

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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)

P.O. Box 36611

Dallas, Texas

(Address of principal executive offices)

74-1563240

(IRS Employer  
Identification No.)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

Number of shares of Common Stock outstanding as of the close of business on October 28, 2013: 696,720,541

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SOUTHWEST AIRLINES CO.  
FORM 10-Q  
PART I – FINANCIAL INFORMATION

**Item 1. Financial Statements**

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

|                                                    | September 30, 2013 | December 31, 2012 |
|----------------------------------------------------|--------------------|-------------------|
| <b>ASSETS</b>                                      |                    |                   |
| Current assets:                                    |                    |                   |
| Cash and cash equivalents                          | \$ 1,333           | \$ 1,113          |
| Short-term investments                             | 1,995              | 1,857             |
| Accounts and other receivables                     | 463                | 332               |
| Inventories of parts and supplies, at cost         | 521                | 469               |
| Deferred income taxes                              | 233                | 246               |
| Prepaid expenses and other current assets          | 228                | 210               |
| Total current assets                               | 4,773              | 4,227             |
| Property and equipment, at cost:                   |                    |                   |
| Flight equipment                                   | 16,785             | 16,367            |
| Ground property and equipment                      | 2,963              | 2,714             |
| Deposits on flight equipment purchase contracts    | 690                | 416               |
|                                                    | 20,438             | 19,497            |
| Less allowance for depreciation and amortization   | 7,235              | 6,731             |
|                                                    | 13,203             | 12,766            |
| Goodwill                                           | 970                | 970               |
| Other assets                                       | 418                | 633               |
|                                                    | \$ 19,364          | \$ 18,596         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>        |                    |                   |
| Current liabilities:                               |                    |                   |
| Accounts payable                                   | \$ 1,134           | \$ 1,107          |
| Accrued liabilities                                | 1,172              | 1,102             |
| Air traffic liability                              | 2,981              | 2,170             |
| Current maturities of long-term debt               | 259                | 271               |
| Total current liabilities                          | 5,546              | 4,650             |
| Long-term debt less current maturities             | 2,616              | 2,883             |
| Deferred income taxes                              | 2,937              | 2,884             |
| Deferred gains from sale and leaseback of aircraft | 54                 | 63                |
| Other noncurrent liabilities                       | 1,198              | 1,124             |
| Stockholders' equity:                              |                    |                   |
| Common stock                                       | 808                | 808               |
| Capital in excess of par value                     | 1,205              | 1,210             |
| Retained earnings                                  | 6,246              | 5,768             |
| Accumulated other comprehensive loss               | (114)              | (119)             |
| Treasury stock, at cost                            | (1,132)            | (675)             |
| Total stockholders' equity                         | 7,013              | 6,992             |
|                                                    | \$ 19,364          | \$ 18,596         |

See accompanying notes.

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

|                                                 | Three months ended September 30, |          | Nine months ended September 30, |           |
|-------------------------------------------------|----------------------------------|----------|---------------------------------|-----------|
|                                                 | 2013                             | 2012     | 2013                            | 2012      |
| <b>OPERATING REVENUES:</b>                      |                                  |          |                                 |           |
| Passenger                                       | \$ 4,306                         | \$ 4,057 | \$ 12,524                       | \$ 12,154 |
| Freight                                         | 41                               | 39       | 123                             | 118       |
| Other                                           | 198                              | 213      | 624                             | 643       |
| Total operating revenues                        | 4,545                            | 4,309    | 13,271                          | 12,915    |
| <b>OPERATING EXPENSES:</b>                      |                                  |          |                                 |           |
| Salaries, wages, and benefits                   | 1,271                            | 1,189    | 3,751                           | 3,552     |
| Fuel and oil                                    | 1,450                            | 1,528    | 4,396                           | 4,615     |
| Maintenance materials and repairs               | 271                              | 300      | 842                             | 862       |
| Aircraft rentals                                | 92                               | 92       | 277                             | 270       |
| Landing fees and other rentals                  | 290                              | 278      | 848                             | 791       |
| Depreciation and amortization                   | 221                              | 217      | 643                             | 620       |
| Acquisition and integration                     | 28                               | 145      | 66                              | 168       |
| Other operating expenses                        | 532                              | 509      | 1,555                           | 1,505     |
| Total operating expenses                        | 4,155                            | 4,258    | 12,378                          | 12,383    |
| <b>OPERATING INCOME</b>                         | 390                              | 51       | 893                             | 532       |
| <b>OTHER EXPENSES (INCOME):</b>                 |                                  |          |                                 |           |
| Interest expense                                | 35                               | 35       | 97                              | 112       |
| Capitalized interest                            | (4)                              | (5)      | (17)                            | (16)      |
| Interest income                                 | (1)                              | (2)      | (5)                             | (5)       |
| Other (gains) losses, net                       | (59)                             | (10)     | (58)                            | (119)     |
| Total other expenses (income)                   | (29)                             | 18       | 17                              | (28)      |
| <b>INCOME BEFORE INCOME TAXES</b>               | 419                              | 33       | 876                             | 560       |
| <b>PROVISION FOR INCOME TAXES</b>               | 160                              | 17       | 334                             | 217       |
| <b>NET INCOME</b>                               | \$ 259                           | \$ 16    | \$ 542                          | \$ 343    |
| <b>NET INCOME PER SHARE, BASIC</b>              | \$ 0.37                          | \$ 0.02  | \$ 0.76                         | \$ 0.45   |
| <b>NET INCOME PER SHARE, DILUTED</b>            | \$ 0.37                          | \$ 0.02  | \$ 0.75                         | \$ 0.45   |
| <b>COMPREHENSIVE INCOME</b>                     | \$ 393                           | \$ 211   | \$ 547                          | \$ 442    |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>      |                                  |          |                                 |           |
| Basic                                           | 703                              | 739      | 714                             | 756       |
| Diluted                                         | 711                              | 740      | 722                             | 762       |
| <b>Cash dividends declared per common share</b> | \$ .0400                         | \$ .0100 | \$ .0900                        | \$ .0245  |

See accompanying notes.

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

|                                                                                         | Three months ended<br>September 30, |                 | Nine months ended<br>September 30, |                 |
|-----------------------------------------------------------------------------------------|-------------------------------------|-----------------|------------------------------------|-----------------|
|                                                                                         | 2013                                | 2012            | 2013                               | 2012            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                            |                                     |                 |                                    |                 |
| Net income                                                                              | \$ 259                              | \$ 16           | \$ 542                             | \$ 343          |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: |                                     |                 |                                    |                 |
| Depreciation and amortization                                                           | 221                                 | 217             | 643                                | 620             |
| Unrealized gains on fuel derivative instruments                                         | (58)                                | (16)            | (24)                               | (154)           |
| Deferred income taxes                                                                   | 29                                  | 82              | 52                                 | 120             |
| Amortization of deferred gains on sale and leaseback of aircraft                        | (3)                                 | (3)             | (9)                                | (9)             |
| Changes in certain assets and liabilities:                                              |                                     |                 |                                    |                 |
| Accounts and other receivables                                                          | 73                                  | (2)             | (74)                               | (107)           |
| Other assets                                                                            | (63)                                | (74)            | (83)                               | (164)           |
| Accounts payable and accrued liabilities                                                | (98)                                | (187)           | 185                                | 114             |
| Air traffic liability                                                                   | (95)                                | (5)             | 811                                | 688             |
| Cash collateral paid to derivative counterparties                                       | 80                                  | 252             | 56                                 | 218             |
| Other, net                                                                              | 83                                  | 184             | 89                                 | 164             |
| Net cash provided by operating activities                                               | 428                                 | 464             | 2,188                              | 1,833           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                            |                                     |                 |                                    |                 |
| Payments for purchase of property and equipment, net                                    | (268)                               | (406)           | (995)                              | (949)           |
| Purchases of short-term investments                                                     | (896)                               | (663)           | (2,520)                            | (1,918)         |
| Proceeds from sales of short-term and other investments                                 | 805                                 | 798             | 2,385                              | 2,223           |
| Other, net                                                                              | —                                   | (6)             | —                                  | —               |
| Net cash used in investing activities                                                   | (359)                               | (277)           | (1,130)                            | (644)           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                            |                                     |                 |                                    |                 |
| Proceeds from Employee stock plans                                                      | 12                                  | 5               | 31                                 | 22              |
| Payments of long-term debt and capital lease obligations                                | (51)                                | (48)            | (267)                              | (517)           |
| Payments of cash dividends                                                              | (28)                                | (7)             | (71)                               | (22)            |
| Repurchase of common stock                                                              | (150)                               | (50)            | (501)                              | (325)           |
| Other, net                                                                              | (8)                                 | (2)             | (30)                               | (8)             |
| Net cash used in financing activities                                                   | (225)                               | (102)           | (838)                              | (850)           |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                                          | (156)                               | 85              | 220                                | 339             |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                                 | 1,489                               | 1,083           | 1,113                              | 829             |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                       | <u>\$ 1,333</u>                     | <u>\$ 1,168</u> | <u>\$ 1,333</u>                    | <u>\$ 1,168</u> |
| <b>CASH PAYMENTS FOR:</b>                                                               |                                     |                 |                                    |                 |
| Interest, net of amount capitalized                                                     | \$ 39                               | \$ 39           | \$ 106                             | \$ 119          |
| Income taxes                                                                            | \$ 124                              | \$ 2            | \$ 147                             | \$ 97           |

See accompanying notes.

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

**1. BASIS OF PRESENTATION**

The accompanying unaudited Condensed Consolidated Financial Statements of Southwest Airlines Co. and its subsidiaries (the "Company") 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 generally accepted accounting principles ("GAAP") in the United States for complete financial statements. The unaudited Condensed Consolidated Financial Statements for the interim periods ended September 30, 2013 and 2012 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 elimination of significant intercompany transactions. Financial results for the Company and airlines in general can be seasonal in nature. In many years, the Company's revenues, as well as its operating income and net income, have been better in its second and third fiscal quarters than in its first and fourth fiscal quarters. Air travel is also significantly impacted by general economic conditions, the amount of disposable income available to consumers, unemployment levels, and corporate travel budgets. These and other factors, such as the price of jet fuel in some periods, the nature of the Company's fuel hedging program, the periodic volatility of commodities used by the Company for hedging jet fuel, and the requirements related to hedge accounting, have created, and may continue to create, significant volatility in the Company's financial results. See Note 5 for further information on fuel and the Company's hedging program. Operating results for the three and nine months ended September 30, 2013, are not necessarily indicative of the results that may be expected for the year ended December 31, 2013. 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, 2012.

Certain prior period amounts have been reclassified to conform to the current presentation. In the unaudited Condensed Consolidated Statement of Comprehensive Income for the three and nine months ended September 30, 2012, the Company has reclassified \$11 million and \$27 million, respectively, from Other revenues to Passenger revenues associated with its sale of frequent flyer benefits from its co-branded Chase® Visa credit card.

**2. AIRTRAN ACQUISITION AND RELATED MATTERS**

**AirTran Holdings, Inc.**

On May 2, 2011 (the "acquisition date"), the Company acquired all of the outstanding equity of AirTran Holdings, Inc. ("AirTran Holdings"), the former parent company of AirTran Airways, Inc. ("AirTran Airways"), in exchange for Southwest Airlines Co. common stock and cash. Throughout this Form 10-Q, the Company makes reference to AirTran, which is meant to be inclusive of the following: (i) for periods prior to the acquisition date, AirTran Holdings and its subsidiaries, including, among others, AirTran Airways; and (ii) for periods on and after the acquisition date, AirTran Holdings, LLC, the successor to AirTran Holdings, and its subsidiaries, including among others, AirTran Airways.

In July 2012, the Company announced that AirTran's Boeing 717-200 aircraft will be transitioned out of the Company's active fleet over a three-year period beginning in third quarter 2013. See Note 8 for further information.

**Expenses related to the AirTran acquisition and integration**

The Company has incurred and expects to continue to incur substantial Acquisition and integration expenses in connection with the AirTran acquisition, including the necessary costs associated with integrating the operations of the two companies. While the Company has assumed that a certain level of expenses will be incurred, there are many factors that could affect the total amount or the timing of these expenses, and many of the expenses that will be incurred are, by their nature, difficult to estimate. These expenses could, particularly in the near term, exceed the financial benefits that the Company expects to achieve from the AirTran acquisition and could continue to result in the Company taking significant charges against earnings during the integration process. The Company incurred acquisition and integration-related costs for the three and nine months ended September 30, 2013, of \$28 million and \$66 million, respectively, primarily consisting of costs associated with a lease contract termination, Employee training, technology

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

integration projects, and facility integration expenses. The Company incurred acquisition and integration-related costs for the three and nine months ended September 30, 2012, of \$145 million and \$168 million, respectively, primarily consisting of costs associated with the lease and sublease of AirTran's Boeing 717-200 fleet, consulting, flight crew training, and seniority integration. In the Company's unaudited Condensed Consolidated Statement of Comprehensive Income, these costs are classified as Acquisition and integration expenses.

### 3. REVOLVING CREDIT FACILITY

On April 2, 2013, the Company entered into a new \$1 billion unsecured revolving credit facility expiring in April 2018, and terminated its previous facility, which would have expired in April 2016. Other than a \$200 million increase in borrowing capacity, this new facility is substantially the same as the previous facility. Interest on the facility is based on the Company's credit ratings at the time of borrowing. At the Company's current ratings, the interest cost would be LIBOR plus a spread of 150 basis points. The new facility also contains the same financial covenant as the previous facility, requiring a minimum coverage ratio of adjusted pre-tax income to fixed obligations, as defined. As of September 30, 2013, the Company was in compliance with this covenant and there were no amounts outstanding under the revolving credit facility.

### 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 September 30, |         | Nine months ended September 30, |         |
|----------------------------------------------------------------------|----------------------------------|---------|---------------------------------|---------|
|                                                                      | 2013                             | 2012    | 2013                            | 2012    |
| <b>NUMERATOR:</b>                                                    |                                  |         |                                 |         |
| Net income                                                           | \$ 259                           | \$ 16   | \$ 542                          | \$ 343  |
| Incremental income effect of interest on 5.25% convertible notes     | 1                                | —       | 2                               | 2       |
| Net income after assumed conversion                                  | \$ 260                           | \$ 16   | \$ 544                          | \$ 345  |
| <b>DENOMINATOR:</b>                                                  |                                  |         |                                 |         |
| Weighted-average shares outstanding, basic                           | 703                              | 739     | 714                             | 756     |
| Dilutive effect of Employee stock options and restricted stock units | 2                                | 1       | 2                               | —       |
| Dilutive effect of 5.25% convertible notes                           | 6                                | —       | 6                               | 6       |
| Adjusted weighted-average shares outstanding, diluted                | 711                              | 740     | 722                             | 762     |
| <b>NET INCOME PER SHARE:</b>                                         |                                  |         |                                 |         |
| Basic                                                                | \$ 0.37                          | \$ 0.02 | \$ 0.76                         | \$ 0.45 |
| Diluted                                                              | \$ 0.37                          | \$ 0.02 | \$ 0.75                         | \$ 0.45 |
| Potentially dilutive amounts excluded from calculations:             |                                  |         |                                 |         |
| Stock options and restricted stock units                             | 9                                | 32      | 10                              | 40      |
| 5.25% convertible notes                                              | —                                | 6       | —                               | —       |

### 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. Furthermore, jet fuel and oil typically represent one of the largest operating expenses for airlines. The Company endeavors to acquire jet fuel at the lowest possible cost and to reduce volatility in operating expenses through its fuel hedging program. Although the Company may periodically enter into jet fuel derivatives for short-term timeframes, because jet fuel is not widely traded on an organized futures exchange, there are limited opportunities to hedge directly in jet fuel for time horizons longer than approximately 6 to 12 months into the future. However, the Company has found that financial derivative instruments in other commodities, such as West Texas Intermediate ("WTI") crude oil, Brent crude oil, and refined products, such as heating oil and unleaded gasoline, can be useful in decreasing its exposure to jet fuel price volatility. The Company does not purchase or hold any financial derivative instruments for trading or speculative purposes.

The Company has used financial derivative instruments for both short-term and long-term time frames and primarily uses a mixture of purchased call options, collar structures (which include both a purchased call option and a sold put option), call spreads (which include a purchased call option and a sold call option), and fixed price swap agreements in its portfolio.

The Company evaluates its derivative volumes strictly from an "economic" standpoint and thus does not consider whether the derivatives have qualified or will qualify for hedge accounting. The Company defines its "economic" hedge as the net volume of fuel derivative contracts held, including the impact of positions that have been offset through sold positions, regardless of whether those contracts qualify for hedge accounting. The level at which the Company is economically hedged for a particular period is also dependent on current market prices for that period, as well as the types of derivative instruments held and the strike prices of those instruments.

For the three months ended September 30, 2013, the Company had fuel derivative instruments in place for 78 percent of its fuel consumption. As of September 30, 2013, the Company had fuel derivative instruments in place to provide coverage for up to 48 percent of its remaining 2013 estimated fuel consumption, depending on where market prices settle during the fourth quarter. The following table provides information about the Company's volume of fuel hedging for the years 2013 through 2017 on an "economic" basis considering current market prices:

| <b>Period (by year)</b> | <b>Fuel hedged as of<br/>September 30, 2013<br/>(gallons in millions)(a)</b> | <b>Derivative underlying commodity type as of<br/>September 30, 2013</b> |
|-------------------------|------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Remainder of 2013       | 208                                                                          | Brent crude oil and Gulf Coast jet fuel                                  |
| 2014                    | 671                                                                          | WTI crude and Brent crude oil                                            |
| 2015                    | 790                                                                          | WTI crude and Brent crude oil                                            |
| 2016                    | 977                                                                          | Brent crude oil                                                          |
| 2017                    | 933                                                                          | WTI crude and Brent crude oil                                            |

(a) The Company determines gallons hedged based on market prices and forward curves as of September 30, 2013. Due to the types of derivatives utilized by the Company, these volumes may vary significantly as market prices fluctuate.

Upon proper qualification, the Company accounts for its fuel derivative instruments as cash flow hedges. Generally, utilizing hedge accounting, all periodic changes in fair value of the derivatives designated as hedges that are considered to be effective are recorded in Accumulated other comprehensive income (loss) ("AOCI") until the underlying jet fuel is consumed. See Note 6. To the extent that the periodic changes in the fair value of the derivatives are ineffective, the ineffective portion is recorded to Other (gains) losses, net, in the unaudited Condensed Consolidated Statement of Comprehensive Income. Likewise, if a hedge ceases to qualify for hedge accounting, any change in the fair value of derivative instruments since the last reporting period is recorded to Other (gains) losses, net, in the unaudited Condensed Consolidated Statement of Comprehensive Income in the period of the change; however, any amounts previously recorded to AOCI would remain there until such time as the original forecasted transaction occurs, at which time these amounts would be reclassified to Fuel and oil expense.

In some situations, an entire commodity type used in hedging may cease to qualify for special hedge accounting treatment. As an example, during third quarter 2013, the Company's routine statistical analysis performed to determine which commodities qualify for special hedge accounting treatment on a prospective basis dictated that WTI crude oil based derivatives no longer qualify for hedge accounting. This is primarily due to the fact that the correlation between WTI crude oil prices and jet fuel prices during recent periods has not been as strong as in the past, and therefore the Company can no longer demonstrate that derivatives based on WTI crude oil prices will result in effective hedges on a prospective basis. As such, the change in fair value of all of the Company's derivatives based in WTI have been recorded to Other (gains) losses for third quarter 2013, and all future changes in the fair value of such instruments will continue to be recorded directly to earnings in future periods. The change in fair value of the Company's WTI derivative contracts during third quarter 2013 was an increase of \$28 million, which resulted in a gain in the Condensed Consolidated Statement of Comprehensive Income. Any amounts previously recorded to AOCI will remain there until such time as the original forecasted transaction occurs in accordance with hedge accounting requirements. The Company will continue to evaluate whether it can qualify for hedge accounting for WTI derivative contracts in future periods.

In a situation where it becomes probable that a fuel hedged forecasted transaction will not occur, any gains and/or losses that have been recorded to AOCI would be required to be immediately reclassified into earnings. The Company did not have any such situations occur during 2012 or during the nine months ended September 30, 2013.

All cash flows associated with purchasing and selling fuel derivatives are classified as Other operating cash flows in the unaudited Condensed Consolidated Statement of Cash Flows. The following table presents the location of all assets and liabilities associated with the Company's derivative instruments within the unaudited Condensed Consolidated Balance Sheet:

| (in millions)                              | Balance Sheet location                    | Asset derivatives       |                          | Liability derivatives   |                          |
|--------------------------------------------|-------------------------------------------|-------------------------|--------------------------|-------------------------|--------------------------|
|                                            |                                           | Fair value at 9/30/2013 | Fair value at 12/31/2012 | Fair value at 9/30/2013 | Fair value at 12/31/2012 |
| Derivatives designated as hedges*          |                                           |                         |                          |                         |                          |
| Fuel derivative contracts (gross)          | Prepaid expenses and other current assets | \$ 35                   | \$ —                     | \$ 14                   | \$ —                     |
| Fuel derivative contracts (gross)          | Other assets                              | 114                     | 355                      | 2                       | 16                       |
| Fuel derivative contracts (gross)          | Other noncurrent liabilities              | 15                      | —                        | —                       | —                        |
| Interest rate derivative contracts         | Other assets                              | 22                      | 31                       | —                       | —                        |
| Interest rate derivative contracts         | Other noncurrent liabilities              | —                       | —                        | 87                      | 126                      |
| Total derivatives designated as hedges     |                                           | \$ 186                  | \$ 386                   | \$ 103                  | \$ 142                   |
| Derivatives not designated as hedges*      |                                           |                         |                          |                         |                          |
| Fuel derivative contracts (gross)          | Prepaid expenses and other current assets | \$ 268                  | \$ 375                   | \$ 239                  | \$ 327                   |
| Fuel derivative contracts (gross)          | Other assets                              | 64                      | 233                      | 118                     | 351                      |
| Fuel derivative contracts (gross)          | Accrued liabilities                       | 2                       | 10                       | 5                       | 60                       |
| Fuel derivative contracts (gross)          | Other noncurrent liabilities              | 4                       | —                        | 37                      | —                        |
| Total derivatives not designated as hedges |                                           | \$ 338                  | \$ 618                   | \$ 399                  | \$ 738                   |
| Total derivatives                          |                                           | \$ 524                  | \$ 1,004                 | \$ 502                  | \$ 880                   |

\* Represents the position of each trade before consideration of offsetting positions with each counterparty and does not include the impact of cash collateral deposits provided to or received from counterparties. See discussion of credit risk and collateral following in this Note.

In addition, the Company had the following amounts associated with fuel derivative instruments and hedging activities in its unaudited Condensed Consolidated Balance Sheet:

| (in millions)                                                                                | Balance Sheet                               | September 30, | December 31, |
|----------------------------------------------------------------------------------------------|---------------------------------------------|---------------|--------------|
|                                                                                              | location                                    | 2013          | 2012         |
| Cash collateral deposits provided to counterparties for interest rate contracts - noncurrent | Offset against Other noncurrent liabilities | 33            | 89           |
| Receivable from third parties for fuel contracts - current                                   | Accounts and other receivables              | 43            | —            |
| Receivable from third parties for fuel contracts - noncurrent                                | Other assets                                | 14            | 54           |
| Prepaid settlements for fuel contracts - current                                             | Prepaid expenses and other current assets   | —             | 15           |

All of the Company's fuel derivative instruments and interest rate swaps are subject to agreements that follow the netting guidance in the applicable accounting for derivatives and hedging. The types of derivative instruments the Company has determined are subject to netting requirements in the accompanying unaudited Condensed Consolidated Balance Sheet are those in which the Company pays or receives cash for transactions with the same counterparty that settle on the same day and in the same currency via one net payment or receipt. For cash collateral held by the Company or provided to counterparties, the Company nets such amounts against the fair value of the Company's derivative portfolio by each counterparty. The Company has elected to utilize netting for both its fuel derivative instruments and interest rate swap agreements and also classifies such amounts as either current or noncurrent, based on the net fair value position with each of the Company's counterparties in the unaudited Condensed Consolidated Balance Sheet.

The Company's application of its netting policy associated with cash collateral differs depending on whether its derivative instruments are in a net asset position or a net liability position. If its fuel derivative instruments are in a net asset position with a counterparty, cash collateral amounts held are first netted against current outstanding derivative amounts associated with that counterparty until that balance is zero, and then any remainder is applied against the fair value of noncurrent outstanding derivative instruments. If the Company's fuel derivative instruments are in a net liability position with the counterparty, cash collateral amounts provided are first netted against noncurrent outstanding derivative amounts associated with that counterparty until that balance is zero, and then any remainder is applied against the fair value of current outstanding derivative instruments. At September 30, 2013, and December 31, 2012, no cash collateral deposits, letters of credit, and/or aircraft collateral were provided by or held by the Company associated with its outstanding fuel derivative instruments.

The Company also has agreements with each of its counterparties associated with its outstanding interest rate swap agreements in which cash collateral may be required based on the fair value of outstanding derivative instruments, as well as the Company's and its counterparty's credit ratings. The Company has also elected to present its interest rate swap agreement cash collateral utilizing a net presentation. As of September 30, 2013, \$32 million had been provided to one counterparty associated with interest rate derivatives based on the Company's outstanding net liability derivative position with that counterparty. In addition, in connection with interest rate swaps entered into by AirTran, \$1 million had been provided to one counterparty at September 30, 2013, as a result of the outstanding net liability derivative position with that counterparty. The outstanding interest rate net derivative positions with all other counterparties at September 30, 2013, were assets to the Company.

The Company has the following recognized financial assets and financial liabilities resulting from those transactions that meet the scope of the disclosure requirements as necessitated by applicable accounting guidance for balance sheet offsetting:

## Offsetting of derivative assets

(in millions)

| Description                        | Balance Sheet location                    | (i)                                | (ii)                                      | (iii) = (i) + (ii) |                                                      | (i)                                | (ii)                                      | (iii) = (i) + (ii) |                                                      |
|------------------------------------|-------------------------------------------|------------------------------------|-------------------------------------------|--------------------|------------------------------------------------------|------------------------------------|-------------------------------------------|--------------------|------------------------------------------------------|
|                                    |                                           | September 30, 2013                 |                                           |                    | Net amounts of assets presented in the Balance Sheet | December 31, 2012                  |                                           |                    | Net amounts of assets presented in the Balance Sheet |
|                                    |                                           | Gross amounts of recognized assets | Gross amounts offset in the Balance Sheet |                    |                                                      | Gross amounts of recognized assets | Gross amounts offset in the Balance Sheet |                    |                                                      |
| Fuel derivative contracts          | Prepaid expenses and other current assets | \$ 303                             | \$ (253)                                  | \$ 50              | (a)                                                  | \$ 375                             | \$ (327)                                  | \$ 48              | (a)                                                  |
| Fuel derivative contracts          | Other assets                              | \$ 178                             | \$ (120)                                  | \$ 58              |                                                      | \$ 588                             | \$ (367)                                  | \$ 221             |                                                      |
| Fuel derivative contracts          | Accrued liabilities                       | \$ 2                               | \$ (2)                                    | \$ —               |                                                      | \$ 10                              | \$ (10)                                   | \$ —               |                                                      |
| Fuel derivative contracts          | Other noncurrent liabilities              | \$ 19                              | \$ (19)                                   | \$ —               |                                                      | \$ —                               | \$ —                                      | \$ —               |                                                      |
| Interest rate derivative contracts | Other assets                              | \$ 22                              | \$ —                                      | \$ 22              |                                                      | \$ 31                              | \$ —                                      | \$ 31              |                                                      |

(a) Amounts included in Prepaid expenses and other current assets.

## Offsetting of derivative liabilities

(in millions)

| Description                        | Balance Sheet location                    | (i)                                     | (ii)                                      | (iii) = (i) + (ii) |                                                           | (i)                                     | (ii)                                      | (iii) = (i) + (ii) |                                                           |
|------------------------------------|-------------------------------------------|-----------------------------------------|-------------------------------------------|--------------------|-----------------------------------------------------------|-----------------------------------------|-------------------------------------------|--------------------|-----------------------------------------------------------|
|                                    |                                           | September 30, 2013                      |                                           |                    | Net amounts of liabilities presented in the Balance Sheet | December 31, 2012                       |                                           |                    | Net amounts of liabilities presented in the Balance Sheet |
|                                    |                                           | Gross amounts of recognized liabilities | Gross amounts offset in the Balance Sheet |                    |                                                           | Gross amounts of recognized liabilities | Gross amounts offset in the Balance Sheet |                    |                                                           |
| Fuel derivative contracts          | Prepaid expenses and other current assets | \$ 253                                  | \$ (253)                                  | \$ —               |                                                           | \$ 327                                  | \$ (327)                                  | \$ —               |                                                           |
| Fuel derivative contracts          | Other assets                              | \$ 120                                  | \$ (120)                                  | \$ —               |                                                           | \$ 367                                  | \$ (367)                                  | \$ —               |                                                           |
| Fuel derivative contracts          | Accrued liabilities                       | \$ 5                                    | \$ (2)                                    | \$ 3               |                                                           | \$ 60                                   | \$ (10)                                   | \$ 50              |                                                           |
| Fuel derivative contracts          | Other noncurrent liabilities              | \$ 37                                   | \$ (19)                                   | \$ 18              |                                                           | \$ —                                    | \$ —                                      | \$ —               |                                                           |
| Interest rate derivative contracts | Other noncurrent liabilities              | \$ 87                                   | \$ (33)                                   | \$ 54              |                                                           | \$ 126                                  | \$ (89)                                   | \$ 37              |                                                           |

The net amounts of derivative assets and liabilities are reconciled to the individual line item amounts presented in the unaudited Condensed Consolidated Balance Sheet in Note 7.

The following tables present the impact of derivative instruments and their location within the unaudited Condensed Consolidated Statement of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012:

**Derivatives in cash flow hedging relationships**

|                           | (Gain) loss recognized in AOCI on derivatives (effective portion) |            | (Gain) loss reclassified from AOCI into income (effective portion)(a) |         | (Gain) loss recognized in income on derivatives (ineffective portion)(b) |      |
|---------------------------|-------------------------------------------------------------------|------------|-----------------------------------------------------------------------|---------|--------------------------------------------------------------------------|------|
|                           | Three months ended                                                |            | Three months ended                                                    |         | Three months ended                                                       |      |
|                           | September 30,                                                     |            | September 30,                                                         |         | September 30,                                                            |      |
| (in millions)             | 2013                                                              | 2012       | 2013                                                                  | 2012    | 2013                                                                     | 2012 |
| Fuel derivative contracts | \$ (105) *                                                        | \$ (167) * | \$ 24 *                                                               | \$ 25 * | \$ 15                                                                    | \$ 4 |
| Interest rate derivatives | 2 *                                                               | 7 *        | 4 *                                                                   | 4 *     | —                                                                        | —    |
| Total                     | \$ (103)                                                          | \$ (160)   | \$ 28                                                                 | \$ 29   | \$ 15                                                                    | \$ 4 |

\*Net of tax

(a) Amounts related to fuel derivative contracts and interest rate derivatives are included in Fuel and oil and Interest expense, respectively.

(b) Amounts are included in Other (gains) losses, net.

**Derivatives in cash flow hedging relationships**

|                           | (Gain) loss recognized in AOCI on derivatives (effective portion) |           | (Gain) loss reclassified from AOCI into income (effective portion)(a) |         | (Gain) loss recognized in income on derivatives (ineffective portion)(b) |       |
|---------------------------|-------------------------------------------------------------------|-----------|-----------------------------------------------------------------------|---------|--------------------------------------------------------------------------|-------|
|                           | Nine months ended                                                 |           | Nine months ended                                                     |         | Nine months ended                                                        |       |
|                           | September 30,                                                     |           | September 30,                                                         |         | September 30,                                                            |       |
| (in millions)             | 2013                                                              | 2012      | 2013                                                                  | 2012    | 2013                                                                     | 2012  |
| Fuel derivative contracts | \$ 113 *                                                          | \$ (24) * | \$ 88 *                                                               | \$ 76 * | \$ 27                                                                    | \$ 44 |
| Interest rate derivatives | (12) *                                                            | 18 *      | 14 *                                                                  | 13 *    | (1)                                                                      | —     |
| Total                     | \$ 101                                                            | \$ (6)    | \$ 102                                                                | \$ 89   | \$ 26                                                                    | \$ 44 |

\*Net of tax

(a) Amounts related to fuel derivative contracts and interest rate derivatives are included in Fuel and oil and Interest expense, respectively.

(b) Amounts are included in Other (gains) losses, net.

**Derivatives not in cash flow hedging relationships**

|                           | (Gain) loss<br>recognized in income on<br>derivatives |         | Location of (gain) loss<br>recognized in income<br>on derivatives |
|---------------------------|-------------------------------------------------------|---------|-------------------------------------------------------------------|
|                           | Three months ended<br>September 30,                   |         |                                                                   |
| (in millions)             | 2013                                                  | 2012    |                                                                   |
|                           |                                                       |         |                                                                   |
| Fuel derivative contracts | \$ (93)                                               | \$ (32) | Other (gains) losses, net                                         |

**Derivatives not in cash flow hedging relationships**

| (in millions).            | (Gain) loss<br>recognized in income on<br>derivatives |          | Location of (gain) loss<br>recognized in income<br>on derivatives |
|---------------------------|-------------------------------------------------------|----------|-------------------------------------------------------------------|
|                           | Nine months ended                                     |          |                                                                   |
|                           | September 30,                                         |          |                                                                   |
|                           | 2013                                                  | 2012     |                                                                   |
| Fuel derivative contracts | \$ (122)                                              | \$ (200) | Other (gains) losses, net                                         |

The Company also recorded expense associated with premiums paid for fuel derivative contracts that settled/expired during the three months ended September 30, 2013 and 2012 of \$22 million and \$15 million, respectively, and the nine months ended September 30, 2013 and 2012 of \$39 million and \$33 million, respectively. These amounts are excluded from the Company's measurement of effectiveness for related hedges and are included as a component of Other (gains) losses, net, in the unaudited Condensed Consolidated Statement of Comprehensive Income.

The fair values of the derivative instruments, depending on the type of instrument, were determined by the use of present value methods or option value models with assumptions about commodity prices based on those observed in underlying markets or provided by third parties. Included in the Company's cumulative net unrealized losses from fuel hedges as of September 30, 2013, were approximately \$15 million in unrealized losses, net of taxes, which are expected to be realized in earnings during the twelve months subsequent to September 30, 2013. In addition, as of September 30, 2013, the Company had already recognized cumulative net gains due to ineffectiveness and derivatives that did not qualify for hedge accounting treatment totaling \$69 million, net of taxes. These net gains were recognized during the three months ended September 30, 2013 and prior periods, and are reflected in Retained earnings as of September 30, 2013, but the underlying derivative instruments will not expire/settle until fourth quarter 2013 or future periods.

**Interest rate swaps**

The Company is party to certain interest rate swap agreements that are accounted for as either fair value hedges or cash flow hedges, as defined in the applicable accounting guidance for derivative instruments and hedging. The interest rate swap agreements accounted for as fair value hedges qualify for the "shortcut" method of accounting for hedges, which dictates that the hedges are assumed to be perfectly effective, and, thus, there is no ineffectiveness to be recorded in earnings. For the Company's interest rate swap agreements accounted for as cash flow hedges, ineffectiveness is required to be measured at each reporting period. The ineffectiveness associated with all of the Company's, including AirTran's, interest rate cash flow hedges for all periods presented was not material.

**Credit risk and collateral**

Credit exposure related to fuel derivative instruments is represented by the fair value of contracts that are an asset to the Company at the reporting date. At such times, these outstanding instruments expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements. However, the Company has not experienced any significant credit loss as a result of counterparty nonperformance in the past. To manage credit risk, the Company selects and periodically reviews counterparties based on credit ratings, limits its exposure with respect to each counterparty, and monitors the market position of the fuel hedging program and its relative market position with each counterparty. At September 30, 2013, the Company had agreements with all of its active counterparties containing early termination rights and/or bilateral collateral provisions whereby security is required if market risk exposure exceeds a specified threshold amount based on the counterparty credit rating. The Company also had agreements with counterparties in which cash deposits, letters of credit, and/or pledged aircraft are required to be posted whenever the net fair value of derivatives associated with those counterparties exceeds specific thresholds. The following table provides the fair values of fuel derivatives, amounts posted as collateral, and applicable collateral posting threshold amounts as of September 30, 2013, at which such postings are triggered:

| (in millions)                        | Counterparty (CP) |                   |                   |        |                             |       |          | Total |
|--------------------------------------|-------------------|-------------------|-------------------|--------|-----------------------------|-------|----------|-------|
|                                      | A                 | B                 | C                 | D      | E                           | F     | Other(a) |       |
| Fair value of fuel derivatives       | \$ 19             | \$ 23             | \$ 12             | \$ (3) | \$ 17                       | \$ 10 | \$ 9     | \$ 87 |
| Cash collateral held (by) CP         | —                 | —                 | —                 | —      | —                           | —     | —        | —     |
| Aircraft collateral pledged to CP    | —                 | —                 | —                 | —      | —                           | —     | —        | —     |
| Letters of credit (LC)               | —                 | —                 | —                 | —      | —                           | —     | —        | —     |
| Option to substitute LC for aircraft | (340) to (740)(d) | (100) to (500)(d) | N/A               | N/A    | (250) to (650) (d)          | N/A   |          |       |
| Option to substitute LC for cash     | N/A               | >(500)            | (100) to (150)(e) | N/A    | (50) to (250) or > (650)(d) | N/A   |          |       |

**If credit rating is investment grade, fair value of fuel derivative level at which:**

|                                                     |                          |                          |         |         |                          |       |  |  |
|-----------------------------------------------------|--------------------------|--------------------------|---------|---------|--------------------------|-------|--|--|
| Cash is provided to CP                              | (40) to (340) or > (740) | (50) to (100) or > (500) | >(50)   | >(75)   | (50) to (250) or > (650) | >(50) |  |  |
| Cash is received from CP                            | >75                      | >150                     | >175(c) | >125(c) | >200                     | >30   |  |  |
| Aircraft or cash can be pledged to CP as collateral | (340) to (740)(d)        | (100) to (500) (d)       | N/A     | N/A     | (250) to (650) (d)       | N/A   |  |  |

**If credit rating is non-investment grade, fair value of fuel derivative level at which:**

|                                             |                         |                         |     |     |                         |     |  |  |
|---------------------------------------------|-------------------------|-------------------------|-----|-----|-------------------------|-----|--|--|
| Cash is provided to CP                      | (0) to (300) or > (700) | (0) to (100) or > (500) | (b) | (b) | (0) to (250) or > (650) | (b) |  |  |
| Cash is received from CP                    | (b)                     | (b)                     | (b) | (b) | (b)                     | (b) |  |  |
| Aircraft can be pledged to CP as collateral | (300) to (700)          | (100) to (500)          | N/A | N/A | (250) to (650)          | N/A |  |  |

(a) Individual counterparties with fair value of fuel derivatives <\$20 million.

(b) Cash collateral is provided at 100 percent of fair value of fuel derivative contracts.

(c) Thresholds may vary based on changes in credit ratings within investment grade.

(d) The Company has the option of providing cash, letters of credit, or pledging aircraft as collateral. No cash, letters of credit, or aircraft were pledged as collateral with such counterparties as of September 30, 2013.

(e) The Company has the option of providing cash or letters of credit as collateral. No cash or letters of credit were pledged as collateral with such counterparties as of September 30, 2013.

## 6. COMPREHENSIVE INCOME

Comprehensive income includes changes in the fair value of certain financial derivative instruments that qualify for hedge accounting, unrealized gains and losses on certain investments, and actuarial gains/losses arising from the Company's postretirement benefit obligation. The differences between Net income and Comprehensive income for the three and nine months ended September 30, 2013 and 2012 were as follows:

| (in millions)                                                                                          | Three months ended September 30, |        |
|--------------------------------------------------------------------------------------------------------|----------------------------------|--------|
|                                                                                                        | 2013                             | 2012   |
| <b>NET INCOME</b>                                                                                      | \$ 259                           | \$ 16  |
| Unrealized gain on fuel derivative instruments, net of deferred taxes of \$76 and \$120                | 129                              | 192    |
| Unrealized gain (loss) on interest rate derivative instruments, net of deferred taxes of \$2 and (\$2) | 2                                | (3)    |
| Other, net of deferred taxes of \$2 and \$3                                                            | 3                                | 6      |
| Total other comprehensive income                                                                       | \$ 134                           | \$ 195 |
| <b>COMPREHENSIVE INCOME</b>                                                                            | \$ 393                           | \$ 211 |

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| (in millions)                                                                                           | Nine months ended September 30, |        |
|---------------------------------------------------------------------------------------------------------|---------------------------------|--------|
|                                                                                                         | 2013                            | 2012   |
| <b>NET INCOME</b>                                                                                       | \$ 542                          | \$ 343 |
| Unrealized gain (loss) on fuel derivative instruments, net of deferred taxes of (\$16) and \$63         | (25)                            | 100    |
| Unrealized gain (loss) on interest rate derivative instruments, net of deferred taxes of \$16 and (\$3) | 26                              | (5)    |
| Other, net of deferred taxes of \$6 and \$2                                                             | 4                               | 4      |
| Total other comprehensive income                                                                        | \$ 5                            | \$ 99  |
| <b>COMPREHENSIVE INCOME</b>                                                                             | \$ 547                          | \$ 442 |

A rollforward of the amounts included in AOCI, net of taxes, is shown below for the three and nine months ended September 30, 2013:

| (in millions)                 | Fuel derivatives | Interest rate derivatives | Defined benefit plan items | Other  | Deferred tax | Accumulated other comprehensive income (loss) |
|-------------------------------|------------------|---------------------------|----------------------------|--------|--------------|-----------------------------------------------|
| Balance at June 30, 2013      | \$ (349)         | \$ (70)                   | \$ 26                      | \$ (3) | \$ 148       | (248)                                         |
| Changes in fair value         | 168              | (3)                       | —                          | 5      | (64)         | 106                                           |
| Reclassification to earnings  | 37               | 7                         | —                          | —      | (16)         | 28                                            |
| Balance at September 30, 2013 | \$ (144)         | \$ (66)                   | \$ 26                      | \$ 2   | \$ 68        | \$ (114)                                      |

| (in millions)                 | Fuel derivatives | Interest rate derivatives | Defined benefit plan items | Other  | Deferred tax | Accumulated other comprehensive income (loss) |
|-------------------------------|------------------|---------------------------|----------------------------|--------|--------------|-----------------------------------------------|
| Balance at December 31, 2012  | \$ (103)         | \$ (108)                  | \$ 26                      | \$ (8) | \$ 74        | (119)                                         |
| Changes in fair value         | (181)            | 20                        | —                          | 10     | 54           | (97)                                          |
| Reclassification to earnings  | 140              | 22                        | —                          | —      | (60)         | 102                                           |
| Balance at September 30, 2013 | \$ (144)         | \$ (66)                   | \$ 26                      | \$ 2   | \$ 68        | \$ (114)                                      |

The following tables illustrate the significant amounts reclassified out of each component of AOCI for the three and nine months ended September 30, 2013:

| Three months ended September 30, 2013                   |                                |                                                                                              |
|---------------------------------------------------------|--------------------------------|----------------------------------------------------------------------------------------------|
| (in millions)                                           | Amounts reclassified from AOCI | Affected line item in the unaudited Condensed Consolidated Statement of Comprehensive Income |
| Unrealized gain on fuel derivative instruments          | \$ 37                          | Fuel and oil expense                                                                         |
|                                                         | \$ 13                          | Less: Tax Expense                                                                            |
|                                                         | \$ 24                          | Net of tax                                                                                   |
| Unrealized gain on interest rate derivative instruments | \$ 7                           | Interest expense                                                                             |
|                                                         | \$ 3                           | Less: Tax Expense                                                                            |
|                                                         | \$ 4                           | Net of tax                                                                                   |
| Total reclassifications for the period                  | \$ 28                          | Net of tax                                                                                   |

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**Nine months ended September 30, 2013**

| <b>(in millions)</b>                                    |                                       |                                                                                                     |
|---------------------------------------------------------|---------------------------------------|-----------------------------------------------------------------------------------------------------|
| <b>AOCI components</b>                                  | <b>Amounts reclassified from AOCI</b> | <b>Affected line item in the unaudited Condensed Consolidated Statement of Comprehensive Income</b> |
| Unrealized gain on fuel derivative instruments          | \$ 140                                | Fuel and oil expense                                                                                |
|                                                         | \$ 52                                 | Less: Tax Expense                                                                                   |
|                                                         | \$ 88                                 | Net of tax                                                                                          |
| Unrealized gain on interest rate derivative instruments | \$ 22                                 | Interest expense                                                                                    |
|                                                         | \$ 8                                  | Less: Tax Expense                                                                                   |
|                                                         | \$ 14                                 | Net of tax                                                                                          |
| Total reclassifications for the period                  | <u>\$ 102</u>                         | Net of tax                                                                                          |

**7. SUPPLEMENTAL FINANCIAL INFORMATION**

| <b>(in millions)</b>                                          | <b>September 30,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---------------------------------------------------------------|-------------------------------|------------------------------|
| Fuel derivative contracts                                     | \$ 58                         | \$ 221                       |
| Interest rate derivative contracts                            | 22                            | 31                           |
| Receivable from third parties for fuel contracts - noncurrent | 14                            | 54                           |
| Intangible assets                                             | 123                           | 138                          |
| Non-current investments                                       | 44                            | 41                           |
| Other                                                         | 157                           | 148                          |
| Other assets                                                  | <u>\$ 418</u>                 | <u>\$ 633</u>                |

| <b>(in millions)</b>      | <b>September 30,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---------------------------|-------------------------------|------------------------------|
| Retirement plans          | \$ 173                        | \$ 135                       |
| Aircraft rentals          | 171                           | 139                          |
| Vacation pay              | 286                           | 270                          |
| Health                    | 62                            | 70                           |
| Fuel derivative contracts | 3                             | 50                           |
| Workers compensation      | 158                           | 159                          |
| Accrued taxes             | 116                           | 67                           |
| Other                     | 203                           | 212                          |
| Accrued liabilities       | <u>\$ 1,172</u>               | <u>\$ 1,102</u>              |

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| <b>(in millions)</b>                  | <b>September 30,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---------------------------------------|-------------------------------|------------------------------|
| Postretirement obligation             | \$ 169                        | \$ 148                       |
| Non-current lease-related obligations | 312                           | 376                          |
| Airport construction obligation       | 420                           | 331                          |
| Other deferred compensation           | 153                           | 141                          |
| Fuel derivative contracts             | 18                            | —                            |
| Interest rate derivative contracts    | 54                            | 37                           |
| Other                                 | 72                            | 91                           |
| Other non-current liabilities         | <u>\$ 1,198</u>               | <u>\$ 1,124</u>              |

For further details on fuel derivative and interest rate derivative contracts, see Note 5.

**Other Operating Expenses**

Other operating expenses consist of distribution costs, advertising expenses, personnel expenses, professional fees, and other operating costs, none of which individually exceed 10 percent of Operating expenses.

**8. LEASES**

On July 9, 2012, the Company signed an agreement with Delta Air Lines, Inc. and Boeing Capital Corp. to lease or sublease all 88 of AirTran's Boeing 717-200 aircraft ("B717s") to Delta. The first converted B717 was delivered to Delta during late September 2013, and a total of 16 B717s are expected to be delivered to Delta by the end of 2013. Over the expected term of the transition period for all B717s, the Company expects to average approximately three B717 conversions per month. A total of 78 of the B717s are on operating lease, eight are owned, and two are currently classified as capital leases.

The B717s add complexity to the Company's operations, as Southwest Airlines has historically operated an all-Boeing 737 fleet. From a fleet management perspective, the transition of approximately three B717s per month to Delta allows the Company to minimize the impact of this transaction on operations, as the B717 capacity lost is expected to be replaced through the capacity gained as a result of (i) the Company's modification of the retirement dates for a portion of its 737-300 and 737-500 aircraft and (ii) its receipt of new 737 deliveries from Boeing or its acquisition of used 737s.

The Company will lease and/or sublease all 88 of the B717s to Delta at agreed-upon lease rates. In addition, the Company will pay the majority of the costs to convert the aircraft to the Delta livery and perform certain maintenance checks prior to the delivery of each aircraft. The agreement to pay these conversion and maintenance costs is a "lease incentive" under applicable accounting guidance. The sublease terms for the 78 B717s currently on operating lease and the two B717s currently classified as capital leases coincide with the Company's remaining lease terms for these aircraft from the original lessor, which range from approximately five years to approximately 11 years. The lease terms for the eight B717s that are owned by the Company are for a period of seven years, after which Delta will have the option to purchase the aircraft at the then-prevailing market value. The Company will account for the lease and sublease transactions with Delta as operating leases, except for the two aircraft classified by the Company as capital leases. The subleases of these two aircraft will be accounted for as direct financing leases. There are no contingent payments and no significant residual value conditions associated with the transaction.

The accounting for this transaction is based on the guidance provided for lease transactions. For the components of this transaction finalized in third quarter 2012 and with respect to which the lease inception has been deemed to occur, the Company recorded a charge of approximately \$137 million during third quarter 2012. The charge represents the remaining estimated cost, at the scheduled date of delivery of each B717 to Delta (including the conversion, maintenance, and other contractual costs to be incurred), of the Company's lease of the 78 B717s that are currently accounted for as operating leases, net of the future sublease income from Delta and the remaining unfavorable aircraft

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lease liability established as of the acquisition date. The charges recorded by the Company for this transaction were included as a component of Acquisition and integration costs in the Company's unaudited Condensed Consolidated Statement of Comprehensive Income and were included as a component of Other, net in Cash flows from operating activities in the Company's unaudited Condensed Consolidated Statement of Cash Flows, and the corresponding liability for this transaction is included as a component of Current liabilities and Other noncurrent liabilities in the Company's unaudited Condensed Consolidated Balance Sheet. See Note 2 for further information on the Company's Acquisition and integration costs. The Company may also incur other costs associated with this transaction, such as contract termination costs with certain aircraft maintenance vendors. Two of these vendor maintenance contracts have stated termination penalties totaling approximately \$106 million if the Company were to terminate such contracts; however, termination of these contracts has not occurred, and any charges would only be recorded at the time of contract termination or at the time any associated charges become probable and estimable.

## 9. COMMITMENTS AND CONTINGENCIES

### **Commitments**

The Company signed a Memorandum of Agreement ("MOA") with the City of Houston ("City"), effective June 2012, to expand the existing Houston Hobby airport facility. As provided in the MOA, the Company and the City negotiated an Airport Use and Lease Agreement ("Lease") to control the execution of this expansion and the financial terms thereof. Per the MOA and Lease, this project will consist of a new five-gate international terminal with international passenger processing facilities, expansion of the existing security checkpoint, and upgrades to the Southwest ticketing counter area. The project is estimated to cost \$156 million, and the Company has agreed to provide the funding for, as well as management over, the project. In return, the Company will receive a monthly credit for the capital cost portions of the international terminal, from the date of initial occupancy of the terminal until expiration of the Lease. Additionally, some portion of the project is expected to qualify for rental credits that would be utilized upon completion of the facility against the Company's current lease space at the airport. At any time after the completion of the project, the City may buy out the Company's investment in the international terminal for the then-unamortized cost of the project. Construction began during third quarter 2013 and is estimated to be completed during the second half of 2015.

As a result of its significant involvement in the project, the Company has evaluated its ongoing accounting requirements in consideration of accounting guidance provided for lessees involved in asset construction, and has determined that it qualifies as the accounting owner of the facility during the construction period. As such, during construction, the Company will record an asset within Ground property and equipment in the unaudited Condensed Consolidated Balance Sheet, and will account for these expenditures as part of capital expenditures within Investing activities in the unaudited Condensed Consolidated Statement of Cash Flows. The amounts recorded for third quarter 2013 were not material.

During 2008, the City of Dallas approved the Love Field Modernization Program ("LFMP"), a project to reconstruct Dallas Love Field ("Airport") with modern, convenient air travel facilities. Pursuant to a Program Development Agreement ("PDA") with the City of Dallas and the Love Field Airport Modernization Corporation (or "LFAMC," a Texas non-profit "local government corporation" established by the City of Dallas to act on the City of Dallas' behalf to facilitate the development of the LFMP), the Company is managing this project. Major construction commenced during 2010. New ticketing and checkin areas opened during fourth quarter 2012, and 11 new gates and new concessions opened in April 2013. Another new gate opened in July 2013, and full completion of the project is scheduled for second half 2014. The project consists of the complete replacement of gate facilities with a new 20-gate facility, including infrastructure, systems and equipment, aircraft parking apron, fueling system, roadways and terminal curbside, baggage handling systems, passenger loading bridges and support systems, and other supporting infrastructure.

It is currently expected that the total construction costs associated with the LFMP project will be approximately \$519 million. Although the City of Dallas has received commitments from various sources that are helping to fund portions of the LFMP project, including the Federal Aviation Administration ("FAA"), the Transportation Security Administration, and the City of Dallas' Aviation Fund, the majority of the funds used are from the issuance of bonds. During fourth quarter 2010, \$310 million of such bonds were issued by the LFAMC, and the Company has guaranteed

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principal and interest payments on the bonds. An additional tranche of such bonds totaling \$146 million was issued during second quarter 2012, and the Company has guaranteed the principal and interest payments on these bonds as well. The Company currently expects that as a result of the funding commitments from the above mentioned sources and the bonds that have been issued thus far, no further bond issuances and related guarantees from the Company will be required to complete the LFMP project.

In conjunction with the Company's significant presence at Dallas Love Field, its rights to occupy 16 of the available gates upon completion of the facility, and other factors, the Company agreed to manage the majority of the LFMP project. Based on these facts, the Company has evaluated its ongoing accounting requirements in consideration of accounting guidance provided for lessees involved in asset construction. The Company has recorded and will continue to record an asset and corresponding obligation for the cost of the LFMP project as the construction of the facility occurs. As of September 30, 2013, the Company had recorded LFMP construction costs of \$415 million classified as an asset within Ground property and equipment and \$420 million classified as a liability within Other non-current liabilities in its unaudited Condensed Consolidated Balance Sheet. Upon completion of different phases of the LFMP project, the Company has placed the associated assets in service and has begun depreciating the assets over their estimated useful lives. The amount of depreciation recorded for the three and nine months ended September 30, 2013, associated with the LFMP project was \$3 million and \$6 million, respectively. The corresponding LFMP liabilities will be reduced primarily through the Company's airport rental payments to the City of Dallas as the construction costs of the project are passed through to the Company via recurring airport rates and charges.

#### **Contingencies**

The Company is from time to time subject to various legal proceedings and claims arising in the ordinary course of business, including, but not limited to, examinations by the IRS. The Company's management does not expect that the outcome in any of its currently ongoing legal proceedings or the outcome of any adjustments presented by the IRS, individually or collectively, will have a material adverse effect on the Company's financial condition, results of operations, or cash flow.

#### **10. FAIR VALUE MEASUREMENTS**

Accounting standards pertaining to fair value measurements establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of September 30, 2013, the Company held certain items that are required to be measured at fair value on a recurring basis. These included cash equivalents, short-term investments (primarily treasury bills, commercial paper, and certificates of deposit), certain noncurrent investments, interest rate derivative contracts, fuel derivative contracts, and available-for-sale securities. The majority of the Company's short-term investments consist of instruments classified as Level 1. However, the Company has certificates of deposit, commercial paper, and Eurodollar time deposits that are classified as Level 2, due to the fact that the fair value for these instruments is determined utilizing observable inputs in non-active markets. Noncurrent investments consist of certain auction rate securities, primarily those collateralized by student loan portfolios, which are guaranteed by the U.S. Government. Other available-for-sale securities primarily consist of investments associated with the Company's excess benefit plan.

The Company's fuel and interest rate derivative instruments consist of over-the-counter contracts, which are not traded on a public exchange. Fuel derivative instruments include swaps, as well as different types of option contracts, whereas interest rate derivatives consist solely of swap agreements. See Note 5 for further information on the Company's derivative instruments and hedging activities. The fair values of swap contracts are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Company has categorized these swap contracts as Level 2. The Company's Treasury Department, which reports to the Chief Financial Officer, determines the value of option contracts utilizing an option

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pricing model based on inputs that are either readily available in public markets, can be derived from information available in publicly quoted markets, or are provided by financial institutions that trade these contracts. The option pricing model used by the Company is an industry standard model for valuing options and is the same model used by the broker/dealer community (i.e., the Company's counterparties). The inputs to this option pricing model are the option strike price, underlying price, risk free rate of interest, time to expiration, and volatility. Because certain inputs used to determine the fair value of option contracts are unobservable (principally implied volatility), the Company has categorized these option contracts as Level 3. Volatility information is obtained from external sources, but is analyzed by the Company for reasonableness and compared to similar information received from other external sources. The fair value of option contracts considers both the intrinsic value and any remaining time value associated with those derivatives that have not yet settled. The Company also considers counterparty credit risk and its own credit risk in its determination of all estimated fair values. To validate the reasonableness of the Company's option pricing model, on a monthly basis, the Company compares its option valuations to third party valuations. If any significant differences were to be noted, they would be researched in order to determine the reason. However, historically, no significant differences have been noted. The Company has consistently applied these valuation techniques in all periods presented and believes it has obtained the most accurate information available for the types of derivative contracts it holds.

The Company's investments associated with its excess benefit plan consist of mutual funds that are publicly traded and for which market prices are readily available. This plan is a non-qualified deferred compensation plan designed to hold Employee contributions in excess of limits established by Section 415 of the Internal Revenue Code of 1986, as amended. Payments under this plan are made based on the participant's distribution election and plan balance. Assets related to the funded portion of the deferred compensation plan are held in a rabbi trust, and the Company remains liable to these participants for the unfunded portion of the plan. The Company records changes in the fair value of the liability and the asset in the Company's earnings.

All of the Company's auction rate security instruments, totaling \$39 million (net) at September 30, 2013, are classified as available-for-sale securities and are reflected at their estimated fair value in the unaudited Condensed Consolidated Balance Sheet. In prior periods, due to the auction process which took place every 30-35 days for most securities, quoted market prices were readily available, which would have qualified as Level 1. However, due to events in credit markets beginning during first quarter 2008, the auction events for these remaining instruments failed, and have continued to fail through the current period. Therefore, the Company's Treasury Department determines the estimated fair values of these securities utilizing a discounted cash flow analysis. The Company has performed, and routinely updates, a valuation for each of its auction rate security instruments, considering, among other items, the collateralization underlying the security investments, the expected future cash flows, including the final maturity, associated with the securities, estimates of the next time the security is expected to have a successful auction or return to full par value, forecasted reset rates based on the London Interbank Offered Rate ("LIBOR") or the issuer's net loan rate, and a counterparty credit spread. To validate the reasonableness of the Company's discounted cash flow analyses, the Company compares its valuations to third party valuations on a quarterly basis.

In association with its estimate of fair value related to auction rate security instruments as of September 30, 2013, the Company has previously recorded a temporary unrealized decline in fair value of \$11 million, with an offsetting entry to AOCI. The Company continues to believe that this decline in fair value is due entirely to market liquidity issues, because the underlying assets for the majority of these auction rate securities held by the Company are currently rated investment grade by Moody's, Standard and Poor's, and Fitch and are almost entirely backed by the U.S. Government. The range of maturities for the Company's auction rate securities are from 5 years to 34 years. Considering the relative insignificance of these securities in comparison to the Company's liquid assets and other sources of liquidity, the Company has no current intention of selling these securities nor does it expect to be required to sell these securities before a recovery in their cost basis. At the time of the first failed auctions during first quarter 2008, the Company held a total of \$463 million in auction rate securities and, since that time, has been able to sell \$413 million of these instruments at par value.

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The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis at September 30, 2013, and December 31, 2012:

| Description                            | September 30, 2013 | Fair value measurements at reporting date using:                        |                                                        |                                                    |  |
|----------------------------------------|--------------------|-------------------------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------|--|
|                                        |                    | Quoted prices in<br>active markets<br>for identical assets<br>(Level 1) | Significant<br>other observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |  |
|                                        |                    | (in millions)                                                           |                                                        |                                                    |  |
| <b>Assets</b>                          |                    |                                                                         |                                                        |                                                    |  |
| Cash equivalents                       |                    |                                                                         |                                                        |                                                    |  |
| Cash equivalents (a)                   | \$ 1,107           | \$ 1,107                                                                | \$ —                                                   | \$ —                                               |  |
| Commercial paper                       | 215                | —                                                                       | 215                                                    | —                                                  |  |
| Certificates of deposit                | 11                 | —                                                                       | 11                                                     | —                                                  |  |
| Short-term investments:                |                    |                                                                         |                                                        |                                                    |  |
| Treasury bills                         | 1,760              | 1,760                                                                   | —                                                      | —                                                  |  |
| Certificates of deposit                | 235                | —                                                                       | 235                                                    | —                                                  |  |
| Noncurrent investments (b)             |                    |                                                                         |                                                        |                                                    |  |
| Auction rate securities                | 39                 | —                                                                       | —                                                      | 39                                                 |  |
| Interest rate derivatives (see Note 5) | 22                 | —                                                                       | 22                                                     | —                                                  |  |
| Fuel derivatives:                      |                    |                                                                         |                                                        |                                                    |  |
| Swap contracts (c)                     | 46                 | —                                                                       | 46                                                     | —                                                  |  |
| Option contracts (c)                   | 435                | —                                                                       | —                                                      | 435                                                |  |
| Option contracts (d)                   | 20                 | —                                                                       | —                                                      | 20                                                 |  |
| Other available-for-sale securities    | 58                 | 53                                                                      | —                                                      | 5                                                  |  |
| <b>Total assets</b>                    | <b>\$ 3,948</b>    | <b>\$ 2,920</b>                                                         | <b>\$ 529</b>                                          | <b>\$ 499</b>                                      |  |
| <b>Liabilities</b>                     |                    |                                                                         |                                                        |                                                    |  |
| Fuel derivatives:                      |                    |                                                                         |                                                        |                                                    |  |
| Swap contracts (c)                     | (38)               | —                                                                       | (38)                                                   | —                                                  |  |
| Option contracts (c)                   | (335)              | —                                                                       | —                                                      | (335)                                              |  |
| Option contracts (d)                   | (41)               | —                                                                       | —                                                      | (41)                                               |  |
| Interest rate derivatives (see Note 5) | (87)               | —                                                                       | (87)                                                   | —                                                  |  |
| Deferred compensation                  | (149)              | (149)                                                                   | —                                                      | —                                                  |  |
| <b>Total liabilities</b>               | <b>\$ (650)</b>    | <b>\$ (149)</b>                                                         | <b>\$ (125)</b>                                        | <b>\$ (376)</b>                                    |  |

(a) Cash equivalents are primarily composed of money market investments.

(b) Noncurrent investments are included in Other assets in the unaudited Condensed Consolidated Balance Sheet.

(c) In the unaudited Condensed Consolidated Balance Sheet amounts are presented as a net asset. See Note 5.

(d) In the unaudited Condensed Consolidated Balance Sheet amounts are presented as a net liability. See Note 5.

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| Description                            | December 31, 2012 | Fair value measurements at reporting date using:                        |                                                        |                                                    |  |
|----------------------------------------|-------------------|-------------------------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------|--|
|                                        |                   | Quoted prices in<br>active markets<br>for identical assets<br>(Level 1) | Significant<br>other observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |  |
|                                        |                   | (in millions)                                                           |                                                        |                                                    |  |
| <b>Assets</b>                          |                   |                                                                         |                                                        |                                                    |  |
| Cash equivalents                       |                   |                                                                         |                                                        |                                                    |  |
| Cash equivalents (a)                   | \$ 829            | \$ 829                                                                  | \$ —                                                   | \$ —                                               |  |
| Commercial paper                       | 170               | —                                                                       | 170                                                    | —                                                  |  |
| Certificates of deposit                | 34                | —                                                                       | 34                                                     | —                                                  |  |
| Eurodollar Time Deposits               | 80                | —                                                                       | 80                                                     | —                                                  |  |
| Short-term investments:                |                   |                                                                         |                                                        |                                                    |  |
| Treasury bills                         | 1,624             | 1,624                                                                   | —                                                      | —                                                  |  |
| Certificates of deposit                | 233               | —                                                                       | 233                                                    | —                                                  |  |
| Noncurrent investments (b)             |                   |                                                                         |                                                        |                                                    |  |
| Auction rate securities                | 36                | —                                                                       | —                                                      | 36                                                 |  |
| Interest rate derivatives (see Note 5) | 31                | —                                                                       | 31                                                     | —                                                  |  |
| Fuel derivatives:                      |                   |                                                                         |                                                        |                                                    |  |
| Swap contracts (c)                     | 113               | —                                                                       | 113                                                    | —                                                  |  |
| Option contracts (c)                   | 850               | —                                                                       | —                                                      | 850                                                |  |
| Option contracts (d)                   | 10                | —                                                                       | —                                                      | 10                                                 |  |
| Other available-for-sale securities    | 49                | 44                                                                      | —                                                      | 5                                                  |  |
| <b>Total assets</b>                    | <b>\$ 4,059</b>   | <b>\$ 2,497</b>                                                         | <b>\$ 661</b>                                          | <b>\$ 901</b>                                      |  |
| <b>Liabilities</b>                     |                   |                                                                         |                                                        |                                                    |  |
| Fuel derivatives:                      |                   |                                                                         |                                                        |                                                    |  |
| Swap contracts (c)                     | \$ (57)           | \$ —                                                                    | \$ (57)                                                | \$ —                                               |  |
| Option contracts (c)                   | (637)             | —                                                                       | —                                                      | (637)                                              |  |
| Swap contracts (d)                     | (56)              | —                                                                       | (56)                                                   | —                                                  |  |
| Option contracts (d)                   | (4)               | —                                                                       | —                                                      | (4)                                                |  |
| Interest rate derivatives (see Note 5) | (126)             | —                                                                       | (126)                                                  | —                                                  |  |
| Deferred Compensation                  | (137)             | (137)                                                                   | —                                                      | —                                                  |  |
| <b>Total liabilities</b>               | <b>\$ (1,017)</b> | <b>\$ (137)</b>                                                         | <b>\$ (239)</b>                                        | <b>\$ (641)</b>                                    |  |

(a) Cash equivalents are primarily composed of money market investments.

(b) Noncurrent investments are included in Other assets in the unaudited Condensed Consolidated Balance Sheet.

(c) In the unaudited Condensed Consolidated Balance Sheet amounts are presented as a net asset. See Note 5.

(d) In the unaudited Condensed Consolidated Balance Sheet amounts are presented as a net liability. See Note 5.

The Company had no transfers of assets or liabilities between any of the above levels during the nine months ended September 30, 2013, or the year ended December 31, 2012. The following tables present the Company's activity for items measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2013:

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| (in millions)                                                                                                                                                              | Fair value measurements using significant unobservable inputs (Level 3) |                         |                  |         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|-------------------------|------------------|---------|
|                                                                                                                                                                            | Fuel derivatives                                                        | Auction rate securities | Other securities | Total   |
| Balance at June 30, 2013                                                                                                                                                   | \$ (76)                                                                 | \$ 36                   | \$ 5             | \$ (35) |
| Total gains (realized or unrealized)                                                                                                                                       |                                                                         |                         |                  |         |
| Included in earnings                                                                                                                                                       | 62                                                                      | —                       | —                | 62      |
| Included in other comprehensive income                                                                                                                                     | 155                                                                     | 3                       | —                | 158     |
| Purchases                                                                                                                                                                  | 26 (a)                                                                  | —                       | —                | 26      |
| Sales                                                                                                                                                                      | (88) (a)                                                                | —                       | —                | (88)    |
| Settlements                                                                                                                                                                | —                                                                       | —                       | —                | —       |
| Balance at September 30, 2013                                                                                                                                              | \$ 79                                                                   | \$ 39 (b)               | \$ 5             | \$ 123  |
| The amount of total gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2013 | \$ 58                                                                   | \$ —                    | \$ —             | \$ 58   |

(a) The purchase and sale of fuel derivatives are recorded gross based on the structure of the derivative instrument and whether a contract with multiple derivatives is purchased as a single instrument or separate instruments.

(b) Included in Other assets in the unaudited Condensed Consolidated Balance Sheet.

| (in millions)                                                                                                                                                              | Fair value measurements using significant unobservable inputs (Level 3) |                         |                  |        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|-------------------------|------------------|--------|
|                                                                                                                                                                            | Fuel derivatives                                                        | Auction rate securities | Other securities | Total  |
| Balance at December 31, 2012                                                                                                                                               | \$ 219                                                                  | \$ 36                   | \$ 5             | \$ 260 |
| Total gains or (losses) (realized or unrealized)                                                                                                                           |                                                                         |                         |                  |        |
| Included in earnings                                                                                                                                                       | 73                                                                      | —                       | —                | 73     |
| Included in other comprehensive income                                                                                                                                     | (190)                                                                   | 3                       | —                | (187)  |
| Purchases                                                                                                                                                                  | 301 (a)                                                                 | —                       | —                | 301    |
| Sales                                                                                                                                                                      | (371) (a)                                                               | —                       | —                | (371)  |
| Settlements                                                                                                                                                                | 47                                                                      | —                       | —                | 47     |
| Balance at September 30, 2013                                                                                                                                              | \$ 79                                                                   | \$ 39 (b)               | \$ 5             | \$ 123 |
| The amount of total gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2013 | \$ 92                                                                   | \$ —                    | \$ —             | \$ 92  |

(a) The purchase and sale of fuel derivatives are recorded gross based on the structure of the derivative instrument and whether a contract with multiple derivatives is purchased as a single instrument or separate instruments.

(b) Included in Other assets in the unaudited Condensed Consolidated Balance Sheet.

The significant unobservable input used in the fair value measurement of the Company's derivative option contracts is implied volatility. Holding other inputs constant, a significant increase (decrease) in implied volatility would result in a significantly higher (lower) fair value measurement, respectively, for the Company's derivative option contracts. The significant unobservable inputs used in the fair value measurement of the Company's auction rate securities are time to principal recovery, an illiquidity premium, and counterparty credit spread. Holding other inputs constant, a significant increase (decrease) in such unobservable inputs would result in a significantly lower (higher) fair value measurement, respectively.

The following table presents a range of the unobservable inputs utilized in the fair value measurements of the Company's assets and liabilities classified as Level 3 at September 30, 2013:

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**Quantitative information about Level 3 fair value measurements**

|                         | Valuation technique  | Unobservable input         | Period (by year)    | Range     |
|-------------------------|----------------------|----------------------------|---------------------|-----------|
| Fuel derivatives        | Option model         | Implied volatility         | Fourth quarter 2013 | 11-26%    |
|                         |                      |                            | 2014                | 14-28%    |
|                         |                      |                            | 2015                | 14-22%    |
|                         |                      |                            | 2016                | 14-20%    |
|                         |                      |                            | 2017                | 14-17%    |
| Auction rate securities | Discounted cash flow | Time to principal recovery |                     | 5-8 years |
|                         |                      | Illiquidity premium        |                     | 3-4%      |
|                         |                      | Counterparty credit spread |                     | 1-3%      |

All settlements from fuel derivative contracts that are deemed “effective” are included in Fuel and oil expense in the period the underlying fuel is consumed in operations. Any “ineffectiveness” associated with hedges, including amounts that settled in the current period (realized), and amounts that will settle in future periods (unrealized), is recorded in earnings immediately as a component of Other (gains) losses, net. See Note 5 for further information on hedging. Any gains and losses (realized and unrealized) related to other investments are reported in Other operating expenses and were immaterial for the three and nine months ended September 30, 2013 and 2012.

The carrying amounts and estimated fair values of the Company’s long-term debt (including current maturities), as well as the applicable fair value hierarchy tier, at September 30, 2013, are presented in the table below. The fair values of the Company’s publicly held long-term debt are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets; therefore, the Company has categorized these agreements as Level 2. Six of the Company’s debt agreements are not publicly held. The Company has determined the estimated fair value of this debt to be Level 3, as certain inputs used to determine the fair value of these agreements are unobservable. The Company utilizes indicative pricing from counterparties and a discounted cash flow method to estimate the fair value of the Level 3 items.

| <u>(in millions)</u>                                        | <u>Carrying value</u> | <u>Estimated fair value</u> | <u>Fair value level hierarchy</u> |
|-------------------------------------------------------------|-----------------------|-----------------------------|-----------------------------------|
| 5.25% Notes due 2014                                        | 359                   | 364                         | Level 2                           |
| 5.75% Notes due 2016                                        | 322                   | 353                         | Level 2                           |
| 5.25% Convertible Senior Notes due 2016                     | 115                   | 153                         | Level 2                           |
| 5.125% Notes due 2017                                       | 324                   | 353                         | Level 2                           |
| Fixed-rate 717 Aircraft Notes payable through 2017 - 10.38% | 55                    | 52                          | Level 2                           |
| French Credit Agreements due 2018 - 1.12%                   | 51                    | 51                          | Level 3                           |
| Fixed-rate 737 Aircraft Notes payable through 2018 - 7.02%  | 31                    | 32                          | Level 3                           |
| Term Loan Agreement due 2019 - 6.315%                       | 218                   | 221                         | Level 3                           |
| Term Loan Agreement due 2019 - 6.84%                        | 85                    | 91                          | Level 3                           |
| Term Loan Agreement due 2020 - 5.223%                       | 422                   | 396                         | Level 3                           |
| Floating-rate 737 Aircraft Notes payable through 2020       | 348                   | 343                         | Level 3                           |
| Pass Through Certificates due 2022 - 6.24%                  | 371                   | 423                         | Level 2                           |
| 7.375% Debentures due 2027                                  | 137                   | 149                         | Level 2                           |

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

Relevant comparative operating statistics for the three and nine months ended September 30, 2013 and 2012 are included below. The Company provides these operating statistics because they are commonly used in the airline industry and, as such, allow readers to compare the Company's performance against its results for the prior year period, as well as against the performance of the Company's peers.

|                                                                      | <b>Three months ended September 30,</b> |             | <b>Change</b> |
|----------------------------------------------------------------------|-----------------------------------------|-------------|---------------|
|                                                                      | <b>2013</b>                             | <b>2012</b> |               |
| Revenue passengers carried                                           | 27,015,866                              | 28,318,779  | (4.6)%        |
| Enplaned passengers                                                  | 33,792,804                              | 34,913,698  | (3.2)%        |
| Revenue passenger miles (RPMs) (000s) <sup>(1)</sup>                 | 27,009,604                              | 27,162,606  | (0.6)%        |
| Available seat miles (ASMs) (000s) <sup>(2)</sup>                    | 33,425,087                              | 33,080,233  | 1.0 %         |
| Load factor <sup>(3)</sup>                                           | 80.8%                                   | 82.1%       | (1.3) pts     |
| Average length of passenger haul (miles)                             | 1,000                                   | 959         | 4.3 %         |
| Average aircraft stage length (miles)                                | 708                                     | 697         | 1.6 %         |
| Trips flown                                                          | 332,991                                 | 347,346     | (4.1)%        |
| Average passenger fare                                               | 159.39                                  | 143.24      | 11.3 %        |
| Passenger revenue yield per RPM (cents) <sup>(4)</sup>               | 15.94                                   | 14.93       | 6.8 %         |
| Operating revenue per ASM (cents) <sup>(5)</sup>                     | 13.60                                   | 13.02       | 4.5 %         |
| Passenger revenue per ASM (cents) <sup>(6)</sup>                     | 12.88                                   | 12.26       | 5.1 %         |
| Operating expenses per ASM (cents) <sup>(7)</sup>                    | 12.43                                   | 12.87       | (3.4)%        |
| Operating expenses per ASM, excluding fuel (cents)                   | 8.09                                    | 8.25        | (1.9)%        |
| Operating expenses per ASM, excluding fuel and profitsharing (cents) | 7.88                                    | 8.16        | (3.4)%        |
| Fuel costs per gallon, including fuel tax                            | 3.10                                    | 3.19        | (2.8)%        |
| Fuel costs per gallon, including fuel tax, economic                  | 3.06                                    | 3.16        | (3.2)%        |
| Fuel consumed, in gallons (millions)                                 | 466                                     | 478         | (2.5)%        |
| Active fulltime equivalent Employees                                 | 45,148                                  | 46,048      | (2.0)%        |
| Aircraft in service at period-end <sup>(8)</sup>                     | 683                                     | 692         | (1.3)%        |

|                                                                      | Nine months ended September 30, |             | Change    |
|----------------------------------------------------------------------|---------------------------------|-------------|-----------|
|                                                                      | 2013                            | 2012        |           |
| Revenue passengers carried                                           | 81,180,167                      | 82,738,949  | (1.9)%    |
| Enplaned passengers                                                  | 100,036,208                     | 101,278,271 | (1.2)%    |
| Revenue passenger miles (RPMs) (000s) <sup>(1)</sup>                 | 78,695,853                      | 78,053,971  | 0.8 %     |
| Available seat miles (ASMs) (000s) <sup>(2)</sup>                    | 98,457,754                      | 96,943,715  | 1.6 %     |
| Load factor <sup>(3)</sup>                                           | 79.9%                           | 80.5%       | (0.6) pts |
| Average length of passenger haul (miles)                             | 969                             | 943         | 2.8 %     |
| Average aircraft stage length (miles)                                | 703                             | 694         | 1.3 %     |
| Trips flown                                                          | 995,097                         | 1,033,968   | (3.8)%    |
| Average passenger fare                                               | 154.28                          | 146.90      | 5.0 %     |
| Passenger revenue yield per RPM (cents) <sup>(4)</sup>               | 15.91                           | 15.57       | 2.2 %     |
| Operating revenue per ASM (cents) <sup>(5)</sup>                     | 13.48                           | 13.32       | 1.2 %     |
| Passenger revenue per ASM (cents) <sup>(6)</sup>                     | 12.72                           | 12.54       | 1.4 %     |
| Operating expenses per ASM (cents) <sup>(7)</sup>                    | 12.57                           | 12.77       | (1.6)%    |
| Operating expenses per ASM, excluding fuel (cents)                   | 8.11                            | 8.01        | 1.2 %     |
| Operating expenses per ASM, excluding fuel and profitsharing (cents) | 7.95                            | 7.90        | 0.6 %     |
| Fuel costs per gallon, including fuel tax                            | 3.19                            | 3.27        | (2.4)%    |
| Fuel costs per gallon, including fuel tax, economic                  | 3.13                            | 3.27        | (4.3)%    |
| Fuel consumed, in gallons (millions)                                 | 1,376                           | 1,404       | (2.0)%    |
| Active fulltime equivalent Employees                                 | 45,148                          | 46,048      | (2.0)%    |
| Aircraft in service at period-end <sup>(8)</sup>                     | 683                             | 692         | (1.3)%    |

(1) A revenue passenger mile is one paying passenger flown one mile. Also referred to as "traffic," which is a measure of demand for a given period.

(2) An available seat mile is one seat (empty or full) flown one mile. Also referred to as "capacity," which is a measure of the space available to carry passengers in a given period.

(3) Revenue passenger miles divided by available seat miles.

(4) Calculated as passenger revenue divided by revenue passenger miles. Also referred to as "yield," this is the average cost paid by a paying passenger to fly one mile, which is a measure of revenue production and fares.

(5) Calculated as operating revenue divided by available seat miles. Also referred to as "operating unit revenues," this is a measure of operating revenue production based on the total available seat miles flown during a particular period.

(6) Calculated as passenger revenue divided by available seat miles. Also referred to as "passenger unit revenues," this is a measure of passenger revenue production based on the total available seat miles flown during a particular period.

(7) Calculated as operating expenses divided by available seat miles. Also referred to as "unit costs" or "cost per available seat mile," this is the average cost to fly an aircraft seat (empty or full) one mile, which is a measure of cost efficiencies.

(8) Includes leased aircraft and excludes aircraft that are not available for service or are held in storage, for sale, or for return to the lessor.

**Reconciliation of Reported Amounts to non-GAAP Financial Measures (unaudited) (in millions, except per share and per ASM amounts)**

|                                                                                                                                     | Three months ended September 30, |          | Percent<br>Change | Nine months ended September 30, |           | Percent<br>Change |
|-------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------|-------------------|---------------------------------|-----------|-------------------|
|                                                                                                                                     | 2013                             | 2012     |                   | 2013                            | 2012      |                   |
| <b>Fuel and oil expense, unhedged</b>                                                                                               | \$ 1,435                         | \$ 1,503 |                   | \$ 4,282                        | \$ 4,526  |                   |
| Add: Fuel hedge losses included in Fuel and oil expense                                                                             | 15                               | 25       |                   | 114                             | 89        |                   |
| <b>Fuel and oil expense, as reported</b>                                                                                            | \$ 1,450                         | \$ 1,528 |                   | \$ 4,396                        | \$ 4,615  |                   |
| Deduct: Net impact from fuel contracts                                                                                              | (21)                             | (12)     |                   | (71)                            | (2)       |                   |
| <b>Fuel and oil expense, non-GAAP</b>                                                                                               | \$ 1,429                         | \$ 1,516 | (5.7)             | \$ 4,325                        | \$ 4,613  | (6.2)             |
| <b>Total operating expenses, as reported</b>                                                                                        | \$ 4,155                         | \$ 4,258 |                   | \$ 12,378                       | \$ 12,383 |                   |
| Add (Deduct): Reclassification between Fuel and oil and Other (gains) losses, net, associated with current period settled contracts | (17)                             | 4        |                   | (10)                            | (8)       |                   |
| Add (Deduct): Contracts settling in the current period, but for which gains and/or (losses) have been recognized in a prior period* | (4)                              | (16)     |                   | (61)                            | 6         |                   |
| Deduct: Acquisition and integration costs                                                                                           | (28)                             | (145)    |                   | (66)                            | (168)     |                   |
| <b>Total operating expenses, non-GAAP</b>                                                                                           | \$ 4,106                         | \$ 4,101 | 0.1               | \$ 12,241                       | \$ 12,213 | 0.2               |
| <b>Operating income, as reported</b>                                                                                                | \$ 390                           | \$ 51    |                   | \$ 893                          | \$ 532    |                   |
| Add (Deduct): Reclassification between Fuel and oil and Other (gains) losses, net, associated with current period settled contracts | 17                               | (4)      |                   | 10                              | 8         |                   |
| Add (Deduct): Contracts settling in the current period, but for which gains and/or (losses) have been recognized in a prior period* | 4                                | 16       |                   | 61                              | (6)       |                   |
| Add: Acquisition and integration costs                                                                                              | 28                               | 145      |                   | 66                              | 168       |                   |
| <b>Operating income, non-GAAP</b>                                                                                                   | \$ 439                           | \$ 208   | 111.1             | \$ 1,030                        | \$ 702    | 46.7              |
| <b>Net income, as reported</b>                                                                                                      | \$ 259                           | \$ 16    |                   | \$ 542                          | \$ 343    |                   |
| Deduct: Mark-to-market impact from fuel contracts settling in future periods                                                        | (76)                             | (37)     |                   | (112)                           | (193)     |                   |
| Add: Ineffectiveness from fuel hedges settling in future periods                                                                    | 15                               | 5        |                   | 27                              | 45        |                   |
| Add (Deduct): Other net impact of fuel contracts settling in the current or a prior period (excluding reclassifications)            | 4                                | 16       |                   | 61                              | (6)       |                   |
| Add: Income tax impact of fuel contracts                                                                                            | 22                               | 10       |                   | 10                              | 60        |                   |
| Add: Acquisition and integration costs, net (a)                                                                                     | 17                               | 87       |                   | 41                              | 103       |                   |
| <b>Net income, non-GAAP</b>                                                                                                         | \$ 241                           | \$ 97    | 148.5             | \$ 569                          | \$ 352    | 61.6              |
| <b>Net income per share, diluted, as reported</b>                                                                                   | \$ 0.37                          | \$ 0.02  |                   | \$ 0.75                         | \$ 0.45   |                   |
| Deduct: Net impact to net income above from fuel contracts divided by dilutive shares                                               | (0.05)                           | (0.01)   |                   | (0.02)                          | (0.13)    |                   |
| Add: Impact of special items, net (a)                                                                                               | 0.02                             | 0.12     |                   | 0.06                            | 0.14      |                   |
| <b>Net income per share, diluted, non-GAAP</b>                                                                                      | \$ 0.34                          | \$ 0.13  | 161.5             | \$ 0.79                         | \$ 0.46   | 71.7              |
| <b>Operating expenses per ASM (cents)</b>                                                                                           | 12.43                            | 12.87    |                   | 12.57                           | 12.77     |                   |
| Deduct: Fuel expense divided by ASMs                                                                                                | (4.34)                           | (4.62)   |                   | (4.46)                          | (4.76)    |                   |
| Deduct: Impact of special items                                                                                                     | (0.08)                           | (0.44)   |                   | (0.07)                          | (0.17)    |                   |
| <b>Operating expenses per ASM, non-GAAP, excluding fuel and special items (cents)</b>                                               | 8.01                             | 7.81     | 2.6               | 8.04                            | 7.84      | 2.6               |

\* As a result of prior hedge ineffectiveness and/or contracts marked to market through earnings.

(a) Amounts net of tax.

## Note Regarding Use of Non-GAAP Financial Measures

The Company's unaudited Condensed Consolidated Financial Statements are prepared in accordance with GAAP. These GAAP financial statements include (i) unrealized non-cash adjustments and reclassifications, which can be significant, as a result of accounting requirements and elections made under accounting pronouncements relating to derivative instruments and hedging and (ii) other charges the Company believes are not indicative of its ongoing operational performance.

As a result, the Company also provides financial information in this filing that was not prepared in accordance with GAAP and should not be considered as an alternative to the information prepared in accordance with GAAP. The Company provides supplemental non-GAAP financial information, including results that it refers to as "economic," which the Company's management utilizes to evaluate its ongoing financial performance and the Company believes provides greater transparency to investors as supplemental information to its GAAP results. The Company's economic financial results differ from GAAP results in that they only include the actual cash settlements from fuel hedge contracts - all reflected within Fuel and oil expense in the period of settlement. Thus, Fuel and oil expense on an economic basis reflects the Company's actual net cash outlays for fuel during the applicable period, inclusive of settled fuel derivative contracts.

Any net premium costs paid related to option contracts are reflected as a component of Other (gains) losses, net, for both GAAP and non-GAAP (including economic) purposes in the period of contract settlement. The Company believes these economic results provide a better measure of the impact of the Company's fuel hedges on its operating performance and liquidity since they exclude the unrealized, non-cash adjustments and reclassifications that are recorded in GAAP results in accordance with accounting guidance relating to derivative instruments, and they reflect all cash settlements related to fuel derivative contracts within Fuel and oil expense. This enables the Company's management, as well as investors, to consistently assess the Company's operating performance on a year-over-year or quarter-over-quarter basis after considering all efforts in place to manage fuel expense. However, because these measures are not determined in accordance with GAAP, such measures are susceptible to varying calculations and not all companies calculate the measures in the same manner. As a result, the aforementioned measures, as presented, may not be directly comparable to similarly titled measures presented by other companies.

Further information on (i) the Company's fuel hedging program, (ii) the requirements of accounting for derivative instruments, and (iii) the causes of hedge ineffectiveness and/or mark-to-market gains or losses from derivative instruments is included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, and Note 5 to the unaudited Condensed Consolidated Financial Statements.

In addition to its "economic" financial measures, as defined above, the Company has also provided other non-GAAP financial measures, including results that it refers to as "excluding special items," as a result of items that the Company believes are not indicative of its ongoing operations. These include expenses associated with the Company's acquisition and integration of AirTran. The Company believes that evaluation of its financial performance can be enhanced by a presentation of results that exclude the impact of these items in order to evaluate the results on a comparative basis with results in prior periods that do not include such items and as a basis for evaluating operating results in future periods. As a result of the Company's acquisition of AirTran, which closed on May 2, 2011, the Company has incurred and expects to continue to incur substantial charges associated with integration of the two companies. While the Company cannot predict the exact timing or amounts of such charges, it does expect to treat these charges as special items in its future presentation of non-GAAP results. See Note 2 and Note 8 to the unaudited Condensed Consolidated Financial Statements for further information on the AirTran acquisition.

## Material Changes in Results of Operations

### Overview

The Company recorded third quarter and year-to-date GAAP and non-GAAP results for 2013 and 2012 as follows:

| (in millions, except per share amounts) | Three months ended<br>September 30, |         |                | Nine months ended<br>September 30, |         |                |
|-----------------------------------------|-------------------------------------|---------|----------------|------------------------------------|---------|----------------|
|                                         | 2013                                | 2012    | Percent Change | 2013                               | 2012    | Percent Change |
| <b>GAAP</b>                             |                                     |         |                |                                    |         |                |
| Operating income                        | \$ 390                              | \$ 51   | n.a.           | \$ 893                             | \$ 532  | 67.9           |
| Net income                              | \$ 259                              | \$ 16   | n.a.           | \$ 542                             | \$ 343  | 58.0           |
| Net income per share, diluted           | \$ 0.37                             | \$ 0.02 | n.a.           | \$ 0.75                            | \$ 0.45 | 66.7           |
| <b>Non-GAAP</b>                         |                                     |         |                |                                    |         |                |
| Operating income                        | \$ 439                              | \$ 208  | 111.1          | \$ 1,030                           | \$ 702  | 46.7           |
| Net income                              | \$ 241                              | \$ 97   | 148.5          | \$ 569                             | \$ 352  | 61.6           |
| Net income per share, diluted           | \$ 0.34                             | \$ 0.13 | 161.5          | \$ 0.79                            | \$ 0.46 | 71.7           |

See the previous Note Regarding Use of Non-GAAP Financial Measures.

The Company's GAAP results for both the three and nine months ended September 30, 2013 and 2012 were significantly impacted by the non-cash adjustments recorded as a result of the Company's portfolio of derivative contracts utilized to hedge jet fuel price volatility, as well as acquisition and integration costs associated with the Company's 2011 acquisition of AirTran. See Note 5 to the unaudited Condensed Consolidated Financial Statements for further information on fuel hedging and Note 2 for further information on the acquisition of AirTran. Excluding the impact of these items, the Company's non-GAAP net income increased 148.5 percent to a third quarter Company record of \$241 million, compared to the same prior year period. Also, on a non-GAAP basis, for the nine months ended September 30, 2013, the Company's net income increased 61.6 percent compared to the same prior year period. Both of these significant increases were primarily due to a combination of higher passenger revenues and lower fuel costs.

The Company continued to make progress in third quarter 2013 on its five major strategic initiatives, which include:

1. The complete integration of AirTran into Southwest's operations by the end of 2014;
2. The continued growth of Southwest's Rapid Rewards® frequent flyer program;
3. The continued addition of the Boeing 737-800, a larger aircraft, within the Company's fleet;
4. The modernization of the Company's entire fleet to produce both better revenue and cost efficiencies; and
5. The design and building of a new reservations system and international capabilities.

With respect to the AirTran integration initiative, the Company estimates it achieved approximately \$116 million in net, pre-tax, synergies during third quarter 2013, and continues to advance towards its goal of producing approximately \$400 million in total annualized net, pre-tax, synergies from the AirTran acquisition by the end of 2013. The net synergies realized during third quarter included the substantial financial benefits associated with the connection of the Southwest and AirTran networks, which was completed in second quarter 2013.

Additionally, during third quarter 2013, Flight Attendants from AirTran Airways, represented by the Association of Flight Attendants-CWA (AFA), voted to ratify a new collective-bargaining agreement with the Company. The collective-bargaining agreement became amendable in May 2013. This agreement will apply to the AirTran Flight Attendants until they transition to Southwest.

With respect to its integration efforts, the Company is making progress on optimizing its operations in Atlanta. The Company is in the process of transitioning Atlanta into a point-to-point operation, similar to other large Southwest cities, which is expected to enable efficiencies related to the scheduling of aircraft, flight crews, and ground staff. Also during third quarter 2013, the Company completed conversion of one additional AirTran city, Grand Rapids, Michigan, to the Southwest network.

During third quarter 2013, the Company took delivery of three new 737-800 aircraft from Boeing and placed one into service. The remaining two 737-800 aircraft were placed into service in early October 2013. The 737-800 aircraft provides both improved unit costs and operational flexibility for the Company. As of September 30, 2013, the Company's active fleet included 44 737-800s, all of which have been placed in service over the last 18 months.

During third quarter of 2013, the Company also continued to modernize its fleet through (i) the retrofit of an additional 64 Southwest 737-300 aircraft with the Company's *Evolve* interior, completing the Company's multi-year *Evolve* program, which included, in total, retrofitting 372 Southwest 737-700 and 78 Southwest 737-300 aircraft, (ii) the retirement of four 737-500s from the Company's fleet, (iii) the Company's delivery of the first 717-200 as a part of the lease/sublease agreements with Delta, and (iv) the transition of another 11 AirTran 717-200 aircraft out of active service in preparation for transition to Delta. The Company also converted two AirTran 737-700s to the Southwest livery during the third quarter of 2013 and expects to transition another five of AirTran's 737-700s in fourth quarter 2013.

At the current time, the Company plans to continue its route network and schedule optimization efforts, but does not intend to grow its overall fleet size for 2013 or 2014. During the remainder of 2013, the Company currently expects to receive an additional six new 737-800 aircraft from Boeing and to retire some of its older 737-300 and 737-500 aircraft. For the full year 2013, the Company currently expects to remove from service 18 AirTran 717-200 aircraft and deliver 16 of these aircraft to Delta. See Note 8 to the unaudited Condensed Consolidated Financial Statements.

The Company currently expects both fourth quarter and full year 2013 ASMs to increase two percent compared to the same periods of 2012, primarily as a result of larger gauge aircraft. For 2014, the Company currently plans to keep its capacity in line with 2013 as it continues to optimize its network and execute on its strategic plan.

The Company continues to return significant value to its Shareholders. During third quarter 2013, the Company executed an agreement to repurchase approximately \$150 million of its own shares through an accelerated share repurchase program (the "Third Quarter ASR Program"). The Third Quarter ASR Program is in addition to the accelerated share repurchase program announced and completed in second quarter 2013 for approximately \$251 million, or approximately 18 million shares. As of September 30, 2013, total share repurchases during the first nine months of 2013 totaled approximately \$501 million, or approximately 38 million shares. Since August 2011, the Company's Board of Directors has authorized total share repurchases of \$1.5 billion, of which approximately \$1.1 billion, or approximately 111 million shares, has been completed in the aggregate as of September 30, 2013. See Part II. Item 2 for further information on the Company's share repurchase authorizations. In addition, during third quarter 2013, the Company's Board of Directors declared a quarterly common stock dividend of \$.04 per share. On an annualized basis, this dividend amount provides an approximate \$100 million return to Shareholders.

#### **Comparison of three months ended September 30, 2013 to three months ended September 30, 2012**

##### **Operating Revenues**

Operating revenues for third quarter 2013 increased by \$236 million, or 5.5 percent, compared to third quarter 2012. The majority of the increase was due to a \$249 million, or 6.1 percent, increase in Passenger revenues. The increase in Passenger revenues was primarily due to higher passenger yields as a result of increased average fares, partially offset by a 1.3 point decrease in the Company's load factor, compared to third quarter 2012. As of October 24, 2013, the Company estimated the recent government shutdown impacted October revenues by approximately \$20 million from the reduction in government-related travel. Current holiday bookings for the fourth quarter, however, are strong, and as a result, the Company currently expects a solid year-over-year growth in unit revenue for the November and December combined period.

On September 13, 2013, Southwest implemented a No Show policy that applies to nonrefundable fares that are not canceled or changed by a Customer at least ten minutes prior to a flight's scheduled departure. If a Customer has booked a nonrefundable fare anywhere in his/her itinerary and that portion of the flight is not used and not canceled or changed by the Customer at least ten minutes prior to scheduled departure, all unused funds on the full itinerary will be forfeited, and the remaining reservation will be canceled. The policy applies to reservations made or changed on or after Friday, May 10, 2013, for travel on or after Friday, September 13, 2013. This policy does not apply to military fares, senior fares, or travel during certain irregular operations, including severe weather conditions. The No Show policy will not impact Customers who simply cancel a Wanna Get Away® or DING!® fare at least ten minutes prior to scheduled departure; in this case, Customers may reuse their funds toward future travel on Southwest, without a change fee, as they have always done. Customers who are traveling on a fully refundable itinerary that does not contain a Wanna Get Away or DING! fare will continue to have the option of either requesting a refund or holding funds for future travel. Based on the Company's revenue recognition policy, revenue will be recorded at the flight date for a Customer who does not change his/her itinerary and loses his/her funds. The impact of this change on Passenger revenues for third quarter 2013 was not material, and the Company is unable to estimate the impact of this change in policy on future Passenger revenues at the current time.

Freight revenues for third quarter 2013 increased by \$2 million, or 5.1 percent, compared to third quarter 2012, primarily due to an increase in shipments versus third quarter 2012. Other revenues for third quarter 2013 decreased by \$15 million, or 7.0 percent, compared to third quarter 2012, primarily due to a decline in ancillary revenues. The majority of the decline in ancillary revenues was due to the adoption of Southwest's more Customer-friendly fee policies for Customers that purchase travel on AirTran through southwest.com. The Company currently expects this trend to continue as the integration process moves forward, and intends to have a consistent product offering upon full integration of AirTran. Based on current trends, the Company expects fourth quarter 2013 Freight and Other revenues will decrease from fourth quarter 2012.

### Operating expenses

Operating expenses for third quarter 2013 decreased by \$103 million, or 2.4 percent, compared to third quarter 2012, while capacity increased 1.0 percent over the same prior year period. Historically, except for changes in the price of fuel, changes in Operating expenses for airlines are largely driven by changes in capacity, or ASMs. However, third quarter 2013 was affected by a significant decrease in Acquisition and integration expenses that was not driven by capacity. The following table presents the Company's Operating expenses per ASM for the third quarters of 2013 and 2012, followed by explanations of these changes on a per ASM basis and/or on a dollar basis:

| (in cents, except for percentages) | Three months ended September 30, |        | Per ASM<br>change | Percent<br>change |
|------------------------------------|----------------------------------|--------|-------------------|-------------------|
|                                    | 2013                             | 2012   |                   |                   |
| Salaries, wages, and benefits      | 3.81¢                            | 3.59¢  | 0.22 ¢            | 6.1 %             |
| Fuel and oil                       | 4.34                             | 4.62   | (0.28)            | (6.1)             |
| Maintenance materials and repairs  | 0.81                             | 0.91   | (0.10)            | (11.0)            |
| Aircraft rentals                   | 0.28                             | 0.28   | —                 | —                 |
| Landing fees and other rentals     | 0.87                             | 0.84   | 0.03              | 3.6               |
| Depreciation and amortization      | 0.66                             | 0.65   | 0.01              | 1.5               |
| Acquisition and integration        | 0.08                             | 0.44   | (0.36)            | (81.8)            |
| Other operating expenses           | 1.58                             | 1.54   | 0.04              | 2.6               |
| Total                              | 12.43¢                           | 12.87¢ | (0.44¢)           | (3.4)%            |

On a dollar basis, Operating expenses decreased 2.4 percent for third quarter 2013 compared to third quarter 2012, and decreased 3.4 percent on a per ASM (unit cost) basis. Both decreases were primarily due to lower fuel costs and reduced Acquisition and integration expenses. On a non-GAAP basis, the Company's third quarter 2013 Operating expenses per ASM, excluding fuel and special items, increased 2.6 percent compared to third quarter 2012, primarily

due to higher Salaries, wages, and benefits expenses, the majority of which was attributable to higher profitsharing expense due to significantly higher profits in third quarter 2013. Based on current cost trends and anticipated benefits from its fleet modernization efforts, the Company expects fourth quarter 2013 unit costs, excluding fuel, special items, and profitsharing, to be in line with fourth quarter 2012's 8.15 cents. See the previous Note Regarding Use of Non-GAAP Financial Measures.

Salaries, wages, and benefits expense for third quarter 2013 increased by \$82 million, or 6.9 percent, compared to third quarter 2012. Salaries, wages, and benefits expense per ASM for third quarter 2013 increased 6.1 percent compared to third quarter 2012. On both a dollar and a per ASM basis, approximately 50 percent of the increase was a result of higher profitsharing expense due to significantly higher profits in third quarter 2013, approximately 30 percent was related to higher benefits expense due to an increase in medical costs, and approximately 20 percent was the result of higher wage rates for a large portion of the Company's workforce compared to third quarter 2012. The Company's profitsharing expense is based on profits that exclude the unrealized gains and/or losses the Company records for its fuel hedging program as well as Acquisition and integration costs. Based on current cost trends and anticipated capacity, the Company expects Salaries, wages, and benefits expense per ASM, excluding profitsharing, in fourth quarter 2013 to increase slightly from fourth quarter 2012's Salaries, wages, and benefits expense per ASM, excluding profitsharing.

Fuel and oil expense for third quarter 2013 decreased by \$78 million, or 5.1 percent, compared to third quarter 2012. On a per ASM basis, third quarter 2013 Fuel and oil expense decreased 6.1 percent versus third quarter 2012. Excluding the impact of hedging in both periods, both the nominal dollar and unit cost decreases were attributable to a lower fuel cost per gallon and to better efficiency. Approximately 60 percent of the dollar change was attributable to a lower fuel cost per gallon, and approximately 40 percent was related to better fuel efficiency. The Company's average economic jet fuel cost per gallon, including fuel tax, decreased 3.2 percent on a year-over-year basis, from \$3.16 in third quarter 2012 to \$3.06 in third quarter 2013. In addition, fuel gallons consumed decreased 2.5 percent compared to third quarter 2012, while year-over-year capacity increased 1.0 percent. The improvement in fuel efficiency was primarily due to the Company's continued replacement of older Classic (737-300s and 737-500s) aircraft with new Next Generation 737-700 and 737-800 aircraft. As a result of the Company's fuel hedging program and inclusive of accounting for derivatives and hedging, the Company recognized net losses totaling \$15 million in third quarter 2013 in Fuel and oil expense relating to fuel derivative instruments versus net losses totaling \$25 million recognized in Fuel and oil expense in third quarter 2012. These totals are inclusive of cash settlements realized from the expiration/settlement of fuel derivatives, which were \$6 million received from counterparties in third quarter 2013 versus \$13 million paid to counterparties in third quarter 2012. These totals exclude gains and/or losses recognized from hedge ineffectiveness and from derivatives that do not qualify for hedge accounting, which impacts are recorded as a component of Other (gains) losses, net. See Note 5 to the unaudited Condensed Consolidated Financial Statements.

As of October 21, 2013, on an economic basis, the Company had derivative contracts in place related to expected future fuel consumption as follows:

| Period | Average percent of estimated fuel consumption<br>covered by fuel derivative contracts at<br>varying WTI/Brent crude-equivalent price levels |
|--------|---------------------------------------------------------------------------------------------------------------------------------------------|
| 2014   | Approx. 20%                                                                                                                                 |
| 2015   | Approx. 30%                                                                                                                                 |
| 2016   | Approx. 35%                                                                                                                                 |
| 2017   | Approx. 50%                                                                                                                                 |

As a result of applying hedge accounting in prior periods, the Company has amounts "frozen" in Accumulated other comprehensive income (loss) ("AOCI"), and these amounts will be recognized in earnings in future periods when the underlying fuel derivative contracts settle. The following table displays the Company's estimated fair value of remaining fuel derivative contracts (not considering the impact of the cash collateral provided to or received from counterparties- See Note 5 to the unaudited Condensed Consolidated Financial Statements for further information), as well as the

amount of deferred gains/losses in AOCI at September 30, 2013, and the expected future periods in which these items are expected to settle and/or be recognized in earnings (in millions):

| Year              | Fair value<br>(liability) of fuel<br>derivative contracts<br>at September 30, 2013 | Amount of gains<br>(losses) deferred<br>in AOCI at September 30,<br>2013 (net of tax) |
|-------------------|------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| Remainder of 2013 | \$ 11                                                                              | \$ (23)                                                                               |
| 2014              | 43                                                                                 | 9                                                                                     |
| 2015              | 22                                                                                 | (58)                                                                                  |
| 2016              | 42                                                                                 | (13)                                                                                  |
| 2017              | (31)                                                                               | (5)                                                                                   |
| Total             | \$ 87                                                                              | \$ (90)                                                                               |

Based on forward market prices and the amounts in the above table (and excluding any other subsequent changes to the fuel hedge portfolio), the Company's jet fuel costs per gallon could exceed market (i.e., unhedged) prices during some of these future periods. This is based primarily on expected future cash settlements associated with fuel derivatives, but excludes any impact associated with the ineffectiveness of fuel hedges or fuel derivatives that are marked to market because they do not qualify for hedge accounting. See Note 5 to the unaudited Condensed Consolidated Financial Statements for further information. Assuming no changes to the Company's current fuel derivative portfolio, but including all previous hedge activity for fuel derivatives that have not yet settled, and considering only the expected net cash payments related to hedges that will settle, the Company is providing a sensitivity table for fourth quarter 2013 and full year 2013 jet fuel prices at different crude oil assumptions as of October 21, 2013, and for expected premium costs associated with settling contracts each period.

| Average Brent Crude Oil<br>price per barrel | Estimated economic jet fuel price per gallon,<br>including taxes |                 |
|---------------------------------------------|------------------------------------------------------------------|-----------------|
|                                             | 4Q 2013 (2)                                                      | Full Year 2013  |
| \$85                                        | \$2.40 - \$2.45                                                  | \$2.95 - \$3.00 |
| \$95                                        | \$2.70 - \$2.75                                                  | \$3.00 - \$3.05 |
| Current Market (1)                          | \$3.05 - \$3.10                                                  | \$3.10 - \$3.15 |
| \$115                                       | \$3.25 - \$3.30                                                  | \$3.15 - \$3.20 |
| \$125                                       | \$3.50 - \$3.55                                                  | \$3.25 - \$3.30 |
| Estimated Premium Costs (3)                 | \$22 million                                                     | \$71 million    |

(1) Brent crude oil average market prices as of October 21, 2013, were approximately \$109 per barrel for both fourth quarter 2013 and full year 2013.

(2) The Company has up to 48 percent of its fourth quarter 2013 estimated fuel consumption covered by fuel derivative contracts with approximately 12 percent at varying Brent crude oil-equivalent prices, beginning at \$135 per barrel; and approximately 36 percent at Gulf Coast jet fuel-equivalent prices beginning at \$3.10 per gallon. The economic fuel price per gallon sensitivities provided above assume the relationship between Brent crude oil and refined products based on market prices as of October 21, 2013.

(3) Premium costs are recognized as a component of Other (gains) losses net.

Maintenance materials and repairs expense for third quarter 2013 decreased by \$29 million, or 9.7 percent, compared to third quarter 2012. On a per ASM basis, Maintenance materials and repairs expense for third quarter 2013 decreased 11.0 percent compared to third quarter 2012. On both a dollar and a per ASM basis, approximately 55 percent of the decrease was attributable to lower costs associated with the Company's *Evolve* retrofit program, as the Company retrofitted fewer aircraft with *Evolve* during third quarter 2013 versus third quarter 2012. The remainder of the decrease was attributable to lower engine expense as a result of fewer third quarter 2013 engine repairs associated with the

Company's 737-300 and 737-500 fleet as the Company continues to retire these older aircraft, and lower expense associated with the Company's 717-200 fleet, as these aircraft have begun to transition out of service. See Note 8 for further information. The Company currently expects Maintenance materials and repairs expense per ASM for fourth quarter 2013 to experience a significant decrease compared to fourth quarter 2012 based on currently scheduled aircraft maintenance events due to the completion of the Evolve retrofit program and lower engine expense as a result of fewer scheduled engine repairs, including the impact of 717-200s transitioning out of the fleet.

Aircraft rentals expense for third quarter 2013 was flat compared to third quarter 2012 on both a dollar and a per ASM basis. The Company currently expects Aircraft rentals expense per ASM for fourth quarter 2013 to be comparable to fourth quarter 2012.

Landing fees and other rentals expense for third quarter 2013 increased by \$12 million, or 4.3 percent, compared to third quarter 2012. On a per ASM basis, Landing fees and other rentals expense increased 3.6 percent compared to third quarter 2012. The majority of these increases were due to higher rental rates charged by several airports over the last 12 months, a portion of which was due to additional space occupied by the Company in some locations, and a portion of which was attributable to higher airport debt service costs passed through to the airlines in certain cities. The Company currently expects Landing fees and other rentals expense per ASM for fourth quarter 2013 to increase compared to fourth quarter 2012.

Depreciation and amortization expense for third quarter 2013 increased by \$4 million, or 1.8 percent, compared to third quarter 2012. On a per ASM basis, Depreciation and amortization expense increased 1.5 percent compared to third quarter 2012. Both increases were primarily due to depreciation associated with large software projects that have been placed into service over the past 12 months. For fourth quarter 2013, the Company currently expects Depreciation and amortization expense per ASM to increase compared to third quarter 2013.

For third quarter 2013, the Company incurred \$28 million of Acquisition and integration costs related to the integration of AirTran compared to \$145 million in third quarter 2012. The decrease was primarily due to charges taken in third quarter 2012 associated with the Company's lease and sublease of AirTran's Boeing 717-200 fleet. The third quarter 2013 costs primarily consisted of a lease contract termination, Employee training, technology integration projects, and facility integration expenses. See Note 2 to the unaudited Condensed Consolidated Financial Statements.

Other operating expenses for third quarter 2013 increased by \$23 million, or 4.5 percent, compared to third quarter 2012. On a per ASM basis compared to third quarter 2012, Other operating expenses increased 2.6 percent. Approximately half of these increases were the result of increased Customer usage of WiFi onboard the Company's aircraft, and approximately half of these increases were the result of higher consulting and contract programming expenses, net of capitalized costs. For fourth quarter 2013, the Company currently expects Other operating expenses per ASM to increase as compared to fourth quarter 2012.

#### **Other**

Other expenses (income) include interest expense, capitalized interest, interest income, and other gains and losses. Interest expense for third quarter 2013 was flat compared to third quarter 2012. For fourth quarter 2013, the Company expects interest expense to be comparable to fourth quarter 2012.

Other (gains) losses, net, primarily includes amounts recorded as a result of the Company's hedging activities. See Note 5 to the unaudited Condensed Consolidated Financial Statements for further information on the Company's hedging activities. The following table displays the components of Other (gains) losses, net, for the three months ended September 30, 2013 and 2012:

| (in millions)                                                        | Three months ended September 30, |         |
|----------------------------------------------------------------------|----------------------------------|---------|
|                                                                      | 2013                             | 2012    |
| Mark-to-market impact from fuel contracts settling in future periods | \$ (76)                          | \$ (37) |
| Ineffectiveness from fuel hedges settling in future periods          | 15                               | 5       |
| Realized ineffectiveness and mark-to-market (gains) or losses        | (17)                             | 4       |
| Premium cost of fuel contracts                                       | 22                               | 15      |
| Other                                                                | (3)                              | 3       |
|                                                                      | \$ (59)                          | \$ (10) |

## Income Taxes

The Company's effective tax rate was approximately 38.2 percent in third quarter 2013, compared to 51.5 percent in third quarter 2012. The higher rate in third quarter 2012 was due to the impact of a slight increase in the Company's full year 2012 expected tax rate on the Company's relatively low net income for third quarter 2012. The Company currently projects a full year 2013 effective tax rate of approximately 38 to 40 percent based on currently forecasted financial results.

## Comparison of nine months ended September 30, 2013 to nine months ended September 30, 2012

### Operating Revenues

Operating revenues for the nine months ended September 30, 2013, increased by \$356 million, or 2.8 percent, compared to the first nine months of 2012. The majority of the increase was due to a \$370 million, or 3.0 percent, increase in Passenger revenues. The increase in Passenger revenues was primarily attributable to a 2.2 percent increase in passenger yields coupled with a 1.6 percent increase in capacity. The Company's load factor for the nine months ended September 30, 2013, decreased slightly compared to the first nine months of 2012.

Freight revenues for the nine months ended September 30, 2013, increased by \$5 million, or 4.2 percent, compared to the first nine months of 2012, primarily due to an increase in shipments compared to the prior year. Other revenues for the nine months ended September 30, 2013, decreased by \$19 million, or 3.0 percent, compared to the first nine months of 2012, primarily due to a decline in ancillary revenues. The majority of the decline in ancillary revenues was due to the adoption of Southwest's more Customer-friendly fee policies for Customers that purchase travel on AirTran through southwest.com.

### Operating expenses

Operating expenses for the nine months ended September 30, 2013, were relatively flat compared to the first nine months of 2012, while capacity increased 1.6 percent over the same prior year period. Historically, except for changes in the price of fuel, changes in Operating expenses for airlines are largely driven by changes in capacity, or ASMs. However, the first nine months of 2013 was affected by a significant decrease in Acquisition and integration expenses that was not driven by capacity. The following table presents the Company's Operating expenses per ASM for the first nine months of 2013 and 2012, followed by explanations of these changes on a per ASM basis and/or on a dollar basis:

| (in cents, except for percentages) | Nine months ended September 30, |        | Per ASM<br>change | Percent<br>change |
|------------------------------------|---------------------------------|--------|-------------------|-------------------|
|                                    | 2013                            | 2012   |                   |                   |
| Salaries, wages, and benefits      | 3.81¢                           | 3.67¢  | 0.14 ¢            | 3.8 %             |
| Fuel and oil                       | 4.46                            | 4.76   | (0.30)            | (6.3)             |
| Maintenance materials and repairs  | 0.85                            | 0.89   | (0.04)            | (4.5)             |
| Aircraft rentals                   | 0.28                            | 0.28   | —                 | —                 |
| Landing fees and other rentals     | 0.86                            | 0.82   | 0.04              | 4.9               |
| Depreciation and amortization      | 0.65                            | 0.64   | 0.01              | 1.6               |
| Acquisition and integration        | 0.07                            | 0.17   | (0.10)            | (58.8)            |
| Other operating expenses           | 1.59                            | 1.54   | 0.05              | 3.2               |
| Total                              | 12.57¢                          | 12.77¢ | (0.20¢)           | (1.6)%            |

On a dollar basis, Operating expenses were relatively flat for the first nine months of 2013 compared to the first nine months of 2012. Operating expenses per ASM (unit costs) for the first nine months of 2013 decreased 1.6 percent compared to the first nine months of 2012, primarily due to a decrease in Fuel and oil expense and a decrease in Acquisition and integration expenses. On a non-GAAP basis, the Company's Operating expenses per ASM for the first nine months of 2013, excluding fuel and special items, increased 2.6 percent compared to the first nine months of 2012, primarily due to higher Salaries, wages, and benefits expenses. See the previous Note Regarding Use of Non-GAAP Financial Measures.

Salaries, wages, and benefits expense for the nine months ended September 30, 2013, increased by \$199 million, or 5.6 percent, compared to the nine months ended September 30, 2012. Salaries, wages, and benefits expense per ASM for the first nine months of 2013 increased 3.8 percent compared to the first nine months of 2012. Approximately half of these increases were a result of higher wage rates for a large portion of the Company's workforce, and approximately half were a result of higher contributions to Employee retirement plans, including profitsharing and 401(k) matching contributions.

Fuel and oil expense for the nine months ended September 30, 2013, decreased by \$219 million, or 4.7 percent, compared to the nine months ended September 30, 2012. On a per ASM basis, for the first nine months of 2013, Fuel and oil expense decreased 6.3 percent versus the first nine months of 2012. Excluding the impact of hedging in both periods, both the nominal dollar and unit cost decreases were attributable to a lower fuel cost per gallon and to better efficiency. Approximately 70 percent of the dollar change was attributable to a lower fuel cost per gallon, and approximately 30 percent was related to better fuel efficiency. The Company's average economic jet fuel cost per gallon, including fuel tax, decreased 4.3 percent on a year-over-year basis, from \$3.27 during the nine months ended September 30, 2012, to \$3.13 during the nine months ended September 30, 2013. In addition, fuel gallons consumed decreased 2.0 percent compared to the nine months ended September 30, 2012, while year-over-year capacity increased 1.6 percent. The improvement in fuel efficiency was primarily due to the Company's continued replacement of older Classic (737-300s and 737-500s) aircraft with new Next Generation 737-700 and 737-800 aircraft added into service during the last 12 months. As a result of the Company's fuel hedging program and inclusive of accounting for derivatives and hedging, the Company recognized net losses totaling \$114 million during the nine months ended September 30, 2013, in Fuel and oil expense relating to fuel derivative instruments versus net losses totaling \$89 million recognized in Fuel and oil expense in the nine months ended September 30, 2012. These totals are inclusive of cash settlements realized from the expiration/settlement of fuel derivatives, which were \$44 million paid to counterparties in the first nine months of 2013, versus \$87 million paid to counterparties in the first nine months of 2012. These totals exclude gains and/or losses recognized from hedge ineffectiveness and from derivatives that do not qualify for hedge accounting, which impacts are recorded as a component of Other (gains) losses, net. See Note 5 to the unaudited Condensed Consolidated Financial Statements.

Maintenance materials and repairs expense for the nine months ended September 30, 2013, decreased by \$20 million, or 2.3 percent, compared to the nine months ended September 30, 2012. On a per ASM basis, for the first nine months

of 2013, Maintenance materials and repairs expense decreased 4.5 percent versus the first nine months of 2012. These decreases were primarily attributable to lower engine expense as a result of fewer engine repairs associated with the Company's 737-300 and 737-500 fleet as the Company continues to retire these older aircraft, and lower expense associated with the Company's 717-200 fleet, as these aircraft have begun to transition out of service. See Note 8 for further information.

Aircraft rentals expense for the nine months ended September 30, 2013, increased by \$7 million, or 2.6 percent, compared to the nine months ended September 30, 2012, primarily due to expense associated with five Boeing 737-800 aircraft received in the latter part of second quarter 2012 that are accounted for as operating leases. On a per ASM basis, compared to the nine months ended September 30, 2012, Aircraft rentals expense in the first nine months of 2013 was relatively flat.

Landing fees and other rentals expense for the nine months ended September 30, 2013, increased by \$57 million, or 7.2 percent, compared to the nine months ended September 30, 2012. On a per ASM basis, Landing fees and other rentals expense increased 4.9 percent compared to the nine months ended September 30, 2012. The majority of these increases were due to higher rental rates charged by several airports over the last 12 months, a portion of which is due to additional space occupied by the Company in some locations, and a portion of which is attributable to higher airport debt service costs passed through to the airlines in certain cities.

Depreciation and amortization expense for the nine months ended September 30, 2013, increased by \$23 million, or 3.7 percent, compared to the nine months ended September 30, 2012. On a per ASM basis, Depreciation and amortization expense increased 1.6 percent compared to the nine months ended September 30, 2012. Both increases were primarily due to depreciation associated with large software projects that have been placed into service over the past 12 months. Aircraft depreciation was relatively flat year-over-year, as an increase in expense associated with the purchase of new aircraft was offset by a decline in expense from the retirement of older owned 737-300 and 737-500 aircraft.

For the nine months ended September 30, 2013, the Company incurred \$66 million of Acquisition and integration costs related to the integration of AirTran compared to \$168 million for the nine months ended September 30, 2012. The decrease was primarily due to charges taken in third quarter 2012 associated with the Company's lease and sublease of AirTran's Boeing 717-200 fleet. The 2013 costs primarily consisted of a lease contract termination, Employee training, technology integration projects, and facility integration expenses. See Note 2 to the unaudited Condensed Consolidated Financial Statements.

Other operating expenses for the nine months ended September 30, 2013, increased by \$50 million, or 3.3 percent, compared to the nine months ended September 30, 2012, and increased 3.2 percent on a per ASM basis compared to the nine months ended September 30, 2012. Approximately half of these increases were the result of increased Customer usage of WiFi onboard the Company's aircraft, and approximately half of these increases were the result of higher consulting and contract programming expenses, net of capitalized costs.

#### **Other**

Other expenses (income) include interest expense, capitalized interest, interest income, and other gains and losses. Interest expense for the nine months ended September 30, 2013, decreased by \$15 million, or 13.4 percent, compared to the nine months ended September 30, 2012, primarily due to the repayment of \$385 million of 6.5% notes in March 2012.

Other (gains) losses, net, primarily includes amounts recorded as a result of the Company's hedging activities. See Note 5 to the unaudited Condensed Consolidated Financial Statements for further information on the Company's hedging activities. The following table displays the components of Other (gains) losses, net, for the nine months ended September 30, 2013 and 2012:

| (in millions)                                                        | Nine months ended September 30, |          |
|----------------------------------------------------------------------|---------------------------------|----------|
|                                                                      | 2013                            | 2012     |
| Mark-to-market impact from fuel contracts settling in future periods | \$ (112)                        | \$ (193) |
| Ineffectiveness from fuel hedges settling in future periods          | 27                              | 45       |
| Realized ineffectiveness and mark-to-market (gains) or losses        | (10)                            | (8)      |
| Premium cost of fuel contracts                                       | 39                              | 33       |
| Other                                                                | (2)                             | 4        |
|                                                                      | \$ (58)                         | \$ (119) |

## Income Taxes

The Company's effective tax rate was approximately 38.1 percent for the first nine months of 2013, compared to 38.8 percent for the first nine months of 2012.

## Liquidity and Capital Resources

Net cash provided by operating activities was \$428 million for the three months ended September 30, 2013, compared to \$464 million provided by operating activities in the same prior year period. For the nine months ended September 30, 2013, net cash provided by operating activities was \$2.2 billion, compared to \$1.8 billion provided by operating activities in the first nine months of 2012. The operating cash flows for the nine months ended September 30, 2013, were largely impacted by the Company's results of operations (as adjusted for noncash depreciation and amortization expense), changes in Air traffic liability, and Accounts payable and accrued liabilities. For the nine months ended September 30, 2013, in addition to the Company's significantly higher net income (as adjusted for noncash depreciation and amortization expense), there was an \$811 million increase in Air traffic liability, as a result of bookings for future travel and higher sales of points to business partners in the Company's frequent flyer program, and a net \$185 million increase in cash flows associated with higher balances in Accounts payable and accrued liabilities due to timing of payments. For the nine months ended September 30, 2012, there was a \$688 million increase in Air traffic liability, as a result of bookings for future travel and a net \$114 million increase in cash flows associated with higher balances in Accounts payable and accrued liabilities due to timing of payments. See Note 5 to the unaudited Condensed Consolidated Financial Statements for further information on the Company's derivatives and hedging activities. Net cash provided by operating activities is primarily used to finance capital expenditures, repay debt, fund stock repurchases, and provide working capital.

Net cash used in investing activities during the three months ended September 30, 2013, totaled \$359 million, versus \$277 million used in investing activities in the same prior year period. For the nine months ended September 30, 2013, net cash used in investing activities was \$1.1 billion, compared to \$644 million used in the same prior year period. Investing activities in both years included payments for new aircraft delivered to the Company and progress payments for future aircraft deliveries, as well as changes in the balance of the Company's short-term investments and noncurrent investments. During the nine months ended September 30, 2013, the Company's transactions in short-term and noncurrent investments resulted in a net cash outflow of \$135 million, versus a net cash inflow of \$305 million during the same prior year period.

Net cash used in financing activities during the three months ended September 30, 2013, was \$225 million, compared to \$102 million used in financing activities for the same prior year period. For the nine months ended September 30, 2013, net cash used in financing activities was \$838 million, compared to \$850 million used in the same prior year period. During the nine months ended September 30, 2013, the Company repaid \$267 million in debt and capital lease obligations and repurchased approximately \$501 million of its outstanding common stock through a share repurchase program. During the nine months ended September 30, 2012, the Company repaid \$517 million in debt and capital lease obligations that came due and repurchased approximately \$325 million of its outstanding common stock through a share repurchase program.

The Company is a “well-known seasoned issuer” and currently has an effective shelf registration statement registering an indeterminate amount of debt and equity securities for future sales. The Company currently intends to use the proceeds from any future securities sales off this shelf registration statement for general corporate purposes. The Company has not issued any securities under this shelf registration statement to date.

The Company has access to a \$1 billion unsecured revolving credit facility expiring in April 2018. Interest on the facility is based on the Company's credit ratings at the time of borrowing. At the Company's current ratings, the interest cost would be LIBOR plus a spread of 150 basis points. The facility contains a financial covenant, requiring a minimum coverage ratio of adjusted pre-tax income to fixed obligations, as defined. As of September 30, 2013, the Company was in compliance with this covenant and there were no amounts outstanding under the revolving credit facility.

#### Contractual Obligations and Contingent Liabilities and Commitments

The Company has contractual obligations and commitments primarily with regard to future purchases of aircraft, repayment of debt, and lease arrangements. During the nine months ended September 30, 2013, the Company purchased 12 new 737-800 aircraft from Boeing, retired from service ten of its older 737-300 and 737-500 aircraft and one of its 737-700 aircraft, and removed 12 of its 717-200 aircraft from active service. In addition, the Company also leased two 737-700 aircraft from a third party that were placed into service during third quarter 2013. During third quarter 2013, the Company entered into an agreement to lease two pre-owned 737-700 aircraft from a third party for delivery in 2014. As of October 23, 2013, the Company had scheduled deliveries for Boeing 737-700, 737-800, 737 MAX 7, and 737 MAX 8 aircraft as follows:

|              | The Boeing Company<br>737 NG |                     |         |                        | The Boeing Company<br>737 MAX |                      |         | Total  |
|--------------|------------------------------|---------------------|---------|------------------------|-------------------------------|----------------------|---------|--------|
|              | -700 Firm<br>Orders          | -800 Firm<br>Orders | Options | Additional -700<br>A/C | -7<br>Firm<br>Orders          | -8<br>Firm<br>Orders | Options |        |
| 2013         | —                            | 18                  | —       | 2                      | —                             | —                    | —       | 20 (3) |
| 2014         | —                            | 36                  | —       | 7                      | —                             | —                    | —       | 43     |
| 2015         | 36                           | —                   | —       | 5                      | —                             | —                    | —       | 41     |
| 2016         | 31                           | —                   | 12      | —                      | —                             | —                    | —       | 43     |
| 2017         | 15                           | —                   | 12      | —                      | —                             | 14                   | —       | 41     |
| 2018         | 10                           | —                   | 12      | —                      | —                             | 13                   | —       | 35     |
| 2019         | —                            | —                   | —       | —                      | 15                            | 10                   | —       | 25     |
| 2020         | —                            | —                   | —       | —                      | 14                            | 22                   | —       | 36     |
| 2021         | —                            | —                   | —       | —                      | 1                             | 33                   | 18      | 52     |
| 2022         | —                            | —                   | —       | —                      | —                             | 30                   | 19      | 49     |
| 2023         | —                            | —                   | —       | —                      | —                             | 14                   | 23      | 37     |
| 2024         | —                            | —                   | —       | —                      | —                             | 14                   | 23      | 37     |
| 2025         | —                            | —                   | —       | —                      | —                             | —                    | 36      | 36     |
| Through 2027 | —                            | —                   | —       | —                      | —                             | —                    | 72      | 72     |
| Total        | 92 (1)                       | 54                  | 36      | 14                     | 30                            | 150 (2)              | 191     | 567    |

(1) The Company has flexibility to substitute 737-800s in lieu of 737-700 firm orders.

(2) The Company has flexibility to substitute MAX 7 in lieu of MAX 8 firm orders beginning in 2019.

(3) Includes 12 737-800s and two leased 737-700s delivered and placed into active service as of October 23, 2013.

The Company's financial commitments associated with the firm orders in the above aircraft table are as follows: \$162 million remaining in 2013, \$1.1 billion in 2014, \$1.3 billion in 2015, \$1.2 billion in 2016, \$1.2 billion in 2017, and \$7.0 billion thereafter.

For aircraft commitments with Boeing, the Company is required to make cash deposits towards the purchase of aircraft. These deposits are classified as Deposits on flight equipment purchase contracts in the unaudited Condensed Consolidated Balance Sheet until the aircraft is delivered, at which time deposits previously made are deducted from the final purchase price of the aircraft and are reclassified as Flight equipment.

The following table details information on the active aircraft in the Company's fleet that were in service as of September 30, 2013:

| Type    | Seats      | Average Age (Yrs) | Number of Aircraft | Number Owned | Number Leased |
|---------|------------|-------------------|--------------------|--------------|---------------|
| 717-200 | 117        | 12                | 76                 | 8            | 68            |
| 737-300 | 137 or 143 | 20                | 123                | 76           | 47            |
| 737-500 | 122        | 22                | 15                 | 9            | 6             |
| 737-700 | 137 or 143 | 9                 | 425                | 378          | 47            |
| 737-800 | 175        | 1                 | 44                 | 39           | 5             |
| TOTALS  |            |                   | 683                | 510          | 173           |

The Company expects to incur no more than \$550 million in Acquisition and integration costs associated with the AirTran acquisition, of which approximately \$391 million has been recorded through September 30, 2013. These costs have been, and are expected to continue to be, funded with cash from operations. The Company believes that its current liquidity position, including unrestricted cash and short-term investments of \$3.3 billion as of September 30, 2013, anticipated future internally generated funds from operations, and its fully available, unsecured revolving credit facility of \$1 billion that expires in April 2018, will enable it to meet these future integration expenditures. However, if a liquidity need were to arise, the Company believes it has access to financing arrangements because of its current investment grade credit ratings, large value of unencumbered assets, and modest leverage, which should enable it to meet its ongoing capital, operating, and other liquidity requirements. The Company will continue to consider various borrowing or leasing options to maximize liquidity and supplement cash requirements as necessary.

In January 2008, the Company's Board of Directors authorized the repurchase of up to \$500 million of the Company's common stock. Through February 15, 2008, the Company had repurchased 4.4 million shares for a total of approximately \$54 million, at which time repurchases under the program were suspended. On August 5, 2011, the Company's Board of Directors authorized the Company to resume a share repurchase program and approved the Company's repurchase, on a discretionary basis, of a total of up to \$500 million of the Company's common stock following such authorization. On May 16, 2012, the Company's Board of Directors increased the previous share repurchase authorization by \$500 million to a total of \$1.0 billion. On May 15, 2013, the Company's Board of Directors further increased the previous share repurchase authorization by an additional \$500 million to a total of \$1.5 billion. In a privately negotiated transaction, during September 2013, the Company entered into an agreement with a third party financial institution to repurchase \$150 million of its common shares under the Third Quarter ASR Program utilizing cash on hand. On September 6, 2013, pursuant to the Third Quarter ASR Program agreement, the Company advanced the \$150 million to the financial institution and received approximately 11.5 million shares, which was recorded as a treasury share purchase for purposes of calculating earnings per share. The specific number of shares that the Company ultimately will repurchase under the Third Quarter ASR Program will be determined based generally on a discount to the volume-weighted average price per share of the Company's common stock during a calculation period to be completed in fourth quarter 2013. At settlement, under certain circumstances, the third party financial institution may be required to deliver additional shares of common stock to the Company, or under certain circumstances, the Company may be required to deliver shares of its common stock or may elect to make a cash payment to the third party financial institution. As of September 30, 2013, the Company's cumulative purchases under all Board-authorized repurchases since the August 2011 authorization have totaled approximately 111 million shares for approximately \$1.1 billion of the \$1.5 billion in total authorized by the Board.

#### Cautionary Statement Regarding Forward-Looking Statements

This Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on, and include statements about, the Company's estimates, expectations, beliefs, intentions, and strategies for the future, and the assumptions underlying these forward-looking statements. Specific forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and include, without limitation, statements related to the following:

- the Company's strategic initiatives and related financial and operational goals and expectations;
- the integration of AirTran and the Company's related financial and operational goals and expectations, including, without limitation, anticipated integration timeframes and expected benefits and costs associated with the integration;
- the Company's network plans, opportunities, and expectations;
- the Company's fleet plans, including its fleet modernization and capacity plans and expectations;
- the Company's financial outlook and projected results of operations;
- the Company's plans and expectations with respect to managing risk associated with changing jet fuel prices;
- the Company's expectations with respect to liquidity and capital expenditures, including anticipated needs for, and sources of, funds;
- the Company's assessment of market risks; and
- the Company's plans and expectations related to legal proceedings.

While management believes these forward-looking statements are reasonable as and when made, forward-looking statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed in or indicated by the Company's forward-looking statements or from historical experience or the Company's present expectations. Factors that could cause these differences include, among others:

- demand for the Company's services and the impact of economic conditions, fuel prices and availability, and actions of competitors (including, without limitation, pricing, scheduling, and capacity decisions and consolidation and alliance activities) on the Company's business decisions, plans, and strategies;
- the Company's ability to effectively integrate AirTran and realize the expected synergies and other benefits from the acquisition;
- the Company's ability to timely and effectively implement, transition, and maintain the necessary information technology systems and infrastructure to support its operations and initiatives;
- the Company's ability to timely and effectively prioritize its strategic initiatives and related expenditures;
- changes in the price of aircraft fuel, the impact of hedge accounting, and any changes to the Company's fuel hedging strategies and positions;
- the Company's dependence on third parties with respect to certain of its initiatives, in particular its fleet plans;
- actual or potential disruptions in the air traffic control system;
- the impact of governmental action related to the Company's operations; and
- other factors as set forth in the Company's filings with the Securities and Exchange Commission, including the detailed factors discussed under the heading “Risk Factors” in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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.

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

As discussed in Note 5 to the unaudited Condensed Consolidated Financial Statements, the Company endeavors to acquire jet fuel at the lowest possible cost and to reduce volatility in operating expenses through its fuel hedging program with the use of financial derivative instruments. At September 30, 2013, the estimated fair value of outstanding contracts, excluding the impact of cash collateral provided to or held by counterparties, was an asset of \$87 million.

The Company's credit exposure related to fuel derivative instruments is represented by the fair value of contracts that are an asset to the Company. At such times, these outstanding instruments expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements. As of September 30, 2013, the Company had eight counterparties with which the derivatives held were a net asset, totaling \$100 million, and three counterparties with which the derivatives held were a net liability, totaling a net \$13 million liability. To manage credit risk, the Company selects and periodically reviews counterparties based on credit ratings, limits its exposure with respect to each counterparty, and monitors the market position of the fuel hedging program and its relative market position with each counterparty. However, if one or more of these counterparties were in a liability position to the Company and were unable to meet their obligations, any open derivative contracts with the counterparty could be subject to early termination, which could result in substantial losses for the Company. At September 30, 2013, the Company had agreements with all of its active counterparties containing early termination rights and/or bilateral collateral provisions whereby security is required if market risk exposure exceeds a specified threshold amount based on the counterparty's credit rating. The Company also had agreements with counterparties in which cash deposits, letters of credit, and/or pledged aircraft are required to be posted whenever the net fair value of derivatives associated with those counterparties exceeds specific thresholds.

At September 30, 2013, no cash deposits, letters of credit, and/or aircraft collateral were provided by the Company based on its outstanding fuel derivative instrument portfolio. Due to the terms of the Company's current fuel hedging agreements with counterparties and the types of derivatives held, in the Company's judgment, it does not have significant additional exposure to future cash collateral requirements. As an example, if market prices for the commodities used in the Company's fuel hedging activities were to decrease by 25 percent from market prices as of September 30, 2013, given the Company's current fuel derivative portfolio, its aircraft collateral facilities, and its investment grade credit rating, it would likely provide an additional \$475 million in cash collateral, post \$171 million in aircraft collateral, and post \$5 million in letters of credit against these positions with its current counterparties. However, the Company would expect to also benefit from lower market prices paid for fuel used in its operations. See Note 5 to the unaudited Condensed Consolidated Financial Statements.

The Company is also subject to the risk that the fuel derivatives it uses to hedge against fuel price volatility do not provide adequate protection. A portion of the fuel derivatives in the Company's hedge portfolio are based on the market price of West Texas intermediate crude oil ("WTI"). The Company can no longer demonstrate that derivatives based on WTI crude oil prices will result in effective hedges on a prospective basis. As such, the change in fair value of all of the Company's derivatives based in WTI have been recorded to Other (gains) losses for third quarter 2013, and all future changes in fair value of such instruments will continue to be recorded directly to earnings in future periods. In recent years, jet fuel prices have been more closely correlated with changes in the price of Brent crude oil ("Brent"). The Company has attempted to mitigate some of this risk by entering into more fuel hedges based on Brent crude. Although the Company has some fuel derivatives based on the price of Brent, to the extent the Company holds WTI-based derivatives, changes in the fair value of these positions will continue to create income statement volatility and may not provide complete protection against jet fuel price volatility. In addition, to add further protection, the Company may periodically enter into jet fuel derivatives for short-term timeframes. Jet fuel is not widely traded on an organized futures exchange and, therefore, there are limited opportunities to hedge directly in jet fuel for time horizons longer than approximately six to twelve months into the future.

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, 2012, for further information about market risk, and Note 5 to the unaudited Condensed Consolidated Financial Statements in this Form 10-Q for further information about the Company's fuel derivative instruments.

#### **Item 4. Controls and Procedures**

##### **Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed,

summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2013. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of September 30, 2013, at the reasonable assurance level.

#### Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

A complaint alleging violations of federal antitrust laws and seeking certification as a class action was filed against Delta Air Lines, Inc. ("Delta") and AirTran in the United States District Court for the Northern District of Georgia in Atlanta on May 22, 2009. The complaint alleged, among other things, that AirTran attempted to monopolize air travel in violation of Section 2 of the Sherman Act, and conspired with Delta in imposing \$15-per-bag fees for the first item of checked luggage in violation of Section 1 of the Sherman Act. The initial complaint sought treble damages on behalf of a putative class of persons or entities in the United States who directly paid Delta and/or AirTran such fees on domestic flights beginning December 5, 2008. After the filing of the May 2009 complaint, various other nearly identical complaints also seeking certification as class actions were filed in federal district courts in Atlanta, Georgia; Orlando, Florida; and Las Vegas, Nevada. All of the cases were consolidated before a single federal district court judge in Atlanta. A Consolidated Amended Complaint was filed in the consolidated action on February 1, 2010, which broadened the allegations to add claims that Delta and AirTran conspired to reduce capacity on competitive routes and to raise prices in violation of Section 1 of the Sherman Act. In addition to treble damages for the amount of first baggage fees paid to AirTran and to Delta, the Consolidated Amended Complaint seeks injunctive relief against a broad range of alleged anticompetitive activities, as well as attorneys' fees. On August 2, 2010, the Court dismissed plaintiffs' claims that AirTran and Delta had violated Section 2 of the Sherman Act; the Court let stand the claims of a conspiracy with respect to the imposition of a first bag fee and the airlines' capacity and pricing decisions. On June 30, 2010, the plaintiffs filed a motion to certify a class, which AirTran and Delta have opposed. The Court has not yet ruled on the class certification motion, and further briefing has been scheduled. The parties engaged in extensive discovery, which was extended due to discovery disputes between plaintiffs and Delta, but discovery has now closed. On June 18, 2012, the parties filed a Stipulation and Order that plaintiffs have abandoned their claim that AirTran and Delta conspired to reduce capacity. On August 31, 2012, AirTran and Delta moved for summary judgment on all of plaintiffs' remaining claims, and on the same day the plaintiffs filed a supplemental brief on class certification. Thereafter, plaintiffs raised additional electronic discovery disputes with Delta, and the Court suspended the summary judgment briefing while an expert examined Delta's discovery. On September 25, 2013, the Court entered an order which ended the expert's work and resumed briefing on summary judgment and class certification. Under the current schedule, the motions for summary judgment and for class certification are to be fully briefed by January 15, 2014. AirTran denies all allegations of wrongdoing, including those in the Consolidated Amended Complaint, and intends to defend vigorously any and all such allegations.

The Company is from time to time 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.

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 Internal Revenue Service, individually or collectively, will have a material adverse effect on the Company's financial condition, results of operations, or cash flow.

### Item 1A. Risk Factors

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities (1)

|                                                 | (a)                                    | (b)                                | (c)                                                                                          | (d)                                                                                              |
|-------------------------------------------------|----------------------------------------|------------------------------------|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| Period                                          | Total number<br>of shares<br>purchased | Average<br>price paid<br>per share | Total number of<br>shares purchased<br>as part of publicly<br>announced plans<br>or programs | Maximum dollar<br>value of shares that<br>may yet be purchased<br>under the plans<br>or programs |
| July 1, 2013 through<br>July 31, 2013           | —                                      | \$ —                               | —                                                                                            | \$ 524,515,838                                                                                   |
| August 1, 2013 through<br>August 31, 2013       | —                                      | \$ —                               | —                                                                                            | \$ 524,515,838                                                                                   |
| September 1, 2013 through<br>September 30, 2013 | 11,459,129 (2)                         | \$ 13.09                           | 11,459,129                                                                                   | \$ 374,515,838                                                                                   |
| <b>Total</b>                                    | <b>11,459,129</b>                      |                                    | <b>11,459,129</b>                                                                            |                                                                                                  |

- (1) In January 2008, the Company's Board of Directors authorized the repurchase of up to \$500 million of the Company's common stock. Through February 15, 2008, the Company had repurchased 4.4 million shares for a total of approximately \$54 million, at which time repurchases under the program were suspended. On August 5, 2011, the Company's Board of Directors authorized the Company to resume a share repurchase program and approved the Company's repurchase, on a discretionary basis, of a total of up to \$500 million of the Company's common stock following such authorization. On May 16, 2012, the Company's Board of Directors increased the previous share repurchase authorization by an additional \$500 million to a total of \$1.0 billion. On May 15, 2013, the Company's Board of Directors further increased the previous share repurchase authorization by an additional \$500 million to a total of \$1.5 billion. Repurchases are made in accordance with applicable securities laws in open market, private, or accelerated repurchase transactions from time to time, depending on market conditions, and may be discontinued at any time.
- (2) During September 2013, under the Third Quarter ASR Program, the Company paid \$150 million and received an initial delivery of 11,459,129 shares. The specific number of shares that the Company ultimately will repurchase under the Third Quarter ASR Program will be determined based generally on a discount to the volume-weighted average price per share of the Company's common stock during a calculation period to be completed in fourth quarter 2013. At settlement, under certain circumstances, the third party financial institution may be required to deliver additional shares of common stock to the Company, or under certain circumstances, the Company may be required to deliver shares of its common stock or may elect to make a cash payment to the third party financial institution.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

None

**Item 6. Exhibits**

|         |                                                                                                                                                                                                                           |
|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1     | Restated Certificate of Formation of the Company, effective May 18, 2012 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 1-7259)). |
| 3.2     | Amended and Restated Bylaws of the Company, effective November 19, 2009 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated November 19, 2009 (File No. 1-7259)).                 |
| 10.1    | Supplemental Agreement No. 84 to Purchase Agreement No. 1810, dated January 19, 1994, between The Boeing Company and the Company. (1)                                                                                     |
| 10.2    | Southwest Airlines Co. Amended and Restated 2007 Equity Incentive Plan. (2)                                                                                                                                               |
| 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 Certifications of Chief Executive Officer and Chief Financial Officer. (3)                                                                                                                                   |
| 101.INS | XBRL Instance Document.                                                                                                                                                                                                   |
| 101.SCH | XBRL Taxonomy Extension Schema Document.                                                                                                                                                                                  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.                                                                                                                                                                    |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.                                                                                                                                                                     |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document.                                                                                                                                                                         |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.                                                                                                                                                                   |

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(1) 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) Management contract or compensatory plan or arrangement.

(3) Furnished, not filed.

SIGNATURES

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

SOUTHWEST AIRLINES CO.

October 30, 2013

By /s/ Tammy Romo

Tammy Romo  
*Chief Financial Officer*  
*(On behalf of the Registrant and in*  
*her capacity as Principal Financial*  
*and Accounting Officer)*

## EXHIBIT INDEX

|         |                                                                                                                                                                                                                           |
|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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| 101.INS | XBRL Instance Document.                                                                                                                                                                                                   |
| 101.SCH | XBRL Taxonomy Extension Schema Document.                                                                                                                                                                                  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.                                                                                                                                                                    |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.                                                                                                                                                                     |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document.                                                                                                                                                                         |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.                                                                                                                                                                   |

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(1) 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) Management contract or compensatory plan or arrangement.

(3) Furnished, not filed.

Supplemental Agreement No. 84

to

Purchase Agreement No. 1810

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Relating to Boeing Model 737-7H4 and 737-8H4 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of September 20, 2013, 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**);

Buyer and Boeing entered into Purchase Agreement No. 1810 dated January 19, 1994 as amended, and supplemented, (**Purchase Agreement**) relating to the purchase and sale of Boeing Model 737-7H4 aircraft (**737-7H4 Aircraft**) and 737-8H4 aircraft (**737-8H4 Aircraft**); and this Supplemental Agreement is an amendment to and is incorporated into the Purchase Agreement; and

WHEREAS, Boeing offered and Buyer agreed to accelerate delivery of three (3) 737-8H4 Aircraft bearing Manufacturing Serial Numbers 36912 and 36914 (both from October 2013 to September 2013) and 42523 (from July 2014 to June 2014) (collectively, **Subject Aircraft**).

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Purchase Agreement as follows:

1. The Table of Contents of the Purchase Agreement is deleted in its entirety and a new Table of Contents is attached hereto and incorporated into the Purchase Agreement by this reference.

2. Table 1c, "Aircraft Information Table - Block 800LUV Aircraft (non-ETOPS Configuration)," is deleted in its entirety and a new Table 1c is attached hereto and incorporated into the Purchase Agreement by this reference. The new Table 1c reflects the revised delivery month for the Subject Aircraft.

3. Exhibit A-7, "Aircraft Configuration - Block 800LUV Aircraft (non-ETOPS Configuration)," is deleted in its entirety and replaced with a revised Exhibit A-7, attached

**\*\*\*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.**

hereto and incorporated in the Purchase Agreement by this reference. The revised Exhibit A-7 contains additional pricing information erroneously omitted from the original exhibit.

4. Attachment A to Letter Agreement SWA-PA-1810-LA-1001315R2, \*\*\* is deleted in its entirety and replaced with a revised Attachment A, attached hereto and incorporated in the Purchase Agreement by this reference. The revised Attachment A reflects the revised delivery month for the MSN 42523.

5. Letter Agreement SWA-PA-1810-LA-1105885R1, \*\*\* is deleted in its entirety and replaced with a revised Letter Agreement SWA-PA-1810-LA-1105885R2, attached hereto and incorporated in the Purchase Agreement by this reference. The revised letter agreement corrects a typographical error in paragraph 1.2.

6. As a result of the revised delivery month of the MSN 42523, an excess in Advance Payments made by Buyer to Boeing exists in the amount of \*\*\*. Boeing will retain such excess amounts until the next Advance Payment is due, at which time Buyer may reduce the amount of such Advance Payment by \*\*\*. Buyer's election to not reduce such next Advance Payment shall not preclude Buyer from using such excess amount on any following Advance Payment. A reconciliation regarding changes in Advance Payments arising from this Supplemental Agreement will be provided separately to Buyer by Boeing.

The Purchase 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/ Jeff Solomon

By: /s/ Tammy Romo

Its: Attorney-In-Fact

Its: SVP & CFO

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| 1b                                  | Aircraft Information Table - Block 800LUV Aircraft                                                                                                | <b>SA-82</b>                |
| 1c                                  | Aircraft Information Table - Block 800LUV Aircraft<br>(non-ETOPS Configuration)                                                                   | <b>SA-84</b>                |
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| A-7                                 | Aircraft Configuration - Block 800LUV Aircraft<br>(non-ETOPS Configuration)                                                                       | <b>SA-84</b>                |
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| D-2                                 | Economic Price Adjustment<br>ECI-MFG/CPI (July 2011 Base Price)                                                                                   | SA-75                       |
| E                                   | Buyer Furnished Equipment<br>Provisions Document<br>Attachment A - 737-7H4 Aircraft (through 2012)<br>Attachment B - 737-8H4 Aircraft (2012-2018) | SA-75<br><br><br><br>SA-83  |
| F                                   | Defined Terms Document                                                                                                                            |                             |
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| 6-1162-RLL-934R5                           | Disclosure of Confidential<br>Information                           | SA-75                       |
| 6-1162-RLL-941R3                           | Other Matters                                                       | SA-75                       |
| 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                       |
| SWA-PA-1810-LA-1001315R2                   | ***<br>Attachment A                                                 | SA-83<br><b>SA-84</b>       |
| SWA-PA-1810-LA-1003498 R1                  | ***                                                                 | SA-75                       |
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| <b>ADDITIONAL LETTERS (FOR REFERENCE) - <i>INACTIVE (as of SA-82)</i></b> |                                                                                                                                                                                           |
|---------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6-1162-MSA-288                                                            | Business Offer - Enhanced Ground Proximity<br>Warning System (EGPWS) - Activation - Peaks<br>and Obstacles Feature<br><i>(Not applicable to Block 700LUV &amp; Block 800LUV Aircraft)</i> |
| 6-1162-JMG-501R2                                                          | Business Offer - ACARS package<br><i>(Not applicable to Block 700LUV &amp; Block 800LUV Aircraft)</i>                                                                                     |

### **INACTIVE / DELETED TABLES, EXHIBITS, AND LETTER AGREEMENTS**

#### **TABLE**

| Table | Title                             | Last Updated under SA | Current Status      |
|-------|-----------------------------------|-----------------------|---------------------|
| 1     | Aircraft Information Table        | SA-75                 | Inactive            |
| 2     | Option Aircraft Information Table | SA-74                 | Deleted under SA-75 |

#### **EXHIBITS**

| Exhibits    | Title                                                 | Last Updated under SA | Current Status |
|-------------|-------------------------------------------------------|-----------------------|----------------|
| A           | Aircraft Configuration - 737-700                      | SA-36                 | Inactive       |
| A-Winglet   | Aircraft Configuration                                | SA-36                 | Inactive       |
| A-1-Winglet | Aircraft Configuration                                | SA-36                 | Inactive       |
| A-1A        | Aircraft Configuration - 737-700 Block T-W-2c         | SA-36                 | Inactive       |
| A-2         | Aircraft Configuration - 737-700 Block T-W-2 / T-W-2a | SA-47                 | Inactive       |
| A-3         | Aircraft Configuration - 737-700 Block T-W-2 / T-W-2a | SA-61                 | Inactive       |
| A-4         | Aircraft Configuration - 737-                         | SA-66                 | Inactive       |

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| Exhibits | Title                                                                                               | Last Updated under SA | Current Status      |
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|          | 700 Block T-W-2b Aircraft                                                                           |                       |                     |
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| D        | Price Adjustment Due to Economic Fluctuations - Aircraft Price Adjustment<br>(July 1992 Base Price) |                       | Inactive            |
| D-1      | Price Adjustment Due to Economic Fluctuations - Aircraft Price Adjustment<br>(July 1999 Base Price) | SA-13                 | Inactive            |
| E.2      | 737-800 Buyer Furnished Equipment Provisions Document                                               | SA-73                 | Deleted under SA-75 |

### RESTRICTED LETTER AGREEMENTS

| Letter Agreement  | Title                                             | Last Updated under SA | Current Status      |
|-------------------|---------------------------------------------------|-----------------------|---------------------|
| 6-1162-RLL-933R21 | Option Aircraft                                   | SA-60                 | Deleted under SA-75 |
| 6-1162-RLL-935R1  | Performance Guarantees                            | SA-1                  | Inactive            |
| 6-1162-RLL-936R4  | Certain Contractual Matters                       | SA-4                  | Inactive            |
| 6-1162-RLL-937    | Alternate Advance Payment Schedule                |                       | Inactive            |
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| 6-1162-RLL-939R1  | Certification Flight Test Aircraft                | SA-1                  | Inactive            |
| 6-1162-RLL-940R1  | Training Matters                                  | SA-1                  | Inactive            |
| 6-1162-RLL-942    | Open Configuration Matters                        |                       | Inactive            |
| 6-1162-RLL-943R1  | Substitution Rights                               | SA-6                  | Deleted under SA 75 |
| 6-1162-RLL-944    | ***                                               |                       | Inactive            |
| 6-1162-RLL-945    | Comparison of 737-7H4 and 737-3H4 Block Fuel Burn |                       | Inactive            |
| 6-1162-RLL-1855R3 | Additional Contractual Matters                    | SA-4                  | Inactive            |
| 6-1162-RLL-1856   | ***                                               | SA-1                  | Inactive            |
| 6-1162-RLL-1857   | Service Ready Validation Program Field Test       | SA-1                  | Inactive            |
| 6-1162-RLL-1858R1 | Escalation Matters                                | SA-4                  | Inactive            |
| 6-1162-RLL-2036   | Amortization of Costs for Customer Unique Changes | SA-1                  | Inactive            |

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| Letter Agreement       | Title                                                           | Last Updated under SA       | Current Status      |
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| 6-1162-RLL-2037        | Reconciliation of the Aircraft Basic Price                      | SA-1                        | Inactive            |
| 6-1162-RLL-2073        | Maintenance Training Matters                                    | SA-1                        | Inactive            |
| 6-1162-KJJ-058R1       | Additional Substitution Rights                                  | SA-71                       | Deleted under SA-75 |
| 6-1162-KJJ-150         | Flight Control Computer & Mode Control Panel Spares Matter      | SA-14                       | Inactive            |
| 6-1162-MSA-185R3       | Delivery Change Contractual Matters                             | SA-21                       | Inactive            |
| 6-1162-JMG-747R1       | ***                                                             | SA-36                       | Inactive            |
| 6-1162-CHL-217         | Rescheduled Flight Test Aircraft                                | SA-32                       | Inactive            |
| 6-1162-NIW-606R1       | ***                                                             | SA-36                       | Inactive            |
| 6-1162-NIW-640         | Early Delivery of Two April 2004 Aircraft                       | SA-35                       | Inactive            |
| 6-1162-NIW-889         | Warranty - Exterior Color Schemes and Markings for YA143 and on | SA-39                       | Inactive            |
| 6-1162-NIW-1142        | ***                                                             | SA-43                       | Inactive            |
| 6-1162-NIW-1369        | ***                                                             | SA-46                       | Inactive            |
| 6-1162-NIW-1983        | ***                                                             | SA-62                       | Inactive            |
| SWA-PA-1810-LA-1000419 | ***                                                             | SA-64                       | Inactive            |
| 6-1162-NIW-890R1       | ***                                                             | SA-75<br><br>SA-39          | Inactive            |
| 6-1162-KJJ-054R2       | Business Matters                                                | SA-75                       | Inactive            |
| 6-1162-JMG-669R9       | ***                                                             | SA-75<br><br>SA-75<br>SA-54 | Inactive            |
| SWA-PA-1810-LA-02710R1 | ***                                                             | SA-72                       | Inactive            |

**Table 1c**  
**Purchase Agreement No. PA 01810**  
**Aircraft Delivery, Description, Price and Advance Payments**  
**Block 800LUV Aircraft (non ETOPS Configuration)**

|                                                   |            |               |               |                                                          |                                    |
|---------------------------------------------------|------------|---------------|---------------|----------------------------------------------------------|------------------------------------|
| <b>Airframe Model/MTOW:</b>                       | 737-800    | 174200 pounds |               | <b>Detail Specification:</b>                             | D019A001SWA38P-1 Rev C (3/29/2013) |
| <b>Engine Model/Thrust:</b>                       | CFM56-7B27 | 27300 pounds  | <i>Note 1</i> | <b>Base Aircraft Price Base Year/Escalation Formula:</b> | Jul-11 ECI-MFG/CPI                 |
| <b>Base Aircraft Price:</b>                       |            |               | ***           | <b>Engine Price Base Year/Escalation Formula:</b>        | N/A N/A                            |
| <b>Special Features:</b>                          | ***        |               |               |                                                          |                                    |
| <b>Add'l Features/Changes</b>                     | ***        |               |               |                                                          |                                    |
| <b>Total Special Features (Exhibit A-7)</b>       |            | ***           |               |                                                          |                                    |
| <b>Sub-Total of Airframe and Features:</b>        |            | ***           |               | <b>Aircraft Price Escalation Data:</b>                   |                                    |
| <b>Engine Price (Per Aircraft):</b>               |            | ***           |               | <b>Base Year Index (ECI):</b>                            | ***                                |
| <b>Aircraft Basic Price (Excluding BFE/SPE):</b>  |            | ***           |               | <b>Base Year Index (CPI):</b>                            | ***                                |
| <b>Buyer Furnished Equipment (BFE) Estimate:</b>  |            | ***           |               |                                                          |                                    |
| <b>Seller Purchased Equipment (SPE) Estimate:</b> |            | ***           |               |                                                          |                                    |

| Delivery Date | Number of Aircraft | Escalation Factor (Airframe) | Aircraft Serial Number     | Escalation Forecast | Sub-Block Note 2 | Escalation Estimate Adv Payment Base Price Per A/P | Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): |             |                       |           |
|---------------|--------------------|------------------------------|----------------------------|---------------------|------------------|----------------------------------------------------|------------------------------------------------------------------|-------------|-----------------------|-----------|
|               |                    |                              |                            |                     |                  |                                                    | At Signing ***                                                   | 24 Mos. *** | 21/18/12/9/6 Mos. *** | Total *** |
| Sep-2013      | 3                  | ***                          | 36933, 36912, 36914        | ***                 |                  | ***                                                | ***                                                              | ***         | ***                   | ***       |
| Nov-2013      | 3                  | ***                          | 36915, 33939, 42526        | ***                 |                  | ***                                                | ***                                                              | ***         | ***                   | ***       |
| Dec-2013      | 3                  | ***                          | 36917, 36919, 36731        | ***                 |                  | ***                                                | ***                                                              | ***         | ***                   | ***       |
| Mar-2014      | 1                  | ***                          | 37,004                     | ***                 |                  | ***                                                | ***                                                              | ***         | ***                   | ***       |
| Apr-2014      | 4                  | ***                          | 42384, 36894, 36895, 36896 | ***                 |                  | ***                                                | ***                                                              | ***         | ***                   | ***       |
| May-2014      | 3                  | ***                          | 36897, 42385, 42521        | ***                 |                  | ***                                                | ***                                                              | ***         | ***                   | ***       |
| Jun-2014      | 4                  | ***                          | 36898, 36905, 42522, 42523 | ***                 |                  | ***                                                | ***                                                              | ***         | ***                   | ***       |
| Jun-2014      | 2                  | ***                          | tbd, tbd                   | ***                 | OPEX             | ***                                                | ***                                                              | ***         | ***                   | ***       |
| Jul-2014      | 1                  | ***                          | 36,911                     | ***                 |                  | ***                                                | ***                                                              | ***         | ***                   | ***       |
| Jul-2014      | 3                  | ***                          | tbd, tbd, tbd              | ***                 | OPEX             | ***                                                | ***                                                              | ***         | ***                   | ***       |
| Aug-2014      | 4                  | ***                          | 36907, 42524, 35973, 42525 | ***                 |                  | ***                                                | ***                                                              | ***         | ***                   | ***       |
| Sep-2014      | 4                  | ***                          | 36935, 42528, 42527, 42531 | ***                 |                  | ***                                                | ***                                                              | ***         | ***                   | ***       |

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**Table 1c**  
**Purchase Agreement No. PA 01810**  
**Aircraft Delivery, Description, Price and Advance Payments**  
**Block 800LUV Aircraft (non ETOPS Configuration)**

| Delivery<br>Date | Number of<br>Aircraft | Escalation<br>Factor<br>(Airframe) | Aircraft<br>Serial<br>Number | Escalation<br>Forecast | Sub-Block<br>Note 2 | Escalation Estimate<br>Adv Payment Base<br>Price Per A/P | Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): |                |                             |              |
|------------------|-----------------------|------------------------------------|------------------------------|------------------------|---------------------|----------------------------------------------------------|------------------------------------------------------------------|----------------|-----------------------------|--------------|
|                  |                       |                                    |                              |                        |                     |                                                          | At Signing<br>***                                                | 24 Mos.<br>*** | 21/18/12/9/6<br>Mos.<br>*** | Total<br>*** |
| Oct-2014         | 3                     | ***                                | 36909, 36732, 36920          | ***                    |                     | ***                                                      | ***                                                              | ***            | ***                         | ***          |
| Oct-2014         | 1                     | ***                                | 38,806                       | ***                    |                     | ***                                                      | ***                                                              | ***            | ***                         | ***          |
| Nov-2014         | 2                     | ***                                | 36971, 37043                 | ***                    |                     | ***                                                      | ***                                                              | ***            | ***                         | ***          |
| Dec-2014         | 2                     | ***                                | 37037, 37045                 | ***                    |                     | ***                                                      | ***                                                              | ***            | ***                         | ***          |
| Dec-2014         | 2                     | ***                                | 42529, 42530                 | ***                    |                     | ***                                                      | ***                                                              | ***            | ***                         | ***          |

Total: 45

**Notes:**

- 1) \*\*\*
- 2) The sub-block identifier is used to denote applicability of certain business terms as referenced in Letter Agreement SWA-PA-1810-LA-1105888R2 to the Purchase Agreement.

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**Boeing Proprietary**

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**737-8H4**

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Exhibit A-7 to Purchase Agreement Number 1810

Block 800LUV Aircraft  
(non-ETOPS Configuration)

## AIRCRAFT CONFIGURATION

Dated September 20, 2013

relating to

BOEING MODEL 737-8H4 AIRCRAFT

The Detail Specification is Boeing document number D019A001SWA38P-1 Rev C, dated March 29, 2013. The Detail Specification provides further description of Buyer's configuration set forth in this Exhibit A-7. Such Detail Specification will be comprised of Boeing Configuration Specification D019A001, Rev N dated as of January 29, 2010 as amended to incorporate the Special Features listed in this Exhibit A-7, including the effects on Manufacturer's Empty Weight (MEW) and Operating Empty Weight (OEW). As soon as practicable, Boeing will furnish to Buyer copies of the Detail Specification, which copies will reflect such Special Features. The Aircraft Basic Price reflects and includes all effects of such Special Features, except such Aircraft Basic Price does not include the price effects of any Buyer Furnished Equipment or Seller Purchased Equipment.

## BOEING PROPRIETARY

| CR          | Title                                                                                                                                                                                                               | 2011 \$<br>Price<br>Per A/C |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| 0110-000029 | MINOR MODEL 737-800 PASSENGER AIRPLANE                                                                                                                                                                              | ***                         |
| 0110-000030 | MAJOR MODEL 737 AIRPLANE                                                                                                                                                                                            | ***                         |
| 0170A244C58 | SERVICING FEATURES - BASIC                                                                                                                                                                                          | ***                         |
| 0170A425A76 | AVIONICS - DUAL FMC WITH MULTI-CONTROL DISPLAY UNIT                                                                                                                                                                 | ***                         |
| 0170A541A17 | AIRFRAME - 737-800                                                                                                                                                                                                  | ***                         |
| 0170B401A26 | COMMUNICATIONS - BASIC COMMUNICATIONS CONFIGURATION WITH HF DATALINK PROVISIONS AND INTEGRATED SELCAL CALL                                                                                                          | ***                         |
| 0170B401A73 | CLIMATE - NORMAL WEATHER OPERATIONS                                                                                                                                                                                 | ***                         |
| 0170B513A51 | PC - PUSH TO TALK (PTT) SWITCH ON GLARESHIELD - REMOVE                                                                                                                                                              | ***                         |
| 0170B750B43 | 737 BOEING SKY INTERIOR                                                                                                                                                                                             | ***                         |
| 0170C430J04 | PC - COMMUNICATIONS - DUAL COMMUNICATIONS CONTROL PANEL WIRING IN LIEU OF TRIPLE COMMUNICATIONS CONTROL PANEL WIRING                                                                                                | ***                         |
| 0170C801A81 | GALLEY AFT COMPLEX - G4B GALLEY - DOMED AFT BULKHEAD                                                                                                                                                                | ***                         |
| 0170C801C76 | LAVATORY AFT COMPLEX - TWO LAVATORIES WITH TWO DOUBLE ATTENDANT SEATS - 737 BOEING SKY INTERIOR                                                                                                                     | ***                         |
| 0170D360B56 | PC - LAVATORY AFT COMPLEX - TWO LAVATORIES WITH TWO DOUBLE ATTENDANT SEATS, NO CURTAIN - BOEING SKY INTERIOR                                                                                                        | ***                         |
| 0221A599A81 | WET GROOVED RUNWAY OPERATIONS WITH ANTISKID SYSTEM INOPERATIVE                                                                                                                                                      | ***                         |
| 0221A609B52 | DISPATCH WITH GEAR EXTENDED FOR REVENUE FLIGHT                                                                                                                                                                      | ***                         |
| 0221C588A08 | LANDING PERFORMANCE IMPROVEMENT- SKID RESISTANT RUNWAYS (FOR FAA CERTIFIED CUSTOMERS)                                                                                                                               | ***                         |
| 0222C472A09 | SHORT FIELD PERFORMANCE ENHANCEMENT                                                                                                                                                                                 | ***                         |
| 0224-000036 | EXTENDED RANGE TWIN ENGINE OPERATIONS (ETOPS)                                                                                                                                                                       | ***                         |
| 0228-000001 | FLIGHT MANUALS IN FAA FORMAT                                                                                                                                                                                        | ***                         |
| 0228-000032 | FLIGHT CREW OPERATIONS MANUAL IN FAA FORMAT                                                                                                                                                                         | ***                         |
| 0252B299A34 | INSTRUMENTATION, AIRPLANE AND FUEL MEASURING STICK MANUALS IN ENGLISH UNITS - TEMPERATURE IN DEGREES FAHRENHEIT                                                                                                     | ***                         |
| 0254-000003 | USPHS CERTIFICATE OF SANITARY CONSTRUCTION                                                                                                                                                                          | ***                         |
| 0315D292A01 | CERTIFIED OPERATIONAL AND STRUCTURAL DESIGN WEIGHTS 737-800                                                                                                                                                         | ***                         |
| 0351D322A15 | TAKEOFF PERFORMANCE IMPROVEMENT - ALTERNATE FORWARD CENTER OF GRAVITY LIMITS                                                                                                                                        | ***                         |
| 0370C910B63 | AIR CONDITIONING TRANSITION DUCT UNDER FLOOR - INSTALLATION - 17 MIL DAMPING TAPE FOR NOISE REDUCTION                                                                                                               | ***                         |
| 1110D360A84 | EXTERIOR NON-REGULATORY MARKINGS                                                                                                                                                                                    | ***                         |
| 1110D360A85 | EXTERIOR REGULATORY MARKINGS AND COLOR SCHEME                                                                                                                                                                       | ***                         |
| 1130D360A86 | CARGO COMPARTMENT PLACARDS                                                                                                                                                                                          | ***                         |
| 1130D360A88 | LIGHTED SIGNS                                                                                                                                                                                                       | ***                         |
| 1130D360B61 | INTERIOR PLACARDS AND MARKERS - 737 BOEING SKY INTERIOR                                                                                                                                                             | ***                         |
| 2130-000010 | 600 FPM CABIN PRESSURE ASCENT RATE                                                                                                                                                                                  | ***                         |
| 2130-000015 | 750 FPM CABIN PRESSURE DESCENT RATE                                                                                                                                                                                 | ***                         |
| 2170-000021 | OZONE CONTROL - SPACE PROVISIONS FOR CATALYTIC CONVERTERS                                                                                                                                                           | ***                         |
| 2210-000121 | AUTOFLIGHT - ACTIVATION OF CONTROL WHEEL STEERING REVERSION IN APPROACH MODE                                                                                                                                        | ***                         |
| 2210-000123 | AUTOFLIGHT - FLIGHT DIRECTOR TAKEOFF MODE WINGS LEVEL                                                                                                                                                               | ***                         |
| 2210-000142 | AUTOFLIGHT - ALTITUDE ALERT - 300/900 FEET                                                                                                                                                                          | ***                         |
| 2210-000151 | AUTOFLIGHT - ENABLE GLIDE SLOPE CAPTURE PRIOR TO LOCALIZER CAPTURE                                                                                                                                                  | ***                         |
| 2210C175A38 | AUTOFLIGHT - GO-AROUND ROLL MODE - LNAV                                                                                                                                                                             | ***                         |
| 2230-000137 | AUTOTHROTTLE - FMCS - TAKEOFF PROFILE THRUST REDUCTION ALTITUDE                                                                                                                                                     | ***                         |
| 2310B691B85 | COMMUNICATIONS CONTROL PANELS - DUAL GABLES RADIO TUNING PANELS CAPABLE OF (2) HF SYSTEMS AND (3) VHF SYSTEMS (8.33 KHZ CAPABLE) - P/N G7404-124 - BFE/SPE                                                          | ***                         |
| 2311B401A28 | HF COMMUNICATIONS - EQUIPMENT INSTALLATION OF DUAL HONEYWELL INTERNATIONAL INC. HF TRANSCEIVERS - P/N 964-0452-012 - AND DIGITAL HF COUPLERS - P/N 964-0453-011 - BFE/SPE                                           | ***                         |
| 2311B401A29 | DUAL HF DATA RADIO - ARINC 753 - ACTIVATION - AIRLINE DATA LINK COMMUNICATIONS ONLY                                                                                                                                 | ***                         |
| 2312A213B90 | VHF COMMUNICATIONS - EQUIPMENT INSTALLATION OF TRIPLE HONEYWELL ARINC 750 RTA-44D VHF FM IMMUNE TRANSCEIVERS WITH 8.33 KHZ CHANNEL SPACING, VDL MODE 2, AND CMC INTERFACE CAPABILITY - P/N 064-50000-2000 - BFE/SPE | ***                         |
| 2321-000050 | SELCAL - AVTECH FIVE CHANNEL DECODER - P/N 1200008-000 - BFE/SPE                                                                                                                                                    | ***                         |
| 2322C430J57 | MP - COMMUNICATIONS MANAGEMENT UNIT (CMU) - ACTIVATION - DATA LINK RECORDING                                                                                                                                        | ***                         |
| 2322C703A02 | CMU - HONEYWELL ARINC 758 LEVEL AOA MARK III COMMUNICATIONS MANAGEMENT UNIT (CMU) - INSTALLATION INTO EXISTING PARTIAL PROVISIONS - P/N 7519200-921 - BFE/SPE                                                       | ***                         |
| 2322C939A05 | CMU - INSTALLATION OF PARTIAL PROVISIONS FOR A SINGLE CMU IN ACCORDANCE WITH ARINC 758                                                                                                                              | ***                         |

| CR          | Title                                                                                                                                                                                                                                     | 2011 \$<br>Price<br>Per A/C |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| 2322D322B88 | MP - CMU - INSTALLATION OF HONEYWELL MARK II ARINC 758 LEVEL AOA CMU W/ARINC SERVICE PROVIDER - DATA LINK RECORDING CAPABLE - P/N 965-0758-006 IN LIEU OF THE EXISTING HONEYWELL MARK III ARINC 758 LEVEL AOA CMU - P/N 7519200-921 - BFE | ***                         |
| 2324B299A26 | EMERGENCY LOCATOR TRANSMITTER (ELT) - WULFSBERG ELECTRONICS AUTOMATIC FIXED WITH NAVIGATION INTERFACE UNIT (NIU) - MODE S BROADCAST - BFE/SPE                                                                                             | ***                         |
| 2331B754B15 | PASSENGER ADDRESS (PA) SYSTEM - ARINC 715 - ROCKWELL COLLINS AMPLIFIER - BFE/SPE                                                                                                                                                          | ***                         |
| 2342D360B00 | CABIN INTERPHONE SYSTEMS - ATTENDANT HANDSETS WITH UNIQUE MARKINGS                                                                                                                                                                        | ***                         |
| 2350A150D50 | AUDIO INTEGRATING - INHIBIT AURAL ALERT TRANSMISSIONS THROUGH CAPTAIN, FIRST OFFICER'S AND FIRST OBSERVER'S HEADPHONES                                                                                                                    | ***                         |
| 2350B872A08 | AUDIO CONTROL PANEL - INTEGRATED SELCAL, CREW CALL, AND SATCOM FUNCTIONS INSTALLATION - 3 VHF/2 HF                                                                                                                                        | ***                         |
| 2351-000043 | CONTROL WHEEL PUSH TO TALK (PTT) SWITCH - THREE POSITION WITH DETENT IN INTERPHONE POSITION                                                                                                                                               | ***                         |
| 2351A213A33 | AUDIO INTEGRATION - INSTALLATION - TWO-PLUG AUDIO JACKS IN THE FLIGHT DECK                                                                                                                                                                | ***                         |
| 2351A213B77 | BOOM MICROPHONE HEADSETS - CAPTAIN AND FIRST OFFICER - TELEX AIRMAN 750 - P/N 64300-200 - BFE/SPE                                                                                                                                         | ***                         |
| 2351B696M34 | AUDIO INTEGRATION - INSTALLATION - 2J HAND MICROPHONE JACKS IN THE FLIGHT DECK                                                                                                                                                            | ***                         |
| 2351D360C80 | PASSENGER CABIN MEDICAL COMMUNICATIONS SYSTEM - BOEING SKY INTERIOR                                                                                                                                                                       | ***                         |
| 2371B628B32 | VOICE RECORDER AND MICROPHONE/MONITOR - HONEYWELL - 2 HOUR RECORDING TIME - WITH DATALINK RECORDING CAPABILITY - P/N 980-6032-001 & P/N 980-6116-001 - BFE/SPE                                                                            | ***                         |
| 2371B628B41 | VOICE RECORDER - RECORDER INDEPENDENT POWER SUPPLY (RIPS) - AFT LOWERED CEILING                                                                                                                                                           | ***                         |
| 2433-000010 | STANDBY POWER - 60-MINUTE CAPABILITY                                                                                                                                                                                                      | ***                         |
| 2451B572D03 | GALLEY G1 POWER - 6.9 KVA                                                                                                                                                                                                                 | ***                         |
| 2510C910B65 | TRIP COUNTER - INSTALLATION - SFE - DEXTER WILSON                                                                                                                                                                                         | ***                         |
| 2511-000271 | SECOND OBSERVER STATION, WITHOUT ARMRESTS - ADDITION                                                                                                                                                                                      | ***                         |
| 2511B696M36 | FLIGHT COMPARTMENT SEATS - INSTALL CAPTAIN AND FIRST OFFICER SEATS WITH FLOTATION CUSHIONS                                                                                                                                                | ***                         |
| 2513-000420 | NO ROLLER SUNSHADES - FLIGHT DECK                                                                                                                                                                                                         | ***                         |
| 2513B696E89 | LOG BOOK HOLDER - INSTALLATION - ON AFT FACE OF P8 AISLESTAND                                                                                                                                                                             | ***                         |
| 2513B696E95 | FLIGHT COMPARTMENT ACCOMMODATIONS - INSTALL A FUEL CONVERSION PLACARD ON THE FACE OF CAPTAIN AND FIRST OFFICER'S CLIPBOARDS                                                                                                               | ***                         |
| 2513C410C22 | FLIGHT COMPARTMENT ACCOMMODATIONS - EMERGENCY EVACUATION CHECKLIST PLACARD ON THE CAPTAIN AND FIRST OFFICER'S CONTROL COLUMNS                                                                                                             | ***                         |
| 2520D360A90 | INTERIOR COLOR AND MATERIAL - STANDARD OFFERING                                                                                                                                                                                           | ***                         |
| 2523D360F87 | PASSENGER SERVICE UNITS - 737 BOEING SKY INTERIOR                                                                                                                                                                                         | ***                         |
| 2524D360A79 | CLOSET - AFT OF DOOR 1, LEFT - BFE/SPE                                                                                                                                                                                                    | ***                         |
| 2524D360B01 | FULL HEIGHT WINDSCREEN/STOWAGE UNIT - RHS - STA 336.75 - BFE/SPE                                                                                                                                                                          | ***                         |
| 2525A627A07 | DOUBLE ATTENDANT SEAT - WALL MOUNTED - STA 304                                                                                                                                                                                            | ***                         |
| 2525C204K04 | HIC AND FEMUR LOAD COMPLIANCE - ECONOMY CLASS SEATS                                                                                                                                                                                       | ***                         |
| 2525C204K05 | HIC AND FEMUR LOAD COMPLIANCE - ATTENDANT SEATS                                                                                                                                                                                           | ***                         |
| 2525D360F41 | ECONOMY CLASS SEATS - BFE/SPE                                                                                                                                                                                                             | ***                         |
| 2527D360C81 | FLOOR COVERING - GALLEY MAT AND CARPET - BFE                                                                                                                                                                                              | ***                         |
| 2528C204J16 | FORWARD CENTER OVERHEAD STOWAGE COMPARTMENT - PROVISIONED FOR PALLETIZED EQUIPMENT AND LIFE RAFTS - 737 BOEING SKY INTERIOR                                                                                                               | ***                         |
| 2528C204J18 | SECOND FORWARD CENTER OVERHEAD STOWAGE COMPARTMENT - PROVISIONED FOR PALLETIZED EQUIPMENT AND LIFE RAFTS - 737 BOEING SKY INTERIOR                                                                                                        | ***                         |
| 2528C204J20 | FIRST MID CABIN CENTER OVERHEAD STOWAGE COMPARTMENT - PROVISIONED FOR PALLETIZED EQUIPMENT AND LIFE RAFTS - 737 BOEING SKY INTERIOR                                                                                                       | ***                         |
| 2528C204J22 | SECOND MID-CABIN CENTER OVERHEAD STOWAGE COMPARTMENT - PROVISIONED FOR PALLETIZED EQUIPMENT AND LIFE RAFTS - 737 BOEING SKY INTERIOR                                                                                                      | ***                         |
| 2528D360A93 | LITERATURE POCKETS - BFE/SPE                                                                                                                                                                                                              | ***                         |
| 2528D360B64 | OVERHEAD STOWAGE BINS - ADDITIONAL FEATURES - 737 BOEING SKY INTERIOR                                                                                                                                                                     | ***                         |
| 2529A802A86 | DOOR WARNING STRAP - SHOCK CORD                                                                                                                                                                                                           | ***                         |
| 2529D360B52 | FORWARD ATTENDANT WORKSTATION - PANEL & HANDSET - UNIQUE FACEPLATE DISPLAY                                                                                                                                                                | ***                         |
| 2530C882K34 | GALLEY G1 - AFT STATION 293                                                                                                                                                                                                               | ***                         |
| 2530D360B03 | GALLEY PART NUMBERS - BFE/SPE                                                                                                                                                                                                             | ***                         |
| 2530D360B04 | GALLEY INSERT PART NUMBERS - BFE/SPE                                                                                                                                                                                                      | ***                         |
| 2540B873A66 | LA LAVATORY                                                                                                                                                                                                                               | ***                         |
| 2540D360A81 | LA LAVATORY SELECTABLES                                                                                                                                                                                                                   | ***                         |

| CR          | Title                                                                                                                                                                                                                                | 2011 \$<br>Price<br>Per A/C |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| 2540D360A82 | LE LAVATORY SELECTABLES                                                                                                                                                                                                              | ***                         |
| 2540D360C84 | LD LAVATORY SELECTABLES                                                                                                                                                                                                              | ***                         |
| 2552-000117 | CARGO COMPARTMENT NETS WITH NYLON TYPE WEB SUPPORTS                                                                                                                                                                                  | ***                         |
| 2552-000216 | LOWER SIDEWALL LINER - FOWARD AND AFT CARGO COMPARTMENT - .060 THICKNESS                                                                                                                                                             | ***                         |
| 2552B491A05 | FLOOR PANELS - FORWARD CARGO COMPARTMENT - 0.090 INCH THICKNESS, BMS 8-2, CONOLITE                                                                                                                                                   | ***                         |
| 2552B491A06 | FLOOR PANELS - AFT CARGO COMPARTMENT - 0.090 INCH THICKNESS BMS 8-2, CONOLITE                                                                                                                                                        | ***                         |
| 2552B491A07 | CEILING LINER - FORWARD CARGO COMPARTMENT - 0.031 INCH THICKNESS, BMS 8-2, CONOLITE                                                                                                                                                  | ***                         |
| 2552B491A10 | CEILING LINER - AFT CARGO COMPARTMENT - 0.031 INCH THICKNESS, BMS 8-2, CONOLITE                                                                                                                                                      | ***                         |
| 2552B491A11 | STA 731 BULKHEAD - .060 INCH THICKNESS, BMS 8-2, CONOLITE                                                                                                                                                                            | ***                         |
| 2552B491A13 | UPPER SIDEWALL LINER - AFT CARGO COMPARTMENT - 0.045 INCH THICKNESS, BMS 8-2, CONOLITE                                                                                                                                               | ***                         |
| 2560-000176 | HALON FIRE EXTINGUISHER - FLIGHT DECK - WALTER KIDDE                                                                                                                                                                                 | ***                         |
| 2560-000269 | CREW LIFE VEST STOWAGE - FLIGHT DECK, SECOND OBSERVER - CAPTAIN'S SEAT BACK                                                                                                                                                          | ***                         |
| 2560C410D09 | CREW LIFE VESTS - FLIGHT DECK, WITH SECOND OBSERVER - EASTERN AERO MARINE INC - P/N P01202-301C - BFE/SPE                                                                                                                            | ***                         |
| 2562D360B66 | OVERWATER EMERGENCY EQUIPMENT - BFE/SPE - 737 BOEING SKY INTERIOR                                                                                                                                                                    | ***                         |
| 2564D360G72 | DETACHABLE EMERGENCY EQUIPMENT - PASSENGER COMPARTMENT - BFE/SPE - 737 BOEING SKY INTERIOR                                                                                                                                           | ***                         |
| 2622-000047 | APU FIRE EXTINGUISHER BOTTLE - COMMON WITH ENGINES                                                                                                                                                                                   | ***                         |
| 2841-000004 | STANDARD FUEL SYSTEM ACCURACY - NO FUEL DENSITOMETERS                                                                                                                                                                                | ***                         |
| 2911-000042 | ENGINE-DRIVEN HYDRAULIC PUMPS WITH VESPEL SPLINE - EATON (VICKERS) - 10-62167                                                                                                                                                        | ***                         |
| 2911-000044 | AC MOTOR-DRIVEN HYDRAULIC PUMPS - EATON (VICKERS) - 10-60556                                                                                                                                                                         | ***                         |
| 3041-000003 | NO HEATED FLIGHT COMPARTMENT NUMBER 3 WINDOW                                                                                                                                                                                         | ***                         |
| 3042B696M33 | WINDSHIELD WIPER SYSTEM - REVISION - SINGLE SWITCH FOR BOTH WIPERS                                                                                                                                                                   | ***                         |
| 3120C910B67 | CLOCK WIRING - INSTALLATION - FMC, DFDAU AND VOICE RECORDER INPUT FROM FIRST OFFICER'S CLOCK                                                                                                                                         | ***                         |
| 3131-000143 | ACCELEROMETER - HONEYWELL P/N 971-4193-001 - BFE/SPE                                                                                                                                                                                 | ***                         |
| 3131B628B16 | DIGITAL FLIGHT DATA RECORDER (DFDR) - HONEYWELL - 1024 WORDS PER SECOND MAXIMUM DATA RATE - P/N 980-4750-009 - BFE/SPE                                                                                                               | ***                         |
| 3131D217A10 | DIGITAL FLIGHT DATA ACQUISITION UNIT (DFDAU) - CAT IIIB/IAN/GLS/NPS CAPABLE - WITH ACMS CAPABILITY AND INTEGRATED PCMCIA MEDIA INTERFACE - TELEDYNE CONTROLS - 512 WPS CAPABLE - 737-7 DATA FRAME ACTIVE - P/N 2233000-916 - BFE/SPE | ***                         |
| 3132-000014 | PORTABLE DATA LOADER/RECORDER CONNECTOR IN FLIGHT DECK-ARINC 615-SFE                                                                                                                                                                 | ***                         |
| 3133A150E33 | MP-INSTL OF ARINC 740 PRINTER PROVISIONS IN THE FLIGHT DECK AISLESTAND                                                                                                                                                               | ***                         |
| 3161-000133 | ENGINE FUEL FLOW - FULL TIME DISPLAY - PRIMARY ENGINE DISPLAY UNIT                                                                                                                                                                   | ***                         |
| 3161A627A40 | CDS - SOFTWARE ACTIVATION - SELECTABLE COMPACTED ENGINE FORMAT - ENABLE                                                                                                                                                              | ***                         |
| 3161C175A22 | ENGINE OIL QUANTITY DISPLAY - PERCENT - ENGINE DISPLAY                                                                                                                                                                               | ***                         |
| 3162-000018 | ATTITUDE COMPARATOR - FLASHING - ADI                                                                                                                                                                                                 | ***                         |
| 3162-000023 | FLIGHT DIRECTOR COMMAND DISPLAY - FILLED INTEGRATED CUE - ADI                                                                                                                                                                        | ***                         |
| 3162-000028 | RADIO ALTITUDE - BELOW ADI                                                                                                                                                                                                           | ***                         |
| 3162-000030 | RISING RUNWAY - DISPLAYED ON THE ADI                                                                                                                                                                                                 | ***                         |
| 3162-000036 | LANDING ALTITUDE REFERENCE BAR - PRIMARY FLIGHT DISPLAY                                                                                                                                                                              | ***                         |
| 3162-000040 | BARO MINIMUMS POINTER - DISPLAYED ON SELECTION OF RADIO ALTITUDE MINIMUMS - PRIMARY FLIGHT DISPLAY                                                                                                                                   | ***                         |
| 3162-000044 | TCAS RESOLUTION ADVISORY - VSI                                                                                                                                                                                                       | ***                         |
| 3162-000051 | ILS LOCALIZER DEVIATION EXPANDED SCALE - AUTOPILOT OR FLIGHT DIRECTOR MODE                                                                                                                                                           | ***                         |
| 3162-000059 | MAP MODE ORIENTATION - TRACK UP - NAVIGATION DISPLAY                                                                                                                                                                                 | ***                         |
| 3162-000079 | MANUALLY TUNED VOR SELECTED COURSE LINES DISPLAYED - NAVIGATION DISPLAY                                                                                                                                                              | ***                         |
| 3162-000088 | AIRSPEED BUG - ENABLED - 80 KNOT SETTING - MACH AIRSPEED INDICATOR                                                                                                                                                                   | ***                         |
| 3162-000218 | GROUND SPEED - DISPLAYED BELOW AIRSPEED TAPE WHEN MACH NUMBER IS NOT DISPLAYED - PRIMARY FLIGHT DISPLAY                                                                                                                              | ***                         |
| 3162A066A17 | COMMON DISPLAY SYSTEMS FAULT MESSAGE - REVERSE VIDEO DISPLAY                                                                                                                                                                         | ***                         |
| 3162A213A02 | CDS DISPLAY - PFD/ND FORMAT - OVER AND UNDER ENGINE PRESENTATION                                                                                                                                                                     | ***                         |
| 3162A627A36 | CDS - SOFTWARE ACTIVATION - VNAV SPEED BANDS - ENABLE                                                                                                                                                                                | ***                         |
| 3162C594A29 | CDS - SOFTWARE ACTIVATION - NAVIGATION PERFORMANCE SCALES - ENABLE                                                                                                                                                                   | ***                         |
| 3244-000008 | SERVICE INTERPHONE CONNECTOR - EXTERNAL POWER PANEL                                                                                                                                                                                  | ***                         |
| 3245-000098 | WHEELS AND TIRES - NOSE LANDING GEAR - WHEELS - BFGOODRICH - INSTALLATION WITH SFE 12 PR, 225 MPH RADIAL TIRES                                                                                                                       | ***                         |
| 3245B290A92 | BRAKES - CARBON - GOODRICH                                                                                                                                                                                                           | ***                         |

| CR          | Title                                                                                                                                                                                         | 2011 \$<br>Price<br>Per A/C |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| 3245B290A94 | WHEELS AND TIRES - MAIN LANDING GEAR - WHEELS FOR CARBON BRAKES - GOODRICH - INSTALLATION WITH SFE 28 PR, 225 MPH TIRES                                                                       | ***                         |
| 3321C869A65 | PASSENGER CABIN LIGHTING - SINGLE-ZONE CONTROL - 737 BOEING SKY INTERIOR                                                                                                                      | ***                         |
| 3324C195A04 | NO SMOKING SIGN - SILK SCREENED SYMBOL AND RETAIN CHIME FUNCTION                                                                                                                              | ***                         |
| 3342-000033 | NOSE GEAR TAXI LIGHT - NO AUTOMATIC SWITCHOFF AT RETRACTION                                                                                                                                   | ***                         |
| 3342-000035 | NOSE GEAR TAXI LIGHT - 250-WATT                                                                                                                                                               | ***                         |
| 3344C910B68 | ANTI-COLLISION LIGHT - INSTALLATION - SWITCH NOMENCLATURE                                                                                                                                     | ***                         |
| 3350C869A05 | EMERGENCY ESCAPE PATH LIGHTING - FLOOR MOUNTED - COLOR PHOTOLUMINESCENT                                                                                                                       | ***                         |
| 3350D360K03 | RO - EMERGENCY LIGHTING - REPLACEMENT - EMERGENCY ESCAPE PATH LIGHTING - NARROW COLORED PHOTOLUMINESCENT IN LIEU OF STANDARD WIDTH                                                            | ***                         |
| 3412-000022 | DUAL ELEMENT NON-ASPIRATED TAT PROBE                                                                                                                                                          | ***                         |
| 3414-000035 | STANDBY ALTIMETER/AIRSPEED INDICATOR - FLIGHT DECK                                                                                                                                            | ***                         |
| 3423-000023 | STANDBY ATTITUDE INDICATOR - SEXTANT AVIONIQUE - SFE                                                                                                                                          | ***                         |
| 3430B866A28 | ILS/GPS MULTI-MODE RECEIVER (MMR) - HONEYWELL INTERNATIONAL INC. - P/N 066-50029-1201 - BFE/SPE                                                                                               | ***                         |
| 3431A065B03 | VHF NAV/DME CONTROL PANEL - GABLES ENGINEERING - P/N G7500-03 - BFE/SPE                                                                                                                       | ***                         |
| 3433A732A13 | RADIO ALTIMETER (RA) - CAT IIIB CAPABLE - HONEYWELL INTERNATIONAL INC - P/N 066-50007-0111 - BFE/SPE                                                                                          | ***                         |
| 3436A218A66 | HEAD-UP DISPLAY (HUD) - PARTIAL PROVISIONS FOR A COMMON HUD SYSTEM WITH CONTROL PANEL INTERFACE                                                                                               | ***                         |
| 3436C594A68 | HEAD UP DISPLAY (HUD) - INSTALLATION OF ROCKWELL COLLINS PHASE 3 HGS4000 SYSTEM WITH CONTROL PANEL - STC CERTIFIED - BFE/SPE                                                                  | ***                         |
| 3443B696L72 | SINGLE WEATHER RADAR SYSTEM - HONEYWELL INTERNATIONAL INC. - MODEL RDR-4000 WEATHER RADAR - INSTALLATION - BFE/SPE                                                                            | ***                         |
| 3443B696L73 | SINGLE WEATHER RADAR SYSTEM CONTROL PANEL - HONEYWELL RDR-4000 RADAR SYSTEM - P/N 930-5101-001 - BFE/SPE                                                                                      | ***                         |
| 3445B866A10 | TCAS SYSTEM - HONEYWELL INTERNATIONAL INC TCAS COMPUTER P/N 940-0300-001 - TCAS CHANGE 7 COMPLIANT - BFE/SPE                                                                                  | ***                         |
| 3446-000046 | LOW VOLUME FOR ALTITUDE CALLOUTS                                                                                                                                                              | ***                         |
| 3446-000048 | ENHANCED GROUND PROXIMITY WARNING SYSTEM (EGPWS) - BANK ANGLE CALLOUT ENABLE                                                                                                                  | ***                         |
| 3446-000050 | 500 SMART CALLOUT                                                                                                                                                                             | ***                         |
| 3446-000057 | GROUND PROXIMITY WARNING SYSTEM ALTITUDE CALLOUTS - 100, 50, 30, 10                                                                                                                           | ***                         |
| 3451-000023 | VOR/MARKER BEACON - ALLIEDSIGNAL RECEIVER P/N 066-50012-0101 - BFE/SPE                                                                                                                        | ***                         |
| 3453B866A17 | ATC SYSTEM - HONEYWELL INTERNATIONAL INC ATC TRANSPONDER P/N 066-01127-1602 - ELS/EHS/ES AND TCAS CHANGE 7 COMPLIANT - HONEYWELL INTERNATIONAL INC CONTROL PANEL P/N 071-01503-2601 - BFE/SPE | ***                         |
| 3455-000020 | DISTANCE MEASURING EQUIPMENT (DME) - ALLIEDSIGNAL INTERROGATOR P/N 066-50013-0101 - BFE/SPE                                                                                                   | ***                         |
| 3457B696A24 | AUTOMATIC DIRECTION FINDING (ADF) SYSTEM - PARTIAL PROVISIONS                                                                                                                                 | ***                         |
| 3461A150B73 | FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - ENGINE-OUT STANDARD INSTRUMENT DEPARTURES (SIDS) - ENABLE                                                                                          | ***                         |
| 3461A425A10 | FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - NAVIGATION DATABASE - CUSTOMER SUPPLIED                                                                                                            | ***                         |
| 3461A425A17 | FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - AIRLINE OPERATIONAL COMMUNICATIONS DATA LINK (AOC DL) - FANS FEATURE ACTIVATION                                                                    | ***                         |
| 3461A425A30 | FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - ABEAM WAYPOINTS - ENABLE                                                                                                                           | ***                         |
| 3461A425A48 | FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - ACTIVATE COLOR OPERATION                                                                                                                           | ***                         |
| 3461A890A76 | FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - NAVIGATION DISPLAY - MISSED APPROACH IN CYAN UNTIL ACTIVE - ENABLE                                                                                 | ***                         |
| 3461B696D59 | MP - FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) -AIR TRAFFIC SERVICES DATA LINK (ATS DL) -FANS FEATURE ACTIVATION                                                                               | ***                         |
| 3461B696K97 | FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - VERTICAL RNP DEFAULT VALUE - REVISION                                                                                                              | ***                         |
| 3461B696M48 | FLIGHT MANAGEMENT COMPUTING SYSTEM (FMCS) - INTENT DATA TRANSMITTED VIA THE FMC INTENT DATA DEDICATED OUTPUT BUS - ENABLE                                                                     | ***                         |
| 3461C175A14 | FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - FANS CAPABLE MCDU WITH ATC KEYBOARD - INSTALLATION-SFE                                                                                             | ***                         |
| 3461C175A32 | FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - COMMON VNAV - ENABLE                                                                                                                               | ***                         |
| 3461C175A34 | FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - SPEED PROPAGATION FROM THE CRUISE PAGE TO THE DESCENT PAGE - ENABLE                                                                                | ***                         |
| 3461C430J05 | FLIGHT MANAGEMENT COMPUTING SYSTEM (FMCS) - VOR INHIBIT                                                                                                                                       | ***                         |
| 3461C594A26 | FLIGHT MANAGEMENT COMPUTING SYSTEM (FMCS) - INTENT DATA TRANSMITTED TO ACARS - ENABLE                                                                                                         | ***                         |
| 3511-000011 | NO REMOTE CREW OXYGEN FILL STATION                                                                                                                                                            | ***                         |
| 3511B696M31 | CREW OXYGEN MASKS AND SMOKE GOGGLES - CAPTAIN, FIRST OFFICER, FIRST OBSERVER AND SECOND OBSERVER - BFE/SPE                                                                                    | ***                         |

## BOEING PROPRIETARY

| CR           | Title                                                                                                                                                                         | 2011 \$<br>Price<br>Per A/C |
|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| 3511D322B89  | MP - CREW OXYGEN MASKS - WITH SECOND OBSERVER - REPLACEMENT - AVOX FULL FACE MASKS WITH BUILT-IN GOGGLES IN LIEU OF THE EXISTING AVOX MASKS WITH SEPARATE SMOKE GOGGLES - BFE | ***                         |
| 3811-000017  | POTABLE WATER - SERVICEABLE TO 40 GALLONS                                                                                                                                     | ***                         |
| 3830C882K61  | WASTE DISPOSAL - 4"" SERVICE PANEL LAVATORY DRAIN VALVE                                                                                                                       | ***                         |
| 3832-000032  | VACUUM WASTE SYSTEM - MONOGRAM TOILET ASSEMBLIES                                                                                                                              | ***                         |
| 3910D322A11  | AFT ELECTRONICS PANEL ARRANGEMENT                                                                                                                                             | ***                         |
| 5231A561C54  | CARGO DOOR - SOLID SKIN                                                                                                                                                       | ***                         |
| 5300-000027  | UNDERSEAT FLOOR PANELS, LOW TRAFFIC CAPABILITY                                                                                                                                | ***                         |
| 5352A298A28  | RADOME- NORDAM- SFE                                                                                                                                                           | ***                         |
| 5730B290A42  | PARTIAL PROVISIONS FOR AVIATION PARTNERS BOEING (APB) WINGLET INSTALLATION                                                                                                    | ***                         |
| 5730C581A10  | WINGLET INSTALLATION - AVIATION PARTNERS BOEING (APB) - BFE/SFE (737-800)                                                                                                     | ***                         |
| 7200-000125  | CFM56-7 ENGINES - 7B26 RATING                                                                                                                                                 | ***                         |
| 7900-000116  | LUBRICATING OIL - MOBIL JET II                                                                                                                                                | ***                         |
| MISC         | INTERIOR ALLOWANCE                                                                                                                                                            | ***                         |
| MISC DOOR    | FAA FLIGHT DECK DOOR                                                                                                                                                          | ***                         |
| MISC P & O   | PEAKS & OBSTACLES                                                                                                                                                             | ***                         |
| MISC/FAA4    | FLAME PROPAGATION - INSULATION BLANKETS (FAA)                                                                                                                                 | ***                         |
| MISC/FAA5    | FIRE PENETRATION - BURNTHROUGH, FAR 25.856(b)                                                                                                                                 | ***                         |
| OPTIONS: 200 | TOTALS:                                                                                                                                                                       | ***                         |

## ADDITIONAL PRODUCTION CHANGES, INCLUDING CHANGES FOR NON-ETOPS (AS OF SA-82):

|             |                                                                                                                                                                                         |     |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 0224B372J97 | RO - EXTENDED RANGE TWIN ENGINE OPERATIONS (ETOPS) - DELETION                                                                                                                           | *** |
| 0252D322D01 | MP - INSTRUMENTATION, AIRPLANE AND FUEL MEASURING STICK MANUALS IN ENGLISH UNITS - TEMPERATURE IN DEGREES CELSIUS IN LIEU OF TEMPERATURE IN DEGREES FAHRENHEIT                          | *** |
| 1110D185K68 | MP - EXTERIOR COLOR SCHEMES AND MARKINGS - ADDITION - ETOPS MAINTENANCE MARKING                                                                                                         | *** |
| 1110D360N93 | RO - EXTERIOR COLOR SCHEMES AND MARKINGS - DELETION - ETOPS MAINTENANCE MARKING                                                                                                         | *** |
| 2300D322C81 | RO - FPO - COMMUNICATIONS - DELETION OF DUAL HONEYWELL HF COMMUNICATIONS SYSTEM INCLUDING PROVISIONS AND DELETE E6 EQUIPMENT RACK - RETAIN INTEGRATED AUDIO SELECTOR PANEL WIRING - BFE | *** |
| 2312C028G60 | MP - VHF COMMUNICATIONS SYSTEM - ACTIVATION OF KEYLINE TIMER                                                                                                                            | *** |
| 2500D360N91 | RO - PASSENGER COMPARTMENT - DELETION - EMERGENCY EQUIPMENT AND CENTER OVERHEAD STOWAGE - BFE                                                                                           | *** |
| 2520D185M20 | MP - PASSENGER COMPARTMENT - REPLACEMENT - GALLEY AND ENTRYWAY MAT MATERIAL - SCHNELLER - BFE                                                                                           | *** |
| 2525D360N76 | MP - PASSENGER COMPARTMENT SEATS - REVISION - B/E AEROSPACE - BFE                                                                                                                       | *** |
| 2525D360T83 | MP - PASSENGER COMPARTMENT SEATS - REVISION - TRAY TABLE LATCH - B E AEROSPACE - BFE                                                                                                    | *** |
| 2527D360L35 | MP - FLOOR COVERING - REPLACEMENT - CARPET TILES IN PASSENGER CABIN - WITH 18MM WIDE PHOTOLUM - INTERFACEFLOR IN LIEU OF MOHAWK - BFE                                                   | *** |
| 2527D360T79 | MP - FLOOR COVERING - REVISION - CARPET AND GALLEY MAT - BFE                                                                                                                            | *** |
| 2527D360T90 | MP - FLOOR COVERING - REVISION - CARPET TILES - INTERFACEFLOR - BFE                                                                                                                     | *** |
| 2529D384F68 | MP - DOOR WARNING STRAP - REPLACEMENT - FORWARD LH DOOR                                                                                                                                 | *** |
| 2530D360T82 | MP - GALLEY - REPLACEMENT - WASTE CONTAINER - COMPOSITES UNLIMITED - BFE                                                                                                                | *** |
| 2552D560A01 | MP - FPO - LOWER LOBE (CONTAINERIZED) CARGO COMPARTMENT - REPLACEMENT - FWD AND AFT CARGO LINERS                                                                                        | *** |
| 2562D360N20 | MP - OVERWATER EMERGENCY EQUIPMENT - ADDITION - LIFE RAFTS IN CENTER OVERHEAD STOWAGE - EASTERN AERO MARINE - BFE                                                                       | *** |
| 2564D185K61 | MP - DETACHABLE EMERGENCY EQUIPMENT - PASSENGER COMPARTMENT - ADDITION - OXYGEN BOTTLE AND MASK - SCOTT AVIATION - BFE                                                                  | *** |
| 2564D360M44 | MP - DETACHABLE EMERGENCY EQUIPMENT - REVISION - PASSENGER COMPARTMENT - BFE                                                                                                            | *** |
| 2564D360M82 | MP - DETACHABLE EMERGENCY EQUIPMENT - PASSENGER COMPARTMENT - ADDITION - PBE IN FWD LH MONUMENT - ESSEX - BFE                                                                           | *** |
| 2564D360P90 | MP - DETACHABLE EMERGENCY EQUIPMENT - DELETION - SMOKE HOODS - ESSEX CORPORATION - BFE                                                                                                  | *** |

|             |                                                                                                                                                                                                                   |     |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 2564D360T14 | MP - DETACHABLE EMERGENCY EQUIPMENT - FIRST AID KIT - PROCUREMENT REVISION - BFE TO BFB1                                                                                                                          | *** |
| 2732D322C99 | MP - STALL WARNING SYSTEM - STALL MANAGEMENT YAW DAMPER COMPUTERS (SMYD) - REPLACEMENT- SMYD COMPUTERS WITH AUTOSTOW FUNCTIONALITY, P/N 285A1010-109 IN LIEU OF THE EXISTING SMYD COMPUTERS, P/N 285A1010-9 - SFE | *** |
| 3133A051B38 | MP - MULTI-INPUT PRINTER - ARINC 740 - MILTOPE P/N 497126-31 - BFE                                                                                                                                                | *** |
| 3133B694B49 | RO - ARINC 740 MULTI-INPUT PRINTER REMOVAL FROM PROVISIONS IN THE AFT AISLE STAND - HONEYWELL - P/N 8055515-4507 - BFE                                                                                            | *** |

| CR          | Title                                                                                                                                                                                  | 2011 \$<br>Price<br>Per A/C |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| 3133D322C34 | MP - ARINC 740 MULTI-INPUT PRINTER - REPLACEMENT - HONEYWELL P/N 8055515-4507<br>IN LIEU OF MILTOPE P/N 497126-31 - BFE                                                                | ***                         |
| 3211D830A06 | MP - MAIN GEAR - REVISION - STRENGTHENED MAIN LANDING GEAR AXLES                                                                                                                       | ***                         |
| 3430B694H08 | MP - ILS/GPS MULTI-MODE RECEIVER (MMR) - INSTALLATION - SEXTANT IN LIEU OF HONEYWELL - BFE                                                                                             | ***                         |
| 3433D354B57 | MP - RADIO ALTIMETER SYSTEM - REPLACEMENT - HONEYWELL LOW RANGE RADIO ALTIMETER P/N 066-50007-0531 IN LIEU OF EXISTING P/M 066-500007-0111 - BFE                                       | ***                         |
| 3455D354B43 | MP - DISTANCE MEASURING EQUIPMENT (DME) SCANNING INTERROGATOR - REPLACEMENT - HONEYWELL P/N 066-50013-0111 IN LIEU OF P/N 066-50013-0101 - BFE                                         | ***                         |
| 3461D322C75 | RO - FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - DEACTIVATION - AIR TRAFFIC SERVICES DATA LINK (ATS DL)                                                                                 | ***                         |
| 3910D322C28 | MP - AFT ELECTRONICS PANEL ARRANGEMENT - REVISION - AFT ELECTRONICS PANEL ARRANGEMENT WITH ARINC 740 PRINTER INSTALLATION IN LIEU OF THE EXISTING<br>AFT ELECTRONICS PANEL ARRANGEMENT | ***                         |
| 3910D322C77 | RO - AFT ELECTRONICS PANEL - REVISION                                                                                                                                                  | ***                         |
| 7200A367A61 | MP - CFM56-7 ENGINES - 7B27 RATING IN LIEU OF 7B26 RATING                                                                                                                              | ***                         |
| 7200D977A01 | MP - CFM56-7 ENGINES - 7B27/F THRUST RATING IN LIEU OF THE EXISTING 7B27 THRUST RATING                                                                                                 | ***                         |
| OPTIONS: 35 | TOTALS:                                                                                                                                                                                | ***                         |

|               |     |
|---------------|-----|
| GRAND TOTALS: | *** |
|---------------|-----|

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## Letter Agmt SWA-PA-1810-LA-1001315R2; paragraph 3

| <u>No.</u> | <u>Model</u>   | <u>Aircraft Block</u> | <u>MSN's</u> | <u>Current Delivery Mo.</u> | <u>Base Year</u> | <u>---</u> |
|------------|----------------|-----------------------|--------------|-----------------------------|------------------|------------|
| 1          | 737-700        | T-W-2b                | 36,962       | July-11                     | 1999             | ---        |
| 2          | 737-700        | T-W-2b                | 36,963       | July-11                     | 1999             | ---        |
| 3          | 737-700        | T-W-2b                | 36,965       | August-11                   | 1999             | ---        |
| 4          | 737-700        | T-W-2b                | 36,967       | October-11                  | 1999             | ---        |
| 5          | 737-800        | 800LUV                | 36,980       | March-12                    | 2011             | ---        |
| 6          | 737-800        | 800LUV                | 36,983       | April-12                    | 2011             | ---        |
| 7          | 737-800        | 800LUV                | 36,985       | May-12                      | 2011             | ---        |
| 8          | 737-800        | 800LUV                | 36,987       | May-12                      | 2011             | ---        |
| 9          | 737-800        | 800LUV                | 36,990       | July-12                     | 2011             | ---        |
| 10         | 737-800        | 800LUV                | 36,992       | August-12                   | 2011             | ---        |
| 11         | 737-800        | 800LUV                | 36,994       | September-12                | 2011             | ---        |
| 12         | 737-800        | 800LUV                | 37,003       | November-12                 | 2011             | ---        |
| 13         | 737-800        | 800LUV                | 37,009       | December-12                 | 2011             | ---        |
| 14         | 737-800        | 800LUV                | 36,973       | March-13                    | 2011             | ---        |
| 15         | 737-800        | 800LUV                | 36,998       | March-13                    | 2011             | ---        |
| 16         | 737-800        | 800LUV                | 36,908       | April-13                    | 2011             | ---        |
| 17         | 737-800        | 800LUV                | 36,933       | September-13                | 2011             | ---        |
| 18         | 737-800        | 800LUV                | 42,526       | November-13                 | 2011             |            |
| 19         | 737-800        | 800LUV                | 37,004       | March-14                    | 2011             |            |
| 20         | 737-800        | 800LUV                | 42,521       | May-14                      | 2011             |            |
| 21         | 737-800        | 800LUV                | 42,522       | June-14                     | 2011             |            |
| 22         | 737-800        | 800LUV                | tbd          | June-14                     | 2011             |            |
| 23         | 737-800        | 800LUV                | tbd          | June-14                     | 2011             |            |
| 24         | 737-800        | 800LUV                | 42,523       | <b>June-14</b>              | 2011             |            |
| 25         | 737-800        | 800LUV                | tbd          | July-14                     | 2011             |            |
| 26         | 737-800        | 800LUV                | tbd          | July-14                     | 2011             |            |
| 27         | 737-800        | 800LUV                | tbd          | July-14                     | 2011             |            |
| 28         | 737-800        | 800LUV                | 42,524       | August-14                   | 2011             |            |
| 29         | 737-800        | 800LUV                | 42,525       | August-14                   | 2011             |            |
| 30         | 737-800        | 800LUV                | 36,935       | September-14                | 2011             |            |
| 31         | 737-800        | 800LUV                | 42,527       | September-14                | 2011             |            |
| 32         | 737-800        | 800LUV                | 42,528       | September-14                | 2011             |            |
| 33         | 737-800        | 800LUV                | 42,531       | September-14                | 2011             |            |
| 34         | 737-800        | 800LUV                | 36,909       | October-14                  | 2011             |            |
| 35         | <b>737-800</b> | 800LUV                | 37,043       | November-14                 | 2011             |            |
| 36         | 737-800        | 800LUV                | 42,529       | December-14                 | 2011             |            |
| 37         | 737-800        | 800LUV                | 42,530       | December-14                 | 2011             |            |
| 38         | <b>737-800</b> | 800LUV                | 37,045       | December-14                 | 2011             |            |
| 39         | <b>737-800</b> | 800LUV                | 37,037       | December-14                 | 2011             |            |
| 40         | 737-700        | 700LUV                | 42,535       | January-15                  | 2011             |            |
| 41         | 737-700        | 700LUV                | 42,536       | February-15                 | 2011             |            |
| 42         | 737-700        | 700LUV                | 42,537       | March-15                    | 2011             |            |
| 43         | 737-700        | 700LUV                | 42,538       | April-15                    | 2011             |            |
| 44         | 737-700        | 700LUV                | 42,539       | May-15                      | 2011             |            |
| 45         | 737-700        | 700LUV                | 42,540       | June-15                     | 2011             |            |
| 46         | 737-700        | 700LUV                | 42,541       | July-15                     | 2011             |            |
| 47         | 737-700        | 700LUV                | 42,542       | August-15                   | 2011             |            |
| 48         | 737-700        | 700LUV                | 42,543       | September-15                | 2011             |            |

|    |         |        |            |              |      |
|----|---------|--------|------------|--------------|------|
| 49 | 737-700 | 700LUV | 36,940     | November-15  | 2011 |
| 50 | 737-700 | 700LUV | 36,938     | April-16     | 2011 |
| 51 | 737-700 | 700LUV | 36,939     | May-16       | 2011 |
| 52 | 737-700 | 700LUV | 36,945     | July-16      | 2011 |
| 53 | 737-700 | 700LUV | 36,977     | September-16 | 2011 |
| 54 | 737-700 | 700LUV | 42,532     | January-17   | 2011 |
| 55 | 737-700 | 700LUV | 36,910     | January-17   | 2011 |
| 56 | 737-700 | 700LUV | 36,970     | February-17  | 2011 |
| 57 | 737-700 | 700LUV | 36,969     | February-17  | 2011 |
| 58 | 737-700 | 700LUV | 36,972     | March-17     | 2011 |
| 59 | 737-700 | 700LUV | 36,927     | April-17     | 2011 |
| 60 | 737-700 | 700LUV | 36,974     | April-17     | 2011 |
| 61 | 737-700 | 700LUV | 36,925     | May-17       | 2011 |
| 62 | 737-700 | 700LUV | 36,975     | May-17       | 2011 |
| 63 | 737-700 | 700LUV | 36,976     | June-17      | 2011 |
| 64 | 737-700 | 700LUV | 36,926     | January-18   | 2011 |
| 65 | 737-700 | 700LUV | 42,533     | February-18  | 2011 |
| 66 | 737-700 | 700LUV | 42,545     | February-18  | 2011 |
| 67 | 737-700 | 700LUV | 42,534     | March-18     | 2011 |
| 68 |         |        | <i>tbd</i> |              |      |
| 69 |         |        | <i>tbd</i> |              |      |
| 70 |         |        | <i>tbd</i> |              |      |
| 71 |         |        | <i>tbd</i> |              |      |



SWA-PA-1810-LA-1105885R2

Southwest Airlines Co.  
2702 Love Field Drive  
P.O. Box 36611  
Dallas, Texas 75235-1611

Subject: \*\*\*

Reference: a) Purchase Agreement No. 1810 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Buyer**) relating to Model 737-7H4 and 737-8H4 aircraft

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. Unless otherwise noted, this Letter Agreement is solely applicable to the Block 700LUV Aircraft identified in Table 1a of the Purchase Agreement (**Block 700LUV Aircraft**). All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. \*\*\*

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2. \*\*\*

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3. \*\*\*

4. \*\*\*

5. Assignment.

Unless otherwise noted herein, \*\*\* This Letter Agreement cannot be assigned, in whole or in part, without the prior written consent of Boeing.

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6. Confidentiality.

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/ Jeff Solomon

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: September 20, 2013

SOUTHWEST AIRLINES CO.

By /s/ Tammy Romo

Its SVP & CFO

SWA-PA-1810-LA-1105885R2

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**SOUTHWEST AIRLINES CO.  
AMENDED AND RESTATED 2007 EQUITY INCENTIVE PLAN**

**I. PURPOSE**

The purpose of the **SOUTHWEST AIRLINES CO. AMENDED AND RESTATED 2007 EQUITY INCENTIVE PLAN** is to benefit and advance the interests of the Company and its shareholders by (i) attracting and retaining highly-qualified key Employees, Directors, and Advisors for the Company and its Affiliates; (ii) providing additional incentives to such individuals to contribute to the long-term success of the Company; and (iii) further aligning the interests of such individuals with those of the Company's shareholders.

This plan amends and restates the Southwest Airlines Co. 2007 Equity Incentive Plan, which first became effective on May 16, 2007. To the extent permitted by applicable laws, rules, or regulations, including the rules of any stock exchange or automated quotation system upon which the Company's Common Stock is listed or quoted, the Committee shall have the power, in its sole discretion, to apply any or all of the amendments effected hereby to outstanding Awards previously granted hereunder.

**II. DEFINITIONS**

The following definitions shall be applicable throughout the Plan, unless specifically modified by any provision of the Plan:

(a) "*Advisor*" means any natural person performing advisory or consulting services for the Company or any Subsidiary, with or without compensation, to whom the Company chooses to grant an Award under the Plan; *provided that* (i) *bona fide* services must be rendered by such person; and (ii) such services are not rendered in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities.

(b) "*Affiliate*" means any corporation, partnership, limited liability company or partnership, association, trust, or other organization that directly or indirectly controls, is controlled by, or is under common control with, the Company. For purposes of the preceding sentence, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any entity or organization, shall mean the possession, directly or indirectly, of the power (i) to vote more than 50 percent of the securities having ordinary voting power for the election of directors of the controlled entity or organization; or (ii) to direct or cause the direction of the management and policies of the controlled entity or organization, whether through the ownership of voting securities or by contract or otherwise.

(c) "*Agreement*" means an agreement, certificate, or other documentation (in each case, whether in written, electronic, or other format) governing the grant of an Award under the Plan, which shall contain terms and conditions not inconsistent with the Plan and which shall incorporate the Plan by reference.

(d) "*Award*" means any grant of Options, Restricted Stock Awards, Restricted Stock Units, unrestricted shares of Common Stock, Stock Appreciation Rights, Phantom Shares, or any combination of any of the above granted under the Plan, whether or not granted as a Performance Award.

(e) "*Board*" means the Board of Directors of the Company.

(f) "*Code*" means the Internal Revenue Code of 1986, as amended. References in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any rules and regulations promulgated thereunder.

(g) "*Committee*" means the committee(s) appointed by the Board to administer the Plan, in accordance with Section IV(a) of the Plan.

(h) "*Common Stock*" means the common stock, par value \$1.00 per share, of the Company, or any security into which such common stock may be changed by reason of any transaction or event of the type described in Section XIII of the Plan.

(i) "*Company*" means Southwest Airlines Co., a Texas corporation.

(j) "*Deductible Stock Awards*" means (i) Options, (ii) Stock Appreciation Rights, and (iii) any other types of Awards designed to satisfy the Section 162(m) Exception.

(k) "*Director*" means an individual who is a member of the Board.

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(l) “Disability” means the inability of a Participant to continue to perform services for the Company because of the sickness or injury of the Participant, as determined by the Company’s Chief Executive Officer, Chief People Officer, Chief Financial Officer, and/or General Counsel. Such a determination will be made in good faith and in the sole discretion of one or more of these officers, who shall also have sole discretion to determine the effective date of a Participant’s termination of Service as a result of Disability.

(m) “Employee” means any person (including a Director) in an employment relationship with the Company or any Affiliate.

(n) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(o) “Fair Market Value” of a share of Common Stock on a given date means, unless otherwise determined by the Committee, the closing price of a share of Common Stock as reported by the primary national securities exchange on which such stock is listed. If no sale shall have been made on that day, unless otherwise determined by the Committee, fair market value will be determined by reference to the last preceding date on which the price of the Common Stock is reported by such exchange. In the event the Common Stock is no longer listed for trading on a national securities exchange, the Committee may designate such other market or source of data as it deems appropriate for determining such value for purposes of the Plan. Notwithstanding anything to the contrary in the foregoing, the fair market value for purposes of grants under the Plan shall be determined in a manner consistent with avoiding adverse tax consequences under Section 409A.

(p) “Incentive Stock Option” means an incentive stock option within the meaning of Section 422 of the Code.

(q) “Plan Limit” has the meaning set forth in Section V of the Plan.

(r) “Non-Employee Director” means a member of the Board who is not an Employee of the Company or any of its Affiliates.

(s) “Non-Qualified Stock Option” means any Option that does not qualify as an Incentive Stock Option.

(t) “Option” means a right granted to a Participant under Section VII of the Plan to purchase shares of Common Stock at such time and price, and subject to such other terms, conditions, restrictions, and contingencies as are set forth in the Plan and in the applicable Agreement. Options may be Incentive Stock Options or Non-Qualified Stock Options.

(u) “Participant” means an Employee, Director, or Advisor to whom an Award has been granted under the Plan.

(v) “Performance Award” means an Award granted to a Participant that is conditioned in some manner upon the achievement of one or more of the performance measures described in Section XII of the Plan.

(w) “Phantom Share” means a right granted to a Participant pursuant to Section XI of the Plan to receive, in the discretion of the Committee, cash or shares of Common Stock equal to the Fair Market Value or the appreciation in the Fair Market Value of a share of Common Stock, which grant is subject to such terms, conditions, restrictions, and contingencies as are set forth in the Plan and in the applicable Agreement.

(x) “Plan” means the Southwest Airlines Co. Amended and Restated 2007 Equity Incentive Plan.

(y) “Plan Term” has the meaning set forth in Section III of the Plan.

(z) “Restricted Stock Award” means an Award of Common Stock granted under Section VIII of the Plan that is subject to the restrictions set forth in such Section and to such other terms, conditions, restrictions, and contingencies as are set forth in the Plan and in the applicable Agreement.

(aa) “Restricted Stock Unit” means a right granted pursuant to Section IX of the Plan to receive in the future, in the discretion of the Committee, (a) a share of Common Stock; (b) a cash payment equal to the Fair Market Value of a share of Common Stock; or (c) a combination of Common Stock and cash, which Award is subject to such terms, conditions, restrictions, and contingencies as are set forth in the Plan and in the applicable Agreement.

(bb) “Rule 16b-3” means Rule 16b-3 promulgated under the Exchange Act, as such may be amended from time to time, and any successor rule, regulation, or statute fulfilling the same or a similar function.

(cc) “Section 162(m)” means Section 162(m) of the Code.

(dd) “Section 162(m) Exception” means the exception under Section 162(m) for “qualified performance-based compensation.”

(ee) “Section 409A” means Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued thereunder.

(ff) “Service” means a Participant’s employment or service with the Company or any Affiliate of the Company, whether in the capacity of an Employee, a Director, or an Advisor. A Participant’s Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders Service to the Company or any

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Affiliate or because of a change in entity for which services are performed; *provided, however*, to the extent necessary to comply with the provisions of Section 409A, a termination of Service shall mean a “separation from service” within the meaning of Section 409A.

(gg) “*Stand-Alone Stock Appreciation Right*” has the meaning set forth in Section X of the Plan.

(hh) “*Stock Appreciation Right*” means a right granted pursuant to Section X of the Plan to receive, in the discretion of the Committee, a payment in cash or shares of Common Stock equal to the excess of the Fair Market Value of a specified number of shares of Common Stock on the date the right is exercised over a specified exercise price, as determined in accordance with Section X of the Plan and subject to such other terms, conditions, restrictions, and contingencies as are set forth in the Plan and in the applicable Agreement. Stock Appreciation Rights may be Tandem Stock Appreciation Rights or Stand-Alone Stock Appreciation Rights.

(ii) “*Subsidiary*” means a “subsidiary corporation” of the Company within the meaning of Section 424(f) of the Code; *provided that*, with respect to Awards other than Incentive Stock Options, the term “Subsidiary” shall also be deemed to include a partnership, limited liability company, or other entity in which the Company controls, directly or indirectly, a majority of the voting power or equity interests.

(jj) “*Substitute Award*” means an Award granted pursuant to Section XIII(d) of the Plan.

(kk) “*Tandem Stock Appreciation Right*” has the meaning set forth in Section X of the Plan.

### III. EFFECTIVE DATE AND DURATION OF THE PLAN

The Plan originally became effective on May 16, 2007. As amended and restated, the Plan shall become effective on July 18, 2013. No Awards may be granted under the Plan after March 17, 2020 (the “Plan Term”). Subject to other applicable provisions of the Plan, all Awards made under the Plan prior to termination of the Plan shall remain in effect until such Awards have been satisfied or terminated in accordance with the Plan and the terms of the Awards.

### IV. ADMINISTRATION

(a) *Composition of the Committee.* The Plan shall be administered by the Board or by a committee of, and appointed by, the Board that shall be comprised of at least two members of the Board; *provided that*, (i) with respect to any Award that is intended to satisfy the requirements of Rule 16b-3, such committee shall consist of at least such number of Directors as is required from time to time by Rule 16b-3, and each such committee member shall satisfy the qualification requirements of such rule; (ii) with respect to any Award that is intended to satisfy the requirements of the Section 162(m) Exception, such committee shall consist of at least such number of Directors as is required from time to time to satisfy the Section 162(m) Exception, and each such committee member shall satisfy the qualification requirements of such exception; and (iii) to the extent required under the rules of any stock exchange or automated quotation system on which the Common Stock is listed for trading or quoted, each member of such committee shall satisfy any “independence” or other requirements of such exchange or quotation system; *provided, however*, that if any such committee member is found not to have met the qualification requirements set forth in clauses (i) and/or (ii) above, any actions taken or Awards granted by such committee shall not be invalidated by such failure to so qualify. Subject to (i) the limitations set forth in this Section IV and (ii) any limitations set forth in the Texas Business Organizations Code, as well as any other laws, rules, or regulations that may apply from time to time, the Committee shall have the authority to delegate some or all of its authority under the Plan to one or more members of the Committee or to one or more officers of the Company.

(b) *Powers of the Committee.* Subject to the express provisions of the Plan, the Committee shall have authority, in its discretion, to determine (i) the recipients of Awards; (ii) the timing of Awards; (iii) the types of Awards to be granted; (iv) the number of shares or cash amounts payable in connection with Awards; and (v) the terms, conditions, restrictions, and/or limitations applicable to each Award in accordance with the terms of the Plan. To the extent the Committee determines that restrictions imposed by the Plan preclude the achievement of the material purposes of the Awards in jurisdictions outside of the United States, the Committee will have the authority and discretion to grant Awards to Employees, Directors, and Advisors outside the United States on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to further the purposes of the Plan.

Subject to the express provisions of the Plan, and to the maximum extent permitted by law, the Committee shall also have the power (i) to interpret the Plan and the Agreements issued pursuant to the Plan; (ii) to establish, amend, and rescind any rules and regulations relating to the Plan; and (iii) to make all other determinations necessary or advisable for administering the Plan. The Committee may correct any defect, supply any omission, or reconcile any inconsistency in the Plan or in any Agreement relating to an Award in the manner and to the extent it shall deem expedient to carry it into effect. Subject to the express provisions of the Plan (*e.g.*, relating to repricing and minimum vesting requirements), the Committee shall have the authority to amend the terms of any outstanding Award or to waive any condition or restriction applicable to any Award in any manner that

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is not inconsistent with the terms of the Plan; *provided, however*, that no amendment may materially impair the rights of the holder thereof without the holder's consent. Notwithstanding the foregoing, subject to the limitations of applicable law, the Committee may amend the terms of any Award without the affected Participant's consent if necessary to comply with any law, regulation, judicial decision, accounting standards, regulatory guidance, or other legal requirement, or to comply with Section 409A. All decisions, determinations, and interpretations of the Committee regarding the Plan and its administration shall be final and binding.

With respect to any restriction in the Plan, or to which any Award is subject, that is based on the requirements of Rule 16b-3, Section 422 of the Code, the Section 162(m) Exception, Section 409A, the rules of any exchange upon which the Company's securities are listed or automated quotation system upon which the Company's securities are quoted, or any other applicable law, rule, or restriction, to the extent that any such restriction is no longer required, the Committee shall have the sole discretion and authority to grant Awards that are not subject to such restriction and/or to waive any such restriction with respect to outstanding Awards.

(c) *Non-Uniform Determinations.* The Committee's determinations under the Plan need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, Awards under the Plan (whether or not such persons are similarly situated). Without limiting the generality of the foregoing, the Committee shall be entitled, among other things, to make non-uniform and selective determinations and to enter into non-uniform and selective Agreements as to the persons receiving Awards under the Plan and the terms and provisions of Awards under the Plan.

## V. SHARES SUBJECT TO THE PLAN

Subject to adjustment in accordance with Section XIII of the Plan ("Recapitalization or Reorganization"), the maximum number of shares of Common Stock that may be issued under the Plan (the "Plan Limit") with respect to all types of Awards in the aggregate shall not exceed 18 million (including the 6 million shares originally authorized for issuance under the Plan). Subject to the remaining provisions of this Section V, no Award may be granted if the number of shares of Common Stock to be delivered in connection with such Award exceeds the number of shares of Common Stock remaining available under the Plan minus the number of shares of Common Stock issuable in settlement of or relating to then-outstanding Awards. The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards), and make adjustments if the number of shares of Common Stock actually delivered differs from the number of shares previously counted in connection with an Award. To the extent all or a portion of an Award under the Plan (a) expires or is canceled, forfeited, exchanged, settled in cash, or otherwise terminated without an issuance of shares of common stock; or (b) in the case of Restricted Stock, is forfeited, the shares of Common Stock subject to the Award will again be available for Awards under the Plan, except that if any such shares of Common Stock could not again be available for Awards to a particular Participant under any applicable law or regulation, the shares will be available exclusively for Awards to Participants who are not subject to such limitation. Notwithstanding any provision in the Plan to the contrary, subject to adjustment in accordance with Section XIII of the Plan, (i) the maximum number of shares of Common Stock with respect to which Deductible Stock Awards may be granted in the aggregate to any Participant during any calendar year may not exceed 1 million (regardless of whether settled in cash or shares of Common Stock); and (ii) the maximum number of shares of Common Stock with respect to which unrestricted shares of Common Stock, stock-settled Phantom Shares, and Awards to Non-Employee Directors may be granted during the Plan Term may not exceed 5 percent of the Plan Limit. Any shares of Common Stock underlying Substitute Awards shall not be counted against the limits set forth in this paragraph to the extent the grant of such Substitute Awards would not otherwise require shareholder approval pursuant to the rules of any stock exchange or applicable law. Subject to the limitations set forth in Sections VII(g) and X(f) of the Plan, Awards granted on the condition precedent of surrender of outstanding Awards shall not count against the limits set forth in this Section V until such time as such previous Awards are surrendered and cancelled.

The shares of Common Stock to be offered pursuant to Awards under the Plan may be authorized but unissued shares of Common Stock, shares of Common Stock previously issued and outstanding and reacquired by the Company, or both. Any of such shares that remain unissued and that are not subject to outstanding Awards at the termination of the Plan shall cease to be subject to the Plan but, until termination of the Plan, the Company shall at all times make available a sufficient number of shares to meet the requirements of the Plan.

## VI. ELIGIBILITY

Awards may be granted to any Employee, Director, or Advisor; *provided that* Awards of Incentive Stock Options may only be granted to Employees of the Company or any parent or Subsidiary in accordance with Section VII(d) below.

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## VII. OPTIONS

(a) *Grants of Options.* The Committee may from time to time grant Options on the terms and conditions set forth in the Plan (including achievement of performance measures) and on such other terms and conditions as are not inconsistent with the purposes and provisions of the Plan as the Committee, in its discretion, may from time to time determine.

(b) *Option Term.* The term of each Option shall be as specified by the Committee, but in no event shall an Option be exercisable after the expiration of ten years from the date of its grant.

(c) *Exercisability of Options.* Options shall be exercisable in whole or in such installments and at such times as are determined by the Committee.

(d) *Special Limitations on Incentive Stock Options.* The maximum number of shares of Common Stock that may be issued under the Plan with respect to Incentive Stock Options shall be 18 million (including the 6 million shares originally authorized for issuance under the Plan), subject to the following limitations. An Incentive Stock Option may be granted only to an individual who is employed by the Company or any parent or Subsidiary at the time the Option is granted. To the extent that the aggregate Fair Market Value (determined at the time an Incentive Stock Option is granted) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by an individual during any calendar year under all incentive stock option plans of the Company and its parent and Subsidiary exceeds \$100,000, such Incentive Stock Options shall be treated as Non-Qualified Stock Options. No Incentive Stock Option shall be granted to an individual if, at the time the Option is granted, such individual owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or of its parent or Subsidiaries, within the meaning of Section 422(b)(6) of the Code, unless (i) at the time such Option is granted the option price is at least 110 percent of the Fair Market Value of the Common Stock subject to the Option and (ii) such Option by its terms is not exercisable after the expiration of five years from the date of grant.

(e) *Option Exercise Price and Payment of Exercise Price.* The exercise price of an Option shall be determined by the Committee but, subject to adjustment as provided in Section XIII, such exercise price shall not be less than the Fair Market Value of a share of Common Stock on the date such Option is granted. Unless limited by the Committee, the Option exercise price may be paid, to the extent permitted by applicable law, as follows: (i) in cash, check, bank draft, or money order payable to the Company; (ii) by delivery to the Company (either by actual delivery or attestation) of shares of Common Stock; (iii) by delivery (including by fax, telephonic, electronic, or other means in accordance with procedures determined by the Company) to the Company or its designated agent of an irrevocable Option exercise notice together with irrevocable instructions from the Participant to a broker or dealer, reasonably acceptable to the Company, to sell certain shares of Common Stock purchased upon exercise of an Option or to pledge such shares as collateral for a loan and promptly deliver to the Company the amount of sale or loan proceeds necessary to pay the exercise price for the Option (*provided that*, with respect to such a cashless exercise, the Option shall be deemed exercised on the date of sale of the shares of Common Stock received upon exercise); (iv) by a “net exercise” arrangement pursuant to which the Company will reduce the number of shares of Common Stock issued upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; provided, however, that the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued; and/or (v) in any other form of valid consideration that is acceptable to the Committee in its sole discretion.

(f) *Rights Upon Termination of Service.* Subject to Section VII(d) above (regarding Incentive Stock Options), in the event of the termination of a Participant’s Service other than as a result of death or Disability, such Participant’s Options that have not vested as of the date of termination shall automatically and without notice terminate and become null and void at 4:00 p.m., Eastern Time, on the date of termination. In the event of the termination of a Participant’s Service as a result of death or Disability, any of the Participant’s outstanding Options that have not yet vested will become fully exercisable as of the date of termination. Upon termination of Service, the vested portion of the Participant’s outstanding Options shall thereafter automatically and without notice terminate and become null and void at 4:00 p.m., Eastern Time, on the date that is the earliest to occur of the following (the “Option Termination Date”):

- (i) The date of the Participant’s termination of Service for cause, including breach by the Participant of an employment agreement with the Company or an Affiliate or the Participant’s commission of a felony or misdemeanor (whether or not prosecuted) against the Company or an Affiliate;
  - (ii) The expiration of two years following the date of termination of a Participant’s Service other than for cause;
  - (iii) The expiration of such period of time or the occurrence of such event as the Committee in its discretion may provide in the Participant’s Option Agreement; and
  - (iv) The expiration of ten years from the date of grant of such Option.
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Upon the occurrence of any event described in this Section VII(f), any Participant (or any person who has acquired the right to exercise the Participant's Options by will or the laws of descent and distribution or intestacy) who desires to exercise an Option prior to the Option Termination Date shall be required to provide notice of exercise prior to the close of trading on the New York Stock Exchange on the Option Termination Date (g) *Restrictions on Repricing of Options*. Subject to Section XIII of the Plan ("Recapitalization or Reorganization"), unless approved by the Company's shareholders, no Option may be repriced, replaced, re-granted through cancellation, or modified if the effect would be to reduce the exercise price for the shares underlying the Option.

(h) *Shareholder Rights and Privileges*. A Participant shall have no right to receive dividends, vote, or otherwise exercise the privileges and rights of a shareholder with respect to an unexercised Option. The Participant shall be entitled to all the privileges and rights of a shareholder only with respect to such shares of Common Stock as have been purchased under the Option and for which shares of Common Stock have been registered in the Participant's name or otherwise credited to the Participant.

(i) *Option Agreements*. Options granted under the Plan shall be evidenced by an Option Agreement in such form and containing such provisions not inconsistent with the provisions of the Plan as the Committee from time to time shall approve, including, without limitation, (i) the number of Options granted; (ii) the date of grant; (iii) the exercise price for the Options; (iv) whether such Options are Incentive Stock Options or Non-Qualified Stock Options; (v) the period during which such Options may be exercised and any vesting schedule applicable to such Options, including any applicable performance measures (as set forth in Section XII); (vi) the effect of termination of Service on the exercisability of the Options; and (vii) any other terms that the Committee deems appropriate.

## VIII. RESTRICTED STOCK AWARDS AND UNRESTRICTED STOCK GRANTS

(a) *Grants of Restricted Stock*. The Committee may from time to time grant shares of Restricted Stock on the terms and conditions set forth in the Plan (including achievement of performance measures) and on such other terms and conditions as are not inconsistent with the purposes and provisions of the Plan as the Committee, in its discretion, may from time to time determine.

(b) *Vesting of Restricted Stock*. Shares of Common Stock that are the subject of a Restricted Stock Award shall be subject to restrictions on disposition by the Participant and an obligation of the Participant to forfeit and surrender the shares to the Company under certain circumstances, as determined by the Committee. The Committee shall establish the vesting schedule applicable to each Restricted Stock Award, *provided that* (i) in no event shall any Restricted Stock Award that has a vesting schedule based on the passing of time have (or be accelerated such that it has) a vesting schedule of less than three years from the date of grant, and no more than 33 1/3 percent of any such Award shall vest (or be accelerated such that it vests) on each anniversary of the date of grant; and (ii) in no event shall any Restricted Stock Award that is a Performance Award vest (or be accelerated such that it vests) in under one year from the date of grant. The Committee may provide that the shares will vest upon (i) the Participant's continued employment with the Company for a specified period of time; (ii) the attainment of one or more performance measures established by the Committee, as set forth in Section XII; (iii) the occurrence of any event or the satisfaction of any other condition specified by the Committee in its sole discretion; or (iv) a combination of any of the foregoing.

(c) *Rights and Restrictions Governing Restricted Stock*. Common Stock awarded pursuant to a Restricted Stock Award shall be registered in the Participant's name or otherwise credited to the Participant. Unless provided otherwise in a Restricted Stock Agreement, the Participant shall have the right to receive dividends or other distributions with respect to shares of Common Stock subject to a Restricted Stock Award, to vote Common Stock subject thereto, and to enjoy all other shareholder rights, except that (i) the Participant shall not be entitled to delivery of unrestricted shares until all conditions to vesting have been satisfied; (ii) the Participant may not sell, transfer, pledge, assign, exchange, hypothecate, or otherwise encumber or dispose of the shares until all conditions to vesting have been satisfied; and (iii) a breach of the terms and conditions established by the Committee pursuant to the Restricted Stock Agreement shall cause a forfeiture of the Restricted Stock.

(d) *Payment for Restricted Stock*. The Committee shall determine the amount and form of any payment for Common Stock received pursuant to a Restricted Stock Award, *provided that*, in the absence of such a determination, a Participant shall not be required to make any payment for Common Stock received pursuant to a Restricted Stock Award, except to the extent otherwise required by law.

(e) *Rights Upon Termination of Service*. Unless otherwise determined by the Committee, in the event of the termination of a Participant's Service other than as a result of death or Disability, any of such Participant's shares of Restricted Stock that have not vested as of the date of termination shall automatically and without notice be forfeited at 4:00 p.m., Eastern Time, on the date of termination. Notwithstanding the provisions of Section VIII(b), in the event of the termination of a Participant's

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Service as a result of death or Disability, any of the Participant's outstanding shares of Restricted Stock that have not yet vested will fully vest as of the date of termination.

(f) *Restricted Stock Agreements.* Restricted Stock Awards granted under the Plan shall be evidenced by a Restricted Stock Agreement in such form and containing such provisions not inconsistent with the provisions of the Plan as the Committee from time to time shall approve, including, without limitation, (i) the number of shares of Restricted Stock granted; (ii) the date of grant; (iii) the price, if any, to be paid by the Participant for such Restricted Stock; (iv) the vesting schedule applicable to such Restricted Stock, including any applicable performance measures (as set forth in Section XII) or other restrictions or contingencies; (v) the effect of termination of Service on the vesting of the Restricted Stock; and (vi) any other terms that the Committee deems appropriate.

(g) *Unrestricted Stock Grants.* The Committee, in its sole discretion, may grant Awards of unrestricted Common Stock in recognition of outstanding achievements and performance or for any other reason it deems appropriate.

## **IX. RESTRICTED STOCK UNITS**

(a) *Grants of Restricted Stock Units.* The Committee may from time to time grant Restricted Stock Units on the terms and conditions set forth in the Plan (including achievement of performance measures) and on such other terms and conditions as are not inconsistent with the purposes and provisions of the Plan as the Committee, in its discretion, may from time to time determine.

(b) *Vesting of Restricted Stock Units.* The Committee shall establish the vesting schedule applicable to each Restricted Stock Unit Award; *provided that* (i) in no event shall any Restricted Stock Unit Award that has a vesting schedule based on the passing of time have (or be accelerated such that it has) a vesting schedule of less than three years from the date of grant, and no more than 33 1/3 percent of any such Award shall vest (or be accelerated such that it vests) on each anniversary of the date of grant; and (ii) in no event shall any Restricted Stock Unit Award that is a Performance Award vest (or be accelerated such that it vests) in under one year from the date of grant. The Committee may provide that Restricted Stock Units will vest upon (i) the Participant's continued employment with the Company for a specified period of time; (ii) the attainment of one or more performance measures established by the Committee, as set forth in Section XII; (iii) the occurrence of any event or the satisfaction of any other condition specified by the Committee in its sole discretion; or (iv) a combination of any of the foregoing.

(c) *Settlement of Restricted Stock Units.* On the date on which Restricted Stock Units vest (or at such other time or times as the Committee may provide), the holder of such Restricted Stock Units shall be entitled to receive, as determined by the Committee, one share of Common Stock for each Restricted Stock Unit that has vested, cash equal to the Fair Market Value of the shares subject to the Restricted Stock Units, or a combination of cash and shares. If Restricted Stock Units are settled in shares, the applicable number of shares of Common Stock shall be registered in the Participant's name or otherwise credited to the Participant.

(d) *Shareholder Rights and Privileges.* A Participant shall have no right to receive dividends, vote, or otherwise exercise the privileges and rights of a shareholder with respect to outstanding Restricted Stock Units granted pursuant to this Section. The Participant shall be entitled to all of the privileges and rights of a shareholder only with respect to such shares of Common Stock as have been issued pursuant to a Restricted Stock Unit Award and that have been registered in the Participant's name or otherwise credited to the Participant.

(e) *Rights Upon Termination of Service.* Unless otherwise determined by the Committee, in the event of the termination of a Participant's Service other than as a result of death or Disability, any of such Participant's Restricted Stock Units that have not vested as of the date of termination shall automatically and without notice be forfeited at 4:00 p.m., Eastern Time, on the date of termination. Notwithstanding the provisions of Section IX(b), in the event of the termination of a Participant's Service as a result of death or Disability, any of the Participant's outstanding Restricted Stock Units that have not yet vested will fully vest as of the date of termination.

(f) *Restricted Stock Unit Agreements.* Restricted Stock Units granted under the Plan shall be evidenced by a Restricted Stock Unit Agreement in such form and containing such provisions not inconsistent with the provisions of the Plan as the Committee from time to time shall approve, including, without limitation, (i) the number of Restricted Stock Units granted; (ii) the date of grant; (iii) the price, if any, to be paid by the Participant in connection with such Restricted Stock Units; (iv) the vesting schedule applicable to such Restricted Stock Units, including any applicable performance measures (as set forth in Section XII) or other restrictions or contingencies; (v) the effect of termination of Service on the vesting of the Restricted Stock Units; and (vi) any other terms that the Committee deems appropriate.

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## X. STOCK APPRECIATION RIGHTS

(a) *Grants of Stock Appreciation Rights.* The Committee may from time to time grant Stock Appreciation Rights on the terms and conditions set forth in the Plan (including achievement of performance measures) and on such other terms and conditions as are not inconsistent with the purposes and provisions of the Plan as the Committee, in its discretion, may from time to time determine. The Committee may grant Stock Appreciation Rights in tandem with Stock Options (a “Tandem Stock Appreciation Right”) or not in tandem with Stock Options (a “Stand-Alone Stock Appreciation Right”).

(b) *Term of Stock Appreciation Rights.* The term of each Stock Appreciation Right shall be as specified by the Committee, but in no event shall a Stock Appreciation Right be exercisable after the expiration of ten years from the date of its grant.

(c) *Exercisability of Stock Appreciation Rights.* Stock Appreciation Rights shall be exercisable in whole or in such installments and at such times as are determined by the Committee.

(d) *Payment.* A Stock Appreciation Right shall entitle the holder thereof to receive from the Company an amount equal to the excess of the Fair Market Value of a share of Common Stock on the exercise date over the exercise price for the Stock Appreciation Right multiplied by the number of rights exercised. The exercise price of a Stock Appreciation Right shall be determined by the Committee but, subject to adjustment as provided in Section XIII, such exercise price shall not be less than the Fair Market Value of a share of Common Stock on the date the Stock Appreciation Right is granted. Payment for Stock Appreciation Rights may be made in shares of Common Stock, cash equal to the Fair Market Value of the shares subject to the Stock Appreciation Right, or a combination of cash and shares. If Stock Appreciation Rights are settled in shares, the applicable number of shares of Common Stock shall be registered in the Participant’s name or otherwise credited to the Participant.

(e) *Stock Appreciation Rights Granted in Tandem with Options.* If a Stock Appreciation Right is granted in tandem with an Option, such Stock Appreciation Right may be granted at the same time as, or, in the case of a Non-Qualified Stock Option, subsequent to, the time the related Option is granted. The Stock Appreciation Right shall be subject to the same terms and conditions as the related Option and shall be exercisable only at such times and to such extent as the related Option is exercisable. A Stock Appreciation Right granted in tandem with an Option shall entitle the holder either

(i) to exercise the related Option with respect to all or a portion of the vested shares underlying such Option; or

(ii) to exercise the Stock Appreciation Right by surrendering to the Company all or a portion of the related Option (to the extent vested), in which case the holder shall be entitled to receive from the Company in exchange therefore an amount equal to the excess of the Fair Market Value of the shares of Common Stock underlying the surrendered portion of such Option (determined as of the day preceding the surrender of such Option) over the aggregate Option exercise price for such shares.

The exercise of a Tandem Stock Appreciation Right shall cause the immediate and automatic cancellation of its related Option with respect to the number of shares underlying the surrendered portion of the Option. Likewise, the exercise of the related Option shall cause the immediate and automatic cancellation of the tandem Stock Appreciation Right with respect to the number of shares underlying the surrendered portion of the Tandem Stock Appreciation Right.

(f) *Rights Upon Termination of Service and Restrictions on Repricing.* The provisions of Section 7(f) (relating to Termination of Service) and Section 7(g) (relating to restrictions on repricing) shall apply equally to grants of Stock Appreciation Rights.

(g) *Shareholder Rights and Privileges.* A Participant shall have no right to receive dividends, vote, or otherwise exercise the privileges and rights of a shareholder with respect to unexercised Stock Appreciation Rights. The Participant shall be entitled to all of the privileges and rights of a shareholder only to the extent that shares of Common Stock have been issued pursuant to a Stock Appreciation Right Award and have been registered in the Participant’s name or otherwise credited to the Participant.

(h) *Stock Appreciation Rights Agreements.* Stock Appreciation Rights granted under the Plan shall be evidenced by a Stock Appreciation Rights Agreement in such form and containing such provisions not inconsistent with the provisions of the Plan as the Committee from time to time shall approve, including, without limitation, (i) the number of Stock Appreciation Rights granted; (ii) the date of grant; (iii) the exercise price for the Stock Appreciation Rights; (iv) the period during which such Stock Appreciation Rights may be exercised and any vesting schedule applicable to such Stock Appreciation Rights, including any applicable performance measures (as set forth in Section XII); (v) the effect of termination of Service on the exercisability of the Stock Appreciations Rights; and (vi) any other terms that the Committee deems appropriate.

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## XI. PHANTOM SHARES

(a) *Grants of Phantom Shares.* The Committee may from time to time grant Phantom Shares on the terms and conditions set forth in the Plan and on such other terms and conditions as are not inconsistent with the purposes and provisions of the Plan as the Committee, in its discretion, may from time to time determine.

(b) *Value of Phantom Shares.* The value of a Phantom Share shall be determined by reference to the Fair Market Value of a share of Common Stock on a given date or over a period of time specified by the Committee. The Committee shall provide in the Agreement for one or more valuation dates on which (or over which) the value of the Phantom Shares granted pursuant to the Agreement shall be measured and fixed, and shall designate in the Agreement the number of such Phantom Shares with respect to which the value is to be calculated.

(c) *Phantom Share Agreements.* Phantom Shares granted under the Plan shall be evidenced by a Phantom Share Agreement in such form and containing such provisions not inconsistent with the provisions of the Plan as the Committee from time to time shall approve, including, without limitation, (i) the number of Phantom Shares granted; (ii) the date of grant; (iii) the valuation date(s); (iv) any vesting schedule applicable to the Phantom Shares, including any applicable performance measures (as set forth in Section XII) or other restrictions or contingencies; (v) the effect of termination of Service on the Participant's rights with respect to the Phantom Shares; (vi) the payment date(s) applicable to the Phantom Shares; and (vii) any other terms that the Committee deems appropriate.

## XII. PERFORMANCE AWARDS

The grant, vesting, and/or exercisability of any Award may, in the Committee's sole discretion, be conditioned, in whole or in part, on the attainment of performance targets related to one or more performance measures over a performance period, in which case, such Award shall constitute a Performance Award under the Plan.

(a) *Performance Measures.*

(i) Performance Awards that are not intended to qualify for the Section 162(m) Exception may be based on the achievement of such goals and be subject to such terms, conditions, and restrictions as the Committee shall determine.

(ii) Performance Awards that are intended to qualify for the Section 162(m) Exception based on the satisfaction of one or more performance measures shall be conditioned upon the achievement during a specified performance period of specified levels of one or more of the measures listed below. The Committee shall establish the performance measures applicable to such performance either (i) prior to the beginning of the performance period or (ii) within 90 days after the beginning of the performance period if the outcome of the performance targets is substantially uncertain at the time such targets are established, but not later than the date on which 25 percent of the performance period has elapsed; provided such measures may be made subject to adjustment for specified significant extraordinary items or events to the extent consistent with Section 162(m) of the Code. The performance measures established by the Committee may be based upon (1) the earnings or earnings per share of the Company or of any business unit of the Company designated by the Committee; (2) the net operating margin of the Company or of any business unit of the Company designated by the Committee; (3) the cash flow return on investment of the Company or any business unit of the Company designated by the Committee; (4) the earnings before interest, taxes, depreciation, and/or amortization of the Company or any business unit of the Company designated by the Committee; (5) the return on shareholders' equity achieved by the Company; (6) the total shareholders' return achieved by the Company; (7) any of the foregoing calculated on a "non-GAAP basis"; (8) the price of a share of Common Stock; (9) the Company's market share; (10) the market share of a business unit of the Company designated by the Committee; (11) the Company's sales; (12) the sales of a business unit of the Company designated by the Committee; (13) the economic value added; or (14) any combination of the foregoing. A measure that is calculated on a "non-GAAP basis" is a measure that is adjusted (to the extent consistent with the Section 162(m) Exception) to reflect the impact of special items, which items are reflected from time to time in the Company's published financials. Special items are material nonrecurring adjustments deemed appropriate to exclude by the Committee and may include, without limitation, (a) unrealized gains or losses and other items that are recorded by the Company as a result of Accounting Standards Codification Topic 815 (previously issued as Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended); (b) impairment and other non-cash charges including the impact of changes in accounting principles or estimates or other unusual, infrequent non-cash items; and (c) other items not considered to be representative of the Company's ongoing operations.

(b) *Determination of Awards.* To the extent the Committee intends for Awards to qualify for the Section 162(m) Exception, prior to the Participants' receipt of shares of Common Stock (or cash, as applicable) pursuant to such Awards (or prior to receipt of the Awards themselves, if applicable), the Committee shall certify whether the performance targets and

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measure(s) related to such Awards have been achieved. The Committee, in its sole discretion, may provide for a reduction in a Participant's Performance Award during the performance period.

### **XIII. RECAPITALIZATION OR REORGANIZATION**

(a) *No Effect on Right or Power.* The existence of the Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or the shareholders of the Company to make or authorize (i) any adjustment, recapitalization, reorganization, or other change in the Company's or any Affiliate's capital structure or its business; (ii) any merger or consolidation of the Company or any Affiliate; (iii) any issue of debt or equity securities ahead of or affecting Common Stock or the rights thereof; (iv) the dissolution or liquidation of the Company or any Affiliate; (v) any sale, lease, exchange, or other disposition of all or any part of the Company's or any Affiliate's assets or business; or (vi) any other corporate act or proceeding.

(b) *Subdivision or Consolidation of Shares; Stock Dividends.* The shares with respect to which Awards may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of an Award theretofore granted, the Company shall effect a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend on Common Stock without receipt of consideration by the Company, the number of shares of Common Stock with respect to which such Award may thereafter be exercised or satisfied, as applicable, (i) in the event of an increase in the number of outstanding shares, shall be proportionately increased, and the exercise price per share (if applicable) shall be proportionately reduced; and (ii) in the event of a reduction in the number of outstanding shares, shall be proportionately reduced, and the exercise price per share (if applicable) shall be proportionately increased. In the event of any such change in the outstanding Common Stock, the aggregate number of shares available under the Plan may be appropriately adjusted by the Committee, whose determination shall be conclusive.

(c) *Recapitalizations and Corporate Changes.* If the Company recapitalizes or otherwise changes its capital structure (a "recapitalization"), the number and class of shares of Common Stock covered by an Award theretofore granted shall be adjusted so that such Award shall thereafter cover the number and class of shares of stock and securities to which the Participant would have been entitled pursuant to the terms of the recapitalization if, immediately prior to such recapitalization, the Participant had been the holder of record of the number of shares of Common Stock then covered by such Award. If the Company shall not be the surviving entity in any merger or consolidation (or survives only as a Subsidiary of an entity other than a previously wholly-owned Subsidiary of the Company), or if the Company is to be dissolved or liquidated, then, unless a surviving corporation assumes or substitutes new Awards for Awards then outstanding hereunder, (i) all unvested Options then outstanding shall be accelerated and shall become exercisable in full, and all restrictions and/or performance measures with respect to any Award shall be deemed to be satisfied, on or before a date fixed by the Company prior to the effective date of such merger or consolidation or such dissolution or liquidation; and (ii) upon such effective date, Awards shall expire.

(d) *Awards and Rights in Substitution for Awards Granted by Other Employers.* Awards may be granted under the Plan from time to time in substitution for Awards held by individuals providing services to corporations or other entities who become Employees or Directors as a result of a merger or consolidation or other business transaction with the Company or any Affiliate.

(e) *Shareholder Action.* Any adjustment provided for in the above Subsections shall be subject to any required shareholder action.

(f) *No Adjustments Unless Otherwise Provided.* Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class for property, labor, or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to Awards theretofore granted or the exercise price per share, if applicable.

(g) *Other.* Notwithstanding anything to the contrary in this Section XIII, any adjustments made pursuant to this section shall be made in conformity with Section 409A to the extent necessary to avoid its application or adverse tax consequences thereunder.

### **XIV. AMENDMENT AND TERMINATION OF THE PLAN**

The Board in its discretion may terminate the Plan at any time with respect to any shares of Common Stock for which Awards have not theretofore been granted. In addition, the Board shall have the right to alter or amend the Plan or any part thereof from time to time; *provided that*, except as provided in Section XIII(c), no change in the Plan may be made that would

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impair the rights of a Participant with respect to an Award theretofore granted without the consent of the Participant; and *provided, further, that* no amendment shall be made without approval of the shareholders of the Company if such approval is required under applicable law or by the requirements of any exchange or automated quotation system upon which the Common Stock is listed for trading or quoted.

## XV. MISCELLANEOUS

(a) *No Right to An Award.* Neither the adoption of the Plan nor any action of the Board or of the Committee shall be deemed to give any individual any right to be granted an Award nor any other rights hereunder except as may be evidenced by an Award Agreement, and then only to the extent and on the terms and conditions expressly set forth therein. The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of funds or assets to assure the performance of its obligations with respect to any Award.

(b) *No Employment/Board Membership Rights Conferred.* Nothing contained in the Plan shall (i) confer upon any Employee any right with respect to continuation of an employment relationship with the Company or any Affiliate or (ii) interfere in any way with the right of the Company or any Affiliate to terminate his or her employment relationship at any time. Nothing contained in the Plan shall confer upon any Director any right with respect to continuation of membership on the Board or upon any Advisor any right to continue to provide services to the Company or any Affiliate.

(c) *Other Laws; Withholding.* By accepting any shares of Common Stock issued pursuant to an Award granted under the Plan, the Participant thereby represents and warrants to the Company that the purchase or receipt of such shares shall be for investment and not with a view to distribution; *provided that* such representation and warranty shall be inoperative if, in the opinion of counsel to the Company, a proposed sale or distribution of such shares is pursuant to an applicable effective registration statement under the Securities Act of 1933, as amended, or is, without such representation and warranty, exempt from registration under such Act. The Company shall not be obligated to issue any Common Stock pursuant to any Award granted under the Plan at any time when the requirements of any securities exchange upon which the Company's securities shall then be listed have not been met or when the shares covered by such Award have not been registered under the Securities Act of 1933, as amended, and such other state and federal laws, rules, and regulations as the Company or the Committee deem applicable and, in the opinion of legal counsel for the Company, there is no exemption from the registration requirements of such laws, rules, and regulations available for the issuance and sale of such shares. The Company may (i) endorse an appropriate legend referring to the foregoing restrictions upon the certificate or certificates representing any shares of Common Stock issued or transferred pursuant to any Award granted under this Plan; or (ii) otherwise note such restrictions with respect to Common Stock that is not certificated. No fractional shares of Common Stock shall be delivered, nor shall any cash in lieu of fractional shares be paid. The Company shall have the right to deduct in connection with all Awards any taxes required by law to be withheld and to require any payments required to enable it to satisfy its withholding obligations. This authority shall include the authority to withhold or receive Common Stock or other property and to make cash payments in respect thereof in satisfaction of a Participant's tax obligations, either on a mandatory or elective basis in the discretion of the Committee. The Committee, in its sole discretion, may require, as a condition to the exercise of any Option or delivery of any shares of Common Stock, that an additional amount be paid in cash equal to the amount of any taxes owed as a result of such exercise or delivery.

(d) *No Restriction on Corporate Action.* Nothing contained in the Plan shall be construed to prevent the Company or any Affiliate from taking any action that is deemed by the Company or such Affiliate to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any Award made under the Plan. No Participant, beneficiary, or other person shall have any claim against the Company or any Affiliate as a result of any such action.

(e) *Restrictions on Transfer.* No Award granted under this Plan or any right evidenced thereby shall be transferable by the Participant other than by will or the laws of descent and distribution, and any Options shall be exercisable during the Participant's lifetime only by such Participant or the Participant's guardian or legal representative.

(f) *Section 409A.* The Plan is intended to provide compensation that is exempt from or that complies with Section 409A, and ambiguous provisions, if any, shall be construed in a manner that is compliant with or exempt from the application of Section 409A, as appropriate. The Plan shall not be amended in a manner that would cause the Plan or any amounts payable under the Plan to fail to comply with the requirements of Section 409A, to the extent applicable, and, further, the provisions of any purported amendment that may reasonably be expected to result in such non-compliance shall be of no force or effect with respect to the Plan. To the extent the Committee determines that any Award granted under the Plan is subject to Section 409A, the Award Agreement evidencing such Award shall incorporate the terms and conditions necessary to avoid adverse tax consequences under Section 409A. Notwithstanding any provision of the Plan to the contrary, in the event that following the effective date of the Plan the Committee determines that any Award may be subject to Section 409A, the Board may adopt such amendments to the Plan and the Award or adopt other policies and procedures (including amendments, policies, and procedures

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with retroactive effect), or take any other actions that the Board or the Committee determines are necessary or appropriate to (i) exempt the Award from Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the Award; or (ii) comply with the requirements of Section 409A.

Notwithstanding any provision of this Plan to the contrary, if a Participant is a “specified employee” within the meaning of Section 409A as of the date of the Participant’s termination of Service and the Company determines, in good faith, that immediate payment of any amounts or benefits under this Plan would cause a violation of Section 409A, then any amounts or benefits that are payable under the Plan upon the Participant’s “separation from service” within the meaning of Section 409A that (i) are subject to the provisions of Section 409A; (ii) are not otherwise excluded under Section 409A; and (iii) would otherwise be payable during the first six-month period following such separation from service, shall be paid on the first business day next following the earlier of (1) the date that is six months and one day following the date of termination or (2) the date of the Participant’s death.

(g) *Governing Law.* **The Plan shall be governed by, and construed in accordance with, the laws of the State of Texas, without regard to conflicts of laws principles thereof.**

## CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2013 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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: October 30, 2013

By: /s/ Gary C. Kelly  
Gary C. Kelly  
Chief Executive Officer

## CERTIFICATION

I, Tammy Romo, Chief Financial Officer of Southwest Airlines Co., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2013 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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: October 30, 2013

By: /s/ Tammy Romo  
Tammy Romo  
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Southwest Airlines Co. (the "Company") for the period ended September 30, 2013 as filed with the Securities and Exchange Commission (the "Report"), Gary C. Kelly, Chief Executive Officer of the Company, and Tammy Romo, Chief Financial Officer of the Company, each certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 30, 2013

By: /s/ Gary C. Kelly  
Gary C. Kelly  
Chief Executive Officer

By: /s/ Tammy Romo  
Tammy Romo  
Chief Financial Officer