

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002 or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file No. 1-7259

Southwest Airlines Co.  
(Exact name of registrant as specified in its charter)

TEXAS  
(State or other jurisdiction of  
incorporation or organization)

74-1563240  
(IRS Employer  
Identification No.)

P.O. Box 36611, Dallas, Texas  
(Address of principal executive offices)

75235-1611  
(Zip Code)

Registrant's telephone number, including area code: (214) 792-4000

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to  
such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act.) Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of  
common stock, as of the latest practicable date.

Number of shares of Common Stock outstanding as of the close of  
business on October 25, 2002:

774,646,919

SOUTHWEST AIRLINES CO.

FORM 10-Q

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Southwest Airlines Co.  
Condensed Consolidated Balance Sheet  
(in thousands)  
(unaudited)

<Table>

<Caption>

	September 30, 2002 <C>	December 31, 2001 <C>
<S>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,944,031	\$2,279,861
Accounts and other receivables	125,161	71,283
Inventories of parts and supplies, at cost	79,226	70,561
Deferred income taxes	46,441	46,400
Prepaid expenses and other current assets	165,769	52,114
Total current assets	2,360,628	2,520,219
Property and equipment, at cost:		
Flight equipment	7,894,347	7,534,119
Ground property and equipment	1,026,958	899,421
Deposits on flight equipment		

purchase contracts	318,625	468,154
	9,239,930	8,901,694
Less allowance for depreciation	2,720,149	2,456,207
	6,519,781	6,445,487
Other assets	73,872	31,435
	\$8,954,281	\$8,997,141

# LIABILITIES AND STOCKHOLDERS' EQUITY

## Current liabilities:

Accounts payable	\$371,253	\$504,831
Accrued liabilities	521,153	547,540
Air traffic liability	497,040	450,407
Aircraft purchase obligations	20,409	221,840
Short-term borrowings	-	475,000
Current maturities of long-term debt	30,025	39,567
Total current liabilities	1,439,880	2,239,185

Long-term debt less current maturities	1,660,907	1,327,158
Deferred income taxes	1,232,760	1,058,143
Deferred gains from sale and leaseback of aircraft	180,956	192,342
Other deferred liabilities	116,995	166,260

## Stockholders' equity:

Common stock	774,033	766,774
Capital in excess of par value	83,820	50,409
Retained earnings	3,416,542	3,228,408
Accumulated other comprehensive income (loss)	48,388	(31,538)
Total stockholders' equity	4,322,783	4,014,053
	\$8,954,281	\$8,997,141

</Table>

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See accompanying notes.

## Southwest Airlines Co. Condensed Consolidated Statement of Income (in thousands, except per share amounts) (unaudited)

<Table>

<Caption>

	Three months ended September 30, 2002		Nine months ended September 30, 2001	
<S>	<C>	<C>	<C>	<C>
OPERATING REVENUES:				
Passenger	\$1,344,081	\$1,292,569	\$3,984,231	\$4,179,174
Freight	20,430	20,801	63,332	71,451
Other	26,680	21,755	73,669	66,902
Total operating Revenues	1,391,191	1,335,125	4,121,232	4,317,527
OPERATING EXPENSES:				
Salaries, wages, and benefits	510,106	463,747	1,473,008	1,384,220
Fuel and oil	202,969	192,367	561,668	609,980
Maintenance materials and repairs	98,531	103,067	296,593	304,501
Agency commissions	12,451	23,240	41,710	83,818
Aircraft rentals	46,540	48,302	140,362	144,226
Landing fees and other rentals	86,635	79,259	257,789	226,433
Depreciation	92,040	81,722	263,186	237,627
Other operating expenses	250,778	250,435	757,411	732,717
Total operating expenses	1,300,050	1,242,139	3,791,727	3,723,522
OPERATING INCOME	91,141	92,986	329,505	594,005
OTHER EXPENSES (INCOME):				
Interest expense	26,847	14,271	79,588	47,743
Capitalized interest	(4,344)	(6,070)	(12,823)	(17,909)
Interest income	(9,960)	(10,251)	(29,072)	(29,369)
Other (gains) losses, net	(45,726)	(150,834)	(36,946)	(136,283)
Total other expenses (income)	(33,183)	(152,884)	747	(135,818)
INCOME BEFORE INCOME TAXES	124,324	245,870	328,758	729,823
PROVISION FOR INCOME TAXES	49,437	94,906	130,188	282,181
NET INCOME	\$74,887	\$150,964	\$198,570	\$447,642

NET INCOME PER SHARE, BASIC	\$ .10	\$ .20	\$ .26	\$ .59
NET INCOME PER SHARE, DILUTED	\$ .09	\$ .19	\$ .25	\$ .55
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	773,353	763,811	771,592	762,072
Diluted	804,605	806,860	808,270	807,056

</Table>  
See accompanying notes.  
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Southwest Airlines Co.  
Condensed Consolidated Statement of Cash Flows  
(in thousands)  
(unaudited)

<Table>  
<Caption>

	Nine months ended September 30, 2002	2001
	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$198,570	\$447,642
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	263,186	237,627
Deferred income taxes	122,752	209,994
Amortization of deferred gains on sale and leaseback of aircraft	(11,386)	(11,385)
Amortization of scheduled airframe inspections & repairs	34,571	30,814
Income tax benefit from Employee stock option exercises	-	30,745
Changes in certain assets and liabilities:		
Accounts and other receivables	(53,878)	42,785
Other current assets	(14,612)	2,279
Accounts payable and accrued liabilities	(138,258)	67,032
Air traffic liability	46,633	145,024
Income Taxes	-	35,218
Other	(41,228)	12,385
Net cash provided by operating activities	406,350	1,250,160
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net purchases of property and equipment	(372,479)	(666,795)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of long-term debt	385,000	-
Proceeds from revolving credit facility	-	475,000
Proceeds from trust arrangement	119,142	-
Proceeds from Employee stock plans	40,670	29,263
Payments of long-term debt and capital lease obligations	(56,068)	(107,792)
Payments of trust arrangement	(364,848)	-
Payment of revolving credit facility	(475,000)	-
Payments of cash dividends	(13,872)	(13,440)
Other, net	(4,725)	-
Net cash provided by (used in) investing activities	(369,701)	383,031
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(335,830)	966,396
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,279,861	522,995
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$1,944,031	\$1,489,391
CASH PAYMENTS FOR:		
Interest, net of amount capitalized	\$60,661	\$38,303
Income taxes	\$2,053	\$12,150

</Table>  
See accompanying notes.

Southwest Airlines Co.  
Notes to Condensed Consolidated Financial Statements  
(unaudited)

1. Basis of presentation - The accompanying unaudited condensed consolidated financial statements of Southwest Airlines Co. (Company or

Upon adoption of SFAS 133, the Company recorded the fair value of its fuel derivative instruments in the Condensed Consolidated Balance Sheet and a deferred gain of \$46.1 million, net of tax, in "Accumulated other comprehensive income (loss)", of which \$45.5 million was recognized in earnings in 2001. See Note 6 for further information on Comprehensive income. The 2001 adoption of SFAS 133 has resulted in more volatility in the Company's financial statements than in the past due to the changes in market values of its derivative instruments and some ineffectiveness that has been experienced in its fuel hedges. See Note 5 for further information on the Company's

derivative instruments.

5. Financial derivative instruments - Airline operators are inherently dependent upon energy to operate and, therefore, are impacted by changes in jet fuel prices. Jet fuel and oil consumed in the three months ended September 30, 2002 and 2001 represented approximately 15.6 percent and 15.5 percent of Southwest's operating expenses, respectively. The Company endeavors to acquire jet fuel at the lowest possible prices. Because jet fuel is not traded on an organized futures exchange, liquidity for jet fuel hedging is limited. However, the Company has found that both crude oil and heating oil contracts are effective commodities for hedging jet fuel. The Company utilizes financial derivative instruments as hedges to decrease its exposure to jet fuel price increases. The Company does not purchase or hold any derivative financial instruments for trading purposes.

The Company utilizes financial derivative instruments for both short-term and long-term time frames when it appears the Company can take advantage of market conditions. As of October 17, 2002, the Company had a mixture of purchased call options, collar structures, and fixed price swap agreements in place to hedge approximately 80 percent of its fourth quarter 2002 total anticipated jet fuel requirements. The Company also had agreements in place to hedge approximately 76 percent of its 2003 total anticipated jet fuel requirements, and smaller portions of its 2004-2008 total anticipated jet fuel requirements. As of October 17, 2002, the majority of the Company's remaining 2002 hedges and first quarter 2003 hedges are effectively heating oil-based positions in the form of option contracts. The majority of the remaining hedge positions are crude oil-based option contracts.

The Company accounts for its fuel hedge derivative instruments as cash flow hedges, as defined in SFAS 133. Therefore, all changes in fair value that are considered to be effective are recorded in "Accumulated other comprehensive income (loss)" until the underlying jet fuel is consumed. The fair value of the Company's financial derivative instruments at September 30, 2002, was a net asset of approximately \$151.6 million. The current portion of this net asset, approximately \$109.1 million, is classified in "Prepaid expenses and other current assets" and the noncurrent portion, approximately \$42.5 million, is classified in "Other assets" in the Condensed Consolidated Balance Sheet. The fair value of the derivative instruments, depending on the type of instrument, was determined by the use of present value methods or standard option value models with assumptions about commodity prices based on those observed in underlying markets.

During the three months ended September 30, 2002 and 2001, the Company recognized \$15.0 million and \$23.5 million in gains in "Fuel and oil" expense, respectively, from hedging activities. The Company recognized approximately \$7.9 million and \$504,000 of net expense, related to amounts excluded from the Company's measurements of hedge effectiveness, in "Other (gains) losses, net" during the three months ended September 30, 2002 and 2001, respectively. The Company recognized approximately \$6.0 million in additional income and \$4.4 million in net expense in "Other (gains) losses, net," related to the ineffectiveness of its hedges during the three months ended September 30, 2002 and 2001, respectively.

As of September 30, 2002, the Company had approximately \$51.2 million in unrealized gains, net of tax, in "Accumulated other comprehensive income (loss)" related to fuel hedges. Included in this total are approximately \$47.3 million in net unrealized gains that are expected to be realized in earnings during the twelve months following September 30, 2002.

6. Comprehensive income - Comprehensive income included changes in the fair value of certain financial derivative instruments, which qualify for hedge accounting, and unrealized gains and losses on certain investments. Comprehensive income totaled \$92.8 million and \$278.5 million for the three and nine months ended September 30, 2002, respectively. Comprehensive income totaled \$120.4 million and \$449.0 million for the three and nine months ended September 30, 2001, respectively. The differences between Net income and Comprehensive income for each of these periods was as follows (in thousands):

<Table>

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	Three months ended September 30,	
	2002	2001
<S>	<C>	<C>
Net income	\$74,887	\$150,964
Unrealized gain (loss) on derivative instruments, net of deferred taxes of \$12,753 and (\$19,364)	19,486	(29,975)
Other, net of deferred taxes of (\$1,025) and (\$375)	(1,587)	(580)
Total other comprehensive income	17,899	(30,555)
Comprehensive income	\$92,786	\$120,409

Nine months ended September 30,

	2002	2001
Net income	\$198,570	\$447,642
Unrealized gain (loss) on derivative instruments, net of deferred taxes of \$53,340 and \$1,656	82,274	2,563
Other, net of deferred taxes of (\$1,516) and (\$777)	(2,348)	(1,202)
Total other comprehensive income	79,926	1,361
Comprehensive income	\$278,496	\$449,003

A rollforward of the amounts included in "Accumulated other comprehensive income (loss)," net of taxes, is shown below (in thousands):

	Fuel hedge derivatives	Other	Accumulated other comprehensive income (loss)
<S>	<C>	<C>	<C>
Balance at December 31, 2001	(\$31,063)	(\$475)	(\$31,538)
2002 changes in value	90,367	(2,348)	88,019
Reclassification to earnings	(8,093)	-	(8,093)
Balance at September 30, 2002	\$51,211	(\$2,823)	\$48,388

7. September 11, 2001 Terrorist Attacks - On September 11, 2001, terrorists hijacked and used two American Airlines, Inc. aircraft and two United Air Lines, Inc. aircraft in terrorist attacks on the United States (terrorist attacks). As a result of these terrorist attacks, the Federal Aviation Administration (FAA) immediately suspended all commercial airline flights. The Company resumed flight activity on September 14, 2001, and was operating its normal pre-September 11 flight schedule by September 18, 2001. From September 11, 2001, until the Company resumed flight operations on September 14, 2001, Southwest cancelled approximately 9,000 flights.

Once the Company resumed operations, load factors (percentage of seats filled) and yields (revenue per mile flown) were severely impacted, along with increased ticket refund activity. Load factors returned to somewhat normal levels during fourth quarter 2001. Yields, however, have continued to be weak and below pre-September 11, 2001 levels.

On September 22, 2001, President Bush signed into law the Air Transportation Safety and System Stabilization Act (the Act). The Act provides for up to \$5 billion in cash grants to qualifying U.S. airlines and freight carriers to compensate for direct and incremental losses, as defined in the Act, from September 11, 2001 through December 31, 2001, associated with the terrorist attacks. Each airline's total eligible grant was determined based on that airline's percentage of available seat miles (ASMs) during August 2001 to total eligible carriers' ASMs for August 2001, less an amount set aside for eligible carriers for whom the use of ASM formula would result in an insufficient representation of their share of direct and incremental losses.

The Department of Transportation (DOT) has made a final determination of the amount of eligible direct and incremental losses incurred by Southwest, and the Company has received 100 percent of its eligible grants as of September 30, 2002, totaling \$282.8 million. The Company recognized \$235.3 million in "Other gains" from grants under the Act during the second half of 2001 and recognized an additional \$47.5 million as "Other gains" from grants under the Act in third quarter 2002 following the receipt of its final payment during the quarter. Representatives of the DOT or other governmental agencies may perform additional audit and/or review(s) of the Company's previously submitted final application. While the Act is subject to significant interpretation of direct and incremental losses, management believes the Company's eligible direct and incremental losses are sufficient to retain 100 percent of its eligible grant following additional audits or reviews, should they occur.

The Company recorded total special charges of \$58 million during third quarter 2001 arising from the terrorist attacks. Total special charges included a \$30 million reduction in "Passenger revenue." As a result of the events of September 11, 2001, and Southwest's subsequent temporary relaxation in its refund policies, the Company experienced refunds far in excess of its historical refund levels including significant refunds of nonrefundable tickets. As a result, the Company revised its estimates of refunds, exchanges, and forfeitures of unused tickets as of September 30, 2001 and recorded a \$30 million increase in "Air traffic liability" and a corresponding decrease in "Passenger revenues." Total special charges also included \$15 million in charges primarily to "Other operating expenses" for write-downs of various assets due to impairment. Other miscellaneous charges totaling approximately \$13 million were also included in "Other (gains) losses, net."

8. Credit facility - In September 2001, the Company borrowed the full

\$475 million available under its unsecured revolving credit line with a group of banks. Borrowings under the credit line bore interest at six-month LIBOR plus 15.5 basis points. The Company repaid this unsecured revolving credit line in full, plus accrued interest, in March 2002.

On April 23, 2002, the Company entered into new unsecured revolving credit facility agreements totaling \$575 million with a group of banks. Half of the total amount of these agreements is available to the Company for three renewable one-year terms from April 23, 2002. The other half is available to the Company for a full three-year term. The Company's previous \$475 million revolving credit facility was simultaneously cancelled on April 23, 2002.

9. Issuance of debt - During first quarter 2002, the Company issued \$385 million senior unsecured Notes (Notes) due 2012. The Notes bear interest at 6.5 percent, payable semi-annually in arrears, with the first payment due on September 1, 2002. Southwest used the net proceeds from the issuance of the Notes, approximately \$380.2 million, for general corporate purposes.

10. Financing activities - In November 2001, Southwest entered into a trust arrangement with a special purpose entity (the Trust) and assigned its purchase agreement with Boeing to the Trust with respect to 19 Boeing 737-700 aircraft originally scheduled to be delivered from September 2001 through April 2002. For the 19 Trust aircraft, the Company recorded the associated assets ("Flight equipment") and liabilities ("Aircraft purchase obligations") in its financial statements as the aircraft were completed by Boeing and delivered to the Trust. In the unaudited Condensed Consolidated Statement of Cash Flows, the Trust's receipt of these aircraft has been recorded as "Purchases of property and equipment" and "Proceeds from trust arrangement." As of September 30, 2002, 18 of these aircraft had been delivered to and paid for by Southwest and recorded in the unaudited Condensed Consolidated Statement of Cash Flows as "Payments of trust arrangement." The one remaining aircraft in the Trust will be delivered to Southwest in fourth quarter 2002, thereby relieving the remaining \$20.4 million in "Aircraft purchase obligations" in the unaudited Condensed Consolidated Balance Sheet.

11. Recently issued accounting standards - In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146 (SFAS No. 146), "Accounting for Costs Associated with Exit or Disposal Activities", which is effective for exit or disposal activities that are initiated after December 31, 2002. SFAS No. 146 nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The Company is currently reviewing this statement but does not expect it to have a material impact on future financial statements or results of operations.

12. Prepaid expenses and other current assets (in thousands):

	September 30, 2002	December 31, 2001
Fuel hedge contracts, at fair value	\$109,141	\$ -
Prepaid insurance	24,454	25,645
Other	32,174	26,469
	\$165,769	\$52,114

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Comparative Consolidated Operating Statistics

Relevant Southwest comparative operating statistics for the three and nine months ended September 30, 2002 and 2001 are as follows:

	Three months ended September 30,		
	2002	2001	Change
Revenue passengers carried	16,255,950	16,207,719	0.3%
Revenue passenger miles (RPMs) (000s)	11,917,932	11,260,082	5.8%
Available seat miles (ASMs) (000s)	17,611,104	16,290,821	8.1%
Load factor	67.7%	69.1%	(1.4) pts.
Average length of passenger haul	733	695	5.5%
Trips flown	241,143	235,083	2.6%
Average passenger fare	\$82.68	\$81.60 b.	1.3%
Passenger revenue yield per RPM (cents)	11.28	11.75 b.	(4.0)%
Operating revenue yield per ASM (cents)	7.90	8.38 b.	(5.7)%
Operating expenses per ASM (cents)	7.38	7.53 b.	(2.0)%
Operating expenses per ASM, excluding fuel (cents)	6.23	6.35 b.	(1.9)%
Fuel costs per gallon, excluding			

fuel tax (cents)	70.18	69.84	0.5%
Fuel consumed, in gallons	286,969,704	273,222,520	5.0%
Number of Employees at period-end	33,609	30,946	8.6%
Size of fleet at period-end	370	358	3.4%

</Table>

<Table>

<Caption>

	Nine months ended September 30,		
	2002	2001	Change
<S>	<C>	<C>	<C>
Revenue passengers carried	47,491,651	49,450,492	(4.0)%
Revenue passenger miles (RPMs) (000s)	34,309,389	33,710,859	1.8%
Available seat miles (ASMs) (000s)	51,303,936	48,587,630	5.6%
Load factor	66.9%	69.4%	(2.5) pts.
Average length of passenger haul	722	682	5.9%
Trips flown	709,168	705,273	0.6%
Average passenger fare	\$83.14 a.	\$85.12 b.	(2.3)%
Passenger revenue yield per RPM (cents)	11.51 a.	12.49 b.	(7.8)%
Operating revenue yield per ASM (cents)	7.96 a.	8.95 b.	(11.1)%
Operating expenses per ASM (cents)	7.39	7.63 b.	(3.1)%
Operating expenses per ASM, excluding fuel (cents)	6.30	6.38 b.	(1.3)%
Fuel costs per gallon, excluding fuel tax (cents)	67.06	74.40	(9.9)%
Fuel consumed, in gallons	834,508,270	812,984,333	2.6%
Number of Employees at period-end	33,609	30,946	8.6%
Size of fleet at period-end	370	358	3.4%

</Table>

a. Amounts exclude \$36 million in revenue during second quarter 2002 related to a reduction in "Air traffic liability"

b. Amounts exclude special items related to last year's terrorist attacks (See Note 7)

To a large extent, changes in operating expenses for airlines are driven by changes in capacity or ASMs flown. The following presents Southwest operating expenses per ASM for the three and nine months ended September 30, 2002 and 2001 (in cents except percent change):

<Table>

<Caption>

	Three months ended September 30,		Per ASM	Percent
	2002	2001	Change	Change
<S>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits	2.65	2.59	.06	2.3
Employee retirement plans	.25	.27	(.02)	(7.4)
Fuel and oil	1.15	1.18	(.03)	(2.5)
Maintenance materials and repairs	.56	.63	(.07)	(11.1)
Agency commissions	.07	.14	(.07)	(50.0)
Aircraft rentals	.26	.30	(.04)	(13.3)
Landing fees and other rentals	.49	.49	-	-
Depreciation	.52	.50	.02	4.0
Other operating expenses	1.43	1.52	(.09)	(5.9)
Total	7.38	7.62	(.24)	(3.1)

</Table>

<Table>

<Caption>

	Nine months ended September 30,		Per ASM	Percent
	2002	2001	Change	Change
<S>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits	2.64	2.51	.13	5.2
Employee retirement plans	.23	.33	(.10)	(30.3)
Fuel and oil	1.10	1.26	(.16)	(12.7)
Maintenance materials and repairs	.58	.63	(.05)	(7.9)
Agency commissions	.08	.17	(.09)	(52.9)
Aircraft rentals	.27	.30	(.03)	(10.0)
Landing fees and other rentals	.50	.46	.04	8.7
Depreciation	.51	.49	.02	4.1
Other operating expenses	1.48	1.51	(.03)	(2.0)
Total	7.39	7.66	(.27)	(3.5)

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#### Material Changes in Results of Operations

##### Summary

The airline industry continues to suffer from a persistently weak revenue and economic environment primarily due to a decline in full-fare traffic. In addition, the airline industry has experienced challenging operating conditions resulting from increased airport security measures and substantial increases in aviation insurance and security fees following the terrorist attacks. However, the Company has benefited from reduced distribution costs and cost reduction



measures implemented post-September 11, 2001. While the Company's profitability levels have been considerably below pre-September 11, 2001 levels, Southwest has reported profitable earnings performances since September 11, 2001 through third quarter 2002.

Special charges and/or Unusual items. Financial results for both 2001 and 2002 have been distorted by the September 11, 2001 terrorist attacks and the resulting aftermath. During third quarter 2001, the Company recorded \$168.7 million in "Other gains" that the Company recognized from grants under the Act and special charges of approximately \$58 million arising from the terrorist attacks. See Note 7 to the unaudited condensed consolidated financial statements for more information on the special charges. Also, the Company estimated its adverse revenue impact resulting from the terrorist attacks was approximately \$188 million for third quarter 2001.

During second quarter 2002, the Company recognized \$36 million in additional passenger revenue from a reduction in estimated refunds, exchanges, and forfeited tickets included in "Air traffic liability." As the demand for full fare unrestricted air transportation has weakened, Southwest's mix of discounted nonrefundable fares has increased. Nonrefundable fares are the primary source of forfeited tickets, and this change in Customer travel patterns led to a second quarter 2002 reduction in estimated liabilities for estimated refunds, exchanges, and forfeited tickets as of June 30, 2002 and a corresponding increase in "Passenger revenue." Also, during third quarter 2002, the Company recognized approximately \$47.5 million in "Other gains" from grants under the Act (see Note 7).

Consolidated net income for third quarter 2002 was \$74.9 million (\$.09 per share, diluted), 50.4 percent below the third quarter 2001 net income of \$151.0 million (\$.19 per share, diluted). Third quarter 2002 operating income was \$91.1 million compared to operating income of \$137.6 million in 2001, excluding special charges and unusual items. The decrease in operating income was primarily due to increases in salaries, wages, and benefits, fuel expense, depreciation expense, and aviation insurance, which more than offset a slight increase in passenger revenues and lower commission expense. Excluding special charges and unusual items, third quarter 2002 net income was \$50.5 million, or \$.06 per share, diluted, compared to third quarter 2001 net income of \$82.8 million, or \$.10 per share, diluted.

For the nine months ended September 30, 2002, net income was \$198.6 million (\$.25 per share, diluted), as compared to net income of \$447.6 million (\$.55 per share, diluted) in the same prior year period. For the nine months ended September 30, 2002, operating income decreased 44.5 percent to \$329.5 million compared to operating income of \$594.0 million in 2001. The decrease in operating income was primarily due to a decrease in revenues resulting from the lingering impact of the prior year terrorist attacks and continued weak economic conditions. Although the Company has experienced significant increases in aviation insurance and security fees, we have been able to mitigate such increases through lower agency commissions, profitsharing expense, and other cost reduction efforts implemented following the terrorist attacks. Excluding special charges and unusual items, net income for the nine months ended 2002 was \$156.3 million (\$.19 per share, diluted), versus \$379.5 million (\$.47 per share, diluted) for the same period in 2001.

Security. The Company has responded and reacted swiftly to numerous new and changing Federal Security Directives, which have dramatically changed the manner in which Customers, luggage, and airplanes are protected and cleared for flight. This has created various challenges at each of the 59 airports we currently serve. Thus far, these enhanced security measures were implemented in such a way as to not diminish our aircraft productivity. The Company has successfully implemented its new Automated Boarding Pass and is in the process of installing self-service RAPID CHECK-IN kiosks at airports. Through initiatives such as these and the diligent efforts of the Transportation Security Administration (TSA), the overall airport experience for our Customers has improved tremendously since September 11, 2001. We will continue to aggressively implement changes to further improve Customer Service and our operational efficiency. The Aviation and Transportation Security Act requires the TSA to perform 100 percent inspection of checked baggage by December 31, 2002. However, the TSA has not announced how it intends to comply with this requirement, and, thus, we are unable to predict what impact new procedures may have on the Company's operations and financial performance.

Insurance. Following the terrorist attacks, commercial aviation insurers significantly increased the premiums for coverage related to acts of terrorism (war-risk coverage) and reduced the amount of coverage available to commercial carriers. At that time, the federal government, through passage of the Act, supplemented the amount of coverage available to commercial carriers for renewable 60-days periods. Thus far, this supplemental coverage has been extended through December 15, 2002. If the supplemental coverage from the federal government is not extended beyond this date, the Company's insurance costs would most likely increase substantially. (The immediately preceding sentence is a forward-looking statement involving uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, costs and availability of insurance including the federal government's coverage of third party war-risk

coverage, etc.)

Aircraft and Engine Maintenance. The cost of scheduled engine inspections and repairs and routine maintenance costs for aircraft and engines are charged to maintenance expense as incurred. Scheduled airframe inspections and repairs, known as "D" checks, are generally performed every ten years. Costs related to "D" checks are capitalized and amortized over the estimated period benefited, presently the least of ten years, the time until the next "D" check, or the remaining life of the aircraft. 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.

In 2001, the American Institute of Certified Public Accountants (AICPA) issued a Proposed Statement of Position entitled "Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment" (Proposed SOP). Although the AICPA continues to deliberate the Proposed SOP, if implemented, the Proposed SOP could change the way in which the Company accounts for its property and equipment and certain aircraft maintenance costs, including "D" checks.

Comparison of Three Months Ended September 30, 2002 to Three Months Ended September 30, 2001

Consolidated operating revenues increased by \$56.1 million, or 4.2 percent, primarily due to a \$51.5 million, or 4.0 percent increase in passenger revenues. The increase in passenger revenues was primarily due to: the cancellation of approximately 9,000 flights from September 11 through September 17, 2001 following the terrorist attacks; the subsequent decline in air traffic demand upon the resumption of scheduled service; and the \$30 million special charge to reduce third quarter 2001 passenger revenue as a result of the terrorist attacks (see Note 7 to the unaudited condensed consolidated financial statements).

Third quarter 2002 capacity, as measured by ASMs, increased 8.1 percent. Approximately half of the increase in ASMs related to the cancellation of approximately 9,000 scheduled flights following the terrorist attacks, with the remaining portion resulting from the net addition of 12 aircraft (net of six retirements) from October 2001 through September 2002. The third quarter 2002 load factor was 67.7 percent, a decrease of 1.4 points compared to 2001. The Company also experienced a slight increase in revenue passengers carried and a 5.8 percent increase in RPMs. Excluding special charges, passenger yield decreased 4.0 percent and operating revenue per ASM (RASM) declined 5.7 percent compared to 2001, a quarter which included the direct, adverse impact from the September 11, 2001 terrorist attacks. Revenue trends did not improve from second quarter 2002 and were negatively affected by the September 11 anniversary.

If current revenue and booking trends continue for the remainder of the fourth quarter, unit revenues may exceed last year's fourth quarter unit revenue performance of \$.0741. While we are hopeful our revenue trends will, in fact, improve, it is impossible to predict whether they will or what effect a potential war with Iraq might have. The uncertain revenue outlook, coupled with the cost pressures including aviation insurance premiums and security fees, make it impossible to predict whether the Company will earn a profit in fourth quarter 2002. (The immediately preceding three sentences are forward-looking statements that involve uncertainties that could result in actual results differing materially from expected results. Some significant factors include, but may not be limited to, additional incidents that could cause the public to question the safety and/or efficiency of air travel, competitive pressure such as fare sales and capacity changes by other carriers, war or other military actions by the U.S., general economic conditions, and variations in advance booking trends.)

Consolidated freight revenues decreased by \$.4 million, or 1.8 percent primarily due to a large decrease in U.S. mail shipments as the U.S. Postal Service diverted more of its mail shipments to freight carriers and away from commercial airlines once commercial air service was restored following the terrorist attacks. This trend had not reversed through September 11, 2002, making comparisons difficult. However, for fourth quarter 2002, the Company expects a year-over-year increase in consolidated freight revenues compared to fourth quarter 2001 primarily due to increases in capacity and cargo shipments. (The immediately preceding sentence is a forward-looking statement that involves uncertainties that could result in actual results differing materially from expected results. Some significant factors include, but may not be limited to, decisions by major freight customers on how they allocate freight deliveries among different types of carriers, general economic conditions, etc.) Other revenues increased in third quarter 2002 by \$4.9 million, or 22.6 percent primarily due to an increase in commissions earned from programs the Company sponsors with certain business partners, such as the Company sponsored First USA Visa card. That increase was partially offset by a decline in charter revenues.

Operating expenses per ASM (CASM) were \$.0738, a 3.1 percent decrease compared to \$.0762 for 2001. Excluding fuel expense and third quarter 2001 special charges, operating expenses per ASM declined 1.9 percent to \$.0623. The cancellation of approximately 9,000 flights as a result of the terrorist

attacks impacted several of the operating expense captions in the Condensed Consolidated Statements of Income, for the three and nine months ended September 30, 2001, that are measured as a percentage of ASMs. However, the captions that typically fluctuate with actual flight activity, such as fuel and landing fees, were not materially affected on a per ASM basis. Based on current cost trends, we expect fourth quarter 2002's CASM to exceed third quarter 2002 levels primarily as a result of higher fuel prices, labor costs, and maintenance costs. (The immediately preceding sentence is a forward-looking statement that involves uncertainties that could result in actual results differing materially from expected results. Some significant factors include, but may not be limited to, capacity changes by the Company and its competitors, changing security requirements, premiums for aviation liability insurance, labor issues, etc.)

Salaries, wages, and benefits per ASM increased 2.3 percent. The increase was due to increases in headcount in certain operational areas to comply with changing Federal Security Directives and for projects designed to improve the overall airport experience of our Customers, as well as wage rate increases. For these same reasons, we are expecting an increase in salaries, wages, and benefits per ASM in fourth quarter 2002 compared to third quarter 2002. (The immediately preceding sentence is a forward-looking statement that involves uncertainties that could result in actual results differing materially from expected results. Some significant factors include, but may not be limited to, Employee hiring and retention rates, the results of Employee labor contract negotiations, costs for health care, capacity decisions made by the Company, etc.)

The Company's Pilots are subject to an agreement with the Southwest Airlines Pilots' Association (SWAPA.) In August 2002, the Company's agreement with its Pilots, which was to become amendable in September 2004, was extended for two additional years, until September 2006. As part of the extension, the Pilots received pay raises and options to purchase up to a total of 39.2 million shares of the Company's common stock, subject to the requirements of the terms of the 2002 SWAPA Nonqualified Stock Option Plan, which became effective in August 2002.

The Company's Professional Flight Instructors are subject to an agreement with the Southwest Airlines Professional Flight Instructors Association (SWAPIA.) The Company's agreement with its Flight Instructors, which was to become amendable in December 2010, was extended for two additional years, until December 2012. As part of the extension, the Flight Instructors received options to purchase up to a total of 250,000 shares of the Company's common stock, subject to the requirements of the terms of the 2002 SWAPIA Nonqualified Stock Option Plan, which became effective in August 2002.

The Company's Mechanics are subject to an agreement with the International Brotherhood of Teamsters (the Teamsters), which became amendable in August 2001. The Company reached an agreement with the Teamsters, which was ratified by its membership in October 2002. As part of the agreement, which expires in August 2005, the Mechanics received retroactive pay raises and options to purchase up to a total of 4.1 million shares of the Company's common stock.

The Company's Ramp, Operations, and Provisioning Agents are subject to an agreement with the Transport Workers Union of America (TWU), which becomes amendable in June 2006. The Company has provided the TWU a proposal to extend the contract for two years to June 2008 in exchange for the granting of options to purchase the Company's common stock. The proposal will be presented to the TWU membership for voting in fourth quarter 2002.

The Company's Flight Attendants are subject to an agreement with the TWU, which became amendable in June 2002. The Company's Customer Service and Reservations Agents are subject to an agreement with the International Association of Machinists and Aerospace Workers, which becomes amendable in November 2002. The Company is currently involved in negotiations with both of these groups.

Employee retirement plans expense per ASM decreased 7.4 percent, primarily due to the decrease in Company earnings available for profitsharing.

Fuel and oil expense per ASM decreased 2.5 percent primarily due to a decrease in the Company's fuel burn rate per ASM flown. The average jet fuel cost per gallon in third quarter 2002 was \$.7018, a slight increase compared to \$.6984 in third quarter 2001, including the effects of hedging activities. See Note 5 to the unaudited condensed consolidated financial statements for further discussion of the Company's hedging activities. As of October 17, 2002, the Company had fuel derivatives in place to hedge approximately 80 percent of its fourth quarter 2002 total anticipated jet fuel requirements. As of September 30, 2002, the fair value of all the Company's fuel derivatives was a net asset of approximately \$151.6 million versus a net liability of approximately \$19.4 million at December 31, 2001. The significant increase in fair value of fuel derivatives is due to the Company's addition of future years' positions and an increase in the current and forward market prices for crude oil and heating oil. The majority of the Company's near term hedge positions are in the form of option contracts, which should enable the Company to benefit from a decline in

jet fuel prices. (The immediately preceding sentence is a forward-looking statement, which involves uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, the largely unpredictable prices of jet fuel, crude oil, and heating oil prices, the continued effectiveness of the Company's fuel hedges, and changes in the Company's overall fuel hedging strategy.)

Maintenance materials and repairs per ASM decreased 11.1 percent primarily due to a decrease in the number of outsourced heavy maintenance events versus third quarter 2001. The Company expects fourth quarter 2002 maintenance materials and repairs per ASM to be higher than third quarter 2002 expense due to currently scheduled maintenance. (The immediately preceding sentence is a forward-looking statement involving uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, any unscheduled required aircraft airframe or engine repairs and regulatory requirements.)

Agency commissions per ASM decreased 50.0 percent primarily due to a change in the Company's commission rate policy. Effective October 15, 2001, the Company reduced the commission paid to travel agents to five percent (with no cap), regardless of the type of ticket sold. Previously, the Company paid an eight percent commission rate on ticketless bookings by travel agents. Further, the percentage of commissionable revenues decreased from approximately 23 percent in third quarter 2001 to approximately 19 percent in third quarter 2002. The Company currently expects commissionable revenues to remain in the 19 percent range in fourth quarter 2002. (The immediately preceding sentence is a forward-looking statement involving uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, changes in consumer ticket purchasing habits and further commission policy changes.)

Aircraft rentals per ASM decreased 13.3 percent compared to third quarter 2001 due to a reduction in the number of aircraft under lease. The Company retired two leased aircraft in fourth quarter 2001 and one leased aircraft in each of the first and second quarters of 2002. All of the aircraft acquired in 2002 have been purchased. Approximately 24.3 percent of the Company's aircraft fleet was under operating lease at September 30, 2002, compared to 26.3 percent at September 30, 2001.

Landing fees and other rentals per ASM were flat compared to third quarter 2001 as a 12.4 percent increase in landing fees per ASM was offset by a 6.7 percent decrease in other rentals per ASM. The increase in landing fees expense per ASM primarily was due to third quarter 2001 credits from airports' audits of prior periods. The amount of credits received in third quarter 2002 was substantially less than the same prior year period. The decrease in other rentals expense per ASM was primarily due to an abnormally large amount of charges the Company paid to various airports in third quarter 2001 from audits of prior periods. No such charges were incurred during third quarter 2002.

Depreciation expense per ASM increased 4.0 percent primarily due to an increase in owned aircraft. All 18 of the aircraft put into service by the Company over the past twelve months have been purchased. This, along with the retirement of six aircraft, four of which were leased, has increased the Company's percentage of aircraft owned or on capital lease to 75.7 percent at September 30, 2002 from 73.7 percent at September 30, 2001.

Other operating expenses per ASM decreased 5.9 percent primarily due to third quarter 2001 special charges incurred to write down the value of certain assets. See Note 7 to the unaudited condensed consolidated financial statements for more information on the special charges. Excluding third quarter 2001 charges, other operating expenses per ASM were flat compared to the prior year as substantial increases in aviation insurance costs were offset through various cost control measures implemented immediately following the prior year terrorist attacks, including reductions in personnel related expenses and office expenses.

Interest expense increased by \$12.6 million, or 88.1 percent primarily due to two separate borrowings executed by the Company over the past twelve months. During the fourth quarter 2001, the Company issued \$614.3 million in long-term debt in the form of Pass-Through Certificates and in first quarter 2002 issued \$385 million in unsecured notes (see Note 9 to the unaudited condensed consolidated financial statements). The increase in expense caused by these borrowings was partially offset by a decrease in interest rates on the Company's floating rate debt. Based on these borrowings, interest expense will be higher on a year-over-year basis in fourth quarter 2002. (The immediately preceding sentence is a forward-looking statement involving uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, subsequent financing decisions made by the Company.)

Capitalized interest decreased by \$1.7 million, or 28.4 percent primarily due to a reduction in progress payment balances for future aircraft deliveries.

Interest income decreased by \$.3 million, or 2.8 percent as higher invested cash balances were more than offset by a decrease in rates earned on

investments.

In third quarter 2002 and 2001, "Other (gains) losses, net" included \$47.5 million and \$168.7 million, respectively, of government grant funds from the Act. See Note 7 to the unaudited condensed consolidated financial statements for more information on the grants. Also reflected in "Other (gains) losses, net" in third quarter 2002 and 2001 are net charges recorded in accordance with SFAS 133. See Note 5 to the unaudited condensed consolidated financial statements for more information on the Company's hedging activities. The Company recognized \$7.9 million and \$504,000 of expense related to amounts excluded from the Company's measurements of hedge effectiveness, during the third quarters of 2002 and 2001, respectively. In addition, the Company recognized approximately \$6.0 million in additional income and \$4.4 million as net expense related to the ineffectiveness of its hedges during the third quarters of 2002 and 2001, respectively.

Comparison of Nine Months Ended September 30, 2002 to Nine Months Ended September 30, 2001

Consolidated operating revenues decreased by \$196.3 million, or 4.5 percent, primarily due to a \$194.9 million decrease in passenger revenues. The decrease in passenger revenues primarily was due to a weaker domestic airline revenue environment compared to the same period in 2001, especially for business or full fare Customers. Excluding unusual items (as previously discussed and in Note 7 to the unaudited condensed consolidated financial statements), passenger yield was \$.1151, a decrease of 7.8 percent compared to the same period of 2001. Capacity increased 5.6 percent, primarily as a result of the net addition of 12 aircraft (net of six retirements) from October 2001 through September 2002. The Company's load factor for the nine months ended September 30, 2002, was 66.9 percent, a decrease of 2.5 points compared to the same period in 2001. The Company also experienced a 4.0 percent decrease in revenue passengers carried and a 1.8 percent increase in RPMs.

Consolidated freight revenues decreased by \$8.1 million, or 11.4 percent primarily due to a decrease in U.S. mail shipments. Other revenues increased by \$6.8 million, or 10.1 percent primarily due to an increase in commissions earned from programs the Company sponsors with certain business partners, such as the Company sponsored First USA Visa card. That increase was partially offset by a decline in charter revenues.

Operating expenses per ASM were \$.0739, a 3.5 percent decrease compared to \$.0766 for 2001. Excluding fuel expense and 2001 special charges, operating expenses per ASM declined 1.3 percent to \$.0630.

Salaries, wages, and benefits per ASM increased 5.2 percent. Approximately 74 percent of the increase was in salaries and wages, as the Company's headcount growth exceeded the increase in ASMs. The Company has increased headcount in certain operational areas to comply with enhanced federal security regulations, and to aid in projects designed to improve the overall airport experience of its Customers. Approximately 26 percent of the increase primarily was due to increasing health care costs.

Employee retirement plans expense per ASM decreased 30.3 percent, primarily due to the decrease in Company earnings available for profitsharing.

Fuel and oil expense per ASM decreased 12.7 percent primarily due to a 9.9 percent decrease in the average jet fuel cost per gallon compared to 2001. The average jet fuel cost per gallon in 2002 was \$.6706 compared to \$.7440 in 2001, including the effects of hedging activities. See Note 5 to the unaudited condensed consolidated financial statements for more information on the Company's hedging activities.

Maintenance materials and repairs per ASM decreased 7.9 percent primarily due to a decrease in airframe maintenance expense per ASM. This decrease primarily was due to a decrease in the number of outsourced heavy maintenance events versus 2001.

Agency commissions per ASM decreased 52.9 percent. Approximately half of the decrease was due to a change in the Company's commission rate policy, and half was due to the decline in revenues and the mix of commissionable revenues. Effective October 15, 2001, the Company reduced the commission paid to travel agents to five percent (with no cap), regardless of the type of ticket sold. Previously, the Company paid an eight percent commission rate on ticketless bookings by travel agents. The percentage of commissionable revenues decreased from approximately 25 percent in 2001 to approximately 20 percent in 2002.

Aircraft rentals per ASM decreased 10.0 percent due to a lower percentage of the aircraft fleet being leased. The Company retired two leased aircraft in fourth quarter 2001 and one leased aircraft in each of the first and second quarter 2002. Approximately 24.3 percent of the Company's aircraft fleet was under operating lease at September 30, 2002, compared to 26.3 percent at September 30, 2001.

Landing fees and other rentals per ASM increased 8.7 percent.

Approximately 60 percent of the increase was due to an increase in Southwest's share of landing fee rates at certain airports as a result of capacity reductions by other airlines. Approximately 40 percent of the increase was due to an increase in airport terminal rentals resulting from the Company's expansion of facilities in several airports, most notably Chicago Midway Airport and Baltimore/Washington International Airport.

Depreciation expense per ASM increased 4.1 percent due to a higher number of owned aircraft. All 18 of the aircraft put into service by the Company over the past twelve months have been purchased. This, along with the retirement of six aircraft, four of which were leased, has increased the Company's percentage of aircraft owned or on capital lease to 75.7 percent at September 30, 2002 from 73.7 percent at September 30, 2001.

Other operating expenses per ASM decreased 2.0 percent due to the 2001 special charges incurred. See Note 7 to the unaudited condensed consolidated financial statements for more information on the 2001 special charges. Excluding these third quarter 2001 charges, other operating expenses per ASM were flat compared to the prior year as substantial increases in aviation insurance costs were offset with various cost control measures implemented immediately following the prior year terrorist attacks resulting in decreases in areas such as personnel related expenses and office expenses.

Interest expense increased by \$31.8 million, or 66.7 percent due to three separate borrowings executed by the Company since the terrorist attacks. In September 2001, the Company borrowed \$475 million under its revolving credit facility. This borrowing was repaid in March 2002. During the fourth quarter 2001, the Company issued \$614.3 million in long-term debt in the form of Pass-Through Certificates and, in first quarter 2002, issued \$385 million in unsecured notes (see Note 9 to the unaudited condensed consolidated financial statements). The increase in expense caused by these borrowings was partially offset by a decrease in interest rates on the Company's floating rate debt and the July 2001 redemption of \$100 million of unsecured notes.

Capitalized interest decreased by \$5.1 million, or 28.4 percent primarily due to a reduction in progress payment balances for future aircraft deliveries.

Interest income decreased by \$.3 million, or 1.0 percent compared to the same period of 2001 as substantially higher invested cash balances were more than offset by a decrease in rates earned on investments.

In 2002 and 2001, "Other (gains) losses, net" included \$47.5 million and \$168.7 million, respectively, recognized as the Company's share of government grant funds from the Act. See Note 7 to the unaudited condensed consolidated financial statements for more information on the grants. Also reflected in "Other (gains) losses, net" in 2002 and 2001 are net charges recorded in accordance with SFAS 133. See Note 5 to the unaudited condensed consolidated financial statements for more information on the Company's hedging activities. The Company recognized approximately \$19.9 million and \$13.6 million of expense, related to amounts excluded from the Company's measurements of hedge effectiveness during 2002 and 2001, respectively. The Company recognized approximately \$8.0 million as additional income and \$5.2 million as net expense related to the ineffectiveness of its hedges during 2002 and 2001, respectively.

#### Liquidity and Capital Resources

Net cash provided by operating activities was \$406.4 million for the nine months ended September 30, 2002 and \$640.8 million for the 12 months then ended. In addition, the Company issued \$385 million in unsecured notes and repaid its \$475 million revolving credit facility during the nine months ended September 30, 2002. See Notes 8 and 9 to the unaudited condensed consolidated Financial statements. Cash generated for the 12 months ended September 30, 2002 was primarily used to finance aircraft-related capital expenditures and to provide working capital.

During the 12 months ended September 30, 2002, net capital expenditures were \$703.5 million, which primarily related to the purchase of new 737-700 aircraft and progress payments for future aircraft deliveries.

The Company's contractual purchase commitments consist primarily of scheduled aircraft acquisitions. As a result of the terrorist attacks, the Company modified its future delivery dates to defer the acquisition of 19 new 737-700 aircraft that were either already in production at Boeing or were scheduled to be built through April 2002 through an arrangement with a special purpose trust (the Trust). The Trust was formed primarily to facilitate the refinancing of the Company's near-term aircraft purchase obligations with Boeing. Through the Trust, the Company had accepted 18 of these 19 aircraft as of September 30, 2002, and has scheduled the one remaining aircraft for delivery in October 2002. For the 19 Trust aircraft, the Company recorded the associated assets ("Flight equipment") and liabilities ("Aircraft purchase obligations") in its financial statements as the aircraft were completed by Boeing and delivered to the Trust. All 19 aircraft were reflected in the Company's financial statements as of September 30, 2002. The cost of refinancing these aircraft obligations, approximately \$5 million, was expensed.

See Note 10 to the unaudited condensed consolidated financial statements for more information on the Trust.

As of September 30, 2002, in addition to the one remaining aircraft that will be delivered from the Trust in October 2002, the Company has contractual purchase commitments, aircraft purchase options, and aircraft purchase rights with Boeing for a total of 417 aircraft through 2012. This total includes four aircraft deliveries in fourth quarter 2002, 17 firm aircraft deliveries in 2003, and future commitments, including options and purchase rights, of 396 aircraft for 2004 through 2012. The Company has the option, which must be exercised two years prior to the contractual delivery date, to substitute 737-600s or 737-800s for the 737-700s. Including the amounts associated with the Trust that are included as liabilities in the Company's Condensed Consolidated Balance Sheet, aggregate (cash basis) funding needed for firm commitments, as of September 30, 2002, is approximately \$3.4 billion, subject to adjustments for inflation, due as follows: \$224 million in 2002, \$ 571 million in 2003, \$643 million in 2004, \$719 million in 2005, \$632 million in 2006, and \$613 million thereafter.

The Company has various options available to meet its capital and operating commitments, including cash on hand at September 30, 2002 of \$1.9 billion and internally generated funds. On April 23, 2002, the Company entered into new unsecured revolving credit facility agreements totaling \$575 million with a group of banks. Half of the total amount of these agreements is available to the Company for three renewable one-year terms from April 23, 2002. The other half is available to the Company for a full three-year term. The Company's previous \$475 million revolving credit facility, which was fully repaid in March 2002 (See Note 8 to the financial statements), was simultaneously cancelled on April 23, 2002. The Company will also consider various borrowing or leasing options to maximize earnings and supplement cash requirements.

The Company has outstanding shelf registration statements for the issuance of an additional \$319 million in public debt securities and pass through certificates, which the Company could utilize to finance aircraft during 2002 and 2003. The Company plans to file a registration statement in fourth quarter 2002 that would allow the issuance of up to a total of \$1 billion in public debt securities and pass through certificates.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 7A. Quantitative and Qualitative Disclosures About Market Risk in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and Note 5 to the unaudited condensed consolidated financial statements.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the Securities and Exchange Commission (SEC), and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. Based on their evaluation of the Company's disclosure controls and procedures which took place as of a date within 90 days of the filing date of this report, the Chief Executive and Chief Financial Officers believe that these controls and procedures are effective to ensure that the Company is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods.

The Company also maintains a system of internal controls designed to provide reasonable assurance that: transactions are executed in accordance with management's general or specific authorization; transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles, and (2) to maintain accountability for assets; access to assets is permitted only in accordance with management's general or specific authorization; and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Since the date of the most recent evaluation of the Company's internal controls by the Chief Executive and Chief Financial Officers, there have been no significant changes in such controls or in other factors that could have significantly affected those controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to various legal proceedings and claims arising in the ordinary course of business, including, but not limited to, examinations by the Internal Revenue Service (IRS). The IRS regularly examines the Company's federal income tax returns and, in the course of which, proposes adjustments to the Company's federal income tax liability reported on such returns. It is the Company's practice to vigorously contest those proposed adjustments that it deems lacking of merit.

The Company's management does not expect that the outcome in any of its currently ongoing legal proceedings or the outcome of any proposed adjustments presented to date by the IRS, individually or collectively, will have a material adverse effect on the Company's financial condition, results of operations or cash flow.

Item 2. Changes in Securities and Use of Proceeds

Recent Sales of Unregistered Securities

None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

10.1 3-year Competitive Advance and Revolving Credit Facility Agreement among Southwest Airlines Co., the banks party thereto, and JPMorgan Chase Bank, as Administrative Agent as of April 23, 2002

10.2 364-day Competitive Advance and Revolving Credit Facility Agreement among Southwest Airlines Co., the banks party thereto, and JPMorgan Chase Bank, as Administrative Agent as of April 23, 2002

10.3 Supplemental Agreements Nos. 20, 21, 22, 23 and 24 to Purchase Agreement No. 1810, dated January 19, 1994 between The Boeing Company and Southwest.



Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

99.1 Certifications Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b) Reports on Form 8-K

On July 30, 2002, Southwest filed a current report on Form 8-K to file executed sworn statements required by SEC Order 4-460 from its Chief Executive Officer and its Chief Financial Officer.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHWEST AIRLINES CO.

October 30, 2002

By /s/ Gary C. Kelly

Gary C. Kelly  
Executive Vice President -  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

#### CERTIFICATION

I, Gary C. Kelly, Executive Vice President and Chief Financial Officer of Southwest Airlines Co., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southwest Airlines Co.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

October 30, 2002

By /s/ Gary C. Kelly

Gary C. Kelly  
Executive Vice President - Chief  
Financial Officer

#### CERTIFICATION

I, James F. Parker, Chief Executive Officer of Southwest Airlines Co.,  
certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southwest  
Airlines Co.;

2. Based on my knowledge, this quarterly report does not contain any  
untrue statement of a material fact or omit to state a material fact necessary  
to make the statements made, in light of the circumstances under which such  
statements were made, not misleading with respect to the period covered by this  
quarterly report;

3. Based on my knowledge, the financial statements, and other financial  
information included in this quarterly report, fairly present in all material  
respects the financial condition, results of operations and cash flows of the  
registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for  
establishing and maintaining disclosure controls and procedures (as defined in  
Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

October 30, 2002

By /s/ James F. Parker

James F. Parker  
Chief Executive Officer

EXHIBIT INDEX

Exhibit No.	Description
Exhibit 10.1	- 3-year Competitive Advance and Revolving Credit Facility Agreement among Southwest Airlines Co., the banks party thereto, and JPMorgan Chase Bank, as Administrative Agent as of April 23, 2002
Exhibit 10.2	- 364-day Competitive Advance and Revolving Credit Facility Agreement among Southwest Airlines Co., the banks party thereto, and JPMorgan Chase Bank, as Administrative Agent as of April 23, 2002
Exhibit 10.3	- Supplemental Agreements Nos. 20, 21, 22, 23 and 24 to Purchase Agreement No. 1810, dated January 19, 1994 between The Boeing Company and Southwest.  Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.
Exhibit 99.1	- Certifications Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

3-YEAR COMPETITIVE ADVANCE AND REVOLVING CREDIT FACILITY AGREEMENT

among

SOUTHWEST AIRLINES CO.,

THE BANKS PARTY HERETO,

CITIBANK, N.A.,  
as Syndication Agent,

BANK ONE CORPORATION

And

SUNTRUST BANK,  
as Documentation Agents,

and

JPMORGAN CHASE BANK,  
as Administrative Agent

As of April 23, 2002

J.P. MORGAN SECURITIES INC.

And

SALOMON SMITH BARNEY INC.,  
as Joint Lead Arrangers and Joint Bookrunners

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Form of Company's Outside Counsel Opinion	Exhibit E-2
Form of Agents' Counsel Opinion	Exhibit E-3
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#### 3-YEAR COMPETITIVE ADVANCE AND REVOLVING CREDIT FACILITY AGREEMENT

3-YEAR COMPETITIVE ADVANCE AND REVOLVING CREDIT FACILITY AGREEMENT dated as of April 23, 2002, among SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"). the Banks, JPMORGAN CHASE BANK, a New York banking corporation, as administrative agent for the Banks (in such capacity, the "Administrative Agent"). CITIBANK, N.A., a national banking association, as syndication agent for the Banks (in such capacity, the "Syndication Agent"). BANK ONE CORPORATION, a Delaware corporation and SUNTRUST BANK, a Georgia corporation, as documentation agents for the Banks (collectively, in such capacity, the "Documentation Agents").

The Company has requested the Banks to extend credit to the Company in order to enable it to borrow on a revolving credit basis and to obtain letters of credit on and after the Effective Date and at any time and from time to time prior to the Termination Date (each as herein defined) in an aggregate principal amount not in excess of \$287,500,000 at any time outstanding. The Company has also requested the Banks to provide a procedure pursuant to which the Company may designate that all of the Banks be invited to bid on an uncommitted basis on borrowings by the Company scheduled to mature on or prior to the Termination Date. The Banks are willing to extend such credit to the Company on the terms and conditions herein set forth. Accordingly, the Company, the Agents, and the Banks agree as follows:



## DEFINITIONS AND ACCOUNTING TERMS

Section I. I Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Adjusted Pre-Tax Income" of any Person means, with respect to any period, net income before taxes of such Person for such period, but excluding (i) any gain or loss arising from the sale of capital assets other than capital assets consisting of Aircraft, (ii) any gain or loss arising from any write-up or write-down of assets, (iii) income or loss of any other Person, substantially all of the assets of which have been acquired by such Person in any manner, to the extent that such income or loss was realized by such other Person prior to the date of such acquisition, (iv) net income or loss of any other Person (other than a Subsidiary) in which such Person has an ownership interest, (v) the income or loss of any other Person to which assets of such Person shall have been sold, transferred, or disposed of, or into which such Person shall have merged, to the extent that such income or loss arises prior to the date of such transaction, (vi) any gain or loss arising from the acquisition of any securities of such Person, (vii) gains or losses reported as extraordinary in accordance with GAAP not previously excluded in clauses (i) through (vi), and (viii) the cumulative effect of changes in accounting methods permitted by GAAP during such period.

"Administrative Agent" is defined in the introduction to this Agreement.

"Administrative Questionnaire" means an Administrative Questionnaire in a form satisfactory to the Administrative Agent, which each Bank shall complete and provide to the Administrative Agent.

"Affiliate" means a Person that directly, or indirectly through one or more intermediaries, controls or is controlled by or is under common control with another Person.

"Agents" means the Administrative Agent, the Syndication Agent and the Documentation Agent.

"Agreed Maximum Rate" means, for any date, 2% per annum above the interest rate then applicable to Alternate Base Loans.

"Agreement" means this 3-Year Competitive Advance and Revolving Credit Facility Agreement, as the same may be amended, supplemented, or modified from time to time.

"Aircraft" means, collectively, airframes and aircraft engines now owned or hereafter acquired by the Company, together with all appliances, equipment, instruments, and accessories (including radio and radar) from time to time belonging to, installed in, or appurtenant to such airframes and aircraft engines; provided, however, the term "Aircraft" shall not include airframes and engines leased by the Company.

"Aircraft Rentals" means the operating expense attributable to rental of aircraft, calculated in accordance with the line item described as such in the Current Financials.

"Alternate Base Loan" means any Committed Loan with respect to which the Company shall have selected an interest rate based on the Alternate Base Rate in accordance with the provisions of Article II.

"Alternate Base Rate" means, for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. For purposes hereof: "Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank as its prime rate in effect at its principal office in New York City (the Prime Rate not being intended to be the lowest rate of interest charged by JPMorgan Chase Bank in connection with extensions of credit to debtors). Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective as of the opening of business on the effective day of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"Applicable Lending Office" means, with respect to each Bank, such Bank's Domestic Lending Office in the case of an Alternate Base Loan or a Fixed Rate Loan and such Bank's Eurodollar Lending Office in the case of a Eurodollar Loan.

"Applicable Margin" means, as of any date, in the case of Alternate Base Loans or Eurodollar Loans that are Committed Loans, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

<Table>

<Caption>

Public Debt Rating S&P/Moody's	Applicable Margin for Eurodollar Loans that are Committed Loans	Applicable Margin for Alternate Base Loans that are Committed Loans
<S>	<C>	<C>
A/A2 or better	.40%	.00%
A-/A3	.50%	.00%
BBB+/Baa1	.60%	.00%
BBB/Baa2	.70%	.00%
BBB-/Baa3	1.00%	.00%
BB+/Ba1 or below	1.30%	.30%

</Table>

For purposes of determining the Applicable Margin on any date, the Public Debt Rating shall be determined as set forth in the definition of the term Public Debt Rating.

The Applicable Margin shall be increased by 0.125% at any time when the sum of the aggregate principal amount of the Loans then outstanding and of the L/C Obligations exceeds 50% of the Total Commitment; provided, that such increase shall apply to Alternate Base Loans only if pricing set forth in either of the two lowest rows in the above pricing grid is applicable.

"Application" means an application, in such form as the Issuing Bank may specify from time to time, requesting the Issuing Bank to open a Letter of Credit. Each Issuing Bank shall furnish to the Company a form of Application satisfactory to it promptly following the request therefor by the Company.

"Appraisal" means a "desk-top" appraisal report substantially in the form of Exhibit H. which will not include physical inspection of aircraft, engines or maintenance records and will assume the equipment is half life in its maintenance cycle, dated the date of delivery thereof to the Banks pursuant to the terms of this Agreement, by one or more independent appraisal firms of recognized national standing selected by the Company (such firm to be reasonably satisfactory, at the time of such Appraisal, to the Administrative Agent) setting forth the fair market value, as determined in accordance with the definition of "fair market value" promulgated by the International Society of Transport Aircraft Trading, as of the date of such appraisal, of each Pool Asset or a proposed Pool Asset, as the case may be.

"Appraisal Delivery Date" means (a) the Effective Date, (b) each anniversary of the Effective Date and (c) each date of replacement, removal or addition of any Pool Asset if such Pool Asset is an airframe or an airframe and one or more engines installed thereon.

"Appraised Value" means, as of any date of determination, the aggregate fair market value as of such date of each Pool Asset or proposed Pool Asset, as the case may be, as provided in the most recently delivered Appraisal.

"Assignment and Acceptance" is defined in Section 9.11 (c).

"Auditors" means independent certified public accountants of recognized national standing selected by the Company.

"Banks" means those banks signatory hereto and other banks which from time to time become party hereto pursuant to the provisions of this Agreement.

"Board" means the Board of Governors of the Federal Reserve System of the United States.

"Borrowing" means a Competitive Borrowing or a Committed Borrowing.

"Borrowing Date" means the Business Day on which the proceeds of any Borrowing are to be made available to the Company.

"Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close, provided, that with respect to notices and determinations in connection with, and payments of principal and interest on, Eurodollar Loans, such day is also a day for trading in London, England by and between banks in dollar deposits in the Eurodollar Interbank Market.

"Collateral Coverage Test" means, on any date, the requirement that the Appraised Value of the Pool Assets on such date shall not be less than an amount equal to 1.5 times the sum of (x) the Total Commitment on such date (or, after termination of the Commitments, the sum of the aggregate outstanding amount of Loans and L/C Obligations) plus (y) the "Total Commitment" on such date (or, after termination of the "Commitments", the sum of the aggregate outstanding amount of "Loans"); capitalized terms used in this clause (y) shall have the meaning assigned thereto in the 364-Day Agreement.

"Commitment" means, with respect to each Bank, the obligation of such Bank to make Loans and to issue or participate in Letters of Credit in the aggregate principal and/or face amount set forth opposite the name of such Bank on the signature pages hereof, and, if applicable, amendments hereto, as such amount may be permanently terminated or reduced from time to time pursuant to Section 2.6. Section 2.13(d) and Section 7.2, and as such amount may be increased or reduced from time to time by assignment or assumption pursuant to Section 2.13(d) and Section 9.11 (c). The Commitments shall automatically and permanently terminate on the Termination Date.

"Committed Borrowing" means a borrowing consisting of simultaneous Committed Loans from each of the Banks distributed ratably among the Banks in accordance with their respective Commitments.

"Committed Loan" means a loan by a Bank to the Company pursuant to Section 2.1. and shall be either a Eurodollar Loan or an Alternate Base Loan.

"Committed Note" means a promissory note which a Bank may require the Company to execute in accordance with Section 2.8(b). payable to the order of such Bank, in substantially the form of Exhibit D-2 hereto, with the blanks appropriately completed, to evidence the aggregate indebtedness of the Company to such Bank resulting from the Committed Loans made by such Bank to the Company, together with all modifications, extensions, renewals, and rearrangements thereof.

"Communications" is defined in Section 9.2.

"Company" is defined in the introduction to this Agreement.

"Competitive Bid" means an offer by a Bank to make a Competitive Loan pursuant to Section 2.2.

"Competitive Bid Rate" means, as to any Competitive Bid made by a Bank pursuant to Section 2.2(b), (i) in the case of a Eurodollar Loan, the Margin (which will be added to or subtracted from the LIBO Rate), and (ii) in the case of a Fixed Rate Loan, the fixed rate of interest, in each case, offered by the Bank making such Competitive Bid.

"Competitive Bid Request" means a request for Competitive Bids made pursuant to Section 2.2(a) substantially in the form of Exhibit A-1.

"Competitive Borrowing" means a borrowing consisting of a single Competitive Loan from a Bank or simultaneous Competitive Loans from one or more of the Banks, in each case, whose Competitive Bid as all or as a part of such Borrowing, as the case may be, has been accepted by the Company under the bidding procedure described in Section 2.2.

"Competitive Loan" means a loan from a Bank to the Company pursuant to the bidding procedure described in Section 2.2. and shall be either a Eurodollar Loan or a Fixed Rate Loan.

"Competitive Note" means a promissory note which a Bank may require the Company to execute in accordance with Section 2.8(b). payable to the order of such Bank, in substantially the form of Exhibit D-1 hereto, with the blanks appropriately completed, to evidence the aggregate indebtedness of the Company to such Bank resulting from the Competitive Loans made by such Bank to the Company, together with all modifications, extensions, renewals, and rearrangements thereof.

"Competitive Reduction" is defined in Section 2.1.

"Consolidated Long-Term Debt" means, as of any date, all consolidated Debt of the Company and its Subsidiaries which is classified as "long term" in accordance with GAAP, together with the aggregate of all portions of Consolidated Long-Term Debt classified as "current maturities" in accordance with GAAP.

"Coverage Ratio" means, as of any date, the ratio of (i) for the four fiscal quarter period for which the Company's annual or quarterly Financial Statements have been most recently required to have been delivered pursuant to Section 6.10(a) and Section 6.10(b) the Company's and its Subsidiaries' consolidated Adjusted Pre-Tax income, plus Aircraft Rentals, plus consolidated Net Interest Expense, depreciation, and amortization, and minus cash dividends paid by the Company, to (ii) current maturities of Consolidated Long-Term Debt or any other Debt due within a year of the date of determination, consolidated Net Interest Expense, and Aircraft Rentals paid within such four-quarter period.

"Current Financials" means the Financial Statements of the Company and its Subsidiaries for the fiscal year ended December 31, 2001.

"Debt" means, without duplication, (a) any indebtedness for borrowed money or incurred in connection with the acquisition or construction of any Property, (b) any obligation under any lease of any Property entered into

after the date of this Agreement which is required under GAAP to be capitalized on the lessee's balance sheet, and (c) any direct or indirect guarantee or assumption of indebtedness or obligations described in clause (a) or (b), including without limitation any agreement to provide funds to or otherwise assure the ability of an obligor to repay indebtedness or meet its obligations.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of America and all other applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization, fraudulent transfer or conveyance, suspension of payments, or similar Laws from time to time in effect affecting the Rights of creditors generally.

"Default" means the occurrence of any event which with the giving of notice or the passage of time or both would become an Event of Default.

"Documentation Agents" is defined in the introduction to this Agreement.

"dollars" and the symbol "\$" mean the lawful currency of the United States of America.

"Domestic Lending Office" means, with respect to any Bank, the office of such Bank specified as its "Domestic Lending Office" on Schedule I to this Agreement or such other office of such Bank as such Bank may from time to time specify to the Company and the Administrative Agent.

"Effective Date" means the date on which the conditions set forth in Section 4.1 are first met, which date is April 23,2002.

"Eligible Affiliate Assignee" means (i) a commercial bank organized under the Laws of the United States, or any state thereof, and having total assets in excess of \$1,000,000,000; (ii) a commercial bank organized under the Laws of France, Germany, the Netherlands or the United Kingdom, or under the Laws of a political subdivision of any such country, and having total assets in excess of \$1,000,000,000; provided that such bank is acting through a branch or agency located in such country or the United States; and (iii) a commercial bank organized under the Laws of any other country which is a member of the OECD, or under the Laws of a political subdivision of any such country, and having total assets in excess of \$1,000,000,000; provided that such bank is acting through a branch or agency located in the United States.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated thereunder.

"Eurocurrency Liabilities" is defined in Regulation D.

"Eurodollar Interbank Market" means the London eurodollar interbank market.

"Eurodollar Lending Office" means, with respect to each Bank, the branches or affiliates of such Bank which such Bank has designated on Schedule I as its "Eurodollar Lending Office" or may hereafter designate from time to time as its "Eurodollar Lending Office" by notice to the Company and the Administrative Agent.

"Eurodollar Loan" means any loan with respect to which the Company shall have selected an interest rate based on the LIBO Rate in accordance with the provisions of Article II.

"Event of Default" means any of the events described in Article VII, provided there has been satisfied any requirement in connection therewith for the giving of notice, lapse of time, or happening of any further condition, event, or act.

"Existing Credit Agreement" means the Competitive Advance and Revolving Credit Facility Agreement, dated as of May 6, 1997, among the Company, Texas Commerce Bank National Association, as administrative agent, the banks party thereto, Bank of America National Trust and Savings Association, as documentation agent, NationsBank of Texas, N.A., as Syndication Agent and The Chase Manhattan Bank, as Auction Administration Agent.

"Facility Fee" is defined in Section 2.5.

"Facility Fee Percentage" means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

<Table>		
<Caption>		
	Public Debt Rating	
	S&P/Moody's	Percentage
<S>		<C>

A/A2 or better	.10%
A-/A3	.125%
BBB+/Baa1	.15%
BBB/Baa2	.175%
BBB-/Baa3	.25%
BB+/Baa1 or below	.325%

</Table>

For purposes of determining the Facility Fee Percentage on any date, the Public Debt Rating shall be determined as set forth in the definition of the term Public Debt Rating.

"Federal Funds Effective Rate" means, for any day, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for the day of such transactions received by JPMorgan Chase Bank from three federal funds brokers of recognized standing selected by it.

"Financial Report Certificate" means a certificate substantially in the form of Exhibit F.

"Financial Statements" means balance sheets, income and loss statements, statements of stockholders' equity, and statements of cash flow prepared in accordance with GAAP and in comparative form to the corresponding period of the preceding fiscal year.

"Fixed Rate Loan" means any Competitive Loan made by a Bank pursuant to Section 2.2 based upon an actual percentage rate per annum offered by such Bank, expressed as a decimal (to no more than four decimal places), and accepted by the Company.

"GAAP" means generally accepted accounting principles of the Accounting Principles Board of the American Institute of Certified Public Accountants and the Financial Accounting Standards Board which are applicable as of the date in question for the purpose of the definition of "Financial Statements."

"Interest Payment Date" means (i) with respect to any Alternate Base Loan, each Quarterly Payment Date, or if earlier the Termination Date or the date of prepayment of such Loan or conversion of such Loan to a Eurodollar Loan, (ii) with respect to any Eurodollar Loan, the last day of the Interest Period applicable thereto and, in addition in the case of a Eurodollar Loan with an Interest Period longer than three months each day that would have been the Interest Payment Date for such Loan had successive Interest Periods of three months been applicable to such Loan, and (iii) in the case of a Fixed Rate Loan, the last day of the Interest Period applicable thereto and, in the case of a Fixed Rate Loan with an Interest Period of more than 90 days, on the numerically corresponding day which occurs during such Interest Period every three months from the first day of such Interest Period (or, if there is no such corresponding day in any such month, the last day of such month).

"Interest Period" means:

(i) as to any Eurodollar Loan, the period commencing on the date of such Loan and ending on the numerically corresponding day (or if there is no corresponding day, the last day) in the calendar month that is one, two, three or six, or, if made available by the Majority Banks, nine or twelve, months thereafter, as the Company may elect; and

(ii) as to any Fixed Rate Loan, the period commencing on the date of such Loan and ending on the date specified in the Competitive Bid in which the offer to make the Fixed Rate Loan was extended; provided, however, that each such period shall have a duration of not less than seven calendar days nor more than 360 calendar days;

provided, further, that (x) if any Interest Period would end on a day which shall not be a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, with respect to Eurodollar Loans only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, and (y) no Interest Period may be selected that ends later than the Termination Date. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Issuing Bank" means JPMorgan Chase Bank and any other Bank that has agreed in writing to act as an "Issuing Bank" hereunder. Each reference herein to "the Issuing Bank" shall be deemed to be a reference to the relevant Issuing Bank.

"Laws" means all applicable statutes, laws, treaties, ordinances, rules, regulations, orders, writs, injunctions, decrees, judgments, or

opinions of any Tribunal.

"L/C Commitment" means \$70,000,000.

"L/C Obligations" means at any time, an amount equal to the sum of (a) the aggregate then undrawn and unexpired amount of the then outstanding Letters of Credit, if any, and (b) the aggregate amount of drawings under Letters of Credit that have not then been reimbursed pursuant to Section 3.5.

"L/C Participants" means the collective reference to all the Banks other than the Issuing Bank.

"Letters of Credit" is defined in Section 3.1 (a).

"LIBO Rate" means, for any Eurodollar Loan for any Interest Period therefor, the rate equal to the annual rate of interest shown on the Telerate Screen (Page 3750) for a period equal to such Interest Period or, if the Telerate Screen is not available, the annual rate of interest at which dollar deposits approximately equal in principal amount to JPMorgan Chase Bank's portion of the Committed Borrowing of which such Eurodollar Loan forms a part (or, in the case of a Competitive Loan, a principal amount which would have been JPMorgan Chase Bank's portion of the Committed Borrowing of which such Eurodollar Loan would have formed a part had such Competitive Borrowing been a Committed Borrowing) and with a maturity equal to the applicable Interest Period are offered in immediately available funds to the principal office of JPMorgan Chase Bank in London, England (or if JPMorgan Chase Bank does not at the time any such determination is to be made maintain an office in London, England, the principal office of any Affiliate of JPMorgan Chase Bank in London, England), in the Eurodollar Interbank Market, at 11:00 a.m., London time (or as soon thereafter as practicable), two Business Days before the first day of such Interest Period. The LIBO Rate for the Interest Period for each Eurodollar Loan comprising part of the same Borrowing shall be determined by the Administrative Agent.

"Lien" means any mortgage, lien, pledge, adverse claim, charge, security interest or other encumbrance in or on, or any interest or title of any vendor, lessor, lender or other secured party to or of any Person under, any conditional sale or other title retention agreement or lease with respect to, any Property or asset of such Person.

"Litigation" means any action conducted, pending, or threatened by or before any Tribunal.

"Loan" means a Competitive Loan, a Committed Loan, a Eurodollar Loan, a Fixed Rate Loan, or an Alternate Base Loan.

"Loan Based Accrual" is defined in Section 2.5.

"Loan Papers" means (i) this Agreement, certificates delivered pursuant to this Agreement and exhibits and schedules hereto, (ii) any notes, security documents, guaranties, and other agreements in favor of the Agents and Banks, or any or some of them, ever delivered in connection with this Agreement, and (iii) all renewals, extensions, or restatements of, or amendments or supplements to, any of the foregoing.

"Loan Payment Date" is defined in Section 2.5.

"Majority Banks" means, at any time. Banks having Revolving Credit Exposures and unused Commitments representing more than 50% of the sum of the total Revolving Credit Exposures and unused Commitments at such time; provided that, for purposes of declaring the Loans to be due and payable pursuant to Article VII, and for all purposes after the Loans become due and payable pursuant to Article VII or the Commitments expire or terminate, the outstanding Competitive Loans of the Banks shall be included in their respective Revolving Credit Exposures in determining the Majority Banks.

"Margin" means, as to any Competitive Bid made by a Bank relating to a Eurodollar Loan, the margin (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) to be added to or subtracted from the LIBO Rate for any such Loan in order to determine the interest rate acceptable to such Bank with respect to such Eurodollar Loan.

"Margin Stock" means "margin stock" within the meaning of Regulation T, U, or X of the Board.

"Material Adverse Change" or "Material Adverse Effect" means an act, event or circumstance which materially and adversely affects the business, financial condition or results of operations of the Company and its Subsidiaries on a consolidated basis or the ability of the Company to perform its obligations under this Agreement or any Loan Paper.

"Material Subsidiary" means, at any time, any Subsidiary of the Company having at such time either (i) total assets, as of the last day of the preceding fiscal quarter, having a net book value greater than or equal to 10% of the total assets of the Company and all of its Subsidiaries on a

consolidated basis or (ii) Adjusted Pre-Tax Income, as of the last day of the preceding fiscal quarter, greater than or equal to 10% of the total Adjusted Pre-Tax Income of the Company and all of its Subsidiaries on a consolidated basis.

"Moody's" means Moody's Investors Service, Inc.

"Net Interest Expense" means interest expense minus interest income, excluding in either case capitalized interest, but including payments in the nature of interest under capital leases if and to the extent characterized as such in accordance with GAAP.

"Note" means a Competitive Note or a Committed Note.

"Notice of Committed Borrowing" is defined in Section 2.3.

"Obligation" means all present and future indebtedness, obligations, and liabilities, and all renewals, extensions, and modifications thereof, owed to the Agents and Banks, or any or some of them, by the Company, arising pursuant to any Loan Paper, together with all interest thereon and costs, expenses, and reasonable attorneys' fees incurred in the enforcement or collection thereof.

"OECD" means the Organization for Economic Cooperation and Development as constituted on the date hereof (excluding Mexico, Poland and the Czech Republic).

"Officer's Certificate" means a certificate signed in the name of the Company by either its Chairman, its Chief Executive Officer, its Chief Financial Officer, its President, one of its Vice Presidents, its Treasurer, or its Assistant Treasurer, in each case without personal liability.

"Original Termination Date" means April 22, 2005.

"Permitted Liens" means: (a) Liens for taxes, assessments and governmental charges or levies which either are not yet due and payable or are being contested in good faith by appropriate proceedings and for which adequate reserves are established in accordance with GAAP; (b) Liens securing judgments, but only to the extent, for an amount and for a period not resulting in an Event of Default under Section 7.1(d); (c) Liens arising under this Agreement; (d) Liens constituting normal operational usage of the affected Property, including charter, third party maintenance, leasing, pooling or interchange thereof; and (e) Liens imposed by law such as materialmen's, mechanics', carriers', workmen's and repairmen's Liens and other similar Liens arising in the ordinary course of business securing obligations that (i) are not overdue for a period of more than 30 days, provided that no enforcement, collection, execution, levy or foreclosure proceeding shall have been commenced with respect thereto, or (ii) are being contested in good faith and for which adequate reserves are established in accordance with GAAP.

"Person" means and includes an individual, partnership, joint venture, corporation, trust, limited liability company or other entity, Tribunal, unincorporated organization, or government, or any department, agency, or political subdivision thereof.

"Plan" means any plan defined in Section 402 I (a) of ERISA in respect of which the Company is an "employer" or a "substantial employer" as such terms are defined in ERISA.

"Pool Assets" means assets of the Company listed on Schedule II, to the extent modified pursuant to Section 6.12 and shall include only Stage 3 Equipment owned legally by the Company.

"Prime Rate" is defined in the definition of the term Alternate Base Rate.

"Principal Office" of the Administrative Agent means 270 Park Avenue, New York, New York, 10017, or such other office as the Administrative Agent may hereafter designate from time to time as its "Principal Office" by notice to the Company and the Banks.

"Property" means all types of real, personal, tangible, intangible, or mixed property.

"Public Debt Rating" means, as of any date, the rating that has been most recently announced by S&P and Moody's for that class of non-credit enhanced, senior unsecured debt with an original term of longer than one year issued by the Company which has the lowest rating of all classes of non-credit enhanced, senior unsecured debt with an original term of longer than one year issued by the Company. For purposes of the foregoing, (a) if only one of S&P and Moody's shall have in effect a Public Debt Rating, the Applicable Margin and the Facility Fee Percentage shall be determined by reference to the available rating; (b) if the ratings established by S&P and Moody's shall fall within different levels, the Applicable Margin and the

Facility Fee Percentage shall be based upon the higher rating, except that if the difference is two or more levels, the Applicable Margin and Facility Fee Percentage shall be based on the rating that is one level below the higher rating; (c) if any rating established by S&P or Moody's shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; (d) if S&P or Moody's shall change the basis on which ratings are established, each reference to the Public Debt Rating announced by S&P or Moody's, as the case may be, shall refer to the then equivalent rating by S&P or Moody's, as the case may be; (e) if neither S&P nor Moody's shall have in effect a Public Debt Rating but at least one of S&P and Moody's has in effect a rating for any class of senior secured debt with an original term of longer than one year issued by the Company, the Applicable Margin and Facility Fee Percentage shall be determined by reference to a rating that is two levels lower than the rating that has been most recently announced by S&P and Moody's for such class of debt; and (f) if neither S&P nor Moody's shall have in effect either a Public Debt Rating or a rating for any class of senior secured debt with an original term of longer than one year issued by the Company, the Applicable Margin and the Facility Fee Percentage shall be set in accordance with the lowest level rating and highest percentage rate set forth in the respective tables in the definitions of "Applicable Margin" and "Facility Fee Percentage", as the case may be.

"Quarterly Payment Date" means the 15th day of each March, June, September and December of each year, the first of which shall be the first such day after the Effective Date.

"Register" is defined in Section 9.11(e).

"Regulation D" means Regulation D of the Board, as the same is from time to time in effect, and all official rulings and interpretations thereunder or thereof.

"Regulatory Change" means, with respect to any Bank, (a) any adoption or change after the Effective Date of or in United States federal, state or foreign laws, rules, regulations (including Regulation D) or guidelines applying to a class of banks including such Bank, (b) the adoption or making after the Effective Date of any interpretations, directives or requests applying to a class of banks including such Bank of or under any United States federal, state or foreign laws, rules, regulations or guidelines (whether or not having the force of law) by any Tribunal, monetary authority, central bank, or comparable agency charged with the interpretation or administration thereof, or (c) any change in the interpretation or administration of any United States federal, state or foreign laws, rules, regulations or guidelines applying to a class of banks including such Bank by any Tribunal, monetary authority, central bank, or comparable agency charged with the interpretation or administration thereof.

"Reimbursement Obligation" means the obligation of the Company to reimburse the Issuing Bank pursuant to Section 3.5 for amounts drawn under Letters of Credit.

"Reserve Percentage" of any Bank for the Interest Period for any Eurodollar Loan means the reserve percentage applicable during such Interest Period under regulations issued from time to time by the Board (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) for determining the maximum reserve requirement (including, without limitation, any marginal reserve requirement) for such Bank with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"Revolving Credit Exposure" means, with respect to any Bank at any time, the sum of the outstanding principal amount of such Bank's Loans and its L/C Obligations at such time. For the purposes of this definition each Bank shall be deemed to hold a pro rata share of the total L/C Obligations based on the percentage which its Commitment represents of the aggregate Commitments.

"Rights" means rights, remedies, powers, and privileges.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"Stage 3 Airframes" and "Stage 3 Engines" mean airframes or engines, respectively, owned by the Company and qualifying as Stage 3 airplanes, as set forth in Federal Aviation Regulation 36.1(f)(6), 14 C.F.R. Section 36.1(f)(6) or any successor regulation, as amended; and "Stage 3 Engines" also include spare engines which are suitable for use on Stage 3 Airframes and are being maintained according to the Company's normal and customary standards.

"Stage 3 Equipment" means Stage 3 Airframes and not less than two nor more than four Stage 3 Engines per Stage 3 Airframe.

"Stated Rate" is defined in Section 9.8.



"Subsidiary" of a Person means any entity of which an aggregate of more than 50% (in number of votes) of the stock (or equivalent interests) is owned of record or beneficially, directly or indirectly, by such Person.

"Syndication Agent" is defined in the introduction to this Agreement.

"Taxes" means all taxes, assessments, fees, or other similar charges at any time imposed by any Laws or Tribunal.

"Termination Date" means, at any time, the Original Termination Date or the earlier date of termination in whole of the Total Commitment pursuant to Section 2.6 or Section 7.2.

"364-Day Agreement" means the 364-Day Credit Agreement, dated as of April 23, 2002, among the Company, the banks parties thereto, JPMorgan Chase Bank, as administrative agent, Citibank, N.A, as syndication agent, Bank One Corporation and SunTrust Bank, as documentation agents, as the same may from time to time be modified, supplemented or amended.

"Total Commitment" means at any time the aggregate amount of the Banks' Commitments, as in effect at such time.

"Tribunal" means any municipal, state, commonwealth, federal, foreign, territorial, or other court, governmental body, subdivision, agency, department, commission, board, bureau, or instrumentality.

"Type" refers to the distinction between Committed Loans that are Alternate Base Loans and Committed Loans that are Eurodollar Loans.

"United States" and "U.S." each means United States of America.

Section 1.2 Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding."

## ARTICLE II

### LOANS

Section 2.1 Commitments. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank, severally and not jointly, agrees to make revolving credit loans to the Company, at any time and from time to time on and after the Effective Date and until the earlier of the Termination Date and the termination of the Commitment of such Bank in accordance with the terms hereof. Notwithstanding the foregoing, (a) the aggregate principal amount at any time outstanding of all Committed Loans of a Bank shall not exceed such Bank's Commitment and (b) the Total Commitment shall be deemed used from time to time to the extent of the aggregate principal amount of the Competitive Loans then outstanding, and such deemed use of the Total Commitment shall be applied to the Banks ratably according to their respective Commitments (such deemed use of the Total Commitment being a "Competitive Reduction") and (c) the Total Commitment shall be deemed further used from time to time to the extent of the L/C Obligations, and such deemed use of the Total Commitment shall be applied to the Banks ratably according to their respective Commitments, subject, however, to the conditions that (i) at no time shall (A) the sum of (x) the outstanding aggregate principal amount of all Committed Loans made by all Banks, (y) the outstanding aggregate principal amount of all Competitive Loans made by all Banks and (z) the L/C Obligations exceed (B) the Total Commitment, and (ii) at all times the outstanding aggregate principal amount of all Committed Loans made by a Bank shall equal the product of (x) the percentage which its Commitment represents of the Total Commitment times (y) the outstanding aggregate principal amount of all Committed Loans obligated to have been made by all Banks.

Within the foregoing limits, the Company may borrow, repay, prepay, and reborrow hereunder, on and after the Effective Date and prior to the Termination Date, subject to the terms, provisions, and limitations set forth herein.

#### Section 2.2 Competitive Bid Procedure

(a) In order to request Competitive Bids, the Company shall hand deliver or telecopy to the Administrative Agent a duly completed Competitive Bid Request, to be received by the Administrative Agent (i) in the case of Eurodollar Loans, not later than 10:00 a.m., New York City time, four Business Days before the Borrowing Date specified for a proposed Competitive Borrowing and (ii) in the case of Fixed Rate Loans, not later than 10:00 a.m., New York City time, one Business Day before the Borrowing Date specified for a proposed Competitive Borrowing. No Alternate Base Loan shall be requested in, or, except pursuant to Section 2.14, made pursuant to, a Competitive Bid Request. A Competitive Bid Request that does not conform substantially to the format of Exhibit A-1 may be rejected at the Administrative Agent's sole discretion, and the Administrative Agent shall promptly notify the Company of such rejection by telecopier. Each Competitive Bid Request shall in each case refer to this

Agreement and specify (x) whether the Competitive Loans then being requested are to be Eurodollar Loans or Fixed Rate Loans, (y) the Borrowing Date of such Competitive Loans (which shall be a Business Day) and the aggregate principal amount thereof (which shall not be less than \$10,000,000 or greater than the unused Total Commitment on such Borrowing Date and shall be an integral multiple of \$1,000,000), and (z) the Interest Period with respect thereto (which may not end after the Termination Date). Promptly after its receipt of a Competitive Bid Request that is not rejected as aforesaid, the Administrative Agent shall invite by telecopier (substantially in the form set forth in Exhibit B hereto) the Banks to bid, on the terms and conditions of this Agreement, to make Competitive Loans pursuant to such Competitive Bid Request.

(b) Each Bank may, in its sole discretion, make one or more Competitive Bids to the Company responsive to each Competitive Bid Request. Each Competitive Bid by a Bank must be received by the Administrative Agent via telecopier, substantially in the form of Exhibit C hereto, (i) in the case of Eurodollar Loans, not later than 10:00 a.m., New York City time, three Business Days before the Borrowing Date specified for a proposed Competitive Borrowing and (ii) in the case of Fixed Rate Loans, not later than 9:30 a.m., New York City time, on the day of a proposed Competitive Borrowing. Competitive Bids that do not conform substantially to the format of Exhibit C may be rejected by the Administrative Agent after conferring with, and upon the instruction of, the Company, and the Administrative Agent shall notify the non-conforming Bank of such rejection as soon as practicable. Each Competitive Bid shall refer to this Agreement and (x) specify the principal amount (which shall be in a minimum principal amount of \$5,000,000 and in an integral multiple of \$1,000,000 and which may equal the entire principal amount of the Competitive Borrowing requested by the Company) of the Competitive Loan the Bank is willing to make to the Company, (y) specify the Competitive Bid Rate(s) at which the Bank is prepared to make the Competitive Loan and (z) confirm the Interest Period with respect thereto specified by the Company in its Competitive Bid Request. A Competitive Bid submitted by a Bank pursuant to this paragraph (b) shall be irrevocable.

(c) The Administrative Agent shall promptly notify the Company by telecopier of all the Competitive Bids made, the Competitive Bid Rate and the principal amount of each Competitive Loan in respect of which a Competitive Bid was made and the identity of the Bank that made each bid. The Administrative Agent shall send a copy of all Competitive Bids to the Company for its records as soon as practicable after completion of the bidding process set forth in this Section 2.2.

(d) The Company may in its sole and absolute discretion, subject only to the provisions of this Section 2.2(d), accept or reject any or all of the Competitive Bids referred to in paragraph (c) above; provided, however, that the aggregate amount of the Competitive Bids so accepted by the Company may not exceed the principal amount of the Competitive Borrowing requested by the Company. The Company shall notify the Administrative Agent by telecopier whether and to what extent it has decided to accept or reject any or all of the bids referred to in paragraph (c) above, (i) in the case of Eurodollar Loans, not later than 12:00 noon, New York City time, three Business Days before the Borrowing Date specified for a proposed Competitive Borrowing and (ii) in the case of Fixed Rate Loans, not later than 10:30 a.m., New York City time, on the day specified for a proposed Competitive Borrowing; provided, however, that (w) the failure by the Company to give such notice shall be deemed to be a rejection of all the bids referred to in paragraph (c) above, (x) the Company shall not accept a bid made at a particular Competitive Bid Rate if the Company has decided to reject a bid made at a lower Competitive Bid Rate, (y) if the Company shall accept bids made at a particular Competitive Bid Rate but shall be restricted by other conditions hereof from borrowing the full principal amount of Competitive Loans in respect of which bids at such Competitive Bid Rate have been made or shall not require the full amount offered thereby, then the Company shall accept a pro rata portion of each bid made at such Competitive Bid Rate based as nearly as possible on the respective principal amounts of Competitive Loans for which such bids were made and (z) no bid shall be accepted for a Competitive Loan unless such Competitive Loan is in a minimum principal amount of \$5,000,000 and an integral multiple of \$1,000,000. Notwithstanding the foregoing clause (z), if it is necessary for the Company to accept a pro rata allocation of the bids made in response to a Competitive Bid Request (whether pursuant to the events specified in clause (y) above or otherwise) and the available principal amount of Competitive Loans to be allocated among the Banks is not sufficient to enable Competitive Loans to be allocated to each Bank in a minimum principal amount of \$5,000,000 and in integral multiples of \$1,000,000, then the Company shall select the Banks to be allocated such Competitive Loans and shall round allocations up or down to the next higher or lower multiple of \$500,000 as it shall deem appropriate. A notice given by the Company pursuant to this paragraph (d) shall be irrevocable.

(e) The Administrative Agent shall promptly notify each bidding Bank whether or not its Competitive Bid has been accepted (and if so, in what amount and at what Competitive Bid Rate) by telecopier, and each successful bidder will thereupon become bound, subject to the other applicable conditions hereof, to make the Competitive Loan in respect of which its bid has been accepted. After completing the notifications referred to in the immediately preceding

sentence, the Administrative Agent shall notify each Bank of the aggregate principal amount of all Competitive Bids accepted.

(f) Upon receipt from the Administrative Agent of the LIBO Rate applicable to any Eurodollar Loan to be made by any Bank pursuant to a Competitive Bid that has been accepted by the Company pursuant to Section 2.2(d), the Administrative Agent shall notify such Bank of (i) the applicable LIBO Rate and (ii) the sum of the applicable LIBO Rate plus the Margin bid by such Bank.

(g) No Competitive Bid Request shall be made within five Business Days of the date of any other Competitive Bid Request, unless the Company and the Administrative Agent shall mutually agree otherwise.

(h) If the Administrative Agent shall at any time have a Commitment hereunder and shall elect to submit a Competitive Bid in its capacity as a Bank, it shall submit such bid directly to the Company one quarter of an hour earlier than the latest time at which the other Banks are required to submit their bids to the Administrative Agent pursuant to paragraph (b) above.

(i) All notices required by this Section 2.2 shall be made in accordance with Section 9.2.

Section 2.3 Committed Borrowing Procedure. In order to effect a Committed Borrowing, the Company shall hand deliver or telecopy to the Administrative Agent a duly completed request for Committed Borrowing, substantially in the form of Exhibit A-2 hereto (a "Notice of Committed Borrowing"), (i) in the case of Eurodollar Loans, not later than 11:00 a.m.. New York City time, three Business Days before the Borrowing Date specified for a proposed Committed Borrowing, and (ii) in the case of Alternate Base Loans, not later than 11:00 a.m., New York City time, on the Business Day which is the Borrowing Date specified for a proposed Committed Borrowing. No Fixed Rate Loan shall be requested or made pursuant to a Notice of Committed Borrowing. Such notice shall be irrevocable and shall in each case refer to this Agreement and specify (x) whether the Loans then being requested are to be Eurodollar Loans, or Alternate Base Loans, (y) the Borrowing Date of such Loans (which shall be a Business Day) and the aggregate amount thereof (which shall not be less than \$10,000,000 and shall be an integral multiple of \$1,000,000) and (z) in the case of a Eurodollar Loan, the Interest Period with respect thereto (which shall not end later than the Termination Date). If no Interest Period with respect to any Eurodollar Loan is specified in any such Notice of Committed Borrowing, then the Company shall be deemed to have selected an Interest Period of one month's duration. Promptly, and in any event on the same day the Administrative Agent receives a Notice of Committed Borrowing pursuant to this Section 2.3 if such notice is received by 11:00 a.m.. New York City time on a Business Day and otherwise on the next succeeding Business Day, the Administrative Agent shall advise the other Banks of such Notice of Committed Borrowing and of each Bank's portion of the requested Committed Borrowing by telecopier. Each Committed Borrowing shall consist of Loans of the same Type made on the same day and having the same Interest Period.

#### Section 2.4 Refinancings: Conversions

(a) The Company may refinance all or any part of any Loan with a Loan of the same or a different type made pursuant to Section 2.2 or Section 2.3. subject to the conditions and limitations set forth herein and elsewhere in this Agreement, including, without limitation, refinancings of Competitive Loans with Committed Loans and Committed Loans with Competitive Loans. Any Loan or part thereof so refinanced shall be deemed to be repaid in accordance with Section 2.18 with the proceeds of a new Borrowing hereunder and the proceeds of the new Loan, to the extent they do not exceed the principal amount of the Loan being refinanced, shall not be paid by the Banks to the Administrative Agent or by the Administrative Agent to the Company pursuant to Section 2.7(c): provided, however, that (i) if the principal amount extended by a Bank in a refinancing is greater than the principal amount extended by such Bank in the Borrowing being refinanced, then such Bank shall pay such difference to the Administrative Agent for distribution to the Banks described in (ii) below, (ii) if the principal amount extended by a Bank in the Borrowing being refinanced is greater than the principal amount being extended by such Bank in the refinancing, the Administrative Agent shall return the difference to such Bank out of amounts received pursuant to (i) above, (iii) to the extent any Bank fails to pay the Administrative Agent amounts due from it pursuant to (i) above, any Loan or portion thereof being refinanced shall not be deemed repaid in accordance with Section 2.18 to the extent of such failure and the Company shall pay such amount to the Administrative Agent pursuant to Section 2.18 and (iv) to the extent the Company fails to pay to the Administrative Agent any amounts due in accordance with Section 2.18 as a result of the failure of a Bank to pay the Administrative Agent any amounts due as described in (iii) above, the portion of any refinanced Loan deemed not repaid shall be deemed to be outstanding solely to the Bank which has failed to pay the Administrative Agent amounts due from it pursuant to (i) above to the full extent of such Bank's portion of such refinanced Loan.

(b) Subject to the conditions and limitations set forth in this Agreement, the Company shall have the right from time to time to convert all or

part of one Type of Committed Loan into another Type of Committed Loan or to continue all or a part of any Committed Loan that is a Eurodollar Loan from one Interest Period to another Interest Period by giving the Administrative Agent written notice (by means of a Notice of Committed Borrowing) (i) in the case of Eurodollar Loans, not later than 11:00 a.m., New York City time, three Business Days before the date specified for such proposed conversion or continuation, and (ii) in the case of Alternate Base Loans, not later than 11:00 a.m., New York City time, on the Business Day which is the date specified for such proposed conversion or continuation. Such notice shall specify (A) the proposed date for conversion or continuation, (B) the amount of the Committed Loan to be converted or continued, (C) in the case of conversions, the Type of Committed Loan to be converted into, and (D) in the case of a continuation of or conversion into a Eurodollar Loan, the duration of the Interest Period applicable thereto; provided that (1) Eurodollar Loans may be converted only on the last day of the applicable Interest Period, (2) except for conversions to Alternate Base Loans, no conversion shall be made while a Default or Event of Default has occurred and is continuing and no continuations of any Eurodollar Loan from one Interest Period to another Interest Period shall be made while a Default or Event of Default has occurred and is continuing, unless such conversion or continuation has been approved by Majority Banks, and (3) each such conversion or continuation shall be in an amount not less than \$10,000,000 and shall be an integral multiple of \$1,000,000. All notices given under this Section shall be irrevocable. If the Company shall fail to give the Administrative Agent the notice as specified above for continuation or conversion of a Eurodollar Loan prior to the end of the Interest Period with respect thereto, such Eurodollar Loan shall automatically be converted into an Alternate Base Loan on the last day of the Interest Period for such Eurodollar Loan.

Section 2.5 Fees. The Company agrees to pay to each Bank, through the Administrative Agent, on each Quarterly Payment Date, on the Termination Date and, if applicable, on the relevant Loan Payment Date, in immediately available funds, a facility fee (a "Facility Fee") calculated by multiplying the Facility Fee Percentage by the amount of the average daily Commitment of such Bank, whether used or unused (or, if the Commitments shall have been terminated, by the average outstanding principal amount of the Committed Loans of such Bank ("Loan Based Accrual")) during the preceding three-month period (or shorter period commencing with the Effective Date and/or ending with the Termination Date or the relevant Loan Payment Date, as the case may be). All Facility Fees shall be computed by the Administrative Agent on the basis of the actual number of days elapsed in a year of 360 days, and shall be conclusive and binding for all purposes, absent manifest error. The Facility Fee due to each Bank shall commence to accrue on the Effective Date and shall cease to accrue on the Termination Date or, if earlier, the date of the termination of the Commitment of such Bank as provided herein (or, if Loan Based Accrual is applicable, on the date (the "Loan Payment Date") the relevant Loans have been paid in full).

#### Section 2.6 Termination and Reduction of Commitments

(a) Subject to Section 2.12(b), the Company may permanently terminate, or from time to time in part permanently reduce, the Total Commitment, in each case upon at least three Business Days' prior written notice to the Administrative Agent (who shall promptly forward a copy thereof to each Bank). Such notice shall specify the date and the amount of the termination or reduction of the Total Commitment. Each such partial reduction of the Total Commitment shall be in a minimum aggregate principal amount of \$10,000,000 and in an integral multiple of \$1,000,000.

(b) On the Termination Date the Total Commitment shall be zero.

(c) Each reduction in the Total Commitment pursuant to this Section 2.6 shall be made ratably among the Banks in accordance with their respective Commitments. Simultaneously with any termination of Commitments pursuant to this Section, the Company shall pay to the Administrative Agent for account of the Banks the Facility Fees on the amount of the Total Commitment so terminated, accrued through the date of such termination.

#### Section 2.7 Loans

(a) Each Borrowing made by the Company on any date shall be (i) in the case of Competitive Loans, in an integral multiple of \$1,000,000 and in a minimum aggregate principal amount of \$5,000,000 and (ii) in the case of Committed Loans, in an integral multiple of \$1,000,000 and in a minimum aggregate principal amount of \$10,000,000. Competitive Loans shall be made by the Banks in accordance with Section 2.2(d), and Committed Loans shall be made by the Banks ratably in accordance with their respective Commitments on the Borrowing Date of the Committed Borrowing; provided, however, that the failure of any Bank to make any Loan shall not in itself relieve any other Bank of its obligation to lend hereunder.

(b) Each Competitive Loan shall be a Eurodollar Loan or a Fixed Rate Loan, and each Committed Loan shall be a Eurodollar Loan or an Alternate Base Loan, as the Company may request subject to and in accordance with Section 2.2, Section 2.3 or Section 2.4(b), as applicable. Each Bank may at

its option make any Eurodollar Loan by causing a foreign branch or Affiliate of such Bank to make such Loan; provided, however, that any exercise of such option shall not affect the obligation of the Company to repay such Loan in accordance with the terms of this Agreement or increase the Company's obligations to such Bank hereunder. Loans of more than one interest rate option may be outstanding at the same time; provided, however, that the Company shall not be entitled to request any Loan which, if made, would result in an aggregate of more than ten separate Interest Periods being outstanding hereunder at any one time. For purposes of the foregoing, Loans having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Loans.

(c) Subject to Section 2.4. each Bank shall make its portion of each Competitive Borrowing and each Committed Borrowing on the proposed Borrowing Date thereof by paying the amount required to the Administrative Agent at the Principal Office in immediately available funds not later than 1:00 p.m., New York City time, and the Administrative Agent shall by 2:00 p.m., New York City time, credit the amounts so received to the general deposit account of the Company with the Administrative Agent or, if Loans are not made on such date because any condition precedent to a Borrowing herein specified shall not have been met, return the amounts so received to the respective Banks as soon as practicable; provided, however, if and to the extent the Administrative Agent fails to return any such amounts to a Bank on the Borrowing Date for such Borrowing, the Administrative Agent shall pay interest on such unreturned amounts, for each day from such Borrowing Date to the date such amounts are returned to such Bank, at the Federal Funds Effective Rate.

(d) The outstanding principal amount of each Competitive Loan shall be due and payable on the last day of the Interest Period applicable to such Competitive Loan, and the outstanding principal balance of each Committed Loan shall be due and payable on the Termination Date.

#### Section 2.8 Loan Accounts

(a) The Loans made by each Bank shall be evidenced by one or more loan accounts or records maintained by such Bank in the ordinary course of business. Absent manifest error, the loan accounts or records maintained by the Administrative Agent and each Bank shall be prima facie evidence of the amount of the Loans made by the Banks to the Company and the interest and payments thereon. Any failure so to record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Company hereunder to pay any amount owing with respect to the Loans.

(b) Upon the request of any Bank made through the Administrative Agent, the Loans made by such Bank may be evidenced by one or more Notes, instead of or in addition to loan accounts, and upon any such request the Company shall execute and deliver such Notes to such Bank. Each such Bank shall, and is hereby authorized by the Company to, endorse on the schedule attached to the relevant Note held by such Bank (or on a continuation of such schedule attached to each such Note and made a part thereof) or in its records relating to such Note an appropriate notation evidencing the date and amount of each Competitive Loan or Committed Loan, as applicable, of such Bank, each payment or prepayment of principal of any Competitive Loan or Committed Loan, as applicable, and the other information provided for on such schedule. The failure of any Bank to make such a notation or any error therein shall not in any manner affect the obligation of the Company to repay the Competitive Loans or Committed Loans, as applicable, made by such Bank in accordance with the terms of the relevant Note.

#### Section 2.9 Interest on Loans

(a) Subject to the provisions of Section 2.10. each Eurodollar Loan shall bear interest at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the LIBO Rate for the Interest Period in effect for such Loan (A) plus or minus, as the case may be, in the case of each Competitive Loan, the Margin specified by a Bank with respect to such Loan in its Competitive Bid submitted pursuant to Section 2.2(b) or (B) plus in the case of each Committed Loan, the Applicable Margin. Interest on each Eurodollar Loan shall be payable on each Interest Payment Date applicable thereto. The applicable LIBO Rate for each Interest Period shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

(b) Subject to the provisions of Section 2.10. each Alternate Base Loan shall bear interest at the rate per annum equal to the Alternate Base Rate plus the Applicable Margin (if the Alternate Base Rate is based on the Prime Rate, computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be; if the Alternate Base Rate is based on the Federal Funds Effective Rate, computed on the basis of the actual number of days elapsed over a year of 360 days) . Interest on each Alternate Base Loan shall be payable on each Interest Payment Date applicable thereto. The applicable Alternate Base Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

(c) Subject to the provisions of Section 2.10, each Fixed Rate Loan shall bear interest at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the fixed rate of interest offered by the Bank making such Loan and accepted by the Company pursuant to Section 2.2. Interest on each Fixed Rate Loan shall be payable on each Interest Payment Date applicable thereto.

(d) The Company shall pay to the Administrative Agent for the account of each Bank that has made a Eurodollar Loan to the Company, so long as such Bank shall be required under regulations of the Board to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each such Eurodollar Loan of such Bank, from the date of such Loan until such principal amount is paid in full, at an interest rate per annum for such number of days during the Interest Period for such Loan as shall be pertinent equal to the remainder obtained by subtracting (i) the LIBO Rate for such Interest Period from (ii) the rate obtained by dividing such LIBO Rate referred to in clause (i) above by that percentage equal to 100% minus the Reserve Percentage of such Bank for such Interest Period, payable on the next Interest Payment Date applicable to such Loan. Such additional interest shall be determined by such Bank as, if and to the extent incurred, and shall be payable as aforesaid upon notification thereof by such Bank to the Company through the Administrative Agent. Each determination by a Bank of additional interest under this Section 2.9(d) shall be conclusive and binding for all purposes in the absence of manifest error.

Section 2.10 Interest on Overdue Amounts. If the Company shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, the Company shall on demand from time to time pay interest, to the extent permitted by Law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at a rate per annum equal to (i) in the case of the principal amount of any Eurodollar Loan or any Competitive Loan, 2% above the rate otherwise applicable thereto and (ii) in all other cases, the Agreed Maximum Rate (if the Alternate Base Rate is based on the Prime Rate, computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be; if the Alternate Base Rate is based on the Federal Funds Effective Rate, computed on the basis of the actual number of days elapsed over a year of 360 days).

Section 2.11 Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Loan that is a Committed Loan, the Administrative Agent shall have determined that dollar deposits in the amount of the requested principal amount of such Eurodollar Loan are not generally available in the Eurodollar Interbank Market, or that dollar deposits are not generally available in the Eurodollar Interbank Market for the requested Interest Period, or that the rate at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the Majority Banks of making or maintaining such Eurodollar Loan during such Interest Period, or that reasonable means do not exist for ascertaining the LIBO Rate, the Administrative Agent shall, as soon as practicable thereafter, give telecopy notice of such determination to the Company and the Banks. In the event of any such determination, any request by the Company for a Eurodollar Loan that is a Committed Loan shall, until the circumstances giving rise to such notice no longer exist, be deemed to be a request for an Alternate Base Loan. Each determination by the Administrative Agent hereunder shall be conclusive absent manifest error.

#### Section 2.12 Prepayment of Loans

(a) Prior to the Termination Date, the Company shall have the right at any time to prepay any Committed Borrowing, in whole or in part, subject to the requirements of Section 2.15 or Section 2.16 but otherwise without premium or penalty, upon at least five Business Days prior written notice to the Administrative Agent; provided, however, that each such partial prepayment shall be in an integral multiple of \$1,000,000 and in a minimum aggregate principal amount of \$5,000,000. Each notice of prepayment shall specify the prepayment date and the aggregate principal amount of each Borrowing to be prepaid, shall be irrevocable and shall commit the Company to prepay such Borrowing by the amount stated therein. The Company shall not have the right to prepay any Competitive Borrowing.

(b) On the date of any termination or reduction of the Total Commitment pursuant to Section 2.6(a), the Company shall pay or prepay so much of the Loans as shall be necessary in order that the sum of (x) the aggregate principal amount of the Loans outstanding and (y) the L/C Obligations will not exceed the Total Commitment following such termination or reduction. Subject to the foregoing, any such payment or prepayment shall be applied to such Borrowing or Borrowings as the Company shall select. All prepayments under this paragraph shall be subject to Section 2.15 and Section 2.16.

(c) All prepayments under this Section 2.12 shall be accompanied

by accrued interest on the principal amount being prepaid to the date of prepayment.

#### Section 2.13 Reserve Requirements: Change in Circumstances

(a) Notwithstanding any other provision herein, if after the date of this Agreement any Regulatory Change (i) shall change the basis of taxation of payments to any Bank of the principal of or interest on any Eurodollar Loan or Fixed Rate Loan made by such Bank or any other fees or amounts payable hereunder (other than (x) Taxes imposed on or measured by the capital, receipts or franchises of such Bank or the overall gross or net income of such Bank by the jurisdiction in which such Bank has its principal office or by any political subdivision or taxing authority therein (or any Tax which is enacted or adopted by such jurisdiction, political subdivision, or taxing authority as a direct substitute for any such Taxes) or (y) any Tax, assessment, or other governmental charge that would not have been imposed but for the failure of any Bank to comply with any certification, information, documentation, or other reporting requirement), (ii) shall impose, modify, or deem applicable any reserve, special deposit, or similar requirement with respect to any Eurodollar Loan against assets of, deposits with or for the account of, or credit extended by, such Bank under this Agreement (without duplication of any amounts paid pursuant to Section 2.9(d)), or (iii) with respect to any Eurodollar Loan, shall impose on such Bank or the Eurodollar Interbank Market any other condition affecting this Agreement or any Eurodollar Loan made by such Bank, and the result of any of the foregoing shall be to materially increase the actual cost to such Bank of maintaining its Commitment or of making or maintaining any Eurodollar Loan or Fixed Rate Loan or to materially reduce the amount of any sum received or receivable by such Bank hereunder (whether of principal, interest, or otherwise) in respect thereof, then the Company shall pay to the Administrative Agent for the account of such Bank, within ten days following delivery to the Company of the certificate specified in paragraph (c) below by such Bank, such additional amount or amounts as will reimburse such Bank for such increase or reduction to such Bank to the extent reasonably allocable to this Agreement.

(b) If any Bank shall have determined in good faith that any Regulatory Change regarding capital adequacy or compliance by any Bank (or its parent or any lending office of such Bank) with any request or directive regarding capital adequacy (whether or not having the force of Law) of any Tribunal, monetary authority, central bank, or comparable agency, has or would have the effect of reducing the rate of return on such Bank's (or its parent's) capital as a consequence of its obligations hereunder to a level below that which such Bank (or its parent) could have achieved but for such Regulatory Change, or compliance (taking into consideration such Bank's policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, the Company shall pay to the Administrative Agent for the account of such Bank, within ten days following delivery to the Company of the certificate specified in paragraph (c) below by such Bank, such additional amount or amounts as will reimburse such Bank (or its parent) for such reduction.

(c) Each Bank shall notify the Company of any event occurring after the date hereof entitling such Bank to compensation under paragraph (a) or (b) of this Section 2.13 (together with a good faith estimate of the amounts it would be entitled to claim in respect of such event) as promptly as practicable, but in any event on or before the date which is 60 days after the related Regulatory Change or other event; provided that (i) if such Bank fails to give such notice by such date, such Bank shall, with respect to compensation payable pursuant to paragraph (a) or (b) of this Section 2.13 in respect of any costs resulting from such Regulatory Change or other event, only be entitled to payment under paragraph (a) or (b) of this Section 2.13 for costs incurred from and after the date of such notice and (ii) such Bank will take such reasonable actions, if any (including the designation of a different Applicable Lending Office for the Loans of such Bank affected by such event) to avoid the need for, or reduce the amount of, such compensation so long as such actions will not, in the reasonable opinion of such Bank, be materially disadvantageous to such Bank. A certificate of a Bank setting forth in reasonable detail (i) the Regulatory Change or other event giving rise to any costs, (ii) such amount or amounts as shall be necessary to reimburse such Bank (or participating banks or other entities pursuant to Section 9.11) as specified in paragraph (a) or (b) of this Section 2.13. as the case may be, and (iii) the calculation of such amount or amounts, shall be delivered to the Company (with a copy to the Administrative Agent) promptly after such Bank determines it is entitled to payment under this Section 2.13. and shall be conclusive and binding absent manifest error. In preparing such certificate, such Bank may employ such assumptions and allocations of costs and expenses as it shall in good faith deem reasonable and may use any reasonable averaging and attribution method.

(d) In the event any Bank shall seek payment pursuant to this Section 2.13 or the events contemplated under Section 2.11 or Section 2.14 shall have occurred with respect to any Bank, the Company may, provided no Event of Default has occurred and is continuing, give notice to such Bank (with copies to the Agents) that it wishes to seek one or more assignees

(which may be one or more of the Banks, but which may not be a Person who would be entitled at such time to claim payment pursuant to this Section 2.13 or with respect to which any of the events contemplated under Section 2.11 or Section 2.14 would exist at such time if such Person were a Bank under this Agreement) to assume the Commitment of such Bank and to purchase its outstanding Loans and Notes (if any). Each Bank requesting payment pursuant to this Section 2.13. or with respect to which any of the events contemplated under Section 2.11 or Section 2.14 have occurred, agrees to sell its Commitment, Loans, Notes (if any), and interest in this Agreement and the other Loan Papers pursuant to Section 9.11 (c) to any such assignee approved by the Company and the Administrative Agent for an amount equal to the sum of the outstanding unpaid principal of and accrued interest on such Loans and Notes (if any) plus all other fees and amounts (including, without limitation, any payment claimed by such Bank under this Section, 2.13 and as to which such Bank has delivered the certificate required by Section 2.13 (c) on or before the date such Commitment, Loans, and Notes (if any) are purchased) due such Bank hereunder calculated, in each case, to the date such Commitment, Loans, Notes (if any) and interest are purchased, whereupon such Bank shall have no further Commitment or other obligation to the Company hereunder or under any other Loan Paper.

(e) Notwithstanding anything herein to the contrary, no Bank or participant shall be entitled to any payment under this Section 2.13 with respect to any Competitive Loan.

(f) Without prejudice to the survival of any other obligations of the Company hereunder, the obligations of the Company under this Section 2.13 shall survive for one year after the termination of this Agreement and/or the payment or assignment of any of the Loans or Notes.

#### Section 2.14 Change in Legality

(a) Notwithstanding anything to the contrary herein contained, if any Regulatory Change shall make it unlawful for any Bank to make or maintain any Eurodollar Loan or to give effect to its obligations in respect of Eurodollar Loans as contemplated hereby, then, by prompt written notice to the Company and to the Administrative Agent, such Bank may:

(i) declare that Eurodollar Loans will not thereafter be made by such Bank hereunder, whereupon the Company shall be prohibited from requesting Eurodollar Loans from such Bank hereunder unless such declaration is subsequently withdrawn; and

(ii) if such unlawfulness shall be effective prior to the end of any Interest Period of an outstanding Eurodollar Loan, require that all outstanding Eurodollar Loans with such Interest Periods made by it be converted to Alternate Base Loans, in which event (A) all such Eurodollar Loans shall be automatically converted to Alternate Base Loans as of the effective date of such notice as provided in paragraph (b) below and (B) all payments and prepayments of principal which would otherwise have been applied to repay the converted Eurodollar Loans shall instead be applied to repay the Alternate Base Loans resulting from the conversion of such Eurodollar Loans.

(b) For purposes of this Section 2.14. a notice to the Company (with a copy to the Administrative Agent) by any Bank pursuant to paragraph (a) above shall be effective on the date of receipt thereof by the Company. Any Bank having furnished such a notice agrees to withdraw the same promptly following any Regulatory Change that makes it lawful for such Bank to make and maintain Eurodollar Loans.

(c) If, with respect to any Bank, a condition arises or an event occurs which would, or would upon the giving of notice, result in the payment of amounts pursuant to Section 2.13 or permit such Bank, pursuant to this Section 2.14, to suspend its obligation to make Eurodollar Loans, such Bank, promptly upon becoming aware of the same, shall notify the Company thereof and shall take such steps as may reasonably be available to it (including, without limitation, changing its Applicable Lending Office) to mitigate the effects of such condition or event, provided that such Bank shall be under no obligation to take any step that, in its good faith opinion, would (a) result in its incurring any additional costs in performing its obligations hereunder and under any outstanding Loan (unless the Company has notified such Bank of the Company's agreement to reimburse it for the same) or (b) be otherwise adverse to such Bank in a material respect.

Section 2.15 Indemnity. The Company shall indemnify each Bank against any loss or reasonable expense which such Bank may sustain or incur as a consequence of (a) any failure by the Company to fulfill on the date of any Borrowing hereunder the applicable conditions set forth in Article IV, (b) any failure by the Company to borrow hereunder after a Notice of Committed Borrowing pursuant to Article II has been given or after Competitive Bids have been accepted, (c) any payment, prepayment, or conversion of a Eurodollar Loan or Fixed Rate Loan required by any other provision of this Agreement or otherwise made on a date other than the last day of the applicable Interest Period for any reason, including without limitation the acceleration of outstanding Loans as a result of any Event of



Default, (d) any failure by the Company for any reason (including without limitation the existence of a Default or an Event of Default) to pay, prepay or convert a Eurodollar Loan on the date for such payment, prepayment or conversion, specified in the relevant notice of payment, prepayment or conversion under this Agreement. The indemnity of the Company pursuant to the immediately preceding sentence shall include, but not be limited to, any loss or reasonable expense sustained or incurred or to be sustained or incurred in liquidating or employing deposits from third parties acquired to effect or maintain such Loan or any part thereof as a Eurodollar Loan or Fixed Rate Loan. Such loss or reasonable expense shall include, without limitation, an amount equal to the excess, if any, as reasonably determined by each Bank of (i) its cost of obtaining the funds for the Loan being paid, prepaid, or converted or not borrowed, paid, prepaid or converted (based on the LIBO Rate or, in the case of a Fixed Rate Loan, the fixed rate of interest applicable thereto) for the period from the date of such payment, prepayment, or conversion or failure to borrow, pay, prepay or convert to the last day of the Interest Period for such Loan (or, in the case of a failure to borrow, pay, prepay or convert, the Interest Period for the Loan which would have commenced on the date of such failure to borrow, pay, prepay or convert) over (ii) the amount of interest (as reasonably determined by such Bank) that would be realized by such Bank in reemploying the funds so paid, prepaid, or converted or not borrowed, paid, prepaid or converted for such period or Interest Period, as the case may be. A certificate of each Bank setting forth any amount or amounts and, in reasonable detail, the computations thereof, which such Bank is entitled to receive pursuant to this Section 2.15 shall be delivered to the Company (with a copy to the Administrative Agent) and shall be conclusive, if made in good faith, absent manifest error. The Company shall pay to the Administrative Agent for the account of each Bank the amount shown as due on any certificate within 30 days after its receipt of the same.

Section 2.16 Pro Rata Treatment. Except as permitted under Section 2.9(d), Section 2.13(c) and Section 2.15 with respect to interest, (a) each payment or prepayment of principal and each payment of interest with respect to a Competitive Borrowing (at a particular Competitive Bid Rate) or a Committed Borrowing shall be made pro rata among the Banks in accordance with the respective principal amounts of the Loans extended by each Bank, if any, with respect to such Competitive Borrowing or Committed Borrowing, and (b) conversions of Committed Loans to Committed Loans of another Type, continuations of Committed Loans that are Eurodollar Loans from one Interest Period to another Interest Period, refinancings of Competitive Loans with Committed Loans, and Committed Loans which are not refinancings of other Loans shall be made pro rata among the Banks in accordance with their respective Commitments.

Section 2.17 Sharing of Setoffs. Each Bank agrees that if it shall through the exercise of a right of banker's lien, setoff, or counterclaim against the Company (pursuant to Section 9.6 or otherwise), including, but not limited to, a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Bank under any applicable Debtor Relief Law or otherwise, obtain payment (voluntary or involuntary) in respect of the Committed Loans held by it (other than pursuant to Section 2.9(d), Section 2.13, or Section 2.15) as a result of which the unpaid principal portion of the Committed Loans held by it shall be proportionately less than the unpaid principal portion of the Committed Loans held by any other Bank, it shall be deemed to have simultaneously purchased from such other Bank a participation in the Committed Loans held by such other Bank, so that the aggregate unpaid principal amount of the Committed Loans and participations in Committed Loans pursuant to this Section 2.17 held by each Bank shall be in the same proportion to the aggregate unpaid principal amount of all Committed Loans then outstanding as the principal amount of the Committed Loans held by it prior to such exercise of banker's lien, setoff, or counterclaim was to the principal amount of all Committed Loans outstanding prior to such exercise of banker's lien, setoff, or counterclaim; provided, however, that if any such purchase or purchases or adjustments shall be made pursuant to this Section 2.17 and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Company expressly consents to the foregoing arrangements and agrees that any Bank holding a participation in a Committed Loan deemed to have been so purchased may exercise any and all rights of banker's lien, setoff, or counterclaim with respect to any and all moneys owing by the Company to such Bank as fully as if such Bank had made a Committed Loan directly to the Company in the amount of such participation.

#### Section 2.18 Payments

(a) The Company shall make each payment hereunder and under any instrument delivered hereunder not later than 12:00 noon (New York City time) on the day when due in dollars to the Administrative Agent at its Principal Office for the account of the Banks, in federal or other immediately available funds. The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal of or interest on Committed Loans (other than pursuant to Section 2.9(d), Section 2.13, and Section 2.15) or Facility Fees ratably to the Banks and like funds relating

to the payment of any other amount (including, without limitation, payments of principal or interest on Competitive Loans which are not made ratably to the Banks) payable to any Bank to such Bank for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement.

(b) Whenever any payment hereunder or under any Note shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in all such cases be included in the computation of payment of interest or Facility Fee, as the case may be; provided, however, if such extension would cause payment of interest on or principal of a Eurodollar Loan to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(c) Unless the Administrative Agent shall have received notice from the Company prior to the date on which any payment is due to the Banks hereunder that the Company will not make such payment in full, the Administrative Agent may assume that the Company has made or will make such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent the Company shall not have so made such payment in full to the Administrative Agent, each Bank shall repay to the Administrative Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Administrative Agent, at the Federal Funds Effective Rate.

(d) Except as expressly provided in Section 2.19, all payments (whether of principal, interest, fees, reimbursements, or otherwise) by the Company under this Agreement shall be made without setoff or counterclaim and shall be made free and clear of and without deduction for any present or future Tax, levy, impost, or any other charge, if any, of any nature whatsoever now or hereafter imposed by any Tribunal. Except as otherwise provided in Section 2.19, if the making of such payments by the Company is prohibited by Law unless such a Tax, levy, impost, or other charge is deducted or withheld therefrom, the Company shall pay to the Administrative Agent, on the date of each such payment, such additional amounts (without duplication of any other amounts required to be paid by the Company pursuant to Section 2.13) as may be necessary in order that the net amounts received by the Banks after such deduction or withholding shall equal the amounts which would have been received if such deduction or withholding were not required. The Company shall confirm that all applicable Taxes, if any, imposed on this Agreement or transactions hereunder shall have been properly and legally paid by it to the appropriate taxing authorities by sending official Tax receipts or notarized copies of such receipts to the Administrative Agent within 30 days after payment of any applicable Tax.

Section 2.19 Tax Forms. With respect to each Bank which is organized under the Laws of a jurisdiction outside the United States, within 30 days after the Effective Date, and from time to time thereafter if requested by the Company or the Administrative Agent, or as otherwise required by law, each such Bank shall provide the Administrative Agent and the Company with the forms prescribed by the Internal Revenue Service of the United States certifying as to such Bank's status for purposes of determining exemption from United States withholding Taxes with respect to all payments to be made to such Bank hereunder or other documents satisfactory to the Company and the Administrative Agent indicating that all payments to be made to such Bank hereunder are subject to such Tax at a rate reduced by an applicable Tax treaty. Unless the Company and the Administrative Agent have received such forms or such documents indicating that payments hereunder are not subject to United States withholding Tax, the Company or the Administrative Agent (after notice from the Administrative Agent to such Bank of such non-receipt) shall withhold Taxes from such payments at the applicable statutory rate (or any reduced applicable Tax treaty rate) in the case of payments to or for any Bank organized under the Laws of a jurisdiction outside the United States.

Section 2.20 Calculation of LIBO Rates. The provisions of this Agreement relating to calculation of the LIBO Rate are included only for the purpose of determining the rate of interest or other amounts to be paid hereunder that are based upon such rate, it being understood that each Bank shall be entitled to fund and maintain its funding of all or any part of a Eurodollar Loan as it sees fit. All such determinations hereunder, however, shall be made as if each Bank had actually funded and maintained funding of each Eurodollar Loan through the purchase in the Eurodollar interBank Market of one or more eurodollar deposits in an amount equal to the principal amount of such Loan and having a maturity corresponding to the Interest Period for such Loan.

Section 2.21 Booking Loans. Subject to Section 2.19, any Bank may make, carry, or, transfer Loans at, to, or for the account of any of its branch offices or the office of any Affiliate.

Section 2.22 Quotation of Rates. It is hereby acknowledged that the Company may call the Administrative Agent on or before the date on which notice of a Borrowing is to be delivered by the Company in order to receive an indication of the rate or rates then in effect, but that such projection shall not be binding upon the Administrative Agent or any Bank nor affect the rate of interest which thereafter is actually in effect when the election is made.

### ARTICLE III

#### LETTERS OF CREDIT

##### Section 3.1 L/C Commitment

(a) Subject to the terms and conditions hereof, the Issuing Bank, in reliance on the agreements of the other Banks set forth in Section 3.4(a), agrees to issue letters of credit ("Letters of Credit") for the account of the Company on any Business Day on and after the Effective Date and until the termination of the Commitment of the Issuing Bank in accordance with the terms hereof, in such form as may be approved from time to time by the Issuing Bank; provided that the Issuing Bank shall not issue any Letter of Credit if, after giving effect to such issuance, (i) the L/C Obligations would exceed the L/C Commitment or (ii) the excess of the Total Commitment over the aggregate amount of Loans and L/C Obligations then outstanding would be less than zero. Each Letter of Credit shall (i) be denominated in dollars and (ii) expire no later than the earlier of (x) the first anniversary of its date of issuance and (y) the date that is five Business Days prior to the Termination Date, provided that any Letter of Credit with a one-year term may provide for the renewal thereof for additional one-year periods (which shall in no event extend beyond the date referred to in clause (y) above).

(b) The Issuing Bank shall not at any time be obligated to issue any Letter of Credit if such issuance would conflict with, or cause the Issuing Bank or any L/C Participant to exceed any limits imposed by, any applicable Laws.

Section 3.2 Procedure for Issuance of Letter of Credit. The Company may from time to time request that the Issuing Bank issue a Letter of Credit by delivering to the Issuing Bank at its address for notices specified herein an Application therefor, completed to the reasonable satisfaction of the Issuing Bank, and such other certificates, documents and other papers and information as the Issuing Bank may reasonably request. Upon receipt of any Application, the Issuing Bank will process such Application and the certificates, documents and other papers and information delivered to it in connection therewith in accordance with its customary procedures and shall promptly issue the Letter of Credit requested thereby (but in no event shall the Issuing Bank be required to issue any Letter of Credit earlier than three Business Days after its receipt of the Application therefor and all such other certificates, documents and other papers and information relating thereto) by issuing the original of such Letter of Credit to the beneficiary thereof or as otherwise may be agreed by the Issuing Bank and the Company. The Issuing Bank shall furnish a copy of such Letter of Credit to the Company promptly following the issuance thereof. The Issuing Bank shall promptly furnish to the Administrative Agent, which shall in turn promptly furnish to the Banks, notice of the issuance of each Letter of Credit (including the amount thereof).

##### Section 3.3 Fees and Other Charges

(a) The Company will pay to the Administrative Agent for the ratable benefit of the Banks on each Quarterly Payment Date after the issuance date and on the Termination Date a fee on all outstanding Letters of Credit at a per annum rate equal to the Applicable Margin then in effect with respect to Eurodollar Loans. In addition, the Company shall pay to the Issuing Bank for its own account a fronting fee at a per annum rate separately agreed upon between the Company and the Issuing Bank (which fee, in the case of JPMorgan Chase Bank, is reflected in the fee letter dated March 18, 2002, between the Company, J.P. Morgan Securities Inc. and JPMorgan Chase Bank) on the undrawn and unexpired amount of each Letter of Credit, payable quarterly in arrears on each Quarterly Payment Date after the issuance date and on the Termination Date. Fees payable pursuant this Section 3.3 (a) shall be calculated on the basis of a 360-day year for the actual days elapsed.

(b) In addition to the foregoing fees, the Company shall pay or reimburse the Issuing Bank for such normal and customary costs and expenses as are incurred or charged by the Issuing Bank in issuing, negotiating, effecting payment under, amending or otherwise administering any Letter of Credit.

##### Section 3.4 L/C Participations

(a) The Issuing Bank irrevocably agrees to grant and hereby grants to each L/C Participant, and, to induce the Issuing Bank to issue Letters of Credit, each L/C Participant irrevocably agrees to accept and purchase and hereby accepts and purchases from the Issuing Bank, on the terms

and conditions set forth below, for such L/C Participant's own account and risk an undivided interest, equal to the percentage which such L/C Participant's Commitment represents of the Total Commitment, in the Issuing Bank's obligations and rights under and in respect of each Letter of Credit and the amount of each draft paid by the Issuing Bank thereunder. Each L/C Participant unconditionally and irrevocably agrees with the Issuing Bank that, if a draft is paid under any Letter of Credit for which the Issuing Bank is not reimbursed in full by the Company in accordance with the terms of this Agreement, such L/C Participant shall pay to the Issuing Bank upon demand a fraction of the amount of such draft, or any part thereof, that is not so reimbursed, equal to the percentage which such L/C Participant's Commitment represents of the Total Commitment.

(b) If any amount required to be paid by any L/C Participant to the Issuing Bank pursuant to Section 3.4(a) in respect of any unreimbursed portion of any payment made by the Issuing Bank under any Letter of Credit is paid to the Issuing Bank within three Business Days after the date such payment is due, such L/C Participant shall pay to the Issuing Bank on demand an amount equal to the product of (i) such amount, times (ii) the daily average Federal Funds Effective Rate during the period from and including the date such payment is required to the date on which such payment is immediately available to the Issuing Bank, times (iii) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. If any such amount required to be paid by any L/C Participant pursuant to Section 3.4(a) is not made available to the Issuing Bank by such L/C Participant within three Business Days after the date such payment is due, the Issuing Bank shall be entitled to recover from such L/C Participant, on demand, such amount with interest thereon calculated from such due date at the rate per annum applicable to Alternate Base Loans. A certificate of the Issuing Bank submitted to any L/C Participant with respect to any amounts owing under this Section shall be conclusive in the absence of manifest error.

(c) Whenever, at any time after the Issuing Bank has made payment under any Letter of Credit and has received from any L/C Participant its pro rata share of such payment in accordance with Section 3.4(a), the Issuing Bank receives any payment related to such Letter of Credit (whether directly from the Company or otherwise, including proceeds of collateral applied thereto by the Issuing Bank), or any payment of interest on account thereof, the Issuing Bank will distribute to such L/C Participant its pro rata share thereof; provided, however, that in the event that any such payment received by the Issuing Bank shall be required to be returned by the Issuing Bank, such L/C Participant shall return to the Issuing Bank the portion thereof previously distributed by the Issuing Bank to it.

Section 3.5 Reimbursement Obligation of the Company. If any draft is paid under any Letter of Credit, the Company shall reimburse the Issuing Bank for the amount of (a) the draft so paid and (b) any taxes, fees, charges or other costs or expenses incurred by the Issuing Bank in connection with such payment, not later than 12:00 noon, New York City time, on (i) the Business Day that the Company receives notice of such draft, if such notice is received on such day prior to 10:00 a.m., New York City time, or (ii) if clause (i) above does not apply, the Business Day immediately following the day that the Company receives such notice. Each such payment shall be made to the Issuing Bank at its address for notices referred to herein in dollars and in immediately available funds. Interest shall be payable on any such amounts from the date on which the relevant draft is paid until payment in full at the rate set forth in (x) until the Business Day next succeeding the date of the relevant notice, Section 2.9(b) and (y) thereafter, Section 2.10.

Section 3.6 Obligations Absolute. The Company's obligations under this Article III shall be absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim or defense to payment that the Company may have or have had against the Issuing Bank, any beneficiary of a Letter of Credit or any other Person. The Company also agrees with the Issuing Bank that the Issuing Bank shall not be responsible for, and the Company's Reimbursement Obligations under Section 3.5 shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even though such documents shall in fact prove to be invalid, fraudulent or forged, or any dispute between or among the Company and any beneficiary of any Letter of Credit or any other party to which such Letter of Credit may be transferred or any claims whatsoever of the Company against any beneficiary of such Letter of Credit or any such transferee. The Issuing Bank shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, except for errors or omissions found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the Issuing Bank. The Company agrees that any action taken or omitted by the Issuing Bank under or in connection with any Letter of Credit or the related drafts or documents, if done in the absence of gross negligence or willful misconduct and in accordance with the standards of care specified in the Uniform Commercial Code of the State of New York, shall be binding on the Company and shall not result in any liability of the Issuing Bank to the Company.

Section 3.7 Letter of Credit Payments. If any draft shall be presented for payment under any Letter of Credit, the Issuing Bank shall promptly notify the Company of the date and amount thereof. The responsibility of the Issuing Bank to the Company in connection with any draft presented for payment under any Letter of Credit shall, in addition to any payment obligation expressly provided for in such Letter of Credit, be limited to determining that the documents (including each draft) delivered under such Letter of Credit in connection with such presentment are substantially in conformity with such Letter of Credit.

Section 3.8 Applications. To the extent that any provision of any Application related to any Letter of Credit is inconsistent with the provisions of this Article III, the provisions of this Article III shall apply.

#### ARTICLE IV

##### CONDITIONS OF LENDING

Section 4.1 Conditions Precedent. The effectiveness of this Agreement is subject to the satisfaction of the following conditions precedent:

(a) The Administrative Agent shall have received the following, each dated (unless otherwise indicated) the Effective Date:

(i) Officer's Certificates dated the Effective Date certifying, inter alia, (i) true and correct copies of resolutions adopted by the Board of Directors or Executive Committee, as appropriate, of the Company authorizing the Company to borrow and effect other transactions hereunder, (ii) a true and correct copy of the Company's bylaws in effect on the date hereof, (iii) the incumbency and specimen signatures of the Persons executing any documents on behalf of the Company, (iv) the truth of the representations and warranties made by the Company in this Agreement (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date), and (v) the absence of the occurrence and continuance of any Default or Event of Default.

(ii) A copy of the Company's charter and all amendments thereto, accompanied by certificates that such copy is correct and complete, one certificate dated within a reasonable time prior to the Effective Date and issued by the Secretary of State of Texas and one certificate dated the Effective Date and executed by the corporate secretary or assistant secretary of the Company.

(iii) Certificates (dated within twenty days prior to the Effective Date) of existence and good standing of the Company from appropriate officials of Texas.

(iv) The written opinions of internal and outside counsel to the Company and counsel to the Agents, substantially in the form set out in Exhibits E-1, E-2 and E-3, respectively, each dated the Effective Date.

(v) An Administrative Questionnaire (dated any date prior to the Effective Date) completed by each Bank which is a party hereto on the Effective Date.

(vi) Such other agreements, documents, instruments, opinions, certificates, and evidences as the Administrative Agent may reasonably request prior to the Effective Date.

(b) Any fees required to be paid on or before the Effective Date shall have been paid.

(c) The commitments under the Existing Credit Agreement shall have been terminated and all amounts owing thereunder shall have been paid in full. Each party hereto that is also a party to the Existing Credit Agreement hereby waives any requirement under the Existing Credit Agreement of advance notice for any such termination or payment.

Section 4.2 Conditions Precedent to Each Committed Borrowing. The obligation of each Bank to make a Committed Loan on the occasion of any Committed Borrowing (including the initial Committed Borrowing, but excluding any Committed Borrowing used exclusively to finance the payment of any Reimbursement Obligation) shall be subject to the further conditions precedent that on the date of such Committed Borrowing the following statements shall be true (and each of the giving of the applicable Notice of Committed Borrowing and the acceptance by the Company of the proceeds of such Committed Borrowing shall constitute a representation and warranty by the Company that on the date of such Committed Borrowing such statements are true):

(a) The representations and warranties contained in Article V (except Sections 5.2 and 5.5) are correct in all material respects on and as of the date of such Committed Borrowing (or, if any such representation or

warranty is expressly stated to have been made as of a specific date, as of such specific date), before and after giving effect to such Committed Borrowing, as though made on and as of such date;

(b) No event has occurred and is continuing, or would result from such Committed Borrowing, which constitutes either a Default or an Event of Default; and

(c) Following the making of such Committed Borrowing and all other Borrowings to be made on the same day under this Agreement, the sum of the aggregate principal amount of all Loans then outstanding and of the L/C Obligations shall not exceed the Total Commitment.

Section 4.3 Conditions Precedent to Each Competitive Borrowing. The obligation of each Bank to make a Competitive Loan as part of a Competitive Borrowing (including the initial Competitive Borrowing) is subject to the further conditions precedent that (a) the Administrative Agent shall have received a Competitive Bid Request with respect thereto, and (b) on the date of such Competitive Borrowing the following statements shall be true (and each of the giving of the applicable Competitive Bid Request and the acceptance by the Company of the proceeds of such Competitive Borrowing shall constitute a representation and warranty by the Company that on the date of such Competitive Borrowing such statements are true):

(a) The representations and warranties contained in Article V (except Sections 5.2 and 5.5) are correct in all material respects on and as of the date of such Competitive Borrowing (or if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date), before and after giving effect to such Competitive Borrowing, as though made on and as of such date;

(b) No event has occurred and is continuing, or would result from such Competitive Borrowing, which constitutes either a Default or an Event of Default; and

(c) Following the making of such Competitive Borrowing and all other Borrowings to be made on the same day under this Agreement, the sum of the aggregate principal amount of all Loans then outstanding and of the L/C Obligations shall not exceed the Total Commitment.

Section 4.4 Conditions Precedent to Each Letter of Credit Issuance. The obligation of the Issuing Bank to issue a Letter of Credit (including the initial Letter of Credit) shall be subject to the further conditions precedent that on the date of the issuance of such Letter of Credit the following statements shall be true (and each delivery of an Application by the Company shall constitute a representation and warranty by the Company that on the date of such Application such statements are true):

(a) The representations and warranties contained in Article V (except Sections 5.2 and 5.5) are correct in all material respects on and as of the date of the issuance of such Letter of Credit (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date), before and after giving effect to such issuance, as though made on and as of such date;

(b) No event has occurred and is continuing, or would result from the issuance of such Letter of Credit, which constitutes either a Default or an Event of Default; and

(c) Following the issuance of such Letter of Credit and the making of any Borrowings to be made on the same day under this Agreement, the sum of the aggregate principal amount of all Loans then outstanding and of the L/C Obligations shall not exceed the Total Commitment.

Section 4.5 Legal Details. All documents executed or submitted pursuant hereto by the Company shall be reasonably satisfactory in form and substance to the Administrative Agent and its counsel. The Administrative Agent shall, promptly following satisfaction of the conditions specified in Section 4.1, notify the Company and each of the Banks of such satisfaction and the date of the Effective Date. The Administrative Agent and its counsel shall receive all information, and such counterpart originals or certified or other copies of such materials, as they may reasonably deem necessary or appropriate. All legal matters incident to the transactions contemplated by this Agreement (including without limitation matters arising from time to time as a result of changes occurring with respect to any Laws) shall be reasonably satisfactory to counsel to the Administrative Agent.

## ARTICLE V

### REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Agents and Banks as follows:

#### Section 5.1 Organization, Authority and Qualifications

(a) The Company and each of its Material Subsidiaries is a corporation duly organized, validly existing, and in good standing under the Laws of the jurisdiction of its incorporation;

(b) The Company has the corporate power and authority to execute, deliver, and perform this Agreement and the other Loan Papers and to borrow hereunder;

(c) On the Effective Date, the Company and each of its Material Subsidiaries is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction where the character of its Properties or nature of its activities make such qualification necessary, except where the failure to be so qualified or in good standing would not have a Material Adverse Effect; and

(d) On the Effective Date, the Company has no Material Subsidiaries.

Section 5.2 Financial Statements. The Current Financials present fairly the consolidated financial position of the Company and its Subsidiaries on the date thereof and the consolidated results of operations and changes in financial position of the Company and its Subsidiaries for the period then ended, all in conformity with GAAP. Except for transactions related to or contemplated by the Loan Papers and transactions disclosed in writing to the Administrative Agent before the Effective Date, there has been no Material Adverse Change since December 31, 2001.

Section 5.3 Compliance with Agreement and Laws. On the Effective Date, neither the Company nor any of its Material Subsidiaries is in default in any material respect under the provisions of any instrument evidencing any material obligation, indebtedness, or liability of the Company or any of its Material Subsidiaries or of any agreement relating thereto. Neither the Company nor any of its Material Subsidiaries is in violation of any Law, which default or violation would have a Material Adverse Effect.

Section 5.4 Authorization: No Breach: and Valid Agreements. The execution, delivery, and performance of this Agreement, the borrowings hereunder, and the execution, delivery, and performance of the other Loan Papers by the Company have been duly authorized by all requisite corporate action on the part of the Company and will not violate its charter or bylaws and will not violate any Law or any order of any Tribunal, and will not conflict with, result in a breach of the provisions of or constitute a default under, or result in the imposition of any Lien upon the Property of the Company pursuant to the provisions of, any material loan agreement, credit agreement, indenture, mortgage, deed of trust, franchise, permit, license, note, contract, or other material agreement or instrument to which the Company is now a party. The Loan Papers are the valid and binding obligations of the Company and are enforceable in accordance with their respective terms.

Section 5.5 Litigation and Judgments. Except as previously disclosed to the Administrative Agent in writing, neither the Company nor any of its Subsidiaries is either party to or aware of the threat of any Litigation which has, in the Company's opinion, a reasonable probability of success and which, if determined adversely to the Company or such Subsidiary, would have a Material Adverse Effect. To the knowledge of the Company, on the Effective Date there is no outstanding unsatisfied money judgment against the Company or any of its Subsidiaries in an amount in excess of \$50,000,000, and there are no outstanding unsatisfied money judgments against the Company or any of its Subsidiaries which individually or in the aggregate have or would have a Material Adverse Effect.

Section 5.6 Ownership of Properties. The Company and each of its Material Subsidiaries has good and marketable title (except for Permitted Liens) or valid leasehold interests in all of its material Properties which are owned or used in connection with its business.

Section 5.7 Taxes. To the extent that failure to do so would have a Material Adverse Effect, the Company and each of its Material Subsidiaries has filed all Tax returns or reports required of it and has paid all Tax liability shown thereon as due to the extent the same has become due and before it may have become delinquent (except to the extent being contested in good faith by appropriate proceedings and for which adequate reserves have been established). The federal income tax liability of the Company and its Subsidiaries has been audited by the Internal Revenue Service and has been finally determined and satisfied for all taxable years up to and including the taxable year ended December 31, 1991.

Section 5.8 Approvals Required. Neither the execution and delivery of this Agreement and the other Loan Papers by the Company, nor the consummation by the Company of any of the transactions contemplated hereby or thereby requires the consent or approval of, the giving of notice to, or the registration, recording, or filing of any document with, or the taking of any other action in respect of any Tribunal except for the routine filing of copies of this Agreement and certain other Loan Papers with the Securities and Exchange Commission, except for any of the foregoing required of any Bank or Agent.

Section 5.9 Business: Status as Air Carrier. The Company is an air carrier engaged in scheduled air transportation and is in all material respects duly qualified and licensed under all applicable Laws to carry on its business as a scheduled airline currently subject to regulation by the Federal Aviation Administration and the Department of Transportation.

Section 5.10 ERISA Compliance. The Company is in compliance in all material respects with ERISA and the rules and regulations thereunder. The Company has no material unfunded vested liability under any Plan.

Section 5.11 Insurance. The Company maintains with insurance companies or associations of recognized responsibility (or, as to workers' compensation or similar insurance, with an insurance fund or by self-insurance authorized by the jurisdictions in which it operates) insurance concerning its Properties and businesses against such casualties and contingencies and of such types and in such amounts (and with co-insurance, self-insurance and deductibles) as is customary in the case of same or similar businesses.

Section 5.12 Purpose of Loan. The proceeds of the Loans will be used for general corporate purposes, including acquisitions, and no part of the proceeds of any Loan will be used for any purpose which would violate, or be inconsistent with, any of the margin regulations of the Board.

Section 5.13 Investment Company Act. Neither the Company nor any of its Subsidiaries is an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company", as such terms are defined in the Investment Company Act of 1940, as amended.

Section 5.14 General. As of the Effective Date, there is no material fact or condition relating to the Loan Papers or the financial condition and business of the Company and its Subsidiaries which has a Material Adverse Effect and which has not been related, in writing, to the Administrative Agent, other than industry-wide risks in the ordinary course of business associated with the types of business conducted by the Company and its Subsidiaries. All writings exhibited or delivered to any of the Agents and Banks by or on behalf of the Company are and will be genuine and in all material respects what they purport and appear to be.

## ARTICLE VI

### COVENANTS

So long as the Company may borrow hereunder and until the Obligation has been paid in full, the Company covenants as follows:

Section 6.1 Performance of Obligations. The Company shall duly and punctually pay and perform each of the Obligations under this Agreement and the other Loan Papers.

Section 6.2 Compliance with Laws. The Company shall comply, and shall cause each of its Material Subsidiaries to comply, in all material respects with all applicable Laws, except for any noncompliance which individually or in the aggregate would not have a Material Adverse Effect, and such compliance shall include, without limitation, paying before the same become delinquent all Taxes imposed upon the Company or any of its Material Subsidiaries or its or their Properties, except to the extent contested diligently and in good faith by proper proceedings, and for which adequate reserves are established in accordance with GAAP.

Section 6.3 Maintenance of Existence Licenses and Franchises: Compliance With Agreements. Except to the extent otherwise permitted in Article VI, the Company shall maintain, and shall cause each of its Material Subsidiaries to maintain, its existence, and the Company shall preserve and maintain, and shall cause each of its Material Subsidiaries to preserve and maintain, all material licenses, privileges, franchises, certificates, authorizations, and other permits and agreements necessary for the operation of its business. The Company shall comply, and shall cause each of its Material Subsidiaries to comply, with all material agreements binding on it or affecting its properties or business, except for any noncompliance which individually or in the aggregate would not have a Material Adverse Effect.

Section 6.4 Maintenance of Properties. The Company shall, and shall cause each of its Material Subsidiaries to, cause all of its Properties used or useful in the conduct of its business to be maintained and kept in good condition, repair, and working order, and supplied with all necessary equipment, and cause to be made all necessary repairs, renewals, replacements, betterments, and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times. Subject to the provisions of this Section 6.4, the Company shall, at its expense, maintain, service, repair, overhaul, improve, and rebuild the Aircraft so as to keep all Aircraft in as good a condition as presently exists or as when acquired by the Company if any Aircraft are hereafter acquired (ordinary wear



and tear excepted), and as required to meet the air-worthiness standards of the Federal Aviation Administration and the Department of Transportation (to the extent such standards are applicable to the Aircraft) or the standards observed by the Company with respect to Property of similar type, whichever is higher. The Company shall comply with all applicable mandatory maintenance, service, repair, and overhaul manuals issued by the respective manufacturers of the Aircraft. The Company shall comply with all Laws of Tribunals having jurisdiction over the Company or the Aircraft, including all applicable requirements of the Federal Aviation Administration and the Department of Transportation as to operation, maintenance, or use of the Aircraft. In the event that any such Law requires alteration of any Aircraft, the Company shall conform thereto or obtain conformance therewith at no expense to the Agents or the Banks and will maintain such Aircraft in proper operating condition under such Laws; provided, however, that the Company may, in good faith, contest the validity or application of any such Law in any reasonable manner which does not materially adversely affect the Rights of the Agents or the Banks.

Section 6.5 Maintenance of Books and Records. The Company shall, and shall cause each of its Subsidiaries to, maintain proper books of record and account in which full, true, and correct entries in accordance with GAAP consistently applied (except for any change with which the Company's independent auditors concur) will be made of all dealings and transactions in relation to their business and activities.

Section 6.6 Inspection. At reasonable times and upon reasonable notice, the Company shall permit, and shall cause each of its Material Subsidiaries to permit, any employees and other representatives of the Administrative Agent or any Bank to visit and inspect any Properties, to examine all books of account, records, reports, and other papers, to make copies and extracts therefrom (subject to any confidentiality agreements, copyright restrictions, and similar limitations), and to discuss the Company's and Material Subsidiaries' affairs, finances, Properties, condition (financial or otherwise) and accounts with the Company's and Material Subsidiaries' officers, employees and independent certified public accountants, at such times and as often as may be reasonably requested; provided, however, that (a) any such inspection which includes Aircraft shall be a visual, walk-around inspection and may not include opening any panels, bays or the like of any Aircraft, (b) no exercise of any inspection rights provided for in this Section 6.6 shall interfere with the normal operation or maintenance of the Aircraft by, or the business of, the Company, and (c) the Administrative Agent and each Bank shall cause their respective employees and representatives to hold in strict confidence all information acquired pursuant to such Agent's or Bank's Rights under this Section 6.6. except for necessary disclosure to participants in the Loans or Commitments, disclosure in connection with disputes relating to the Loan Papers, or disclosure compelled by judicial or administrative process or by other requirements of Law.

Section 6.7 Insurance. The Company shall maintain insurance with such insurers, in such amounts (including by way of self-insurance and deductibles), in such forms and covering such risks as may be then customary in the domestic airlines industry. Without in any way limiting the foregoing, the Company shall maintain such insurance on the Aircraft, including "all-risk" hull insurance and aviation liability insurance.

Section 6.8 Appraisals. On each Appraisal Delivery Date, the Company shall submit an Appraisal of the Pool Assets to the Administrative Agent as of the date which is no more than 30 days prior to such Appraisal Delivery Date; provided, however, that if such Appraisal is to be delivered on such Appraisal Delivery Date as a consequence of clause (c) of the definition thereof, the Appraisal to be delivered on such date shall only be in respect of the assets to be removed from and/or added to the Pool Assets.

Section 6.9 Coverage Ratio. The Company shall maintain at all times a Coverage Ratio of not less than 1.25 to 1.0.

Section 6.10 Reporting Requirements. The Company shall furnish to the Administrative Agent (with sufficient copies for each Bank):

(a) Within 120 days after the last day of each fiscal year of the Company, Financial Statements (it being understood that delivery of the Company's annual report on Form 10-K for any fiscal year as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, will satisfy this requirement with respect to such fiscal year) showing the consolidated financial condition and results of operations of the Company and its Subsidiaries as of, and for the year ended on, such last day, accompanied by (i) the opinion, without material qualification, of Auditors, based on an audit using generally accepted auditing standards, that such Financial Statements were prepared in accordance with GAAP and present fairly the consolidated financial condition and results of operations of the Company and its consolidated Subsidiaries and (ii) a Financial Report Certificate;

(b) Within 60 days after the last day of each of the first three fiscal quarters of the Company (i) Financial Statements showing the

consolidated financial condition and results of operations of the Company and its consolidated Subsidiaries as of, and for the period from the beginning of the current fiscal year to, such last day (it being understood that delivery of the Company's quarterly report on Form 10-Q for any fiscal quarter as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, will satisfy this requirement with respect to such fiscal quarter and, if applicable, the portion of the Company's fiscal year ended at the end of such quarter), and (ii) a Financial Report Certificate;

(c) (i) Promptly after mailing, true copies of all reports, statements, documents, plans, and other written communications furnished by or on behalf of the Company or any of its Subsidiaries to stockholders generally and (ii) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Forms 10-K, 10-Q and 8-K (or their equivalents) which the Company shall have filed with the Securities and Exchange Commission;

(d) Notice, promptly after the Company or any of its Material Subsidiaries knows or has reason to know of a Default or Event of Default, specifying the nature thereof and what action the Company or any Subsidiary has taken, is taking, or proposes to take with respect thereto;

(e) Prompt notice of any legal or arbitral proceedings, and of all proceedings by or before any governmental or regulatory authority or agency, and any material development in respect of such legal or other proceedings, affecting the Company, except proceedings which, if adversely determined, would not have a Material Adverse Effect or proceedings with respect to which the Company, in good faith and upon consultation with outside counsel, believes an adverse determination in respect thereof to be unlikely; and

(f) Promptly upon the Administrative Agent's reasonable request, such other relevant information (not otherwise required to be furnished under the Loan Papers) respecting the business affairs, assets, and liabilities of the Company and any of its Material Subsidiaries.

In the case of paragraphs (a), (b) and (c) above (other than the Financial Report Certificate) the Company may satisfy the reporting requirements in respect thereof by making the documents referred to therein available to the Banks on its website, provided that the Administrative Agent and the Lenders shall have been given prior notice of each such availability. Notwithstanding the foregoing, the Company shall deliver hard copies of any such documents to any Lender that notifies the Company that such delivery is required by any Laws applicable to such Lender.

Section 6.11 Use of Proceeds. Proceeds advanced hereunder shall be used only as represented herein.

Section 6.12 Pool Assets. The Company (i) will ensure that the Appraised Value of the Pool Assets shall satisfy the Collateral Coverage Test (based upon the most recent Appraisal delivered to the Administrative Agent and the Banks pursuant to the provisions of Section 6.8), and (ii) will not convey, sell, lease, transfer or otherwise dispose of, whether voluntarily or involuntarily (it being understood that loss of property due to theft, destruction, confiscation, prohibition on use or similar event shall constitute a disposal for purposes of this covenant), or remove or substitute, any Pool Asset (or any engine included in the Pool Assets unless such engine is replaced by another working engine or engines of comparable value, assuming half-time condition) or agree to do any of the foregoing in respect of the Pool Assets at any future time, except that:

(a) so long as no Event of Default exists, the Company may replace a Pool Asset with another asset of the Company (and Schedule II shall be modified to reflect such replacement), provided that (A) such replacement shall be made on at least a dollar-for-dollar basis based upon (x) in the case of the asset being removed from the Pool Assets, the Appraised Value of such Pool Asset (as determined by the most recently delivered Appraisal with respect to such Pool Asset) and (y) in the case of the asset being added to the Pool Assets, the Appraised Value of such asset (as determined by an Appraisal performed at the time of such replacement), and (B) prior to effecting the replacement, the Company shall have delivered an Officer's Certificate to the Administrative Agent certifying compliance with this Section 6.12 and attaching to such certificate the Appraisal required by Section 6.8;

(b) so long as no Event of Default exists or would result therefrom, the Company may remove an asset from the Pool Assets (and Schedule II shall be modified to reflect such removal), provided that (A) after giving effect to such removal, the Appraised Value of the remaining Pool Assets (as determined by an Appraisal of all Pool Assets performed at the time of such removal) shall satisfy the Collateral Coverage Test, and (B) prior to effecting the removal, the Company shall have delivered an Officer's Certificate to the Administrative Agent certifying that, and providing

calculations demonstrating that, after giving effect to such removal, the Appraised Value of the Pool Assets shall satisfy the Collateral Coverage Test, and otherwise certifying compliance with this Section 6.12 and attaching to such certificate Appraisals of all Pool Assets obtained in connection with such removal; and

(c) in the event (x) that an Appraisal furnished pursuant to Section 6.8 discloses that the Collateral Coverage Test is not satisfied or (y) the Collateral Coverage Test is not satisfied following an involuntary disposal of any Pool Asset (or any engine included in the Pool Assets unless such engine is replaced by another working engine or engines of comparable value, assuming half-time condition) (whether by loss of property due to theft, destruction, confiscation, prohibition on use, any similar event or otherwise), based upon the most recent Appraisal of the Pool Assets (from which the appraised values of the Pool Assets which are the subject of the involuntary disposition shall be subtracted) furnished pursuant to Section 6.8. the Company shall within 60 days after the date of such Appraisal or involuntary disposal, as the case may be, designate additional assets as Pool Assets to the extent that, after giving effect to such designation the Appraised Value of the Pool Assets, based on the most recently delivered Appraisal with respect to assets already constituting Pool Assets and based on an Appraisal performed at the time of such addition with respect to assets being added to Pool Assets, shall satisfy the Collateral Coverage Test (and Schedule II shall be modified to reflect such addition), provided that (A) at the time of such addition, the Administrative Agent and the Banks shall have received an Officer's Certificate certifying that the conditions set forth in this Section 6.12 shall have been satisfied after giving effect to such addition and attaching thereto such Appraisal, and (B) the asset being added shall constitute Stage 3 Equipment.

Section 6.13 Restrictions on Liens. The Company will not, nor will it permit any Subsidiary to, create, assume or suffer to exist any Lien upon or with respect to the Pool Assets, or enter into any arrangement with any Person that would materially negatively impact the value of any Pool Asset realizable by any third party or assign any right to receive the proceeds from the sale, transfer or disposition of any of the Pool Assets, or file or suffer to exist the filing with respect to any of the Pool Assets of any financing statement naming the Company or any Subsidiary as debtor under the Uniform Commercial Code or any similar notice of Lien naming the Company or any Subsidiary as debtor under any similar recording or notice statute (including, without limitation, any filing under Title 49, United States Code, Section 44107), other than Permitted Liens affecting Pool Assets.

(b) The Company will not enter into or suffer to exist, and will not permit any of its Subsidiaries to enter into or suffer to exist, any agreement prohibiting or conditioning the creation or assumption of any Lien upon any Pool Asset.

Section 6.14 Mergers and Dissolutions. Neither the Company nor any Subsidiary will merge or consolidate with any Person other than any merger or consolidation whereby the Company (or, if the Company is not involved, the Subsidiary) is the surviving corporation and no Default or Event of Default exists or would result therefrom. Neither the Company nor any Subsidiary (excluding any Subsidiary existing on the Effective Date to the extent that it does not contribute more than two percent of the consolidated net income or own more than two percent of the consolidated assets of the Company and its Subsidiaries at the time of any such liquidation or dissolution) will liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution).

Section 6.15 Assignment. The Company will not assign or transfer any of its Rights, duties, or obligations under any of the Loan Papers.

## ARTICLE VII

### EVENTS OF DEFAULT; REMEDIES

Section 7.1 Events of Default. Any one or more of the following events shall be "Events of Default" hereunder (which shall include by definition the expiration of any grace period with respect thereto), whether the same shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of Law or otherwise):

(a) Payment of Obligation. Failure to pay any installment of principal on any Loan or any Reimbursement Obligation when due whether at maturity, by declaration as authorized by this Agreement, or otherwise; or failure to pay, within 5 Business Days after the due date thereof, any interest on any Loan or any Reimbursement Obligation; or failure to pay, within 5 Business Days after the due date thereof, or if no due date therefor is herein specified within 5 Business Days after written demand therefor is given to the Company by the Administrative Agent, any other amount payable by the Company hereunder or under any of the other Loan Papers.

(b) Covenants. Default shall be made in the observance or performance of any other of the covenants, conditions, and agreements on the part of the Company contained herein, or in any other Loan Papers and such default shall continue for a period of 30 days after the Administrative Agent shall have given the Company notice thereof in writing.

(c) Debtor Relief. The Company or any Material Subsidiary shall file a voluntary petition in bankruptcy or a petition or answer seeking reorganization, arrangement, composition, liquidation, receivership, or similar relief under any Debtor Relief Law, or shall file a petition to take advantage of any Debtor Relief Law, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts as they become due, or shall fail generally to pay its debts as they become due, or shall consent to the appointment of any receiver, trustee, custodian or liquidator of it or all or a substantial part of its Property; or a proceeding or action shall be instituted or commenced against the Company or any Material Subsidiary seeking an order for relief or a reorganization, arrangement, composition, liquidation, receivership, or similar relief under any Debtor Relief Law or seeking the appointment, without the consent of the Company or any Material Subsidiary, of any receiver, trustee, custodian or liquidator of it or all or a substantial part of the Property of the Company or any Material Subsidiary and such proceeding or action shall remain undismissed or unstayed for a period of 90 days; or an order, decree, or judgment for an involuntary petition adjudicating the Company or any Subsidiary insolvent shall be entered by any court of competent jurisdiction and shall remain undismissed or unstayed for a period of 90 days.

(d) Payment of Judgments. The Company or any of its Material Subsidiaries fails to pay any judgment or order for the payment of money in excess of \$50,000,000 rendered against it or any of its assets (exclusive of judgment amounts fully covered by insurance where the insurer has admitted liability in respect thereof) and either (i) any enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) the same shall not be discharged (or provisions shall not be made for such discharge), or a stay of execution thereof shall not be procured, within 30 days from the date of entry thereof and the Company or the relevant Material Subsidiary shall not, within said period of 30 days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal.

(e) Default on Other Debt or Security. The Company or any Material Subsidiary shall (i) fail to pay any principal of or interest on any Debt (other than the Obligation) the principal or face amount of which exceeds \$50,000,000 when due (or, where permitted, within any applicable grace period), whether by scheduled maturity, required prepayment, acceleration, demand or otherwise and such default continues unremedied for five Business Days after such due date or applicable grace period, or (ii) fail to perform or observe any other provision (other than a provision that is substantially identical to a provision in this Agreement) contained in any agreement securing or relating to such Debt (or any other breach or default under such Debt agreement occurs) if the effect of such failure to perform or observe such other provisions (or breach or default) is to cause such Debt to become due prior to its stated maturity; provided, however, that if any such failure, breach or default shall be waived or cured (as evidenced by a writing from such holder or trustee) then, to the extent of such waiver or cure, the Event of Default hereunder by reason of such failure, breach or default shall be deemed likewise to have been thereupon waived or cured.

(f) ERISA. Any "Reportable Event" as such term is defined in ERISA under any Plan, or the appointment by an appropriate Tribunal of a trustee to administer any Plan, or the termination of any Plan within the meaning of Title IV of ERISA, and any of the foregoing results in a material liability to the Pension Benefit Guaranty Corporation; or any material accumulated funding deficiency within the meaning of ERISA exists under any Plan.

(g) Misrepresentation. Any representation or warranty made by the Company is untrue in any material respect, or any certificate, schedule, statement, report, notice or writing (excluding any Appraisal, for which the Company makes no representation) furnished by the Company to the Agents or to the Banks, or any of them, is untrue in any material respect on the date as of which the facts set forth are stated or certified, shall remain material at the time of discovery and shall, if curable, remain incorrect in any material respect after 30 days after written notice thereof to the Company (any failure to include within any such schedule, statement, report, notice, or writing information which failure would cause the material included to be misleading shall be as much an untruth as a false statement contained therein).

Section 7.2 Remedies Upon Default. If an Event of Default specified in Section 7.1(c) occurs, the Commitments of the Banks shall thereupon automatically terminate and the aggregate unpaid principal balance of and accrued interest on the Obligation shall thereupon become due and payable concurrently therewith, without any action by the Administrative Agent or any Bank and without diligence, presentment, demand, protest, notice

of protest or intent to accelerate, or notice of any other kind, all of which are hereby expressly waived. Except as set forth in the preceding sentence, should any other Event of Default occur and be continuing, the Administrative Agent may, and if requested by the Majority Banks, shall, do any one or more of the following:

- (a) Acceleration. Declare (by written notice to the Company) the entire unpaid balance of the Obligation, or any part thereof, immediately due and payable, whereupon it shall be due and payable, without diligence, presentment, demand, protest, notice of protest or intent to accelerate, or other notice of any kind (except any notice or demand specified in this Agreement), all of which are hereby expressly waived.
- (b) Termination. Terminate the Commitments by written notice to the Company.
- (c) Judgment. Reduce any claim to judgment.
- (d) Rights. Exercise any and all legal and equitable Rights available to it.

With respect to all Letters of Credit with respect to which presentment for honor shall not have occurred at the time of an acceleration pursuant to this Section 7.2, the Company shall, upon any such acceleration, deposit in a cash collateral account opened by the Administrative Agent an amount equal to the aggregate then undrawn and unexpired amount of such Letters of Credit. Amounts held in such cash collateral account shall be applied by the Administrative Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay other obligations of the Company hereunder and under the other Loan Papers. After all such Letters of Credit shall have expired or been fully drawn upon, all Reimbursement Obligations shall have been satisfied and all other obligations of the Company hereunder and under the other Loan Papers shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the Company (or such other Person as may be lawfully entitled thereto).

Section 7.3 Remedies in General. If any Event of Default shall occur and be continuing, the Administrative Agent may immediately proceed to protect and enforce all or any Rights with respect thereto contained in this Agreement or any other Loan Papers or may enforce any other legal or equitable Rights. Any Right may be exercised from time to time, independently or concurrently, and as often as shall be deemed expedient. No waiver of any Event of Default shall extend to any subsequent Event of Default.

## ARTICLE VIII

### THE AGENTS

Section 8.1 Authorization and Action. Each Bank hereby irrevocably appoints and authorizes (a) JPMorgan Chase Bank to act as its Administrative Agent hereunder and under each of the other Loan Papers, (b) Citibank, N.A. to act as Syndication Agent hereunder and (c) Bank One Corporation and SunTrust Bank to act as Documentation Agents hereunder. JPMorgan Chase Bank consents to such appointment and agrees to perform the duties of the Administrative Agent hereunder and under the other Loan Papers. Citibank, N.A. consents to such appointment and agrees, in consultation with the Company and the Administrative Agent, to select a syndicate of Banks to participate in the Commitments. Each Bank authorizes and directs the Administrative Agent to act on its behalf and to exercise such powers under this Agreement as are specifically delegated to or required of such Agent by the terms hereto, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement or the other Loan Papers (including, without limitation, enforcement or collection of the Loans or Notes), the Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Majority Banks, and such instructions shall be binding upon all Banks and all holders of Loans or Notes; provided, however, that no Agent shall be required to take any action which exposes such Agent to personal liability or which is contrary to this Agreement or applicable Law.

Section 8.2 Agents' Reliance. Etc. None of the Agents and none of their respective Affiliates, directors, officers, agents, or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with the Loan Papers (i) with the consent or at the request of the Majority Banks (or all the Banks, if required) or (ii) in the absence of its or their own gross negligence or willful misconduct (it being the express intention of the parties that the Agents and their respective directors, officers, agents, and employees shall have no liability for actions and omissions under this Section 8.2 resulting from their ordinary contributory negligence). Without limitation of the generality of the

foregoing, each Agent (i) may treat the payee of each Loan or Note as the holder thereof until such Agent receives written notice of the assignment or transfer thereof signed by such payee and in form satisfactory to such Agent; (ii) may consult with legal counsel (including counsel for the Company), independent public accountants, and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants, or experts; (iii) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties, or representations made by or on behalf of the Company in or in connection with any Loan Paper; (iv) except as otherwise expressly provided herein, shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants, or conditions of any Loan Paper or to inspect the property (including the books and records) of the Company or any of its Subsidiaries; (v) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, sufficiency, or value of any Loan Paper or any other instrument or document furnished pursuant hereto or thereto; and (vi) shall incur no liability under or in respect of any Loan Paper by acting upon any notice, consent, certificate, or other instrument or writing (which may be by telecopier) reasonably believed by it to be genuine and signed or sent by the proper party or parties.

Section 8.3 Rights of Agents as Banks. With respect to their Commitments, the Loans, if any, made by them and the Notes, if any, issued to them, each Bank that is an Agent (including any Agent that hereafter becomes a holder of a Loan or Note) and its Affiliates shall have the same rights and powers under this Agreement or any other Loan Paper as any other Bank and may exercise the same as though it were not an Agent; and the term "Bank" or "Banks" shall, unless otherwise expressly indicated, include each Bank that is an Agent (including any Agent that hereafter becomes a holder of a Loan or Note), in its individual capacity. Each Bank that is an Agent (including any Agent that hereafter becomes a holder of a Loan or Note) and its Affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, the Company, any of the Subsidiaries and any Person who may do business with or own securities of the Company or of the Subsidiaries, all as if such Bank were not an Agent, and without any duty to account therefor to the Banks.

Section 8.4 Bank Credit Decision. Each Bank acknowledges and agrees that it has, independently and without reliance upon any of the Agents or any other Bank and based on the Current Financials and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges and agrees that it will, independently and without reliance upon any of the Agents or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

Section 8.5 Agents' Indemnity. None of the Agents shall be required to take any action hereunder or to prosecute or defend any suit in respect of this Agreement or the Loans or Notes unless indemnified to such Agent's satisfaction by the Banks against loss, cost, liability, and expense. If any indemnity furnished to such Agent shall become impaired, it may call for additional indemnity and cease to do the acts indemnified against until such additional indemnity is given. In addition, the Banks agree to indemnify the Administrative Agent (to the extent not reimbursed by the Company), ratably according to the respective principal amounts of the Committed Loans then held by each of them (or if no Committed Loans are at the time outstanding, ratably according to either (i) the respective amounts of their Commitments, or (ii) if the Commitments have terminated, the respective amounts of the Commitments immediately prior to such termination), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against such Agent in any way relating to or arising out of this Agreement or any action taken or omitted by such Agent under this Agreement or the other Loan Papers (including, without limitation, any action taken or omitted under Article II of this Agreement); provided that no Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements resulting from such Agent's fraud, gross negligence or willful misconduct. Each Bank agrees, however, that it expressly intends, under this Section 8.5, to indemnify each Agent ratably as aforesaid for all such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, and disbursements arising out of or resulting from such Agent's ordinary or contributory negligence. Without limitation of the foregoing, each Bank agrees to reimburse the Administrative Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including reasonable counsel fees) incurred by such Agent in connection with the preparation, execution, administration, or enforcement of, or legal advice in respect of rights or responsibilities under, this Agreement and the other Loan Papers to the extent that such Agent is not reimbursed for such expenses by the Company. The provisions of this Section 8.5 shall survive the termination of this Agreement and/or the payment or assignment of any of the Loans or Notes.

Section 8.6 Successor Administrative Agent. The Administrative Agent may resign at any time by giving written notice thereof to the Banks and the Company and may be removed as Administrative Agent under this Agreement and the other Loan Papers at any time with or without cause by the Majority Banks. Upon any such resignation or removal, the Majority Banks shall have the right, with the consent of the Company (provided that the Company's consent shall not be required during the continuance of a Default or an Event of Default), to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed and shall have accepted such appointment within 30 calendar days after the retiring Administrative Agent's giving notice of resignation or the Majority Banks' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Banks, with the consent of the Company (provided that the Company's consent shall not be required during the continuance of a Default or Event of Default), appoint a successor Administrative Agent, which shall be a commercial bank organized under the Laws of the United States of America or of any state thereof and having a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder and under the other Loan Papers by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under this Agreement and the other Loan Papers. After any retiring Administrative Agent's resignation or removal as the Administrative Agent hereunder and under the other Loan Papers, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was the Administrative Agent under this Agreement and the other Loan Papers.

Section 8.7 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Administrative Agent shall have received notice from a Bank or the Company referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default." If the Administrative Agent receives such a notice, the Administrative Agent shall give notice thereof to the Banks; provided, however, if such notice is received from a Bank, the Administrative Agent also shall give notice thereof to the Company. The Administrative Agent shall be entitled to take action or refrain from taking action with respect to such Default or Event of Default as provided in Section 8.1 and Section 8.2.

Section 8.8 Documentation Agents and Syndication Agent. Neither the Documentation Agents nor the Syndication Agent shall have any duties or responsibilities hereunder in its capacity as such.

#### ARTICLE IX

#### MISCELLANEOUS

Section 9.1 Amendments, Etc No amendment or waiver of any provision of this Agreement or any other Loan Paper, nor consent to any departure by the Company herefrom or therefrom, shall in any event be effective unless the same shall be in writing and signed by the Majority Banks (or the Administrative Agent with the consent of the Majority Banks) in all cases, and then, in any case, such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver, or consent shall, unless in writing and signed by each Bank directly affected thereby (or the Administrative Agent with the consent of all the Banks), do any of the following: (a) increase the amount of the Commitments of any Banks or subject any Banks to any additional obligations, (b) reduce the principal of, or rate or amount of interest applicable to, any Loan other than as provided in this Agreement, or any fees hereunder, (c) postpone any date fixed for any payment of principal of, or interest on, the Loans or any fees hereunder, (d) eliminate or reduce the voting rights of any Bank under this Section 9.1, or (e) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans, or the number of Banks, which shall be required for the Banks or any of them to take any action hereunder; provided, further, that no amendment waiver, or consent shall modify or waive any provision of Article III or Section 4.4 without the written consent of the Issuing Bank; and provided, further, that no amendment, waiver, or consent shall, unless in writing and signed by the Administrative Agent in addition to the Banks required above to take such action, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Paper.

Section 9.2 Notices, Etc. Any Agent, any Bank, or the holder of any Loan or Note giving consent or notice or making any request of the Company provided for hereunder, shall notify each Bank and the Administrative Agent thereof. In the event that the holder of any Loan or Note (including any Bank) shall transfer such Loan or Note, it shall promptly so advise the Administrative Agent which shall be entitled to assume conclusively that no transfer of any Loan or Note has been made by any holdci (including any Bank) unless and until such Agent receives written notice to the contrary. Notices, consents, requests, approvals, demands, and other communications (collectively "Communications") provided for herein shall be in writing

(including telecopy Communications) and mailed, telecopied or delivered:

(a) If to the Company, to it at:

P.O. Box 36611  
Love Field  
Dallas, Texas 75235  
Telecopy Number: (214) 792-4022  
Attention: Laura Wright

(b) If to the Administrative Agent, to it at:

One Chase Manhattan Plaza, 8th Floor  
New York, New York 10081  
Telecopy Number: (212)552-5650  
Attention: Jesus Sang  
Loan and Agency Services Group

or, in the case of matters relating to Competitive Loans:

One Chase Manhattan Plaza, 8th Floor  
New York, New York 10081  
Telecopy Number: (212)552-5627  
Attention: Chris Consomer  
Loan and Agency Services Group

with a copy to (other than in the case of funding matters):

270 Park Avenue  
New York, New York 10017  
Telecopy Number: (212) 270-5100  
Attention: Matthew Massie

(c) If to any Bank or any other Agent, as specified on Schedule I hereto or, in the case of any party, such other address or telecopy number as such party may hereafter specify for such purpose by notice to the other parties. All Communications shall, when mailed, telecopied or delivered, be effective and shall be deemed to have been duly given when sent by telecopier to any party or the telecopier number as set forth herein or on the signature pages hereof (or other telecopy number designated by such party in a written notice to the other parties hereto), or five days after being mailed to the address as set forth herein (or such other address designated by such party in a written notice to the other parties hereto) respectively, or when delivered to such address; provided, however, Communications to any Agent pursuant to Article II or Article VIII shall not be effective until received by such Agent.

Section 9.3 No Waiver: Remedies. No failure on the part of any Bank or any Agent to exercise, and no delay in exercising, any Right hereunder or under any other Loan Paper shall operate as a waiver thereof; nor shall any single or partial exercise of any such Right, or any abandonment or discontinuance of any steps to enforce such Right, preclude any other or further exercise thereof or the exercise of any other Right. No notice to or demand on the Company in any case shall entitle the Company to any other or further notice or demand in similar or other circumstances. The Rights herein provided are cumulative and not exclusive of any Rights provided by Law.

Section 9.4 Costs, Expenses and Taxes. The Company agrees to pay or reimburse the Agents for paying: (i) all reasonable costs and expenses of the Agents in connection with (A) the preparation, execution, delivery, and administration of this Agreement and the other Loan Papers, including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for the Agents with respect thereto and with respect to advising the Agents as to their respective Rights and responsibilities under this Agreement and the other Loan Papers, and (B) any amendment, modification, supplement, or waiver of any of the terms of this Agreement, and (ii) all reasonable costs and expenses of the Banks and the Agents (including reasonable counsel's fees, and including reasonable allocated inhouse counsel fees for any Bank or any Agent) in connection with the enforcement of this Agreement and the other Loan Papers. In addition, the Company shall pay any and all Taxes payable or determined to be payable in connection with the execution and delivery of this Agreement and the other Loan Papers, and agrees to save the Agents and each Bank harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omitting to pay such Taxes, if any, which may be payable or determined to be payable in connection with the execution and delivery of this Agreement or any other Loan Paper. The obligations of the Company under this Section 9.4 shall survive the termination of this Agreement and/or repayment of the Loans.

Section 9.5 Indemnity. The Company agrees to indemnify and hold harmless the Agents and the Banks and each of their respective Affiliates, officers, directors, employees, agents, advisors and representatives against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, deficiencies,



expenses, and disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against any Agent, any Bank, or any of their respective Affiliates, officers, directors, employees, agents, advisors or other representatives in any way relating to or arising out of the Loan Papers, any transaction related hereto, or any act, omission, or transaction of the Company, its Subsidiaries, and Affiliates, or any of their employees, officers, directors or other representatives, to the extent that any of the same results, directly or indirectly, from any claims made or actions, suits, or proceedings commenced by or on behalf of any person other than an Agent or a Bank. The obligation of the Company under this section shall continue for a period of one year after payment of the Obligation and termination of any or all Loan Papers, and shall not be relieved by any claim or allegation of negligence by any Agent or any Bank; provided, however, that although each indemnified party shall have the right to be indemnified from its own ordinary negligence, no indemnified party shall have the right to be indemnified hereunder for its own fraud, gross negligence, or willful misconduct.

Section 9.6 Right of Setoff. If any Event of Default shall have occurred and be continuing, each Bank is hereby authorized at any time from time to time, to the fullest extent permitted by Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of the Company against any and all obligations of the Company now or hereafter existing, under this Agreement and the Loans held by such Bank, irrespective of whether or not such Bank shall have made any demand under this Agreement or any Note and although such obligations may be unmatured. Each Bank agrees promptly to notify the Company and the Administrative Agent after any such setoff and application made by such Bank, but the failure to give such notice shall not affect the validity of such setoff and application. The Rights of each Bank under this Section 9.6 are in addition to the Rights and remedies (including, without limitation, other Rights of setoff) which such Bank may have.

SECTION 9.7 GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

Section 9.8 Submission To Jurisdiction: Waivers. The Company hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Papers to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the courts of the State of New York, the courts of the United States for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Company, as the case may be at its address set forth in Section 9.2 or at such other address of which the Administrative Agent shall have been notified pursuant thereto; and

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

Section 9.9 Survival of Representations and Warranties. All representations and warranties contained herein or made in writing by the Company in connection herewith shall survive the execution and delivery of this Agreement and the other Loan Papers, and no investigation by any Agent or any Bank or any closing shall affect the representations and warranties or the Right of any Agent or any Bank to rely upon them.

Section 9.10 Binding Effect. This Agreement shall become effective when it shall have been executed by the Company, the Agents, and each Bank and thereafter shall be binding upon and inure to the benefit of the Company (subject to the provisions of Section 9.11), the Agents, each Bank and their respective successors and assigns.

Section 9.11 Successors and Assigns: Participations

(a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and permitted assigns of such party, and all covenants, promises, agreements, representations and warranties by or on behalf of the Company, the Agents or

the Banks that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns. The Company may not assign or transfer any its rights or obligations hereunder without the prior written consent of all of the Banks.

(b) Each Bank may without the consent of the Company sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the Loans owing to it and any Note or Notes held by it); provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Bank shall remain the holder of its Loans and Notes (if any) for all purposes of this Agreement, (iv) the participating banks or other entities shall be entitled to the cost protection provisions contained in Article II and Section 9.4. but only to the extent that such protection would have been available to such Bank, calculated as if no such participations had been sold, and the indemnity protection provisions contained in Section 9.5. (v) the Company, the Agents, and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, and (vi) such Bank shall not sell a participation that conveys to the participant the right to vote or give or withhold consents under this Agreement or any other Loan Papers, other than the right to vote upon or consent to (y) amendments, modifications, or waivers with respect to any fees payable hereunder (including the dates fixed for the payment of any such fees) or the amount of principal or the rate of interest payable on, or the dates fixed for any payment of principal or of interest on, the Loans and (z) any extension of the Termination Date.

(c) Each Bank may assign to one or more Persons, all or a portion of its interests, rights, and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the same portion of the Committed Loans at the time owing to it); provided, however, that (i) such assignment, if not to a Bank or an Eligible Affiliate Assignee of the assigning Bank, shall be consented to by the Company (which consent shall not be unreasonably withheld and shall not be required after the occurrence or during the continuance of a Default or Event of Default) and the Administrative Agent, (ii) each Bank's Commitment (including Loans owing to it and its pro rata share of the L/C Obligations) shall not be less than \$5,000,000 minus reductions pursuant to Section 2.6(a) unless (x) otherwise agreed by the Company and the Administrative Agent or (y) in the case of the assigning Bank, such amount is reduced to zero pursuant to such assignment, (iii) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Agreement (other than any Competitive Loans, any Competitive Notes and any right to make Competitive Loans), (iv) the assignee thereof shall deliver to the Company and the Administrative Agent any Internal Revenue Service forms required by Section 2.19. and (v) the parties to each such assignment shall execute and deliver to the Administrative Agent, for its acceptance and recording in the Register (as defined below), an Assignment and Acceptance substantially in the form of Exhibit G hereto (an "Assignment and Acceptance"), together with a properly completed Administrative Questionnaire, any Note or Notes subject to such assignment and a processing and recordation fee of \$3,500 (or such lesser amount as shall be acceptable to the Administrative Agent); provided, however, no such fee shall be required in the case of any assignment requested by the Company pursuant to Article II of this Agreement. Upon such execution, delivery, acceptance, and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof (unless a shorter period shall be agreed to by the Company, the Administrative Agent, and the assignor Bank), (x) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Bank hereunder and under the other Loan Papers and (y) the assignor Bank thereunder shall, to the extent provided in such Assignment and Acceptance, be released from its obligations under this Agreement and the other Loan Papers (and, in the case of an Assignment and Acceptance covering all of the remaining portion of an assigning Bank's rights and obligations under this Agreement and the other Loan Papers, such Bank shall cease to be a party hereto and thereto).

(d) By executing and delivering an Assignment and Acceptance, the Bank assignor thereunder and the assignee confirm to and agree with each other and the other parties hereto as follows: (i) other than the representation and warranty that it is a legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim, such Bank assignor makes no representation or warranty and assumes no responsibility with respect to any statements, warranties, or representations made in or in connection with this Agreement or any other Loan Paper or the execution, legality, validity, enforceability, genuineness, sufficiency, or value of this Agreement, any other Loan Paper or any other instrument or document furnished pursuant hereto; (ii) such Bank assignor makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Company or the performance or observance of its

respective obligations under this Agreement, any other Loan Paper or any other instrument or document furnished pursuant hereto or thereto; (iii) such assignee confirms that it has received a copy of this Agreement together with copies of financial information and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agents, such Bank assignor, or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee appoints and authorizes the Administrative Agent to take such action on behalf of such assignee and to exercise such powers under this Agreement and the other Loan Papers as are delegated to each such Agent by the terms hereof and thereof, together with such powers as are reasonably incidental thereto; and (vi) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(e) The Administrative Agent shall maintain at its office a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Banks and the Commitment of, and principal amount of the Loan owing to, each Bank from time to time (the "Register"). The entries in the Register shall be conclusive, in the absence of manifest error, and the Company, the Agents, and the Banks may treat each Person whose name is recorded in the Register as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Company, any Bank or the Administrative Agent at any reasonable time and from time to time upon reasonable prior notice.

(f) Upon its receipt of an Assignment and Acceptance executed by an assigning Bank and an assignee together with any Note or Notes subject to such assignment and the written consent to such assignment, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is substantially in the form of Exhibit G hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register, and (iii) give prompt notice thereof to the Banks, the Administrative Agent and the Company. Within five Business Days after receipt of such notice, the Company, at its own expense, shall execute and deliver to the Administrative Agent in exchange for the surrendered Note or Notes, if any, (x) a new Committed Note or Committed Notes to the order of such assignee in an amount equal to its portion of the Commitment assumed by it pursuant to such Assignment and Acceptance, (y) if the assigning Bank has retained its Competitive Note, a new Competitive Note to the order of the assignee, and (z) if the assigning Bank has retained any Commitment hereunder, new Committed Notes to the order of the assigning Bank in an amount equal to the Commitment retained by it hereunder. Such new Committed Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Committed Notes. Such new Committed Notes and Competitive Notes shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibit D-1 or D-2 as applicable, hereto. Cancelled Notes shall be returned to the Company.

(g) Notwithstanding any other provision herein, any Bank may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.11, disclose to the assignee or participant or proposed assignee or participant any information relating to the Company and its Subsidiaries furnished to such Bank by or on behalf of the Company; provided, that prior to any such disclosure, each such assignee or participant or proposed assignee or participant shall agree for the benefit of the Company to preserve the confidentiality of any confidential information relating to the Company received from such Bank.

(h) Notwithstanding any other provision set forth in this Agreement, any Bank may at any time create a security interest in all or any portion of its Rights under this Agreement (including, without limitation, the Loans owing to it and any Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Board.

Section 9.12 Independence of Covenants. All covenants contained in this Agreement shall be given independent effect so that if a particular action or condition is not permitted by any such covenants, the fact that such action or condition would be permitted by an exception to, or otherwise be within the limitations of, another covenant shall not avoid the occurrence of a Default or Event of Default if such action is taken or condition exists.

Section 9.13 Severability. Should any clause, sentence, paragraph, or Section of this Agreement be judicially declared to be invalid, unenforceable, or void, such decision will not have the effect of invalidating or voiding the remainder of this Agreement, and the parties hereto agree that the part or parts of this Agreement so held to be invalid, unenforceable, or void will be deemed to have been stricken herefrom and the remainder will have the same force and effectiveness as if such part or parts had never been included herein.

Section 9.14 Integration. This Agreement and the other Loan Papers represent the entire agreement of the Company, the Administrative Agent and the Banks with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Bank relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Papers.

Section 9.15 Descriptive Headings. The section headings appearing in this Agreement have been inserted for convenience only and shall be given no substantive meaning or significance whatever in construing the terms and provisions of this Agreement.

Section 9.16 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

Section 9.17 WAIVERS OF JURY TRIAL. THE COMPANY, THE ADMINISTRATIVE AGENT AND THE BANKS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN PAPER AND FOR ANY COUNTERCLAIM THEREIN.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

SOUTHWEST AIRLINES CO.

By:

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

<Page>  
\$30,000,000

JPMORGAN CHASE BANK, as a Bank, an Issuing  
Bank and as Administrative Agent

By:

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$30,000,000

CITIBANK, N.A., as a Bank and as Syndication Agent

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$25,000,000

BANK ONE CORPORATION, as a Bank and as  
Documentation Agent

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$25,000,000

SUNTRUST BANK, as a Bank and as Documentation  
Agent

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$17,500,000

ABN AMRO BANK N.V.

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$17,500,000

BARCLAYS BANK PLC

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$17,500,000

BNP PARIBAS

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$17,500,000

DEUTSCHE BANK AG

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$17,500,000

SOCIETE GENERALE

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$17,500,000

WELLS FARGO BANK, N.A.

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$12,500,000

COMERICA BANK

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$12,500,000

MERRILL LYNCH BANK USA

By:  
Name: \_\_\_\_\_

Title: \_\_\_\_\_

\$12,500,000

UBS AG, Stamford Branch

By:

Name: \_\_\_\_\_

Title: \_\_\_\_\_

\$12,500,000

WACHOVIA BANK

By:

Name: \_\_\_\_\_

Title: \_\_\_\_\_

\$12,500,000

THE BANK OF TOKYO-MITSUBISHI, LTD.

By:

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By:

Name: \_\_\_\_\_

Title: \_\_\_\_\_

\$10,000,000

THE MITSUBISHI TRUST AND BANKING CORPORATION

By:

Name: \_\_\_\_\_

Title: \_\_\_\_\_



364-DAY COMPETITIVE ADVANCE AND REVOLVING CREDIT FACILITY AGREEMENT

among

SOUTHWEST AIRLINES CO.,

THE BANKS PARTY HERETO,

CITIBANK, N.A.,  
as Syndication Agent,

BANK ONE CORPORATION  
and  
SUNTRUST BANK,  
as Documentation Agents,

and

JPMORGAN CHASE BANK,  
as Administrative Agent

As of April 23, 2002

J.P. MORGAN SECURITIES INC.  
and  
SALOMON SMITH BARNEY INC.,  
as Joint Lead Arrangers and Joint Bookrunners

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364-DAY COMPETITIVE ADVANCE AND  
REVOLVING CREDIT FACILITY AGREEMENT

364-DAY COMPETITIVE ADVANCE AND REVOLVING CREDIT FACILITY AGREEMENT dated as of April 23, 2002, among SOUTHWEST AIRLINES CO., a Texas corporation (the "Company"), the Banks, JPMORGAN CHASE BANK, a New York banking corporation, as administrative agent for the Banks (in such capacity, the "Administrative Agent"), CITIBANK, N.A., a national banking association, as syndication agent for the Banks (in such capacity, the "Syndication Agent"), BANK ONE CORPORATION, a Delaware corporation and SUNTRUST BANK, a Georgia corporation, as documentation agents for the Banks (collectively, in such capacity, the "Documentation Agents"). The Company has requested the Banks to extend credit to the Company in order to enable it to borrow on a revolving credit basis on and after the Effective Date and at any time and from time to time prior to the Termination Date (each as herein defined) in an aggregate principal amount not in excess of \$287,500,000 at any time outstanding. The maturity of such borrowings may be extended by one year pursuant to a term-out option described herein. The Company has also requested the Banks to provide a procedure pursuant to which the Company may designate that all of the Banks be invited to bid on an uncommitted basis on borrowings by the Company scheduled to mature on or prior to the Termination Date. The Banks are willing to extend such credit to the Company on the terms and conditions herein set forth. Accordingly, the Company, the Agents, and the Banks agree as follows:

## DEFINITIONS AND ACCOUNTING TERMS

Section 1.1 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Adjusted Pre-Tax Income" of any Person means, with respect to any period, net income before taxes of such Person for such period, but excluding (i) any gain or loss arising from the sale of capital assets other than capital assets consisting of Aircraft, (ii) any gain or loss arising from any write-up or write-down of assets, (iii) income or loss of any other Person, substantially all of the assets of which have been acquired by such Person in any manner, to the extent that such income or loss was realized by such other Person prior to the date of such acquisition, (iv) net income or loss of any other Person (other than a Subsidiary) in which such Person has an ownership interest, (v) the income or loss of any other Person to which assets of such Person shall have been sold, transferred, or disposed of, or into which such Person shall have merged, to the extent that such income or loss arises prior to the date of such transaction, (vi) any gain or loss arising from the acquisition of any securities of such Person, (vii) gains or losses reported as extraordinary in accordance with GAAP not previously excluded in clauses (i) through (vi), and (viii) the cumulative effect of changes in accounting methods permitted by GAAP during such period.

"Administrative Agent" is defined in the introduction to this Agreement.

"Administrative Questionnaire" means an Administrative Questionnaire in a form satisfactory to the Administrative Agent, which each Bank shall complete and provide to the Administrative Agent.

"Affiliate" means a Person that directly, or indirectly through one or more intermediaries, controls or is controlled by or is under common control with another Person.

"Agents" means the Administrative Agent, the Syndication Agent and the Documentation Agent.

"Agreed Maximum Rate" means, for any date, 2% per annum above the interest rate then applicable to Alternate Base Loans.

"Agreement" means this 364-Day Competitive Advance and Revolving Credit Facility Agreement, as the same may be amended, supplemented, or modified from time to time.

"Aircraft" means, collectively, airframes and aircraft engines now owned or hereafter acquired by the Company, together with all appliances, equipment, instruments, and accessories (including radio and radar) from time to time belonging to, installed in, or appurtenant to such airframes and aircraft engines; provided, however, the term "Aircraft" shall not include airframes and engines leased by the Company.

"Aircraft Rentals" means the operating expense attributable to rental of aircraft, calculated in accordance with the line item described as such in the Current Financials.

"Alternate Base Loan" means any Committed Loan with respect to which the Company shall have selected an interest rate based on the Alternate Base Rate in accordance with the provisions of Article II.

"Alternate Base Rate" means, for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. For purposes hereof: "Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank as its prime rate in effect at its principal office in New York City (the Prime Rate not being intended to be the lowest rate of interest charged by JPMorgan Chase Bank in connection with extensions of credit to debtors). Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective as of the opening of business on the effective day of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"Applicable Lending Office" means, with respect to each Bank, such Bank's Domestic Lending Office in the case of an Alternate Base Loan or a Fixed Rate Loan and such Bank's Eurodollar Lending Office in the case of a Eurodollar Loan.

"Applicable Margin" means, as of any date, in the case of Alternate Base Loans or Eurodollar Loans that are Committed Loans, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

<Table>  
<Caption>

Public Debt Rating S&P/Moody's	Eurodollar Committed Loans Margin	Alternate Base Committed Loans Margin	Eurodollar Term-Out Loans Margin	Alternate Base Term-Out Loans Margin
<S>	<C>	<C>	<C>	<C>
A/A2 or better	.42%	.00%	1.0%	.00%
A-/A3	.525%	.00%	1.125%	.125%
BBB+/Baa1	.625%	.00%	1.25%	.25%
BBB/Baa2	.725%	.00%	1.375%	.375%
BBB-/Baa3	1.075%	.075%	1.75%	.75%
BB+/Ba1 or below	1.375%	.375%	2.125%	1.125%

For purposes of determining the Applicable Margin on any date, the Public Debt Rating shall be determined as set forth in the definition of the term Public Debt Rating.

The Applicable Margin shall be increased by 0.125% (a) at any time when the sum of the aggregate principal amount of the Loans then outstanding exceeds 50% of the Total Commitment (provided, that such increase shall apply to Alternate Base Loans only if pricing set forth in either of the two lowest rows in the above pricing grid is applicable) and (b) at all times with respect to any Term-Out Loans.

"Appraisal" means a "desk-top" appraisal report substantially in the form of Exhibit H, which will not include physical inspection of aircraft, engines or maintenance records and will assume the equipment is half life in its maintenance cycle, dated the date of delivery thereof to the Banks pursuant to the terms of this Agreement, by one or more independent appraisal firms of recognized national standing selected by the Company (such firm to be reasonably satisfactory, at the time of such Appraisal, to the Administrative Agent) setting forth the fair market value, as determined in accordance with the definition of "fair market value" promulgated by the International Society of Transport Aircraft Trading, as of the date of such appraisal, of each Pool Asset or a proposed Pool Asset, as the case may be.

"Appraisal Delivery Date" means (a) the Effective Date, (b) each anniversary of the Effective Date and (c) each date of replacement, removal or addition of any Pool Asset if such Pool Asset is an airframe or an airframe and one or more engines installed thereon.

"Appraised Value" means, as of any date of determination, the aggregate fair market value as of such date of each Pool Asset or proposed Pool Asset, as the case may be, as provided in the most recently delivered Appraisal.

"Assignment and Acceptance" is defined in Section 8.11(c).

"Auditors" means independent certified public accountants of recognized national standing selected by the Company.

"Banks" means those banks signatory hereto and other banks which from time to time become party hereto pursuant to the provisions of this Agreement.

"Board" means the Board of Governors of the Federal Reserve System of the United States.

"Borrowing" means a Competitive Borrowing or a Committed Borrowing.

"Borrowing Date" means the Business Day on which the proceeds of any Borrowing are to be made available to the Company.

"Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close, provided, that with respect to notices and determinations in connection with, and payments of principal and interest on, Eurodollar Loans, such day is also a day for trading in London, England by and between banks in dollar deposits in the Eurodollar Interbank Market.

"Collateral Coverage Test" means, on any date, the requirement that the Appraised Value of the Pool Assets on such date shall not be less than an amount equal to 1.5 times the sum of (x) the Total Commitment on such date (or, after termination of the Commitments, the sum of the aggregate outstanding amount of Loans) plus (y) the "Total Commitment" on such date (or, after termination of the "Commitments", the sum of the aggregate outstanding amount of "Loans" and "L/C Obligations"); capitalized terms used in this clause (y) shall have the meaning assigned thereto in the 3-Year Agreement.

"Commitment" means, with respect to each Bank, the obligation of such Bank to make Loans in the aggregate principal and/or face amount set forth opposite the name of such Bank on the signature pages hereof, and, if applicable, amendments hereto, as such amount may be permanently terminated or reduced from time to time pursuant to Section 2.6, Section 2.13(d) and Section 6.2, and as such amount may be increased or reduced from time to time by assignment or

assumption pursuant to Section 2.13(d) and Section 8.11(c). The Commitments shall automatically and permanently terminate on the Termination Date.

"Committed Borrowing" means a borrowing consisting of simultaneous Committed Loans from each of the Banks distributed ratably among the Banks in accordance with their respective Commitments.

"Committed Loan" means a loan by a Bank to the Company pursuant to Section 2.1, and shall be either a Eurodollar Loan or an Alternate Base Loan.

"Committed Note" means a promissory note which a Bank may require the Company to execute in accordance with Section 2.8(b), payable to the order of such Bank, in substantially the form of Exhibit D-2 hereto, with the blanks appropriately completed, to evidence the aggregate indebtedness of the Company to such Bank resulting from the Committed Loans made by such Bank to the Company, together with all modifications, extensions, renewals, and rearrangements thereof.

"Communications" is defined in Section 8.2.

"Company" is defined in the introduction to this Agreement.

"Competitive Bid" means an offer by a Bank to make a Competitive Loan pursuant to Section 2.2.

"Competitive Bid Rate" means, as to any Competitive Bid made by a Bank pursuant to Section 2.2(b), (i) in the case of a Eurodollar Loan, the Margin (which will be added to or subtracted from the LIBO Rate), and (ii) in the case of a Fixed Rate Loan, the fixed rate of interest, in each case, offered by the Bank making such Competitive Bid.

"Competitive Bid Request" means a request for Competitive Bids made pursuant to Section 2.2(a) substantially in the form of Exhibit A-1.

"Competitive Borrowing" means a borrowing consisting of a single Competitive Loan from a Bank or simultaneous Competitive Loans from one or more of the Banks, in each case, whose Competitive Bid as all or as a part of such Borrowing, as the case may be, has been accepted by the Company under the bidding procedure described in Section 2.2.

"Competitive Loan" means a loan from a Bank to the Company pursuant to the bidding procedure described in Section 2.2, and shall be either a Eurodollar Loan or a Fixed Rate Loan.

"Competitive Note" means a promissory note which a Bank may require the Company to execute in accordance with Section 2.8(b), payable to the order of such Bank, in substantially the form of Exhibit D-1 hereto, with the blanks appropriately completed, to evidence the aggregate indebtedness of the Company to such Bank resulting from the Competitive Loans made by such Bank to the Company, together with all modifications, extensions, renewals, and rearrangements thereof.

"Competitive Reduction" is defined in Section 2.1.

"Consolidated Long-Term Debt" means, as of any date, all consolidated Debt of the Company and its Subsidiaries which is classified as "long term" in accordance with GAAP, together with the aggregate of all portions of Consolidated Long-Term Debt classified as "current maturities" in accordance with GAAP.

"Coverage Ratio" means, as of any date, the ratio of (i) for the four fiscal quarter period for which the Company's annual or quarterly Financial Statements have been most recently required to have been delivered pursuant to Section 5.10(a) and Section 5.10(b), the Company's and its Subsidiaries' consolidated Adjusted Pre-Tax Income, plus Aircraft Rentals, plus consolidated Net Interest Expense, depreciation, and amortization, and minus cash dividends paid by the Company, to (ii) current maturities of Consolidated Long-Term Debt or any other Debt due within a year of the date of determination, consolidated Net Interest Expense, and Aircraft Rentals paid within such four-quarter period.

"Current Financials" means the Financial Statements of the Company and its Subsidiaries for the fiscal year ended December 31, 2001.

"Debt" means, without duplication, (a) any indebtedness for borrowed money or incurred in connection with the acquisition or construction of any Property, (b) any obligation under any lease of any Property entered into after the date of this Agreement which is required under GAAP to be capitalized on the lessee's balance sheet, and (c) any direct or indirect guarantee or assumption of indebtedness or obligations described in clause (a) or (b), including without limitation any agreement to provide funds to or otherwise assure the ability of an obligor to repay indebtedness or meet its obligations.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of America and all other applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization, fraudulent

transfer or conveyance, suspension of payments, or similar Laws from time to time in effect affecting the Rights of creditors generally.

"Default" means the occurrence of any event which with the giving of notice or the passage of time or both would become an Event of Default.

"Documentation Agents" is defined in the introduction to this Agreement.

"dollars" and the symbol "\$" mean the lawful currency of the United States of America.

"Domestic Lending Office" means, with respect to any Bank, the office of such Bank specified as its "Domestic Lending Office" on Schedule I to this Agreement or such other office of such Bank as such Bank may from time to time specify to the Company and the Administrative Agent.

"Effective Date" means the date on which the conditions set forth in Section 3.1 are first met, which date is April 23, 2002.

"Eligible Affiliate Assignee" means (i) a commercial bank organized under the Laws of the United States, or any state thereof, and having total assets in excess of \$1,000,000,000; (ii) a commercial bank organized under the Laws of France, Germany, the Netherlands or the United Kingdom, or under the Laws of a political subdivision of any such country, and having total assets in excess of \$1,000,000,000; provided that such bank is acting through a branch or agency located in such country or the United States; and (iii) a commercial bank organized under the Laws of any other country which is a member of the OECD, or under the Laws of a political subdivision of any such country, and having total assets in excess of \$1,000,000,000; provided that such bank is acting through a branch or agency located in the United States.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated thereunder.

"Eurocurrency Liabilities" is defined in Regulation D.

"Eurodollar Interbank Market" means the London eurodollar interbank market.

"Eurodollar Lending Office" means, with respect to each Bank, the branches or affiliates of such Bank which such Bank has designated on Schedule I as its "Eurodollar Lending Office" or may hereafter designate from time to time as its "Eurodollar Lending Office" by notice to the Company and the Administrative Agent.

"Eurodollar Loan" means any loan with respect to which the Company shall have selected an interest rate based on the LIBO Rate in accordance with the provisions of Article II.

"Event of Default" means any of the events described in Article VI, provided there has been satisfied any requirement in connection therewith for the giving of notice, lapse of time, or happening of any further condition, event, or act.

"Existing Credit Agreement" means the Competitive Advance and Revolving Credit Facility Agreement, dated as of May 6, 1997, among the Company, Texas Commerce Bank National Association, as administrative agent, the banks party thereto, Bank of America National Trust and Savings Association, as documentation agent, NationsBank of Texas, N.A., as Syndication Agent and The Chase Manhattan Bank, as Auction Administration Agent.

"Facility Fee" is defined in Section 2.5.

"Facility Fee Percentage" means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

<Table>  
<Caption>

Public Debt Rating S&P/Moody's <S>	Percentage <C>
A/A2 or better	.08%
A-/A3	.10%
BBB+/Baa1	.125%
BBB/Baa2	.15%
BBB-/Baa3	.175%
BB+/Ba1 or below	.25%

</Table>

For purposes of determining the Facility Fee Percentage on any date, the Public Debt Rating shall be determined as set forth in the definition of the term Public Debt Rating.

"Federal Funds Effective Rate" means, for any day, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next

succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for the day of such transactions received by JPMorgan Chase Bank from three federal funds brokers of recognized standing selected by it.

"Financial Report Certificate" means a certificate substantially in the form of Exhibit F.

"Financial Statements" means balance sheets, income and loss statements, statements of stockholders' equity, and statements of cash flow prepared in accordance with GAAP and in comparative form to the corresponding period of the preceding fiscal year.

"Fixed Rate Loan" means any Competitive Loan made by a Bank pursuant to Section 2.2 based upon an actual percentage rate per annum offered by such Bank, expressed as a decimal (to no more than four decimal places), and accepted by the Company.

"GAAP" means generally accepted accounting principles of the Accounting Principles Board of the American Institute of Certified Public Accountants and the Financial Accounting Standards Board which are applicable as of the date in question for the purpose of the definition of "Financial Statements."

"Interest Payment Date" means (i) with respect to any Alternate Base Loan, each Quarterly Payment Date, or, if earlier, the Termination Date (or, if applicable, the Term-Out Maturity Date) or the date of prepayment of such Loan or conversion of such Loan to a Eurodollar Loan, (ii) with respect to any Eurodollar Loan, the last day of the Interest Period applicable thereto and, in addition in the case of a Eurodollar Loan with an Interest Period longer than three months each day that would have been the Interest Payment Date for such Loan had successive Interest Periods of three months been applicable to such Loan, and (iii) in the case of a Fixed Rate Loan, the last day of the Interest Period applicable thereto and, in the case of a Fixed Rate Loan with an Interest Period of more than 90 days, on the numerically corresponding day which occurs during such Interest Period every three months from the first day of such Interest Period (or, if there is no such corresponding day in any such month, the last day of such month).

"Interest Period" means:

(i) as to any Eurodollar Loan, the period commencing on the date of such Loan and ending on the numerically corresponding day (or if there is no corresponding day, the last day) in the calendar month that is one, two, three, six or nine months thereafter, as the Company may elect; and

(ii) as to any Fixed Rate Loan, the period commencing on the date of such Loan and ending on the date specified in the Competitive Bid in which the offer to make the Fixed Rate Loan was extended; provided, however, that each such period shall have a duration of not less than seven calendar days nor more than 360 calendar days;

provided, further, that (x) if any Interest Period would end on a day which shall not be a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, with respect to Eurodollar Loans only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, and (y) no Interest Period may be selected that ends later than the Termination Date (or, if applicable, the Term-Out Maturity Date). Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Laws" means all applicable statutes, laws, treaties, ordinances, rules, regulations, orders, writs, injunctions, decrees, judgments, or opinions of any Tribunal.

"LIBO Rate" means, for any Eurodollar Loan for any Interest Period therefor, the rate equal to the annual rate of interest shown on the Telerate Screen (Page 3750) for a period equal to such Interest Period or, if the Telerate Screen is not available, the annual rate of interest at which dollar deposits approximately equal in principal amount to JPMorgan Chase Bank's portion of the Committed Borrowing of which such Eurodollar Loan forms a part (or, in the case of a Competitive Loan, a principal amount which would have been JPMorgan Chase Bank's portion of the Committed Borrowing of which such Eurodollar Loan would have formed a part had such Competitive Borrowing been a Committed Borrowing) and with a maturity equal to the applicable Interest Period are offered in immediately available funds to the principal office of JPMorgan Chase Bank in London, England (or if JPMorgan Chase Bank does not at the time any such determination is to be made maintain an office in London, England, the principal office of any Affiliate of JPMorgan Chase Bank in London, England), in the Eurodollar Interbank Market, at 11:00 a.m., London time (or as soon thereafter as practicable), two Business Days before the first day of such Interest Period. The LIBO Rate for the Interest Period for each Eurodollar Loan comprising part of the same Borrowing shall be determined by the Administrative Agent.

"Lien" means any mortgage, lien, pledge, adverse claim, charge, security interest or other encumbrance in or on, or any interest or title of any vendor, lessor, lender or other secured party to or of any Person under, any conditional sale or other title retention agreement or lease with respect to, any Property or asset of such Person.

"Litigation" means any action conducted, pending, or threatened by or before any Tribunal.

"Loan" means a Competitive Loan, a Committed Loan, a Eurodollar Loan, a Fixed Rate Loan, or an Alternate Base Loan.

"Loan Based Accrual" is defined in Section 2.5.

"Loan Papers" means (i) this Agreement, certificates delivered pursuant to this Agreement and exhibits and schedules hereto, (ii) any notes, security documents, guaranties, and other agreements in favor of the Agents and Banks, or any or some of them, ever delivered in connection with this Agreement, and (iii) all renewals, extensions, or restatements of, or amendments or supplements to, any of the foregoing.

"Loan Payment Date" is defined in Section 2.5.

"Majority Banks" means, at any time, Banks having Loans and unused Commitments representing more than 50% of the sum of the aggregate outstanding principal amount of all Loans and unused Commitments at such time.

"Margin" means, as to any Competitive Bid made by a Bank relating to a Eurodollar Loan, the margin (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) to be added to or subtracted from the LIBO Rate for any such Loan in order to determine the interest rate acceptable to such Bank with respect to such Eurodollar Loan.

"Margin Stock" means "margin stock" within the meaning of Regulation T, U, or X of the Board.

"Material Adverse Change" or "Material Adverse Effect" means an act, event or circumstance which materially and adversely affects the business, financial condition or results of operations of the Company and its Subsidiaries on a consolidated basis or the ability of the Company to perform its obligations under this Agreement or any Loan Paper.

"Material Subsidiary" means, at any time, any Subsidiary of the Company having at such time either (i) total assets, as of the last day of the preceding fiscal quarter, having a net book value greater than or equal to 10% of the total assets of the Company and all of its Subsidiaries on a consolidated basis or (ii) Adjusted Pre-Tax Income, as of the last day of the preceding fiscal quarter, greater than or equal to 10% of the total Adjusted Pre-Tax Income of the Company and all of its Subsidiaries on a consolidated basis.

"Moody's" means Moody's Investors Service, Inc.

"Net Interest Expense" means interest expense minus interest income, excluding in either case capitalized interest, but including payments in the nature of interest under capital leases if and to the extent characterized as such in accordance with GAAP.

"Note" means a Competitive Note or a Committed Note.

"Notice of Committed Borrowing" is defined in Section 2.3.

"Obligation" means all present and future indebtedness, obligations, and liabilities, and all renewals, extensions, and modifications thereof, owed to the Agents and Banks, or any or some of them, by the Company, arising pursuant to any Loan Paper, together with all interest thereon and costs, expenses, and reasonable attorneys' fees incurred in the enforcement or collection thereof.

"OECD" means the Organization for Economic Cooperation and Development as constituted on the date hereof (excluding Mexico, Poland and the Czech Republic).

"Officer's Certificate" means a certificate signed in the name of the Company by either its Chairman, its Chief Executive Officer, its Chief Financial Officer, its President, one of its Vice Presidents, its Treasurer, or its Assistant Treasurer, in each case without personal liability.

"Original Termination Date" means April 22, 2003.

"Permitted Liens" means: (a) Liens for taxes, assessments and governmental charges or levies which either are not yet due and payable or are being contested in good faith by appropriate proceedings and for which adequate reserves are established in accordance with GAAP; (b) Liens securing judgments, but only to the extent, for an amount and for a period not resulting in an



Event of Default under Section 6.1(d); (c) Liens arising under this Agreement; (d) Liens constituting normal operational usage of the affected Property, including charter, third party maintenance, leasing, pooling or interchange thereof; and (e) Liens imposed by law such as materialmen's, mechanics', carriers', workmen's and repairmen's Liens and other similar Liens arising in the ordinary course of business securing obligations that (i) are not overdue for a period of more than 30 days, provided that no enforcement, collection, execution, levy or foreclosure proceeding shall have been commenced with respect thereto, or (ii) are being contested in good faith and for which adequate reserves are established in accordance with GAAP.

"Person" means and includes an individual, partnership, joint venture, corporation, trust, limited liability company or other entity, Tribunal, unincorporated organization, or government, or any department, agency, or political subdivision thereof.

"Plan" means any plan defined in Section 402 1(a) of ERISA in respect of which the Company is an "employer" or a "substantial employer" as such terms are defined in ERISA.

"Pool Assets" means assets of the Company listed on Schedule II, to the extent modified pursuant to Section 5.12 and shall include only Stage 3 Equipment owned legally by the Company.

"Prime Rate" is defined in the definition of the term Alternate Base Rate.

"Principal Office" of the Administrative Agent means 270 Park Avenue, New York, New York, 10017, or such other office as the Administrative Agent may hereafter designate from time to time as its

"Principal Office" by notice to the Company and the Banks.

"Property" means all types of real, personal, tangible, intangible, or mixed property.

"Public Debt Rating" means, as of any date, the rating that has been most recently announced by S&P and Moody's for that class of non-credit enhanced, senior unsecured debt with an original term of longer than one year issued by the Company which has the lowest rating of all classes of non-credit enhanced, senior unsecured debt with an original term of longer than one year issued by the Company. For purposes of the foregoing, (a) if only one of S&P and Moody's shall have in effect a Public Debt Rating, the Applicable Margin and the Facility Fee Percentage shall be determined by reference to the available rating; (b) if the ratings established by S&P and Moody's shall fall within different levels, the Applicable Margin and the Facility Fee Percentage shall be based upon the higher rating, except that if the difference is two or more levels, the Applicable Margin and Facility Fee Percentage shall be based on the rating that is one level below the higher rating; (c) if any rating established by S&P or Moody's shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; (d) if S&P or Moody's shall change the basis on which ratings are established, each reference to the Public Debt Rating announced by S&P or Moody's, as the case may be, shall refer to the then equivalent rating by S&P or Moody's, as the case may be; (e) if neither S&P nor Moody's shall have in effect a Public Debt Rating but at least one of S&P and Moody's has in effect a rating for any class of senior secured debt with an original term of longer than one year issued by the Company, the Applicable Margin and Facility Fee Percentage shall be determined by reference to a rating that is two levels lower than the rating that has been most recently announced by S&P and Moody's for such class of debt; and (f) if neither S&P nor Moody's shall have in effect either a Public Debt Rating or a rating for any class of senior secured debt with an original term of longer than one year issued by the Company, the Applicable Margin and the Facility Fee Percentage shall be set in accordance with the lowest level rating and highest percentage rate set forth in the respective tables in the definitions of "Applicable Margin" and "Facility Fee Percentage", as the case may be.

"Quarterly Payment Date" means the 15th day of each March, June, September and December of each year, the first of which shall be the first such day after the Effective Date.

"Register" is defined in Section 8.11(e).

"Regulation D" means Regulation D of the Board, as the same is from time to time in effect, and all official rulings and interpretations thereunder or thereof.

"Regulatory Change" means, with respect to any Bank, (a) any adoption or change after the Effective Date of or in United States federal, state or foreign laws, rules, regulations (including Regulation D) or guidelines applying to a class of banks including such Bank, (b) the adoption or making after the Effective Date of any interpretations, directives or requests applying to a class of banks including such Bank of or under any United States federal, state or foreign laws, rules, regulations or guidelines (whether or not having the force of law) by any Tribunal, monetary authority, central bank,

or comparable agency charged with the interpretation or administration thereof, or (c) any change in the interpretation or administration of any United States federal, state or foreign laws, rules, regulations or guidelines applying to a class of banks including such Bank by any Tribunal, monetary authority, central bank, or comparable agency charged with the interpretation or administration thereof.

"Reserve Percentage" of any Bank for the Interest Period for any Eurodollar Loan means the reserve percentage applicable during such Interest Period under regulations issued from time to time by the Board (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) for determining the maximum reserve requirement (including, without limitation, any marginal reserve requirement) for such Bank with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"Rights" means rights, remedies, powers, and privileges.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"Stage 3 Airframes" and "Stage 3 Engines" mean airframes or engines, respectively, owned by the Company and qualifying as Stage 3 airplanes, as set forth in Federal Aviation Regulation 36.1(f)(6), 14 C.F.R. Section 36.1(f)(6) or any successor regulation, as amended; and "Stage 3 Engines" also include spare engines which are suitable for use on Stage 3 Airframes and are being maintained according to the Company's normal and customary standards.

"Stage 3 Equipment" means Stage 3 Airframes and not less than two nor more than four Stage 3 Engines per Stage 3 Airframe.

"Stated Rate" is defined in Section 8.8.

"Subsidiary" of a Person means any entity of which an aggregate of more than 50% (in number of votes) of the stock (or equivalent interests) is owned of record or beneficially, directly or indirectly, by such Person.

"Syndication Agent" is defined in the introduction to this Agreement.

"Taxes" means all taxes, assessments, fees, or other similar charges at any time imposed by any Laws or Tribunal.

"Termination Date" means, at any time, the Original Termination Date or the earlier date of termination in whole of the Total Commitment pursuant to Section 2.6 or Section 6.2.

"Term-Out Loans" means any Committed Loans outstanding after the Termination Date if the Term-Out Maturity Date is selected.

"Term-Out Maturity Date" means the first anniversary of the Termination Date.

"3-Year Agreement" means the 3-Year Credit Agreement, dated as of April 23, 2002, among the Company, the banks parties thereto, JPMorgan Chase Bank, as administrative agent, Citibank, N.A, as syndication agent, Bank One Corporation and SunTrust Bank, as documentation agents, as the same may from time to time be modified, supplemented or amended.

"Total Commitment" means at any time the aggregate amount of the Banks' Commitments, as in effect at such time.

"Tribunal" means any municipal, state, commonwealth, federal, foreign, territorial, or other court, governmental body, subdivision, agency, department, commission, board, bureau, or instrumentality.

"Type" refers to the distinction between Committed Loans that are Alternate Base Loans and Committed Loans that are Eurodollar Loans.

"United States" and "U.S." each means United States of America.

Section 1.2 Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding."

## ARTICLE II

### LOANS

Section 2.1 Commitments. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank, severally and not jointly, agrees to make revolving credit loans to the Company, at any time and from time to time on and after the Effective Date and until the earlier of the Termination Date and the termination of the

Commitment of such Bank in accordance with the terms hereof. Notwithstanding the foregoing, (a) the aggregate principal amount at any time outstanding of all Committed Loans of a Bank shall not exceed such Bank's Commitment and (b) the Total Commitment shall be deemed used from time to time to the extent of the aggregate principal amount of the Competitive Loans then outstanding, and such deemed use of the Total Commitment shall be applied to the Banks ratably according to their respective Commitments (such deemed use of the Total Commitment being a "Competitive Reduction"), subject, however, to the conditions that (i) at no time shall (A) the sum of (x) the outstanding aggregate principal amount of all Committed Loans made by all Banks and (y) the outstanding aggregate principal amount of all Competitive Loans made by all Banks exceed (B) the Total Commitment and (ii) at all times the outstanding aggregate principal amount of all Committed Loans made by a Bank shall equal the product of (x) the percentage which its Commitment represents of the Total Commitment times (y) the outstanding aggregate principal amount of all Committed Loans obligated to have been made by all Banks.

Within the foregoing limits, the Company may borrow, repay, prepay, and reborrow hereunder, on and after the Effective Date and prior to the Termination Date, subject to the terms, provisions, and limitations set forth herein.

## Section 2.2 Competitive Bid Procedure

(a) In order to request Competitive Bids, the Company shall hand deliver or telecopy to the Administrative Agent a duly completed Competitive Bid Request, to be received by the Administrative Agent (i) in the case of Eurodollar Loans, not later than 10:00 a.m., New York City time, four Business Days before the Borrowing Date specified for a proposed Competitive Borrowing and (ii) in the case of Fixed Rate Loans, not later than 10:00 a.m., New York City time, one Business Day before the Borrowing Date specified for a proposed Competitive Borrowing. No Alternate Base Loan shall be requested in, or, except pursuant to Section 2.14, made pursuant to, a Competitive Bid Request. A Competitive Bid Request that does not conform substantially to the format of Exhibit A-1 may be rejected at the Administrative Agent's sole discretion, and the Administrative Agent shall promptly notify the Company of such rejection by telecopier. Each Competitive Bid Request shall in each case refer to this Agreement and specify (x) whether the Competitive Loans then being requested are to be Eurodollar Loans or Fixed Rate Loans, (y) the Borrowing Date of such Competitive Loans (which shall be a Business Day) and the aggregate principal amount thereof (which shall not be less than \$10,000,000 or greater than the unused Total Commitment on such Borrowing Date and shall be an integral multiple of \$1,000,000), and (z) the Interest Period with respect thereto (which may not end after the Termination Date). Promptly after its receipt of a Competitive Bid Request that is not rejected as aforesaid, the Administrative Agent shall invite by telecopier (substantially in the form set forth in Exhibit B hereto) the Banks to bid, on the terms and conditions of this Agreement, to make Competitive Loans pursuant to such Competitive Bid Request.

(b) Each Bank may, in its sole discretion, make one or more Competitive Bids to the Company responsive to each Competitive Bid Request. Each Competitive Bid by a Bank must be received by the Administrative Agent via telecopier, substantially in the form of Exhibit C hereto, (i) in the case of Eurodollar Loans, not later than 10:00 a.m., New York City time, three Business Days before the Borrowing Date specified for a proposed Competitive Borrowing and (ii) in the case of Fixed Rate Loans, not later than 9:30 a.m., New York City time, on the day of a proposed Competitive Borrowing. Competitive Bids that do not conform substantially to the format of Exhibit C may be rejected by the Administrative Agent after conferring with, and upon the instruction of, the Company, and the Administrative Agent shall notify the non-conforming Bank of such rejection as soon as practicable. Each Competitive Bid shall refer to this Agreement and (x) specify the principal amount (which shall be in a minimum principal amount of \$5,000,000 and in an integral multiple of \$1,000,000 and which may equal the entire principal amount of the Competitive Borrowing requested by the Company) of the Competitive Loan the Bank is willing to make to the Company, (y) specify the Competitive Bid Rate(s) at which the Bank is prepared to make the Competitive Loan and (z) confirm the Interest Period with respect thereto specified by the Company in its Competitive Bid Request. A Competitive Bid submitted by a Bank pursuant to this paragraph (b) shall be irrevocable.

(c) The Administrative Agent shall promptly notify the Company by telecopier of all the Competitive Bids made, the Competitive Bid Rate and the principal amount of each Competitive Loan in respect of which a Competitive Bid was made and the identity of the Bank that made each bid. The Administrative Agent shall send a copy of all Competitive Bids to the Company for its records as soon as practicable after completion of the bidding process set forth in this Section 2.2.

(d) The Company may in its sole and absolute discretion, subject only to the provisions of this Section 2.2(d), accept or reject any or all of the Competitive Bids referred to in paragraph (c) above; provided, however, that the aggregate amount of the Competitive Bids so accepted by the Company may not exceed the principal amount of the Competitive Borrowing requested by the Company. The Company shall notify the Administrative Agent by telecopier

whether and to what extent it has decided to accept or reject any or all of the bids referred to in paragraph (c) above, (i) in the case of Eurodollar Loans, not later than 12:00 noon, New York City time, three Business Days before the Borrowing Date specified for a proposed Competitive Borrowing and (ii) in the case of Fixed Rate Loans, not later than 10:30 a.m., New York City time, on the day specified for a proposed Competitive Borrowing; provided, however, that (w) the failure by the Company to give such notice shall be deemed to be a ] rejection of all the bids referred to in paragraph (c) above, (x) the Company shall not accept a bid made at a particular Competitive Bid Rate if the Company has decided to reject a bid made at a lower Competitive Bid Rate, (y) if the Company shall accept bids made at a particular Competitive Bid Rate but shall be restricted by other conditions hereof from borrowing the full principal amount of Competitive Loans in respect of which bids at such Competitive Bid Rate have been made or shall not require the full amount offered thereby, then the Company shall accept a pro rata portion of each bid made at such Competitive Bid Rate based as nearly as possible on the respective principal amounts of Competitive Loans for which such bids were made and (z) no bid shall be accepted for a Competitive Loan unless such Competitive Loan is in a minimum principal amount of \$5,000,000 and an integral multiple of \$1,000,000. Notwithstanding the foregoing clause (z), if it is necessary for the Company to accept a pro rata allocation of the bids made in response to a Competitive Bid Request (whether pursuant to the events specified in clause (y) above or otherwise) and the available principal amount of Competitive Loans to be allocated among the Banks is not sufficient to enable Competitive Loans to be allocated to each Bank in a minimum principal amount of \$5,000,000 and in integral multiples of \$1,000,000, then the Company shall select the Banks to be allocated such Competitive Loans and shall round allocations up or down to the next higher or lower multiple of \$500,000 as it shall deem appropriate. A notice given by the Company pursuant to this paragraph (d) shall be irrevocable.

(e) The Administrative Agent shall promptly notify each bidding Bank whether or not its Competitive Bid has been accepted (and if so, in what amount and at what Competitive Bid Rate) by telecopier, and each successful bidder will thereupon become bound, subject to the other applicable conditions hereof, to make the Competitive Loan in respect of which its bid has been accepted. After completing the notifications referred to in the immediately preceding sentence, the Administrative Agent shall notify each Bank of the aggregate principal amount of all Competitive Bids accepted.

(f) Upon receipt from the Administrative Agent of the LIBO Rate applicable to any Eurodollar Loan to be made by any Bank pursuant to a Competitive Bid that has been accepted by the Company pursuant to Section 2.2(d), the Administrative Agent shall notify such Bank of (i) the applicable LIBO Rate and (ii) the sum of the applicable LIBO Rate plus the Margin bid by such Bank.

(g) No Competitive Bid Request shall be made within five Business Days of the date of any other Competitive Bid Request, unless the Company and the Administrative Agent shall mutually agree otherwise.

(h) If the Administrative Agent shall at any time have a Commitment hereunder and shall elect to submit a Competitive Bid in its capacity as a Bank, it shall submit such bid directly to the Company one quarter of an hour earlier than the latest time at which the other Banks are required to submit their bids to the Administrative Agent pursuant to paragraph (b) above.

(i) All notices required by this Section 2.2 shall be made in accordance with Section 8.2.

Section 2.3 Committed Borrowing Procedure. In order to effect a Committed Borrowing, the Company shall hand deliver or telecopy to the Administrative Agent a duly completed request for Committed Borrowing, substantially in the form of Exhibit A-2 hereto (a "Notice of Committed Borrowing"), (i) in the case of Eurodollar Loans, not later than 11:00 a.m., New York City time, three Business Days before the Borrowing Date specified for a proposed Committed Borrowing, and (ii) in the case of Alternate Base Loans, not later than 11:00 a.m., New York City time, on the Business Day which is the Borrowing Date specified for a proposed Committed Borrowing. No Fixed Rate Loan shall be requested or made pursuant to a Notice of Committed Borrowing. Such notice shall be irrevocable and shall in each case refer to this Agreement and specify (x) whether the Loans then being requested are to be Eurodollar Loans, or Alternate Base Loans, (y) the Borrowing Date of such Loans (which shall be a Business Day) and the aggregate amount thereof (which shall not be less than \$10,000,000 and shall be an integral multiple of \$1,000,000) and (z) in the case of a Eurodollar Loan, the Interest Period with respect thereto (which shall not end later than the Termination Date or, if applicable, the Term-Out Maturity Date). If no Interest Period with respect to any Eurodollar Loan is specified in any such Notice of Committed Borrowing, then the Company shall be deemed to have selected an Interest Period of one month's duration. Promptly, and in any event on the same day the Administrative Agent receives a Notice of Committed Borrowing pursuant to this Section 2.3 if such notice is received by 11:00 a.m., New York City time on a Business Day and otherwise on the next succeeding Business Day, the Administrative Agent shall advise the other Banks of such Notice of Committed Borrowing and of each Bank's portion of

the requested Committed Borrowing by telecopier. Each Committed Borrowing shall consist of Loans of the same Type made on the same day and having the same Interest Period.

#### Section 2.4 Refinancings; Conversions

(a) The Company may refinance all or any part of any Loan with a Loan of the same or a different type made pursuant to Section 2.2 or Section 2.3, subject to the conditions and limitations set forth herein and elsewhere in this Agreement, including, without limitation, refinancings of Competitive Loans with Committed Loans and Committed Loans with Competitive Loans. Any Loan or part thereof so refinanced shall be deemed to be repaid in accordance with Section 2.18 with the proceeds of a new Borrowing hereunder and the proceeds of the new Loan, to the extent they do not exceed the principal amount of the Loan being refinanced, shall not be paid by the Banks to the Administrative Agent or by the Administrative Agent to the Company pursuant to Section 2.7(c); provided, however, that (i) if the principal amount extended by a Bank in a refinancing is greater than the principal amount extended by such Bank in the Borrowing being refinanced, then such Bank shall pay such difference to the Administrative Agent for distribution to the Banks described in (ii) below, (ii) if the principal amount extended by a Bank in the Borrowing being refinanced is greater than the principal amount being extended by such Bank in the refinancing, the Administrative Agent shall return the difference to such Bank out of amounts received pursuant to (i) above, (iii) to the extent any Bank fails to pay the Administrative Agent amounts due from it pursuant to (i) above, any Loan or portion thereof being refinanced shall not be deemed repaid in accordance with Section 2.18 to the extent of such failure and the Company shall pay such amount to the Administrative Agent pursuant to Section 2.18 and (iv) to the extent the Company fails to pay to the Administrative Agent any amounts due in accordance with Section 2.18 as a result of the failure of a Bank to pay the Administrative Agent any amounts due as described in (iii) above, the portion of any refinanced Loan deemed not repaid shall be deemed to be outstanding solely to the Bank which has failed to pay the Administrative Agent amounts due from it pursuant to (i) above to the full extent of such Bank's portion of such refinanced Loan.

(b) Subject to the conditions and limitations set forth in this Agreement, the Company shall have the right from time to time to convert all or part of one Type of Committed Loan into another Type of Committed Loan or to continue all or a part of any Committed Loan that is a Eurodollar Loan from one Interest Period to another Interest Period by giving the Administrative Agent written notice (by means of a Notice of Committed Borrowing) (i) in the case of Eurodollar Loans, not later than 11:00 a.m., New York City time, three Business Days before the date specified for such proposed conversion or continuation, and (ii) in the case of Alternate Base Loans, not later than 11:00 a.m., New York City time, on the Business Day which is the date specified for such proposed conversion or continuation. Such notice shall specify (A) the proposed date for conversion or continuation, (B) the amount of the Committed Loan to be converted or continued, (C) in the case of conversions, the Type of Committed Loan to be converted into, and (D) in the case of a continuation of or conversion into a Eurodollar Loan, the duration of the Interest Period applicable thereto; provided that (1) Eurodollar Loans may be converted only on the last day of the applicable Interest Period, (2) except for conversions to Alternate Base Loans, no conversion shall be made while a Default or Event of Default has occurred and is continuing and no continuations of any Eurodollar Loan from one Interest Period to another Interest Period shall be made while a Default or Event of Default has occurred and is continuing, unless such conversion or continuation has been approved by Majority Banks, and (3) each such conversion or continuation shall be in an amount not less than \$10,000,000 and shall be an integral multiple of \$1,000,000. All notices given under this Section shall be irrevocable. If the Company shall fail to give the Administrative Agent the notice as specified above for continuation or conversion of a Eurodollar Loan prior to the end of the Interest Period with respect thereto, such Eurodollar Loan shall automatically be converted into an Alternate Base Loan on the last day of the Interest Period for such Eurodollar Loan.

Section 2.5 Fees. The Company agrees to pay to each Bank, through the Administrative Agent, on each Quarterly Payment Date, on the Termination Date and, if applicable, on the relevant Loan Payment Date, in immediately available funds, a facility fee (a "Facility Fee") calculated by multiplying the Facility Fee Percentage by the amount of the average daily Commitment of such Bank, whether used or unused (or, if the Commitments shall have been terminated (except in the case of any period after the Termination Date if the Term-Out Maturity Date is selected), by the average outstanding principal amount of the Committed Loans of such Bank ("Loan Based Accrual")) during the preceding three-month period (or shorter period commencing with the Effective Date and/or ending with the Termination Date or the relevant Loan Payment Date, as the case may be). All Facility Fees shall be computed by the Administrative Agent on the basis of the actual number of days elapsed in a year of 360 days, and shall be conclusive and binding for all purposes, absent manifest error. The Facility Fee due to each Bank shall commence to accrue on the Effective Date and shall cease to accrue on the Termination Date or, if earlier, the date of the termination of the Commitment of such Bank as provided herein (or, if Loan Based Accrual is applicable, on the date (the "Loan Payment Date") the

relevant Loans have been paid in full).

## Section 2.6 Termination and Reduction of Commitments

(a) Subject to Section 2.12(b), the Company may permanently terminate, or from time to time in part permanently reduce, the Total Commitment, in each case upon at least three Business Days' prior written notice to the Administrative Agent (who shall promptly forward a copy thereof to each Bank). Such notice shall specify the date and the amount of the termination or reduction of the Total Commitment. Each such partial reduction of the Total Commitment shall be in a minimum aggregate principal amount of \$10,000,000 and in an integral multiple of \$1,000,000.

(b) On the Termination Date the Total Commitment shall be zero.

(c) Each reduction in the Total Commitment pursuant to this Section 2.6 shall be made ratably among the Banks in accordance with their respective Commitments. Simultaneously with any termination of Commitments pursuant to this Section, the Company shall pay to the Administrative Agent for account of the Banks the Facility Fees on the amount of the Total Commitment so terminated, accrued through the date of such termination.

## Section 2.7 Loans

(a) Each Borrowing made by the Company on any date shall be (i) in the case of Competitive Loans, in an integral multiple of \$1,000,000 and in a minimum aggregate principal amount of \$5,000,000 and (ii) in the case of Committed Loans, in an integral multiple of \$1,000,000 and in a minimum aggregate principal amount of \$10,000,000. Competitive Loans shall be made by the Banks in accordance with Section 2.2(d), and Committed Loans shall be made by the Banks ratably in accordance with their respective Commitments on the Borrowing Date of the Committed Borrowing; provided, however, that the failure of any Bank to make any Loan shall not in itself relieve any other Bank of its obligation to lend hereunder.

(b) Each Competitive Loan shall be a Eurodollar Loan or a Fixed Rate Loan, and each Committed Loan shall be a Eurodollar Loan or an Alternate Base Loan, as the Company may request subject to and in accordance with Section 2.2, Section 2.3 or Section 2.4(b), as applicable. Each Bank may at its option make any Eurodollar Loan by causing a foreign branch or Affiliate of such Bank to make such Loan; provided, however, that any exercise of such option shall not affect the obligation of the Company to repay such Loan in accordance with the terms of this Agreement or increase the Company's obligations to such Bank hereunder. Loans of more than one interest rate option may be outstanding at the same time; provided, however, that the Company shall not be entitled to request any Loan which, if made, would result in an aggregate of more than ten separate Interest Periods being outstanding hereunder at any one time. For purposes of the foregoing, Loans having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Loans.

(c) Subject to Section 2.4, each Bank shall make its portion of each Competitive Borrowing and each Committed Borrowing on the proposed Borrowing Date thereof by paying the amount required to the Administrative Agent at the Principal Office in immediately available funds not later than 1:00 p.m., New York City time, and the Administrative Agent shall by 2:00 p.m., New York City time, credit the amounts so received to the general deposit account of the Company with the Administrative Agent or, if Loans are not made on such date because any condition precedent to a Borrowing herein specified shall not have been met, return the amounts so received to the respective Banks as soon as practicable; provided, however, if and to the extent the Administrative Agent fails to return any such amounts to a Bank on the Borrowing Date for such Borrowing, the Administrative Agent shall pay interest on such unreturned amounts, for each day from such Borrowing Date to the date such amounts are returned to such Bank, at the Federal Funds Effective Rate.

(d) The outstanding principal amount of each Competitive Loan shall be due and payable on the last day of the Interest Period applicable to such Competitive Loan, and the outstanding principal balance of each Committed Loan shall be due and payable on the Termination Date.

(e) Notwithstanding clause (d) above, the Company may, upon written notice to the Administrative Agent given at least three Business Days prior to the Termination Date, extend the date upon which the principal amount of any Committed Loans outstanding as of the Termination Date will be due and payable to the Term-Out Maturity Date; provided that no Default or Event of Default shall have occurred and be continuing on the Termination Date and the representations and warranties set forth in Article IV (except Sections 4.2 and 4.5) shall be true and correct in all material respects on and as of the Termination Date as if made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date. If the Company gives notice to the Administrative Agent in accordance with the preceding sentence, the outstanding principal balance of each Committed Loan outstanding on the Termination Date shall be payable on the Term-Out Maturity Date. It is understood that, whether or not the Term-Out Maturity Date is selected, the Commitments shall automatically terminate on the Termination

Date.

## Section 2.8 Loan Accounts

(a) The Loans made by each Bank shall be evidenced by one or more loan accounts or records maintained by such Bank in the ordinary course of business. Absent manifest error, the loan accounts or records maintained by the Administrative Agent and each Bank shall be prima facie evidence of the amount of the Loans made by the Banks to the Company and the interest and payments thereon. Any failure so to record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Company hereunder to pay any amount owing with respect to the Loans.

(b) Upon the request of any Bank made through the Administrative Agent, the Loans made by such Bank may be evidenced by one or more Notes, instead of or in addition to loan accounts, and upon any such request the Company shall execute and deliver such Notes to such Bank. Each such Bank shall, and is hereby authorized by the Company to, endorse on the schedule attached to the relevant Note held by such Bank (or on a continuation of such schedule attached to each such Note and made a part thereof) or in its records relating to such Note an appropriate notation evidencing the date and amount of each Competitive Loan or Committed Loan, as applicable, of such Bank, each payment or prepayment of principal of any Competitive Loan or Committed Loan, as applicable, and the other information provided for on such schedule. The failure of any Bank to make such a notation or any error therein shall not in any manner affect the obligation of the Company to repay the Competitive Loans or Committed Loans, as applicable, made by such Bank in accordance with the terms of the relevant Note.

## Section 2.9 Interest on Loans

(a) Subject to the provisions of Section 2.10, each Eurodollar Loan shall bear interest at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the LIBO Rate for the Interest Period in effect for such Loan (A) plus or minus, as the case may be, in the case of each Competitive Loan, the Margin specified by a Bank with respect to such Loan in its Competitive Bid submitted pursuant to Section 2.2(b) or (B) plus in the case of each Committed Loan, the Applicable Margin. Interest on each Eurodollar Loan shall be payable on each Interest Payment Date applicable thereto. The applicable LIBO Rate for each Interest Period shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

(b) Subject to the provisions of Section 2.10, each Alternate Base Loan shall bear interest at the rate per annum equal to the Alternate Base Rate plus the Applicable Margin (if the Alternate Base Rate is based on the Prime Rate, computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be; if the Alternate Base Rate is based on the Federal Funds Effective Rate, computed on the basis of the actual number of days elapsed over a year of 360 days). Interest on each Alternate Base Loan shall be payable on each Interest Payment Date applicable thereto. The applicable Alternate Base Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

(c) Subject to the provisions of Section 2.10, each Fixed Rate Loan shall bear interest at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the fixed rate of interest offered by the Bank making such Loan and accepted by the Company pursuant to Section 2.2. Interest on each Fixed Rate Loan shall be payable on each Interest Payment Date applicable thereto.

(d) The Company shall pay to the Administrative Agent for the account of each Bank that has made a Eurodollar Loan to the Company, so long as such Bank shall be required under regulations of the Board to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each such Eurodollar Loan of such Bank, from the date of such Loan until such principal amount is paid in full, at an interest rate per annum for such number of days during the Interest Period for such Loan as shall be pertinent equal to the remainder obtained by subtracting (i) the LIBO Rate for such Interest Period from (ii) the rate obtained by dividing such LIBO Rate referred to in clause (i) above by that percentage equal to 100% minus the Reserve Percentage of such Bank for such Interest Period, payable on the next Interest Payment Date applicable to such Loan. Such additional interest shall be determined by such Bank as, if and to the extent incurred, and shall be payable as aforesaid upon notification thereof by such Bank to the Company through the Administrative Agent. Each determination by a Bank of additional interest under this Section 2.9(d) shall be conclusive and binding for all purposes in the absence of manifest error.

Section 2.10 Interest on Overdue Amounts. If the Company shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, the Company shall on demand from time to time pay interest, to the extent permitted by Law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at a rate per annum equal to (i) in the case of the principal amount

of any Eurodollar Loan or any Competitive Loan, 2% above the rate otherwise applicable thereto and (ii) in all other cases, the Agreed Maximum Rate (if the Alternate Base Rate is based on the Prime Rate, computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be; if the Alternate Base Rate is based on the Federal Funds Effective Rate, computed on the basis of the actual number of days elapsed over a year of 360 days).

Section 2.11 Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Loan that is a Committed Loan, the Administrative Agent shall have determined that dollar deposits in the amount of the requested principal amount of such Eurodollar Loan are not generally available in the Eurodollar Interbank Market, or that dollar deposits are not generally available in the Eurodollar Interbank Market for the requested Interest Period, or that the rate at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the Majority Banks of making or maintaining such Eurodollar Loan during such Interest Period, or that reasonable means do not exist for ascertaining the LIBO Rate, the Administrative Agent shall, as soon as practicable thereafter, give telecopy notice of such determination to the Company and the Banks. In the event of any such determination, any request by the Company for a Eurodollar Loan that is a Committed Loan shall, until the circumstances giving rise to such notice no longer exist, be deemed to be a request for an Alternate Base Loan. Each determination by the Administrative Agent hereunder shall be conclusive absent manifest error.

#### Section 2.12 Prepayment of Loans

(a) Prior to the Termination Date (or, if applicable, the Term-Out Maturity Date), the Company shall have the right at any time to prepay any Committed Borrowing, in whole or in part, subject to the requirements of Section 2.15 or Section 2.16 but otherwise without premium or penalty, upon at least five Business Days prior written notice to the Administrative Agent; provided, however, that each such partial prepayment shall be in an integral multiple of \$1,000,000 and in a minimum aggregate principal amount of \$5,000,000. Each notice of prepayment shall specify the prepayment date and the aggregate principal amount of each Borrowing to be prepaid, shall be irrevocable and shall commit the Company to prepay such Borrowing by the amount stated therein. The Company shall not have the right to prepay any Competitive Borrowing.

(b) On the date of any termination or reduction of the Total Commitment pursuant to Section 2.6(a), the Company shall pay or prepay so much of the Loans as shall be necessary in order that the aggregate principal amount of the Loans outstanding will not exceed the Total Commitment following such termination or reduction. Subject to the foregoing, any such payment or prepayment shall be applied to such Borrowing or Borrowings as the Company shall select. All prepayments under this paragraph shall be subject to Section 2.15 and Section 2.16.

(c) All prepayments under this Section 2.12 shall be accompanied by accrued interest on the principal amount being prepaid to the date of prepayment.

#### Section 2.13 Reserve Requirements; Change in Circumstances

(a) Notwithstanding any other provision herein, if after the date of this Agreement any Regulatory Change (i) shall change the basis of taxation of payments to any Bank of the principal of or interest on any Eurodollar Loan or Fixed Rate Loan made by such Bank or any other fees or amounts payable hereunder (other than (x) Taxes imposed on or measured by the capital, receipts or franchises of such Bank or the overall gross or net income of such Bank by the jurisdiction in which such Bank has its principal office or by any political subdivision or taxing authority therein (or any Tax which is enacted or adopted by such jurisdiction, political subdivision, or taxing authority as a direct substitute for any such Taxes) or (y) any Tax, assessment, or other governmental charge that would not have been imposed but for the failure of any Bank to comply with any certification, information, documentation, or other reporting requirement), (ii) shall impose, modify, or deem applicable any reserve, special deposit, or similar requirement with respect to any Eurodollar Loan against assets of, deposits with or for the account of, or credit extended by, such Bank under this Agreement (without duplication of any amounts paid pursuant to Section 2.9(d)), or (iii) with respect to any Eurodollar Loan, shall impose on such Bank or the Eurodollar Interbank Market any other condition affecting this Agreement or any Eurodollar Loan made by such Bank, and the result of any of the foregoing shall be to materially increase the actual cost to such Bank of maintaining its Commitment or of making or maintaining any Eurodollar Loan or Fixed Rate Loan or to materially reduce the amount of any sum received or receivable by such Bank hereunder (whether of principal, interest, or otherwise) in respect thereof, then the Company shall pay to the Administrative Agent for the account of such Bank, within ten days following delivery to the Company of the certificate specified in paragraph (c) below by such Bank, such additional amount or amounts as will reimburse such Bank for such increase or reduction to such Bank to the extent reasonably allocable to



this Agreement.

(b) If any Bank shall have determined in good faith that any Regulatory Change regarding capital adequacy or compliance by any Bank (or its parent or any lending office of such Bank) with any request or directive regarding capital adequacy (whether or not having the force of Law) of any Tribunal, monetary authority, central bank, or comparable agency, has or would have the effect of reducing the rate of return on such Bank's (or its parent's) capital as a consequence of its obligations hereunder to a level below that which such Bank (or its parent) could have achieved but for such Regulatory Change, or compliance (taking into consideration such Bank's policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, the Company shall pay to the Administrative Agent for the account of such Bank, within ten days following delivery to the Company of the certificate specified in paragraph (c) below by such Bank, such additional amount or amounts as will reimburse such Bank (or its parent) for such reduction.

(c) Each Bank shall notify the Company of any event occurring after the date hereof entitling such Bank to compensation under paragraph (a) or (b) of this Section 2.13 (together with a good faith estimate of the amounts it would be entitled to claim in respect of such event) as promptly as practicable, but in any event on or before the date which is 60 days after the related Regulatory Change or other event; provided that (i) if such Bank fails to give such notice by such date, such Bank shall, with respect to compensation payable pursuant to paragraph (a) or (b) of this Section 2.13 in respect of any costs resulting from such Regulatory Change or other event, only be entitled to payment under paragraph (a) or (b) of this Section 2.13 for costs incurred from and after the date of such notice and (ii) such Bank will take such reasonable actions, if any (including the designation of a different Applicable Lending Office for the Loans of such Bank affected by such event) to avoid the need for, or reduce the amount of, such compensation so long as such actions will not, in the reasonable opinion of such Bank, be materially disadvantageous to such Bank. A certificate of a Bank setting forth in reasonable detail (i) the Regulatory Change or other event giving rise to any costs, (ii) such amount or amounts as shall be necessary to reimburse such Bank (or participating banks or other entities pursuant to Section 8.11) as specified in paragraph (a) or (b) of this Section 2.13, as the case may be, and (iii) the calculation of such amount or amounts, shall be delivered to the Company (with a copy to the Administrative Agent) promptly after such Bank determines it is entitled to payment under this Section 2.13, and shall be conclusive and binding absent manifest error. In preparing such certificate, such Bank may employ such assumptions and allocations of costs and expenses as it shall in good faith deem reasonable and may use any reasonable averaging and attribution method.

(d) In the event any Bank shall seek payment pursuant to this Section 2.13 or the events contemplated under Section 2.11 or Section 2.14 shall have occurred with respect to any Bank, the Company may, provided no Event of Default has occurred and is continuing, give notice to such Bank (with copies to the Agents) that it wishes to seek one or more assignees (which may be one or more of the Banks, but which may not be a Person who would be entitled at such time to claim payment pursuant to this Section 2.13 or with respect to which any of the events contemplated under Section 2.11 or Section 2.14 would exist at such time if such Person were a Bank under this Agreement) to assume the Commitment of such Bank and to purchase its outstanding Loans and Notes (if any). Each Bank requesting payment pursuant to this Section 2.13, or with respect to which any of the events contemplated under Section 2.11 or Section 2.14 have occurred, agrees to sell its Commitment, Loans, Notes (if any), and interest in this Agreement and the other Loan Papers pursuant to Section 8.11(c) to any such assignee approved by the Company and the Administrative Agent for an amount equal to the sum of the outstanding unpaid principal of and accrued interest on such Loans and Notes (if any) plus all other fees and amounts (including, without limitation, any payment claimed by such Bank under this Section, 2.13 and as to which such Bank has delivered the certificate required by Section 2.13(c) on or before the date such Commitment, Loans, and Notes (if any) are purchased) due such Bank hereunder calculated, in each case, to the date such Commitment, Loans, Notes (if any) and interest are purchased, whereupon such Bank shall have no further Commitment or other obligation to the Company hereunder or under any other Loan Paper.

(e) Notwithstanding anything herein to the contrary, no Bank or participant shall be entitled to any payment under this Section 2.13 with respect to any Competitive Loan.

(f) Without prejudice to the survival of any other obligations of the Company hereunder, the obligations of the Company under this Section 2.13 shall survive for one year after the termination of this Agreement and/or the payment or assignment of any of the Loans or Notes.

#### Section 2.14 Change in Legality

(a) Notwithstanding anything to the contrary herein contained, if any Regulatory Change shall make it unlawful for any Bank to make or maintain any Eurodollar Loan or to give effect to its obligations in respect of Eurodollar Loans as contemplated hereby, then, by prompt written notice to the Company and

to the Administrative Agent, such Bank may:

(i) declare that Eurodollar Loans will not thereafter be made by such Bank hereunder, whereupon the Company shall be prohibited from requesting Eurodollar Loans from such Bank hereunder unless such declaration is subsequently withdrawn; and

(ii) if such unlawfulness shall be effective prior to the end of any Interest Period of an outstanding Eurodollar Loan, require that all outstanding Eurodollar Loans with such Interest Periods made by it be converted to Alternate Base Loans, in which event (A) all such Eurodollar Loans shall be automatically converted to Alternate Base Loans as of the effective date of such notice as provided in paragraph (b) below and (B) all payments and prepayments of principal which would otherwise have been applied to repay the converted Eurodollar Loans shall instead be applied to repay the Alternate Base Loans resulting from the conversion of such Eurodollar Loans.

(b) For purposes of this Section 2.14, a notice to the Company (with a copy to the Administrative Agent) by any Bank pursuant to paragraph (a) above shall be effective on the date of receipt thereof by the Company. Any Bank having furnished such a notice agrees to withdraw the same promptly following any Regulatory Change that makes it lawful for such Bank to make and maintain Eurodollar Loans.

(c) If, with respect to any Bank, a condition arises or an event occurs which would, or would upon the giving of notice, result in the payment of amounts pursuant to Section 2.13 or permit such Bank, pursuant to this Section 2.14, to suspend its obligation to make Eurodollar Loans, such Bank, promptly upon becoming aware of the same, shall notify the Company thereof and shall take such steps as may reasonably be available to it (including, without limitation, changing its Applicable Lending Office) to mitigate the effects of such condition or event, provided that such Bank shall be under no obligation to take any step that, in its good faith opinion, would (a) result in its incurring any additional costs in performing its obligations hereunder and under any outstanding Loan (unless the Company has notified such Bank of the Company's agreement to reimburse it for the same) or (b) be otherwise adverse to such Bank in a material respect.

Section 2.15 Indemnity. The Company shall indemnify each Bank against any loss or reasonable expense which such Bank may sustain or incur as a consequence of (a) any failure by the Company to fulfill on the date of any Borrowing hereunder the applicable conditions set forth in Article III, (b) any failure by the Company to borrow hereunder after a Notice of Committed Borrowing pursuant to Article II has been given or after Competitive Bids have been accepted, (c) any payment, prepayment, or conversion of a Eurodollar Loan or Fixed Rate Loan required by any other provision of this Agreement or otherwise made on a date other than the last day of the applicable Interest Period for any reason, including without limitation the acceleration of outstanding Loans as a result of any Event of Default, (d) any failure by the Company for any reason (including without limitation the existence of a Default or an Event of Default) to pay, prepay or convert a Eurodollar Loan on the date for such payment, prepayment or conversion, specified in the relevant notice of payment, prepayment or conversion under this Agreement. The indemnity of the Company pursuant to the immediately preceding sentence shall include, but not be limited to, any loss or reasonable expense sustained or incurred or to be sustained or incurred in liquidating or employing deposits from third parties acquired to effect or maintain such Loan or any part thereof as a Eurodollar Loan or Fixed Rate Loan. Such loss or reasonable expense shall include, without limitation, an amount equal to the excess, if any, as reasonably determined by each Bank of (i) its cost of obtaining the funds for the Loan being paid, prepaid, or converted or not borrowed, paid, prepaid or converted (based on the LIBO Rate or, in the case of a Fixed Rate Loan, the fixed rate of interest applicable thereto) for the period from the date of such payment, prepayment, or conversion or failure to borrow, pay, prepay or convert to the last day of the Interest Period for such Loan (or, in the case of a failure to borrow, pay, prepay or convert, the Interest Period for the Loan which would have commenced on the date of such failure to borrow, pay, prepay or convert) over (ii) the amount of interest (as reasonably determined by such Bank) that would be realized by such Bank in reemploying the funds so paid, prepaid, or converted or not borrowed, paid, prepaid or converted for such period or Interest Period, as the case may be. A certificate of each Bank setting forth any amount or amounts and, in reasonable detail, the computations thereof, which such Bank is entitled to receive pursuant to this Section 2.15 shall be delivered to the Company (with a copy to the Administrative Agent) and shall be conclusive, if made in good faith, absent manifest error. The Company shall pay to the Administrative Agent for the account of each Bank the amount shown as due on any certificate within 30 days after its receipt of the same.

Section 2.16 Pro Rata Treatment. Except as permitted under Section 2.9(d), Section 2.13(c) and Section 2.15 with respect to interest, (a) each payment or prepayment of principal and each payment of interest with respect to a Competitive Borrowing (at a particular Competitive Bid Rate) or a Committed Borrowing shall be made pro rata among the Banks in accordance with the respective principal amounts of the Loans extended by each Bank, if any, with respect to such Competitive Borrowing or Committed Borrowing, and (b)

conversions of Committed Loans to Committed Loans of another Type, continuations of Committed Loans that are Eurodollar Loans from one Interest Period to another Interest Period, refinancings of Competitive Loans with Committed Loans, and Committed Loans which are not refinancings of other Loans shall be made pro rata among the Banks in accordance with their respective Commitments.

Section 2.17 Sharing of Setoffs. Each Bank agrees that if it shall through the exercise of a right of banker's lien, setoff, or counterclaim against the Company (pursuant to Section 8.6 or otherwise), including, but not limited to, a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Bank under any applicable Debtor Relief Law or otherwise, obtain payment (voluntary or involuntary) in respect of the Committed Loans held by it (other than pursuant to Section 2.9(d), Section 2.13, or Section 2.15) as a result of which the unpaid principal portion of the Committed Loans held by it shall be proportionately less than the unpaid principal portion of the Committed Loans held by any other Bank, it shall be deemed to have simultaneously purchased from such other Bank a participation in the Committed Loans held by such other Bank, so that the aggregate unpaid principal amount of the Committed Loans and participations in Committed Loans pursuant to this Section 2.17 held by each Bank shall be in the same proportion to the aggregate unpaid principal amount of all Committed Loans then outstanding as the principal amount of the Committed Loans held by it prior to such exercise of banker's lien, setoff, or counterclaim was to the principal amount of all Committed Loans outstanding prior to such exercise of banker's lien, setoff, or counterclaim; provided, however, that if any such purchase or purchases or adjustments shall be made pursuant to this Section 2.17 and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Company expressly consents to the foregoing arrangements and agrees that any Bank holding a participation in a Committed Loan deemed to have been so purchased may exercise any and all rights of banker's lien, setoff, or counterclaim with respect to any and all moneys owing by the Company to such Bank as fully as if such Bank had made a Committed Loan directly to the Company in the amount of such participation.

#### Section 2.18 Payments

(a) The Company shall make each payment hereunder and under any instrument delivered hereunder not later than 12:00 noon (New York City time) on the day when due in dollars to the Administrative Agent at its Principal Office for the account of the Banks, in federal or other immediately available funds. The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal of or interest on Committed Loans (other than pursuant to Section 2.9(d), Section 2.13, and Section 2.15) or Facility Fees ratably to the Banks and like funds relating to the payment of any other amount (including, without limitation, payments of principal or interest on Competitive Loans which are not made ratably to the Banks) payable to any Bank to such Bank for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement.

(b) Whenever any payment hereunder or under any Note shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in all such cases be included in the computation of payment of interest or Facility Fee, as the case may be; provided, however, if such extension would cause payment of interest on or principal of a Eurodollar Loan to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(c) Unless the Administrative Agent shall have received notice from the Company prior to the date on which any payment is due to the Banks hereunder that the Company will not make such payment in full, the Administrative Agent may assume that the Company has made or will make such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent the Company shall not have so made such payment in full to the Administrative Agent, each Bank shall repay to the Administrative Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Administrative Agent, at the Federal Funds Effective Rate.

(d) Except as expressly provided in Section 2.19, all payments (whether of principal, interest, fees, reimbursements, or otherwise) by the Company under this Agreement shall be made without setoff or counterclaim and shall be made free and clear of and without deduction for any present or future Tax, levy, impost, or any other charge, if any, of any nature whatsoever now or hereafter imposed by any Tribunal. Except as otherwise provided in Section 2.19, if the making of such payments by the Company is prohibited by Law unless such a Tax, levy, impost, or other charge is deducted or withheld therefrom, the Company shall pay to the Administrative Agent, on the date of each such payment, such additional amounts (without duplication of any other amounts required to be paid by the Company pursuant to Section 2.13) as may be necessary in order that the net amounts received by the Banks after such

deduction or withholding shall equal the amounts which would have been received if such deduction or withholding were not required. The Company shall confirm that all applicable Taxes, if any, imposed on this Agreement or transactions hereunder shall have been properly and legally paid by it to the appropriate taxing authorities by sending official Tax receipts or notarized copies of such receipts to the Administrative Agent within 30 days after payment of any applicable Tax.

Section 2.19 Tax Forms. With respect to each Bank which is organized under the Laws of a jurisdiction outside the United States, within 30 days after the Effective Date, and from time to time thereafter if requested by the Company or the Administrative Agent, or as otherwise required by law, each such Bank shall provide the Administrative Agent and the Company with the forms prescribed by the Internal Revenue Service of the United States certifying as to such Bank's status for purposes of determining exemption from United States withholding Taxes with respect to all payments to be made to such Bank hereunder or other documents satisfactory to the Company and the Administrative Agent indicating that all payments to be made to such Bank hereunder are subject to such Tax at a rate reduced by an applicable Tax treaty. Unless the Company and the Administrative Agent have received such forms or such documents indicating that payments hereunder are not subject to United States withholding Tax, the Company or the Administrative Agent (after notice from the Administrative Agent to such Bank of such non-receipt) shall withhold Taxes from such payments at the applicable statutory rate (or any reduced applicable Tax treaty rate) in the case of payments to or for any Bank organized under the Laws of a jurisdiction outside the United States.

Section 2.20 Calculation of LIBO Rates. The provisions of this Agreement relating to calculation of the LIBO Rate are included only for the purpose of determining the rate of interest or other amounts to be paid hereunder that are based upon such rate, it being understood that each Bank shall be entitled to fund and maintain its funding of all or any part of a Eurodollar Loan as it sees fit. All such determinations hereunder, however, shall be made as if each Bank had actually funded and maintained funding of each Eurodollar Loan through the purchase in the Eurodollar InterBank Market of one or more eurodollar deposits in an amount equal to the principal amount of such Loan and having a maturity corresponding to the Interest Period for such Loan.

Section 2.21 Booking Loans. Subject to Section 2.19, any Bank may make, carry, or, transfer Loans at, to, or for the account of any of its branch offices or the office of any Affiliate.

Section 2.22 Quotation of Rates. It is hereby acknowledged that the Company may call the Administrative Agent on or before the date on which notice of a Borrowing is to be delivered by the Company in order to receive an indication of the rate or rates then in effect, but that such projection shall not be binding upon the Administrative Agent or any Bank nor affect the rate of interest which thereafter is actually in effect when the election is made.

### ARTICLE III

#### CONDITIONS OF LENDING

Section 3.1 Conditions Precedent. The effectiveness of this Agreement is subject to the satisfaction of the following conditions precedent:

(a) The Administrative Agent shall have received the following, each dated (unless otherwise indicated) the Effective Date:

(i) Officer's Certificates dated the Effective Date certifying, inter alia, (i) true and correct copies of resolutions adopted by the Board of Directors or Executive Committee, as appropriate, of the Company authorizing the Company to borrow and effect other transactions hereunder, (ii) a true and correct copy of the Company's bylaws in effect on the date hereof, (iii) the incumbency and specimen signatures of the Persons executing any documents on behalf of the Company, (iv) the truth of the representations and warranties made by the Company in this Agreement (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date), and (v) the absence of the occurrence and continuance of any Default or Event of Default.

(ii) A copy of the Company's charter and all amendments thereto, accompanied by certificates that such copy is correct and complete, one certificate dated within a reasonable time prior to the Effective Date and issued by the Secretary of State of Texas and one certificate dated the Effective Date and executed by the corporate secretary or assistant secretary of the Company.

(iii) Certificates (dated within twenty days prior to the Effective Date) of existence and good standing of the Company from appropriate officials of Texas.

(iv) The written opinions of internal and outside counsel to the

Company and counsel to the Agents, substantially in the form set out in Exhibits E-1, E-2 and E-3, respectively, each dated the Effective Date.

(v) An Administrative Questionnaire (dated any date prior to the Effective Date) completed by each Bank which is a party hereto on the Effective Date.

(vi) Such other agreements, documents, instruments, opinions, certificates, and evidences as the Administrative Agent may reasonably request prior to the Effective Date.

(b) Any fees required to be paid on or before the Effective Date shall have been paid.

(c) The commitments under the Existing Credit Agreement shall have been terminated and all amounts owing thereunder shall have been paid in full. Each party hereto that is also a party to the Existing Credit Agreement hereby waives any requirement under the Existing Credit Agreement of advance notice for any such termination or payment.

Section 3.2 Conditions Precedent to Each Committed Borrowing. The obligation of each Bank to make a Committed Loan on the occasion of any Committed Borrowing (including the initial Committed Borrowing) shall be subject to the further conditions precedent that on the date of such Committed Borrowing the following statements shall be true (and each of the giving of the applicable Notice of Committed Borrowing and the acceptance by the Company of the proceeds of such Committed Borrowing shall constitute a representation and warranty by the Company that on the date of such Committed Borrowing such statements are true):

(a) The representations and warranties contained in Article IV (except Sections 4.2 and 4.5) are correct in all material respects on and as of the date of such Committed Borrowing (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date), before and after giving effect to such Committed Borrowing, as though made on and as of such date;

(b) No event has occurred and is continuing, or would result from such Committed Borrowing, which constitutes either a Default or an Event of Default; and

(c) Following the making of such Committed Borrowing and all other Borrowings to be made on the same day under this Agreement, the sum of the aggregate principal amount of all Loans then outstanding shall not exceed the Total Commitment.

Section 3.3 Conditions Precedent to Each Competitive Borrowing. The obligation of each Bank to make a Competitive Loan as part of a Competitive Borrowing (including the initial Competitive Borrowing) is subject to the further conditions precedent that (a) the Administrative Agent shall have received a Competitive Bid Request with respect thereto, and (b) on the date of such Competitive Borrowing the following statements shall be true (and each of the giving of the applicable Competitive Bid Request and the acceptance by the Company of the proceeds of such Competitive Borrowing shall constitute a representation and warranty by the Company that on the date of such Competitive Borrowing such statements are true):

(a) The representations and warranties contained in Article IV (except Sections 4.2 and 4.5) are correct in all material respects on and as of the date of such Competitive Borrowing (or if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date), before and after giving effect to such Competitive Borrowing, as though made on and as of such date;

(b) No event has occurred and is continuing, or would result from such Competitive Borrowing, which constitutes either a Default or an Event of Default; and

(c) Following the making of such Competitive Borrowing and all other Borrowings to be made on the same day under this Agreement, the sum of the aggregate principal amount of all Loans then outstanding shall not exceed the Total Commitment.

Section 3.4 Legal Details. All documents executed or submitted pursuant hereto by the Company shall be reasonably satisfactory in form and substance to the Administrative Agent and its counsel. The Administrative Agent shall, promptly following satisfaction of the conditions specified in Section 3.1, notify the Company and each of the Banks of such satisfaction and the date of the Effective Date. The Administrative Agent and its counsel shall receive all information, and such counterpart originals or certified or other copies of such materials, as they may reasonably deem necessary or appropriate. All legal matters incident to the transactions contemplated by this Agreement (including without limitation matters arising from time to time as a result of changes occurring with respect to any Laws) shall be reasonably satisfactory to counsel to the Administrative Agent.

## ARTICLE IV

### REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Agents and Banks as follows:

#### Section 4.1 Organization, Authority and Qualifications

(a) The Company and each of its Material Subsidiaries is a corporation duly organized, validly existing, and in good standing under the Laws of the jurisdiction of its incorporation;

(b) The Company has the corporate power and authority to execute, deliver, and perform this Agreement and the other Loan Papers and to borrow hereunder;

(c) On the Effective Date, the Company and each of its Material Subsidiaries is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction where the character of its Properties or nature of its activities make such qualification necessary, except where the failure to be so qualified or in good standing would not have a Material Adverse Effect; and

(d) On the Effective Date, the Company has no Material Subsidiaries.

Section 4.2 Financial Statements. The Current Financials present fairly the consolidated financial position of the Company and its Subsidiaries on the date thereof and the consolidated results of operations and changes in financial position of the Company and its Subsidiaries for the period then ended, all in conformity with GAAP. Except for transactions related to or contemplated by the Loan Papers and transactions disclosed in writing to the Administrative Agent before the Effective Date, there has been no Material Adverse Change since December 31, 2001.

Section 4.3 Compliance with Agreement and Laws. On the Effective Date, neither the Company nor any of its Material Subsidiaries is in default in any material respect under the provisions of any instrument evidencing any material obligation, indebtedness, or liability of the Company or any of its Material Subsidiaries or of any agreement relating thereto. Neither the Company nor any of its Material Subsidiaries is in violation of any Law, which default or violation would have a Material Adverse Effect.

Section 4.4 Authorization; No Breach; and Valid Agreements. The execution, delivery, and performance of this Agreement, the borrowings hereunder, and the execution, delivery, and performance of the other Loan Papers by the Company have been duly authorized by all requisite corporate action on the part of the Company and will not violate its charter or bylaws and will not violate any Law or any order of any Tribunal, and will not conflict with, result in a breach of the provisions of or constitute a default under, or result in the imposition of any Lien upon the Property of the Company pursuant to the provisions of, any material loan agreement, credit agreement, indenture, mortgage, deed of trust, franchise, permit, license, note, contract, or other material agreement or instrument to which the Company is now a party. The Loan Papers are the valid and binding obligations of the Company and are enforceable in accordance with their respective terms.

Section 4.5 Litigation and Judgments. Except as previously disclosed to the Administrative Agent in writing, neither the Company nor any of its Subsidiaries is either party to or aware of the threat of any Litigation which has, in the Company's opinion, a reasonable probability of success and which, if determined adversely to the Company or such Subsidiary, would have a Material Adverse Effect. To the knowledge of the Company, on the Effective Date there is no outstanding unsatisfied money judgment against the Company or any of its Subsidiaries in an amount in excess of \$50,000,000, and there are no outstanding unsatisfied money judgments against the Company or any of its Subsidiaries which individually or in the aggregate have or would have a Material Adverse Effect.

Section 4.6 Ownership of Properties. The Company and each of its Material Subsidiaries has good and marketable title (except for Permitted Liens) or valid leasehold interests in all of its material Properties which are owned or used in connection with its business.

Section 4.7 Taxes. To the extent that failure to do so would have a Material Adverse Effect, the Company and each of its Material Subsidiaries has filed all Tax returns or reports required of it and has paid all Tax liability shown thereon as due to the extent the same has become due and before it may have become delinquent (except to the extent being contested in good faith by appropriate proceedings and for which adequate reserves have been established). The federal income tax liability of the Company and its Subsidiaries has been audited by the Internal Revenue Service and has been finally determined and satisfied for all taxable years up to and including the taxable year ended December 31, 1991.

Section 4.8 Approvals Required. Neither the execution and delivery of this Agreement and the other Loan Papers by the Company, nor the consummation by the Company of any of the transactions contemplated hereby or thereby requires the consent or approval of, the giving of notice to, or the registration, recording, or filing of any document with, or the taking of any other action in respect of any Tribunal except for the routine filing of copies of this Agreement and certain other Loan Papers with the Securities and Exchange Commission, except for any of the foregoing required of any Bank or Agent.

Section 4.9 Business; Status as Air Carrier. The Company is an air carrier engaged in scheduled air transportation and is in all material respects duly qualified and licensed under all applicable Laws to carry on its business as a scheduled airline currently subject to regulation by the Federal Aviation Administration and the Department of Transportation.

Section 4.10 ERISA Compliance. The Company is in compliance in all material respects with ERISA and the rules and regulations thereunder. The Company has no material unfunded vested liability under any Plan.

Section 4.11 Insurance. The Company maintains with insurance companies or associations of recognized responsibility (or, as to workers' compensation or similar insurance, with an insurance fund or by self-insurance authorized by the jurisdictions in which it operates) insurance concerning its Properties and businesses against such casualties and contingencies and of such types and in such amounts (and with co-insurance, self-insurance and deductibles) as is customary in the case of same or similar businesses.

Section 4.12 Purpose of Loan. The proceeds of the Loans will be used for general corporate purposes, including acquisitions, and no part of the proceeds of any Loan will be used for any purpose which would violate, or be inconsistent with, any of the margin regulations of the Board.

Section 4.13 Investment Company Act. Neither the Company nor any of its Subsidiaries is an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company", as such terms are defined in the Investment Company Act of 1940, as amended.

Section 4.14 General. As of the Effective Date, there is no material fact or condition relating to the Loan Papers or the financial condition and business of the Company and its Subsidiaries which has a Material Adverse Effect and which has not been related, in writing, to the Administrative Agent, other than industry-wide risks in the ordinary course of business associated with the types of business conducted by the Company and its Subsidiaries. All writings exhibited or delivered to any of the Agents and Banks by or on behalf of the Company are and will be genuine and in all material respects what they purport and appear to be.

## ARTICLE V

### COVENANTS

So long as the Company may borrow hereunder and until the Obligation has been paid in full, the Company covenants as follows:

Section 5.1 Performance of Obligations. The Company shall duly and punctually pay and perform each of the Obligations under this Agreement and the other Loan Papers.

Section 5.2 Compliance with Laws. The Company shall comply, and shall cause each of its Material Subsidiaries to comply, in all material respects with all applicable Laws, except for any noncompliance which individually or in the aggregate would not have a Material Adverse Effect, and such compliance shall include, without limitation, paying before the same become delinquent all Taxes imposed upon the Company or any of its Material Subsidiaries or its or their Properties, except to the extent contested diligently and in good faith by proper proceedings, and for which adequate reserves are established in accordance with GAAP.

Section 5.3 Maintenance of Existence Licenses and Franchises: Compliance With Agreements. Except to the extent otherwise permitted in Article V, the Company shall maintain, and shall cause each of its Material Subsidiaries to maintain, its existence, and the Company shall preserve and maintain, and shall cause each of its Material Subsidiaries to preserve and maintain, all material licenses, privileges, franchises, certificates, authorizations, and other permits and agreements necessary for the operation of its business. The Company shall comply, and shall cause each of its Material Subsidiaries to comply, with all material agreements binding on it or affecting its properties or business, except for any noncompliance which individually or in the aggregate would not have a Material Adverse Effect.

Section 5.4 Maintenance of Properties. The Company shall, and shall cause each of its Material Subsidiaries to, cause all of its Properties used or useful in the conduct of its business to be maintained and kept in good condition, repair, and working order, and supplied with all necessary equipment, and cause to be made all necessary repairs, renewals, replacements,

betterments, and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times. Subject to the provisions of this Section 5.4, the Company shall, at its expense, maintain, service, repair, overhaul, improve, and rebuild the Aircraft so as to keep all Aircraft in as good a condition as presently exists or as when acquired by the Company if any Aircraft are hereafter acquired (ordinary wear and tear excepted), and as required to meet the air-worthiness standards of the Federal Aviation Administration and the Department of Transportation (to the extent such standards are applicable to the Aircraft) or the standards observed by the Company with respect to Property of similar type, whichever is higher. The Company shall comply with all applicable mandatory maintenance, service, repair, and overhaul manuals issued by the respective manufacturers of the Aircraft. The Company shall comply with all Laws of Tribunals having jurisdiction over the Company or the Aircraft, including all applicable requirements of the Federal Aviation Administration and the Department of Transportation as to operation, maintenance, or use of the Aircraft. In the event that any such Law requires alteration of any Aircraft, the Company shall conform thereto or obtain conformance therewith at no expense to the Agents or the Banks and will maintain such Aircraft in proper operating condition under such Laws; provided, however, that the Company may, in good faith, contest the validity or application of any such Law in any reasonable manner which does not materially adversely affect the Rights of the Agents or the Banks.

Section 5.5 Maintenance of Books and Records. The Company shall, and shall cause each of its Subsidiaries to, maintain proper books of record and account in which full, true, and correct entries in accordance with GAAP consistently applied (except for any change with which the Company's independent auditors concur) will be made of all dealings and transactions in relation to their business and activities.

Section 5.6 Inspection. At reasonable times and upon reasonable notice, the Company shall permit, and shall cause each of its Material Subsidiaries to permit, any employees and other representatives of the Administrative Agent or any Bank to visit and inspect any Properties, to examine all books of account, records, reports, and other papers, to make copies and extracts therefrom (subject to any confidentiality agreements, copyright restrictions, and similar limitations), and to discuss the Company's and Material Subsidiaries' affairs, finances, Properties, condition (financial or otherwise) and accounts with the Company's and Material Subsidiaries' officers, employees and independent certified public accountants, at such times and as often as may be reasonably requested; provided, however, that (a) any such inspection which includes Aircraft shall be a visual, walk-around inspection and may not include opening any panels, bays or the like of any Aircraft, (b) no exercise of any inspection rights provided for in this Section 5.6 shall interfere with the normal operation or maintenance of the Aircraft by, or the business of, the Company, and (c) the Administrative Agent and each Bank shall cause their respective employees and representatives to hold in strict confidence all information acquired pursuant to such Agent's or Bank's Rights under this Section 5.6, except for necessary disclosure to participants in the Loans or Commitments, disclosure in connection with disputes relating to the Loan Papers, or disclosure compelled by judicial or administrative process or by other requirements of Law.

Section 5.7 Insurance. The Company shall maintain insurance with such insurers, in such amounts (including by way of self-insurance and deductibles), in such forms and covering such risks as may be then customary in the domestic airlines industry. Without in any way limiting the foregoing, the Company shall maintain such insurance on the Aircraft, including "all-risk" hull insurance and aviation liability insurance.

Section 5.8 Appraisals. On each Appraisal Delivery Date, the Company shall submit an Appraisal of the Pool Assets to the Administrative Agent as of the date which is no more than 30 days prior to such Appraisal Delivery Date; provided, however, that if such Appraisal is to be delivered on such Appraisal Delivery Date as a consequence of clause (c) of the definition thereof, the Appraisal to be delivered on such date shall only be in respect of the assets to be removed from and/or added to the Pool Assets.

Section 5.9 Coverage Ratio. The Company shall maintain at all times a Coverage Ratio of not less than 1.25 to 1.0.

Section 5.10 Reporting Requirements. The Company shall furnish to the Administrative Agent (with sufficient copies for each Bank):

(a) Within 120 days after the last day of each fiscal year of the Company, Financial Statements (it being understood that delivery of the Company's annual report on Form 10-K for any fiscal year as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, will satisfy this requirement with respect to such fiscal year) showing the consolidated financial condition and results of operations of the Company and its Subsidiaries as of, and for the year ended on, such last day, accompanied by (i) the opinion, without material qualification, of Auditors, based on an audit using generally accepted auditing standards, that such Financial Statements were prepared in accordance with GAAP and present



fairly the consolidated financial condition and results of operations of the Company and its consolidated Subsidiaries and (ii) a Financial Report Certificate;

(b) Within 60 days after the last day of each of the first three fiscal quarters of the Company (i) Financial Statements showing the consolidated financial condition and results of operations of the Company and its consolidated Subsidiaries as of, and for the period from the beginning of the current fiscal year to, such last day (it being understood that delivery of the Company's quarterly report on Form 10-Q for any fiscal quarter as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, will satisfy this requirement with respect to such fiscal quarter and, if applicable, the portion of the Company's fiscal year ended at the end of such quarter), and (ii) a Financial Report Certificate;

(c) (i) Promptly after mailing, true copies of all reports, statements, documents, plans, and other written communications furnished by or on behalf of the Company or any of its Subsidiaries to stockholders generally and (ii) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Forms 10-K, 10-Q and 8-K (or their equivalents) which the Company shall have filed with the Securities and Exchange Commission;

(d) Notice, promptly after the Company or any of its Material Subsidiaries knows or has reason to know of a Default or Event of Default, specifying the nature thereof and what action the Company or any Subsidiary has taken, is taking, or proposes to take with respect thereto;

(e) Prompt notice of any legal or arbitral proceedings, and of all proceedings by or before any governmental or regulatory authority or agency, and any material development in respect of such legal or other proceedings, affecting the Company, except proceedings which, if adversely determined, would not have a Material Adverse Effect or proceedings with respect to which the Company, in good faith and upon consultation with outside counsel, believes an adverse determination in respect thereof to be unlikely; and

(f) Promptly upon the Administrative Agent's reasonable request, such other relevant information (not otherwise required to be furnished under the Loan Papers) respecting the business affairs, assets, and liabilities of the Company and any of its Material Subsidiaries.

In the case of paragraphs (a), (b) and (c) above (other than the Financial Report Certificate) the Company may satisfy the reporting requirements in respect thereof by making the documents referred to therein available to the Banks on its website, provided that the Administrative Agent shall have been given prior notice of each such availability. Notwithstanding the foregoing, the Company shall deliver hard copies of any such documents to any Lender that notifies the Company that such delivery is required by any Laws applicable to such Lender.

Section 5.11 Use of Proceeds. Proceeds advanced hereunder shall be used only as represented herein.

Section 5.12 Pool Assets. The Company (i) will ensure that the Appraised Value of the Pool Assets shall satisfy the Collateral Coverage Test (based upon the most recent Appraisal delivered to the Administrative Agent and the Banks pursuant to the provisions of Section 5.8), and (ii) will not convey, sell, lease, transfer or otherwise dispose of, whether voluntarily or involuntarily (it being understood that loss of property due to theft, destruction, confiscation, prohibition on use or similar event shall constitute a disposal for purposes of this covenant), or remove or substitute, any Pool Asset (or any engine included in the Pool Assets unless such engine is replaced by another working engine or engines of comparable value, assuming half-time condition) or agree to do any of the foregoing in respect of the Pool Assets at any future time, except that:

(a) so long as no Event of Default exists, the Company may replace a Pool Asset with another asset of the Company (and Schedule II shall be modified to reflect such replacement), provided that (A) such replacement shall be made on at least a dollar-for-dollar basis based upon (x) in the case of the asset being removed from the Pool Assets, the Appraised Value of such Pool Asset (as determined by the most recently delivered Appraisal with respect to such Pool Asset) and (y) in the case of the asset being added to the Pool Assets, the Appraised Value of such asset (as determined by an Appraisal performed at the time of such replacement), and (B) prior to effecting the replacement, the Company shall have delivered an Officer's Certificate to the Administrative Agent certifying compliance with this Section 5.12 and attaching to such certificate the Appraisal required by Section 5.8;

(b) so long as no Event of Default exists or would result therefrom, the Company may remove an asset from the Pool Assets (and Schedule II shall be modified to reflect such removal), provided that (A) after giving effect to such removal, the Appraised Value of the remaining Pool Assets (as determined by an Appraisal of all Pool Assets performed at the time of such removal) shall

satisfy the Collateral Coverage Test, and (B) prior to effecting the removal, the Company shall have delivered an Officer's Certificate to the Administrative Agent certifying that, and providing calculations demonstrating that, after giving effect to such removal, the Appraised Value of the Pool Assets shall satisfy the Collateral Coverage Test, and otherwise certifying compliance with this Section 5.12 and attaching to such certificate Appraisals of all Pool Assets obtained in connection with such removal; and

(c) in the event (x) that an Appraisal furnished pursuant to Section 5.8 discloses that the Collateral Coverage Test is not satisfied or (y) the Collateral Coverage Test is not satisfied following an involuntary disposal of any Pool Asset (or any engine included in the Pool Assets unless such engine is replaced by another working engine or engines of comparable value, assuming half-time condition) (whether by loss of property due to theft, destruction, confiscation, prohibition on use, any similar event or otherwise), based upon the most recent Appraisal of the Pool Assets (from which the appraised values of the Pool Assets which are the subject of the involuntary disposition shall be subtracted) furnished pursuant to Section 5.8, the Company shall within 60 days after the date of such Appraisal or involuntary disposal, as the case may be, designate additional assets as Pool Assets to the extent that, after giving effect to such designation the Appraised Value of the Pool Assets, based on the most recently delivered Appraisal with respect to assets already constituting Pool Assets and based on an Appraisal performed at the time of such addition with respect to assets being added to Pool Assets, shall satisfy the Collateral Coverage Test (and Schedule II shall be modified to reflect such addition), provided that (A) at the time of such addition, the Administrative Agent and the Banks shall have received an Officer's Certificate certifying that the conditions set forth in this Section 5.12 shall have been satisfied after giving effect to such addition and attaching thereto such Appraisal, and (B) the asset being added shall constitute Stage 3 Equipment.

Section 5.13 Restrictions on Liens. The Company will not, nor will it permit any Subsidiary to, create, assume or suffer to exist any Lien upon or with respect to the Pool Assets, or enter into any arrangement with any Person that would materially negatively impact the value of any Pool Asset realizable by any third party or assign any right to receive the proceeds from the sale, transfer or disposition of any of the Pool Assets, or file or suffer to exist the filing with respect to any of the Pool Assets of any financing statement naming the Company or any Subsidiary as debtor under the Uniform Commercial Code or any similar notice of Lien naming the Company or any Subsidiary as debtor under any similar recording or notice statute (including, without limitation, any filing under Title 49, United States Code, Section 44107), other than Permitted Liens affecting Pool Assets.

(b) The Company will not enter into or suffer to exist, and will not permit any of its Subsidiaries to enter into or suffer to exist, any agreement prohibiting or conditioning the creation or assumption of any Lien upon any Pool Asset.

Section 5.14 Mergers and Dissolutions. Neither the Company nor any Subsidiary will merge or consolidate with any Person other than any merger or consolidation whereby the Company (or, if the Company is not involved, the Subsidiary) is the surviving corporation and no Default or Event of Default exists or would result therefrom. Neither the Company nor any Subsidiary (excluding any Subsidiary existing on the Effective Date to the extent that it does not contribute more than two percent of the consolidated net income or own more than two percent of the consolidated assets of the Company and its Subsidiaries at the time of any such liquidation or dissolution) will liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution).

Section 5.15 Assignment. The Company will not assign or transfer any of its Rights, duties, or obligations under any of the Loan Papers.

## ARTICLE VI

### EVENTS OF DEFAULT; REMEDIES

Section 6.1 Events of Default. Any one or more of the following events shall be "Events of Default" hereunder (which shall include by definition the expiration of any grace period with respect thereto), whether the same shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of Law or otherwise):

(a) Payment of Obligation. Failure to pay any installment of principal on any Loan when due whether at maturity, by declaration as authorized by this Agreement, or otherwise; or failure to pay, within 5 Business Days after the due date thereof, any interest on any Loan; or failure to pay, within 5 Business Days after the due date thereof, or if no due date therefor is herein specified within 5 Business Days after written demand therefor is given to the Company by the Administrative Agent, any other amount payable by the Company hereunder or under any of the other Loan Papers.

(b) Covenants. Default shall be made in the observance or performance

of any other of the covenants, conditions, and agreements on the part of the Company contained herein, or in any other Loan Papers and such default shall continue for a period of 30 days after the Administrative Agent shall have given the Company notice thereof in writing.

(c) Debtor Relief. The Company or any Material Subsidiary shall file a voluntary petition in bankruptcy or a petition or answer seeking reorganization, arrangement, composition, liquidation, receivership, or similar relief under any Debtor Relief Law, or shall file a petition to take advantage of any Debtor Relief Law, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts as they become due, or shall fail generally to pay its debts as they become due, or shall consent to the appointment of any receiver, trustee, custodian or liquidator of it or all or a substantial part of its Property; or a proceeding or action shall be instituted or commenced against the Company or any Material Subsidiary seeking an order for relief or a reorganization, arrangement, composition, liquidation, receivership, or similar relief under any Debtor Relief Law or seeking the appointment, without the consent of the Company or any Material Subsidiary, of any receiver, trustee, custodian or liquidator of it or all or a substantial part of the Property of the Company or any Material Subsidiary and such proceeding or action shall remain undismissed or unstayed for a period of 90 days; or an order, decree, or judgment for an involuntary petition adjudicating the Company or any Subsidiary insolvent shall be entered by any court of competent jurisdiction and shall remain undismissed or unstayed for a period of 90 days.

(d) Payment of Judgments. The Company or any of its Material Subsidiaries fails to pay any judgment or order for the payment of money in excess of \$50,000,000 rendered against it or any of its assets (exclusive of judgment amounts fully covered by insurance where the insurer has admitted liability in respect thereof) and either (i) any enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) the same shall not be discharged (or provisions shall not be made for such discharge), or a stay of execution thereof shall not be procured, within 30 days from the date of entry thereof and the Company or the relevant Material Subsidiary shall not, within said period of 30 days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal.

(e) Default on Other Debt or Security. The Company or any Material Subsidiary shall (i) fail to pay any principal of or interest on any Debt (other than the Obligation) the principal or face amount of which exceeds \$50,000,000 when due (or, where permitted, within any applicable grace period), whether by scheduled maturity, required prepayment, acceleration, demand or otherwise and such default continues unremedied for five Business Days after such due date or applicable grace period, or (ii) fail to perform or observe any other provision (other than a provision that is substantially identical to a provision in this Agreement) contained in any agreement securing or relating to such Debt (or any other breach or default under such Debt agreement occurs) if the effect of such failure to perform or observe such other provisions (or breach or default) is to cause such Debt to become due prior to its stated maturity; provided, however, that if any such failure, breach or default shall be waived or cured (as evidenced by a writing from such holder or trustee) then, to the extent of such waiver or cure, the Event of Default hereunder by reason of such failure, breach or default shall be deemed likewise to have been thereupon waived or cured.

(f) ERISA. Any "Reportable Event" as such term is defined in ERISA under any Plan, or the appointment by an appropriate Tribunal of a trustee to administer any Plan, or the termination of any Plan within the meaning of Title IV of ERISA, and any of the foregoing results in a material liability to the Pension Benefit Guaranty Corporation; or any material accumulated funding deficiency within the meaning of ERISA exists under any Plan.

(g) Misrepresentation. Any representation or warranty made by the Company is untrue in any material respect, or any certificate, schedule, statement, report, notice or writing (excluding any Appraisal, for which the Company makes no representation) furnished by the Company to the Agents or to the Banks, or any of them, is untrue in any material respect on the date as of which the facts set forth are stated or certified, shall remain material at the time of discovery and shall, if curable, remain incorrect in any material respect after 30 days after written notice thereof to the Company (any failure to include within any such schedule, statement, report, notice, or writing information which failure would cause the material included to be misleading shall be as much an untruth as a false statement contained therein).

Section 6.2 Remedies Upon Default. If an Event of Default specified in Section 6.1(c) occurs, the Commitments of the Banks shall thereupon automatically terminate and the aggregate unpaid principal balance of and accrued interest on the Obligation shall thereupon become due and payable concurrently therewith, without any action by the Administrative Agent or any Bank and without diligence, presentment, demand, protest, notice of protest or intent to accelerate, or notice of any other kind, all of which are hereby expressly waived. Except as set forth in the preceding sentence, should any other Event of Default occur and be continuing, the Administrative Agent may,

and if requested by the Majority Banks, shall, do any one or more of the following:

(a) Acceleration. Declare (by written notice to the Company) the entire unpaid balance of the Obligation, or any part thereof, immediately due and payable, whereupon it shall be due and payable, without diligence, presentment, demand, protest, notice of protest or intent to accelerate, or other notice of any kind (except any notice or demand specified in this Agreement), all of which are hereby expressly waived.

(b) Termination. Terminate the Commitments by written notice to the Company.

(c) Judgment. Reduce any claim to judgment.

(d) Rights. Exercise any and all legal and equitable Rights available to it.

Section 6.3 Remedies in General. If any Event of Default shall occur and be continuing, the Administrative Agent may immediately proceed to protect and enforce all or any Rights with respect thereto contained in this Agreement or any other Loan Papers or may enforce any other legal or equitable Rights. Any Right may be exercised from time to time, independently or concurrently, and as often as shall be deemed expedient. No waiver of any Event of Default shall extend to any subsequent Event of Default.

## ARTICLE VII

### THE AGENTS

Section 7.1 Authorization and Action. Each Bank hereby irrevocably appoints and authorizes (a) JPMorgan Chase Bank to act as its Administrative Agent hereunder and under each of the other Loan Papers, (b) Citibank, N.A. to act as Syndication Agent hereunder and (c) Bank One Corporation and SunTrust Bank to act as Documentation Agents hereunder. JPMorgan Chase Bank consents to such appointment and agrees to perform the duties of the Administrative Agent hereunder and under the other Loan Papers. Citibank, N.A. consents to such appointment and agrees, in consultation with the Company and the Administrative Agent, to select a syndicate of Banks to participate in the Commitments. Each Bank authorizes and directs the Administrative Agent to act on its behalf and to exercise such powers under this Agreement as are specifically delegated to or required of such Agent by the terms hereto, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement or the other Loan Papers (including, without limitation, enforcement or collection of the Loans or Notes), the Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Majority Banks, and such instructions shall be binding upon all Banks and all holders of Loans or Notes; provided, however, that no Agent shall be required to take any action which exposes such Agent to personal liability or which is contrary to this Agreement or applicable Law.

Section 7.2 Agents' Reliance, Etc. None of the Agents and none of their respective Affiliates, directors, officers, agents, or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with the Loan Papers (i) with the consent or at the request of the Majority Banks (or all the Banks, if required) or (ii) in the absence of its or their own gross negligence or willful misconduct (it being the express intention of the parties that the Agents and their respective directors, officers, agents, and employees shall have no liability for actions and omissions under this Section 7.2 resulting from their ordinary contributory negligence). Without limitation of the generality of the foregoing, each Agent (i) may treat the payee of each Loan or Note as the holder thereof until such Agent receives written notice of the assignment or transfer thereof signed by such payee and in form satisfactory to such Agent; (ii) may consult with legal counsel (including counsel for the Company), independent public accountants, and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants, or experts; (iii) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties, or representations made by or on behalf of the Company in or in connection with any Loan Paper; (iv) except as otherwise expressly provided herein, shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants, or conditions of any Loan Paper or to inspect the property (including the books and records) of the Company or any of its Subsidiaries; (v) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, sufficiency, or value of any Loan Paper or any other instrument or document furnished pursuant hereto or thereto; and (vi) shall incur no liability under or in respect of any Loan Paper by acting upon any notice, consent, certificate, or other instrument or writing (which may be by telecopier) reasonably believed by it to be genuine and signed or sent by the proper party or parties.

Section 7.3 Rights of Agents as Banks. With respect to their

Commitments, the Loans, if any, made by them and the Notes, if any, issued to them, each Bank that is an Agent (including any Agent that hereafter becomes a holder of a Loan or Note) and its Affiliates shall have the same rights and powers under this Agreement or any other Loan Paper as any other Bank and may exercise the same as though it were not an Agent; and the term "Bank" or "Banks" shall, unless otherwise expressly indicated, include each Bank that is an Agent (including any Agent that hereafter becomes a holder of a Loan or Note), in its individual capacity. Each Bank that is an Agent (including any Agent that hereafter becomes a holder of a Loan or Note) and its Affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, the Company, any of the Subsidiaries and any Person who may do business with or own securities of the Company or of the Subsidiaries, all as if such Bank were not an Agent, and without any duty to account therefor to the Banks.

Section 7.4 Bank Credit Decision. Each Bank acknowledges and agrees that it has, independently and without reliance upon any of the Agents or any other Bank and based on the Current Financials and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges and agrees that it will, independently and without reliance upon any of the Agents or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

Section 7.5 Agents' Indemnity. None of the Agents shall be required to take any action hereunder or to prosecute or defend any suit in respect of this Agreement or the Loans or Notes unless indemnified to such Agent's satisfaction by the Banks against loss, cost, liability, and expense. If any indemnity furnished to such Agent shall become impaired, it may call for additional indemnity and cease to do the acts indemnified against until such additional indemnity is given. In addition, the Banks agree to indemnify the Administrative Agent (to the extent not reimbursed by the Company), ratably according to the respective principal amounts of the Committed Loans then held by each of them (or if no Committed Loans are at the time outstanding, ratably according to either (i) the respective amounts of their Commitments, or (ii) if the Commitments have terminated, the respective amounts of the Commitments immediately prior to such termination), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against such Agent in any way relating to or arising out of this Agreement or any action taken or omitted by such Agent under this Agreement or the other Loan Papers (including, without limitation, any action taken or omitted under Article II of this Agreement); provided that no Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements resulting from such Agent's fraud, gross negligence or willful misconduct. Each Bank agrees, however, that it expressly intends, under this Section 7.5, to indemnify each Agent ratably as aforesaid for all such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, and disbursements arising out of or resulting from such Agent's ordinary or contributory negligence. Without limitation of the foregoing, each Bank agrees to reimburse the Administrative Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including reasonable counsel fees) incurred by such Agent in connection with the preparation, execution, administration, or enforcement of, or legal advice in respect of rights or responsibilities under, this Agreement and the other Loan Papers to the extent that such Agent is not reimbursed for such expenses by the Company. The provisions of this Section 7.5 shall survive the termination of this Agreement and/or the payment or assignment of any of the Loans or Notes.

Section 7.6 Successor Administrative Agent. The Administrative Agent may resign at any time by giving written notice thereof to the Banks and the Company and may be removed as Administrative Agent under this Agreement and the other Loan Papers at any time with or without cause by the Majority Banks. Upon any such resignation or removal, the Majority Banks shall have the right, with the consent of the Company (provided that the Company's consent shall not be required during the continuance of a Default or an Event of Default), to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed and shall have accepted such appointment within 30 calendar days after the retiring Administrative Agent's giving notice of resignation or the Majority Banks' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Banks, with the consent of the Company (provided that the Company's consent shall not be required during the continuance of a Default or Event of Default), appoint a successor Administrative Agent, which shall be a commercial bank organized under the Laws of the United States of America or of any state thereof and having a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder and under the other Loan Papers by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under this Agreement and the other Loan Papers. After any retiring Administrative Agent's resignation or removal as the Administrative Agent hereunder and under

the other Loan Papers, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was the Administrative Agent under this Agreement and the other Loan Papers.

Section 7.7 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Administrative Agent shall have received notice from a Bank or the Company referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default." If the Administrative Agent receives such a notice, the Administrative Agent shall give notice thereof to the Banks; provided, however, if such notice is received from a Bank, the Administrative Agent also shall give notice thereof to the Company. The Administrative Agent shall be entitled to take action or refrain from taking action with respect to such Default or Event of Default as provided in Section 7.1 and Section 7.2.

Section 7.8 Documentation Agents and Syndication Agent. Neither the Documentation Agents nor the Syndication Agent shall have any duties or responsibilities hereunder in its capacity as such.

#### ARTICLE VIII

##### MISCELLANEOUS

Section 8.1 Amendments, Etc No amendment or waiver of any provision of this Agreement or any other Loan Paper, nor consent to any departure by the Company herefrom or therefrom, shall in any event be effective unless the same shall be in writing and signed by the Majority Banks (or the Administrative Agent with the consent of the Majority Banks) in all cases, and then, in any case, such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver, or consent shall, unless in writing and signed by each Bank directly affected thereby (or the Administrative Agent with the consent of all the Banks), do any of the following: (a) increase the amount of the Commitments of any Banks or subject any Banks to any additional obligations, (b) reduce the principal of, or rate or amount of interest applicable to, any Loan other than as provided in this Agreement, or any fees hereunder, (c) postpone any date fixed for any payment of principal of, or interest on, the Loans or any fees hereunder, (d) eliminate or reduce the voting rights of any Bank under this Section 8.1, or (e) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans, or the number of Banks, which shall be required for the Banks or any of them to take any action hereunder; and provided, further, that no amendment, waiver, or consent shall, unless in writing and signed by the Administrative Agent in addition to the Banks required above to take such action, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Paper.

Section 8.2 Notices, Etc. Any Agent, any Bank, or the holder of any Loan or Note giving consent or notice or making any request of the Company provided for hereunder, shall notify each Bank and the Administrative Agent thereof. In the event that the holder of any Loan or Note (including any Bank) shall transfer such Loan or Note, it shall promptly so advise the Administrative Agent which shall be entitled to assume conclusively that no transfer of any Loan or Note has been made by any holder (including any Bank) unless and until such Agent receives written notice to the contrary. Notices, consents, requests, approvals, demands, and other communications (collectively "Communications") provided for herein shall be in writing (including telecopy Communications) and mailed, telecopied or delivered:

(a) If to the Company, to it at:

P.O. Box 36611  
Love Field  
Dallas, Texas 75235  
Telecopy Number: (214) 792-4022  
Attention: Laura Wright

(b) If to the Administrative Agent, to it at:

One Chase Manhattan Plaza, 8th Floor  
New York, New York 10081  
Telecopy Number: (212) 552-5650  
Attention: Jesus Sang  
Loan and Agency Services Group

or, in the case of matters relating to Competitive Loans:

One Chase Manhattan Plaza, 8th Floor  
New York, New York 10081  
Telecopy Number: (212) 552-5627  
Attention: Chris Consomer  
Loan and Agency Services Group

with a copy to (other than in the case of funding matters):

270 Park Avenue  
New York, New York 10017  
Telecopy Number: (212) 270-5100  
Attention: Matthew Massie

(c) If to any Bank or any other Agent, as specified on Schedule I hereto or, in the case of any party, such other address or telecopy number as such party may hereafter specify for such purpose by notice to the other parties. All Communications shall, when mailed, telecopied or delivered, be effective and shall be deemed to have been duly given when sent by telecopier to any party or the telecopier number as set forth herein or on the signature pages hereof (or other telecopy number designated by such party in a written notice to the other parties hereto), or five days after being mailed to the address as set forth herein (or such other address designated by such party in a written notice to the other parties hereto) respectively, or when delivered to such address; provided, however, Communications to any Agent pursuant to Article II or Article VII shall not be effective until received by such Agent.

Section 8.3 No Waiver; Remedies. No failure on the part of any Bank or any Agent to exercise, and no delay in exercising, any Right hereunder or under any other Loan Paper shall operate as a waiver thereof; nor shall any single or partial exercise of any such Right, or any abandonment or discontinuance of any steps to enforce such Right, preclude any other or further exercise thereof or the exercise of any other Right. No notice to or demand on the Company in any case shall entitle the Company to any other or further notice or demand in similar or other circumstances. The Rights herein provided are cumulative and not exclusive of any Rights provided by Law.

Section 8.4 Costs, Expenses and Taxes. The Company agrees to pay or reimburse the Agents for paying: (i) all reasonable costs and expenses of the Agents in connection with (A) the preparation, execution, delivery, and administration of this Agreement and the other Loan Papers, including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for the Agents with respect thereto and with respect to advising the Agents as to their respective Rights and responsibilities under this Agreement and the other Loan Papers, and (B) any amendment, modification, supplement, or waiver of any of the terms of this Agreement, and (ii) all reasonable costs and expenses of the Banks and the Agents (including reasonable counsel's fees, and including reasonable allocated in-house counsel fees for any Bank or any Agent) in connection with the enforcement of this Agreement and the other Loan Papers. In addition, the Company shall pay any and all Taxes payable or determined to be payable in connection with the execution and delivery of this Agreement and the other Loan Papers, and agrees to save the Agents and each Bank harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omitting to pay such Taxes, if any, which may be payable or determined to be payable in connection with the execution and delivery of this Agreement or any other Loan Paper. The obligations of the Company under this Section 8.4 shall survive the termination of this Agreement and/or repayment of the Loans.

Section 8.5 Indemnity. The Company agrees to indemnify and hold harmless the Agents and the Banks and each of their respective Affiliates, officers, directors, employees, agents, advisors and representatives against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, deficiencies, expenses, and disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against any Agent, any Bank, or any of their respective Affiliates, officers, directors, employees, agents, advisors or other representatives in any way relating to or arising out of the Loan Papers, any transaction related hereto, or any act, omission, or transaction of the Company, its Subsidiaries, and Affiliates, or any of their employees, officers, directors or other representatives, to the extent that any of the same results, directly or indirectly, from any claims made or actions, suits, or proceedings commenced by or on behalf of any person other than an Agent or a Bank. The obligation of the Company under this section shall continue for a period of one year after payment of the Obligation and termination of any or all Loan Papers, and shall not be relieved by any claim or allegation of negligence by any Agent or any Bank; provided, however, that although each indemnified party shall have the right to be indemnified from its own ordinary negligence, no indemnified party shall have the right to be indemnified hereunder for its own fraud, gross negligence, or willful misconduct.

Section 8.6 Right of Setoff. If any Event of Default shall have occurred and be continuing, each Bank is hereby authorized at any time from time to time, to the fullest extent permitted by Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of the Company against any and all obligations of the Company now or hereafter existing, under this Agreement and the Loans held by such Bank, irrespective of whether or not such Bank shall have made any demand under this Agreement or any Note and although such obligations may be unmatrued. Each Bank agrees promptly to notify the Company and the Administrative Agent after any such setoff and application made by such Bank, but the failure to give such notice shall not affect the validity of such setoff and application. The Rights of each Bank under this Section 8.6 are in addition to the Rights and remedies (including, without limitation, other

Rights of setoff) which such Bank may have.

SECTION 8.7 GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

Section 8.8 Submission To Jurisdiction; Waivers. The Company hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Papers to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the courts of the State of New York, the courts of the United States for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Company, as the case may be at its address set forth in Section 8.2 or at such other address of which the Administrative Agent shall have been notified pursuant thereto; and

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

Section 8.9 Survival of Representations and Warranties. All representations and warranties contained herein or made in writing by the Company in connection herewith shall survive the execution and delivery of this Agreement and the other Loan Papers, and no investigation by any Agent or any Bank or any closing shall affect the representations and warranties or the Right of any Agent or any Bank to rely upon them.

Section 8.10 Binding Effect. This Agreement shall become effective when it shall have been executed by the Company, the Agents, and each Bank and thereafter shall be binding upon and inure to the benefit of the Company (subject to the provisions of Section 8.11), the Agents, each Bank and their respective successors and assigns.

#### Section 8.11 Successors and Assigns; Participations

(a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and permitted assigns of such party, and all covenants, promises, agreements, representations and warranties by or on behalf of the Company, the Agents or the Banks that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns. The Company may not assign or transfer any its rights or obligations hereunder without the prior written consent of all of the Banks.

(b) Each Bank may without the consent of the Company sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the Loans owing to it and any Note or Notes held by it); provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Bank shall remain the holder of its Loans and Notes (if any) for all purposes of this Agreement, (iv) the participating banks or other entities shall be entitled to the cost protection provisions contained in Article II and Section 8.4, but only to the extent that such protection would have been available to such Bank, calculated as if no such participations had been sold, and the indemnity protection provisions contained in Section 8.5, (v) the Company, the Agents, and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, and (vi) such Bank shall not sell a participation that conveys to the participant the right to vote or give or withhold consents under this Agreement or any other Loan Papers, other than the right to vote upon or consent to (y) amendments, modifications, or waivers with respect to any fees payable hereunder (including the dates fixed for the payment of any such fees) or the amount of principal or the rate of interest payable on, or the dates fixed for any payment of principal or of interest on, the Loans and (z) any extension of the Termination Date or Term-Out Maturity Date.

(c) Each Bank may assign to one or more Persons, all or a portion of its interests, rights, and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the same portion of the Committed Loans at the time owing to it); provided, however, that (i) such



assignment, if not to a Bank or an Eligible Affiliate Assignee of the assigning Bank, shall be consented to by the Company (which consent shall not be unreasonably withheld and shall not be required after the occurrence or during the continuance of a Default or Event of Default) and the Administrative Agent, (ii) each Bank's Commitment (including Loans owing to it) shall not be less than \$5,000,000 minus reductions pursuant to Section 2.6(a) unless (x) otherwise agreed by the Company and the Administrative Agent or (y) in the case of the assigning Bank, such amount is reduced to zero pursuant to such assignment, (iii) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Agreement (other than any Competitive Loans, any Competitive Notes and any right to make Competitive Loans), (iv) the assignee thereof shall deliver to the Company and the Administrative Agent any Internal Revenue Service forms required by Section 2.19, and (v) the parties to each such assignment shall execute and deliver to the Administrative Agent, for its acceptance and recording in the Register (as defined below), an Assignment and Acceptance substantially in the form of Exhibit G hereto (an "Assignment and Acceptance"), together with a properly completed Administrative Questionnaire, any Note or Notes subject to such assignment and a processing and recordation fee of \$3,500 (or such lesser amount as shall be acceptable to the Administrative Agent); provided, however, no such fee shall be required in the case of any assignment requested by the Company pursuant to Article II of this Agreement. Upon such execution, delivery, acceptance, and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof (unless a shorter period shall be agreed to by the Company, the Administrative Agent, and the assignor Bank), (x) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Bank hereunder and under the other Loan Papers and (y) the assignor Bank thereunder shall, to the extent provided in such Assignment and Acceptance, be released from its obligations under this Agreement and the other Loan Papers (and, in the case of an Assignment and Acceptance covering all of the remaining portion of an assigning Bank's rights and obligations under this Agreement and the other Loan Papers, such Bank shall cease to be a party hereto and thereto).

(d) By executing and delivering an Assignment and Acceptance, the Bank assignor thereunder and the assignee confirm to and agree with each other and the other parties hereto as follows: (i) other than the representation and warranty that it is a legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim, such Bank assignor makes no representation or warranty and assumes no responsibility with respect to any statements, warranties, or representations made in or in connection with this Agreement or any other Loan Paper or the execution, legality, validity, enforceability, genuineness, sufficiency, or value of this Agreement, any other Loan Paper or any other instrument or document furnished pursuant hereto; (ii) such Bank assignor makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Company or the performance or observance of its respective obligations under this Agreement, any other Loan Paper or any other instrument or document furnished pursuant hereto or thereto; (iii) such assignee confirms that it has received a copy of this Agreement together with copies of financial information and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agents, such Bank assignor, or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee appoints and authorizes the Administrative Agent to take such action on behalf of such assignee and to exercise such powers under this Agreement and the other Loan Papers as are delegated to each such Agent by the terms hereof and thereof, together with such powers as are reasonably incidental thereto; and (vi) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(e) The Administrative Agent shall maintain at its office a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Banks and the Commitment of, and principal amount of the Loan owing to, each Bank from time to time (the "Register"). The entries in the Register shall be conclusive, in the absence of manifest error, and the Company, the Agents, and the Banks may treat each Person whose name is recorded in the Register as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Company, any Bank or the Administrative Agent at any reasonable time and from time to time upon reasonable prior notice.

(f) Upon its receipt of an Assignment and Acceptance executed by an assigning Bank and an assignee together with any Note or Notes subject to such assignment and the written consent to such assignment, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is substantially in the form of Exhibit G hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register, and (iii) give prompt notice thereof to the Banks, the Administrative Agent and the Company. Within five Business Days after receipt of such notice, the Company,

at its own expense, shall execute and deliver to the Administrative Agent in exchange for the surrendered Note or Notes, if any, (x) a new Committed Note or Committed Notes to the order of such assignee in an amount equal to its portion of the Commitment assumed by it pursuant to such Assignment and Acceptance, (y) if the assigning Bank has retained its Competitive Note, a new Competitive Note to the order of the assignee, and (z) if the assigning Bank has retained any Commitment hereunder, new Committed Notes to the order of the assigning Bank in an amount equal to the Commitment retained by it hereunder. Such new Committed Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Committed Notes. Such new Committed Notes and Competitive Notes shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibit D-1 or D-2 as applicable, hereto. Cancelled Notes shall be returned to the Company.

(g) Notwithstanding any other provision herein, any Bank may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 8.11, disclose to the assignee or participant or proposed assignee or participant any information relating to the Company and its Subsidiaries furnished to such Bank by or on behalf of the Company; provided, that prior to any such disclosure, each such assignee or participant or proposed assignee or participant shall agree for the benefit of the Company to preserve the confidentiality of any confidential information relating to the Company received from such Bank.

(h) Notwithstanding any other provision set forth in this Agreement, any Bank may at any time create a security interest in all or any portion of its Rights under this Agreement (including, without limitation, the Loans owing to it and any Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Board.

Section 8.12 Independence of Covenants. All covenants contained in this Agreement shall be given independent effect so that if a particular action or condition is not permitted by any such covenants, the fact that such action or condition would be permitted by an exception to, or otherwise be within the limitations of, another covenant shall not avoid the occurrence of a Default or Event of Default if such action is taken or condition exists.

Section 8.13 Severability. Should any clause, sentence, paragraph, or Section of this Agreement be judicially declared to be invalid, unenforceable, or void, such decision will not have the effect of invalidating or voiding the remainder of this Agreement, and the parties hereto agree that the part or parts of this Agreement so held to be invalid, unenforceable, or void will be deemed to have been stricken herefrom and the remainder will have the same force and effectiveness as if such part or parts had never been included herein.

Section 8.14 Integration. This Agreement and the other Loan Papers represent the entire agreement of the Company, the Administrative Agent and the Banks with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Bank relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Papers.

Section 8.15 Descriptive Headings. The section headings appearing in this Agreement have been inserted for convenience only and shall be given no substantive meaning or significance whatever in construing the terms and provisions of this Agreement.

Section 8.16 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

Section 8.17 WAIVERS OF JURY TRIAL. THE COMPANY, THE ADMINISTRATIVE AGENT AND THE BANKS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN PAPER AND FOR ANY COUNTERCLAIM THEREIN

<Page>

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

SOUTHWEST AIRLINES CO.

By:

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

<Page>

\$30,000,000

JPMORGAN CHASE BANK, as a Bank, an Issuing  
Bank and as Administrative Agent

By:

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$30,000,000

CITIBANK, N.A., as a Bank and as Syndication Agent

By:

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$25,000,000

BANK ONE CORPORATION, as a Bank and as  
Documentation Agent

By:

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$25,000,000	SUNTRUST BANK, as a Bank and as Documentation Agent
	By: Name: _____ Title: _____
\$17,500,000	ABN AMRO BANK N.V.
	By: Name: _____ Title: _____
\$17,500,000	BARCLAYS BANK PLC
	By: Name: _____ Title: _____
\$17,500,000	BNP PARIBAS
	By: Name: _____ Title: _____
\$17,500,000	DEUTSCHE BANK AG, New York Branch
	By: Name: _____ Title: _____
\$17,500,000	SOCIETE GENERALE
	By: Name: _____ Title: _____
\$17,500,000	WELLS FARGO BANK, N.A.
	By: Name: _____ Title: _____
\$12,500,000	COMERICA BANK
	By: Name: _____ Title: _____
\$12,500,000	MERRILL LYNCH BANK USA
	By: Name: _____ Title: _____
\$12,500,000	UBS AG, Stamford Branch
	By: Name: _____ Title: _____
\$12,500,000	WACHOVIA BANK
	By:

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$12,500,000

THE BANK OF TOKYO-MITSUBISHI, LTD.

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\$10,000,000

THE MITSUBISHI TRUST AND BANKING  
CORPORATION

By:  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Supplemental Agreement No. 20

to

Purchase Agreement No. 1810

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of January 11, 2002, by and between THE BOEING COMPANY, a Delaware corporation with its principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with its principal offices in Dallas, Texas (Buyer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 1810 dated January 19, 1994, relating to Boeing Model 737-7H4 aircraft (the Agreement);

WHEREAS, Buyer and Boeing have agreed to \*\*\*

WHEREAS, Buyer and Boeing have agreed on further business terms related to the delivery of nineteen (19) Aircraft between November 2001 and April 2002.

WHEREAS, Buyer and Boeing have agreed on a further business term related to 2000 Order Aircraft.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Agreement as follows:

---

\*\*\*Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

P.A. No. 1810      SA-20-1  
K/SWA

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1. The Table of Contents of the Agreement is deleted in its entirety and a new Table of Contents is attached hereto and incorporated into the Agreement by this reference.

2. Letter Agreement No. 6-1162-MSA-185R1 entitled "Delivery Change Contractual Matters," is deleted in its entirety and replaced by a new Letter Agreement No. 6-1162-MSA-185R2 which is attached hereto and is incorporated into the Agreement by this reference.

3. Letter Agreement No. 6-1162- KJJ-054 entitled "Business Matters," is deleted in its entirety and replaced by a new Letter Agreement No. 6-1162-KJJ-054R1 which is attached hereto and is incorporated into the Agreement by this reference.

The Agreement will be deemed to be supplemented to the extent herein provided and as so supplemented will continue in full force and effect.

EXECUTED IN DUPLICATE as of the day and year first above written.

THE BOEING COMPANY

SOUTHWEST AIRLINES CO.

By: /s/ Michael S. Anderson

By:/s/ Laura Wright

Its: Attorney-In-Fact

Its: VP Finance & Treasurer

P.A. No. 1810      SA-20-2  
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LETTER AGREEMENTS

1810-1      Waiver of Aircraft Demonstration Flight

P.A. No. 1810  
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6-1162-RLL-935R1 Performance Guarantees	SA-1
6-1162-RLL-936R4 Certain Contractual Matters	SA-4
6-1162-RLL-937 Alternate Advance Payment Schedule	
6-1162-RLL-938 ***	
6-1162-RLL-939R1 Certification Flight Test Aircraft	SA-1
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6-1162-RLL-941R2 Other Matters	SA-13
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6-1162-MSA-185R2

Southwest Airlines Co.  
P.O. Box 36611 - Love Field  
Dallas, Texas 75235

Subject: Letter Agreement No. 6-1162-MSA-185R2 to  
Purchase Agreement No. 1810 -  
Delivery Change Contractual Matters

This Letter Agreement amends Purchase Agreement No. 1810 dated January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 aircraft (the Aircraft).

As a result of the tragic events of September 11, 2001, and the resulting uncertainties in the global aviation industry, Boeing and Buyer have agreed to reschedule certain of Buyer's firm delivery commitments contained in the Agreement.\*\*\* The purpose of this Letter Agreement is to detail the contractual matters related to such arrangements.

All terms used herein and in the Agreement, and not defined herein, will have

the same meaning as in the Agreement.

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K/SWA

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Southwest Airlines Co.  
6-1162-MSA-185R2 Page 2

1. \*\*\*

2. Expenses related to Delayed Delivery of the Six Rescheduled Aircraft.

2.1 \*\*\*

2.2 \*\*\*

2.3 \*\*\*

3. Aircraft Storage Credit Memorandum.

\*\*\*

4. \*\*\*

5. Confidential Treatment.

Buyer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity, except as provided in Letter Agreement 6-1162-RLL-934R1.

Southwest Airlines Co.  
6-1162-MSA-185R2 Page 3

Very truly yours,  
  
THE BOEING COMPANY

By /s/Michael S. Anderson  
  
Its Attorney In Fact

ACCEPTED AND AGREED TO as of this  
  
date: January 11, 2002  
  
SOUTHWEST AIRLINES CO.

By /s/ Laura Wright  
  
Its VP Finance & Treasurer

6-1162-KJJ-054R1

Southwest Airlines Co.  
P.O. Box 36611 - Love Field  
Dallas, Texas 75235

Subject: Letter Agreement No. 6-1162-KJJ-054R1 to Purchase Agreement No.  
1810 - Business Matters

This Letter Agreement amends Purchase Agreement No. 1810 dated January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to the sale by Boeing and the purchase by Buyer of ninety-four (94) additional Model 737-7H4 Block "T" Aircraft, and Letter Agreement 6-1162-RLL-933R9, dated even date herewith, entitled "Option Aircraft", to the extent it relates to the sale by Boeing and the purchase by Buyer of twenty-five (25) Block "U" additional Model 737-7H4 aircraft (the Option Aircraft) and one hundred seventy-one (171) Block "V" Rollover Option Aircraft (the Rollover Option Aircraft). Such total of two hundred ninety (290) aircraft are referred herein as the "2000 Order Aircraft."

For the purposes of clarification, the terms of the following Letter

Agreements do not apply to the 2000 Order Aircraft described above:

6-1161-RLL-936, as amended, "Certain Contractual Matters"

6-1162-RLL-1855, as amended, "Additional Contractual Matters"

All terms used herein and in the Agreement, and not defined herein, will have the same meaning as in the Agreement.

\*\*\* Pursuant to 17 CFR, 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

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Southwest Airlines Co.  
6-1162-KJJ-054R1 Page 2

1. \*\*\*
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10. \*\*\*
11. \*\*\*
12. \*\*\*

Southwest Airlines Co.  
6-1162-KJJ-054R1 Page 3

13. Confidential Treatment.

Buyer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without prior written consent of Boeing disclose this Letter Agreement, except as provided in Letter Agreement 6-1162-RLL-934, as amended.

Very truly yours,

THE BOEING COMPANY

By /s/Michael S. Anderson

Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of this  
Date: January 11, 2002

SOUTHWEST AIRLINES CO.

By Laura Wright

Its VP Finance & Treasurer



Supplemental Agreement No. 21

To

Purchase Agreement No. 1810

Between

THE BOEING COMPANY

And

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of March 4, 2002, by and between THE BOEING COMPANY, a Delaware corporation with its principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with its principal offices in Dallas, Texas (Buyer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 1810 dated January 19, 1994, relating to Boeing Model 737-7H4 aircraft (the Agreement);

WHEREAS, Buyer has agreed to exercise the option to purchase two (2) Block O Option Aircraft and to accelerate delivery of these Option Aircraft from June 2006 (1) and August 2006 (1) to two (2) December 2002 firm Aircraft (designated as Block I Aircraft);

WHEREAS, Buyer and Boeing have previously agreed to a schedule deceleration (Supplemental Agreement 18 and 19), \*\*\*;

WHEREAS, Buyer and Boeing agree\*\*\*;

WHEREAS, Boeing has agreed\*\*\*.

\*\*\*Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Agreement as follows:

1. The Table of Contents of the Agreement is deleted in its entirety and a new Table of Contents is attached hereto and incorporated into the Agreement by this reference.
2. Article 2, entitled "Delivery, Title and Risk of Loss," is deleted in its entirety and replaced by a new Article 2. Such new pages 2-1, 2-2, 2-3 and 2-4 are attached hereto and incorporated into the Agreement by this reference.
3. Article 3, entitled "Price of Aircraft", is deleted in its entirety and replaced by a new Article 3. Such new pages 3-1, 3-2, 3-3, 3-4, 3-5 and 3-6 are attached hereto and incorporated into the Agreement by this reference.
4. Letter Agreement No. 6-1162-RLL-933R11 entitled "Option Aircraft," is deleted in its entirety and replaced by a new Letter Agreement No. 6-1162-RLL-933R12 which is attached hereto and is incorporated into the Agreement by this reference.
5. Letter Agreement No. 6-1162-MSA-185R2 entitled "Delivery Change Contractual Matters," is deleted in its entirety and replaced by a new Letter Agreement No. 6-1162-MSA-185R3 which is attached hereto and is incorporated into the Agreement by this reference.
6. The actual Advance Payment requirements for the two (2)added Block I firm Aircraft for December 2002 delivery are \*\*\*

The Agreement will be deemed to be supplemented to the extent herein provided and as so supplemented will continue in full force and effect.

EXECUTED IN DUPLICATE as of the day and year first above written.

THE BOEING COMPANY SOUTHWEST AIRLINES CO.

By: /s/ Michael S. Anderson By:/s/ Laura Wright  
Its: Attorney-In-Fact Its: Vice President -  
Finance & Treasurer

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1810-1 Waiver of Aircraft Demonstration Flight

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6-1162-RLL-2073	Maintenance Training Matters	SA-1
6-1162-KJJ-054	Business Matters	SA-13

6-1162-KJJ-055	Structural Matters	SA-13
6-1162-KJJ-056	Noise and Emission Matters	SA-13
6-1162-KJJ-057	Product Development Matters	SA-13
6-1162-KJJ-058	Additional Substitution Rights	SA-13
6-1162-KJJ-150	Flight Control Computer & Mode Control Panel Spares Matter	SA-14
6-1162-MSA-185R3	Delivery Change Contractual Matters	SA-21

</Table>

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## ARTICLE 2. Delivery, Title and Risk of Loss.

2.1 Time of Delivery. The Aircraft will be delivered to Buyer by Boeing, assembled and ready for flight and Buyer will accept delivery of the Aircraft, in accordance with the following schedule:

<Table>

<Caption>

Month and Year of Delivery	Quantity of Aircraft
-------------------------------	----------------------

### Block E Aircraft

<S>	<C>
December 2000	Two (2)
January 2001	One (1)
February 2001	One (1)
March 2001	Two (2)
June 2001	Three (3)
September 2001	Three (1)

### Block F Aircraft

<S>	<C>
October 1998	One (1)
November 1998	Two (2)
December 1998	Two (2)

### Block G Aircraft

<S>	<C>
March 1999	Two (2)

### Block H Aircraft

<S>	<C>
June 1999	Two (2)
July 1999	One (1)
August 1999	One (1)
September 1999	Two (2)
October 1999	One (1)
March 2000	One (1)
April 2000	Two (2)
September 2000	One (1)
October 2000	Two (2)
March 2001	Two (2)
April 2001	One (1)
October 2001	Three (3)

## Block I Aircraft

<S>	<C>
November 2001	Two (2)
December 2001	One (1)
January 2002	One (1)
March 2002	Four (4)
April 2002	Two (2)

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<S>	<C>
December 2002	Two (2)
May 2003	One (1)
June 2003	Two (2)
July 2003	One (1)
September 2003	Two (2)
October 2003	Two (2)

## Block J Aircraft

<S>	<C>
November 2003	Two (2)
February 2004	Two (2)
March 2004	One (1)

## Block K Aircraft

<S>	<C>
March 2004	One (1)
April 2004	Three (3)
May 2004	One (1)

## Block L Aircraft

<S>	<C>
October 1999	One (1)
November 1999	Two (2)
December 1999	One (1)
June 2000	Three (3)
July 2000	Three (3)
September 2000	One (1)
October 2000	One (1)
November 2000	Four (4)
December 2000	One (1)
January 2001	One (1)
February 2001	One (1)
July 2001	One (1)
September 2001	One (1)
October 2001	One (1)
July 2003	One (1)
August 2003	Two (2)

## Block T Aircraft

<S>	<C>
November 2001	One (1)
February 2002	One (1)
May 2004	One (1)
June 2004	Four (4)
July 2004	Four (4)
August 2004	Two (2)
September 2004	Two (2)
November 2004	One (1)
December 2004	One (1)
January 2005	Five (5)
February 2005	Two (2)
March 2005	One (1)
April 2005	Two (2)

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<S>	<C>
May 2005	One (1)
June 2005	Three (3)
July 2005	Two (2)
August 2005	One (1)
September 2005	Two (2)
October 2005	One (1)
November 2005	Two (2)
December 2005	Two (2)
February 2006	Four (4)
May 2006	Three (3)
June 2006	Four (4)
July 2006	One (1)
August 2006	Three (3)
September 2006	Three (3)
November 2006	Two (2)

December 2006	Two (2)
January 2007	Two (2)
February 2007	Three (3)
March 2007	Two (2)
April 2007	Two (2)
May 2007	Two (2)
June 2007	Two (2)
July 2007	Two (2)
August 2007	Two (2)
September 2007	Two (2)
October 2007	Two (2)
November 2007	Two (2)
December 2007	Two (2)
January 2008	One (1)
February 2008	One (1)
March 2008	One (1)
April 2008	One (1)
May 2008	One (1)
June 2008	One (1)

</Table>

2.2 Notice of Target Delivery Date. Boeing will give Buyer notice of the Target Delivery Date of the Aircraft approximately 30 days prior to the scheduled month of delivery.

2.3 Notice of Delivery Date. If Boeing gives Buyer at least 7 days notice of the delivery date of the Aircraft, and an Aircraft delivery is delayed beyond such delivery date due to the responsibility of Buyer, Buyer will reimburse Boeing for all costs incurred by Boeing as a result of such delay, including amounts for storage, insurance, Taxes, preservation or protection of the Aircraft and interest on payments due.

2.4 Place of Delivery. The Aircraft will be delivered at an airport facility selected by Boeing in the State of Washington, unless mutually agreed otherwise.

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2.5 Title and Risk of Loss. Title to and risk of loss of an Aircraft will pass from Boeing to Buyer upon delivery of such Aircraft, but not prior thereto.

2.6 Bill of Sale. Upon delivery of an Aircraft Boeing will deliver to Buyer a bill of sale conveying good title to such Aircraft, free of all liens, claims, charges and encumbrances of every kind whatsoever, and such other appropriate documents of title as Buyer may reasonably request.

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### ARTICLE 3. Price of Aircraft.

#### 3.1 Definitions.

3.1.1 Special Features are the features incorporated in Exhibit A which have been selected by Buyer.

3.1.2 Base Aircraft Price is the Aircraft Basic Price excluding the price of Special Features.

3.1.3 Aircraft Basic Price is comprised of the Base Aircraft Price and the price of the Special Features.

3.1.4 Economic Price Adjustment is the adjustment to the Aircraft Basic Price (Base Aircraft and Special Features) as calculated Pursuant to Exhibit D or Exhibit D-1 as applicable.

3.1.5 Aircraft Price is the total amount Buyer is to pay for the Aircraft at the time of delivery.

#### 3.2 Aircraft Basic Price.

The Aircraft Basic Price for Block A through L Aircraft, is expressed in July 1992 dollars; the Aircraft Basic Price for Block T Aircraft, is expressed in July 1999 dollars; as set forth below:

<Table>

<Caption>

	Base Aircraft Price <C>	Special Features <C>	Aircraft Basic Price <C>
<S>			
Block A, B, C, D & E Aircraft	***	\$***	\$***
Block F & G Aircraft	***	***	***
Block H Aircraft	***	***	***
Block I Aircraft	***	***	***
Block J Aircraft	***	***	***
Block K Aircraft	***	***	***
Block L Aircraft	***	***	***
Block T Aircraft	***	***	***

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3.3 Aircraft Price. The Aircraft Price will be established at the time of delivery of such Aircraft to Buyer and will be the sum of:

3.3.1 the Aircraft Basic Price, which is \*\*\* for the Block A, B, C, D and E Aircraft, \*\*\* for the Block F and G Aircraft, \*\*\*for the Block H Aircraft, \*\*\* for the Block I Aircraft, \*\*\* for the Block J Aircraft, \*\*\* for the Block K Aircraft and \*\*\* for the Block L Aircraft; \*\*\*for the Block T Aircraft; plus

3.3.2 the Economic Price Adjustments for the Aircraft Basic Price, as calculated pursuant to the formulas set forth in Exhibit D (Price Adjustments Due to Economic Fluctuations - Aircraft) for Aircraft Block A through L, and in Exhibit D-1 (Price Adjustments Due to Economic Fluctuations - - Aircraft) for Aircraft Block T; plus



3.3.3 other price adjustments made pursuant to this Agreement or other written agreements executed by Boeing and Buyer.

3.4 Advance Payment Base Price.

3.4.1 Advance Payment Base Price. For advance payment purposes, the following estimated delivery prices of the Aircraft (Advance Payment Base Price) have been established, using currently available forecasts of the escalation factors used by Boeing as of the date of signing this Agreement. The Advance Payment Base Price of each Aircraft is set forth below:

<Table>

<Caption>

Month and Year of Scheduled Delivery <S>	Advance Payment Base Price per Aircraft <C>
--	---

Block A Aircraft\*\*\*

October 1997  
November 1997

Block B Aircraft\*\*\*

January 1998  
February 1998  
March 1998  
April 1998  
May 1998  
June 1998  
July 1998  
September 1998

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Block C Aircraft\*\*\*

February 1999  
May 1999  
July 1999  
August 1999  
September 1999

Block D Aircraft\*\*\*

November 1999  
December 1999  
January 2000  
March 2000  
July 2000  
August 2000

Block E Aircraft\*\*\*

December 2000  
January 2001  
February 2001  
March 2001  
June 2001  
September 2001

Block F Aircraft\*\*\*

October 1998  
November 1998  
December 1998

Block G Aircraft\*\*\*

March 1999

Block H Aircraft\*\*\*

June 1999  
July 1999  
August 1999  
September 1999  
October 1999  
March 2000  
April 2000

September 2000  
October 2000  
March 2001  
April 2001  
October 2001

Block I Aircraft\*\*\*

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November 2001  
December 2001  
January 2002  
March 2002  
April 2002  
December 2002  
May 2003  
June 2003  
July 2003  
September 2003  
October 2003

Block J Aircraft\*\*\*

November 2003  
February 2004  
March 2004

Block K Aircraft\*\*\*

March 2004  
April 2004  
May 2004

Block L Aircraft\*\*\*

October 1999  
November 1999  
December 1999  
June 2000  
July 2000  
September 2000  
October 2000  
November 2000  
December 2000  
January 2001  
February 2001  
July 2001  
September 2001  
October 2001  
July 2003  
August 2003

Block T Aircraft\*\*\*

November 2001  
February 2002  
May 2004  
June 2004  
July 2004  
August 2004  
September 2004  
November 2004

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December 2004  
January 2005  
February 2005  
March 2005  
April 2005  
May 2005  
June 2005  
July 2005  
August 2005  
September 2005  
October 2005  
November 2005  
December 2005  
February 2006

May 2006  
June 2006  
July 2006  
August 2006  
September 2006  
November 2006  
December 2006  
January 2007  
February 2007  
March 2007  
April 2007  
May 2007  
June 2007  
July 2007  
August 2007  
September 2007  
October 2007  
November 2007  
December 2007  
January 2008  
February 2008  
March 2008  
April 2008  
May 2008  
June 2008

</Table>

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3.4.2. Adjustment of Advance Payment Base Prices - Long-Lead Aircraft.  
For Aircraft scheduled for delivery 36 months or more after the date of this Agreement, the Advance Payment Base Prices appearing in Article 3.4.1 will be used to determine the amount of the first advance payment to be made by Buyer on the Aircraft. No later than 25 months before the scheduled month of delivery of each affected Aircraft, Boeing will increase or decrease the Advance Payment Base Price of such Aircraft as required to reflect the effects of (i) any adjustments in the Aircraft Basic Price pursuant to this Agreement and (ii) the then-current forecasted escalation factors used by Boeing. Boeing will provide the adjusted Advance Payment Base Prices for each affected Aircraft to Buyer, and the advance payment schedule will be considered amended to substitute such adjusted Advance Payment Base Prices.

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6-1162-RLL-933R12

Southwest Airlines Co.  
P.O. Box 36611 - Love Field  
Dallas, Texas 75235

Subject: Letter Agreement No. 6-1162-RLL-933R12 to Purchase Agreement  
No. 1810 - Option Aircraft

This Letter Agreement amends Purchase Agreement No. 1810 dated as of January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 aircraft (Aircraft).

All terms used and not defined herein will have the same meaning as in the Agreement.

In consideration of the purchase by Buyer of the Aircraft, Boeing hereby agrees to manufacture and sell to Buyer and Buyer shall have the option to purchase Option or Options) eighty-five (85) additional Model 737-7H4 aircraft as described in paragraph 1 of Attachment A hereto (Option Aircraft) and two hundred seventeen (217) Model 737-7H4 Rollover Option Aircraft Rollover Option Aircraft), subject to the terms and conditions set forth below.

1. Delivery of Option Aircraft.

The Option Aircraft will be delivered to Buyer during or before the months set forth in the following schedule:

<Table>

Month and Year of Delivery <S>	Number of Option Aircraft <C>	Option Aircraft Block <C>
March 2004	Three (3)	M
April 2004	Two (2)	M
June 2004	Two (2)	M
July 2004	Two (2)	M
October 2004	Four (4)	M

</Table>

<Page>

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<Table>

Month and Year of Delivery <S>	Number of Option Aircraft <C>	Option Aircraft Block <C>
February 2005	One (1)	N
March 2005	Four (4)	N
April 2005	Two (2)	N
May 2005	One (1)	N
June 2005	One (1)	N

July 2005	Two (2)	N
August 2005	Two (2)	N
September 2005	Three (3)	N
October 2005	Two (2)	N
November 2005	One (1)	N
December 2005	One (1)	N
January 2006	Two (2)	O
March 2006	Four (4)	O
April 2006	Two (2)	O
May 2006	Two (2)	O
June 2006	One (1)	O
July 2006	Two (2)	O
August 2006	One (1)	O
October 2006	One (1)	O
November 2006	Two (2)	O
December 2006	One (1)	O
April 2007	One (1)	P
May 2007	One (1)	P
June 2007	One (1)	P
July 2007	One (1)	P
August 2007	One (1)	P
September 2007	One (1)	P
October 2007	One (1)	P
November 2007	One (1)	P
December 2007	One (1)	P
January 2008	Two (2)	U
February 2008	Three (3)	U
March 2008	Two (2)	U
April 2008	Two (2)	U
May 2008	Two (2)	U
June 2008	Two (2)	U
July 2008	Two (2)	U
August 2008	Two (2)	U
September 2008	Two (2)	U
October 2008	Two (2)	U
November 2008	Two (2)	U
December 2008	Two (2)	U

</Table>

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## 2. Delivery of Rollover Option Aircraft.

2.1 The Rollover Option Aircraft will be delivered to Buyer during or before the years set forth in the following schedule:

<Table>

Year of Delivery	Number of Option Aircraft	Option Aircraft Block
<S>	<C>	<C>
2007	Twenty (20)	Q
2008	Twenty (20)	R
2009	Six (6)	S
2009-2012	One hundred seventy one (171)	V

</Table>

2.2 The two hundred seventeen (217) Rollover Option Aircraft may be converted into Option Aircraft or firm Aircraft, from time to time, in any of the following ways:

2.2.1. Buyer can exercise any Option for an Option Aircraft described in Article 1 above, and will be offered the right to convert one Rollover Option Aircraft into an Option Aircraft for each Option exercised. Buyer can elect to convert such Rollover Option Aircraft into an Option Aircraft at any time after converting an Option Aircraft to a firm Aircraft subject to the requirements of Article 2.5.

2.2.2 If Buyer elects not to exercise an Option, at the same time of not exercising such Option Buyer may convert one Rollover Option Aircraft to an Option Aircraft; otherwise, one Rollover Option Aircraft will be deleted for each Option not exercised by Buyer.

2.2.3 Buyer may convert Rollover Option Aircraft directly to firm Aircraft. When Buyer converts one or more Rollover Option Aircraft to firm Aircraft, Buyer will be offered the right to convert one Rollover Option Aircraft into an Option Aircraft for each converted Rollover Option Aircraft

Buyer can elect to convert such Rollover Option Aircraft to Option Aircraft at any time after converting Rollover Option to firm Aircraft subject to the requirements of Article 2.5.

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2.3 Buyer may not convert Rollover Option Aircraft to Option Aircraft except in accordance with Article 2.2 above.

2.4 Base Price Adjustments for Rollover Option Aircraft which are converted to Option Aircraft or firm Aircraft shall be in accordance with Article 2.2.5 of Attachment A to this Letter Agreement.

2.5 The delivery month offered by Boeing to Buyer for any Option or firm Aircraft resulting from a conversion of a Rollover Option Aircraft will be at least 24 months from the corresponding Option exercise date or firm order.

2.6 Upon conversion of a Rollover Option Aircraft into an Option Aircraft, Buyer shall wire transfer the Deposit of \*\*\* to Boeing and Boeing and Buyer shall agree on a delivery position for that aircraft. Section 1 of this Letter Agreement will be amended accordingly. In the event Buyer thereafter exercises its right to purchase such Option Aircraft, application of the Deposit will be in accordance with Article 4.1 herein. If the conversion is a Rollover Option Aircraft to a firm Aircraft, Buyer shall wire transfer any advance payments due under the Agreement.

2.7 Buyer and Boeing will consult on a frequent basis to keep each other informed as to Buyer's fleet plans and Boeing's production plans in order to accommodate to the greatest extent reasonably possible each party's needs in managing the delivery schedule for the Rollover Option Aircraft. Boeing acknowledges Buyer's need for delivery positions in the 2007-2012 time frame, as well as the possibility of a need for delivery positions in earlier years and will use its best reasonable efforts to meet Buyer's needs.

### 3. Price.

3.1 The advance payment base prices of the Option Aircraft set forth below and in paragraph 2.1 of Attachment A represent the estimated delivery prices of the Option Aircraft. The Option Aircraft pricing elements and associated pricing terms and conditions are given in Attachment A.

3.2 Price and escalation provisions for Model 737-7H4 aircraft delivering after 2004 are not currently available. The estimated Advance Payment Base Prices shown in paragraph 3.3 below and in paragraph 2.1 of Attachment A are based on currently

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available price and escalation provisions. As price and escalation provisions become available for Model 737-7H4 aircraft delivering after 2004, such price and escalation provisions will be appropriately applied to the applicable Option Aircraft.

For additional information relating to price and escalation provisions applicable to Option Aircraft delivering after 2004 refer to paragraphs 2.2

and 3.2 of Attachment A.

3.3 The Advance Payment Base Prices of the Option Aircraft indicated below do include an amount for special features in addition to those specifically described in Attachment A but do not include any amount for items of Buyer Furnished Equipment (BFE). An estimate for typical special features is \*\*\* per Aircraft (expressed in 1992 STE dollars) and for BFE is \*\*\* per Aircraft (expressed in delivery year dollars).

<Table>

<Caption>

Month and Year of Delivery	Advance Payment Base Price per Option Aircraft
-------------------------------	---

Block M Aircraft\*\*\*

<S>

March 2004  
April 2004  
June 2004  
July 2000  
October 2004

Block N Aircraft\*\*\*

<S>

February 2005  
March 2005  
April 2005  
May 2005  
June 2005  
July 2005  
August 2005  
September 2005  
October 2005  
November 2005  
December 2005

Block O Aircraft\*\*\*

<S>

January 2006  
March 2006  
April 2006  
May 2006  
June 2006

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July 2006  
August 2006  
October 2006  
November 2006  
December 2006

Block P Aircraft\*\*\*

<S>  
April 2007  
May 2007  
June 2007  
July 2007  
August 2007  
September 2007  
October 2007  
November 2007  
December 2007

Block U Aircraft\*\*\*

<S>  
January 2008  
February 2008  
March 2008  
April 2008  
May 2008  
June 2008  
July 2008  
August 2008  
September 2008  
October 2008  
November 2008  
December 2008

</Table>

3.4 The Option Aircraft purchase price will be the applicable basic price thereof at the time of Option Aircraft delivery adjusted in accordance with Boeing's Aircraft escalation provisions contained in the definitive agreement to purchase the Option Aircraft. The purchase price will include the price for Seller Purchased Equipment (SPE) if Buyer has elected to change Buyer Furnished Equipment (BFE) to SPE.

4. Option Aircraft Payment.

4.1 In consideration of the granting of the Options as set forth herein, on or before the date Boeing and Buyer enter into a definitive agreement to purchase the Aircraft, Buyer will pay a deposit to Boeing of \*\*\* for each Option Aircraft (Deposit). In the event Buyer exercises its Options herein, the amount of the Deposit will be credited against the first advance payment due for such Option Aircraft pursuant to the advance payment schedule set forth in paragraph 3 of Attachment A. The Deposits for the Option Aircraft will be refunded to Buyer, without interest, if the parties do not enter into a definitive Agreement for the Aircraft.

In the event that, after the parties enter into a definitive agreement to purchase the Aircraft, Buyer does not exercise its Options to purchase the Option Aircraft pursuant to the terms and conditions set forth herein, Boeing will be entitled to retain the Deposits for the Option Aircraft except as provided in paragraph 6 herein.



4.2 Advance payments in the amount of 30% of the advance payment base price will be payable on the Option Aircraft in accordance with paragraph 3 of Attachment A. The remainder of the Option Aircraft purchase price is due at the time of delivery of the Option Aircraft.

#### 5. Option Exercise.

5.1 To exercise its Option, Buyer will give written or telegraphic notice thereof to Boeing on or before sixteen (16) months prior to the first day of the delivery month of each Option Aircraft.

In such notice Buyer will select the Option Model type, and the applicable delivery positions.

5.2 It is understood and agreed that Boeing may accelerate the Option exercise dates specified above if Boeing must make production decisions which are dependent on Buyer's decision to buy the Option Aircraft. If Boeing elects to accelerate the Option exercise dates, Boeing will do so by giving written or telegraphic notice thereof to Buyer. Such notice will specify the revised Option exercise dates, which will not be earlier than 30 days after the date of transmittal of such notice, and the Option Aircraft delivery positions affected by such revision. If Buyer fails to exercise its Option for any Option Aircraft affected by such revised dates, the Deposit applicable to such Option Aircraft will be promptly refunded, with interest, to Buyer. The interest rate for calculation of the interest associated with such refund is the rate of two percent (2%) below the Citibank base rate in effect from time to time during the period the Option deposit is held by Boeing.

#### 6. Contract Terms.

It is understood that Boeing and Buyer will use their best efforts to enter into a definitive agreement for the Option Aircraft within thirty (30) days after Buyer exercises an Option to purchase Option Aircraft pursuant to paragraph 5 covering the detailed terms and conditions for the sale of such Option Aircraft.

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Such definitive agreement will include the terms and conditions contained herein together with the terms and conditions, not inconsistent herewith, contained in Boeing's then-current standard form of purchase agreement for the sale of Model 737-700 aircraft in effect as of the date of Option exercise and such additional terms and conditions as may be mutually agreed upon. In the event the parties have not entered into such an agreement within the time period contemplated herein, either party may, exercisable by written or telegraphic notice given to the other within thirty (30) days after such period, terminate the purchase of such Option Aircraft.

#### 7. Termination of Option to Purchase.

Either Boeing or Buyer may terminate the Options to purchase an Option Aircraft if any of the following events are not accomplished by the respective dates contemplated in this letter agreement, or in the Agreement, as the case may be:

- (i) termination of the purchase of the Aircraft under the Agreement for any reason;
- (ii) payment by Buyer of the Deposit with respect to an Option Aircraft pursuant to paragraph 4.1 herein;
- (iii) exercise of an Option to purchase an Option Aircraft pursuant to the terms hereof.

Any termination of an Option to purchase by Boeing which is based on the termination of the purchase of Aircraft under the Agreement will be on a one-for-one basis, for each Aircraft so terminated.

Any cancellation of an Option to purchase which is based on failure to make the required Deposit or to exercise the Option to purchase shall only apply to the Option Aircraft so canceled.

Termination of an Option to purchase provided by this letter agreement will be caused by either party giving written notice to the other within 10 days after the applicable date. Upon receipt of such notice, all rights and obligations of the parties with respect to an Option Aircraft for which the Option to purchase has been terminate will thereupon terminate.

If termination is result of a revision of an Option exercise date by Boeing pursuant to paragraph 5.2, Boeing will promptly refund

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to Buyer, with interest, any payments received from Buyer, including the Deposit, with respect to the Option Aircraft for which the Option is terminated. If termination is for any other reason, Boeing will promptly refund to Buyer, without interest, any payments received from Buyer with respect to the affected Option Aircraft, except the Deposit, which Buyer may apply to any model Boeing aircraft purchased by Buyer from Boeing at a future date.

8. Confidential Treatment. Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement No. 6-1162-RLL-934, as amended.

Very truly yours,

THE BOEING COMPANY

By /s/ Michael S. Anderson

Its Attorney In Law\_

ACCEPTED AND AGREED TO this

date:March 4 , 2002

SOUTHWEST AIRLINES CO.

By /s/ Laura Wright

Its Vice President Finance & Treasurer

Attachments

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Attachment A to  
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Model 737-7H4 Aircraft

## 1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft is described by Boeing Detail Specification D6-38808-1, Dated October 30 ,1996 and for Block "U" Option Aircraft by Boeing Detail Specification D6-38808-1, Rev. A, Dated February 24, 1998.

1.2 Changes. The Detail Specification will be revised to include:

(1) Changes applicable to the basic Model 737-700 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of a definitive agreement to purchase the Option Aircraft.

(2) Changes mutually agreed upon.

(3) Changes required to obtain a Standard Certificate of Airworthiness.

(4) To provide sufficient Option Aircraft manufacturing and procurement lead time it is necessary for Boeing and Buyer to reach final agreement on the Option Aircraft configuration, including BFE/SPE vendor selection fifteen (15) months prior to delivery of each Option Aircraft. If such items are not resolved by the indicated dates, Boeing reserves the right to amend this letter agreement:

(i) to adjust the scheduled delivery of the Option Aircraft to a later time period and,

(ii) to make such other changes as are appropriate and consistent with the revised Option Aircraft deliveries.

1.3 Effect of Changes. Changes to the Detail Specification incorporated pursuant to the provisions of the clauses above will include the effects of such changes upon Option Aircraft weight, balance, design and performance. Performance guarantees for the Option Aircraft which are mutually acceptable to the parties will be included in the definitive agreement for the Option Aircraft.

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Attachment A to  
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## 2. Price Description

### 2.1 Price Elements Per Aircraft

	1	2	3	
<Table>				
<Caption>				
AIRCRAFT DELIVERY MO. & YR.	AIRCRAFT & ESTIMATED SPECIAL FEATURES PRICE (JULY 1992\$)	ESTIMATED ESCALATION	ESTIMATED ESCALATION SHARING	ADV. PMT. BASE PRICE (ELEMENTS) 1 + 2 + 3
<S>	<C>	<C>	<C>	<C>
BLOCK M				
March 2004	***	***	***	***
April 2004	***	***	***	***
June 2004	***	***	***	***
July 2004	***	***	***	***
October 2004	***	***	***	***
BLOCK N				
February 2005	***	***	***	***
March 2005	***	***	***	***
April 2005	***	***	***	***
May 2005	***	***	***	***
June 2005	***	***	***	***
July 2005	***	***	***	***
August 2005	***	***	***	***

September 2005	***	***	***	***
October 2005	***	***	***	***
November 2005	***	***	***	***
December 2005	***	***	***	***

BLOCK O

January 2006	***	***	***	***
March 2006	***	***	***	***
April 2006	***	***	***	***
May 2006	***	***	***	***
June 2006	***	***	***	***
July 2006	***	***	***	***
August 2006	***	***	***	***
October 2006	***	***	***	***
November 2006	***	***	***	***
December 2006	***	***	***	***

</Table>

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<Table>

<Caption>

AIRCRAFT &  
ADV. PMT.

AIRCRAFT DELIVERY MO. & YR.	ESTIMATED SPECIAL FEATURES PRICE (JULY 1992\$)	ESTIMATED ESCALATION	ESTIMATED ESCALATION SHARING	BASE PRICE (ELEMENTS) 1 + 2 + 3
<S>	<C>	<C>	<C>	<C>

BLOCK P

April 2007	***	***	***	***
May 2007	***	***	***	***
June 2007	***	***	***	***
July 2007	***	***	***	***
August 2007	***	***	***	***
September 2007	***	***	***	***
October 2007	***	***	***	***
November 2007	***	***	***	***
December 2007	***	***	***	***

</Table>

<Table>

<Caption>

AIRCRAFT &  
ADV. PMT.

AIRCRAFT DELIVERY MO. & YR.	ESTIMATED SPECIAL FEATURES PRICE (JULY 1999\$)	ESTIMATED ESCALATION	ESTIMATED ESCALATION SHARING	BASE PRICE (ELEMENTS) 1 + 2 + 3
-----------------------------	--	----------------------	------------------------------	------------------------------------

BLOCK U

<S>	<C>	<C>	<C>	<C>
January 2008	***	***	***	***
February 2008	***	***	***	***
March 2008	***	***	***	***
April 2008	***	***	***	***
May 2008	***	***	***	***
June 2008	***	***	***	***
July 2008	***	***	***	***
August 2008	***	***	***	***
September 2008	***	***	***	***
October 2008	***	***	***	***
November 2008	***	***	***	***
December 2008	***	***	***	***

</Table>

2. Price Description. (Continued)

2.2 Price Adjustments For Option Aircraft Delivering From January 2005 through December 2012.

2.2.1 Special Features. The price for Special Features incorporated in the Option Aircraft Detail Specification will be adjusted to Boeing's then current prices for such features as of the date of execution of the definitive agreement for the Option Aircraft.

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2.2.2 Escalation Adjustments. For escalation provisions applicable

to Option Aircraft delivering after 2004, see paragraph 2.2.6 below.

2.2.3 Base Price Adjustments for FAA Changes. The Aircraft Basic Price of the Option Aircraft will be adjusted for any FAA mandated changes incorporated into the Aircraft.

2.2.4 Price Adjustments for Changes. Boeing may adjust the Aircraft Basic Price and the Advance Payment Base Price for any changes mutually agreed upon subsequent to the date that Buyer and Boeing enter into a definitive agreement for the Option Aircraft.

2.2.5 Base Price Adjustments. The Aircraft Basic Price of the Option Aircraft will be adjusted to Boeing's then-current prices as of the date of execution of the definitive agreement for the Option Aircraft in accordance with the agreement reached below. The Aircraft Basic Price starting point for Option Aircraft delivering in 2003 is \*\*\* (July 1992 STE), for Option Aircraft delivering in 2004 is \*\*\* (July 1992 STE), for Options delivering in 2005 through 2009 is \*\*\* (July 1992 STE) and for Block "U" Option Aircraft is \*\*\* (July 1999 STE). Such Aircraft Basic Price may increase in accordance with paragraphs 2.2.1, 2.2.2, 2.2.3 and 2.2.4. For any other changes to the Aircraft Basic Price, Boeing may increase the Aircraft Basic Price by a maximum of \*\*\* (July 1992 STE) for Aircraft delivering in 2005; by a maximum of \*\*\* (July 1992 STE) per year or portion thereof starting in January 2006 through 2009. For Block "U" Option Aircraft Boeing may increase the Aircraft Basic Price by a maximum of \*\*\* (July 1999 STE) per year or portion thereof starting in January 2008.

2.2.6 Prices for Long Lead Time Aircraft. Boeing has not established escalation provisions for Model 737-700 aircraft for delivery 2005 and after. Such escalation provisions (i) will be incorporated into the Option Aircraft definitive agreement when such information is available and (ii) will be the then-current escalation provisions applicable to the same model aircraft and engines delivering in the same time period as the Option Aircraft. The resulting revisions to the definitive agreement will include but not be limited to, adjustment of the Aircraft Basic Price of the Option Aircraft, the Advance Payment Base Price, the Aircraft escalation provisions and the advance payment amounts due on the Option Aircraft.

2.2.7 BFE to SPE. An estimate of the total price for items of Buyer Furnished Equipment (BFE) changed to Seller Purchased Equipment (SPE) pursuant to the Configuration

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Specification is included in the Option Aircraft price build-up. The purchase price of the Option Aircraft will be adjusted by the price charged to Boeing for such items plus 10% of such price. If all BFE except developmental avionics is converted to SPE, Boeing will waive the 10% fee.

### 3. Advance Payment Schedules, Prices and Adjustments.

3.1 Buyer will pay to Boeing advance payments for the Option Aircraft on the dates and in the amounts determined below.

Due Date of Payment	Amount Due per Aircraft (Percentage times Advance Payment Base Price)
Deposit	*** (if applicable)
18 months prior to the first day of the scheduled delivery month of the Aircraft	15% (less the Deposit if any)
12 months prior to the first day of the scheduled delivery month of the Aircraft	5%
9 months prior to the first day of the scheduled delivery month of the Aircraft	5%

6 months prior to the first                    5%  
day of the scheduled delivery  
month of the Aircraft

Total    30%

Any advance payments that would be past due as of the date of signing the definitive purchase agreement for the Option Aircraft in accordance with the above schedule are due and payable on such date.

3.2 Option Aircraft advance payment base prices will be increased or decreased, as appropriate, at the time of signing of the definitive purchase agreement for the Option Aircraft, using the then-current forecasted aircraft escalation factors used by Boeing, to determine the amount of the advance payments to be made by Buyer on the Option Aircraft.

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6-1162-MSA-185R3

Southwest Airlines Co.  
P.O. Box 36611 - Love Field  
Dallas, Texas 75235

Subject:            Letter Agreement No. 6-1162-MSA-185R3 to  
                     Purchase Agreement No. 1810 -  
                     Delivery Change Contractual Matters

This Letter Agreement amends Purchase Agreement No. 1810 dated January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 aircraft (the Aircraft).

As a result of the tragic events of September 11, 2001, and the resulting uncertainties in the global aviation industry, Boeing and Buyer have agreed to reschedule certain of Buyer's firm delivery commitments contained in the Agreement.\*\*\* The purpose of this Letter Agreement is to detail the contractual matters related to such arrangements.

All terms used herein and in the Agreement, and not defined herein, will have the same meaning as in the Agreement.

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1. \*\*\*
2. Expenses related to Delayed Delivery of the Six Rescheduled Aircraft.
  - 2.1 \*\*\*
  - 2.2 \*\*\*

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- 2.3 \*\*\*
3. Aircraft Storage Credit Memorandum.  
\*\*\*
4. Aircraft Delivery Credit Memorandum.  
\*\*\*

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5. Confidential Treatment.

Buyer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity, except as provided in Letter Agreement 6-1162-RLL-934R1.

Very truly yours,  
  
THE BOEING COMPANY

By /s/ Michael S. Anderson  
  
Its Attorney In Fact

ACCEPTED AND AGREED TO as of this

date: March 4, 2002

SOUTHWEST AIRLINES CO.

By /s/ Laura Wright  
  
Its Vice President Finance & Treasurer

P.A. No. 1810  
K/SWA

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Supplemental Agreement No. 22

to

Purchase Agreement No. 1810

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of March 19, 2002, by and between THE BOEING COMPANY, a Delaware corporation with its principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with its principal offices in Dallas, Texas (Buyer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 1810 dated January 19, 1994, relating to Boeing Model 737-7H4 aircraft (the Agreement);

WHEREAS, Buyer has agreed to accelerate two (2) Block J Aircraft from February 2004 to one (1) November 2002 and one (1) December 2002;

WHEREAS, Buyer has agreed to accelerate two (2) Block O Option Aircraft from March 2006 (1) and November 2006 (1) to two (2) Block W Option Aircraft December 2003;

WHEREAS, Buyer and Boeing have previously agreed to a schedule deceleration (Supplemental Agreements 18 and 19),\*\*\*;

WHEREAS, Buyer and Boeing agree\*\*\*;

\*\*\* Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

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NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Agreement as follows:

1. The Table of Contents of the Agreement is deleted in its entirety and a new Table of Contents is attached hereto and incorporated into the Agreement by this reference.

2. Article 2, entitled "Delivery, Title and Risk of Loss," is deleted in its entirety and replaced by a new Article 2. Such new pages 2-1, 2-2, 2-3 and 2-4 are attached hereto and incorporated into the Agreement by this reference.

3. Article 3, entitled "Price of Aircraft", is deleted in its entirety and replaced by a new Article 3. Such new pages 3-1, 3-2, 3-3, 3-4, 3-5 and 3-6 are attached hereto and incorporated into the Agreement by this reference.

4. Letter Agreement No. 6-1162-RLL-933R12 entitled "Option Aircraft," is deleted in its entirety and replaced by a new Letter Agreement No. 6-1162-RLL-933R13 which is attached hereto and is incorporated into the Agreement by this reference.

NOTE - Buyer has two (2) 'banked' Rollover Option Aircraft as a result of the option exercises covered by Supplemental Agreement No. 21 that may be converted to Option Aircraft at a future date subject to the terms of Letter Agreement No. 6-1162-RLL-933R13.

5. All references in the Letter Agreements associated with Purchase Agreement No. 1810 shall be deemed to refer to the purchase by Buyer of two hundred thirty-eight (238) Model 737-7H4 Aircraft, eighty-five (85) Model 737-7H4 Option Aircraft and two hundred seventeen (217) Model 737-7H4 Rollover Option Aircraft, to the extent such reference is not specifically addressed herein.

6. Advance Payments already made by Buyer for the two (2) accelerated Block J Aircraft totals \*\*\*. With the acceleration to November 2002 (1) and December 2002 (1) of these aircraft, the Advance Payment requirement balances are as follows:

\*\*\*

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The Agreement will be deemed to be supplemented to the extent herein provided and as so supplemented will continue in full force and effect.

EXECUTED IN DUPLICATE as of the day and year first above written.

THE BOEING COMPANY

SOUTHWEST AIRLINES CO.

By: Michael S. Anderson

By: Laura Wright

Its: Attorney-In-Fact

Its:VP Finance & Treasurer

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<Table>  
Caption>

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4.	Taxes	4-1	
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E	Buyer Furnished Equipment Provisions Document
F	Defined Terms Document

LETTER AGREEMENTS

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--------	---

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<Table>  
<Caption>

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## ARTICLE 2. Delivery, Title and Risk of Loss.

2.1 Time of Delivery. The Aircraft will be delivered to Buyer by Boeing, assembled and ready for flight and Buyer will accept delivery of the Aircraft, in accordance with the following schedule:

&lt;Table&gt;

&lt;Caption&gt;

Month and Year of Delivery	Quantity of Aircraft
-------------------------------	----------------------

## Block E Aircraft

<S>	<C>
December 2000	Two (2)
January 2001	One (1)
February 2001	One (1)
March 2001	Two (2)
June 2001	Three (3)
September 2001	Three (1)

## Block F Aircraft

<S>	<C>
October 1998	One (1)
November 1998	Two (2)
December 1998	Two (2)

## Block G Aircraft

<S>	<C>
March 1999	Two (2)

## Block H Aircraft

<S>	<C>
June 1999	Two (2)
July 1999	One (1)
August 1999	One (1)
September 1999	Two (2)
October 1999	One (1)
March 2000	One (1)
April 2000	Two (2)
September 2000	One (1)
October 2000	Two (2)
March 2001	Two (2)
April 2001	One (1)
October 2001	Three (3)

## Block I Aircraft

<S>	<C>
November 2001	Two (2)
December 2001	One (1)
January 2002	One (1)
March 2002	Four (4)
April 2002	Two (2)

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<S>	<C>
December 2002	Two (2)
May 2003	One (1)

June 2003	Two (2)
July 2003	One (1)
September 2003	Two (2)
October 2003	Two (2)

Block J Aircraft

<S>	<C>	
November 2002		One (1)
December 2002		One (1)
November 2003		Two (2)
March 2004		One (1)

Block K Aircraft

<S>	<C>	
March 2004		One (1)
April 2004		Three (3)
May 2004		One (1)

Block L Aircraft

<S>	<C>	
October 1999		One (1)
November 1999		Two (2)
December 1999		One (1)
June 2000		Three (3)
July 2000		Three (3)
September 2000		One (1)
October 2000		One (1)
November 2000		Four (4)
December 2000		One (1)
January 2001		One (1)
February 2001		One (1)
July 2001		One (1)
September 2001		One (1)
October 2001		One (1)
July 2003		One (1)
August 2003		Two (2)

Block T Aircraft

<S>	<C>	
November 2001		One (1)
February 2002		One (1)
May 2004		One (1)
June 2004		Four (4)
July 2004		Four (4)
August 2004		Two (2)
September 2004		Two (2)
November 2004		One (1)
December 2004		One (1)
January 2005		Five (5)
February 2005		Two (2)
March 2005		One (1)

April 2005	Two (2)
May 2005	One (1)
June 2005	Three (3)
July 2005	Two (2)
August 2005	One (1)
September 2005	Two (2)
October 2005	One (1)
November 2005	Two (2)
December 2005	Two (2)
February 2006	Four (4)
May 2006	Three (3)
June 2006	Four (4)
July 2006	One (1)
August 2006	Three (3)
September 2006	Three (3)
November 2006	Two (2)
December 2006	Two (2)
January 2007	Two (2)
February 2007	Three (3)
March 2007	Two (2)
April 2007	Two (2)
May 2007	Two (2)
June 2007	Two (2)
July 2007	Two (2)
August 2007	Two (2)
September 2007	Two (2)
October 2007	Two (2)
November 2007	Two (2)

December 2007	Two (2)
January 2008	One (1)
February 2008	One (1)
March 2008	One (1)
April 2008	One (1)
May 2008	One (1)
June 2008	One (1)

</Table>

2.2 Notice of Target Delivery Date. Boeing will give Buyer notice of the Target Delivery Date of the Aircraft approximately 30 days prior to the scheduled month of delivery.

2.3 Notice of Delivery Date. If Boeing gives Buyer at least 7 days' notice of the delivery date of the Aircraft, and an Aircraft delivery is delayed beyond such delivery date due to the responsibility of Buyer, Buyer will reimburse Boeing for all costs incurred by Boeing as a result of such delay, including amounts for storage, insurance, Taxes, preservation or protection of the Aircraft and interest on payments due.

2.4 Place of Delivery. The Aircraft will be delivered at an airport facility selected by Boeing in the State of Washington, unless mutually agreed otherwise.

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2.5 Title and Risk of Loss. Title to and risk of loss of an Aircraft will pass from Boeing to Buyer upon delivery of such Aircraft, but not prior thereto.

2.6 Bill of Sale. Upon delivery of an Aircraft Boeing will deliver to Buyer a bill of sale conveying good title to such Aircraft, free of all liens, claims, charges and encumbrances of every kind whatsoever, and such other appropriate documents of title as Buyer may reasonably request.

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ARTICLE 3. Price of Aircraft.



### 3.1 Definitions.

3.1.1 Special Features are the features incorporated in Exhibit A which have been selected by Buyer.

3.1.2 Base Aircraft Price is the Aircraft Basic Price excluding the price of Special Features.

3.1.3 Aircraft Basic Price is comprised of the Base Aircraft Price and the price of the Special Features.

3.1.4 Economic Price Adjustment is the adjustment to the Aircraft Basic Price (Base Aircraft and Special Features) as calculated pursuant to Exhibit D or Exhibit D-1 as applicable.

3.1.5 Aircraft Price is the total amount Buyer is to pay for the Aircraft at the time of delivery.

### 3.2 Aircraft Basic Price.

The Aircraft Basic Price for Block A through L Aircraft, is expressed in July 1992 dollars; the Aircraft Basic Price for Block T Aircraft, is expressed in July 1999 dollars; as set forth below:

<Table>

<Caption>

	Base Aircraft Price	Special Features	Aircraft Basic Price
<S>	<C>	<C>	<C>
Block A, B, C, D & E Aircraft	***	***	***
Block F & G Aircraft	***	***	***
Block H Aircraft	***	***	***
Block I Aircraft	***	***	***
Block J Aircraft	***	***	***
Block K Aircraft	***	***	***
Block L Aircraft	\$***	***	***
Block T Aircraft	***	***	***

</Table>

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3.2 Aircraft Price. The Aircraft Price will be established at the time of delivery of such Aircraft to Buyer and will be the sum of:

3.3.1 the Aircraft Basic Price, which is \*\*\* for the Block A, B, C, D and E Aircraft, \*\*\* for the Block F and G Aircraft, \*\*\* for the Block H Aircraft, \*\*\* for the Block I Aircraft, \*\*\* for the Block J Aircraft, \*\*\* for the Block K Aircraft and \*\*\* for the Block L Aircraft; \*\*\* for the Block T Aircraft; plus

3.3.2 the Economic Price Adjustments for the Aircraft Basic Price, as calculated pursuant to the formulas set forth in Exhibit D (Price Adjustments Due to Economic Fluctuations - Aircraft) for Aircraft Block A through L, and in Exhibit D-1 (Price Adjustments Due to Economic Fluctuations - Aircraft) for Aircraft Block T; plus

3.3.3 other price adjustments made pursuant to this Agreement or other written agreements executed by Boeing and Buyer.

### 3.4 Advance Payment Base Price.

3.4.1 Advance Payment Base Price. For advance payment purposes, the following estimated delivery prices of the Aircraft (Advance Payment Base Price) have been established, using currently available forecasts of the escalation factors used by Boeing as of the date of signing this Agreement.

The Advance Payment Base Price of each Aircraft is set forth below:

<Table>

<Caption>

Month and Year of Scheduled Delivery	Advance Payment Base Price per Aircraft
---	--

Block A Aircraft\*\*\*

<S>	<C>
October 1997	
November 1997	

Block B Aircraft\*\*\*

<S>	<C>
January 1998	
February 1998	
March 1998	
April 1998	
May 1998	
June 1998	
July 1998	
September 1998	

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Block C Aircraft\*\*\*

<S>	<C>
February 1999	
May 1999	
July 1999	
August 1999	
September 1999	

Block D Aircraft\*\*\*

<S>	<C>
November 1999	
December 1999	
January 2000	
March 2000	
July 2000	
August 2000	

Block E Aircraft\*\*\*

<S>	<C>
December 2000	
January 2001	
February 2001	
March 2001	
June 2001	
September 2001	

Block F Aircraft\*\*\*

<S>	<C>
October 1998	
November 1998	
December 1998	

Block G Aircraft\*\*\*

<S>	<C>
March 1999	

Block H Aircraft\*\*\*

<S>	<C>
June 1999	
July 1999	
August 1999	
September 1999	
October 1999	
March 2000	
April 2000	
September 2000	
October 2000	
March 2001	
April 2001	
October 2001	

Block I Aircraft\*\*\*

November 2001  
December 2001  
January 2002  
March 2002  
April 2002  
December 2002  
May 2003  
June 2003  
July 2003  
September 2003  
October 2003

Block J Aircraft\*\*\*

<S> <C>  
November 2002  
December 2002  
November 2003  
March 2004

Block K Aircraft\*\*\*

<S> <C>  
March 2004  
April 2004  
May 2004

Block L Aircraft\*\*\*

<S> <C>  
October 1999  
November 1999  
December 1999  
June 2000  
July 2000  
September 2000  
October 2000  
November 2000  
December 2000  
January 2001  
February 2001  
July 2001  
September 2001  
October 2001  
July 2003  
August 2003

Block T Aircraft\*\*\*

<S> <C>  
November 2001  
February 2002  
May 2004  
June 2004  
July 2004  
August 2004  
September 2004

November 2004  
December 2004  
January 2005  
February 2005  
March 2005  
April 2005  
May 2005  
June 2005  
July 2005  
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</Table>

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3.4.2 Adjustment of Advance Payment Base Prices Long-Lead Aircraft. For Aircraft scheduled for delivery 36 months or more after the date of this Agreement, the Advance Payment Base Prices appearing in Article 3.4.1 will be used to determine the amount of the first advance payment to be made by Buyer on the Aircraft. No later than 25 months before the scheduled month of delivery of each affected Aircraft, Boeing will increase or decrease the Advance Payment Base Price of such Aircraft as required to reflect the effects of (i) any adjustments in the Aircraft Basic Price pursuant to this Agreement and (ii) the then-current forecasted escalation factors used by Boeing. Boeing will provide the adjusted Advance Payment Base Prices for each affected Aircraft to Buyer, and the advance payment schedule will be considered amended to substitute such adjusted Advance Payment Base Prices.

6-1162-RLL-933R13

Southwest Airlines Co.  
P.O. Box 36611 - Love Field  
Dallas, Texas 75235

Subject: Letter Agreement No. 6-1162-RLL-933R13 to Purchase Agreement No.  
1810 - Option Aircraft

This Letter Agreement amends Purchase Agreement No. 1810 dated as of January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 aircraft (Aircraft).

All terms used and not defined herein will have the same meaning as in the Agreement.

In consideration of the purchase by Buyer of the Aircraft, Boeing hereby agrees to manufacture and sell to Buyer and Buyer shall have the option to purchase (Option or Options) eighty-five (85) additional Model 737-7H4 aircraft as described in paragraph 1 of Attachment A hereto (Option Aircraft) and two hundred seventeen (217) Model 737-7H4 Rollover Option Aircraft (Rollover Option Aircraft), subject to the terms and conditions set forth below.

1. Delivery of Option Aircraft.

The Option Aircraft will be delivered to Buyer during or before the months set forth in the following schedule:

<Table>

<Caption>

Month and Year of Delivery <S>	Number of Option Aircraft <C>	Option Aircraft Block <C>
December 2003	Two (2)	W
March 2004	Three (3)	M
April 2004	Two (2)	M
June 2004	Two (2)	M
July 2004	Two (2)	M
October 2004	Four (4)	M

</Table>

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<Table>

<Caption>

Month and Year of Delivery <S>	Number of Option Aircraft <C>	Option Aircraft Block <C>
February 2005	One (1)	N
March 2005	Four (4)	N
April 2005	Two (2)	N
May 2005	One (1)	N
June 2005	One (1)	N
July 2005	Two (2)	N
August 2005	Two (2)	N
September 2005	Three (3)	N
October 2005	Two (2)	N
November 2005	One (1)	N
December 2005	One (1)	N
January 2006	Two (2)	O
March 2006	Three (3)	O
April 2006	Two (2)	O
May 2006	Two (2)	O
June 2006	One (1)	O
July 2006	Two (2)	O

August 2006	One (1)	O
October 2006	One (1)	O
November 2006	One (1)	O
December 2006	One (1)	O
April 2007	One (1)	P
May 2007	One (1)	P
June 2007	One (1)	P
July 2007	One (1)	P
August 2007	One (1)	P
September 2007	One (1)	P
October 2007	One (1)	P
November 2007	One (1)	P
December 2007	One (1)	P
January 2008	Two (2)	U
February 2008	Three (3)	U
March 2008	Two (2)	U
April 2008	Two (2)	U
May 2008	Two (2)	U
June 2008	Two (2)	U
July 2008	Two (2)	U
August 2008	Two (2)	U
September 2008	Two (2)	U
October 2008	Two (2)	U
November 2008	Two (2)	U
December 2008	Two (2)	U

</Table>

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## 2. Delivery of Rollover Option Aircraft.

2.1 The Rollover Option Aircraft will be delivered to Buyer during or before the years set forth in the following schedule:

<Table>

<Caption>

Year of Delivery	Number of Option Aircraft	Option Aircraft Block
<S>	<C>	<C>
2007	Twenty (20)	Q
2008	Twenty (20)	R
2009	Six (6)	S
2009-2012	One hundred seventy one (171)	V

</Table>

2.2 The two hundred seventeen (217) Rollover Option Aircraft may be converted into Option Aircraft or firm Aircraft, from time to time, in any of the following ways:

2.2.1 Buyer can exercise any Option for an Option Aircraft described in Article 1 above, and will be offered the right to convert one Rollover Option Aircraft into an Option Aircraft for each Option exercised. Buyer can elect to convert such Rollover Option Aircraft into an Option Aircraft at any time after converting an Option Aircraft to a firm Aircraft subject to the requirements of Article 2.5.

2.2.2 If Buyer elects not to exercise an Option, at the same time of not exercising such Option Buyer may convert one Rollover Option Aircraft to an Option Aircraft; otherwise, one Rollover Option Aircraft will be deleted for each Option not exercised by Buyer.

2.2.3 Buyer may convert Rollover Option Aircraft directly to firm Aircraft. When Buyer converts one or more Rollover Option Aircraft to firm Aircraft, Buyer will be offered the right to convert one Rollover Option Aircraft into an Option Aircraft for each converted Rollover Option Aircraft. Buyer can elect to convert such Rollover Option Aircraft to Option Aircraft at any time after converting Rollover Option to firm Aircraft subject to the requirements of Article 2.5.

2.3 Buyer may not convert Rollover Option Aircraft to Option Aircraft except in accordance with Article 2.2 above.

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2.4 Base Price Adjustments for Rollover Option Aircraft which are converted to Option Aircraft or firm Aircraft shall be in accordance with Article 2.2.5 of Attachment A to this Letter Agreement.

2.5 The delivery month offered by Boeing to Buyer for any Option or firm Aircraft resulting from a conversion of a Rollover Option Aircraft will be at least 24 months from the corresponding Option exercise date or firm order.

2.6 Upon conversion of a Rollover Option Aircraft into an Option Aircraft, Buyer shall wire transfer the Deposit of \*\*\* to Boeing and Boeing and Buyer shall agree on a delivery position for that aircraft. Section 1 of this Letter Agreement will be amended accordingly. In the event Buyer thereafter exercises its right to purchase such Option Aircraft, application of the Deposit will be in accordance with Article 4.1 herein. If the conversion is a Rollover Option Aircraft to a firm Aircraft, Buyer shall wire transfer any advance payments due under the Agreement.

2.7 Buyer and Boeing will consult on a frequent basis to keep each other informed as to Buyer's fleet plans and Boeing's production plans in order to accommodate to the greatest extent reasonably possible each party's needs in managing the delivery schedule for the Rollover Option Aircraft. Boeing acknowledges Buyer's need for delivery positions in the 2007-2012 time frame, as well as the possibility of a need for delivery positions in earlier years and will use its best reasonable efforts to meet Buyer's needs.

### 3. Price.

3.1 The advance payment base prices of the Option Aircraft set forth below and in paragraph 2.1 of Attachment A represent the estimated delivery prices of the Option Aircraft. The Option Aircraft pricing elements and associated pricing terms and conditions are given in Attachment A.

3.2 Price and escalation provisions for Model 737-7H4 aircraft delivering after 2006 are not currently available. The estimated Advance Payment Base Prices shown in paragraph 3.3 below and in paragraph 2.1 of Attachment A are based on currently available price and escalation provisions. As price and escalation provisions become available for Model 737-7H4 aircraft delivering after 2006, such price and escalation provisions will be appropriately applied to the applicable Option Aircraft.

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For additional information relating to price and escalation provisions applicable to Option Aircraft delivering after 2006 refer to paragraphs 2.2 and 3.2 of Attachment A.

3.3 The Advance Payment Base Prices of the Option Aircraft indicated below do include an amount for special features in addition to those specifically described in Attachment A but do not include any amount for items of Buyer Furnished Equipment (BFE). An estimate for typical special features is \*\*\* per Aircraft (expressed in 1992 STE dollars) and for BFE is \*\*\* per Aircraft (expressed in delivery year dollars).

<Table>

<Caption>

Month and Year of Delivery	Advance Payment Base Price per Option Aircraft
-------------------------------	---

Block W Aircraft\*\*\*

<S>

<C>

December 2003

Block M Aircraft\*\*\*

March 2004

April 2004  
June 2004  
July 2004  
October 2004

Block N Aircraft\*\*\*

<S>	<C>
February 2005	
March 2005	
April 2005	
May 2005	
June 2005	
July 2005	
August 2005	
September 2005	
October 2005	
November 2005	
December 2005	

Block O Aircraft\*\*\*

<S>	<C>
January 2006	
March 2006	
April 2006	
May 2006	
June 2006	
July 2006	
August 2006	

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October 2006  
November 2006  
December 2006

Block P Aircraft\*\*\*

<S>	<C>
April 2007	
May 2007	
June 2007	
July 2007	
August 2007	
September 2007	
October 2007	
November 2007	
December 2007	

Block U Aircraft\*\*\*

<S>	
January 2008	
February 2008	
March 2008	
April 2008	
May 2008	
June 2008	
July 2008	
August 2008	
September 2008	
October 2008	
November 2008	
December 2008	

</Table>

3.4 The Option Aircraft purchase price will be the applicable basic price thereof at the time of Option Aircraft delivery adjusted in accordance with Boeing's Aircraft escalation provisions contained in the definitive agreement to purchase the Option Aircraft. The purchase price will include the price for Seller Purchased Equipment (SPE) if Buyer has elected to change Buyer Furnished Equipment (BFE) to SPE.

4. Option Aircraft Payment.

4.1 In consideration of the granting of the Options as set forth herein, on or before the date Boeing and Buyer enter into a definitive agreement to purchase the Aircraft, Buyer will pay a deposit to Boeing of \*\*\* for each Option Aircraft (Deposit). In the event Buyer exercises its Options herein, the amount of the Deposit will be credited against the first advance payment due for such Option Aircraft pursuant to the advance payment schedule set forth in paragraph 3 of Attachment A. The Deposits for the Option Aircraft



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will be refunded to Buyer, without interest, if the parties do not enter into a definitive Agreement for the Aircraft.

In the event that, after the parties enter into a definitive agreement to purchase the Aircraft, Buyer does not exercise its Options to purchase the Option Aircraft pursuant to the terms and conditions set forth herein, Boeing will be entitled to retain the Deposits for the Option Aircraft except as provided in paragraph 6 herein.

4.2 Advance payments in the amount of 30% of the advance payment base price will be payable on the Option Aircraft in accordance with paragraph 3 of Attachment A. The remainder of the Option Aircraft purchase price is due at the time of delivery of the Option Aircraft.

5. Option Exercise.

5.1 To exercise its Option, Buyer will give written or telegraphic notice thereof to Boeing on or before sixteen (16) months prior to the first day of the delivery month of each Option Aircraft.

In such notice Buyer will select the Option Model type, and the applicable delivery positions.

5.2 It is understood and agreed that Boeing may accelerate the Option exercise dates specified above if Boeing must make production decisions which are dependent on Buyer's decision to buy the Option Aircraft. If Boeing elects to accelerate the Option exercise dates, Boeing will do so by giving written or telegraphic notice thereof to Buyer. Such notice will specify the revised Option exercise dates, which will not be earlier than 30 days after the date of transmittal of such notice, and the Option Aircraft delivery positions affected by such revision. If Buyer fails to exercise its Option for any Option Aircraft affected by such revised dates, the Deposit applicable to such Option Aircraft will be promptly refunded, with interest, to Buyer. The interest rate for calculation of the interest associated with such refund is the rate of two percent (2%) below the Citibank base rate in effect from time to time during the period the Option deposit is held by Boeing.

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6. Contract Terms.

It is understood that Boeing and Buyer will use their best efforts to enter into a definitive agreement for the Option Aircraft within thirty (30) days after Buyer exercises an Option to purchase Option Aircraft pursuant to paragraph 5 covering the detailed terms and conditions for the sale of such Option Aircraft.

Such definitive agreement will include the terms and conditions contained herein together with the terms and conditions, not inconsistent herewith, contained in Boeing's then-current standard form of purchase agreement for the sale of Model 737-700 aircraft in effect as of the date of Option exercise and such additional terms and conditions as may be mutually agreed upon. In the event the parties have not entered into such an agreement within the time period contemplated herein, either party may, exercisable by written or telegraphic notice given to the other within thirty (30) days after such period, terminate the purchase of such Option Aircraft.

7. Termination of Option to Purchase.

Either Boeing or Buyer may terminate the Options to purchase an Option

Aircraft if any of the following events are not accomplished by the respective dates contemplated in this letter agreement, or in the Agreement, as the case may be:

(i) termination of the purchase of the Aircraft under the Agreement for any reason;

(ii) payment by Buyer of the Deposit with respect to an Option Aircraft pursuant to paragraph 4.1 herein;

(iii) exercise of an Option to purchase an Option Aircraft pursuant to the terms hereof.

Any termination of an Option to purchase by Boeing which is based on the termination of the purchase of Aircraft under the Agreement will be on a one - for-one basis, for each Aircraft so terminated.

Any cancellation of an Option to purchase which is based on failure to make the required Deposit or to exercise the Option to purchase shall only apply to the Option Aircraft so canceled.

Termination of an Option to purchase provided by this letter agreement will be caused by either party giving

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written notice to the other within 10 days after the applicable date. Upon receipt of such notice, all rights and obligations of the parties with respect to an Option Aircraft for which the Option to purchase has been terminate will thereupon terminate.

If termination is result of a revision of an Option exercise date by Boeing pursuant to paragraph 5.2, Boeing will promptly refund to Buyer, with interest, any payments received from Buyer, including the Deposit, with respect to the Option Aircraft for which the Option is terminated. If termination is for any other reason, Boeing will promptly refund to Buyer, without interest, any payments received from Buyer with respect to the affected Option Aircraft, except the Deposit, which Buyer may apply to any model Boeing aircraft purchased by Buyer from Boeing at a future date.

8. Confidential Treatment. Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement No. 6-1162-RLL-934, as amended.

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Very truly yours,

THE BOEING COMPANY

By/s/ Michael S. Anderson

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

date: March 19, 2002

SOUTHWEST AIRLINES CO.

By Laura Wright

Its VP Finance & Treasurer

Attachments

Attachment A to  
6-1162-RLL-933R13  
Page 1

Model 737-7H4 Aircraft

1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft is described by Boeing Detail Specification D6-38808-1, Dated October 30, 1996 and for Block "U" Option Aircraft by Boeing Detail Specification D6-38808-1, Rev. A, Dated February 24, 1998.

1.2 Changes. The Detail Specification will be revised to include:

(1) Changes applicable to the basic Model 737-700 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of a definitive agreement to purchase the Option Aircraft.

(2) Changes mutually agreed upon.

(3) Changes required to obtain a Standard Certificate of Airworthiness.

(4) To provide sufficient Option Aircraft manufacturing and procurement lead time it is necessary for Boeing and Buyer to reach final agreement on the Option Aircraft configuration, including BFE/SPE vendor selection fifteen (15) months prior to delivery of each Option Aircraft. If such items are not resolved by the indicated dates, Boeing reserves the right to amend this letter agreement:

(i) to adjust the scheduled delivery of the Option Aircraft to a later time period and,

(ii) to make such other changes as are appropriate and consistent with the revised Option Aircraft deliveries.

1.3 Effect of Changes. Changes to the Detail Specification incorporated pursuant to the provisions of the clauses above will include the effects of such changes upon Option Aircraft weight, balance, design and performance. Performance guarantees for the Option Aircraft which are mutually acceptable to the parties will be included in the definitive agreement for the Option Aircraft.

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6-1162-RLL-933R13  
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## 2. Price Description

### 2.1 Price Elements Per Aircraft

<Table>

<Caption>

	1	2	3	
AIRCRAFT DELIVERY MO. & YR.	AIRCRAFT & ESTIMATED SPECIAL FEATURES PRICE (JULY 1992\$)	ESTIMATED ESTIMATED ESCALATION	BASE ESCALATION SHARING	ADV. PMT. PRICE (ELEMENTS) 1 + 2 + 3
BLOCK W				
<S>	<C>	<C>	<C>	<C>
December 2003	***	***	***	***
BLOCK M				
<S>	<C>	<C>	<C>	<C>
March 2004	***	***	***	***
April 2004	***	***	***	***
June 2004	***	***	***	***
July 2004	***	***	***	***
October 2004	***	***	***	***
BLOCK N				
<S>	<C>	<C>	<C>	<C>
February 2005	***	***	***	***
March 2005	***	***	***	***
April 2005	***	***	***	***
May 2005	***	***	***	***
June 2005	***	***	***	***
July 2005	***	***	***	***
August 2005	***	***	***	***
September 2005	***	***	***	***
October 2005	***	***	***	***
November 2005	***	***	***	***
December 2005	***	***	***	***
BLOCK O				
<S>	<C>	<C>	<C>	<C>
January 2006	***	***	***	***
March 2006	***	***	***	***
April 2006	***	***	***	***
May 2006	***	***	***	***
June 2006	***	***	***	***
July 2006	***	***	***	***
August 2006	***	***	***	***
October 2006	***	***	***	***

November 2006	***	***	***	***
December 2006	***	***	***	***

</Table>

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6-1162-RLL-933R13

Page 3

<Table>

<Caption>

AIRCRAFT & ADV. PMT.				
AIRCRAFT DELIVERY MO. & YR.	ESTIMATED SPECIAL FEATURES PRICE (JULY 1992\$)	ESTIMATED ESCALATION	ESTIMATED ESCALATION SHARING	BASE PRICE (ELEMENTS) 1 + 2 + 3

BLOCK P

<S>	<C>	<C>	<C>	<C>
April 2007	***	***	***	***
May 2007	***	***	***	***
June 2007	***	***	***	***
July 2007	***	***	***	***
August 2007	***	***	***	***
September 2007	***	***	***	***
October 2007	***	***	***	***
November 2007	***	***	***	***
December 2007	***	***	***	***

</Table>

<Table>

<Caption>

AIRCRAFT & ADV. PMT.				
AIRCRAFT DELIVERY MO. & YR.	ESTIMATED SPECIAL FEATURES PRICE (JULY 1999\$)	ESTIMATED ESCALATION	ESTIMATED ESCALATION SHARING	BASE PRICE (ELEMENTS) 1 + 2 + 3

BLOCK U

<S>	<C>	<C>	<C>	<C>
January 2008	***	***	***	***
February 2008	***	***	***	***
March 2008	***	***	***	***
April 2008	***	***	***	***
May 2008	***	***	***	***
June 2008	***	***	***	***
July 2008	***	***	***	***
August 2008	***	***	***	***
September 2008	***	***	***	***
October 2008	***	***	***	***
November 2008	***	***	***	***
December 2008	***	***	***	***

</Table>

2.2 Price Adjustments For Option Aircraft Delivering From January 2007 through December 2012.

2.2.1 Special Features. The price for Special Features incorporated in the Option Aircraft Detail Specification will be adjusted to Boeing's then-current prices for such features as of the date of execution of the definitive agreement for the Option Aircraft.

2.2.2 Escalation Adjustments. For escalation provisions applicable to Option Aircraft delivering after 2006, see paragraph 2.2.6 below.

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2.2.3 Base Price Adjustments for FAA Changes. The Aircraft Basic Price of the Option Aircraft will be adjusted for any FAA mandated changes incorporated into the Aircraft.

2.2.4 Price Adjustments for Changes. Boeing may adjust the Aircraft Basic Price and the Advance Payment Base Price for any changes mutually agreed upon subsequent to the date that Buyer and Boeing enter into a definitive agreement for the Option Aircraft.

2.2.5 Base Price Adjustments. The Aircraft Basic Price of the Option Aircraft will be adjusted to Boeing's then-current prices as of the date of execution of the definitive agreement for the Option Aircraft in accordance with the agreement reached below. The Aircraft Basic Price starting point for

Option Aircraft delivering in 2003 is \*\*\* (July 1992 STE), for Option Aircraft delivering in 2004 is \*\*\* (July 1992 STE), for Options delivering in 2005 through 2009 is \*\*\* (July 1992 STE) and for Block "U" Option Aircraft is \*\*\* (July 1999 STE). Such Aircraft Basic Price may increase in accordance with paragraphs 2.2.1, 2.2.2, 2.2.3 and 2.2.4. For any other changes to the Aircraft Basic Price, Boeing may increase the Aircraft Basic Price by a maximum of \*\*\* (July 1992 STE) for Aircraft delivering in 2005; by a maximum of \*\*\* (July 1992 STE) per year or portion thereof starting in January 2006 through 2009. For Block "U" Option Aircraft Boeing may increase the Aircraft Basic Price by a maximum of \*\*\* (July 1999 STE) per year or portion thereof starting in January 2008.

2.2.6 Prices for Long Lead Time Aircraft. Boeing has not established escalation provisions for Model 737-700 aircraft for delivery 2007 and after. Such escalation provisions (i) will be incorporated into the Option Aircraft definitive agreement when such information is available and (ii) will be the then-current escalation provisions applicable to the same model aircraft and engines delivering in the same time period as the Option Aircraft. The resulting revisions to the definitive agreement will include but not be limited to, adjustment of the Aircraft Basic Price of the Option Aircraft, the Advance Payment Base Price, the Aircraft escalation provisions and the advance payment amounts due on the Option Aircraft.

2.2.7 BFE to SPE. An estimate of the total price for items of Buyer Furnished Equipment (BFE) changed to Seller Purchased Equipment (SPE) pursuant to the Configuration Specification is included in the Option Aircraft price build-up. The purchase price of the Option Aircraft will be adjusted by the price charged to Boeing for such items plus 10% of such price. If all BFE except developmental avionics is converted to SPE, Boeing will waive the 10% fee.

3. Advance Payment Schedules, Prices and Adjustments.

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Page 5

3.1 Buyer will pay to Boeing advance payments for the Option Aircraft on the dates and in the amounts determined below.

<Table>

<Caption>

Due Date of Payment	Amount Due per Aircraft (Percentage times Advance Payment Base Price)
Deposit	*** (if applicable)
<S>	<C>
18 months prior to the first day of the scheduled delivery month of the Aircraft	15% (less the Deposit if any)
12 months prior to the first day of the scheduled delivery month of the Aircraft	5%
9 months prior to the first day of the scheduled delivery month of the Aircraft	5%
6 months prior to the first day of the scheduled delivery month of the Aircraft	5%
Total	30%

</Table>

Any advance payments that would be past due as of the date of signing the definitive purchase agreement for the Option Aircraft in accordance with the above schedule are due and payable on such date.

3.2 Option Aircraft advance payment base prices will be increased or decreased, as appropriate, at the time of signing of the definitive purchase agreement for the Option Aircraft, using the then-current forecasted aircraft escalation factors used by Boeing, to determine the amount of the advance payments to be made by Buyer on the Option Aircraft.

Supplemental Agreement No. 23

to

Purchase Agreement No. 1810

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of July 25, 2002, by and between THE BOEING COMPANY, a Delaware corporation with its principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with its principal offices in Dallas, Texas (Buyer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 1810 dated January 19, 1994, relating to Boeing Model 737-7H4 aircraft (the

Agreement);

WHEREAS, Buyer has agreed to exercise two (2) Block N Option Aircraft (as Block L Aircraft) and to accelerate these aircraft from July and August 2005 to March and April 2003;

WHEREAS, Boeing has\*\*\*;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Agreement as follows:

1. The Table of Contents of the Agreement is deleted in its entirety and a new Table of Contents is attached hereto and incorporated into the Agreement by this reference.

\*\*\* Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

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2. Article 2, entitled "Delivery, Title and Risk of Loss," is deleted in its entirety and replaced by a new Article 2. Such new pages 2-1, 2-2, 2-3 and 2-4 are attached hereto and incorporated into the Agreement by this reference.

3. Article 3, entitled "Price of Aircraft", is deleted in its entirety and replaced by a new Article 3. Such new pages 3-1, 3-2, 3-3, 3-4, 3-5 and 3-6 are attached hereto and incorporated into the Agreement by this reference.

4. Letter Agreement No. 6-1162-RLL-933R13 entitled "Option Aircraft," is deleted in its entirety and replaced by a new Letter Agreement No. 6-1162 - -RLL-933R14 which is attached hereto and is incorporated into the Agreement by this reference. NOTE - Buyer now has four (4) 'banked' Rollover Option Aircraft as a result of the option exercises covered by Supplemental Agreement No. 21 and 23 that may be converted to Option Aircraft at a future date subject to the terms of Letter Agreement No. 6-1162-RLL-933R14.

5. All references in the Letter Agreements associated with Purchase Agreement No. 1810 shall be deemed to refer to the purchase by Buyer of two hundred forty (240) Model 737-7H4 Aircraft, eighty-three (83) Model 737-7H4 Option Aircraft and two hundred seventeen (217) Model 737-7H4 Rollover Option Aircraft, to the extent such reference is not specifically addressed herein.

6. The Advance Payments due upon signing assuming execution of this Supplemental Agreement in July 2002 are:\*\*\*

\*\*\*



Its:VP-General Counsel

		Page Number	SA Number
ARTICLES			
<S>		<C>	<C>
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2.	Delivery, Title and Risk of Loss	2-1	SA-23
3.	Price of Aircraft	3-1	SA-23
4.	Taxes	4-1	
5.	Payment	5-1	
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<Table>  
<Caption>

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F	Defined Terms Document	

LETTER AGREEMENTS

1810-1	Waiver of Aircraft Demonstration Flight
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<Caption>

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6-1162-RLL-939R1 Certification Flight Test Aircraft	SA-1
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<Table>  
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	Basic Price	
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</Table>

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## ARTICLE 2. Delivery, Title and Risk of Loss.

2.1 Time of Delivery. The Aircraft will be delivered to Buyer by Boeing, assembled and ready for flight and Buyer will accept delivery of the Aircraft, in accordance with the following schedule:

<Table>

<Caption>

Month and Year of Delivery	Quantity of Aircraft
Block E Aircraft	
<S>	<C>
December 2000	Two (2)
January 2001	One (1)
February 2001	One (1)
March 2001	Two (2)
June 2001	Three (3)
September 2001	Three (1)
Block F Aircraft	
<S>	<C>
October 1998	One (1)
November 1998	Two (2)
December 1998	Two (2)
Block G Aircraft	
<S>	<C>
March 1999	Two (2)
Block H Aircraft	
<S>	<C>
June 1999	Two (2)
July 1999	One (1)
August 1999	One (1)
September 1999	Two (2)
October 1999	One (1)
March 2000	One (1)
April 2000	Two (2)
September 2000	One (1)
October 2000	Two (2)
March 2001	Two (2)
April 2001	One (1)
October 2001	Three (3)
Block I Aircraft	
<S>	<C>
November 2001	Two (2)

December 2001	One (1)
January 2002	One (1)
March 2002	Four (4)
April 2002	Two (2)

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December 2002	Two (2)
May 2003	One (1)
June 2003	Two (2)
July 2003	One (1)
September 2003	Two (2)
October 2003	Two (2)

Block J Aircraft

<S>	<C>	
November 2002		One (1)
December 2002		One (1)
November 2003		Two (2)
March 2004		One (1)

Block K Aircraft

<S>	<C>	
March 2004		One (1)
April 2004		Three (3)
May 2004		One (1)

Block L Aircraft

<S>	<C>	
October 1999		One (1)
November 1999		Two (2)
December 1999		One (1)
June 2000		Three (3)
July 2000		Three (3)
September 2000		One (1)
October 2000		One (1)
November 2000		Four (4)
December 2000		One (1)
January 2001		One (1)
February 2001		One (1)
July 2001		One (1)
September 2001		One (1)
October 2001		One (1)
March 2003		One (1)
April 2003		One (1)
July 2003		One (1)
August 2003		Two (2)

Block T Aircraft

<S>	<C>	
November 2001		One (1)
February 2002		One (1)
May 2004		One (1)
June 2004		Four (4)
July 2004		Four (4)
August 2004		Two (2)
September 2004		Two (2)
November 2004		One (1)
December 2004		One (1)
January 2005		Five (5)

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February 2005	Two (2)
March 2005	One (1)
April 2005	Two (2)
May 2005	One (1)
June 2005	Three (3)
July 2005	Two (2)
August 2005	One (1)
September 2005	Two (2)
October 2005	One (1)
November 2005	Two (2)
December 2005	Two (2)
February 2006	Four (4)
May 2006	Three (3)

June 2006	Four (4)
July 2006	One (1)
August 2006	Three (3)
September 2006	Three (3)
November 2006	Two (2)
December 2006	Two (2)
January 2007	Two (2)
February 2007	Three (3)
March 2007	Two (2)
April 2007	Two (2)
May 2007	Two (2)
June 2007	Two (2)
July 2007	Two (2)
August 2007	Two (2)
September 2007	Two (2)
October 2007	Two (2)
November 2007	Two (2)
December 2007	Two (2)
January 2008	One (1)
February 2008	One (1)
March 2008	One (1)
April 2008	One (1)
May 2008	One (1)
June 2008	One (1)

</Table>

2.2 Notice of Target Delivery Date. Boeing will give Buyer notice of the Target Delivery Date of the Aircraft approximately 30 days prior to the scheduled month of delivery.

2.3 Notice of Delivery Date. If Boeing gives Buyer at least 7 days' notice of the delivery date of the Aircraft, and an Aircraft delivery is delayed beyond such delivery date due to the responsibility of Buyer, Buyer will reimburse Boeing for all costs incurred by Boeing as a result of such delay, including amounts for storage, insurance, Taxes, preservation or protection of the Aircraft and interest on payments due.

2.4 Place of Delivery. The Aircraft will be delivered at an airport facility selected by Boeing in the State of Washington, unless mutually agreed otherwise.

2.5 Title and Risk of Loss. Title to and risk of loss of an Aircraft will pass from Boeing to Buyer upon delivery of such Aircraft, but not prior thereto.

2.6 Bill of Sale. Upon delivery of an Aircraft Boeing will deliver to Buyer a bill of sale conveying good title to such Aircraft, free of all liens, claims, charges and encumbrances of every kind whatsoever, and such other appropriate documents of title as Buyer may reasonably request.

ARTICLE 3. Price of Aircraft.

3.1 Definitions.

3.1.1 Special Features are the features incorporated in Exhibit A which have been selected by Buyer.

3.1.2 Base Aircraft Price is the Aircraft Basic Price excluding the price of Special Features.

3.1.3 Aircraft Basic Price is comprised of the Base Aircraft Price and the price of the Special Features.

3.1.4 Economic Price Adjustment is the adjustment to the Aircraft Basic Price (Base Aircraft and Special Features) as calculated pursuant to Exhibit D or Exhibit D-1 as applicable.

3.1.5 Aircraft Price is the total amount Buyer is to pay for the Aircraft at the time of delivery.

3.2 Aircraft Basic Price.

The Aircraft Basic Price for Block A through L Aircraft, is expressed in July 1992 dollars; the Aircraft Basic Price for Block T Aircraft, is expressed in July 1999 dollars; as set forth below:

<Table>

<Caption>

<S>	Base Aircraft Price <C>	Special Features <C>	Aircraft Basic Price <C>
Block A, B, C, D & E Aircraft	***	***	***
Block F & G Aircraft	***	***	***
Block H Aircraft	***	***	***
Block I Aircraft	***	***	***
Block J Aircraft	***	***	***
Block K Aircraft	***	***	***
Block L Aircraft	***	***	***
Block T Aircraft	***	***	***

</Table>

3.3 Aircraft Price. The Aircraft Price will be established at the time of delivery of such Aircraft to Buyer and will be the sum of:

3.3.1 the Aircraft Basic Price, which is \*\*\*for the Block A, B, C, D and E Aircraft, \*\*\* for the Block F and G Aircraft, \*\*\*for the Block H Aircraft, \*\*\* for the Block I Aircraft, \*\*\* for the Block J Aircraft, \*\*\* for the Block K Aircraft and \*\*\* for the Block L Aircraft \*\*\*for the Block T Aircraft; plus

3.3.2 the Economic Price Adjustments for the Aircraft Basic Price, as calculated pursuant to the formulas set forth in Exhibit D (Price Adjustments Due to Economic Fluctuations - Aircraft) for Aircraft Block A through L, and in Exhibit D-1 (Price Adjustments Due to Economic Fluctuations - Aircraft) for Aircraft Block T; plus

3.3.3 other price adjustments made pursuant to this Agreement or other written agreements executed by Boeing and Buyer.

3.4 Advance Payment Base Price.

3.4.1 Advance Payment Base Price. For advance payment purposes, the following estimated delivery prices of the Aircraft (Advance Payment Base Price) have been established, using currently available forecasts of the escalation factors used by Boeing as of the date of signing this Agreement. The Advance Payment Base Price of each Aircraft is set forth below:

<Table>

<Caption>

Month and Year of Scheduled Delivery	Advance Payment Base Price per Aircraft
---	--

Block A Aircraft\*\*\*

<S>	<C>
-----	-----

October 1997  
November 1997

Block B Aircraft\*\*\*

<S>	<C>
-----	-----

January 1998  
February 1998  
March 1998  
April 1998  
May 1998  
June 1998  
July 1998  
September 1998

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Block C Aircraft\*\*\*

<S>	<C>
-----	-----

February 1999  
May 1999  
July 1999  
August 1999  
September 1999

Block D Aircraft\*\*\*

<S>	<C>
-----	-----

November 1999  
December 1999  
January 2000  
March 2000  
July 2000  
August 2000

Block E Aircraft\*\*\*

<S>	<C>
-----	-----

December 2000  
January 2001  
February 2001  
March 2001  
June 2001  
September 2001

Block F Aircraft\*\*\*

<S>	<C>
-----	-----

October 1998  
November 1998  
December 1998

Block G Aircraft\*\*\*

<S>	<C>
-----	-----

March 1999

Block H Aircraft\*\*\*

<S>	<C>
-----	-----

June 1999  
July 1999  
August 1999  
September 1999  
October 1999



March 2000  
April 2000  
September 2000  
October 2000  
March 2001  
April 2001  
October 2001

Block I Aircraft\*\*\*

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<S>  
November 2001  
December 2001  
January 2002  
March 2002  
April 2002  
December 2002  
May 2003  
June 2003  
July 2003  
September 2003  
October 2003

<C>

Block J Aircraft\*\*\*

<S>  
November 2002  
December 2002  
November 2003  
March 2004

<C>

Block K Aircraft\*\*\*

<S>  
March 2004  
April 2004  
May 2004

<C>

Block L Aircraft\*\*\*

<S>  
October 1999  
November 1999  
December 1999  
June 2000  
July 2000  
September 2000  
October 2000  
November 2000  
December 2000  
January 2001  
February 2001  
July 2001  
September 2001  
October 2001  
March 2003  
April 2003  
July 2003  
August 2003

<C>

Block T Aircraft\*\*\*

<S>  
November 2001  
February 2002  
May 2004  
June 2004  
July 2004

<C>

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<S>  
August 2004  
September 2004  
November 2004  
December 2004  
January 2005  
February 2005  
March 2005  
April 2005  
May 2005

<C>

June 2005
July 2005
August 2005
September 2005
October 2005
November 2005
December 2005
February 2006
May 2006
June 2006
July 2006
August 2006
September 2006
November 2006
December 2006
January 2007
February 2007
March 2007
April 2007
May 2007
June 2007
July 2007
August 2007
September 2007
October 2007
November 2007
December 2007
January 2008
February 2008
March 2008
April 2008
May 2008
June 2008

</Table>

3.4.2 Adjustment of Advance Payment Base Prices - Long-Lead Aircraft.  
For Aircraft scheduled for delivery 36 months or more after the date of this Agreement, the Advance Payment Base Prices appearing in Article 3.4.1 will be used to determine the amount of the first advance payment to be made by Buyer on the Aircraft. No later than 25 months before the scheduled month of delivery of each affected Aircraft, Boeing will increase or decrease the Advance Payment Base Price of such Aircraft as required to reflect the effects of (i) any adjustments in the Aircraft Basic Price pursuant to this Agreement and (ii) the then-current forecasted escalation factors used by Boeing. Boeing will provide the adjusted Advance Payment Base Prices for each affected Aircraft to Buyer, and the advance payment schedule will be considered amended to substitute such adjusted Advance Payment Base Prices.

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Southwest Airlines Co.  
P.O. Box 36611 - Love Field  
Dallas, Texas 75235

Subject: Letter Agreement No. 6-1162-RLL-933R14 to Purchase Agreement No. 1810 - Option Aircraft

This Letter Agreement amends Purchase Agreement No. 1810 dated as of January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 aircraft (Aircraft).

All terms used and not defined herein will have the same meaning as in the Agreement.

In consideration of the purchase by Buyer of the Aircraft, Boeing hereby agrees to manufacture and sell to Buyer and Buyer shall have the option to purchase (Option or Options) eighty-three (83) additional Model 737-7H4 aircraft as described in paragraph 1 of Attachment A hereto (Option Aircraft) and two hundred seventeen (217) Model 737-7H4 Rollover Option Aircraft (Rollover Option Aircraft), subject to the terms and conditions set forth below.

1. Delivery of Option Aircraft.

The Option Aircraft will be delivered to Buyer during or before the months set forth in the following schedule:

<Table>  
<Caption>

Month and Year of Delivery	Number of Option Aircraft	Option Aircraft Block
<S>	<C>	<C>
December 2003	Two (2)	W
March 2004	Three (3)	M
April 2004	Two (2)	M
June 2004	Two (2)	M
July 2004	Two (2)	M
October 2004	Four (4)	M

</Table>

<Table>  
<Caption>

Month and Year of Delivery	Number of Option Aircraft	Option Aircraft Block
<S>	<C>	<C>
February 2005	One (1)	N
March 2005	Four (4)	N
April 2005	Two (2)	N
May 2005	One (1)	N
June 2005	One (1)	N
July 2005	One (1)	N

August 2005	One (1)	N
September 2005	Three (3)	N
October 2005	Two (2)	N
November 2005	One (1)	N
December 2005	One (1)	N
January 2006	Two (2)	O
March 2006	Three (3)	O
April 2006	Two (2)	O
May 2006	Two (2)	O
June 2006	One (1)	O
July 2006	Two (2)	O
August 2006	One (1)	O
October 2006	One (1)	O
November 2006	One (1)	O
December 2006	One (1)	O
April 2007	One (1)	P
May 2007	One (1)	P
June 2007	One (1)	P
July 2007	One (1)	P
August 2007	One (1)	P
September 2007	One (1)	P
October 2007	One (1)	P
November 2007	One (1)	P
December 2007	One (1)	P
January 2008	Two (2)	U
February 2008	Three (3)	U
March 2008	Two (2)	U
April 2008	Two (2)	U
May 2008	Two (2)	U
June 2008	Two (2)	U
July 2008	Two (2)	U
August 2008	Two (2)	U
September 2008	Two (2)	U
October 2008	Two (2)	U
November 2008	Two (2)	U
December 2008	Two (2)	U

</Table>

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## 2.     Delivery of Rollover Option Aircraft.

2.1     The Rollover Option Aircraft will be delivered to Buyer during or before the years set forth in the following schedule:

<Table>

<Caption>

Year of Delivery <S>	Number of Option Aircraft <C>	Option Aircraft Block <C>
2007	Twenty (20)	Q
2008	Twenty (20)	R
2009	Six (6)	S
2009-2012	One hundred seventy one (171)	V

</Table>

2.2     The two hundred seventeen (217) Rollover Option Aircraft may be converted into Option Aircraft or firm Aircraft, from time to time, in any of the following ways:

2.2.1 Buyer can exercise any Option for an Option Aircraft described in Article 1 above, and will be offered the right to convert one Rollover Option Aircraft into an Option Aircraft for each Option exercised. Buyer can elect to convert such Rollover Option Aircraft into an Option Aircraft at any time after converting an Option Aircraft to a firm Aircraft subject to the requirements of Article 2.5.

2.2.2 If Buyer elects not to exercise an Option, at the same time of not exercising such Option Buyer may convert one Rollover Option Aircraft to an Option Aircraft; otherwise, one Rollover Option Aircraft will be deleted for each Option not exercised by Buyer.

2.2.3 Buyer may convert Rollover Option Aircraft directly to firm Aircraft. When Buyer converts one or more Rollover Option Aircraft to firm Aircraft, Buyer will be offered the right to convert one Rollover Option

Aircraft into an Option Aircraft for each converted Rollover Option Aircraft. Buyer can elect to convert such Rollover Option Aircraft to Option Aircraft at any time after converting Rollover Option to firm Aircraft subject to the requirements of Article 2.5.

2.3 Buyer may not convert Rollover Option Aircraft to Option Aircraft except in accordance with Article 2.2 above.

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2.4 Base Price Adjustments for Rollover Option Aircraft which are converted to Option Aircraft or firm Aircraft shall be in accordance with Article 2.2.5 of Attachment A to this Letter Agreement.

2.5 The delivery month offered by Boeing to Buyer for any Option or firm Aircraft resulting from a conversion of a Rollover Option Aircraft will be at least 24 months from the corresponding Option exercise date or firm order.

2.6 Upon conversion of a Rollover Option Aircraft into an Option Aircraft, Buyer shall wire transfer the Deposit of \*\*\* to Boeing and Boeing and Buyer shall agree on a delivery position for that aircraft. Section 1 of this Letter Agreement will be amended accordingly. In the event Buyer thereafter exercises its right to purchase such Option Aircraft, application of the Deposit will be in accordance with Article 4.1 herein. If the conversion is a Rollover Option Aircraft to a firm Aircraft, Buyer shall wire transfer any advance payments due under the Agreement.

2.7 Buyer and Boeing will consult on a frequent basis to keep each other informed as to Buyer's fleet plans and Boeing's production plans in order to accommodate to the greatest extent reasonably possible each party's needs in managing the delivery schedule for the Rollover Option Aircraft. Boeing acknowledges Buyer's need for delivery positions in the 2007-2012 time frame, as well as the possibility of a need for delivery positions in earlier years and will use its best reasonable efforts to meet Buyer's needs.

### 3. Price.

3.1 The advance payment base prices of the Option Aircraft set forth below and in paragraph 2.1 of Attachment A represent the estimated delivery prices of the Option Aircraft. The Option Aircraft pricing elements and associated pricing terms and conditions are given in Attachment A.

3.2 Price and escalation provisions for Model 737-7H4 aircraft delivering after 2006 are not currently available. The estimated Advance Payment Base Prices shown in paragraph 3.3 below and in paragraph 2.1 of Attachment A are based on currently available price and escalation provisions. As price and escalation provisions become available for Model 737-7H4 aircraft delivering after 2006, such price and escalation provisions will be appropriately applied to the applicable Option Aircraft.

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For additional information relating to price and escalation provisions applicable to Option Aircraft delivering after 2006 refer to paragraphs 2.2 and 3.2 of Attachment A.

3.3 The Advance Payment Base Prices of the Option Aircraft indicated

below do include an amount for special features in addition to those specifically described in Attachment A but do not include any amount for items of Buyer Furnished Equipment (BFE). An estimate for typical special features is \*\*\* per Aircraft (expressed in 1992 STE dollars) and for BFE is \*\*\* per Aircraft (expressed in delivery year dollars).

<Table>

<Caption>

Month and Year of Delivery	Advance Payment Base Price per Option Aircraft
-------------------------------	---

Block W Aircraft\*\*\*

<S>	<C>
-----	-----

December 2003

Block M Aircraft\*\*\*

<S>	<C>
-----	-----

March 2004

April 2004

June 2004

July 2004

October 2004

Block N Aircraft\*\*\*

<S>	<C>
-----	-----

February 2005

March 2005

April 2005

May 2005

June 2005

July 2005

August 2005

September 2005

October 2005

November 2005

December 2005

Block O Aircraft\*\*\*

<S>	<C>
-----	-----

January 2006

March 2006

April 2006

May 2006

June 2006

July 2006

August 2006

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October 2006

November 2006

December 2006

Block P Aircraft\*\*\*

<S>	<C>
-----	-----

April 2007

May 2007

June 2007

July 2007

August 2007

September 2007

October 2007

November 2007

December 2007

Block U Aircraft\*\*\*

January 2008

February 2008

March 2008

April 2008

May 2008

June 2008

July 2008

August 2008

September 2008

October 2008

November 2008

December 2008

</Table>

3.4 The Option Aircraft purchase price will be the applicable basic price thereof at the time of Option Aircraft delivery adjusted in accordance with Boeing's Aircraft escalation provisions contained in the definitive agreement to purchase the Option Aircraft. The purchase price will include the price for Seller Purchased Equipment (SPE) if Buyer has elected to change Buyer Furnished Equipment (BFE) to SPE.

#### 4. Option Aircraft Payment.

4.1 In consideration of the granting of the Options as set forth herein, on or before the date Boeing and Buyer enter into a definitive agreement to purchase the Aircraft, Buyer will pay a deposit to Boeing of \*\*\* for each Option Aircraft (Deposit). In the event Buyer exercises its Options herein, the amount of the Deposit will be credited against the first advance payment due for such Option Aircraft pursuant to the advance payment schedule set forth in paragraph 3 of Attachment A. The Deposits for the Option Aircraft will be refunded to Buyer, without interest, if the parties do not

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enter into a definitive Agreement for the Aircraft.

In the event that, after the parties enter into a definitive agreement to purchase the Aircraft, Buyer does not exercise its Options to purchase the Option Aircraft pursuant to the terms and conditions set forth herein, Boeing will be entitled to retain the Deposits for the Option Aircraft except as provided in paragraph 6 herein.

4.2 Advance payments in the amount of 30% of the advance payment base price will be payable on the Option Aircraft in accordance with paragraph 3 of Attachment A. The remainder of the Option Aircraft purchase price is due at the time of delivery of the Option Aircraft.

#### 5. Option Exercise.

5.1 To exercise its Option, Buyer will give written or telegraphic notice thereof to Boeing on or before sixteen (16) months prior to the first day of the delivery month of each Option Aircraft.

In such notice Buyer will select the Option Model type, and the applicable delivery positions.

5.2 It is understood and agreed that Boeing may accelerate the Option exercise dates specified above if Boeing must make production decisions which are dependent on Buyer's decision to buy the Option Aircraft. If Boeing elects to accelerate the Option exercise dates, Boeing will do so by giving written or telegraphic notice thereof to Buyer. Such notice will specify the revised Option exercise dates, which will not be earlier than 30 days after the date of transmittal of such notice, and the Option Aircraft delivery positions affected by such revision. If Buyer fails to exercise its Option for any Option Aircraft affected by such revised dates, the Deposit applicable to such Option Aircraft will be promptly refunded, with interest, to Buyer. The interest rate for calculation of the interest associated with such refund is the rate of two percent (2%) below the Citibank base rate in effect from time to time during the period the Option deposit is held by Boeing.

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6. Contract Terms.

It is understood that Boeing and Buyer will use their best efforts to enter into a definitive agreement for the Option Aircraft within thirty (30) days after Buyer exercises an Option to purchase Option Aircraft pursuant to paragraph 5 covering the detailed terms and conditions for the sale of such Option Aircraft.

Such definitive agreement will include the terms and conditions contained herein together with the terms and conditions, not inconsistent herewith, contained in Boeing's then-current standard form of purchase agreement for the sale of Model 737-700 aircraft in effect as of the date of Option exercise and such additional terms and conditions as may be mutually agreed upon. In the event the parties have not entered into such an agreement within the time period contemplated herein, either party may, exercisable by written or telegraphic notice given to the other within thirty (30) days after such period, terminate the purchase of such Option Aircraft.

7. Termination of Option to Purchase.

Either Boeing or Buyer may terminate the Options to purchase an Option Aircraft if any of the following events are not accomplished by the respective dates contemplated in this letter agreement, or in the Agreement, as the case may be:

(i) termination of the purchase of the Aircraft under the Agreement for any reason;

(ii) payment by Buyer of the Deposit with respect to an Option Aircraft pursuant to paragraph 4.1 herein;

(iii) exercise of an Option to purchase an Option Aircraft pursuant to the terms hereof.

Any termination of an Option to purchase by Boeing which is based on the termination of the purchase of Aircraft under the Agreement will be on a one - for-one basis, for each Aircraft so terminated.

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Any cancellation of an Option to purchase which is based on failure to make the required Deposit or to exercise the Option to purchase shall only apply to the Option Aircraft so canceled.

Termination of an Option to purchase provided by this letter agreement will be caused by either party giving written notice to the other within 10 days after the applicable date. Upon receipt of such notice, all rights and obligations of the parties with respect to an Option Aircraft for which the Option to purchase has been terminate will thereupon terminate.

If termination is result of a revision of an Option exercise date by Boeing pursuant to paragraph 5.2, Boeing will promptly refund to Buyer, with interest, any payments received from Buyer, including the Deposit, with respect to the Option Aircraft for which the Option is terminated. If termination is for any other reason, Boeing will promptly refund to Buyer, without interest, any payments received from Buyer with respect to the affected Option Aircraft, except the Deposit, which Buyer may apply to any model Boeing aircraft purchased by Buyer from Boeing at a future date.



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8. Confidential Treatment. Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement No. 6-1162-RLL - -934, as amended.

Very truly yours,

THE BOEING COMPANY

By /s/J. A. McGarvey

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

date: July 25, 2002

SOUTHWEST AIRLINES CO.

By /s/ Deborah Ackerman

Its VP-General Counsel

Attachments

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Attachment A to  
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Page 1

Model 737-7H4 Aircraft

1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft is described by Boeing Detail Specification D6-38808-1, Dated October 30, 1996 and for Block "U"

1.2 Changes. The Detail Specification will be revised to include:

(1) Changes applicable to the basic Model 737-700 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of a definitive agreement to purchase the Option Aircraft.

(2) Changes mutually agreed upon.

(3) Changes required to obtain a Standard Certificate of Airworthiness.

(4) To provide sufficient Option Aircraft manufacturing and procurement lead time it is necessary for Boeing and Buyer to reach final agreement on the Option Aircraft configuration, including BFE/SPE vendor selection fifteen (15) months prior to delivery of each Option Aircraft. If such items are not resolved by the indicated dates, Boeing reserves the right to amend this letter agreement:

(i) to adjust the scheduled delivery of the Option Aircraft to a later time period and,

(ii) to make such other changes as are appropriate and consistent with the revised Option Aircraft deliveries.

1.3 Effect of Changes. Changes to the Detail Specification incorporated pursuant to the provisions of the clauses above will include the effects of such changes upon Option Aircraft weight, balance, design and performance. Performance guarantees for the Option Aircraft which are mutually acceptable to the parties will be included in the definitive agreement for the Option Aircraft.

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Attachment A to  
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2. Price Description

2.1 Price Elements Per Aircraft

<Table>

<Caption>

	1	2	3	
AIRCRAFT DELIVERY MO. & YR.	AIRCRAFT & ESTIMATED SPECIAL FEATURES PRICE (JULY 1992\$)	ESTIMATED ESCALATION	BASE PRICE ESTIMATION SHARING	ADV. PMT. PRICE (ELEMENTS) 1 + 2 + 3
BLOCK W				
<S>	<C>	<C>	<C>	<C>
December 2003	***	***	***	***
BLOCK M				
<S>	<C>	<C>	<C>	<C>
March 2004	***	***	***	***
April 2004	***	***	***	***
June 2004	***	***	***	***
July 2004	***	***	***	***
October 2004	***	***	***	***
BLOCK N				
<S>	<C>	<C>	<C>	<C>
February 2005	***	***	***	***
March 2005	***	***	***	***
April 2005	***	***	***	***
May 2005	***	***	***	***
June 2005	***	***	***	***
July 2005	***	***	***	***
August 2005	***	***	***	***
September 2005	***	***	***	***
October 2005	***	***	***	***
November 2005	***	***	***	***

December 2005      \*\*\*                      \*\*\*                      \*\*\*                      \*\*\*

BLOCK O

<S>	<C>		<C>		<C>		<C>
January 2006	***		***		***		***
March 2006	***		***		***		***
April 2006	***		***		***		***
May 2006	***		***		***		***
June 2006	***		***		***		***
July 2006	***		***		***		***
August 2006	***		***		***		***
October 2006	***		***		***		***
November 2006	***		***		***		***
December 2006	***		***		***		***

</Table>  
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Attachment A to  
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Page 3  
<Table>  
<Caption>

AIRCRAFT & ADV. PMT.				
AIRCRAFT DELIVERY MO. & YR.	ESTIMATED SPECIAL FEATURES PRICE (JULY 1992\$)	ESTIMATED ESCALATION	ESTIMATED ESCALATION SHARING	BASE PRICE (ELEMENTS) 1 + 2 + 3

BLOCK P

<S>	<C>		<C>		<C>		<C>
April 2007	***		***		***		***
May 2007	***		***		***		***
June 2007	***		***		***		***
July 2007	***		***		***		***
August 2007	***		***		***		***
September 2007	***		***		***		***
October 2007	***		***		***		***
November 2007	***		***		***		***
December 2007	***		***		***		***

</Table>  
<Table>  
<Caption>

AIRCRAFT & ADV. PMT.				
AIRCRAFT DELIVERY MO. & YR.	ESTIMATED SPECIAL FEATURES PRICE (JULY 1999\$)	ESTIMATED ESCALATION	ESTIMATED ESCALATION SHARING	BASE PRICE (ELEMENTS) 1 + 2 + 3

BLOCK U

<S>	<C>		<C>		<C>		<C>
January 2008	***		***		***		***
February 2008	***		***		***		***
March 2008	***		***		***		***
April 2008	***		***		***		***
May 2008	***		***		***		***
June 2008	***		***		***		***
July 2008	***		***		***		***
August 2008	***		***		***		***
September 2008	***		***		***		***
October 2008	***		***		***		***
November 2008	***		***		***		***
December 2008	***		***		***		***

</Table>

2.2 Price Adjustments For Option Aircraft Delivering From January 2007 through December 2012.

2.2.1 Special Features. The price for Special Features incorporated in the Option Aircraft Detail Specification will be adjusted to Boeing's then-current prices for such features as of the date of execution of the definitive agreement for the Option Aircraft.

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2.2.2 Escalation Adjustments. For escalation provisions

applicable to Option Aircraft delivering after 2006, see paragraph 2.2.6 below.

2.2.3 Base Price Adjustments for FAA Changes. The Aircraft Basic Price of the Option Aircraft will be adjusted for any FAA mandated changes incorporated into the Aircraft.

2.2.4 Price Adjustments for Changes. Boeing may adjust the Aircraft Basic Price and the Advance Payment Base Price for any changes mutually agreed upon subsequent to the date that Buyer and Boeing enter into a definitive agreement for the Option Aircraft.

2.2.5 Base Price Adjustments. The Aircraft Basic Price of the Option Aircraft will be adjusted to Boeing's then-current prices as of the date of execution of the definitive agreement for the Option Aircraft in accordance with the agreement reached below. The Aircraft Basic Price starting point for Option Aircraft delivering in 2003 is \*\*\* (July 1992 STE), for Option Aircraft delivering in 2004 is \*\*\* (July 1992 STE), for Optionss delivering in 2005 through 2009 is \*\*\* (July 1992 STE) and for Block "U" Option Aircraft is \*\*\* (July 1999 STE). Such Aircraft Basic Price may increase in accordance with paragraphs 2.2.1, 2.2.2, 2.2.3 and 2.2.4. For any other changes to the Aircraft Basic Price, Boeing may increase the Aircraft Basic Price by a maximum of \*\*\* (July 1992 STE) for Aircraft delivering in 2005; by a maximum of \*\*\* (July 1992 STE) per year or portion thereof starting in January 2006 through 2009. For Block "U" Option Aircraft Boeing may increase the Aircraft Basic Price by a maximum of \*\*\* (July 1999 STE) per year or portion thereof starting in January 2008.

2.2.6 Prices for Long Lead Time Aircraft. Boeing has not established escalation provisions for Model 737-700 aircraft for delivery 2007 and after. Such escalation provisions (i) will be incorporated into the Option Aircraft definitive agreement when such information is available and (ii) will be the then-current escalation provisions applicable to the same model aircraft and engines delivering in the same time period as the Option Aircraft. The resulting revisions to the definitive agreement will include but not be limited to, adjustment of the Aircraft Basic Price of the Option Aircraft, the Advance Payment Base Price, the Aircraft escalation provisions and the advance payment amounts due on the Option Aircraft.

2.2.7 BFE to SPE. An estimate of the total price for items of Buyer Furnished Equipment (BFE) changed to Seller Purchased Equipment (SPE) pursuant to the Configuration Specification is included in the Option Aircraft price build-up. The purchase price of the Option Aircraft will be adjusted by the price charged to Boeing for such items plus 10% of such price.

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If all BFE except developmental avionics is converted to SPE, Boeing will waive the 10% fee.

3. Advance Payment Schedules, Prices and Adjustments.

3.1 Buyer will pay to Boeing advance payments for the Option Aircraft on the dates and in the amounts determined below.

<Table>  
<Caption>

Due Date of Payment	Amount Due per Aircraft (Percentage times Advance Payment Base Price)	
Deposit	*** (if applicable)	
<S>	<C>	
18 months prior to the first day of the scheduled delivery month of the Aircraft	15%	(less the Deposit if any)
12 months prior to the first day of the scheduled delivery month of the Aircraft	5%	
9 months prior to the first day of the scheduled delivery month of the Aircraft	5%	
6 months prior to the first	5%	

day of the scheduled delivery  
month of the Aircraft

Total	30%
-------	-----

</Table>

Any advance payments that would be past due as of the date of signing the definitive purchase agreement for the Option Aircraft in accordance with the above schedule are due and payable on such date.

3.2 Option Aircraft advance payment base prices will be increased or decreased, as appropriate, at the time of signing of the definitive purchase agreement for the Option Aircraft, using the then-current forecasted aircraft escalation factors used by Boeing, to determine the amount of the advance payments to be made by Buyer on the Option Aircraft.

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Supplemental Agreement No. 24

to

Purchase Agreement No. 1810

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of August 13, 2002, by and between THE BOEING COMPANY, a Delaware corporation with its principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with its principal offices in Dallas, Texas (Buyer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 1810 dated January 19, 1994, relating to Boeing Model 737-7H4 aircraft (the Agreement);

WHEREAS, Buyer has agreed to exercise two (2) December 2003 Block W Option Aircraft (as Block J Aircraft);

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Agreement as follows:

1. The Table of Contents of the Agreement is deleted in its entirety and a new Table of Contents is attached hereto and incorporated into the Agreement by this reference.
2. Article 2, entitled "Delivery, Title and Risk of Loss," is deleted in its entirety and replaced by a new Article 2. Such new pages 2-1, 2-2, 2-3 and 2-4 are attached hereto and incorporated into the Agreement by this reference.

\*\*\*Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

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3. Article 3, entitled "Price of Aircraft", is deleted in its entirety and replaced by a new Article 3. Such new pages 3-1, 3-2, 3-3, 3-4, 3-5 and 3-6 are attached hereto and incorporated into the Agreement by this reference.
4. Letter Agreement No. 6-1162-RLL-933R14 entitled "Option Aircraft," is deleted in its entirety and replaced by a new Letter Agreement No. 6-1162-RLL-933R15 which is attached hereto and is incorporated into the Agreement by this reference.  
NOTE - Buyer now has six (6) 'banked' Rollover Option Aircraft as a result of the option exercises covered by Supplemental Agreement No. 21, 23, and 24 that may be converted to Option Aircraft at a future date subject to the terms of Letter Agreement No. 6-1162-RLL-933R15.
5. All references in the Letter Agreements associated with Purchase Agreement No. 1810 shall be deemed to refer to the purchase by Buyer of two hundred forty-two (242) Model 737-7H4 Aircraft, eighty-one (81) Model 737-7H4 Option Aircraft and two hundred seventeen (217) Model 737-7H4 Rollover Option Aircraft, to the extent such reference is not specifically addressed herein.
6. The Advance Payments due upon signing assuming execution of this Supplemental Agreement in August 2002 are: \*\*\*

The Agreement will be deemed to be supplemented to the extent herein provided and as so supplemented will continue in full force and effect.

EXECUTED IN DUPLICATE as of the day and year first above written.

THE BOEING COMPANY

SOUTHWEST AIRLINES CO.

By: /s/ J. A. McGarvey

By:/s/ Laura Wright

Its: Attorney-In-Fact

Its:/s/VP Finance & Treasurer

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<Caption>

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<Table>  
<Caption>

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</Table>

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## ARTICLE 2. Delivery, Title and Risk of Loss.

2.1 Time of Delivery. The Aircraft will be delivered to Buyer by Boeing, assembled and ready for flight and Buyer will accept delivery of the Aircraft, in accordance with the following schedule:

<Table>

<Caption>

Month and Year of Delivery	Quantity of Aircraft
-------------------------------	----------------------

### Block E Aircraft

<S>	<C>
December 2000	Two (2)
January 2001	One (1)
February 2001	One (1)
March 2001	Two (2)
June 2001	Three (3)
September 2001	Three (1)

### Block F Aircraft

<S>	<C>
October 1998	One (1)
November 1998	Two (2)
December 1998	Two (2)

### Block G Aircraft

<S>	<C>
March 1999	Two (2)

### Block H Aircraft

<S>	<C>
June 1999	Two (2)
July 1999	One (1)
August 1999	One (1)
September 1999	Two (2)
October 1999	One (1)
March 2000	One (1)
April 2000	Two (2)

September 2000	One (1)
October 2000	Two (2)
March 2001	Two (2)
April 2001	One (1)
October 2001	Three (3)

Block I Aircraft

<S>	<C>
November 2001	Two (2)
December 2001	One (1)
January 2002	One (1)
March 2002	Four (4)
April 2002	Two (2)

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December 2002	Two (2)
May 2003	One (1)
June 2003	Two (2)
July 2003	One (1)
September 2003	Two (2)
October 2003	Two (2)

Block J Aircraft

<S>	<C>
November 2002	One (1)
December 2002	One (1)
November 2003	Two (2)
December 2003	Two (2)
March 2004	One (1)

Block K Aircraft

<S>	<C>
March 2004	One (1)
April 2004	Three (3)
May 2004	One (1)

Block L Aircraft

<S>	<C>
October 1999	One (1)
November 1999	Two (2)
December 1999	One (1)
June 2000	Three (3)
July 2000	Three (3)
September 2000	One (1)
October 2000	One (1)
November 2000	Four (4)
December 2000	One (1)
January 2001	One (1)
February 2001	One (1)
July 2001	One (1)
September 2001	One (1)
October 2001	One (1)
March 2003	One (1)
April 2003	One (1)
July 2003	One (1)
August 2003	Two (2)

Block T Aircraft

<S>	<C>
November 2001	One (1)
February 2002	One (1)
May 2004	One (1)
June 2004	Four (4)
July 2004	Four (4)
August 2004	Two (2)
September 2004	Two (2)
November 2004	One (1)
December 2004	One (1)

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January 2005	Five (5)
February 2005	Two (2)
March 2005	One (1)
April 2005	Two (2)
May 2005	One (1)
June 2005	Three (3)
July 2005	Two (2)

August 2005	One (1)
September 2005	Two (2)
October 2005	One (1)
November 2005	Two (2)
December 2005	Two (2)
February 2006	Four (4)
May 2006	Three (3)
June 2006	Four (4)
July 2006	One (1)
August 2006	Three (3)
September 2006	Three (3)
November 2006	Two (2)
December 2006	Two (2)
January 2007	Two (2)
February 2007	Three (3)
March 2007	Two (2)
April 2007	Two (2)
May 2007	Two (2)
June 2007	Two (2)
July 2007	Two (2)
August 2007	Two (2)
September 2007	Two (2)
October 2007	Two (2)
November 2007	Two (2)
December 2007	Two (2)
January 2008	One (1)
February 2008	One (1)
March 2008	One (1)
April 2008	One (1)
May 2008	One (1)
June 2008	One (1)

</Table>

2.2 Notice of Target Delivery Date. Boeing will give Buyer notice of the Target Delivery Date of the Aircraft approximately 30 days prior to the scheduled month of delivery.

2.3 Notice of Delivery Date. If Boeing gives Buyer at least 7 days' notice of the delivery date of the Aircraft, and an Aircraft delivery is delayed beyond such delivery date due to the responsibility of Buyer, Buyer will reimburse Boeing for all costs incurred by Boeing as a result of such delay, including amounts for storage, insurance, Taxes, preservation or protection of the Aircraft and interest on payments due.

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2.4 Place of Delivery. The Aircraft will be delivered at an airport facility selected by Boeing in the State of Washington, unless mutually agreed otherwise.

2.5 Title and Risk of Loss. Title to and risk of loss of an Aircraft will pass from Boeing to Buyer upon delivery of such Aircraft, but not prior thereto.

2.6 Bill of Sale. Upon delivery of an Aircraft Boeing will deliver to Buyer a bill of sale conveying good title to such Aircraft, free of all liens, claims, charges and encumbrances of every kind whatsoever, and such other appropriate documents of title as Buyer may reasonably request.

### ARTICLE 3. Price of Aircraft.

#### 3.1 Definitions.

3.1.1 Special Features are the features incorporated in Exhibit A which have been selected by Buyer.

3.1.2 Base Aircraft Price is the Aircraft Basic Price excluding the price of Special Features.

3.1.3 Aircraft Basic Price is comprised of the Base Aircraft Price and the price of the Special Features.

3.1.4 Economic Price Adjustment is the adjustment to the Aircraft Basic Price (Base Aircraft and Special Features) as calculated pursuant to Exhibit D or Exhibit D-1 as applicable.

3.1.5 Aircraft Price is the total amount Buyer is to pay for the Aircraft at the time of delivery.

#### 3.2 Aircraft Basic Price.

The Aircraft Basic Price for Block A through L Aircraft, is expressed in July 1992 dollars; the Aircraft Basic Price for Block T Aircraft, is expressed in July 1999 dollars; as set forth below:

<Table>

<Caption>

<S>	Base Aircraft Price <C>	Special Features <C>	Aircraft Basic Price <C>
Block A, B, C, D & E Aircraft	***	***	***
Block F & G Aircraft	***	***	***
Block H Aircraft	***	***	***
Block I Aircraft	***	***	***
Block J Aircraft	***	***	***
Block K Aircraft	***	***	***
Block L Aircraft	***	***	***
Block T Aircraft	***	***	***

</Table>

3.3 Aircraft Price. The Aircraft Price will be established at the time of delivery of such Aircraft to Buyer and will be the sum of:

3.3.1 the Aircraft Basic Price, which is \*\*\* for the Block A, B, C, D and E Aircraft, \*\*\* for the Block F and G Aircraft, \*\*\* for the Block H Aircraft, \*\*\* for the Block I Aircraft, \*\*\* for the Block J Aircraft, \*\*\* for the Block K Aircraft and \*\*\* for the Block L Aircraft; \*\*\*for the Block T

Aircraft; plus

3.3.2 the Economic Price Adjustments for the Aircraft Basic Price, as calculated pursuant to the formulas set forth in Exhibit D (Price Adjustments Due to Economic Fluctuations - Aircraft) for Aircraft Block A through L, and in Exhibit D-1 (Price Adjustments Due to Economic Fluctuations - Aircraft) for Aircraft Block T; plus

3.3.3 other price adjustments made pursuant to this Agreement or other written agreements executed by Boeing and Buyer.

3.4 Advance Payment Base Price.

3.4.1 Advance Payment Base Price. For advance payment purposes, the following estimated delivery prices of the Aircraft (Advance Payment Base Price) have been established, using currently available forecasts of the escalation factors used by Boeing as of the date of signing this Agreement. The Advance Payment Base Price of each Aircraft is set forth below:

<Table>

<Caption>

Month and Year of Scheduled Delivery	Advance Payment Base Price per Aircraft
---	--

Block A Aircraft\*\*\*

<S>

October 1997  
November 1997

Block B Aircraft\*\*\*

<S>

January 1998  
February 1998  
March 1998  
April 1998  
May 1998  
June 1998  
July 1998  
September 1998

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Block C Aircraft\*\*\*

<S>

February 1999  
May 1999  
July 1999  
August 1999  
September 1999

Block D Aircraft\*\*\*

<S>

November 1999  
December 1999  
January 2000  
March 2000  
July 2000  
August 2000

Block E Aircraft\*\*\*

<S>

December 2000  
January 2001  
February 2001  
March 2001  
June 2001  
September 2001

Block F Aircraft\*\*\*

<S>

October 1998  
November 1998  
December 1998

Block G Aircraft\*\*\*

<S>

March 1999

Block H Aircraft\*\*\*

<S>

June 1999  
July 1999  
August 1999  
September 1999  
October 1999  
March 2000  
April 2000  
September 2000  
October 2000  
March 2001  
April 2001  
October 2001

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<S>

November 2001  
December 2001  
January 2002  
March 2002  
April 2002  
December 2002  
May 2003  
June 2003  
July 2003  
September 2003  
October 2003

Block J Aircraft\*\*\*

<S>

November 2002  
December 2002  
November 2003  
December 2003  
March 2004

Block K Aircraft\*\*\*

<S>

March 2004  
April 2004  
May 2004

Block L Aircraft\*\*\*

<S>

October 1999  
November 1999  
December 1999  
June 2000  
July 2000  
September 2000  
October 2000  
November 2000  
December 2000  
January 2001  
February 2001  
July 2001  
September 2001  
October 2001  
March 2003  
April 2003  
July 2003  
August 2003

Block T Aircraft\*\*\*

<S>

November 2001  
February 2002  
May 2004  
June 2004

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July 2004  
August 2004  
September 2004  
November 2004  
December 2004  
January 2005

February 2005  
 March 2005  
 April 2005  
 May 2005  
 June 2005  
 July 2005  
 August 2005  
 September 2005  
 October 2005  
 November 2005  
 December 2005  
 February 2006  
 May 2006  
 June 2006  
 July 2006  
 August 2006  
 September 2006  
 November 2006  
 December 2006  
 January 2007  
 February 2007  
 March 2007  
 April 2007  
 May 2007  
 June 2007  
 July 2007  
 August 2007  
 September 2007  
 October 2007  
 November 2007  
 December 2007  
 January 2008  
 February 2008  
 March 2008  
 April 2008  
 May 2008  
 June 2008

</Table>

#### 3.4.2 Adjustment of Advance Payment Base Prices - Long-Lead Aircraft.

For Aircraft scheduled for delivery 36 months or more after the date of this Agreement, the Advance Payment Base Prices appearing in Article 3.4.1 will be used to determine the amount of the first advance payment to be made by Buyer on the Aircraft. No later than 25 months before the scheduled month of delivery of each affected Aircraft, Boeing will increase or decrease the Advance Payment Base Price of such

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Aircraft as required to reflect the effects of (i) any adjustments in the Aircraft Basic Price pursuant to this Agreement and (ii) the then-current forecasted escalation factors used by Boeing. Boeing will provide the adjusted Advance Payment Base Prices for each affected Aircraft to Buyer, and the advance payment schedule will be considered amended to substitute such adjusted Advance Payment Base Prices.



6-1162-RLL-933R15

Southwest Airlines Co.  
P.O. Box 36611 - Love Field  
Dallas, Texas 75235

Subject: Letter Agreement No. 6-1162-RLL-933R15 to Purchase Agreement  
No. 1810 - Option Aircraft

This Letter Agreement amends Purchase Agreement No. 1810 dated as of January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 aircraft (Aircraft).

All terms used and not defined herein will have the same meaning as in the Agreement.

In consideration of the purchase by Buyer of the Aircraft, Boeing hereby agrees to manufacture and sell to Buyer and Buyer shall have the option to purchase (Option or Options) eighty-one (81) additional Model 737-7H4 aircraft as described in paragraph 1 of Attachment A hereto (Option Aircraft) and two hundred seventeen (217) Model 737-7H4 Rollover Option Aircraft (Rollover Option Aircraft), subject to the terms and conditions set forth below.

1. Delivery of Option Aircraft.

The Option Aircraft will be delivered to Buyer during or before the months set forth in the following schedule:

<Table>

<Caption>

Month and Year of Delivery	Number of Option Aircraft	Option Aircraft Block
<S>	<C>	<C>
March 2004	Three (3)	M
April 2004	Two (2)	M
June 2004	Two (2)	M
July 2004	Two (2)	M
October 2004	Four (4)	M

</Table>

Month and Year of Delivery <S>	Option Aircraft <C>	Aircraft Block <C>
February 2005	One (1)	N
March 2005	Four (4)	N
April 2005	Two (2)	N
May 2005	One (1)	N
June 2005	One (1)	N
July 2005	One (1)	N
August 2005	One (1)	N
September 2005	Three (3)	N
October 2005	Two (2)	N
November 2005	One (1)	N
December 2005	One (1)	N
January 2006	Two (2)	O
March 2006	Three (3)	O
April 2006	Two (2)	O
May 2006	Two (2)	O
June 2006	One (1)	O
July 2006	Two (2)	O
August 2006	One (1)	O
October 2006	One (1)	O
November 2006	One (1)	O
December 2006	One (1)	O
April 2007	One (1)	P
May 2007	One (1)	P
June 2007	One (1)	P
July 2007	One (1)	P
August 2007	One (1)	P
September 2007	One (1)	P
October 2007	One (1)	P
November 2007	One (1)	P
December 2007	One (1)	P
January 2008	Two (2)	U
February 2008	Three (3)	U
March 2008	Two (2)	U
April 2008	Two (2)	U
May 2008	Two (2)	U
June 2008	Two (2)	U
July 2008	Two (2)	U
August 2008	Two (2)	U
September 2008	Two (2)	U
October 2008	Two (2)	U
November 2008	Two (2)	U
December 2008	Two (2)	U

</Table>

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## 2. Delivery of Rollover Option Aircraft.

2.1 The Rollover Option Aircraft will be delivered to Buyer during or before the years set forth in the following schedule:

<Table>

<Caption>

Year of Delivery <S>	Number of Option Aircraft <C>	Option Aircraft Block <C>
2007	Twenty (20)	Q
2008	Twenty (20)	R
2009	Six (6)	S
2009-2012	One hundred seventy one (171)	V

</Table>

2.2 The two hundred seventeen (217) Rollover Option Aircraft may be converted into Option Aircraft or firm Aircraft, from time to time, in any of the following ways:

2.2.1 Buyer can exercise any Option for an Option Aircraft described in Article 1 above, and will be offered the right to convert one Rollover Option Aircraft into an Option Aircraft for each Option exercised. Buyer can elect to convert such Rollover Option Aircraft into an Option Aircraft at any time after converting an Option Aircraft to a firm Aircraft subject to the requirements of Article 2.5.

2.2.2 If Buyer elects not to exercise an Option, at the same time of

not exercising such Option Buyer may convert one Rollover Option Aircraft to an Option Aircraft; otherwise, one Rollover Option Aircraft will be deleted for each Option not exercised by Buyer.

2.2.3 Buyer may convert Rollover Option Aircraft directly to firm Aircraft. When Buyer converts one or more Rollover Option Aircraft to firm Aircraft, Buyer will be offered the right to convert one Rollover Option Aircraft into an Option Aircraft for each converted Rollover Option Aircraft. Buyer can elect to convert such Rollover Option Aircraft to Option Aircraft at any time after converting Rollover Option to firm Aircraft subject to the requirements of Article 2.5.

2.3 Buyer may not convert Rollover Option Aircraft to Option Aircraft except in accordance with Article 2.2 above.

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2.4 Base Price Adjustments for Rollover Option Aircraft which are converted to Option Aircraft or firm Aircraft shall be in accordance with Article 2.2.5 of Attachment A to this Letter Agreement.

2.5 The delivery month offered by Boeing to Buyer for any Option or firm Aircraft resulting from a conversion of a Rollover Option Aircraft will be at least 24 months from the corresponding Option exercise date or firm order.

2.6 Upon conversion of a Rollover Option Aircraft into an Option Aircraft, Buyer shall wire transfer the Deposit of \*\*\* to Boeing and Boeing and Buyer shall agree on a delivery position for that aircraft. Section 1 of this Letter Agreement will be amended accordingly. In the event Buyer thereafter exercises its right to purchase such Option Aircraft, application of the Deposit will be in accordance with Article 4.1 herein. If the conversion is a Rollover Option Aircraft to a firm Aircraft, Buyer shall wire transfer any advance payments due under the Agreement.

2.7 Buyer and Boeing will consult on a frequent basis to keep each other informed as to Buyer's fleet plans and Boeing's production plans in order to accommodate to the greatest extent reasonably possible each party's needs in managing the delivery schedule for the Rollover Option Aircraft. Boeing acknowledges Buyer's need for delivery positions in the 2007-2012 time frame, as well as the possibility of a need for delivery positions in earlier years and will use its best reasonable efforts to meet Buyer's needs.

### 3. Price.

3.1 The advance payment base prices of the Option Aircraft set forth below and in paragraph 2.1 of Attachment A represent the estimated delivery prices of the Option Aircraft. The Option Aircraft pricing elements and associated pricing terms and conditions are given in Attachment A.

3.2 Price and escalation provisions for Model 737-7H4 aircraft delivering after 2006 are not currently available. The estimated Advance Payment Base Prices shown in paragraph 3.3 below and in paragraph 2.1 of Attachment A are based on currently available price and escalation provisions. As price and escalation provisions become available for Model 737-7H4 aircraft delivering after 2006, such price and escalation provisions will be appropriately applied to the applicable Option Aircraft.

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Southwest Airlines Co.  
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For additional information relating to price and escalation provisions applicable to Option Aircraft delivering after 2006 refer to paragraphs 2.2 and 3.2 of Attachment A.

3.3 The Advance Payment Base Prices of the Option Aircraft indicated below do include an amount for special features in addition to those specifically described in Attachment A but do not include any amount for items of Buyer Furnished Equipment (BFE). An estimate for typical special features is \*\*\* per Aircraft (expressed in 1992 STE dollars) and for BFE is \*\*\* per Aircraft (expressed in delivery year dollars).

<Table>

<Caption>

Month and Year of Delivery	Advance Payment Base Price per Option Aircraft
-------------------------------	---

Block M Aircraft\*\*\*

<S>

March 2004  
April 2004  
June 2004  
July 2004  
October 2004

Block N Aircraft\*\*\*

<S>

February 2005  
March 2005  
April 2005  
May 2005  
June 2005  
July 2005  
August 2005  
September 2005  
October 2005  
November 2005  
December 2005

Block O Aircraft\*\*\*

<S>

January 2006  
March 2006  
April 2006  
May 2006  
June 2006  
July 2006  
August 2006  
October 2006  
November 2006  
December 2006

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Block P Aircraft\*\*\*

<S>

April 2007  
May 2007  
June 2007  
July 2007  
August 2007  
September 2007  
October 2007  
November 2007  
December 2007

Block U Aircraft\*\*\*

<S>

January 2008  
February 2008  
March 2008  
April 2008  
May 2008  
June 2008  
July 2008  
August 2008  
September 2008  
October 2008  
November 2008  
December 2008

</Table>

3.4 The Option Aircraft purchase price will be the applicable basic price thereof at the time of Option Aircraft delivery adjusted in accordance with Boeing's Aircraft escalation provisions contained in the definitive agreement to purchase the Option Aircraft. The purchase price will include the price for Seller Purchased Equipment (SPE) if Buyer has elected to change Buyer Furnished Equipment (BFE) to SPE.

#### 4. Option Aircraft Payment.

4.1 In consideration of the granting of the Options as set forth herein, on or before the date Boeing and Buyer enter into a definitive agreement to purchase the Aircraft, Buyer will pay a deposit to Boeing of \*\*\* for each Option Aircraft (Deposit). In the event Buyer exercises its Options herein, the amount of the Deposit will be credited against the first advance payment due for such Option Aircraft pursuant to the advance payment schedule set forth in paragraph 3 of Attachment A. The Deposits for the Option Aircraft will be refunded to Buyer, without interest, if the parties do not enter into a definitive Agreement for the Aircraft.

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In the event that, after the parties enter into a definitive agreement to purchase the Aircraft, Buyer does not exercise its Options to purchase the Option Aircraft pursuant to the terms and conditions set forth herein, Boeing will be entitled to retain the Deposits for the Option Aircraft except as provided in paragraph 6 herein.

4.2 Advance payments in the amount of 30% of the advance payment base price will be payable on the Option Aircraft in accordance with paragraph 3 of Attachment A. The remainder of the Option Aircraft purchase price is due at the time of delivery of the Option Aircraft.

#### 5. Option Exercise.

5.1 To exercise its Option, Buyer will give written or telegraphic notice thereof to Boeing on or before sixteen (16) months prior to the first day of the delivery month of each Option Aircraft.

In such notice Buyer will select the Option Model type, and the applicable delivery positions.

5.2 It is understood and agreed that Boeing may accelerate the Option exercise dates specified above if Boeing must make production decisions which are dependent on Buyer's decision to buy the Option Aircraft. If Boeing elects to accelerate the Option exercise dates, Boeing will do so by giving written or telegraphic notice thereof to Buyer. Such notice will specify the revised Option exercise dates, which will not be earlier than 30 days after the date of transmittal of such notice, and the Option Aircraft delivery positions affected by such revision. If Buyer fails to exercise its Option for any Option Aircraft affected by such revised dates, the Deposit applicable to such Option Aircraft will be promptly refunded, with interest, to Buyer. The interest rate for calculation of the interest associated with such refund is the rate of two percent (2%) below the Citibank base rate in effect from time to time during the period the Option deposit is held by Boeing.

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6. Contract Terms.

It is understood that Boeing and Buyer will use their best efforts to enter into a definitive agreement for the Option Aircraft within thirty (30) days after Buyer exercises an Option to purchase Option Aircraft pursuant to paragraph 5 covering the detailed terms and conditions for the sale of such Option Aircraft.

Such definitive agreement will include the terms and conditions contained herein together with the terms and conditions, not inconsistent herewith, contained in Boeing's then-current standard form of purchase agreement for the sale of Model 737-700 aircraft in effect as of the date of Option exercise and such additional terms and conditions as may be mutually agreed upon. In the event the parties have not entered into such an agreement within the time period contemplated herein, either party may, exercisable by written or telegraphic notice given to the other within thirty (30) days after such period, terminate the purchase of such Option Aircraft.

7. Termination of Option to Purchase.

Either Boeing or Buyer may terminate the Options to purchase an Option Aircraft if any of the following events are not accomplished by the respective dates contemplated in this letter agreement, or in the Agreement, as the case may be:

- (i) termination of the purchase of the Aircraft under the Agreement for any reason;
- (ii) payment by Buyer of the Deposit with respect to an Option Aircraft pursuant to paragraph 4.1 herein;
- (iii) exercise of an Option to purchase an Option Aircraft pursuant to the terms hereof.

Any termination of an Option to purchase by Boeing which is based on the termination of the purchase of Aircraft under the Agreement will be on a one-for-one basis, for each Aircraft so terminated.

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Any cancellation of an Option to purchase which is based on failure to make the required Deposit or to exercise the Option to purchase shall only apply to the Option Aircraft so canceled.

Termination of an Option to purchase provided by this letter agreement will be caused by either party giving written notice to the other within 10 days after the applicable date. Upon receipt of such notice, all rights and obligations of the parties with respect to an Option Aircraft for which the Option to purchase has been terminate will thereupon terminate.

If termination is result of a revision of an Option exercise date by Boeing pursuant to paragraph 5.2, Boeing will promptly refund to Buyer, with interest, any payments received from Buyer, including the Deposit, with respect to the Option Aircraft for which the Option is terminated. If termination is for any other reason, Boeing will promptly refund to Buyer, without interest, any payments received from Buyer with respect to the affected Option Aircraft, except the Deposit, which Buyer may apply to any model Boeing aircraft purchased by Buyer from Boeing at a future date.

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8. Confidential Treatment. Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement No. 6-1162-RLL-934, as amended.  
Very truly yours,

THE BOEING COMPANY

By /s/ J. A. McGarvey  
Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date August 13, 2002

SOUTHWEST AIRLINES CO.

By /s/ Laura Wright  
Its VP Finance & Treasurer

Attachments

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Attachment A to  
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Page 1

Model 737-7H4 Aircraft

1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft is described by Boeing Detail Specification D6-38808-1, Dated October 30 ,1996 and for Block "U" Option Aircraft by Boeing Detail Specification D6-38808-1, Rev. A, Dated February 24, 1998.

1.2 Changes. The Detail Specification will be revised to include:

(1) Changes applicable to the basic Model 737-700 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of a definitive agreement to purchase the Option Aircraft.

(2) Changes mutually agreed upon.

(3) Changes required to obtain a Standard Certificate of Airworthiness.

(4) To provide sufficient Option Aircraft manufacturing and procurement lead time it is necessary for Boeing and Buyer to reach final agreement on the Option Aircraft configuration, including BFE/SPE vendor selection fifteen (15) months prior to delivery of each Option Aircraft. If such items are not resolved by the indicated dates, Boeing reserves the right to amend this letter agreement:

(i) to adjust the scheduled delivery of the Option Aircraft to a later time period and,

(ii) to make such other changes as are appropriate and consistent with the revised Option Aircraft deliveries.

1.3 Effect of Changes. Changes to the Detail Specification incorporated pursuant to the provisions of the clauses above will include the effects of such changes upon Option Aircraft weight, balance, design and performance. Performance guarantees for the Option Aircraft which are mutually acceptable to the parties will be included in the definitive agreement for the Option Aircraft.

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## 2. Price Description

### 2.1 Price Elements Per Aircraft

<Table>

<Caption>

	1	2	3	
AIRCRAFT DELIVERY MO. & YR.	AIRCRAFT & ESTIMATED SPECIAL FEATURES PRICE (JULY 1992\$)	ESTIMATED ESCALATION	ESTIMATED BASE ESCALATION SHARING	ADV. PMT. PRICE (ELEMENTS) 1 + 2 + 3
<S>	<C>	<C>	<C>	<C>
BLOCK M				
March 2004	***	***	***	***
April 2004	***	***	***	***
June 2004	***	***	***	***
July 2004	***	***	***	***
October 2004	***	***	***	***
BLOCK N				
February 2005	***	***	***	***
March 2005	***	***	***	***
April 2005	***	***	***	***
May 2005	***	***	***	***
June 2005	***	***	***	***
July 2005	***	***	***	***
August 2005	***	***	***	***
September 2005	***	***	***	***



October 2005	***	***	***	***
November 2005	***	***	***	***
December 2005	***	***	***	***

BLOCK O

January 2006	***	***	***	***
March 2006	***	***	***	***
April 2006	***	***	***	***
May 2006	***	***	***	***
June 2006	***	***	***	***
July 2006	***	***	***	***
August 2006	***	***	***	***
October 2006	***	***	***	***
November 2006	***	***	***	***
December 2006	***	***	***	***

</Table>

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Page 3

<Table>

<Caption>

AIRCRAFT &  
ADV. PMT.

AIRCRAFT DELIVERY MO. & YR.	ESTIMATED SPECIAL FEATURES PRICE (JULY 1992\$)	ESTIMATED ESCALATION	ESTIMATED ESCALATION SHARING	BASE PRICE (ELEMENTS) 1 + 2 + 3
--------------------------------	--	-------------------------	------------------------------------	---------------------------------------

BLOCK P

<S>	<C>	<C>	<C>	<C>
April 2007	***	***	***	***
May 2007	***	***	***	***
June 2007	***	***	***	***
July 2007	***	***	***	***
August 2007	***	***	***	***
September 2007	***	***	***	***
October 2007	***	***	***	***
November 2007	***	***	***	***
December 2007	***	***	***	***

</Table>

<Table>

<Caption>

AIRCRAFT &  
ADV. PMT.

AIRCRAFT DELIVERY MO. & YR.	ESTIMATED SPECIAL FEATURES PRICE (JULY 1999\$)	ESTIMATED ESCALATION	ESTIMATED ESCALATION SHARING	BASE PRICE (ELEMENTS) 1 + 2 + 3
--------------------------------	--	-------------------------	------------------------------------	---------------------------------------

BLOCK U

<S>	<C>	<C>	<C>	<C>
January 2008	***	***	***	***
February 2008	***	***	***	***
March 2008	***	***	***	***
April 2008	***	***	***	***
May 2008	***	***	***	***
June 2008	***	***	***	***
July 2008	***	***	***	***
August 2008	***	***	***	***
September 2008	***	***	***	***
October 2008	***	***	***	***
November 2008	***	***	***	***
December 2008	***	***	***	***

</Table>

2.2 Price Adjustments For Option Aircraft Delivering From January 2007 through December 2012.

2.2.1 Special Features. The price for Special Features incorporated in the Option Aircraft Detail Specification will be adjusted to Boeing's then-current prices for such features as of the date of execution of the definitive agreement for the Option Aircraft.

2.2.2 Escalation Adjustments. For escalation provisions applicable to Option Aircraft delivering after 2006, see paragraph 2.2.6 below.

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2.2.3 Base Price Adjustments for FAA Changes. The Aircraft Basic Price of the Option Aircraft will be adjusted for any FAA mandated changes incorporated into the Aircraft.

2.2.4 Price Adjustments for Changes. Boeing may adjust the Aircraft Basic Price and the Advance Payment Base Price for any changes mutually agreed upon subsequent to the date that Buyer and Boeing enter into a definitive agreement for the Option Aircraft.

2.2.5 Base Price Adjustments. The Aircraft Basic Price of the Option Aircraft will be adjusted to Boeing's then-current prices as of the date of execution of the definitive agreement for the Option Aircraft in accordance with the agreement reached below. The Aircraft Basic Price starting point for Option Aircraft delivering in 2003 is \*\*\* (July 1992 STE), for Option Aircraft delivering in 2004 is \*\*\* (July 1992 STE), for Options delivering in 2005 through 2009 is \*\*\* (July 1992 STE) and for Block "U" Option Aircraft is \*\*\* (July 1999 STE). Such Aircraft Basic Price may increase in accordance with paragraphs 2.2.1, 2.2.2, 2.2.3 and 2.2.4. For any other changes to the Aircraft Basic Price, Boeing may increase the Aircraft Basic Price by a maximum of \*\*\* (July 1992 STE) for Aircraft delivering in 2005; by a maximum of \*\*\* (July 1992 STE) per year or portion thereof starting in January 2006 through 2009. For Block "U" Option Aircraft Boeing may increase the Aircraft Basic Price by a maximum of \*\*\* (July 1999 STE) per year or portion thereof starting in January 2008.

2.2.6 Prices for Long Lead Time Aircraft. Boeing has not established escalation provisions for Model 737-700 aircraft for delivery 2007 and after. Such escalation provisions (i) will be incorporated into the Option Aircraft definitive agreement when such information is available and (ii) will be the then-current escalation provisions applicable to the same model aircraft and engines delivering in the same time period as the Option Aircraft. The resulting revisions to the definitive agreement will include but not be limited to, adjustment of the Aircraft Basic Price of the Option Aircraft, the Advance Payment Base Price, the Aircraft escalation provisions and the advance payment amounts due on the Option Aircraft.

2.2.7 BFE to SPE. An estimate of the total price for items of Buyer Furnished Equipment (BFE) changed to Seller Purchased Equipment (SPE) pursuant to the Configuration Specification is included in the Option Aircraft price build-up. The purchase price of the Option Aircraft will be adjusted by the price charged to Boeing for such items plus 10% of such price. If all BFE except developmental avionics is converted to SPE, Boeing will waive the 10% fee.

### 3. Advance Payment Schedules, Prices and Adjustments.

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3.1 Buyer will pay to Boeing advance payments for the Option Aircraft on the dates and in the amounts determined below.

<Table>

<Caption>

Due Date of Payment	Amount Due per Aircraft
	(Percentage times Advance Payment Base Price)
<S>	<C>
Deposit	*** (if applicable)
18 months prior to the first day of the scheduled delivery month of the Aircraft	15% (less the Deposit if any)
12 months prior to the first day of the scheduled delivery month of the Aircraft	5%
9 months prior to the first day of the scheduled delivery month of the Aircraft	5%
6 months prior to the first day of the scheduled delivery month of the Aircraft	5%

Total

30%

</Table>

Any advance payments that would be past due as of the date of signing the definitive purchase agreement for the Option Aircraft in accordance with the above schedule are due and payable on such date.

3.2 Option Aircraft advance payment base prices will be increased or decreased, as appropriate, at the time of signing of the definitive purchase agreement for the Option Aircraft, using the then-current forecasted aircraft escalation factors used by Boeing, to determine the amount of the advance payments to be made by Buyer on the Option Aircraft.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Southwest Airlines Co. (the "Company") for the period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary C. Kelly, Executive Vice President and Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 30, 2002

By

/s/ Gary C. Kelly

Gary C. Kelly  
Executive Vice President - Chief  
Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Southwest Airlines Co. (the "Company") for the period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James F. Parker, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 30, 2002

By

/s/ James F. Parker

James F. Parker  
Chief Executive Officer

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