daily flights to 33 destinations.

So team up with RUSH-Next Flight Guaranteed. Call 1-800-533-1222 and get it there fast.

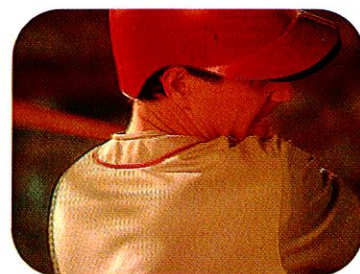
**SHIP / SOUTHWEST AIR CARGO**

**RUSH**  
Next Flight Guaranteed

Southwest Airlines and registered trademarks used by Southwest Airlines. All rights reserved.



**VISUAL:** BASEBALL GLOVE ON SWING  
**ANNCR:** Folks in Refugio, Texas, will tell you he was born to win...



**VISUAL:** YOUNG ROOKIE AT BAT  
**ANNCR:** These days he winds up against players who were *born* the year he first hit the major leagues...



**VISUAL:** RYAN & CATCHER LOOK SKYWARD  
**ANNCR:** Nobody knows more about consistency, dependability and reliability...



**ANNCR:** ... than Southwest. It's what got *us* to the majors, too.



YOUR COMPLIM

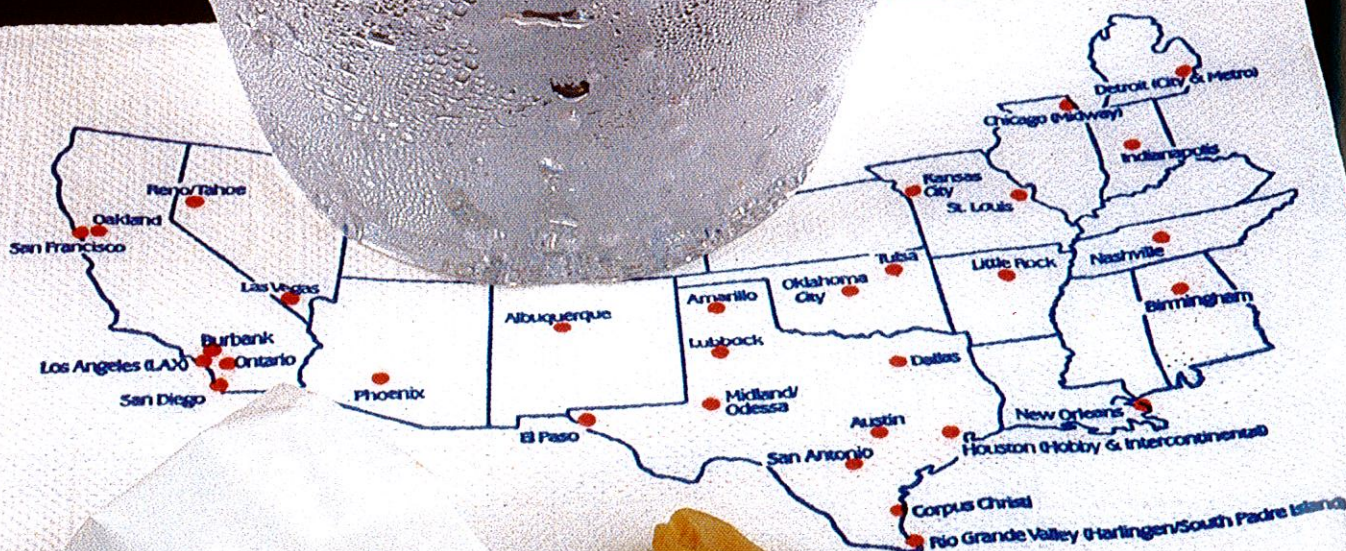
COFF

BOEING 737

SEGU



LANDING INSTRUCT



ST AIRLINES™



## For an airline on the eve of our Twentieth Anniversary, the route to the future seems firmly rooted in the past.

We intend to do what we have always done and do it better than anyone else: Southwest Airlines is a low fare, high frequency, shorthaul, noninterlining, point-to-point carrier which targets the business commuter as well as leisure travelers.

Our continued success in the midwestern, southwestern, and western regions of the country depends not so much on luck as pluck. It is the keen desire to win that makes our employees, and hence our airline, among the most successful in the industry today.

**THE ROUTE SYSTEM IN REVIEW.** Our market focus is on the shorthaul Customer flying generally no more than one hour. We have designed our route system to best serve the needs of this market and have targeted cities that have strong local demand for shorthaul air transportation.

Southwest has adhered to a linear or point-to-point method of routing our aircraft. This provides for more direct nonstop routings for our shorthaul Customers, as compared to our competitors who hub-and-spoke. As a result, almost 80 percent of our Customers are able to fly us without making any stop or connection. We also tend to serve convenient satellite airports and avoid major hubs and their congestion, where possible. This enhances our ability to achieve high on-time performance. To further accentuate our convenience for the shorthaul Customer, we offer multiple flights between city pairs at desired times. Most city pair markets have no less than 10 weekday departures each way.

Inherent in our business is the necessity to minimize costs in order to provide the lowest fares possible for the price sensitive shorthaul Customer. Our scheduling is designed with this in mind as we strive to minimize the amount of time an aircraft is at the gate, generally no more than 15 minutes. This high utilization of ground facilities and aircraft translates into fewer asset requirements and, therefore, lower costs. Our focus on the shorthaul market niche requires that we design our services in such a way that we can accomplish this high asset utilization. For example, we do not assign seats in order that we may speed up the boarding process.

**AIRCRAFT FLEET.** Southwest operates only Boeing 737 aircraft, having grown from three in June 1971 to 106 at the end of 1990. This unique commitment to a single aircraft type significantly simplifies maintenance, flight operations, and training activities. The 737 has proven to be one of aviation's most successful aircraft—it is attractive and comfortable for Customers and is cost-effective to operate from the airlines' perspective. And it is particularly well-suited for operation in Southwest's shorthaul markets.

Over half of the fleet consists of 737-300s and -500s, which are more fuel efficient than the older 737 models and which meet Stage 3 reduced noise level requirements.

Southwest has the youngest pure-jet fleet in the nation, with an average age of 6.1 years, and has future delivery positions and options available to adequately meet our expansion needs and maintain a young efficient fleet. At December 31, 1990, Southwest had 106 aircraft on hand plus 50 firm deliveries on order and 68 options, as follows:

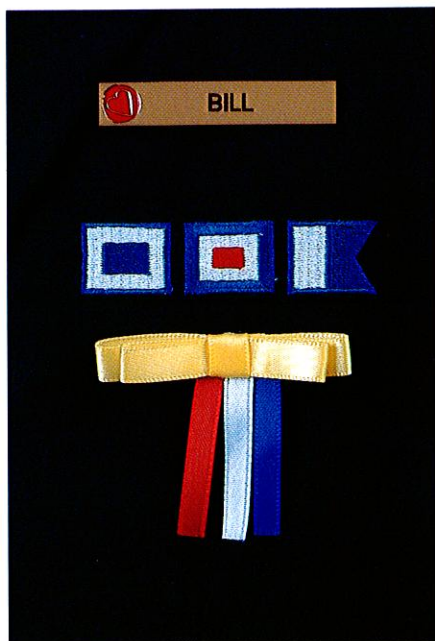
TYPE	SEATS	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
737-200	122	46	—	—	—	—	—	—	—	—	—
737-300	137	50	3	6	6	3	—	—	—	—	—
737-500	122	10	8	7	7	10	10	10	16	16	16
TOTAL		106	11	13	13	13	10	10	16	16	16

## ROUTE TO THE FUTURE

The Southwest Airlines Route System stretches from San Diego, Ontario, Los Angeles, Oakland, and San Francisco in the West to Birmingham and Nashville; from Detroit and Chicago to the Rio Grande Valley in Texas. We added two new cities in 1990, Burbank and Reno. ◀



## DEDICATION



This 1990 Annual Report is dedicated to the brave Southwest employees serving in the Middle East, and to their families and friends.

*The Company Club,\* our frequent flyer program that rewards Customers for short trips instead of long mileage, remains the shortest route to free trips.*



## DIRECTORS

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

**GENE H. BISHOP**  
Vice Chairman and Chief Financial Officer,  
Lomas Financial Corp., Dallas, Texas; Audit,  
Compensation, and Executive Committees

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

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

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

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

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

## OFFICERS

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

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

**JOHN G. DENISON\***  
Executive Vice President—  
Corporate Services

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

**DANIEL W. HAY**  
Vice President—Systems

**CAMILLE T. KEITH**  
Vice President—Special Marketing

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

**WILLIAM Q. MILLER**  
Vice President—Inflight Service

**JAMES F. PARKER\***  
Vice President—General Counsel

**PAUL J. QUINN**  
Vice President—Schedule Planning

**MARGARET ANN RHOADES**  
Vice President—People

**RON RICKS\***  
Vice President—Governmental Affairs

**ROGER W. SAARI**  
Vice President—Fuel and Administrative  
Purchasing

**PAUL E. STERBENZ**  
Vice President—Flight Operations

**DONALD G. VALENTINE\***  
Vice President—Marketing

**JOHN A. VIDAL**  
Vice President—Maintenance

**JAMES C. WIMBERLY\***  
Vice President—Ground Operations

**WILLIAM D. LYONS**  
Controller

**JOHN D. OWEN**  
Treasurer

**ALAN S. DAVIS**  
Director, Internal Audit and Special Projects

\*Member of Executive Planning Committee



# Southwest Airlines Co.

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

### INDUSTRY CONDITIONS

The airline industry underwent tremendous change during 1990 and more changes are anticipated in future years. The general economic recession which manifested itself in fourth quarter 1990 was preceded by a recession in the airline industry. The Iraqi invasion of Kuwait, and the resulting rise in jet fuel costs, only served to exacerbate the problems of the already weakened industry. The resulting squeeze on earnings – lower revenue growth due to slackening traffic demand and increased costs due to enormous increases in jet fuel costs – resulted in recent bankruptcy filings at two of the U.S. major carriers along with the liquidation of another U.S. major carrier previously bankrupt. Of the remaining eight U.S. major airlines and two medium-sized national carriers, several are known to be in financial difficulty and have high levels of debt; reported large operating losses; defaulted on debt and lease payments; deferred aircraft deliveries; laid off employees; or reduced operations.

With the undertaking of Operation Desert Storm in January 1991, the industry experienced further reductions in traffic demand, apparently due to passenger reluctance to travel during the conflict. This has been apparent to a greater degree on international routes than the domestic routes such as those served by the Company.

Although the Company has been negatively impacted by the economic conditions referred to above culminating in a modest \$4.6 million net loss for fourth quarter 1990, it has not been impacted to the degree that the group of carriers described above has been because of its relatively low levels of debt and operating costs and shorthaul, low-fare market niche. The financial condition of the Company's competitors provides uncertainties, of which the impact upon the Company cannot be accurately predicted. For example, the reduction of service by competitors in the Company's markets may or may not prove beneficial to and allow for more traffic growth by the Company. Alternatively, general economic conditions, including jet fuel costs, may or may not continue to negatively affect the Company's financial performance throughout 1991.

### RESULTS OF OPERATIONS

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

**Operating Revenues** Passenger revenues, which accounted for 96.4 percent of total consolidated operating revenues, increased by 17.5 percent in 1990 to an all-time high of \$1,144.4 million. This resulted from a 7.3 percent increase in revenue passenger miles

(RPMs) in 1990 and a 9.5 percent increase in revenue passenger yield per RPM to \$.1149 from \$.1049 in 1989. The increase in revenue passenger yield per RPM primarily resulted from fare increases implemented during 1990 and a larger percentage of higher-yielding (per mile) shorthaul traffic in 1990 as compared to 1989. The increase in passenger traffic was exceeded by the 10.9 percent increase in available seat miles (ASMs) resulting in a 2.0 point decrease in the passenger load factor from 62.7 percent to 60.7 percent. Despite a weakening general economy and slower domestic traffic growth rates for the airline industry as a whole, the Company achieved above average traffic growth and load factors during 1990. The 1990 ASM increase primarily occurred in flights to and from Oakland, Burbank, Las Vegas and Reno.

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

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

	1990	1989	Increase (decrease)	Percent change
Salaries, wages and benefits	2.07¢	1.95¢	.12¢	6.2
Profit sharing and employee savings plans	.11	.08	.03	37.5
Fuel and oil	1.47	1.14	.33	28.9
Maintenance materials and repairs	.51	.51	—	—
Agency commissions	.44	.42	.02	4.8
Aircraft rentals	.16	.15	.01	6.7
Landing fees and other rentals	.37	.35	.02	5.7
Depreciation	.48	.49	(.01)	(2.0)
Other	1.12	1.11	.01	0.9
Total	6.73¢	6.20¢	.53¢	8.5

1990 Annual Report



The increase in salaries, wages and benefits per ASM in 1990 resulted from increases of 4.8 percent in salaries and wages per ASM, or .08¢, and 15.3 percent in employee benefits per ASM, or .04¢. The employee benefits increase resulted from increases in workers compensation and health benefits costs. These increases were caused by the spiraling increase in the cost to provide medical care. The Company has begun implementation of various cost savings initiatives to attempt to control the annual increase in these benefit costs. The impact these measures may have on these benefit costs cannot currently be quantified. Headcount increased 11.1 percent in 1990 which approximated the 10.9 percent increase in ASMs and the 10.4 percent increase in revenue passengers carried. Average salary and benefit costs per employee increased 5.7 percent from 1989 to 1990.

In 1990 and January 1991, the Company signed new collective bargaining agreements with the Southwest Airlines Pilot Association (pilots), International Brotherhood of Teamsters Airline Division (mechanics, stock clerks and aircraft cleaners), Ramp, Operations and Provisioning Association (fleet service) and the Southwest Airlines Professional Instructors Association (flight crew instructors) employee groups. These contracts, along with the contract signed in 1989 with the customer service employees, extend into the year 1994 and in some cases 1995. In 1991, the Company will begin negotiations with the flight attendants' union and the Flight Simulator Technicians Association.

Although the Company's profit declined in 1990, profit sharing expense increased as a result of a change in the Company's Profit Sharing Plan and the addition of Company-matching employee savings plan contributions as more fully described in Note 8 to the Consolidated Financial Statements.

Fuel and oil expenses increased due to an increase in the jet fuel average cost per gallon of 31.0 percent to 77.89¢ in 1990 from 59.46¢ in 1989. In August 1990, Iraq conducted a military invasion of the Persian Gulf country of Kuwait. In response, the United States led a United Nations alliance opposing the Iraqi occupation of Kuwait and demanded an immediate withdrawal. Economic sanctions, including an oil embargo, were quickly implemented against Iraq. This had the effect of immediately reducing world oil production and, as a result, crude oil prices soared based on speculative fears of a supply shortage or interruption. As a result, jet fuel prices increased from a July 1990 pre-invasion average of 57.79¢ per gallon to a peak average cost for October 1990 of 114.75¢ per gallon. Other oil-producing countries, most notably Saudi Arabia, have since increased their production which, coupled with a world-wide decrease in demand for petroleum products, has resulted in an adequate supply of oil to meet world demand even without Iraqi and Kuwaiti production. As a result, prices have since declined steadily throughout the November through January 1991 period such that the January average price per gallon for jet fuel was approximately 82¢. However, the political situation surrounding the Middle East is still uncertain and crude oil prices, and therefore, jet fuel prices, may remain volatile.

Maintenance materials and repairs remained the same on a per-ASM basis for 1990 as compared to 1989. It is currently anticipated that the number of engine and airframe overhauls and, therefore, the overhaul cost component of the maintenance expense per ASM, will increase in 1991, partially due to the more expensive overhauls for the 737-300 high bypass engines. However, due to the unpredictable nature of equipment repairs, this cost category cannot be accurately predicted.

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

Other Other expenses (income) included interest expense, interest income and nonoperating gains and losses. Interest expense decreased slightly in 1990 as a result of lower outstanding debt balances. Capitalized interest increased \$3.5 million in 1990 due to higher levels of advance payments on aircraft. Interest income decreased \$9.0 million in 1990 due to lower investment balances and interest rates available during most of 1990. See Consolidated Statement of Cash Flows for more information. Net nonoperating gains declined to \$3.5 million in 1990 from \$20.0 million in 1989, as more fully described in Note 9 to the Consolidated Financial Statements.

**Income Taxes** The provision for income taxes increased in 1990 as a percentage of income before income taxes to 37.0 percent from 35.5 percent in 1989. The increase is primarily attributable to a reduction in available investment tax credits as a result of certain transitional rules contained in the Tax Reform Act of 1986. There were no investment tax credits available in 1990. The investment tax credits utilized in 1989 for financial reporting purposes, after providing deferred taxes for the corresponding reductions in the tax bases of the related assets, were \$1.4 million. See Note 10 to the Consolidated Financial Statements for further information.

**1989 COMPARED WITH 1988** The Company's consolidated net income for the year 1989 was \$71.6 million (\$1.58 per share) compared with \$58.0 million (\$1.23 per share) for 1988, an increase of 23.5 percent. The earnings per share amounts have been restated for the third quarter 1990 three-for-two stock split. This increase was primarily attributable to an increase in operating income of 13.5 percent resulting from traffic gains of 20.9 percent and an increase in nonoperating gains of \$11.6 million, before the effects of income taxes.



**Operating Revenues** Passenger revenues, which accounted for 95.9 percent of total consolidated operating revenues, increased by 17.5 percent in 1989 to \$973.6 million. This resulted primarily from a 20.9 percent increase in RPMs in 1989. The increase in passenger traffic exceeded the 11.2 percent increase in ASMs resulting in a 5.0 point increase in the passenger load factor from 57.7 percent to 62.7 percent. The increase in passenger traffic was primarily attributable to Southwest's low fare structure in relation to its competition, improving overall economic conditions in Southwest's markets and successful first quarter 1989 promotional activities. As compared to 1988, the 1989 traffic increases were in part achieved by incrementally carrying a greater portion of lower-yielding leisure class passengers, resulting in a slight decrease in the passenger revenue yield per RPM of 2.8 percent to \$.1049.

Freight revenues increased 30.1 percent in 1989 to \$18.8 million from \$14.4 million in 1988 due to a \$2.8 million increase in U.S. Mail revenues as a result of expanded U.S. Mail services in 1989. In addition, other revenues increased 28.6 percent in 1989 primarily from an increase in military charter revenues.

**Operating Expenses** Consolidated operating expenses increased 18.5 percent in 1989 to \$917.4 million from \$774.5 million in 1988. The primary factors contributing to the increase were the 11.2 percent increase in ASMs, resulting from the addition of nine new 737-300s to the aircraft fleet, and increases in salaries, wages and benefits; fuel and oil; and maintenance costs. This represents an increase in operating expenses per ASM of 6.5 percent over 1988 levels.

Salaries, wages and benefits increased on a per-ASM basis for 1989 by 6.0 percent primarily as a result of increases in headcount required for customer service and reservation personnel to handle the increased traffic demand; crew and ground salaries for increased charter activities; and health benefits costs. Headcount increased 20.0 percent in 1989 exceeding the 11.2 percent increase in ASMs but less than the 20.7 percent increase in passengers carried. Despite the increase in headcount, employee productivity was maintained, increasing slightly to 2,415 passengers handled per employee, up from 2,414 in 1988. In addition, average salary and benefit costs per employee declined approximately 2 percent from 1988 to 1989. Profit sharing expense per ASM increased in 1989 as a result of increased profitability as compared to 1988. Fuel and oil expenses increased as a result of an increase in the jet fuel average cost per gallon of 8.1¢ or 15.7 percent. Maintenance materials and repairs increased 24.4 percent per ASM primarily due to a higher number of regularly scheduled engine overhauls during 1989. Agency

commissions were up slightly in 1989 on a per-ASM basis commensurate with the 17.5 percent increase in passenger revenues. Aircraft rentals decreased on a per-ASM basis for 1989 compared to 1988 as a result of adding nine new owned aircraft in 1989. Landing fees and other rentals per ASM increased in 1989 primarily as a result of rate increases.

**Other** Interest expense increased in 1989 as a result of capital lease obligations incurred in connection with the lease financing of five 737-300 aircraft in third quarter 1988. Interest income increased \$5.7 million in 1989 due to higher investment balances available during most of 1989 from proceeds of \$158.8 million in the second half of 1988 and \$91.2 million in the first three quarters of 1989 which were generated from sale and leaseback aircraft financings. See Consolidated Statement of Cash Flows for more information. Both 1989 and 1988 included nonoperating gains of \$20.0 million and \$8.3 million, respectively, as more fully described in Note 9 to the Consolidated Financial Statements.

**Income Taxes** The provision for income taxes increased in 1989 as a percentage of income before income taxes to 35.5 percent from 32.1 percent in 1988. The increase is primarily attributable to a reduction in available investment tax credits as a result of certain transitional rules contained in the Tax Reform Act of 1986. The investment tax credits utilized for financial reporting purposes, after providing deferred taxes for the corresponding reductions in the tax bases of the related assets, declined from \$3.4 million in 1988 to \$1.4 million in 1989. See Note 10 to the Consolidated Financial Statements for further information.

## LIQUIDITY AND CAPITAL RESOURCES

Cash provided from operations was \$111.9 million in 1990 as compared to \$168.0 million in 1989. This decrease primarily resulted from increased jet fuel costs. If the average price of jet fuel per gallon had remained at 1989 levels during 1990, 1990 fuel costs would have been approximately \$57.0 million lower. During 1990, to reduce the impact of increased fuel costs, the Company instituted fuel conservation and risk management procedures. The Company also implemented several fare increases to attempt to recover some of the increase in jet fuel costs. Competitive conditions coupled with weak traffic demand did not permit the Company to raise fares high enough to offset the high cost of fuel. Therefore, as the cost of jet fuel remains volatile, jet fuel costs may continue to have a significant impact on cash provided from operations.



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

During 1990, capital expenditures of \$317.7 million were primarily for the purchase of two 737-300 aircraft and 10 737-500 aircraft delivered during the year along with progress payments for future aircraft deliveries. At December 31, 1990, capital commitments for the Company consisted primarily of scheduled aircraft acquisitions. At yearend, Southwest had 18 737-300s and 32 737-500s on firm order with options to purchase another 68 737-500s. Aggregate funding required for these commitments was \$987.7 million at yearend. See Note 3 to the Consolidated Financial Statements for further information.

In November 1989, the Board of Directors authorized the Company to purchase 1,000,000 shares of the Company's common stock in the open market. In June 1990, the Company completed the acquisition of these shares. Concurrently with the three-for-two stock split in July 1990, the Board of Directors authorized the Company to purchase, from time to time, an additional 1,500,000 post-split shares in the open market. The Company's stock purchase program utilized \$25.6 million in cash during 1990. As of February 14, 1991, the Company had purchased 250,000 shares under the latest stock buy back program.

During 1990, the Company called all of the outstanding Equipment Trust Certificates (ETCs). The balances of the 10.4% ETCs due July 1, 1994 and the 10.3% ETCs due January 1, 1995, totalling \$14.4 million, were retired during 1990. The balance of the 10.3% ETCs due July 1, 1995, or \$7.4 million, was retired in February 1991. There were no significant prepayment penalties associated with the early extinguishment of the debt. The four 737-200 aircraft securing the 10.4% ETCs were sold and subsequently leased back in September 1990. Two of the three 737-200s securing the 10.3% ETCs due January 1, 1995 were sold and subsequently leased back in January 1991 generating approximately \$23.0 million in cash. The remaining 737-200 and the three 737-200 aircraft which secured the 10.3% ETCs due July 1, 1995 are now being marketed by the Company for sale and subsequent short-term leaseback.

During 1990, the Company entered into a new Bank Credit Agreement with a group of banks that permits Southwest to borrow through December 31, 1993 on a revolving credit basis up to \$215 million. Interest rates on the borrowings under the Bank Credit Agreement can be, at the Company's option, the agent bank's prime rate,  $\frac{1}{4}\%$  over LIBOR or  $\frac{3}{16}\%$  over domestic certificate of deposit rates. Upon signing the new Bank Credit Agreement, the previous bank credit agreement was terminated. No borrowings were outstanding under either of these agreements during 1990 or 1989.

On February 26, 1991, the Company issued \$100 million of senior unsecured 9 $\frac{1}{4}\%$  Notes which represented the remaining one-half of the \$200 million shelf registration of debt securities filed in December 1985. Proceeds from the sale of these debt securities were approximately \$98.9 million.

The Company has various options available to meet its capital and operating commitments, including cash on hand at December 31, 1990 of \$87.5 million, internally generated funds, the proceeds from the issuance of the \$100 million senior unsecured 9 $\frac{1}{4}\%$  Notes and the bank credit agreement previously discussed. The Company will also consider various borrowing or leasing options to maximize earnings and cash flows.

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

During 1988, cash from operations was \$177.6 million. Additional funds of \$158.8 million were generated through the sale and leaseback of eight aircraft: five were new 737-300 aircraft subject to long-term capital leases with three older 737-200 aircraft subject to short-term operating leases. As a result of the sale and leaseback transactions, obligations under capital leases increased \$124.1 million. Additional proceeds of \$9.5 million were provided from the early payment of a note receivable. Those proceeds were primarily utilized to finance aircraft-related capital expenditures and provide working capital.



**QUARTERLY FINANCIAL DATA (UNAUDITED)**

(in thousands except per share amounts)

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

1989	Three months ended			
	March 31	June 30	Sept. 30	Dec. 31
Operating revenues _____	\$229,387	\$263,646	\$266,419	\$255,600
Operating income _____	21,931	28,787	32,647	14,261
Income before income taxes _____	30,273	29,655	38,031	13,023
Net income _____	19,644	19,237	24,566	8,111
Net income per common and common equivalent share _____	0.43	0.43	0.54	0.18

**COMMON STOCK PRICE RANGES AND DIVIDENDS**

Southwest's common stock is listed on the New York Stock Exchange and is traded under the symbol LUV. The high and low sales prices of the common stock on the Composite Tape and the quarterly dividends per share paid on the common stock, as adjusted for the August 1990 three-for-two stock split, were:

Period	Dividend	High	Low
1990			
1st Quarter _____	\$0.023	\$16.25	\$13.33
2nd Quarter _____	0.023	18.00	15.58
3rd Quarter _____	0.025	18.92	12.75
4th Quarter _____	0.025	20.00	13.25
1989			
1st Quarter _____	\$0.023	\$17.33	\$13.09
2nd Quarter _____	0.023	19.17	16.50
3rd Quarter _____	0.023	20.50	17.00
4th Quarter _____	0.023	19.09	14.42

As of March 4, 1991, there were 5,645 holders of record of the Company's common stock.



**Southwest Airlines Co.**  
**CONSOLIDATED BALANCE SHEET**

(in thousands except share and per share amounts)

	December 31,	
	1990	1989
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents _____	\$ 87,507	\$ 146,364
Accounts receivable _____	43,887	37,951
Inventories of parts and supplies, at cost _____	15,460	12,484
Prepaid expenses and other current assets _____	10,973	7,079
<b>Total current assets</b> _____	<b>157,827</b>	<b>203,878</b>
<b>Property and equipment, at cost (Notes 3, 5 and 6):</b>		
Flight equipment _____	1,369,324	1,255,076
Ground property and equipment _____	194,118	164,362
Deposits on flight equipment purchase contracts _____	153,201	137,956
	1,716,643	1,557,394
Less allowance for depreciation _____	406,106	353,137
	1,310,537	1,204,257
Other assets _____	2,774	6,961
	<u><b>\$1,471,138</b></u>	<u><b>\$1,415,096</b></u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable _____	\$ 51,172	\$ 47,986
Accrued liabilities (Note 4) _____	112,296	94,816
Air traffic liability _____	38,562	32,938
Income taxes payable _____	9,716	3,990
Current maturities of long-term debt _____	13,612	16,168
<b>Total current liabilities</b> _____	<b>225,358</b>	<b>195,898</b>
Long-term debt less current maturities (Note 5) _____	326,956	354,147
Deferred income taxes _____	109,273	118,395
Deferred gains from sale and leaseback of aircraft _____	202,002	157,030
Other deferred liabilities _____	2,698	2,310
<b>Commitments and contingencies (Notes 2, 3 and 6)</b>		
<b>Stockholders' equity (Note 7):</b>		
Common stock, \$1.00 par value: 100,000,000		
shares authorized; 42,411,654 shares issued in 1990		
and 32,254,271 shares in 1989 _____	42,412	32,254
Capital in excess of par value _____	81,447	175,170
Retained earnings _____	484,559	441,591
	608,418	649,015
Less treasury stock, at cost (254,885 shares in 1990; 3,032,800 shares in 1989) _____	3,567	61,699
<b>Total stockholders' equity</b> _____	<b>604,851</b>	<b>587,316</b>
	<u><b>\$1,471,138</b></u>	<u><b>\$1,415,096</b></u>

See accompanying notes.



**Southwest Airlines Co.**  
**CONSOLIDATED STATEMENT OF INCOME**

(in thousands except per share amounts)

	Years ended December 31,		
	1990	1989	1988
Operating revenues:			
Passenger _____	\$1,144,421	\$ 973,568	\$828,343
Freight _____	22,196	18,771	14,433
Other _____	20,142	22,713	17,658
Total operating revenues _____	1,186,759	1,015,052	860,434
Operating expenses:			
Salaries, wages and benefits (Note 8) _____	357,357	301,066	255,046
Fuel and oil _____	242,001	168,579	130,321
Maintenance materials and repairs _____	82,887	75,842	54,208
Agency commissions _____	72,084	61,362	53,063
Aircraft rentals _____	26,085	21,636	22,629
Landing fees and other rentals _____	61,167	51,902	40,441
Depreciation _____	79,429	72,343	66,169
Other operating expenses _____	183,870	164,696	152,577
Total operating expenses _____	1,104,880	917,426	774,454
Operating income _____	81,879	97,626	85,980
Other expenses (income):			
Interest expense _____	32,001	33,496	29,209
Capitalized interest _____	(13,738)	(10,227)	(9,279)
Interest income _____	(7,595)	(16,637)	(10,970)
Nonoperating gains, net (Note 9) _____	(3,542)	(19,988)	(8,340)
Total other expenses (income) _____	7,126	(13,356)	620
Income before income taxes _____	74,753	110,982	85,360
Provision for income taxes (Note 10) _____	27,670	39,424	27,408
Net income _____	\$ 47,083	\$ 71,558	\$ 57,952
Net income per common and common equivalent share (Note 11) _____	\$1.10	\$1.58	\$1.23

See accompanying notes.



**Southwest Airlines Co.****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

Three years ended December 31, 1990

(in thousands except per share amounts)

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Total
Balance at December 31, 1987 _____	\$ 32,254	\$175,170	\$ 320,402	\$(13,548)	\$ 514,278
Purchase of treasury stock _____	—	—	—	(712)	(712)
Cash dividends, \$.0883 per share _____	—	—	(4,143)	—	(4,143)
Net income—1988 _____	—	—	57,952	—	57,952
Balance at December 31, 1988 _____	32,254	175,170	374,211	(14,260)	567,375
Purchase of treasury stock _____	—	—	—	(47,439)	(47,439)
Cash dividends, \$.0933 per share _____	—	—	(4,178)	—	(4,178)
Net income—1989 _____	—	—	71,558	—	71,558
Balance at December 31, 1989 _____	32,254	175,170	441,591	(61,699)	587,316
Three-for-two stock split (Note 7) _____	14,133	(14,135)	—	—	(2)
Purchase of treasury stock _____	—	—	—	(25,560)	(25,560)
Retirement of treasury stock (Note 7) _____	(3,996)	(79,785)	—	83,781	—
Issuance of common stock upon exercise of executive stock options _____	21	197	—	(89)	129
Cash dividends, \$.0967 per share _____	—	—	(4,115)	—	(4,115)
Net income—1990 _____	—	—	47,083	—	47,083
Balance at December 31, 1990 _____	<u>\$ 42,412</u>	<u>\$ 81,447</u>	<u>\$ 484,559</u>	<u>\$ (3,567)</u>	<u>\$ 604,851</u>

See accompanying notes.



**Southwest Airlines Co.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in thousands)

	Years ended December 31,		
	1990	1989	1988
Cash flows from operating activities:			
Net income	\$ 47,083	\$ 71,558	\$ 57,952
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	79,429	72,343	66,169
Deferred income taxes	(9,123)	17,021	15,456
Amortization of deferred gains on sale and leaseback of aircraft	(21,626)	(15,092)	(4,444)
Gains from sale and leaseback of aircraft (Note 9)	(2,645)	(10,818)	(5,552)
Changes in certain assets and liabilities:			
Decrease (increase) in accounts receivable	(5,936)	(906)	7,071
Increase in other current assets	(6,870)	(1,562)	(3,731)
Increase in accounts payable and accrued liabilities	20,666	31,351	27,581
Increase in air traffic liability	5,624	5,879	15,519
Increase (decrease) in other current liabilities	5,726	(418)	(2,579)
Other	(393)	(1,337)	4,203
Net cash provided by operating activities	111,935	168,019	177,645
Cash flows from investing activities:			
Purchases of property and equipment	(317,730)	(261,906)	(264,531)
Proceeds from sales of other property and equipment	2,464	574	1,176
Net cash used in investing activities	(315,266)	(261,332)	(263,355)
Cash flows from financing activities:			
Proceeds from aircraft sale and leaseback transactions	200,000	91,180	158,750
Proceeds from note receivable	4,200	—	9,533
Purchase of treasury stock	(25,560)	(47,439)	(712)
Payment of long-term debt and capital lease obligations	(29,832)	(9,986)	(9,743)
Payment of cash dividends	(4,115)	(4,178)	(4,143)
Other	(219)	117	(726)
Net cash provided by financing activities	144,474	29,694	152,959
Net increase (decrease) in cash and cash equivalents	(58,857)	(63,619)	67,249
Cash and cash equivalents at beginning of period	146,364	209,983	142,734
Cash and cash equivalents at end of period	\$ 87,507	\$ 146,364	\$ 209,983
Cash payments for:			
Interest, net of amount capitalized	\$ 19,342	\$ 16,915	\$ 14,645
Income taxes	31,134	22,829	14,774
Financing activities not affecting cash:			
Capital lease obligations incurred	\$ —	\$ —	\$ 124,123

See accompanying notes.



# Southwest Airlines Co.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1990

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Cash and cash equivalents** Short-term investments that are highly liquid and have original maturity dates of three months or less are considered cash equivalents.

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

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

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

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

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

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

**Income Taxes** The Financial Accounting Standard Board has issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." This Statement requires an asset and liability approach to accounting for differences between the tax basis of an asset or liability and its reported amount in the financial statements. Under the accounting rules, deferred taxes will be determined by applying the provisions of enacted tax laws, and adjustments will be required for changes in tax laws and rates. The impact the Statement will have on the Company's financial position and results of operation when adopted, which has not been quantified, will depend upon the tax laws in effect at the time of adoption. The Statement, as amended, allows adoption through 1993, although earlier adoption is permitted. The Company has not adopted the Statement as of December 31, 1990 or determined whether, at the time of adoption, prior years will be restated.

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

### 2. TRANSTAR

In August 1987, TranStar assigned its rights and obligations pursuant to safe harbor tax benefit transfer agreements for four aircraft and as lessee with respect to 10 aircraft to a subsidiary of a major U.S. airline. TranStar remains primary obligor on these assigned agreements in the event of a default by the assignee. However, TranStar ceased operations and was liquidated in 1987. Two of these assigned leases, which cover a total of six aircraft, include "deficiency guarantees" by Southwest respecting debt secured by the leased aircraft. The guarantees provide that, if the lessee defaults and the lender forecloses on the lessor and sells the aircraft, then, to the extent that the sales proceeds are not sufficient to cover a defined portion of the debt, Southwest is liable for such deficiency. Although no lessee default has occurred, management believes no material deficiency would result from any such foreclosure based on its estimation of current aircraft values.

### 3. COMMITMENTS

At December 31, 1990, the Company's contractual commitments consisted primarily of scheduled aircraft acquisitions. Three 737-300s are scheduled for delivery in 1991, six in 1992, six in 1993 and three in 1994. Eight 737-500s are scheduled for delivery in 1991, seven in 1992, seven in 1993 and 10 in 1994. In addition, the Company has options to purchase up to 68 737-500s to be delivered during 1995-1999. The Company has the option to substitute 737-400s or 737-300s for the 737-500s to be delivered in 1993 and 1994 and for the 68 options in 1995-1999. Aggregate funding needed for these commitments was approximately \$987.7 million at December 31, 1990 due as follows: \$241.1 million in 1991, \$287.7 million in 1992, \$249.1 million in 1993 and \$209.8 million in 1994.

### 4. ACCRUED LIABILITIES

(in thousands)	1990	1989
Aircraft rentals	\$ 27,118	\$ 21,511
Vacation pay	15,880	13,754
Profit sharing (Note 8)	12,576	12,400
Interest	12,051	13,324
Unbilled engine overhauls	11,183	9,902
Taxes, other than income	10,777	9,204
Other	22,711	14,721
	<u>\$112,296</u>	<u>\$ 94,816</u>



## 5. LONG-TERM DEBT

(in thousands)	1990	1989
9% Notes due 1996	\$100,000	\$100,000
6¾% Convertible Subordinated Debentures due 1998	35,000	35,000
French Export Credit Agreement	7,576	10,101
10.4% ETCs due July 1, 1994	—	8,957
10.3% ETCs due January 1, 1995	—	7,701
10.3% ETCs due July 1, 1995	7,397	8,876
Capital leases (Note 6)	188,437	195,465
Industrial Revenue Bonds	2,350	2,925
Other	247	1,814
	<u>341,007</u>	<u>370,839</u>
Less current maturities	13,612	16,168
Less debt discount	439	524
	<u>\$326,956</u>	<u>\$354,147</u>

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

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

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

The 10.4% Equipment Trust Certificates (ETCs) due July 1, 1994 and the 10.3% ETCs due January 1, 1995 were called by Southwest and retired during 1990. The 10.3% ETCs due July 1, 1995 were called in December 1990 and were retired in February 1991 and, accordingly, have been reclassified as "Current maturities of long-term debt" at December 31, 1990 in the accompanying consolidated financial statements. There were no significant prepayment penalties associated with the early extinguishments of the ETCs.

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

In addition to the credit facilities described above, Southwest has a Bank Credit Agreement with a group of domestic banks that permits Southwest to borrow through December 14, 1993 on a revolving credit basis up to \$215 million. Interest rates on borrowings under the Credit Agreement can be, at the option of Southwest, the agent bank's prime rate, ¼% over LIBOR or ¾% over domestic certificate of deposit rates. The commitment fee is 0.15% per annum. There were no outstanding borrowings under this agreement at December 31, 1990 or 1989.

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

1991	\$ 10,548
1992	3,175
1993	3,225
1994	375
1995	—

## 6. LEASES

Total rental expense for operating leases charged to operations in 1990, 1989 and 1988 was \$55,726,000, \$48,112,000 and \$43,435,000, respectively. The majority of the Company's terminal operations space, as well as 32 aircraft, were under operating leases. The amounts applicable to capital leases included in property and equipment were (in thousands):

	1990	1989
Flight equipment	\$ 196,664	\$ 196,505
Less accumulated amortization	<u>37,242</u>	<u>27,945</u>
	<u>\$ 159,422</u>	<u>\$ 168,560</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, 1990 were (in thousands):

	Capital leases	Operating leases
1991	\$ 17,672	\$ 59,264
1992	18,519	69,509
1993	19,835	65,743
1994	19,830	63,896
1995	19,824	51,087
After 1995	<u>281,172</u>	<u>641,323</u>
Total minimum lease payments	376,852	<u>\$950,822</u>
Less amount representing interest	<u>188,415</u>	
Present value of minimum lease payments	188,437	
Less current portion	<u>3,064</u>	
Long-term portion	<u>\$ 185,373</u>	



## 7. COMMON STOCK

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

At December 31, 1990, the Company had 46,062,168 shares of common stock reserved for issuance upon the conversion of convertible securities; pursuant to employee profit sharing and stock option plans; and upon exercise of rights pursuant to the Common Share Purchase Rights Plan (the Plan). During 1990, 20,965 shares of common stock (5,965 pre-split shares and 15,000 post-split shares) were issued upon exercise of executive stock options and warrants. The warrants were originally issued in connection with the 1987 TranStar acquisition and expired in 1990.

Pursuant to the Plan, 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 for \$50 and is exercisable only in the event of a proposed takeover, as defined by the Plan. The Company may redeem the Rights at \$.0333 per Right prior to the time that 20 percent of the common stock has been acquired by a person or group. If the Company is acquired or if certain self-dealing transactions occur, as defined in the Plan, each Right will entitle its holder to purchase for \$50 that number of the acquiring company's or the Company's common shares, as provided in the Plan, having a market value of \$100. The Rights will expire no later than July 30, 1996.

## 8. EMPLOYEE PROFIT SHARING AND SAVINGS PLANS

Substantially all of the Company's employees are members of the Southwest Airlines Co. Profit Sharing Plan (the Plan). Total profit sharing expense charged to operations in 1990, 1989 and 1988 was \$12,595,000, \$12,398,000 and \$9,931,000, respectively. For 1990, the Company increased the profit sharing contribution by removing an "earnings threshold" from the calculation of the Company's income subject to profit sharing (as defined by the Plan).

The Company also sponsors employee savings plans under Section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time employees. Effective January 1, 1990, the Company began matching employee contributions for certain employees covered by a collective bargaining agreement. Matching contributions for additional employee groups were effective January 1, 1991. 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 1990 were \$4,800,000.

## 9. NONOPERATING GAINS

In 1990, 1989 and 1988, gains of \$2,645,000, \$10,818,000 and \$5,552,000, respectively, were recognized on the sale and subsequent short-term leaseback of four 737-200 aircraft in 1990, eight 737-200 aircraft in 1989 and three 737-200 aircraft in 1988. The Company realized gains of \$3,134,000, \$5,926,000 and \$3,608,000 in 1990, 1989 and 1988, respectively, from sales of certain financial assets. Also in 1989, the Company recognized a gain of \$2,296,000 from the settlement of a contingency related to the 1987 TranStar aircraft sale.

## 10. INCOME TAXES

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

	1990	1989	1988
Federal income tax provision			
at statutory rate	\$25,416	\$37,734	\$29,022
Investment tax credit	—	(1,430)	(3,415)
Nondeductible expenses	613	530	503
State income tax provision,			
net of federal benefit	1,967	2,283	1,272
Other, net	(326)	307	26
	<u>\$27,670</u>	<u>\$39,424</u>	<u>\$27,408</u>

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

	1990	1989	1988
Current	\$36,793	\$22,403	\$11,952
Deferred:			
Depreciation	11,020	24,739	14,361
Deferred gains on			
sale/leaseback	(18,073)	(20,508)	(14,326)
Net operating loss utilized	—	—	9,999
Investment tax credits	2,722	15,039	6,640
Vacation pay	(1,226)	(961)	(1,176)
Alternative minimum tax	(3,242)	—	—
Other, net	(324)	(1,288)	(42)
Total deferred provision			
(benefit)	<u>(9,123)</u>	<u>17,021</u>	<u>15,456</u>
Total	<u>\$27,670</u>	<u>\$39,424</u>	<u>\$27,408</u>

## 11. NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

Net income per common and common equivalent share is computed based on the weighted average number of common and common equivalent shares outstanding (42,991,000 in 1990, 45,253,000 in 1989 and 47,191,000 in 1988). The weighted average share amounts have been restated for the 1990 three-for-two stock split. Fully diluted earnings per share have not been calculated as the effect of shares issuable upon the conversion of Convertible Subordinated Debentures is anti-dilutive or is not material.



**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, 1990 and 1989, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1990. 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, 1990 and 1989, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

A stylized, handwritten signature of "Ernst & Young" in a cursive script.

Dallas, Texas  
January 25, 1991



# Southwest Airlines Co. TEN YEAR SUMMARY

## SELECTED CONSOLIDATED FINANCIAL DATA

(in thousands except per share amounts)

	1990	1989	1988	1987
Operating revenues:				
Passenger _____	\$ 1,144,421	\$ 973,568	\$ 828,343	\$ 751,649
Freight _____	22,196	18,771	14,433	13,428
Other _____	20,142	22,713	17,658	13,251
Total operating revenues _____	1,186,759	1,015,052	860,434	778,328
Operating expenses _____	1,104,880	917,426	774,454	747,881
Operating income _____	81,879	97,626	85,980	30,447 (4)
Other expense (income), net _____	7,126 (1)	(13,356) (2)	620 (3)	1,374 (5)
Income before income taxes _____	74,753	110,982	85,360	29,073
Provision for income taxes _____	27,670	39,424	27,408	8,918
Net income _____	\$ 47,083	\$ 71,558	\$ 57,952	\$ 20,155
Net income per common and common equivalent share _____	\$1.10	\$1.58	\$1.23	\$ .42
Cash dividends per common share _____	\$ .0967	\$ .0933	\$ .0883	\$ .0867
Total assets _____	\$ 1,471,138	\$ 1,415,096	\$ 1,308,389	\$ 1,042,640
Long-term obligations _____	\$ 326,956	\$ 354,147	\$ 369,541	\$ 251,130
Stockholders' equity _____	\$ 604,851	\$ 587,316	\$ 567,375	\$ 514,278

## CONSOLIDATED FINANCIAL RATIOS

Return on average total assets _____	3.3%	5.2%	5.1%	1.9%
Return on average stockholders' equity _____	7.9%	12.4%	10.8%	4.0%
Debt as a percentage of invested capital _____	35.1%	37.6%	39.4%	32.8%

## CONSOLIDATED OPERATING STATISTICS

Revenue passengers carried _____	19,830,941	17,958,263	14,876,582	13,503,242
RPMs (000s) _____	9,958,940	9,281,992	7,676,257	7,789,376
ASMs (000s) _____	16,411,115	14,796,732	13,309,044	13,331,055
Load factor _____	60.7%	62.7%	57.7%	58.4%
Average length of passenger haul _____	502	517	516	577
Trips flown _____	338,108	304,673	274,859	270,559
Average passenger fare _____	\$57.71	\$54.21	\$55.68	\$55.66
Passenger revenue yield per RPM _____	11.49¢	10.49¢	10.79¢	9.65¢
Operating revenue yield per ASM _____	7.23¢	6.86¢	6.47¢	5.84¢
Operating expenses per ASM _____	6.73¢	6.20¢	5.82¢	5.61¢
Fuel cost per gallon (average) _____	77.89¢	59.46¢	51.37¢	54.31¢
Number of employees at yearend _____	8,620	7,760	6,467	5,765
Size of fleet at yearend (9) _____	106	94	85	75

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

(2) Includes \$10.8 million gains on sales of aircraft, \$5.9 million from the sale of certain financial assets and \$2.3 million from the settlement of a contingency

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

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

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

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

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

(8) Includes a gain from the sale of tax benefits relating to three aircraft of \$11 million

(9) Includes leased aircraft



1986	1985 <sup>(7)</sup>	1984	1983	1982	1981
\$ 742,287	\$ 656,689	\$ 519,106	\$ 433,388	\$ 317,996	\$ 258,612
13,621	13,643	12,115	10,357	9,469	8,326
12,882	9,340	4,727	4,491	3,724	3,420
768,790	679,672	535,948	448,236	331,189	270,358
679,827	601,148	467,451	379,738	291,964	221,854
88,963	78,524	68,497	68,498	39,225	48,504
23,517(6)	17,740	649	4,927	(5,165) (8)	239
65,446	60,784	67,848	63,571	44,390	48,265
15,411	13,506	18,124	22,704	10,386	14,100
\$ 50,035	\$ 47,278	\$ 49,724	\$ 40,867	\$ 34,004	\$ 34,165
\$1.03	\$1.03	\$1.13	\$ .93	\$ .85	\$ .90
\$.0867	\$.0867	\$.0867	\$.0867	\$.0867	\$.0733
\$ 1,061,419	\$ 1,002,403	\$ 646,244	\$ 587,258	\$ 420,542	\$ 291,823
\$ 339,069	\$ 381,308	\$ 153,314	\$ 158,701	\$ 106,306	\$ 58,934
\$ 511,850	\$ 466,004	\$ 361,768	\$ 314,556	\$ 240,627	\$ 176,503
4.8%	5.6%	8.1%	8.1%	9.6%	13%
10.3%	11.4%	14.7%	14.2%	16.7%	23.5%
39.8%	45%	29.8%	33.5%	30.6%	25%
13,637,515	12,651,239	10,697,544	9,511,000	7,965,554	6,792,927
7,388,401	5,971,400	4,669,435	3,893,821	3,022,142	2,310,181
12,574,484	9,884,526	7,983,093	6,324,224	4,907,945	3,633,351
58.8%	60.4%	58.5%	61.6%	61.6%	63.6%
542	472	436	409	379	340
262,082	230,227	200,124	175,421	140,030	110,301
\$54.43	\$51.91	\$48.53	\$45.57	\$39.92	\$38.07
10.05¢	11.00¢	11.12¢	11.13¢	10.52¢	11.19¢
6.11¢	6.88¢	6.71¢	7.09¢	6.75¢	7.44¢
5.41¢	6.08¢	5.86¢	6.00¢	5.95¢	6.11¢
51.42¢	78.17¢	82.44¢	85.92¢	94.51¢	101.67¢
5,819	5,271	3,934	3,462	2,913	2,129
79	70	54	46	37	27



## CORPORATE DATA

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### TRANSFER AGENT AND REGISTRAR\*

Continental Stock Transfer &  
Trust Company  
72 Reade Street  
New York, New York 10007

### 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 15, 1991 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.

\*Effective March 1, 1991, Continental Stock Transfer & Trust Company also became Rights Agent under the Company's Rights Agreement relating to its outstanding Common Stock Purchase Rights.

















**Southwest Airlines Co.**

P.O. Box 36611  
Dallas, Texas 75235-1611  
(214) 904-4000