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

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): January 26, 2011



SOUTHWEST AIRLINES CO.

(Exact name of registrant as specified in its charter)

Texas
(State or other Jurisdiction
of Incorporation)

1-7259
(Commission
File Number)

74-1563240
(IRS Employer
Identification No.)

P.O. Box 36611, Dallas, Texas
(Address of Principal Executive Offices)

75235-1611
(Zip Code)

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

Not Applicable
(Former name or former address if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On January 26, 2011, the Compensation Committee of the Board of Directors of Southwest Airlines Co. (the “Company”) approved the Company’s entry into a letter agreement, effective as of February 1, 2011 (the “letter agreement”), with Mr. Gary C. Kelly, the Company’s Chairman of the Board, President, and Chief Executive Officer. The letter agreement carries forward a non-qualified deferred compensation arrangement to which Mr. Kelly has previously been entitled pursuant to an employment contract with the Company (the “prior agreement”), which is expiring in accordance with its terms. Pursuant to Mr. Kelly’s non-qualified deferred compensation arrangement, the Company makes contributions to Mr. Kelly’s account to the extent such amounts cannot be contributed to the Company’s tax-qualified plans due to contribution limits and compensation limits established by the Internal Revenue Code. The arrangement provides for accrual and crediting to Mr. Kelly’s account, each January, of simple interest at a rate of ten percent annually, compounded annually, on the accrued and unpaid balance of the deferred compensation credited to his account as of the preceding December 31. The deferred compensation credited to Mr. Kelly’s account will be paid to him at the rate of \$200,000 per calendar year, commencing with the calendar year following the year in which (i) he attains age 65 or (ii) his employment terminates, whichever occurs later.

The Company will also enter into an Amended and Restated Executive Service Recognition Plan Executive Employment Agreement (the “standard change-in-control agreement”) with Mr. Kelly, effective February 1, 2011, which will provide for the Company’s and Mr. Kelly’s rights in the event of a change-in-control of the Company, as defined in the agreement. These rights were previously governed by Mr. Kelly’s prior agreement, but will now be consistent with the rights of the Company’s other officers, all of whom are entitled to enter into the standard change-in-control agreement with the Company. The Company’s standard change-in-control agreement becomes effective upon the occurrence of a change-in-control. Under the terms of the standard change-in-control agreement, Mr. Kelly would be contractually entitled to continued employment by the Company (or a successor) for generally one year after the occurrence of a change-in-control (the “employment year”). In such event, he would be entitled to a base salary in an amount at least equal to the highest salary received by him during the preceding 12-month period. In addition, for any fiscal year that ends during the employment year, he would be entitled to an annual bonus in an amount at least equal to the highest bonus (the “change-in-control bonus amount”) paid or payable to him in respect of either of the two fiscal years immediately prior to the fiscal year in which the change-in-control occurs. Mr. Kelly would also generally be entitled to continue receiving other employee benefits at the level in effect for the 90 day period preceding the change-in-control. If, during the employment year, Mr. Kelly’s employment is terminated other than for cause or disability, or he resigns for good reason, then he will be entitled to a lump sum payment equal to:

- (a) a prorated bonus, which would be based on the annual bonus paid to him for the last full fiscal year of the Company prior to the fiscal year of the date of termination;
- (b) his annual base salary in effect at the time of notice of termination; and
- (c) the change-in-control bonus amount paid to him for the last full fiscal year of the Company (being the year in which the change-in-control has occurred, but not the date of termination of employment) or, if no such bonus has been paid, the change-in-control bonus amount that would have been payable to him for the then current fiscal year (being the year in which the date of termination of employment has occurred).

“Good reason” is generally defined as the assignment to Mr. Kelly of duties inconsistent with his duties prior to the change-in-control or a failure of the Company to abide by the provisions of his agreement.

The foregoing summary of the letter agreement and the standard change-in-control agreement is qualified in its entirety by reference to (i) the complete text of the letter agreement, which is filed as Exhibit 99.1 to this Form 8-K and is incorporated herein by reference; and (ii) the complete text of the standard change-in-control agreement, which has been filed as Exhibit 10.2 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2008, and is incorporated herein by reference. The standard change-in-control agreement is also described in detail in the Company’s proxy statement filed with the Securities and Exchange Commission on April 16, 2010.

Item 9.01 Financial Statement and Exhibits

(d) Exhibits.

99.1 Letter Agreement between Southwest Airlines Co. and Gary C. Kelly, effective as of February 1, 2011.

SIGNATURE

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 hereunto duly authorized.

SOUTHWEST AIRLINES CO.

Date: January 31, 2011

By: /s/ Madeleine Johnson

Name: Madeleine Johnson

Title: Vice President, General Counsel, & Assistant Corporate Secretary

Exhibit Index

Exhibit

Description

99.1	Letter Agreement between Southwest Airlines Co. and Gary C. Kelly, effective as of February 1, 2011.
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January 31, 2011

Gary C. Kelly
2702 Love Field Dr.
Dallas, TX 75235-1611

Re: Continuation of Certain Provisions of Your Employment Contract With Southwest Airlines Co. ("Southwest")

Dear Gary:

The purpose of this letter is to confirm our agreement (the "**Agreement**"), effective as of February 1, 2011 (the "**Effective Date**"), concerning the continuation of certain provisions of the Employment Contract, effective as of July 15, 2007, and amended and restated as of November 20, 2008, by and between you and Southwest (the "**Employment Contract**"). Specifically, this Agreement provides for the continuation of the deferred compensation arrangement set forth in Paragraph IV-C of the Employment Contract (the "**Deferred Compensation Plan**"), effective as of the Effective Date. This Agreement will continue in existence until your Separation from Service (as defined below) with Southwest, unless earlier terminated at the direction of the Compensation Committee of the Board; provided that your right to receive payment pursuant to the Deferred Compensation Plan shall remain in effect until all payments due to you have been made. The period from the Effective Date to the date of your Separation from Service with Southwest is hereinafter referred to as the "**Term**." This Agreement may be amended in writing with the mutual consent of you and Southwest.

During the Term, Southwest will continue to set aside on its books, as currently provided in Paragraph IV-C of your Employment Contract (including your Employment Contract in the form effective as of July 15, 2004 (the "**Old Contract**")), a special ledger Deferred Compensation Account (the "**Account**") for you, and will credit thereto deferred compensation determined as hereinafter provided ("**Deferred Compensation**"). For each full or partial calendar year that you remain in the employment of Southwest during the Term, Deferred Compensation will accumulate in an amount equal to any contributions (including forfeitures but excluding any elective deferrals actually returned to you) which would otherwise have been made by Southwest on your behalf to the Southwest Airlines Co. Profitsharing Plan and Southwest Airlines Co. 401(k) Plan, but which exceed the amount permitted to be so contributed due to the limitations under Sections 415(c) (the "**415(c) Excess Amount**") and 401(a)(17) of the Internal Revenue Code (the "**Code**"). If your employment terminates prior to December 31 of any calendar year, Deferred Compensation will nonetheless accumulate for such year to the extent you are otherwise entitled to an allocation of the "Company Contribution" to the Southwest Airlines Co. ProfitSharing Plan for such year in accordance with the terms of the ProfitSharing Plan. In such case, Deferred Compensation will be calculated for such year as provided above. You hereby elect not to invest the 415(c) Excess Amount in Southwest's 2005 Excess Benefit Plan (or any successor plan) for each calendar year during any part of which this Agreement is effect. The Deferred Compensation credited to the Account (including the Interest hereinafter provided) will be paid to you at the rate of \$200,000 per calendar year (subject to

such payroll and withholding deductions as may be required by law), commencing with the calendar year following the year in which (i) you become sixty-five (65) or (ii) you incur a "separation from service," within the meaning of Treasury Regulation §1.409A-1(h), with Southwest (a "***Separation from Service***"), whichever occurs later, and continuing until the entire amount of Deferred Compensation and Interest credited to the Account has been paid. Although the total amount of Deferred Compensation ultimately payable to you hereunder will be computed in accordance with the provisions set forth above, there will be accrued and credited to the Account, beginning on January 1, 2007 (if not so accrued and credited pursuant to the Old Contract, and if so accrued and credited, then beginning on January 1, 2008) and continuing annually thereafter until the entire balance of the account has been distributed (whether such distribution takes place during the Term or thereafter), amounts equal to simple interest at the rate of ten percent (10%) per annum, compounded annually ("***Interest***"), on the accrued and unpaid balance of the Deferred Compensation credited to the Account as of the preceding December 31. The Deferred Compensation and Interest to be paid in any one calendar year will be paid on the first business day of such calendar year; provided, however, that if the event triggering commencement of payment of Deferred Compensation and Interest is your Separation from Service, payment of the first of such annual Deferred Compensation and Interest payments will be deferred to the extent necessary to cause such payment to comply with the six month deferral rule described in Section 409A(a)(2)(B) of the Code if you are a "specified employee" within the meaning of such section at the time of your Separation from Service. Notwithstanding the foregoing, in the event of your death, then the unpaid balance of the Deferred Compensation (together with any accrued Interest thereon) will be paid to the executors or administrators of your estate in cash in one lump sum on the first business day of the calendar year next following the calendar year in which your death occurred. Southwest at its election may fund the payment of Deferred Compensation by setting aside and investing such funds as Southwest may from time to time determine. Neither the establishment of the Account, the crediting of Deferred Compensation thereto, nor the setting aside of any funds will be deemed to create a trust. Legal and equitable title to any funds set aside will remain in Southwest, and you will have no security or other interest in such funds. Any funds so set aside or invested will remain subject to the claims of the creditors of Southwest, present and future. No right, title, interest or benefit under this paragraph will ever be liable for or charged with any of the torts or obligations of you or any person claiming under you, or be subject to seizure by any creditor of you or any person claiming under you. Neither you nor any person claiming under you will have the power to anticipate or dispose of any right, title, interest or benefit under this paragraph in any manner until the same is actually distributed by Southwest.

Payments made pursuant to this Agreement will be subject to applicable tax withholding. Effective as of the Effective Date hereof you agree that your Employment Contract is terminated and will be of no force and effect and that the benefits previously payable under your Employment Contract and set forth in this Agreement will be, as of the Effective Date, provided pursuant to the terms of this Agreement. Notwithstanding the foregoing, nothing in this Agreement is intended to result in the termination of the Deferred Compensation Plan for purposes of Section 409A of the Code and nothing in this Agreement is intended to change the time or form of benefit available under the Deferred Compensation Plan. This Agreement will be subject to and governed by the laws of the State of Texas, without giving effect to any conflict of law provisions thereof, except to the extent Texas law is preempted by federal law.

By signing below, you agree that this letter agreement accurately reflects our mutual agreements with respect to the Deferred Compensation Plan. This Agreement may be signed in multiple counterparts, each of which will be deemed an original but all of which taken together will constitute a single instrument.

Sincerely,

SOUTHWEST AIRLINES CO.

By: /s/ Laura Wright

Name: Laura Wright

Title: SVP Finance & CFO

ACCEPTED AND AGREED:

/s/ Gary C. Kelly

Gary C. Kelly

Date: January 31, 2011