

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 June 30, 2004 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 July 14, 2004:

790,181,982

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SOUTHWEST AIRLINES CO.

FORM 10-Q

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2004 <C>	December 31, 2003 <C>
<S>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,768	\$1,865
Accounts and other receivables	222	132
Inventories of parts and supplies, at cost	108	93
Fuel hedge contracts	315	164
Prepaid expenses and other current assets	58	59
Total current assets	2,471	2,313
Property and equipment, at cost:		
Flight equipment	9,242	8,646
Ground property and equipment	1,142	1,117

Deposits on flight equipment purchase contracts	886	787
	11,270	10,550
Less allowance for depreciation	3,198	3,107
	8,072	7,443
Other assets	270	122
	\$10,813	\$9,878

# LIABILITIES & STOCKHOLDERS' EQUITY

## Current liabilities:

Accounts payable	\$464	\$405
Accrued liabilities	870	650
Air traffic liability	658	462
Current maturities of long-term debt	317	206
Total current liabilities	2,309	1,723
Long-term debt less current maturities	1,239	1,332
Deferred income taxes	1,649	1,420
Deferred gains from sale and leaseback of aircraft	160	168
Other deferred liabilities	202	183
Stockholders' equity:		
Common stock	790	789
Capital in excess of par value	263	258
Retained earnings	3,979	3,883
Accumulated other comprehensive income	287	122
Treasury stock, at cost	(65)	-
Total stockholders' equity	5,254	5,052
	\$10,813	\$9,878

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

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
OPERATING REVENUES:				
<S>	<C>	<C>	<C>	<C>
Passenger	\$1,654	\$1,465	3,082	\$2,771
Freight	28	25	54	47
Other	34	25	64	48
Total operating revenues	1,716	1,515	3,200	2,866
OPERATING EXPENSES:				
Salaries, wages, and benefits	622	587	1,212	1,103
Fuel and oil	246	194	476	402
Maintenance materials and repairs	124	104	238	210
Agency commissions	-	13	2	25
Aircraft rentals	44	46	89	91
Landing fees and other rentals	99	91	202	181
Depreciation and amortization	107	95	209	188
Other operating expenses	277	245	529	480
Total operating expenses	1,519	1,375	2,957	2,680
OPERATING INCOME	197	140	243	186
OTHER EXPENSES (INCOME):				
Interest expense	22	23	40	49
Capitalized interest	(10)	(8)	(20)	(15)
Interest income	(5)	(7)	(9)	(12)
Other (gains) losses, net	11	(265)	12	(272)
Total other expenses (income)	18	(257)	23	(250)
INCOME BEFORE INCOME TAXES	179	397	220	436
PROVISION FOR INCOME TAXES	66	151	81	166
NET INCOME	\$113	\$246	\$139	\$270

NET INCOME PER SHARE:

Basic	\$ .14	\$ .32	\$ .18	\$ .35
Diluted	\$ .14	\$ .30	\$ .17	\$ .33
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	784	780	785	779
Diluted	817	820	817	814

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Southwest Airlines Co.  
Condensed Consolidated Statement of Cash Flows  
(in millions)  
(unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2004	2003	2004	2003
	<C>	<C>	<C>	<C>
<S>				
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$113	\$246	\$139	\$270
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	107	95	209	188
Deferred income taxes	66	136	81	148
Amortization of deferred gains on sale and leaseback of aircraft	(4)	(4)	(8)	(8)
Amortization of scheduled airframe inspections & repairs	13	12	27	24
Changes in certain assets and liabilities:				
Accounts and other receivables	(4)	31	(50)	47
Other current assets	3	(7)	(11)	(8)
Accounts payable and accrued liabilities	160	59	282	52
Air traffic liability	(42)	40	197	163
Income taxes payable	-	11	-	11
Other	18	19	(19)	18
Net cash provided by operating activities	430	638	847	905
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment, net	(511)	(325)	(870)	(518)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of long-term debt	29	-	58	-
Proceeds from Employee stock plans	27	20	40	32
Payments of long-term debt and capital lease obligations	(13)	(14)	(21)	(20)
Payments of cash dividends	(4)	(4)	(11)	(11)
Repurchase of common stock	(11)	-	(136)	-
Other, net	(3)	-	(4)	1
Net cash provided by (used in) financing activities	25	2	(74)	2
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(56)	315	(97)	389
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,824	1,889	1,865	1,815
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$1,768	\$2,204	\$1,768	\$2,204
CASH PAYMENTS FOR:				
Interest, net of amount capitalized	\$4	\$15	\$17	\$37
Income taxes	\$2	\$4	\$2	\$4

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## 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Southwest Airlines Co. (Company or Southwest) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The unaudited condensed consolidated financial statements for the interim periods ended June 30, 2004 and 2003, include all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. This includes all normal and recurring adjustments, and other accounting entries as described herein. The Condensed Consolidated Balance Sheet as of December 31, 2003, has been derived from the Company's audited financial statements as of that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Financial results for the Company, and airlines in general, are seasonal in nature. Historically, the Company's second and third fiscal quarters have been more profitable than its first and fourth fiscal quarters. Operating results for the three and six months ended June 30, 2004, are not necessarily indicative of the results that may be expected for the year ended December 31, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included in the Southwest Airlines Co. Annual Report on Form 10-K for the year ended December 31, 2003.

## 2. STOCK-BASED EMPLOYEE COMPENSATION

The Company has stock-based compensation plans covering the majority of its Employee groups, including plans adopted via collective bargaining, a plan covering the Company's Board of Directors, and plans related to employment contracts with certain Executive Officers of the Company. The Company accounts for stock-based compensation utilizing the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and related Interpretations. Accordingly, no compensation expense is recognized for fixed option plans because the exercise prices of Employee stock options equal or exceed the market prices of the underlying stock on the dates of grant.

The following table represents the effect on net income and earnings per share if the Company had applied the fair value based method and recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," to stock-based Employee compensation (in millions, except per share amounts):

		Three months ended June 30,		Six months ended June 30,	
		2004	2003	2004	2003
<S>		<C>	<C>	<C>	<C>
Net income, as reported		\$113	\$246	\$139	\$270
Add: Stock-based Employee compensation expense included in reported income, net of related tax effects		-	-	-	-
Deduct: Total stock-based Employee compensation expense determined under fair value based methods for all awards, net of related tax effects		(10)	(14)	(22)	(31)
Pro forma net income		\$103	\$232	\$117	\$239
Net income per share					
Basic, as reported		\$.14	\$.32	\$.18	\$.35
Basic, pro forma		\$.13	\$.30	\$.15	\$.31
Diluted, as reported		\$.14	\$.30	\$.17	\$.33
Diluted, pro forma		\$.13	\$.29	\$.15	\$.30

## 3. DIVIDENDS

During the three month periods ended March 31, 2004, and June 30, 2004, dividends of \$.0045 per share were declared on the 784 million and 785 million shares of common stock then outstanding, respectively. During the three month periods ended March 31, 2003, and June 30, 2003, dividends of \$.0045 per share were declared on the 778 million and 780 million shares of common stock then outstanding, respectively.

## 4. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net

income per share (in millions except per share amounts):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2004	2003	2004	2003
	<C>	<C>	<C>	<C>
NUMERATOR:				
Net income available to common stockholders	\$113	\$246	\$139	\$270
DENOMINATOR:				
Weighted-average shares outstanding, basic	784	780	785	779
Dilutive effect of Employee stock Options	33	40	32	35
Adjusted weighted-average shares outstanding, diluted	817	820	817	814
NET INCOME PER SHARE:				
Basic	\$.14	\$.32	\$.18	\$.35
Diluted	\$.14	\$.30	\$.17	\$.33

## 5. FINANCIAL DERIVATIVE INSTRUMENTS

Fuel Contracts - 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 month periods ended June 30, 2004 and 2003, represented approximately 16.2 percent and 14.1 percent, respectively, of Southwest's operating expenses for those periods. 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. The Company currently has a mixture of purchased call options, collar structures, and fixed price swap agreements in place to hedge over 80 percent of its remaining 2004 total anticipated jet fuel requirements that effectively cap crude oil-equivalent prices under \$24 per barrel. The Company is also 80 percent hedged for 2005 with prices capped at approximately \$25 per barrel, and approximately 45 percent hedged for 2006 with prices capped at approximately \$28 per barrel. As of June 30, 2004, the majority of the Company's remaining 2004 hedges are effectively heating oil-based. Beyond 2004, the majority of the hedge positions are crude oil-based.

The Company accounts for its fuel hedge derivative instruments as cash flow hedges, as defined in Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133). All changes in fair value that are considered to be effective, as defined, are recorded in "Accumulated other comprehensive income" until the underlying jet fuel is consumed. The fair value of the Company's financial derivative instruments at June 30, 2004, was a net asset of approximately \$548 million. The current portion of this net asset, approximately \$315 million, is classified as "Fuel hedge contracts" and the noncurrent portion, approximately \$233 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 June 30, 2004 and 2003, the Company recognized \$87 million and \$36 million in gains in "Fuel and oil" expense, respectively, from hedging activities. During the three months ended June 30, 2004, the Company also recognized approximately \$5 million of additional expense in "Other (gains) losses, net," related to the ineffectiveness of its hedges. The Company recognized approximately \$6 million of net expense related to amounts excluded from the Company's measurements of hedge effectiveness, in "Other (gains) losses, net" during both second quarter 2004 and second quarter 2003.

As of June 30, 2004, the Company had approximately \$287 million in unrealized gains, net of tax, in "Accumulated other comprehensive income" related to fuel hedges. Included in this total are approximately \$172 million in net

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unrealized gains that are expected to be realized in earnings during the twelve months following June 30, 2004.

Interest Rate Swaps - During second quarter 2003, the Company entered into interest rate swap agreements relating to its \$385 million 6.5% senior unsecured notes due March 1, 2012 and \$375 million 5.496% Class A-2 pass-through certificates due November 1, 2006. Under the first interest rate swap agreement, the Company pays the London InterBank Offered Rate (LIBOR) plus a margin every six months and receives 6.5% every six months on a notional amount of \$385 million until March 1, 2012. Under the second agreement, the Company pays LIBOR plus a margin every six months and receives 5.496% every six months on a notional amount of \$375 million until November 1, 2006.

The Company's interest rate swap agreements qualify as fair value hedges, as defined by SFAS 133. The fair value of the interest rate swap agreements, which are adjusted regularly, are recorded in the Company's balance sheet as an asset or liability, as necessary, with a corresponding adjustment to the carrying value of the long-term debt. The fair value of the interest rate swap agreements, excluding accrued interest, at June 30, 2004 was a liability of approximately \$32 million. This amount is recorded in "Other deferred liabilities" in the unaudited Condensed Consolidated Balance Sheet. In accordance with fair value hedging, the offsetting entry is an adjustment to decrease the carrying value of long-term debt.

#### 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 \$215 million and \$304 million, respectively, for the three and six months ended June 30, 2004. Comprehensive income totaled \$261 million and \$290 million, respectively, for the three and six months ended June 30, 2003. The differences between net income and comprehensive income for each of these periods was as follows (in millions):

	Three months ended June 30,	
	2004	2003
Net income	\$113	\$246
Unrealized gain (loss) on derivative instruments, net of deferred taxes of \$66 and \$9	102	13
Other, net of deferred taxes of \$0 and \$1	-	2
Total other comprehensive income	102	15
Comprehensive income	\$215	\$261
	Six months ended June 30,	
	2004	2003
Net income	\$139	\$270
Unrealized gain (loss) on derivative instruments, net of deferred taxes of \$106 and \$13	164	20
Other, net of deferred taxes of \$1 and \$0	1	-
Total other comprehensive income	165	20
Comprehensive income	\$304	\$290

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

	Fuel Hedge Derivatives		Accumulated other comprehensive income (loss)
	Other		
Balance at December 31, 2003	\$123	(\$1)	\$122
2004 changes in value	249	1	250
Reclassification to earnings	(85)	-	(85)
Balance at June 30, 2004	\$287	(\$0)	\$287

#### 7. REVOLVING CREDIT FACILITY

During second quarter 2004, the Company replaced its former revolving credit

facility with a new facility. Under the new facility, the Company can borrow up to \$575 million from a group of banks. The facility expires in April 2007 and is unsecured. At the Company's option, interest on the facility can be calculated on one of several different bases. For most borrowings, Southwest would anticipate choosing a floating rate based upon LIBOR. If fully drawn, the spread over LIBOR would be 75 basis points given Southwest's credit rating at June 30, 2004. The facility also contains a financial covenant requiring a minimum coverage ratio of adjusted pretax income to fixed obligations, as defined. As of June 30, 2004, there are no outstanding amounts borrowed under this facility.

#### 8. CONSOLIDATION OF RESERVATIONS CENTERS

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In November 2003, the Company announced the consolidation of its nine Reservations Centers into six, effective February 28, 2004. This decision was made in response to the established shift by Customers to the internet as a preferred way of booking travel. The Company's website, southwest.com, now accounts for more than half of ticket bookings and, as a consequence, demand for phone contact has dramatically decreased. During first quarter 2004, the Company closed its Reservations Centers located in Dallas, Texas, Salt Lake City, Utah, and Little Rock, Arkansas. The Company provided the 1,900 affected Employees at these locations the opportunity to relocate to another of the Company's remaining six centers. Those Employees choosing not to relocate, approximately 55% of the total affected, were offered support packages, which included severance pay, flight benefits, medical coverage, and job-search assistance, depending on length of service with the Company. The total cost associated with the Reservations Center consolidation, recognized in first quarter 2004, was approximately \$18 million. Employee severance and benefit costs were reflected in "Salaries, wages, and benefits," and the majority of other costs were reflected in "Other operating expenses" in the Condensed Consolidated Statement of Income. The breakdown of the costs incurred and a rollforward of the amounts accrued is as follows (in millions):

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	Employee bonus pay and benefits	Consolidation of facilities and other charges	Total	
<S>	<C>	<C>	<C>	
Initial charge in first quarter 2004	\$13	\$5		\$18
Non-cash charges	-	(1)	(1)	
Cash payments	(10)	(2)	(12)	
Balance at March 31, 2004	\$3	\$2	\$5	
Non-cash charges	-	1	1	
Cash payments	-	(1)	(1)	
Balance at June 30, 2004	\$3	\$2	\$5	

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#### 9. AIRCRAFT FINANCINGS

In February 2004 and April 2004, the Company entered into two separate \$29 million two-year notes, utilizing two new 737-700 aircraft as collateral. Both of the notes are non-interest bearing and accrete to face value at maturity at annual rates of 2.9% and 3.4%, respectively. The proceeds of these borrowings were used to fund the individual aircraft purchases.

#### 10. EMERGENCY WARTIME SUPPLEMENTAL APPROPRIATIONS ACT

On April 16, 2003, the Emergency Wartime Supplemental Appropriations Act (Wartime Act) was signed into law. Among other items, the legislation included a \$2.3 billion government grant for airlines. Southwest received \$271 million as its proportional share of the grant during second quarter 2003. This amount is included in "Other (gains) losses" in the accompanying income statement for the three and six months ended June 30, 2003.

#### 11. RECENTLY ISSUED ACCOUNTING STANDARDS

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During March 2004, the FASB issued an exposure draft of a new standard entitled "Share Based Payment", which would amend SFAS No. 123, "Accounting for Stock Based Compensation," and SFAS No. 95, "Statement of Cash Flows." Among other items, the new standard would require the expensing, in the financial statements, of stock options issued by the Company. The new standard, as proposed, would be effective January 1, 2005, for calendar year companies. Although the Company has not yet completed an analysis to quantify the exact impact the new standard will have on its future financial performance, the disclosures in Note 2 provide detail as to the Company's financial performance as if the Company had applied the fair value based method and recognition provisions of SFAS No. 123 to stock-based Employee compensation to the current reporting periods.

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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 six months ended June 30, 2004 and 2003 are as follows:

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		Three months ended		
		June 30,		
	2004	2003	Change	
<S>	<C>	<C>	<C>	
Revenue passengers carried	18,863,975	17,063,283	10.6 %	
Enplaned passengers	21,627,986	19,446,533	11.2 %	
Revenue passenger miles (RPMs) (000s)	14,325,737	12,550,665	14.1 %	
Available seat miles (ASMs) (000s)	18,773,522	17,893,765	4.9 %	
Load factor	76.3%	70.1%	6.2 pts.	
Average length of passenger haul (miles)	759	736	3.1 %	
Average aircraft stage length (miles)	571	556	2.7 %	
Trips flown	242,386	237,518	2.0 %	
Average passenger fare	\$87.67	\$85.87	2.1 %	
Passenger revenue yield per RPM (cents)	11.54	11.67	(1.1)%	
Operating revenue yield per ASM (cents)	9.14	8.47	7.9 %	
Operating expenses per ASM (cents)	8.09	7.68	5.3 %	
Operating expenses per ASM, excluding fuel (cents)	6.79	6.60	2.9 %	
Fuel costs per gallon, excluding fuel tax (cents)	81.9	67.4	21.5 %	
Fuel consumed, in gallons (millions)	298	286	4.2 %	
Number of Employees at period-end	31,408	32,902	(4.5)%	
Size of fleet at period-end	405	379	6.9 %	

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		Six months ended		
		June 30,		
	2004	2003	Change	
<S>	<C>	<C>	<C>	
Revenue passengers carried	34,859,036	32,140,820	8.5 %	
Enplaned passengers	39,818,390	36,616,105	8.7 %	
Revenue passenger miles (RPMs) (000s)	26,118,160	23,446,366	11.4 %	
Available seat miles (ASMs) (000s)	37,155,115	35,292,897	5.3 %	
Load factor	70.3%	66.4%	3.9 pts.	
Average length of passenger haul (miles)	749	729	2.7 %	
Average aircraft stage length (miles)	570	554	2.9 %	
Trips flown	480,855	470,605	2.2 %	
Average passenger fare	\$88.41	\$86.23	2.5 %	
Passenger revenue yield per RPM (cents)	11.80	11.82	(0.2)%	
Operating revenue yield per ASM (cents)	8.61	8.12	6.0 %	
Operating expenses per ASM (cents)	7.96	7.59	4.9 %	
Operating expenses per ASM, excluding fuel (cents)	6.68	6.45	3.6 %	
Fuel costs per gallon, excluding fuel tax (cents)	80.8	71.0	13.8 %	
Fuel consumed, in gallons (millions)	585	563	3.9 %	
Number of Employees at period-end	31,408	32,902	(4.5)%	
Size of fleet at period-end	405	379	6.9 %	

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Material Changes in Results of Operations

Summary

The Company's second quarter 2004 net income was \$113 million (\$.14 per share, diluted), compared to second quarter 2003 net income of \$246 million (\$.30 per share, diluted). Despite the challenging airline revenue environment and record high energy prices prevalent in second quarter 2004, Southwest reported its 53rd consecutive quarterly profit. As disclosed in Note 10 to the condensed consolidated financial statements, results for second quarter and the six months ended June 30, 2003, included \$271 million (government grant) as "Other gains" from the Emergency Wartime Supplemental Appropriations Act (Wartime Act). The Company believes that excluding the impact of the government grant will enhance comparative analysis of results. The grant was made to stabilize and support the airline industry as a result of the 2003 war with Iraq. The grant was not indicative of the Company's operating performance for 2003, and should not be considered in developing trend analysis for future periods. The following table reconciles results reported in accordance with Generally Accepted Accounting Principles (GAAP) for 2003 with results excluding the impact of the government grant



received in that period:

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SOUTHWEST AIRLINES CO.

RECONCILIATION OF REPORTED AMOUNTS TO NON-GAAP ITEMS (SEE NOTE)

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
(In millions, except per share amounts and per ASM amounts)				
	2004	2003	2004	2003
<S>	<C>	<C>	<C>	<C>
Operating expenses, as reported	\$1,519	\$1,375	\$2,957	\$2,680
Profitsharing impact of government grant		(41)		(41)
Operating expenses, excluding grant impact	\$1,519	\$1,334	\$2,957	\$2,639
Operating expenses per ASM, as reported	\$.0809	\$.0768	\$.0796	\$.0759
Profitsharing impact of government grant	-	(.0022)	-	(.0011)
Operating expenses per ASM, excluding grant impact	\$.0809	\$.0746	\$.0796	\$.0748
Operating income, as reported	\$197	\$140	\$243	\$186
Profitsharing impact of government grant		41		41
Operating income, excluding grant impact	\$197	\$181	\$243	\$227
Net income, as reported	\$113	\$246	\$139	\$270
Government grant, net of income taxes and profitsharing		(143)		(143)
Net income, excluding grant impact	\$113	\$103	\$139	\$127
Net income per share, diluted, as reported	\$.14	\$.30	\$.17	\$.33
Government grant, net of income taxes and profitsharing		(.17)		(.17)
Net income per share, diluted, excluding grant impact	\$.14	\$.13	\$.17	\$.16

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Excluding the impact of the 2003 government grant, net income for second quarter 2004 increased \$10 million, or 9.7 percent compared to the prior year, and net income for the six months ended June 30, 2004, increased \$12 million, or 9.4 percent compared to 2003. Excluding the government grant, operating income increased \$16 million, or 8.8 percent compared to second quarter 2003, and \$16 million, or 7.0 percent for the six months ended June 30, 2004, compared to the prior year. These increases were driven largely by an improvement in revenues.

Results for second quarter and the six months ended June 30, 2004 also included the following items:

- During second quarter 2004, the Company offered a voluntary early out option to all of its Employees, except officers. Employees had until June 25, 2004, to accept the offer, which consisted of bonus pay, medical benefits, and flight benefits, based on years of service with the Company. More than 1,000 Employees accepted the offer, resulting in \$11 million in charges in second quarter 2004. These charges are reflected in Salaries, wages, and benefits. The Employees accepting the offer are required to work through at least July 31, 2004. The Company anticipates that a majority of these positions will not be replaced, and that future annual cost savings will exceed the charges incurred.

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- During second quarter 2004, the Company and the Transport Workers Union Local 556 reached a tentative labor agreement (contract) for the Company's Flight Attendants. The contract, which must be ratified by a majority of the Company's Flight Attendants, is for the period from June 1, 2002, to May 31, 2008. As a result, the Company recorded a \$12 million second quarter 2004 charge for pay, per diem and benefit increases, most of which was retroactive to the date when the previous agreement became amendable. Approximately \$7 million of the \$12 million charge relates to pay and benefit increases included in "Salaries, wages, and benefits" (approximately 60 percent of the total charge), and approximately \$5 million related to per diem increases (approximately 40 percent of total charge) for this group. The portion of the \$12 million charge which relates to second quarter 2004 is not

material. Voting on the tentative contract is expected to be complete by the end of July 2004.

- Operating expenses for the six months ended June 30, 2004, also included \$18 million of expense associated with the consolidation of certain of the Company's reservations operations. See Note 8 to the Condensed Consolidated Financial Statements for further information on the Company's Reservations Center consolidation.

Despite the impact of these items, the 2004 increases in net income, excluding the 2003 government grant, were primarily due to stronger seasonal revenues driven by increased fare sale activity and weaker year-ago revenue performances resulting from the Iraq war. The increases in revenue were partially offset by higher 2004 costs, which included higher fuel prices, higher aircraft maintenance, higher advertising expenses, and higher salaries, wages, and benefits.

For second quarter 2004, the Company increased its capacity (available seat miles) by 4.9 percent compared to second quarter 2003. Year-over-year increases in capacity are expected to continue and will accelerate throughout 2004 as the Company's fleet expands by a net of 29 aircraft for the year. The Company's operating costs per available seat mile (unit costs or CASM) increased 5.3 percent from second quarter 2003. On a unit basis, higher labor, maintenance, and market jet fuel costs were partially offset by substantial hedging gains, improved fuel efficiency, and a decrease in commission expense.

The Company continues its efforts to control costs. In addition to the Company's successful hedging program, over the past 7 months the Company has consolidated its reservations operations, eliminated its travel agency commission, and provided a voluntary early out option to all of its Employees, except officers. Additionally, Southwest continues to look for ways to increase the productivity of its workforce. The Company is also in the process of adding Blended Winglets to its 737-700 aircraft. As of June 30, 2004, Blended Winglets have been installed on 82 Boeing 737-700 aircraft. The Company will begin receiving -700s with winglets factory-installed from Boeing in August 2004 and expects to have all -700s retrofitted with winglets by March 2005. Southwest expects annual fuel consumption savings of approximately three percent for each aircraft outfitted with the winglets.

Based on the Company's current revenue and cost outlook and, barring any unforeseen event, the Company expects third quarter 2004 earnings to exceed third quarter 2003 earnings due to improved revenues, which are expected to more than offset higher labor and fuel costs.

During second quarter 2004, the Company began service to Philadelphia, Pennsylvania, representing the 59th city and 31st state to which we fly. Thus far, the Company has been very pleased with the load factors and overall initial results of this new Southwest city.

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Comparison of three months ended June 30, 2004, to three months ended June 30, 2003

#### Revenues

Consolidated operating revenues increased by \$201 million, or 13.3 percent, primarily due to a \$189 million, or 12.9 percent increase in passenger revenues. The increase in passenger revenues was primarily due to a 14.1 percent increase in revenue passenger miles (RPMs) flown.

Second quarter 2004 capacity, as measured by available seat miles (ASMs), increased 4.9 percent compared to second quarter 2003. The capacity increase resulted from the net addition of 26 aircraft (net of eight retirements) since the end of second quarter 2003. The second quarter 2004 load factor was 76.3 percent, an increase of 6.2 points compared to 2003. The second quarter 2004 load factor was the highest for any quarter in the Company's history. The Company also experienced a 10.6 percent increase in revenue passengers carried compared to second quarter 2003.

The second quarter 2004 passenger yield per RPM decreased 1.1 percent to 11.54 cents from 11.67 cents in second quarter 2003. The lower RPM yield was primarily due to a higher mix of discounted fares compared to the prior year resulting from increased fare sales in 2004. Operating revenue yield per ASM (RASM or unit revenue) increased 7.9 percent to 9.14 cents compared to first quarter 2003, primarily due to higher passenger load factors. Thus far, favorable load factors and unit revenue trends have continued in July. Bookings for the remainder of July and for August are also strong due to high demand for vacation travel. Bookings for September are building nicely as a result of recent fare sales. Based on these trends, the Company expects year-over-year unit revenue growth again in third quarter 2004, although at a slower pace than second quarter due to toughening comparisons. The Company also expects third quarter 2004 unit revenues to be below the second quarter 2004 unit revenues of 9.14 cents, which is consistent with historical seasonal trends.

Consolidated freight revenues increased by \$3 million, or 12.0 percent, due to increases in freight and cargo revenues primarily from an increase in the number of shipments. This increase more than offset a decrease in mail revenues. The Company expects another year-over-year increase in freight and cargo revenue in third quarter 2004. Other revenues increased by \$9 million, or 36.0 percent, compared to second quarter 2003 primarily due to a 53.2 percent increase in commissions earned from programs the Company sponsors with certain business partners, such as the Company sponsored Bank One Visa card. The Company expects another year-over-year increase in these commissions in third quarter 2004.

#### Operating expenses

To a large extent, changes in operating expenses for airlines are driven by changes in capacity, or ASMs. The following presents Southwest's operating expenses per ASM for the three months ended June 30, 2004 and 2003, followed by explanations of changes on a per-ASM basis:

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<Caption>

	Three months ended June 30,		Per ASM	Percent
	2004	2003	Change	Change
<S>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits	3.31	3.28	.03	.9
Fuel and oil	1.31	1.08	.23	21.3
Maintenance materials				
and repairs	.66	.58	.08	13.8
Agency commissions	-	.07	(.07)	(100.0)
Aircraft rentals	.24	.26	(.02)	(7.7)
Landing fees and other rentals	.53	.51	.02	3.9
Depreciation	.57	.53	.04	7.5
Other operating expenses	1.47	1.37	.10	7.3
Total	8.09	7.68	.41	5.3

</Table>

Operating expenses per ASM were 8.09 cents, a 5.3 percent increase compared to 7.68 cents for second quarter 2003. As previously mentioned, the Company's second quarter 2003 unit costs included the impact of a \$41 million increase in profitsharing expense, which related to the \$271 million government grant. Excluding the impact of this item, second quarter operating expenses per ASM increased 8.4 percent. In addition to the expenses associated with the voluntary early out option and tentative agreement with Flight Attendants, the CASM increase was driven by higher labor, aircraft maintenance, and jet fuel costs.

Based on current plans and barring any unforeseen events, third and fourth quarter 2004 CASM will decline from first half 2004 levels. For 2004, the Company's cost goal was to achieve flat overall unit costs compared to 2003's unit cost, excluding the government grant, of 7.54 cents. While jet fuel price increases have been dramatically mitigated by the Company's hedging program (80 percent hedged in 2004 at less than \$24 per barrel of crude oil), fuel prices are still higher than 2003. With the exception of higher fuel costs and certain charges associated with: 1) the consolidation of nine reservations centers into six during first quarter 2004; 2) a voluntary early out offer in second quarter 2004 accepted by just over 1,000 Employees; and 3) higher than planned retroactive pay, per diem, and benefits associated with the tentative agreement with the Flight Attendants TWU Local 556, the Company's first half 2004 spending was in line with the Company's first half 2004 budget.

Based on current plans, the Company expects third quarter 2004 CASM, excluding fuel, to approximate or slightly exceed third quarter 2003's CASM of 6.34 cents. While the Company expects fourth quarter 2004 CASM, excluding fuel, to be lower than the same year ago quarter, CASM for full year 2004 will likely exceed 2003's CASM, excluding fuel and the impact of the government grant, of 6.38 cents due to lower ASM capacity in second half 2004 than previously estimated. The Company currently expects a year-over-year capacity growth of 7.7 percent and 8.9 percent for third and fourth quarter 2004, respectively.

Salaries, wages, and benefits expense per ASM increased .9 percent. Excluding the second quarter 2003 profitsharing impact of the \$271 million government grant from the prior year, approximately 35 percent of the increase in Salaries, wages, and benefits per ASM was due to higher average wage rates, approximately 25 percent of the increase was due to the costs associated with the voluntary early out option offered by the Company in second quarter 2004, 20 percent was due to an increase in benefits costs, including both health care and workers compensation, and 15 percent was due to the retroactive pay and benefits associated with the tentative labor contract reached with the Company's Flight Attendants in second quarter 2004. The Company currently expects continuing wage rate pressures in third quarter 2004; however, Salaries, wages, and benefits will be lower than second quarter 2004's 3.31 cents per ASM, barring any unforeseen events.

Fuel and oil expense per ASM increased 21.3 percent primarily due to an increase in the average jet fuel price per gallon. The average fuel cost per gallon in second quarter 2004 was 81.9 cents, 21.5 percent higher than second quarter 2003, including the effects of hedging activities. For third quarter and the remainder of 2004, the Company has fuel hedges in place for over 80 percent of its expected fuel consumption with a combination of derivative instruments that effectively cap prices under \$24 per barrel of crude oil. The majority of the Company's near term hedge positions are in the form of option contracts. During the first half of 2004, because of the spike in energy prices, the fair values of the Company's fuel hedge contracts have increased significantly. At June 30, 2004, the estimated gross fair value of these contracts was \$548 million. See Note 5 to the unaudited condensed consolidated financial statements for further discussion of the Company's hedging activities.

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Maintenance materials and repairs per ASM increased 13.8 percent primarily due to an increase in repairs for 737-700 aircraft engines, which are based on a time and materials basis. Expense for these aircraft engines increased due to the growing number of this type of aircraft in the Company's fleet, contributing to an increase in repairs for these aircraft engines. The Company expects third quarter 2004 maintenance materials and repairs per ASM to fall below third quarter 2003 expense primarily due to less scheduled maintenance activity.

Agency commissions per ASM decreased to zero due to the elimination of commissions paid to travel agents, effective December 15, 2003. In second quarter 2003, approximately 16 percent of passenger revenues were commissionable, based on the Company's previous policy of paying a 5 percent commission to travel agents. For second quarter 2004, approximately 14 percent of revenues were derived through travel agents, 57 percent through the Company's web site at southwest.com, and the remaining portion primarily derived through the Company's Reservations Centers. Because of the change in commission policy, the Company expects a similar year-over-year comparison for third quarter and remainder of 2004.

Aircraft rentals per ASM decreased 7.7 percent compared to second quarter 2003. Approximately half of the decrease per ASM was due to the increase in ASMs relative to the expense from leased aircraft, and half was due to the negotiation of lower lease rates on several aircraft in 2004. All of the aircraft acquired in 2003 are owned by the Company, and all of the aircraft acquired thus far in 2004, except for one, are owned by the Company. The Company currently expects a similar year-over-year decline in aircraft rentals per ASM for third quarter 2004.

Landing fees and other rentals per ASM increased 3.9 percent compared to second quarter 2003. Approximately 60 percent of the increase was in other rentals expense primarily due to the Company's expansion of gate and counter space at several airports. The remainder of the increase was in landing fees, primarily due to slightly higher rates paid. The Company currently expects year-over-year increases in landing fees and other rentals per ASM for third quarter 2004.

Depreciation expense per ASM increased 7.5 percent primarily due to an increase in owned aircraft. Only one of the 34 aircraft put into service by the Company over the past twelve months has been leased; the remainder are owned by the Company. This has increased the Company's percentage of aircraft owned or on capital lease to 77.8 percent at June 30, 2004 from 76.5 percent at June 30, 2003.

Other operating expenses per ASM increased 7.3 percent. Approximately 20 percent was due to retroactive per diem costs associated with the tentative labor contract reached with the Company's Flight Attendants, and 20 percent of the increase was due to higher advertising expense, associated with fare sales offered by the Company and the Company's start of operations in Philadelphia during second quarter 2004. The remainder of the increase was spread among other items such as personnel expenses and credit card processing fees associated with the increase in revenues. The Company currently expects Other operating expenses per ASM for third quarter 2004 to decline from second quarter 2004.

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Other

Interest expense decreased by \$1 million, or 4.3 percent, primarily due to the Company's October 2003 redemption of \$100 million of senior unsecured 8 3/4% Notes originally issued in 1991.

Capitalized interest increased by \$2 million, or 25.0 percent, primarily due to an increase in progress payment balances for future aircraft deliveries.

Interest income decreased by \$2 million, or 28.6 percent, primarily due to a decrease in rates earned on investments.

Second quarter 2003 "Other (gains) losses, net" primarily consist of a \$271 million government grant from the Wartime Act. See Note 10 to the

unaudited condensed consolidated financial statements for more information on this grant. Also included in second quarter 2003 "Other (gains) losses, net" are amounts 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. During second quarter 2003, the Company recognized \$6 million of expense related to amounts excluded from the Company's measurements of hedge effectiveness. In second quarter 2004, the Company recognized approximately \$6 million of expense related to amounts excluded from the Company's measurements of hedge effectiveness and \$5 million in expense related to the ineffectiveness of its hedges.

The Company's effective tax rate decreased to 36.8 percent in second quarter 2004 from 38.0 percent in second quarter 2003 primarily due to lower state income tax rates. The Company currently expects the second half 2004 effective tax rate to approximate 37 percent.

Comparison of six months ended June 30, 2004 to six months ended June 30, 2003

#### Revenues

Consolidated operating revenues increased by \$334 million, or 11.7 percent, primarily due to a \$311 million, or 11.2 percent, increase in passenger revenues. The increase in passenger revenues was primarily due to an 11.4 percent increase in revenue passenger miles (RPMs) flown.

First half 2004 capacity, as measured by available seat miles (ASMs), increased 5.3 percent compared to the first half of 2003. The capacity increase resulted from the net addition of 26 aircraft (net of eight retirements) since June 30, 2003. The first half 2004 load factor was 70.3 percent, an increase of 3.9 points compared to 2003. The Company also experienced a 8.5 percent increase in revenue passengers carried compared to the first half of 2003.

First half 2004 passenger yield per RPM was basically flat compared to the first half of 2003. Stronger year-over-year increases in RPM yields in January and February were offset by lower March - June yields, primarily due to a higher mix of discounted fares compared to the prior year in response to the Company's 2004 fare sales. Operating revenue yield per ASM (RASM or unit revenue) increased 6.0 percent to 8.61 cents compared to the first half of 2003, primarily due to the increase in load factors.

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Consolidated freight revenues increased by \$7 million, or 14.9 percent, due to increases in freight and cargo revenues primarily from an increase in the number of shipments. This increase more than offset a decrease in mail revenues. Other revenues increased \$16 million, or 33.3 percent compared to the first half of 2003, primarily due to a 45.4 percent increase in commissions earned from programs the Company sponsors with certain business partners, such as the Company sponsored Bank One Visa card.

#### Operating expenses

To a large extent, changes in operating expenses for airlines are driven by changes in capacity, or ASMs. The following presents Southwest's operating expenses per ASM for the six months ended June 30, 2004 and 2003, followed by explanations of changes on a per-ASM basis:

<Table>

<Caption>

	Six months ended June 30,		Per ASM	Percent
	2004	2003	Change	Change
<S>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits	3.26	3.13	.13	4.2
Fuel and oil	1.28	1.14	.14	12.3
Maintenance materials and repairs	.64	.60	.04	6.7
Agency commissions	.01	.07	(.06)	(85.7)
Aircraft rentals	.24	.26	(.02)	(7.7)
Landing fees and other rentals	.54	.51	.03	5.9
Depreciation	.56	.53	.03	5.7
Other operating expenses	1.43	1.35	.08	5.9
Total	7.96	7.59	.37	4.9

</Table>

Operating expenses per ASM were 7.96 cents, a 4.9 percent increase compared to 7.59 cents for the first half of 2003. Excluding the impact of the \$41 million increase in profitsharing expense, which related to the \$271 million government grant, the first half 2004 increase in operating expenses per ASM increased 6.4 percent, primarily due to higher salaries, wages, and benefits, and higher fuel expense. These and other smaller increases were partially offset by lower commissions expense compared to 2003.

Salaries, wages, and benefits expense per ASM increased 4.2 percent, inclusive of \$41 million in additional expense from the profitsharing impact of the 2003 government grant. Excluding the profitsharing impact of the 2003 government grant, approximately 40 percent the increase per ASM was due to higher average wage rates, 20 percent was due to higher benefits costs, primarily health care, and 15 percent was due to costs incurred from the consolidation of the Company's Reservations operations in first quarter 2004. See Note 8 to the unaudited condensed consolidated financial statements. The remainder of the increase was primarily due to the costs associated with the second quarter voluntary early out option offered by the Company, and the retroactive pay and benefits related to the tentative labor contract with the Company's Flight Attendants in second quarter 2004.

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Fuel and oil expense per ASM increased 12.3 percent primarily due to an increase in the average fuel price per gallon. The average fuel cost per gallon for the first half of 2004 was 80.8 cents, 13.8 percent higher than the first half of 2003, 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.

Maintenance materials and repairs per ASM increased 6.7 percent primarily due to an increase in repairs for 737-700 aircraft engines, which are based on a time and materials basis. Expense for these aircraft engines increased due to the growing number of this type of aircraft in the Company's fleet, contributing to an increase in repairs for these aircraft engines. This increase was partially offset by a decrease in expense for 737-200 aircraft engines. The Company is retiring the 737-200 aircraft, and they are currently expected to be completely phased out of the Company's fleet by the end of January 2005.

Agency commissions per ASM decreased 85.7 percent primarily due to the elimination of commissions paid to travel agents, effective December 15, 2003. The Company records commission expense in the period of travel, not the period of sale. Consequently, the Company recognized small amounts of commission expense as all pre-December 15, 2003 commissionable sales were flown. In the first half of 2003, approximately 17 percent of passenger revenues were commissionable, based on the Company's previous policy of paying a 5 percent commission to travel agents. For the first half of 2004, approximately 14 percent of revenues were derived through travel agents, 57 percent through the Company's web site at southwest.com, and the remaining portion primarily derived through the Company's Reservations Centers.

Aircraft rentals per ASM decreased 7.7 percent compared to the first half of 2003 primarily due to the increase in ASMs relative to the number of leased aircraft. The majority of the decrease per ASM was due to the increase in ASMs relative to the expense from leased aircraft. All of the aircraft acquired in 2003 are owned by the Company and all of the aircraft acquired thus far in 2004, except for one, are owned by the Company.

Landing fees and other rentals per ASM increased 5.9 percent compared to the first half of 2003. Approximately 70 percent of the increase was in other rentals expense primarily due to the Company's expansion of gate and counter space at several airports. The remainder of the increase was in landing fees, primarily due to slightly higher rates paid.

Depreciation expense per ASM increased 5.7 percent primarily due to an increase in owned aircraft. Only one of the 34 aircraft put into service by the Company over the past twelve months has been leased; the remainder are owned by the Company. These additional owned aircraft have increased the Company's percentage of aircraft owned or on capital lease to 77.8 percent at June 30, 2004, from 76.5 percent at June 30, 2003.

Other operating expenses per ASM increased 5.9 percent. Approximately 25 percent of the increase was due to higher advertising expense, associated with fare sales offered by the Company and the Company's start of operations in Philadelphia during May 2004, and 25 percent of the increase was due to certain asset write-offs, including assets written off in connection with the Reservations Center consolidation in first quarter 2004. See Note 8 to the

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Condensed Consolidated Financial Statements. The remainder of the increase was spread among items such as higher fuel taxes, personnel expenses, and credit card processing fees.

Other

Interest expense decreased by \$9 million, or 18.4 percent, primarily due to lower effective interest rates. The Company executed two interest-rate swaps in April 2003 to convert a portion of its fixed-rate debt to a lower floating rate. The Company entered into interest rate swap agreements relating to its \$385 million 6.5% senior unsecured notes due March 1, 2012 and \$375 million 5.496% Class A-2 pass-through certificates due November 1, 2006. See Note 5 to the unaudited condensed consolidated financial statements for more information on the Company's hedging activities. In addition, in October 2003 the Company redeemed \$100 million of senior unsecured 8 3/4% Notes originally issued in 1991.

Capitalized interest increased by \$5 million, or 33.3 percent, primarily due to an increase in progress payment balances for future aircraft deliveries.

Interest income decreased by \$3 million, or 25.0 percent, primarily due to a decrease in rates earned on investments.

First half 2003 "Other (gains) losses, net" primarily consist of a \$271 million government grant from the Wartime Act. See Note 10 to the unaudited condensed consolidated financial statements for more information on this grant. Also included in 2003 "Other (gains) losses, net" are amounts 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. In the first half of 2003, the Company recognized \$13 million of expense related to amounts excluded from the Company's measurements of hedge effectiveness and \$14 million in income related to the ineffectiveness of its hedges. In the first half of 2004, the Company recognized approximately \$12 million of expense related to amounts excluded from the Company's measurements of hedge effectiveness and \$1 million in additional income related to the ineffectiveness of its hedges.

The Company's effective tax rate decreased to 37.0 percent for the first half of 2004 from 38.1 percent in the first half of 2003, primarily due to lower state income tax rates.

#### Liquidity and Capital Resources

Net cash provided by operating activities was \$847 million for the six months ended June 30, 2004, compared to \$905 million in the same prior year period. The decrease was primarily due to higher net income in 2003, largely attributable to the \$271 million government grant. The lower 2004 net income was partially offset by an increase in Accounts payable and accrued liabilities, primarily due to higher counterparty deposits associated with the Company's fuel hedging program. See Item 3 and Note 5 to the unaudited condensed consolidated financial statements. Net cash provided by operating activities was \$1.3 billion for the 12 months ended June 30, 2004. Cash generated from operating activities for the 12 months ended June 30, 2004, was primarily used to finance capital expenditures.

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Cash flows used in investing activities during the six months ended June 30, 2004, totaled \$870 million compared to \$518 million in 2003. Investing activities in both years consisted primarily of payments for new 737-700 aircraft delivered to the Company and progress payments for future aircraft deliveries. Cash flows used in investing activities for the 12 months ended June 30, 2004 totaled \$1.6 billion.

Net cash used in financing activities during the six months ended June 30, 2004, was \$74 million compared to \$2 million generated from financing activities in 2003. Net cash used in 2004 was primarily to repurchase the Company's common stock.

#### Contractual Obligations and Contingent Liabilities and Commitments

Southwest has contractual obligations and commitments primarily for future purchases of aircraft, payment of debt, and lease arrangements. Following the receipt of 22 new 737-700 aircraft from Boeing in the first half 2004, the Company has 25 737-700 aircraft deliveries for the remainder of 2004. The Company also recently exercised options for the purchase of three additional 737-700 aircraft to be delivered in 2005. The following table details the Company's current (as of July 15, 2004) firm orders, options, and purchase rights through 2012.

<Table>

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	Current Schedule	
	Firm	Options*
<S>	<C>	<C>
2004**	47	-
2005	34	-
2006	22	12
2007	25	29
2008	6	45
2009-2012	-	177
Total	134	263

\*Includes purchase rights

\*\*Includes 22 aircraft delivered through June 30, 2004

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The following table details information on the 405 aircraft in the Company's fleet as of June 30, 2004:

<Table>

<Caption>

737 Type	Seats	Average Age (Yrs)	Number of Aircraft	Number Owned	Number Leased
<S>	<C>	<C>	<C>	<C>	<C>
-200	122	21.8	18	16	2
-300	137	13.2	194	110	84
-500	122	13.2	25	16	9
-700	137	3.3	168	166	2
TOTALS		9.5	405	308	97

On aircraft to be delivered from the manufacturer, the Company has the option, which must be exercised two years prior to the contractual delivery date, to substitute -600s or -800s for the -700s. Aggregate funding needed

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for firm commitments, as of June 30, 2004, was approximately \$2.8 billion, subject to adjustments for inflation, due as follows: \$617 million remaining in 2004, \$887 million in 2005, \$645 million in 2006, \$523 million in 2007, and \$95 million thereafter.

In January 2004, the Company's Board of Directors authorized the repurchase of up to \$300 million of the Company's common stock, utilizing present and anticipated proceeds from the exercise of Employee stock options. Repurchases will be made in accordance with applicable securities laws in the open market or in private transactions from time to time, depending on market conditions. No expiration date was given to this program. During the first half of 2004, the Company repurchased approximately 9.2 million of its common shares for a total of approximately \$136 million. See Item 2 of Part II of this filing for further information.

The Company has various options available to meet its capital and operating commitments, including cash on hand at June 30, 2004, of \$1.8 billion, internally generated funds, and the Company's fully available \$575 million revolving credit facility. The Company will also consider various borrowing or leasing options to maximize earnings and supplement cash requirements.

The Company currently has outstanding shelf registrations for the issuance of up to \$1.0 billion in public debt securities and pass through certificates, which it may utilize for aircraft financings in the future. The Company expects that a portion of these securities will be issued in 2004.

#### Forward looking statements

Some statements in this Form 10-Q (or otherwise made by the Company or on the Company's behalf from time to time in other reports, filings with the Securities and Exchange Commission, news releases, conferences, World Wide Web postings or otherwise) which are not historical facts may be "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements about Southwest's estimates, expectations, beliefs, intentions, or strategies for the future, and the assumptions underlying these forward-looking statements. Southwest uses the words "anticipates," "believes," "estimates," "expects," "intends," "forecasts," "may," "will," "should," and similar expressions to identify these forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or the Company's present expectations. Factors that could cause these differences include, but are not limited to:

- Items directly linked to the September 11, 2001, terrorist attacks, such as the adverse impact of new airline and airport security directives on the Company's costs and Customer demand for travel, changes in the Transportation Security Administration's scope for managing U.S. airport security, and the possibility of further terrorist attacks or additional incidents that could cause the public to question the safety and/or efficiency of air travel.

- The availability and cost of war-risk and other aviation insurance, including the federal government's provision of third party war-risk coverage to airlines. The government's coverage currently expires on August 31, 2004, but can be extended to December 31, 2004, by the Department of Transportation.

- War or other military actions by the U.S. or others.

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- Competitive factors, such as fare sales and capacity decisions by the Company and its competitors, changes in competitors' flight schedules, mergers and acquisitions, codesharing programs, and airline bankruptcies.

- General economic conditions, which could adversely affect the demand for travel in general and consumer ticket purchasing habits, as well as decisions by major freight Customers on how they allocate freight deliveries among different types of carriers.



- - Factors that could affect the Company's ability to control its costs, such as the results of Employee labor contract negotiations, Employee hiring and retention rates, costs for health care, the largely unpredictable prices of jet fuel, crude oil, and heating oil, the continued effectiveness of the Company's fuel hedges, changes in the Company's overall fuel hedging strategy, capacity decisions by the Company and its competitors, unscheduled required aircraft airframe or engine repairs and regulatory requirements, changes in commission policy, availability of capital markets, and future financing decisions made by the Company.
- - Disruptions to operations due to adverse weather conditions and air traffic control-related constraints.
- - Internal failures of technology or large-scale external interruptions in technology infrastructure, such as power, telecommunications, or the internet.

Caution should be taken not to place undue reliance on the Company's forward-looking statements, which represent the Company's views only as of the date this report is filed. The Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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

As discussed in Note 5 to the unaudited condensed consolidated financial statements, the Company utilizes financial derivative instruments to hedge its exposure to material increases in jet fuel prices. During the first half of 2004, because of the spike in energy prices, the fair values of the Company's fuel hedge contracts has increased significantly. At June 30, 2004, the estimated gross fair value of these contracts was \$548 million, compared to \$251 million at December 31, 2003.

Outstanding financial derivative instruments expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements. However, the Company does not expect any of the counterparties to fail to meet their obligations. The credit exposure related to these financial instruments is represented by the fair value of contracts with a positive fair value at the reporting date. To manage credit risk, the Company selects and periodically reviews counterparties based on credit ratings, limits its exposure to a single counterparty, and monitors the market position of the program and its relative market position with each counterparty. At June 30, 2004, the Company had agreements with seven counterparties containing early termination rights and/or bilateral collateral provisions whereby security is required if market risk exposure exceeds a specified threshold amount or credit ratings fall below certain levels. At June 30, 2004, the Company held \$265 million in collateral deposits under these bilateral collateral provisions. These collateral deposits serve to decrease, but not totally eliminate, the credit risk associated with the Company's hedging program. The deposits are included in Accrued liabilities on the unaudited Condensed Consolidated Balance Sheet.

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, 2003 and Note 5 to the unaudited condensed consolidated financial statements for further information about Market Risk.

### 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 an evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this report conducted by the Company's management, with the participation of the Chief Executive and Chief Financial Officers, 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.

Internal Control over Financial Reporting. During the period covered by this report, there have been no changes in the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

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### 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, Use of Proceeds and Issuer Purchases of Equity Securities

Issuer Purchases of Equity Securities (1)

<Table>					
<Caption>					
	(a)	(b)	(c)	(d)	
Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum dollar value that may yet be purchased under the plans or programs	
<S>	<C>	<C>	<C>	<C>	
April 1, 2004 through April 30, 2004	-	\$ -	-	\$175,117,457	
May 1, 2004 through May 31, 2004	320,000	\$15.48	320,000	\$170,164,609	
June 1, 2004 through June 30, 2004	366,000	\$15.56	366,000	\$164,470,512	
Total (2)	686,000		686,000		
</Table>					

(1) On January 22, 2004, the Company announced a program for the repurchase of up to \$300 million of the Company's common stock, utilizing present and anticipated proceeds from the exercise of Employee stock options. Repurchases will be made in accordance with applicable securities laws in the open market or in private transactions from time to time, depending on market conditions. No expiration date was given to this program.

(2) All shares were purchased pursuant to the publicly announced program.

Recent sales of Unregistered Securities

None

Item 3. Defaults upon Senior Securities

<Page>

None

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

The Company's Annual Meeting of Shareholders was held in Dallas, Texas on Wednesday, May 19, 2004. The following matters were voted on at the meeting:

(i) The following nominees were elected to the Company's Board of Directors to hold office for a term expiring in 2006: Rollin W. King: 715,175,761 shares voted for and 40,634,132 shares withheld; June M. Morris: 596,227,703 shares voted for and 159,582,189 shares withheld. There were no broker non-votes on this matter.

The following nominees were elected to the Company's Board of Directors to hold office for a term expiring in 2007: Herbert D. Kelleher: 628,639,588 shares voted for and 127,170,304 shares withheld; C. Webb Crockett: 534,730,984 shares voted for and 221,078,909 shares withheld; William P. Hobby: 712,427,269 shares voted for and 43,382,624 shares withheld; Travis C. Johnson: 732,205,685 shares voted for and 23,604,207 shares withheld. There were no broker non-votes on this matter.

Additionally, the following current directors of the Company continued to serve as directors as of the Annual Meeting: Colleen C. Barrett, William H.

Cunningham, Nancy B. Loeffler, Louis E. Caldera, John T. Montford, and James F. Parker.

(ii) The Company's selection of Ernst & Young LLP as independent auditors for the fiscal year ending December 31, 2004 was ratified as follows: 743,451,280 shares voted for, 7,778,622 shares voted against, and 4,579,990 shares withheld.

Item 5. Other Information

Effective July 15, 2004, the Company announced that Vice Chairman of the Board and Chief Executive Officer, James F. Parker had retired effective July 15, 2004. Gary Kelly, formerly Executive Vice President - Chief Financial Officer, succeeds Mr. Parker as Vice Chairman and Chief Executive Officer. Laura Wright, formerly the Company's Vice President - Finance and Treasurer succeeds Mr. Kelly as Chief Financial Officer.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

- 10.1 Revolving Credit Facility Agreement among Southwest Airlines Co., the banks party thereto, and JPMorgan Chase Bank, as Administrative Agent, dated as of April 20, 2004.
- 10.2 Amendment No. 5 to the Southwest Airlines Co. Profit Sharing Plan.
- 10.3 Supplemental Agreements Nos. 34, 35, 36, 37, and 38 to Purchase Agreement No. 1810, dated January 19, 1994 between The Boeing

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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.

- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer

b) Reports on Form 8-K

On July 15, 2004, Southwest filed a current report on Form 8-K to furnish the Company's public announcement of its second quarter 2004 earnings, and the announcement of Executive changes.

<page>

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.

July 19, 2004

By /s/ Laura H. Wright  
Laura H. Wright  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

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# EXHIBIT INDEX

Exhibit No.	Description
Exhibit 10.1	- Revolving Credit Facility Agreement among Southwest Airlines Co., the banks party thereto, and JPMorgan Chase Bank, as Administrative Agent, dated as of April 20, 2004.
Exhibit 10.2	- Amendment No. 5 to the Southwest Airlines Co. Profit Sharing Plan.
Exhibit 10.3	- Supplemental Agreements Nos. 34, 35, 36, 37, and 38 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 31.1	- Rule 13a-14(a) Certification of Chief Executive Officer
Exhibit 31.2	- Rule 13a-14(a) Certification of Chief Financial Officer
Exhibit 32.1	- Section 1350 Certification of Chief Executive Officer
Exhibit 32.2	- Section 1350 Certification of Chief Financial Officer

\$575,000,000 COMPETITIVE ADVANCE AND REVOLVING CREDIT FACILITY  
AGREEMENT

Among

SOUTHWEST AIRLINES CO.,

THE BANKS PARTY HERETO,

CITICORP USA INC.,  
as Syndication Agent,

BARCLAYS BANK PLC, SUNTRUST BANK and UBS AG, STAMFORD BRANCH  
as Documentation Agents,

and

JPMORGAN CHASE BANK,  
as Administrative Agent

As of April 20, 2004

J.P. MORGAN SECURITIES INC.  
and  
CITIGROUP GLOBAL MARKETS INC.,  
as Co-Lead Arrangers and Joint Bookrunners

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Form of Competitive Bid	Exhibit C
Form of Competitive Note	Exhibit D-1
Form of Committed Note	Exhibit D-2
Form of Company's Internal Counsel Opinion	Exhibit E-1
Form of Company's Outside Counsel Opinion	Exhibit E-2
Form of Agents' Counsel Opinion	Exhibit E-3
Form of Financial Report Certificate	Exhibit F
Form of Assignment and Acceptance	Exhibit G
Form of Appraisal	Exhibit H

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COMPETITIVE ADVANCE AND  
REVOLVING CREDIT FACILITY AGREEMENT

COMPETITIVE ADVANCE AND REVOLVING CREDIT FACILITY AGREEMENT, dated as of April 20, 2004, among SOUTHWEST AIRLINES CO. (the "Company"), the Banks, JPMORGAN CHASE BANK, as administrative agent for the Banks (in such capacity, the "Administrative Agent"), CITICORP USA INC., as syndication agent for the Banks (in such capacity, the "Syndication Agent"), and BARCLAYS BANK PLC, SUNTRUST BANK and UBS AG, STAMFORD BRANCH 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 \$575,000,000 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:

ARTICLE I

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.  
<Page>

"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 Agents.

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

"Agreement" means this 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:



<Page>  
<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%

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 addressed to the Administrative Agent and 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).

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

"Banks" means those banks and other financial institutions signatory hereto and other banks or financial institutions 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 Total Commitment on such date (or, after termination of the Commitments, the sum of the aggregate outstanding amount

of Loans and L/C Obligations).

"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.

<Page>

"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, 2003.

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"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 20, 2004.

"Eligible Affiliate Assignee" means, with respect to any Bank, an Affiliate thereof that is: (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; or (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.

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"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 Agreements" means the 364-Day and 3-Year Competitive Advance and Revolving Credit Facility Agreements, each dated as of April 23, 2002, among the Company, the banks party thereto and the agents referred to therein.

"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	.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.

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"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.

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"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. For avoidance of doubt, the filing of a Uniform Commercial Code financing statement by a Person that is not entitled or authorized in accordance with the applicable Uniform Commercial Code to file such financing statement shall not, in and of itself, constitute a Lien.

"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.

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"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 (excluding Competitive Loans) and unused Commitments representing more than 50% of the sum of the total Revolving Credit Exposures (excluding Competitive Loans) 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.

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"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 20, 2007.

"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 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 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

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"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

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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.

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"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.

"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.

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## 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.

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(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

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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.

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#### 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

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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.

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#### 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.

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#### 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

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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

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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,

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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

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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:

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(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

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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

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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

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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

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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

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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 17, 2004, between the Company 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.

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(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

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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

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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 Agreements shall have been terminated and all amounts owing thereunder shall have been paid in full. Each party hereto that is also a party to an Existing Credit Agreement hereby waives any requirement under such 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):

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(a) The representations and warranties contained in Article V (except the last sentence of Section 5.2 and except Section 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 the last sentence of Section 5.2 and except Section 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):

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(a) The representations and warranties contained in Article V (except the last sentence of Section 5.2 and except Section 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

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(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, 2003.

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 <Page> 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, 1994.

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.

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## 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

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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 (for onward distribution to the Banks) 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.

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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

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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,

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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. (a) 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 authorize 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

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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 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

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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

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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).

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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) Barclays Bank PLC, SunTrust Bank and UBS AG 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

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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

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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

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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 holder (including any Bank) unless and until such Agent receives written notice to the contrary. Notices, consents, requests, approvals, demands, and other communications

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(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:  
Southwest Airlines Co.  
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:  
JPMorgan Chase Bank Loan and Agency Service  
1111 Fannin, 10th Floor  
Houston, Texas 77002  
Telecopy Number: (713) 750-2938  
Attention: Michael V. Chau

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

JPMorgan Chase Bank  
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

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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 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

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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

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(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 of or 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

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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

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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

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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: \_\_\_\_\_

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\$60,000,000

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

By:

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

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

\$60,000,000

CITICORP USA INC., as a Bank and as

Syndication Agent

By:

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

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

\$40,000,000

BARCLAYS BANK PLC, as a Bank and as a  
Documentation Agent

By:

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

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

\$40,000,000

SUNTRUST BANK, as a Bank and as a  
Documentation Agent

By:

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

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

UBS AG, STAMFORD BRANCH, as a  
Documentation Agent

By:

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

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

By:

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

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

\$30,000,000

BANK ONE, NA

By:

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

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

\$35,000,000

BNP PARIBAS

By:

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

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

By:

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

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

\$20,000,000

COMERICA BANK

By:

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

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

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\$35,000,000

CREDIT SUISSE FIRST BOSTON, acting through  
its Cayman Islands Branch

By:

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

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

\$35,000,000

DEUTSCHE BANK AG, NEW YORK BRANCH

By:

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

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

By:

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

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

\$20,000,000

MORGAN STANLEY BANK

By:

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

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

\$35,000,000

SOCIETE GENERALE

By:

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

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

\$35,000,000

THE ROYAL BANK OF SCOTLAND PLC

By:

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

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

\$35,000,000

THE BANK OF TOKYO-MITSUBISHI, LTD.

By:

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

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

By:

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

\$40,000,000

UBS LOAN FINANCE LLC

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

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

\$35,000,000

WELLS FARGO BANK, N.A.

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

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\$20,000,000

WILLIAM STREET COMMITMENT CORPORATION

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

AMENDMENT NO. 5  
TO SOUTHWEST AIRLINES CO. PROFIT SHARING PLAN

Pursuant to the authority of the Board of Directors of Southwest Airlines Co., and the provisions of Section 17.1 thereof, the Southwest Airlines Co. Profit Sharing Plan is hereby amended, effective as of May 20, 2004, in the following respects only:

(1) Article VI, Section 6.2, is hereby amended in its entirety, to read as follows:

"6.2 Allocation of Forfeitures: If a Member or former Member forfeits a portion of his Individual Account as provided in Sections 10.3 or 10.4 hereof, then said forfeited amount shall be used first to restore the Individual Accounts of rehired Members, as required under Section 15.3 hereof, and next to reduce Company contributions made in accordance with Section 18.12 hereof for Plan Years prior to the Plan Year in which a Member returns from qualified military service, as well as any such contributions outstanding as of the effective date hereof. Any remaining forfeitures shall be allocated as soon as practicable following the Plan Year in which said forfeiture occurs among the Individual Accounts of the Members and former Members who are eligible to have a Company Contribution credited on their behalf for such Plan Year, as set forth in Section 6.1 hereof. The amount of the forfeiture allocated under this Section 6.2 to the Individual Account of such Member or former Member shall be in the proportion that his Annual Compensation for such Plan Year bears to the total Annual Compensation for such Plan Year of all such Members and former Members.

If a Member or former Member who does not have any nonforfeitable right to his Individual Account terminates his employment and thereby forfeits his Individual Account, then in the event such Member or former Member is reemployed before he has incurred five (5) or more consecutive Breaks in Service, his Individual Account which was forfeited shall be restored by the Company at the time of his reemployment."

IN WITNESS WHEREOF, and as conclusive evidence of the adoption of the foregoing instrument comprising Amendment No. 5 to the Southwest Airlines Co. Profit Sharing Plan, the Company has caused these presents to be duly executed in its name and behalf by its proper officers thereunto duly authorized this 19 day of May, 2004.

<Page>

SOUTHWEST AIRLINES CO.

By: /s/ James F. Parker  
James F. Parker, Chief Executive Officer

ATTEST:

/s/ Deborah Ackerman  
Deborah Ackerman, Assistant Secretary

STATE OF TEXAS           Section  
                              Section  
COUNTY OF DALLAS       Section

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this 19 day of May, 2004, personally appeared JAMES F. PARKER, to me known to be the identical person who subscribed the name of SOUTHWEST AIRLINES CO., as its CHIEF EXECUTIVE OFFICER to the foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed and as the free and voluntary act and deed of such organization for the uses and purposes therein set forth.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, the day and year last above written



/s/ Marilyn Strickland  
Notary Public in and for the State of Texas

My Commission Expires: 5-31-05

Supplemental Agreement No. 34

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 February 6, 2004, by and between THE BOEING COMPANY, a Delaware corporation with principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with 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) and;

WHEREAS, Buyer has agreed to exercise one (1) May 2005 Block U Option Aircraft (as Block T Aircraft) and;

WHEREAS, Buyer and Boeing agreed to revise Letter Agreement No. 6-1162-JMG-669 dated June 30, 2003 (the Letter Agreement) to incorporate further agreement associated with one (1) February 2004 and one (1) April 2004 Block T Aircraft identified as Service Aircraft in the Letter Agreement and;

\*\*\*

\*\*\*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.

P.A. No. 1810

SA-34-1

K/SWA

2. Table 1 is deleted in its entirety and replaced by a new Table 1 which is attached hereto and is incorporated into the Agreement by this reference.

3. Table 2 is deleted in its entirety and replaced by a new Table 2 which is attached hereto and is incorporated into the Agreement by this reference. NOTE - Buyer now has thirty-six (36) 'banked' Rollover Option Aircraft as a result of the option exercises covered by Supplemental Agreement No. 21, 23, 24, 26, 27, 28, 29, 30, 31, 32, 33 and 34 that may be converted to Option Aircraft at a future date subject to the terms of Letter Agreement No. 6-1162-RLL-933R19.

4. Letter Agreement No. 6-1162-JMG-669 entitled "Special Matters" is replaced and superseded by Letter Agreement No. 6-1162-JMG-669R1 attached hereto.

5. Letter Agreement No. 6-1162-NIW-606 entitled \*\*\* is attached hereto and is hereby incorporated into the agreement by this reference.

6. 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 seventy-two (272) Model 737-7H4 Aircraft, fifty-one (51) 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.

7. The Advance Payments due upon signing assuming execution of this

Supplemental Agreement in January 2004 are:

\*\*\* for the May 2005 aircraft

Buyer will pay the \*\*\* directly to Boeing on or before Friday, January 30, 2004.

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/ Nobuko Wiles

By:/s/ Laura Wright

Its: Attorney-In-Fact

Its: Vice President  
Finance & Treasurer

P.A. No. 1810

SA-34-2

K/SWA

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Table 1 to  
Purchase Agreement No. 1810  
Aircraft Information Table

<S>	Base Aircraft Price <C>	Special Features <C>	Aircraft Price <C>	Basic Base Year Dollars <C>
Block A,B,C,D&E Aircraft	***	***	***	July 1992
Block F&G Aircraft	***	***	***	July 1992
Block H Aircraft	***	***	***	July 1992
Block I Aircraft	***	***	***	July 1992
Block J Aircraft	***	***	***	July 1992
Block K Aircraft	***	***	***	July 1992
Block L Aircraft	***	***	***	July 1992
Block T Aircraft	***	***	***	July 1999

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	Delivery Date	Number of Aircraft	Aircraft Block	Adv Payment Base Price Per A/P	
	<S>	<C>	<C>	<C>	
SWA	Dec-2000	2	E	***	
	Jan-2001	1	E	***	
	Feb-2001	1	E	***	
	Mar-2001	2	E	***	
	Jun-2001	3	E	***	
	Sep-2001	3	E	***	
	Oct-1998	1	F	***	
	Nov-1998	2	F	***	
	Dec-1998	2	F	***	
	Mar-1999	2	G	***	
	Jun-1999	2	H	***	
	Jul-1999	1	H	***	
	Aug-1999	1	H	***	
	Sep-1999	2	H	***	
	Oct-1999	1	H	***	
	Mar-2000	1	H	***	
	Apr-2000	2	H	***	
	Sep-2000	1	H	***	
	Oct-2000	2	H	***	
	Mar-2001	2	H	***	
	Apr-2001	1	H	***	
	Oct-2001	3	H	***	
	Nov-2001	2	I	***	
	Dec-2001	1	I	***	
	Jan-2002	1	I	***	
	Mar-2002	4	I	***	
	Apr-2002	2	I	***	
	Dec-2002	2	I	***	
	May-2003	1	I	***	
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		Jun-2003	2	I	***
		Jul-2003	1	I	***
		Aug-2003	1	I	***
		Sep-2003	3	I	***
		Nov-2002	1	J	***
		Dec-2002	1	J	***
		Nov-2003	2	J	***
		Dec-2003	2	J	***
		Mar-2004	1	J	***
	Mar-2004	1	K	***	
	Apr-2004	3	K	***	
	May-2004	1	K	***	
	Jun-2004	2	K	***	
	Jul-2004	2	K	***	
	Sep-2004	1	K	***	
	Oct-2004	4	K	***	
	Oct-1999	1	L	***	
	Nov-1999	2	L	***	
	Dec-1999	1	L	***	
	Jun-2000	3	L	***	
	Jul-2000	3	L	***	
	Sep-2000	1	L	***	
	Oct-2000	1	L	***	
	Nov-2000	4	L	***	
	Dec-2000	1	L	***	
	Jan-2001	1	L	***	
	Feb-2001	1	L	***	
	Jul-2001	1	L	***	
	Sep-2001	1	L	***	
	Oct-2001	1	L	***	
	Mar-2003	2	L	***	
	Jul-2003	1	L	***	
	Aug-2003	2	L	***	
	Nov-2001	1	T	***	
	Feb-2002	1	T	***	
	Jan-2004	2	T	***	
	Feb-2004	1	T	***	
	Apr-2004	3	T	***	
	May-2004	1	T	***	
	Jun-2004	6	T	***	
	Jul-2004	2	T	***	
	Aug-2004	6	T	***	
	Sep-2004	3	T	***	
	Oct-2004	1	T	***	
	Nov-2004	3	T	***	
	Dec-2004	3	T	***	
	Jan-2005	5	T	***	
	Feb-2005	3	T	***	
	Mar-2005	4	T	***	
	Apr-2005	4	T	***	

SWA	May-2005	2	T	***
	Jun-2005	3	T	***
	Jul-2005	2	T	***
	Aug-2005	1	T	***
	Sep-2005	2	T	***
	Oct-2005	1	T	***
	Nov-2005	1	T	***
	Dec-2005	1	T	***
	Feb-2006	4	T	***
	May-2006	3	T	***
	Jun-2006	4	T	***
	Jul-2006	1	T	***
	Aug-2006	3	T	***
	Sep-2006	3	T	***
	Nov-2006	2	T	***
	Dec-2006	2	T	***
	Jan-2007	2	T	***
	Feb-2007	3	T	***
	Mar-2007	2	T	***
	Apr-2007	2	T	***
	May-2007	2	T	***
	Jun-2007	2	T	***
	Jul-2007	2	T	***
	Aug-2007	2	T	***
	Sep-2007	2	T	***
	Oct-2007	2	T	***
	Nov-2007	2	T	***
	Dec-2007	2	T	***
	Jan-2008	1	T	***
	Feb-2008	1	T	***
	Mar-2008	1	T	***
	Apr-2008	1	T	***
	May-2008	1	T	***
	Jun-2008	1	T	***

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</Table>

SWA  
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Table 2 to Purchase Agreement No. 1810  
(Letter Agreement No. 6-1162-RLL-933R19)  
Option Aircraft Information Table

Price Description of Option Aircraft:

	Base Aircraft Price	Special Features	Aircraft Basic Price	Base Year Dollars
<S>	<C>	<C>	<C>	<C>
Block U Option Aircraft	***	***	***	July 1999

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Delivery of Rollover Option Aircraft:

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

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Remaining Option Aircraft:

51

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Aircraft	Number of	Option	Adv Payment	
Delivery	Option	Aircraft	Base	
Mo. & Yr.	Aircraft	Block	Price Per	Option Exercise
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Jun-2005	1	U	***	February 1, 2004
Aug-2005	1	U	***	April 1, 2004
Sep-2005	1	U	***	May 1, 2004
Oct-2005	1	U	***	June 1, 2004
Nov-2005	1	U	***	July 1, 2004
Jan-2006	1	U	***	September 1, 2004
Mar-2006	3	U	***	November 1, 2004
Apr-2006	2	U	***	December 1, 2004
May-2006	2	U	***	January 1, 2005
Jun-2006	1	U	***	February 1, 2005
Jul-2006	2	U	***	March 1, 2005
Oct-2006	1	U	***	June 1, 2005
SWA		Page 1		SA-34
Apr-2007	1	U	***	December 1, 2005
May-2007	1	U	***	January 1, 2006
Jun-2007	1	U	***	February 1, 2006
Jul-2007	1	U	***	March 1, 2006
Aug-2007	1	U	***	April 1, 2006
Sep-2007	1	U	***	May 1, 2006
Oct-2007	1	U	***	June 1, 2006
Nov-2007	1	U	***	July 1, 2006
Dec-2007	1	U	***	August 1, 2006
Jan-2008	2	U	***	September 1, 2006
Feb-2008	3	U	***	October 1, 2006
Mar-2008	2	U	***	November 1, 2006
Apr-2008	2	U	***	December 1, 2006
May-2008	2	U	***	January 1, 2007
Jun-2008	2	U	***	February 1, 2007
Jul-2008	2	U	***	March 1, 2007
Aug-2008	2	U	***	April 1, 2007
Sep-2008	2	U	***	May 1, 2007
Oct-2008	2	U	***	June 1, 2007
Nov-2008	2	U	***	July 1, 2007
Dec-2008	2	U	***	August 1, 2007

</Table>

Southwest Airlines Co.  
P.O. Box 36611 - Love Field  
Dallas, Texas 75235

Subject: Special Matters

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 aircraft:

1) \*\*\*

\*\*\*

1. \*\*\*

2. \*\*\*

3. \*\*\*

Further, Boeing will issue a credit memorandum at the  
\*\*\*

4. \*\*\*

5. \*\*\*

Letter agreement no. 6-1162-DSF-483/737-7H4 dated August 19, 1998 is amended to  
\*\*\*

6. 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,

P.A. No. 1810  
K/SWA  
Southwest Airlines Co.  
6-1162-JMG-669R1  
Page 2

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THE BOEING COMPANY

By/s/ Nobuko Wiles  
Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

date:February 6, 2004

SOUTHWEST AIRLINES CO.



By/s/ Laura Wright

Its Vice President Finance & Treasurer

P.A. No. 1810  
K/SWA  
6-1162-NIW-606

SA-34

Southwest Airlines Co.  
P.O. Box 36611 - Love Field  
Dallas, Texas 75235

Subject: \*\*\*

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.

\*\*\*

\*\*\*

\*\*\*

\*\*\*

Very truly yours,

THE BOEING COMPANY

By /s/ Nobuko Wiles

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

date:Feb 6, 2004

SOUTHWEST AIRLINES CO.

By /s/ Laura Wright

Supplemental Agreement No. 35

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 February 23, 2004, by and between THE BOEING COMPANY, a Delaware corporation with principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with 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) and;

WHEREAS, Buyer has agreed to exercise one (1) June 2005 Block U Option Aircraft (as Block T Aircraft) and;

WHEREAS, Boeing requested and Buyer agreed to take early delivery of certain two (2) April 2004 Aircraft (YA151 and YA152) in March 2004 and;

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.

2. Table 1 is deleted in its entirety and replaced by a new Table 1 which is attached hereto and is incorporated into the Agreement by this reference.

3. Table 2 is deleted in its entirety and replaced by a new Table 2 which is attached hereto and is incorporated into the Agreement by this reference.

P.A. No. 1810  
K/SWA

SA-35-1

NOTE - Buyer now has thirty-seven (37) 'banked' Rollover Option Aircraft as a result of the option exercises covered by Supplemental Agreement No. 21, 23, 24, 26, 27, 28, 29, 30, 31, 32, 33, 34 and 35 that may be converted to Option Aircraft at a future date subject to the terms of Letter Agreement No. 6-1162-RLL-933R19.

5. Letter Agreement No. 6-1162-NIW-640 entitled "Early Delivery of Two April 2004 Aircraft" is attached hereto and is hereby incorporated into the agreement by this reference.

6. 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 seventy-three (273) Model 737-7H4 Aircraft, fifty (50) 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.

7. The Advance Payments due upon signing assuming execution of this Supplemental Agreement on or before February 27, 2004 are:

\*\*\* for the June 2005 aircraft

Buyer will pay the \*\*\* directly to Boeing on or before Friday, February 27, 2004.

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/ Nobuko Wiles

By:/s/ Laura Wright

Its: Attorney-In-Fact

Its:Vice President  
Finance & Treasurer

P.A. No. 1810

SA-35-1

K/SWA

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LETTER AGREEMENTS

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Table 1 to  
Purchase Agreement No. 1810  
Aircraft Information Table

	Base Aircraft Price	Special Features	Aircraft Basic Price	Base Year Dollars
<S>	<C>	<C>	<C>	<C>
Block A,B,C,D&E Aircraft	***	***	***	July 1992
Block F&G Aircraft	***	***	***	July 1992
Block H Aircraft	***	***	***	July 1992
Block I Aircraft	***	***	***	July 1992
Block J Aircraft	***	***	***	July 1992
Block K Aircraft	***	***	***	July 1992
Block L Aircraft	***	***	***	July 1992
Block T Aircraft	***	***	***	July 1999

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<Caption>

Delivery Date	Number of Aircraft	Aircraft Block	Escalation Estimate Adv Payment Base Price Per A/P
<S>	<C>	<C>	<C>
Dec-2000	2	E	***
Jan-2001	1	E	***
Feb-2001	1	E	***
Mar-2001	2	E	***
Jun-2001	3	E	***
Sep-2001	3	E	***
Oct-1998	1	F	***
Nov-1998	2	F	***
Dec-1998	2	F	***
Mar-1999	2	G	***
Jun-1999	2	H	***
Jul-1999	1	H	***
Aug-1999	1	H	***
Sep-1999	2	H	***
Oct-1999	1	H	***
Mar-2000	1	H	***
Apr-2000	2	H	***
Sep-2000	1	H	***

Oct-2000	2	H	***
Mar-2001	2	H	***
Apr-2001	1	H	***
Oct-2001	3	H	***
Nov-2001	2	I	***
Dec-2001	1	I	***
Jan-2002	1	I	***
Mar-2002	4	I	***
Apr-2002	2	I	***
Dec-2002	2	I	***
May-2003	1	I	***
Jun-2003	2	I	***
Jul-2003	1	I	***
Aug-2003	1	I	***
Sep-2003	3	I	***
Nov-2002	1	J	***
Dec-2002	1	J	***
Nov-2003	2	J	***
Dec-2003	2	J	***
Mar-2004	1	J	***
Mar-2004	1	K	***
Apr-2004	3	K	***
May-2004	1	K	***
Jun-2004	2	K	***
Jul-2004	2	K	***
Sep-2004	1	K	***
Oct-2004	4	K	***
Oct-1999	1	L	***
Nov-1999	2	L	***
Dec-1999	1	L	***
Jun-2000	3	L	***
Jul-2000	3	L	***
Sep-2000	1	L	***
Oct-2000	1	L	***
Nov-2000	4	L	***
Dec-2000	1	L	***
Jan-2001	1	L	***
Feb-2001	1	L	***
Jul-2001	1	L	***
Sep-2001	1	L	***
Oct-2001	1	L	***
Mar-2003	2	L	***
Jul-2003	1	L	***
Aug-2003	2	L	***
Nov-2001	1	T	***
Feb-2002	1	T	***
Jan-2004	2	T	***
Feb-2004	1	T	***
Apr-2004	3	T	***
May-2004	1	T	***
Jun-2004	6	T	***
Jul-2004	2	T	***
Aug-2004	6	T	***
Sep-2004	3	T	***
Oct-2004	1	T	***
Nov-2004	3	T	***
Dec-2004	3	T	***
Jan-2005	5	T	***
Feb-2005	3	T	***
Mar-2005	4	T	***
Apr-2005	4	T	***
May-2005	2	T	***
Jun-2005	4	T	***
Jul-2005	2	T	***
Aug-2005	1	T	***
Sep-2005	2	T	***
Oct-2005	1	T	***
Nov-2005	1	T	***
Dec-2005	1	T	***
Feb-2006	4	T	***
May-2006	3	T	***
Jun-2006	4	T	***
Jul-2006	1	T	***
Aug-2006	3	T	***
Sep-2006	3	T	***
Nov-2006	2	T	***
Dec-2006	2	T	***
Jan-2007	2	T	***
Feb-2007	3	T	***
Mar-2007	2	T	***
Apr-2007	2	T	***
May-2007	2	T	***
Jun-2007	2	T	***
Jul-2007	2	T	***
Aug-2007	2	T	***

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Aircraft	Number of	Option	Adv Payment	
Delivery	Option	Aircraft	Base	
Mo. & Yr.	Aircraft	Block	Price Per	
<S>	<C>	<C>	Option Aircraft	Option Exercise
Aug-2005	1	U	***	April 1, 2004
Sep-2005	1	U	***	May 1, 2004
Oct-2005	1	U	***	June 1, 2004

Nov-2005	1	U	***	July 1, 2004
Jan-2006	1	U	***	September 1, 2004
Mar-2006	3	U	***	November 1, 2004
Apr-2006	2	U	***	December 1, 2004
May-2006	2	U	***	January 1, 2005
Jun-2006	1	U	***	February 1, 2005
Jul-2006	2	U	***	March 1, 2005
Oct-2006	1	U	***	June 1, 2005
Apr-2007	1	U	***	December 1, 2005
May-2007	1	U	***	January 1, 2006
Jun-2007	1	U	***	February 1, 2006
Jul-2007	1	U	***	March 1, 2006
Aug-2007	1	U	***	April 1, 2006
Sep-2007	1	U	***	May 1, 2006
Oct-2007	1	U	***	June 1, 2006
Nov-2007	1	U	***	July 1, 2006
Dec-2007	1	U	***	August 1, 2006
Jan-2008	2	U	***	September 1, 2006
Feb-2008	3	U	***	October 1, 2006
Mar-2008	2	U	***	November 1, 2006
Apr-2008	2	U	***	December 1, 2006
May-2008	2	U	***	January 1, 2007
Jun-2008	2	U	***	February 1, 2007
Jul-2008	2	U	***	March 1, 2007
Aug-2008	2	U	***	April 1, 2007
Sep-2008	2	U	***	May 1, 2007
Oct-2008	2	U	***	June 1, 2007
Nov-2008	2	U	***	July 1, 2007
Dec-2008	2	U	***	August 1, 2007

</Table>

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6-1162-NIW-640

Southwest Airlines Co.  
P.O. Box 36611 - Love Field  
Dallas, Texas 75235

Subject: \*\*\*



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.

Boeing requested and Buyer agreed to \*\*\*

\*\*\*

The Advance Payment Base Price of the respective Aircraft \*\*\*

Very truly yours,

THE BOEING COMPANY

By /s/ Nobuko Wiles

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

date:February 23, 2004

SOUTHWEST AIRLINES CO.

By/s/ Laura Wright

Its Vice President Finance & Treasurer

P.A. No. 1810

SA-35

Supplemental Agreement No. 36

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 April 30, 2004, by and between THE BOEING COMPANY, a Delaware corporation with principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with 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) and;

WHEREAS, Buyer has agreed to exercise one (1) August 2005 Block U Option Aircraft (as Block T Aircraft) and;

WHEREAS, Buyer elected to install the Aviation partners Boeing (APB) winglets in production and;

WHEREAS, Buyer and Boeing agreed to add Exhibit A to reflect Special Features for Block F through L and;

WHEREAS, Buyer and Boeing agreed to revise certain terms used in the previously executed Letter Agreement No. 6-1162-NIW-606 entitled "Refurbished Elevator Tab Assembly Installation" and;

\*\*\*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.

WHEREAS,\*\*\*;

WHEREAS,\*\*\*;

P.A. No. 1810

SA-36-1

K/SWA

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. Table 1 is deleted in its entirety and replaced by a new Table 1 which is attached hereto and is incorporated into the Agreement by this reference.

3. Table 2 is deleted in its entirety and replaced by a new Table 2 which is attached hereto and is incorporated into the Agreement by this reference.

NOTE - Buyer now has thirty-eight (38) 'banked' Rollover Option Aircraft as a result of the option exercises covered by Supplemental Agreement No. 21, 23, 24, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35 and 36 that may be converted to Option Aircraft at a future date subject to the terms of Letter Agreement No. 6-1162-RLL-933R19.

4. Exhibit A is deleted in its entirety and replaced by a new Exhibit A which is attached hereto and is incorporated into the Agreement by this reference.

5. "Exhibit A-Winglet" attached hereto is added to incorporate the record option to install production winglets on Block K aircraft delivering after August 1, 2004.

6. "Exhibit A-1-Winglet" attached hereto is added to incorporate the record option to install production winglets on Block T aircraft delivering after August 1, 2004.

7. Letter Agreement No. 6-1162-NIW-606 entitled \*\*\* is deleted in its entirety and replaced by Letter Agreement No. 6-1162-NIW-606R1 \*\*\* attached hereto and is hereby incorporated into the agreement by this reference.

8. Letter Agreement No. 6-1162-JMG-747 entitled is deleted in its entirety and replaced by Letter Agreement No. 6-1162-JMG-747R1 attached hereto and is hereby incorporated into the agreement by this reference.

9. Letter Agreement No. 6-1162-JMG-669R1 entitled "Special Matters" is deleted in its entirety and replaced by Letter Agreement No. 6-1162-JMG-669R2 "Special Matters" attached hereto and is hereby incorporated into the agreement by this reference.

10. 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 seventy-four (274) Model 737-7H4 Aircraft, Forty-nine (49) 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.

11. The Advance Payments due upon signing assuming execution of this Supplemental Agreement on or before April 30, 2004 are:

P.A. No. 1810

SA-36-1

K/SWA

\*\*\* for the August 2005 aircraft

Buyer will pay the \*\*\* directly to Boeing on or before Friday, April 30, 2004.

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/ Nobuko Wiles

By:/s/ Laura Wright

Its: Attorney-In-Fact

Its:Vice President  
Finance & Treasurer

P.A. No. 1810

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K/SWA

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	Flights and Test Data	9-1	
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11.	Termination for Certain Events	11-1	
12.	Product Assurance; Disclaimer and		
	Release; Exclusion of Liabilities;		
	Customer Support; Indemnification		
	and Insurance	12-1	
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LETTER AGREEMENTS

1810-1	Waiver of Aircraft Demonstration Flight
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6-1162-RLL-945	Comparison of 737-7H4 and 737-3H4 Block Fuel Burn	
6-1162-RLL-1855R3	Additional Contractual Matters	SA-4
6-1162-RLL-1856	***	SA-1
6-1162-RLL-1857	Service Ready Validation Program Field Test	SA-1
6-1162-RLL-1858R1	Escalation Matters	SA-4
6-1162-RLL-2036	Amortization of Costs for Customer Unique Changes	SA-1
6-1162-RLL-2037	Reconciliation of the Aircraft Basic Price	SA-1
6-1162-RLL-2073	Maintenance Training Matters	SA-1
6-1162-KJJ-054	Business Matters	SA-13
6-1162-KJJ-055R1	Structural Matters	SA-25
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
6-1162-JMG-669R2	Special Matters	SA-36
6-1162-JMG-747R1	***	SA-36
6-1162-CHL-217	Rescheduled Flight Test Aircraft	SA-32
6-1162-NIW-606R1	***	SA-36
6-1162-NIW-640	***	SA-35

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K/SWA		SA-36
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Table 1 to  
Purchase Agreement No. 1810  
Aircraft Information Table

	Base Aircraft Price	Special Features	Aircraft Basic Price	Base Year Dollars
<S>	<C>	<C>	<C>	<C>
Block A,B,C,D&E	***	***	***	July 1992

Aircraft				
Block F & G	***	***	***	July 1992
Aircraft				
Block H Aircraft	***	***	***	July 1992
Block I Aircraft	***	***	***	July 1992
Block J Aircraft	***	***	***	July 1992
Block K Aircraft	***	***	***	July 1992
Block K-W Aircraft	***	***	***	July 1992
Block L Aircraft	***	***	***	July 1992
Block T Aircraft	***	***	***	July 1999
Block T-W Aircraft	***	***	***	July 1999

Block K-W Aircraft: Block K airplanes with production winglets installation

Block T-W Aircraft: Block T airplanes with production winglets installation

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	Delivery	Number of	Aircraft	Escalation Estimate	
	Date			Adv Payment Base	
<S>		<C>	Block	Price Per A/P	
	Dec-2000	2	E	***	
	Jan-2001	1	E	***	
	Feb-2001	1	E	***	
	Mar-2001	2	E	***	
	Jun-2001	3	E	***	
	Sep-2001	3	E	***	
	Oct-1998	1	F	***	
	Nov-1998	2	F	***	
	Dec-1998	2	F	***	
	Mar-1999	2	G	***	
	Jun-1999	2	H	***	
	Jul-1999	1	H	***	
	Aug-1999	1	H	***	
	Sep-1999	2	H	***	
	Oct-1999	1	H	***	
	Mar-2000	1	H	***	
	Apr-2000	2	H	***	
	Sep-2000	1	H	***	
	Oct-2000	2	H	***	
	Mar-2001	2	H	***	
	Apr-2001	1	H	***	
SWA			Page 1		SA-36
	Oct-2001	3	H	***	
	Nov-2001	2	I	***	
	Dec-2001	1	I	***	
	Jan-2002	1	I	***	
	Mar-2002	4	I	***	
	Apr-2002	2	I	***	
	Dec-2002	2	I	***	
	May-2003	1	I	***	
	Jun-2003	2	I	***	
	Jul-2003	1	I	***	
	Aug-2003	1	I	***	
	Sep-2003	3	I	***	
	Nov-2002	1	J	***	
	Dec-2002	1	J	***	
	Nov-2003	2	J	***	
	Dec-2003	2	J	***	
	Mar-2004	1	J	***	
	Mar-2004	1	K	***	
	Apr-2004	3	K	***	
	May-2004	1	K	***	
	Jun-2004	2	K	***	
	Jul-2004	2	K	***	
	Sep-2004	1	K-W	***	
	Oct-2004	4	K-W	***	
	Oct-1999	1	L	***	
	Nov-1999	2	L	***	
	Dec-1999	1	L	***	
	Jun-2000	3	L	***	
	Jul-2000	3	L	***	
	Sep-2000	1	L	***	
	Oct-2000	1	L	***	
	Nov-2000	4	L	***	
	Dec-2000	1	L	***	
	Jan-2001	1	L	***	
	Feb-2001	1	L	***	
	Jul-2001	1	L	***	
	Sep-2001	1	L	***	
	Oct-2001	1	L	***	
	Mar-2003	2	L	***	

	Jul-2003	1	L	***
	Aug-2003	2	L	***
	Nov-2001	1	T	***
	Feb-2002	1	T	***
	Jan-2004	2	T	***
	Feb-2004	1	T	***
	Apr-2004	3	T	***
	May-2004	1	T	***
	Jun-2004	6	T	***
	Jul-2004	2	T	***
	Aug-2004	6	T-W	***
	Sep-2004	3	T-W	***
	Oct-2004	1	T-W	***
	Nov-2004	3	T-W	***
	Dec-2004	3	T-W	***
	Jan-2005	5	T-W	***
	Feb-2005	3	T-W	***
SWA			Page 2	SA-36
	Mar-2005	4	T-W	***
	Apr-2005	4	T-W	***
	May-2005	2	T-W	***
	Jun-2005	4	T-W	***
	Jul-2005	2	T-W	***
	Aug-2005	2	T-W	***
	Sep-2005	2	T-W	***
	Oct-2005	1	T-W	***
	Nov-2005	1	T-W	***
	Dec-2005	1	T-W	***
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	May-2006	3	T-W	***
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	Apr-2007	2	T-W	***
	May-2007	2	T-W	***
	Jun-2007	2	T-W	***
	Jul-2007	2	T-W	***
	Aug-2007	2	T-W	***
	Sep-2007	2	T-W	***
	Oct-2007	2	T-W	***
	Nov-2007	2	T-W	***
	Dec-2007	2	T-W	***
	Jan-2008	1	T-W	***
	Feb-2008	1	T-W	***
	Mar-2008	1	T-W	***
	Apr-2008	1	T-W	***
	May-2008	1	T-W	***
	Jun-2008	1	T-W	***

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Price Descrtiption of Option Aircraft:

<Table>			
<Caption>	Base Aircraft	Special	Aircraft Basic

<S>	Price	Features	Price
<C>	<C>	<C>	<C>
Block U Option	***	***	***
Aircraft			

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Delivery of Rollover Option Aircraft:

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

Remaining Option Aircraft: 49  
</Table>

Aircraft Delivery Mo. & Yr.	Number of Option Aircraft	Option Aircraft Block	Adv Payment Base Price Per Option Aircraft	Option Exercise
<S>	<C>	<C>	<C>	<C>
Sep-2005	1	U	***	May 1, 2004
Oct-2005	1	U	***	June 1, 2004
Nov-2005	1	U	***	July 1, 2004
Jan-2006	1	U	***	September 1, 2004
Mar-2006	3	U	***	November 1, 2004
Apr-2006	2	U	***	December 1, 2004
May-2006	2	U	***	January 1, 2005
Jun-2006	1	U	***	February 1, 2005
Jul-2006	2	U	***	March 1, 2005
Oct-2006	1	U	***	June 1, 2005
Apr-2007	1	U	***	December 1, 2005
May-2007	1	U	***	January 1, 2006
Jun-2007	1	U	***	February 1, 2006
Jul-2007	1	U	***	March 1, 2006
Aug-2007	1	U	***	April 1, 2006
Sep-2007	1	U	***	May 1, 2006
Oct-2007	1	U	***	June 1, 2006
Nov-2007	1	U	***	July 1, 2006
Dec-2007	1	U	***	August 1, 2006
Jan-2008	2	U	***	September 1, 2006
Feb-2008	3	U	***	October 1, 2006
Mar-2008	2	U	***	November 1, 2006
Apr-2008	2	U	***	December 1, 2006
May-2008	2	U	***	January 1, 2007
Jun-2008	2	U	***	February 1, 2007
Jul-2008	2	U	***	March 1, 2007
Aug-2008	2	U	***	April 1, 2007
Sep-2008	2	U	***	May 1, 2007
Oct-2008	2	U	***	June 1, 2007
Nov-2008	2	U	***	July 1, 2007
Dec-2008	2	U	***	August 1, 2007

SWA  
Exhibit A-Winglet\*\*\*

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Exhibit A-1- Winglet \*\*\*



P. A. No. 1810

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6-1162-NIW-606R1

Southwest Airlines Co.  
P.O. Box 36611 - Love Field  
Dallas, Texas 75235

Subject: \*\*\*

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.

\*\*\*

\*\*\*

\*\*\*

\*\*\*

Very truly yours,

THE BOEING COMPANY

By /s/ Nobuko Wiles

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

date: April 30, 2004

SOUTHWEST AIRLINES CO.

By /s/ Laura Wright

Its Vice President Finance & Treasurer

P.A. No. 1810  
6-1162-JMG-747R1

SA-36

Southwest Airlines Co.  
P.O. Box 36611 - Love Field  
Dallas, Texas 75235

Subject: \*\*\*

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 the sale by Boeing and the purchase by Buyer of four (4) additional Model 737-7H4 Block "T" Aircraft to be delivered in August 2004\*\*\* .

All terms used and not defined herein will have the same meaning as in the Agreement.

1. \*\*\*

\*\*\*

2. 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/ Nobuko Wiles

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

date: April 30, 2004

SOUTHWEST AIRLINES CO.

By /s/ Laura Wright

Its Vice President Finance & Treasurer

P.A. No. 1810  
K/SWA

SA-36

6-1162-JMG-669R2

Southwest Airlines Co.  
P.O. Box 36611 - Love Field  
Dallas, Texas 75235

Subject: Special Matters

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 aircraft:

1) \*\*\* \*\*

\*\*\*

1. \*\*\*

2. \*\*\*

3. \*\*\*

Further, Boeing will issue a credit memorandum at the  
\*\*\*

4. \*\*\*

5. \*\*\*.

Letter agreement no. 6-1162-DSF-483/737-7H4 dated August 19, 1998 is amended to  
\*\*\*

6. \*\*\*.

7. 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,

P.A. No. 1810  
K/SWA  
Southwest Airlines Co.  
6-1162-JMG-669R2  
Page 2

SA-36

THE BOEING COMPANY

By /s/ Nobuko Wiles

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

date: April 30, 2004

SOUTHWEST AIRLINES CO.

By /s/ Laura Wright

Its Vice President Finance & Treasurer

\*\*\*

Contract Delivery Month  
Aircraft Serial Number  
August 2005  
34259

P.A. No. 1810  
K/SWA

SA-36

Supplemental Agreement No. 37

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 May 27, 2004, by and between THE BOEING COMPANY, a Delaware corporation with principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with 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) and;

WHEREAS, Buyer has agreed to exercise one (1) September 2005 Block U Option Aircraft (as Block T-W Aircraft) and;

WHEREAS, Boeing requested and Buyer agreed to accelerate the delivery of one (1) Block T-W Aircraft from October 2004 to September 2004 and;

WHEREAS, Boeing and Buyer agreed to update the Table 2 entitled "Option Aircraft Information Table" to reflect Buyer's decision to install the Aviation Partners Boeing (APB) winglets in production and;

\*\*\*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.

P.A. No. 1810  
K/SWA

SA-37-1

2. Table 1 is deleted in its entirety and replaced by a new Table 1 which is attached hereto and is incorporated into the Agreement by this reference.

3. Table 2 is deleted in its entirety and replaced by a new Table 2 which is attached hereto and is incorporated into the Agreement by this reference.

NOTE - Buyer now has thirty-nine (39) 'banked' Rollover Option Aircraft as a result of the option exercises covered by Supplemental Agreement No. 21, 23, 24, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36 and 37 that may be converted to Option Aircraft at a future date subject to the terms of Letter Agreement No. 6-1162-RLL-933R19.

9. Attachment A to Letter Agreement No. 6-1162-JMG-669R2 is replaced by updated Attachment A attached hereto.

10. 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 seventy-five (275) Model 737-7H4 Aircraft, Forty-eight (48) 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.

11. The Advance Payments due upon signing assuming execution of this Supplemental Agreement on or before May 28, 2004 are:

\*\*\* for the September 2005 aircraft

Buyer will pay the \*\*\* directly to Boeing on or before Friday, May 28, 2004.

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/Nobuko Wiles

By:/s/ Laura Wright

Its: Attorney-In-Fact

Its: /s/ Vice President  
Finance & Treasurer

P.A. No. 1810  
K/SWA

SA-37-2

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## LETTER AGREEMENTS

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6-1162-RLL-2037	Reconciliation of the Aircraft Basic Price	SA-1
6-1162-RLL-2073	Maintenance Training Matters	SA-1

6-1162-KJJ-054	Business Matters	SA-13
6-1162-KJJ-055R1	Structural Matters	SA-25
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
6-1162-JMG-669R2	Special Matters	SA-36
6-1162-JMG-747R1	***	SA-36
6-1162-CHL-217	Rescheduled Flight Test Aircraft	SA-32
6-1162-NIW-606R1	***	SA-36
6-1162-NIW-640	***	SA-35

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Table 1 to  
Purchase Agreement No. 1810  
Aircraft Information Table

	Base Aircraft Price	Special Features	Aircraft Basic Price	Base Year Dollars
<S>	<C>	<C>	<C>	<C>
Block A, B, C, D & E Aircraft	***	***	***	July 1992
Block F & G Aircraft	***	***	***	July 1992
Block H Aircraft	***	***	***	July 1992
Block I Aircraft	***	***	***	July 1992
Block J Aircraft	***	***	***	July 1992
Block K Aircraft	***	***	***	July 1992
Block K-W Aircraft	***	***	***	July 1992
Block L Aircraft	***	***	***	July 1992
Block T Aircraft	***	***	***	July 1999
Block T-W Aircraft	***	***	***	July 1999

Block K-W Aircraft: Block K airplanes with production winglets installation  
Block T-W Aircraft: Block T airplanes with production winglets installation

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Delivery Date <S>	Number of Aircraft <C>	Aircraft Block <C>	Escalation Estimate Adv Payment Base Price Per A/P <C>
Dec-2000	2	E	***
Jan-2001	1	E	***
Feb-2001	1	E	***
Mar-2001	2	E	***
Jun-2001	3	E	***
Sep-2001	3	E	***
Oct-1998	1	F	***
Nov-1998	2	F	***
Dec-1998	2	F	***
Mar-1999	2	G	***
Jun-1999	2	H	***
Jul-1999	1	H	***
Aug-1999	1	H	***
Sep-1999	2	H	***
Oct-1999	1	H	***
Mar-2000	1	H	***
Apr-2000	2	H	***
Sep-2000	1	H	***
Oct-2000	2	H	***
Mar-2001	2	H	***
Apr-2001	1	H	***
Oct-2001	3	H	***
Nov-2001	2	I	***
Dec-2001	1	I	***
Jan-2002	1	I	***
Mar-2002	4	I	***
Apr-2002	2	I	***
Dec-2002	2	I	***
May-2003	1	I	***
Jun-2003	2	I	***
Jul-2003	1	I	***
Aug-2003	1	I	***
Sep-2003	3	I	***
Nov-2002	1	J	***
Dec-2002	1	J	***
Nov-2003	2	J	***
Dec-2003	2	J	***
Mar-2004	1	J	***
Mar-2004	1	K	***
Apr-2004	3	K	***
May-2004	1	K	***
Jun-2004	2	K	***
Jul-2004	2	K	***
Sep-2004	1	K-W	***
Oct-2004	4	K-W	***
Oct-1999	1	L	***
Nov-1999	2	L	***
Dec-1999	1	L	***
Jun-2000	3	L	***
Jul-2000	3	L	***
Sep-2000	1	L	***
Oct-2000	1	L	***
Nov-2000	4	L	***



Dec-2000	1	L	***
Jan-2001	1	L	***
Feb-2001	1	L	***
Jul-2001	1	L	***
Sep-2001	1	L	***
Oct-2001	1	L	***
Mar-2003	2	L	***
Jul-2003	1	L	***
Aug-2003	2	L	***
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Apr-2004	3	T	***
May-2004	1	T	***
Jun-2004	6	T	***
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Aug-2004	6	T-W	***
Sep-2004	4	T-W	***
Oct-2004	0	T-W	***
Nov-2004	3	T-W	***
Dec-2004	3	T-W	***
Jan-2005	5	T-W	***
Feb-2005	3	T-W	***
Mar-2005	4	T-W	***
Apr-2005	4	T-W	***
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Jun-2005	4	T-W	***
Jul-2005	2	T-W	***
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Nov-2005	1	T-W	***
Dec-2005	1	T-W	***
Feb-2006	4	T-W	***
May-2006	3	T-W	***
Jun-2006	4	T-W	***
Jul-2006	1	T-W	***
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Oct-2007	2	T-W	***
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Dec-2007	2	T-W	***
Jan-2008	1	T-W	***
Feb-2008	1	T-W	***
Mar-2008	1	T-W	***
Apr-2008	1	T-W	***
May-2008	1	T-W	***
Jun-2008	1	T-W	***

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Table 2 to Purchase Agreement No. 1810  
(Letter Agreement No. 6-1162-RL-933R19)  
Option Aircraft Information Table

Price Description of Option Aircraft:

	Base Aircraft Price	Special Features	Aircraft Basic Price	Base Year Dollars
<S>	<C>	<C>	<C>	<C>
Block U Option Aircraft (without Winglets)	***	***	***	July 1999
Block U-W Option Aircraft (with Winglets)	***	***	***	July 1999

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Delivery of Rollover Option Aircraft:

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

Remaining Option Aircraft:

48

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Aircraft	Number of	Option	Adv Payment Base Price Per Option Aircraft	Option Exercise
Delivery Mo. & Yr.	Option Aircraft	Aircraft Block		
<S>	<C>	<C>	<C>	<C>
Oct-2005	1	U-W	***	June 1, 2004
Nov-2005	1	U-W	***	July 1, 2004
Jan-2006	1	U-W	***	September 1, 2004
Mar-2006	3	U-W	***	November 1, 2004
Apr-2006	2	U-W	***	December 1, 2004
May-2006	2	U-W	***	January 1, 2005
Jun-2006	1	U-W	***	February 1, 2005
Jul-2006	2	U-W	***	March 1, 2005

Oct-2006	1	U-W	***	June 1, 2005
Apr-2007	1	U-W	***	December 1, 2005
May-2007	1	U-W	***	January 1, 2006
Jun-2007	1	U-W	***	February 1, 2006
Jul-2007	1	U-W	***	March 1, 2006
Aug-2007	1	U-W	***	April 1, 2006
Sep-2007	1	U-W	***	May 1, 2006
Oct-2007	1	U-W	***	June 1, 2006
Nov-2007	1	U-W	***	July 1, 2006
Dec-2007	1	U-W	***	August 1, 2006
Jan-2008	2	U-W	***	September 1, 2006
Feb-2008	3	U-W	***	October 1, 2006
Mar-2008	2	U-W	***	November 1, 2006
Apr-2008	2	U-W	***	December 1, 2006
May-2008	2	U-W	***	January 1, 2007
Jun-2008	2	U-W	***	February 1, 2007
Jul-2008	2	U-W	***	March 1, 2007
Aug-2008	2	U-W	***	April 1, 2007
Sep-2008	2	U-W	***	May 1, 2007
Oct-2008	2	U-W	***	June 1, 2007
Nov-2008	2	U-W	***	July 1, 2007
Dec-2008	2	U-W	***	August 1, 2007

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Contract Delivery Month	Aircraft Serial Number
<S>	<C>
August 2005	34259
September 2005	34290

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Southwest Airlines Co.  
Attachment A to 6-1162-JMG-669R2  
SA-37

Supplemental Agreement No. 38

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 June 28, 2004, by and between THE BOEING COMPANY, a Delaware corporation with principal offices in Seattle, Washington, (Boeing) and SOUTHWEST AIRLINES CO., a Texas corporation with 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) and;

WHEREAS, Buyer has agreed to exercise one (1) October 2005 Block U Option Aircraft (as Block T-W Aircraft) and;

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. Table 1 is deleted in its entirety and replaced by a new Table 1 which is attached hereto and is 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.

3. Table 2 is deleted in its entirety and replaced by a new Table 2 which is attached hereto and is incorporated into the Agreement by this reference.  
NOTE - Buyer now has forty (40) 'banked' Rollover Option Aircraft as a result of the option exercises covered by Supplemental Agreement No. 21, 23, 24, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37 and 38 that may be converted to Option Aircraft at a future date subject to the terms of Letter Agreement No. 6-1162-RLL-933R19.

<Page>

4. Attachment A to Letter Agreement No. 6-1162-JMG-669R2 is replaced by updated Attachment A attached hereto.

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 seventy-six (276) Model 737-7H4 Aircraft, Forty-seven (47) 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 on or before June 30, 2004 are:

\*\*\* for the October 2005 aircraft

Buyer will pay the \*\*\* directly to Boeing on or before Wednesday, June 30, 2004.

The Agreement will be deemed to be supplemented to the extent herein provided and as so supplemented will continue in full force and effect.

SOUTHWEST AIRLINES CO.

By: /s/ Nobuko Wiles

By: /s/ Laura Wright

Its: Attorney-In-Fact

Its: Vice President  
Finance & Treasurer

P.A. No. 1810      SA-38-1  
K/SWA

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<Caption>

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Table 1 to  
Purchase Agreement No. 1810  
Aircraft Information Table

<S>	<C>	Base Aircraft Price	<C>	Special Features	<C>	Aircraft Basic Price	<C>	Base Year Dollars
Block A,B,C,D&E Aircraft		***		***		***		July 1992
Block F&G Aircraft		***		***		***		July 1992
Block H Aircraft		***		***		***		July 1992
Block I Aircraft		***		***		***		July 1992
Block J Aircraft		***		***		***		July 1992
Block K Aircraft		***		***		***		July 1992
Block K-W Aircraft		***		***		***		July 1992
Block L Aircraft		***		***		***		July 1992
Block T Aircraft		***		***		***		July 1999
Block T-W Aircraft		***		***		***		July 1999

</Table>

Block K-W Aircraft: Block K airplanes with production winglets installation

Block T-W Aircraft: Block T airplanes with production winglets installation

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Delivery Date	Number of Aircraft	Aircraft Block	Escalation Estimate Adv Payment Base Price Per A/P
<S>	<C>	<C>	<C>
Dec-2000	2	E	***
Jan-2001	1	E	***
Feb-2001	1	E	***
Mar-2001	2	E	***
Jun-2001	3	E	***
Sep-2001	3	E	***
Oct-1998	1	F	***
Nov-1998	2	F	***
Dec-1998	2	F	***
Mar-1999	2	G	***
Jun-1999	2	H	***
Jul-1999	1	H	***
Aug-1999	1	H	***
Sep-1999	2	H	***
Oct-1999	1	H	***
Mar-2000	1	H	***
Apr-2000	2	H	***
Sep-2000	1	H	***
Oct-2000	2	H	***
Mar-2001	2	H	***
Apr-2001	1	H	***
Oct-2001	3	H	***
Nov-2001	2	I	***
Dec-2001	1	I	***
Jan-2002	1	I	***
Mar-2002	4	I	***
Apr-2002	2	I	***
Dec-2002	2	I	***
May-2003	1	I	***
Jun-2003	2	I	***
Jul-2003	1	I	***
Aug-2003	1	I	***
Sep-2003	3	I	***
Nov-2002	1	J	***
Dec-2002	1	J	***
Nov-2003	2	J	***
Dec-2003	2	J	***
Mar-2004	1	J	***
Mar-2004	1	K	***
Apr-2004	3	K	***
May-2004	1	K	***
Jun-2004	2	K	***
Jul-2004	2	K	***
Sep-2004	1	K-W	***
Oct-2004	4	K-W	***
Oct-1999	1	L	***
Nov-1999	2	L	***
Dec-1999	1	L	***
Jun-2000	3	L	***
Jul-2000	3	L	***
Sep-2000	1	L	***
Oct-2000	1	L	***
Nov-2000	4	L	***
Dec-2000	1	L	***
Jan-2001	1	L	***
Feb-2001	1	L	***
Jul-2001	1	L	***
Sep-2001	1	L	***
Oct-2001	1	L	***
Mar-2003	2	L	***
Jul-2003	1	L	***
Aug-2003	2	L	***
Nov-2001	1	T	***
Feb-2002	1	T	***
Jan-2004	2	T	***
Feb-2004	1	T	***
Apr-2004	3	T	***



May-2004	1	T	***
Jun-2004	6	T	***
Jul-2004	2	T	***
Aug-2004	6	T-W	***
Sep-2004	4	T-W	***
Oct-2004	0	T-W	***
Nov-2004	3	T-W	***
Dec-2004	3	T-W	***
Jan-2005	5	T-W	***
Feb-2005	3	T-W	***
Mar-2005	4	T-W	***
Apr-2005	4	T-W	***
May-2005	2	T-W	***
Jun-2005	4	T-W	***
Jul-2005	2	T-W	***
Aug-2005	2	T-W	***
Sep-2005	3	T-W	***
Oct-2005	2	T-W	***
Nov-2005	1	T-W	***
Dec-2005	1	T-W	***
Feb-2006	4	T-W	***
May-2006	3	T-W	***
Jun-2006	4	T-W	***
Jul-2006	1	T-W	***
Aug-2006	3	T-W	***
Sep-2006	3	T-W	***
Nov-2006	2	T-W	***
Dec-2006	2	T-W	***
Jan-2007	2	T-W	***
Feb-2007	3	T-W	***
Mar-2007	2	T-W	***
Apr-2007	2	T-W	***
May-2007	2	T-W	***
Jun-2007	2	T-W	***
Jul-2007	2	T-W	***
Aug-2007	2	T-W	***
Sep-2007	2	T-W	***
Oct-2007	2	T-W	***
Nov-2007	2	T-W	***
Dec-2007	2	T-W	***
Jan-2008	1	T-W	***
Feb-2008	1	T-W	***
Mar-2008	1	T-W	***
Apr-2008	1	T-W	***
May-2008	1	T-W	***
Jun-2008	1	T-W	***

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Table 2 to Purchase Agreement No. 1810  
(Letter Agreement No. 6-1162-RLL-933R19)  
Option Aircraft Information Table

Price Description of Option Aircraft:

	Base Aircraft Price	Special Features	Aircraft Price	Basic Base Year Dollars
<S>	<C>	<C>	<C>	<C>
Block U Option Aircraft (without Winglets)	***	***	***	July 1999
Block U-W Option Aircraft (with Winglets)	***	***	***	July 1999

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Delivery of Rollover Option Aircraft:

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

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Remaining Option Aircraft: 47

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Aircraft Delivery Mo. & Yr.	Number of Option Aircraft	Option Aircraft Block Option	Adv Payment Base Price Per Aircraft	Option Exercise
<S>	<C>	<C>	<C>	<C>
Nov-2005	1	U-W	***	July 1, 2004
Jan-2006	1	U-W	***	September 1, 2004
Mar-2006	3	U-W	***	November 1, 2004
Apr-2006	2	U-W	***	December 1, 2004
May-2006	2	U-W	***	January 1, 2005
Jun-2006	1	U-W	***	February 1, 2005
Jul-2006	2	U-W	***	March 1, 2005
Oct-2006	1	U-W	***	June 1, 2005
Apr-2007	1	U-W	***	December 1, 2005
May-2007	1	U-W	***	January 1, 2006

Jun-2007	1	U-W	***	February 1, 2006
Jul-2007	1	U-W	***	March 1, 2006
Aug-2007	1	U-W	***	April 1, 2006
Sep-2007	1	U-W	***	May 1, 2006
Oct-2007	1	U-W	***	June 1, 2006
Nov-2007	1	U-W	***	July 1, 2006
Dec-2007	1	U-W	***	August 1, 2006
Jan-2008	2	U-W	***	September 1, 2006
Feb-2008	3	U-W	***	October 1, 2006
Mar-2008	2	U-W	***	November 1, 2006
Apr-2008	2	U-W	***	December 1, 2006
May-2008	2	U-W	***	January 1, 2007
Jun-2008	2	U-W	***	February 1, 2007
Jul-2008	2	U-W	***	March 1, 2007
Aug-2008	2	U-W	***	April 1, 2007
Sep-2008	2	U-W	***	May 1, 2007
Oct-2008	2	U-W	***	June 1, 2007
Nov-2008	2	U-W	***	July 1, 2007
Dec-2008	2	U-W	***	August 1, 2007

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Contract Delivery Month	Aircraft Serial Number
<S>	<C>
August 2005	34259
September 2005	34290
October 2005	34333

</Table>

CERTIFICATION

I, Gary C. Kelly, Chief Executive Officer and Vice Chairman of the Board of Directors 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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 19, 2004

By: /s/ Gary C. Kelly  
Gary C. Kelly  
Chief Executive Officer and  
Vice Chairman of the Board  
of Directors

CERTIFICATION

I, Laura H. Wright, 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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation ; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 19, 2004

By: /s/ Laura H. Wright  
Laura H. Wright  
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 June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary C. Kelly, Chief Executive Officer and Vice Chairman of the Board of Directors 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: July 19, 2004

By /s/ Gary C. Kelly  
Gary C. Kelly  
Chief Executive Officer and  
Vice Chairman of the Board  
of Directors

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 June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laura H. Wright, Chief 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: July 19, 2004

By /s/ Laura H. Wright  
Laura H. Wright  
Chief Financial Officer