

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

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
(I.R.S. Employer
Identification No.)

75235-1611
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (\$1.00 par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Smaller reporting company

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

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$9,119,884,998 computed by reference to the closing sale price of the common stock on the New York Stock Exchange on June 30, 2011, the last trading day of the registrant's most recently completed second fiscal quarter.

Number of shares of common stock outstanding as of the close of business on February 3, 2012: 772,906,217 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the Company's Annual Meeting of Shareholders to be held May 16, 2012, are incorporated into Part III of this Annual Report on Form 10-K.

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PART I

Item 1. Business

Company Overview

Southwest Airlines Co. (the “Company”) operates Southwest Airlines, a major passenger airline that provides scheduled air transportation in the United States. Southwest commenced service on June 18, 1971, with three Boeing 737 aircraft serving three Texas cities: Dallas, Houston, and San Antonio. Southwest ended 2011 serving 72 cities in 37 states throughout the United States, which included the addition of service in 2011 to two new states and three new cities: Charleston, South Carolina; Greenville-Spartanburg, South Carolina; and Newark, New Jersey. The Company has also announced its plan to expand Southwest service to its 38th state and 73rd city in February 2012, with the commencement of service to Atlanta, Georgia. Based on the most recent data available from the U.S. Department of Transportation, as of June 30, 2011, Southwest was the largest domestic air carrier in the United States, as measured by the number of originating passengers boarded.

Southwest principally provides point-to-point, rather than hub-and-spoke, service. This has enabled it to maximize the use of key assets, including aircraft, gates, and Employees, and has also facilitated its ability to provide its markets with frequent, conveniently timed flights and low fares. Point-to-point service is discussed in more detail below under “Company Operations — Route Structure.”

On May 2, 2011, the Company acquired all of the outstanding equity of AirTran Holdings, Inc. in exchange for common stock of the Company and cash. Each outstanding share of common stock of AirTran Holdings, Inc. was converted into the right to receive 0.321 shares of the Company’s common stock and \$3.75 in cash, without interest. In connection with the acquisition, the Company also acquired AirTran Airways, Inc., which operates the passenger airline AirTran Airways. In addition to providing scheduled air transportation in the United States, AirTran provides service to selected international locations. The acquisition of AirTran allowed the Company to immediately and significantly expand and diversify its overall route network and thereby provide a near-term growth opportunity not otherwise available to the Company. These and other benefits of the acquisition are discussed further below under “Operating Strategies and Initiatives – Integration of AirTran” and “Operating Strategies and Initiatives — Network Optimization and Revenue Management.”

AirTran’s route system provides primarily hub-and-spoke, rather than point-to-point, service, with approximately half of AirTran’s flights currently originating or terminating at its largest hub in Atlanta, Georgia. AirTran also serves a number of markets with non-stop service from smaller bases of operation in Baltimore, Maryland; Milwaukee, Wisconsin; and Orlando, Florida. Hub-and-spoke service is discussed in more detail below under “Company Operations — Route Structure.” AirTran ended 2011 serving 68 U.S. and near-international destinations, including San Juan, Puerto Rico; Cancun, Mexico; Montego Bay, Jamaica; Nassau, The Bahamas; Oranjestad, Aruba; Punta Cana, Dominican Republic; and Bermuda. The Company has announced that, subject to required government and other approvals, AirTran expects to add service to Mexico City, Mexico and Austin, Texas beginning in May 2012 and to Cabo San Lucas, Mexico and Orange County, California beginning in June 2012. As part of its network optimization efforts, the Company has also decided to discontinue AirTran service to certain markets. As of January 31, 2012, AirTran served 65 destinations.

For the 39th consecutive year, the Company was profitable, earning \$178 million. The Company’s consolidated financial results include the results, from and after May 2, 2011, of AirTran Holdings, LLC (the successor to AirTran Holdings, Inc.) and its subsidiaries, including, among others, AirTran Airways, Inc. At December 31, 2011, the total fleet operated by Southwest or AirTran consisted of 698 aircraft, including 610 Boeing 737s and 88 Boeing 717s.

Industry

The airline industry is extremely volatile and is subject to various challenges. Among other things, it is cyclical, energy intensive, labor intensive, capital intensive, technology intensive, highly regulated, heavily taxed, and extremely competitive, with generally low barriers to entry. The airline industry is also particularly

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susceptible to detrimental events such as acts of terrorism, poor weather, and natural disasters. Over the last decade, total financial losses for the U.S. airline industry have exceeded \$50 billion. These losses were driven by factors such as 9/11, the worst economic recession in aviation history, and a worldwide credit crisis. In addition, in recent years the industry has been particularly negatively affected by high and volatile fuel prices. These factors have contributed to volatile and unpredictable demand for air travel and related cost and pricing challenges. Fuel costs alone have risen over 300 percent from 2000 levels. As a result, several U.S. airlines have ceased operations or reorganized through bankruptcy.

The U.S. economy has experienced a moderate recovery since emerging from recession in 2009; however, economic uncertainty continued to impact the airline industry in 2011, which resulted in continued industry restraint with respect to overall capacity (number of available seats). Although some air carriers, including Southwest, experienced modest year-over-year increases in capacity during most of 2011, overall domestic airline industry capacity remained below pre-recession levels. The leaner flight schedules have led to improvements in industry load factors (percentage of seats filled by fare-paying passengers) and yields (revenue production per passenger mile).

Company Operations

Route Structure

General

Southwest principally provides point-to-point service, rather than the “hub-and-spoke” service provided by most major U.S. airlines (often referred to as “legacy” or “network” airlines). The hub-and-spoke system concentrates most of an airline’s operations at a limited number of central hub cities and serves most other destinations in the system by providing one-stop or connecting service through a hub. Any issue at a hub, such as bad weather or a security problem, can create delays throughout the system. By not concentrating operations through one or more central transfer points, Southwest’s point-to-point route structure has allowed for more direct non-stop routing than hub-and-spoke service. This in turn has historically enabled Southwest to control delays and total trip time. For 2011, approximately 71 percent of Southwest’s Customers flew non-stop, and Southwest’s average aircraft trip stage length was 664 miles with an average duration of approximately 1.8 hours. For 2010, approximately 73 percent of Southwest’s Customers flew non-stop, and Southwest’s average aircraft trip stage length was 648 miles with an average duration of approximately 1.8 hours. The 2011 decrease in percentage of non-stop Customers reflects, in part, the Company’s network optimization efforts, which have included publishing more itineraries with enhanced connecting opportunities and which have also contributed to improved load factors. The Company’s network optimization is discussed in more detail below under “Operating Strategies and Initiatives – Network Optimization and Revenue Management.”

Southwest’s point-to-point service has also enabled it to provide its markets with frequent, conveniently timed flights and low fares. For example, Southwest currently offers 25 weekday roundtrips from Dallas Love Field to Houston Hobby, 13 weekday roundtrips from Phoenix to Las Vegas, 13 weekday roundtrips from Burbank to Oakland, and 12 weekday roundtrips from Los Angeles International to Oakland. Southwest complements these high-frequency short-haul routes with long-haul non-stop service between markets such as Los Angeles and Nashville, Las Vegas and Orlando, and San Diego and Baltimore. As of December 31, 2011, Southwest served 479 non-stop city pairs.

Unlike Southwest, AirTran currently operates largely through a hub-and-spoke network system, with approximately half of its flights originating or terminating at its largest hub at Hartsfield-Jackson Atlanta International Airport. AirTran also serves a number of markets with non-stop service from smaller bases of operation in Baltimore, Maryland; Milwaukee, Wisconsin; and Orlando, Florida.

International Service

Southwest does not currently provide international service; however, Southwest Customers are able to book international flights with connecting service by Volaris, Mexico’s second largest airline. Southwest offers

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connecting service opportunities from over 60 Southwest cities to different Volaris airports in Mexico including: Aguascalientes, Guadalajara, Mexico City (MEX), Mexico City-Toluca (TLC), Morelia, and Zacatecas. Behind the scenes, the Company's International Connect portal conducts two separate transactions – one with Southwest's reservation system and one with Volaris's reservation system. Tying the two systems together provides Southwest Customers with an easy booking experience, one low fare, and thru-checking of luggage, and also blends the airlines' flight schedules.

AirTran provides scheduled international service in San Juan, Puerto Rico; Cancun, Mexico; Montego Bay, Jamaica; Nassau, The Bahamas; Oranjestad, Aruba; Punta Cana, Dominican Republic; and Bermuda. The Company has also announced that, subject to required government and other approvals, it plans to add AirTran service to Mexico City, Mexico in May 2012 and to Cabo San Lucas, Mexico in June 2012. The Company's 2011 operating revenues attributable to foreign operations (all of which were attributable to AirTran) were approximately \$74 million. The remainder of the Company's 2011 operating revenues, \$15.6 billion, were attributable to domestic operations. The Company's tangible assets primarily consist of flight equipment, which is deployed systemwide, with no individual aircraft dedicated to any specific route or region; therefore the Company's assets are not allocated to a geographic area.

Cost Structure

General

A key component of the Company's business strategy has been its low-cost structure, which was designed to allow it to profitably charge low Southwest fares. Adjusted for stage length, Southwest and AirTran have lower unit costs, on average, than most major carriers. The Company's low-cost structure has historically been facilitated by Southwest's use of a single aircraft type, the Boeing 737, an operationally efficient point-to-point route structure, and highly productive Employees. Southwest's use of a single aircraft type has allowed for simplified scheduling, maintenance, flight operations, and training activities. Southwest's point-to-point route structure includes service to and from many secondary or downtown airports such as Dallas Love Field, Houston Hobby, Chicago Midway, Baltimore-Washington International, Burbank, Manchester, Oakland, San Jose, Providence, Ft. Lauderdale/Hollywood, and Long Island Islip. These conveniently located airports are typically less congested than other airlines' hub airports, which has enabled Southwest to achieve high asset utilization because aircraft can be scheduled to minimize the amount of time they are on the ground. This in turn has reduced the number of aircraft and gate facilities that would otherwise be required and allows for high Employee productivity (headcount per aircraft). With the acquisition of AirTran, the Company has added AirTran operations that include a new aircraft type, the Boeing 717, and an increased presence in larger markets and primary airports. As discussed further below under "Risk Factors," these factors could diminish the Company's low-cost advantage.

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Impact of Fuel Costs on the Company's Low-Cost Structure

In 2011, the Company experienced a significant increase in its Fuel and oil expense as a result of higher market prices. In addition, for the seventh consecutive year Fuel and oil expense represented the Company's largest or second largest cost. The table below shows the Company's average cost of jet fuel and oil over the past seven years and during each quarter of 2011.

Year	Cost (Millions)	Average Cost Per Gallon	Percent of Operating Expenses
2005	\$ 1,470	\$ 1.13	21.4%
2006	\$ 2,284	\$ 1.64	28.0%
2007	\$ 2,690	\$ 1.80	29.7%
2008	\$ 3,713	\$ 2.44	35.1%
2009	\$ 3,044	\$ 2.12	30.2%
2010	\$ 3,620	\$ 2.51	32.6%
2011	\$ 5,644	\$ 3.19	37.7%
First Quarter 2011	\$ 1,038	\$ 2.91	34.7%
Second Quarter 2011	\$ 1,527	\$ 3.30	38.9%
Third Quarter 2011	\$ 1,586	\$ 3.23	38.8%
Fourth Quarter 2011	\$ 1,494	\$ 3.25	37.7%

The Company enters into fuel derivative contracts to manage its risk associated with significant increases in fuel prices; however, because energy prices can fluctuate significantly in a relatively short amount of time, the Company must also continually monitor and adjust its fuel hedge portfolio and strategies to address not only fuel price increases, but also fuel price volatility. For example, during 2008, market "spot" prices for crude oil peaked at a high of over \$147 per barrel and hit a low of under \$35 per barrel – both within a period of approximately five months. This led to the Company's decision in late 2008 and early 2009 to significantly reduce its net fuel hedge position in place for 2009 through 2013. As a result of these activities, the Company effectively locked in some hedging-related losses for 2009 through 2013. In early 2009, the Company began to adjust its fuel hedge portfolio in an attempt to economically layer back in some protection in the event of a significant surge in market prices. Fuel prices settled into a more consistent range in 2010, but again significantly increased for 2011. In addition, the cost of hedging has increased with volatility in the fuel market. Therefore, the Company continues to actively manage its fuel hedge portfolio to address volatile fuel prices and, in particular, to mitigate the impact of significant increases in energy prices, while maintaining an objective to manage derivative premium costs. The Company's fuel hedging activities are discussed in more detail below under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 10 to the Consolidated Financial Statements.

Fare Structure

Southwest

Southwest offers a relatively simple fare structure that features low, unrestricted, unlimited, everyday coach fares, as well as even lower fares available on a restricted basis. Southwest bundles fares into three major categories: "Wanna Get Away," "AnytimeSM," and "Business Select[®]," with the goal of making it easier for Customers to choose the fare they prefer.

- "Wanna Get Away" fares are generally the lowest fares and are subject to advance purchase requirements. They are nonrefundable, but funds may be applied to future travel on Southwest.
- "Anytime" fares are refundable and changeable, and funds may also be applied toward future travel on Southwest.
- "Business Select" fares are refundable and changeable, and funds may be applied toward future travel on Southwest. Business Select fares also include additional perks such as priority boarding, a

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higher frequent flyer point multiplier than other Southwest fares, priority security and ticket counter access in select airports, and one complimentary adult beverage coupon for the day of travel (for Customers of legal drinking age).

AirTran

AirTran also offers a user-friendly fare structure that features a variety of fares based on the length of the Customer's advance purchase. In addition, AirTran currently offers a Business Class product. With the exception of Business Class fares, all AirTran fares are nonrefundable, but can be changed prior to departure, subject to payment of a service charge. AirTran Business Class fares are refundable and changeable and include additional perks such as priority boarding, oversized seats with additional leg room, bonus frequent flyer credit, no first or second bag fees, and complimentary cocktails onboard. In addition, AirTran's Business Class product can be purchased separately or through an upgrade of a non-Business Class fare within 24 hours of travel.

Websites

Southwest.com

The Company's Internet website, southwest.com, is the only avenue for Southwest Customers to purchase tickets online. During 2011, southwest.com accounted for approximately 78 percent of all Southwest bookings. In addition, for the year ended December 31, 2011, approximately 84 percent of Southwest's Passenger revenues came through its website (including revenues from SWABIZ®, the Company's business travel reservation web page). During 2010, the Company added functionality to southwest.com for the purpose of, among other things, providing more product options, driving better booking rates, and improving ancillary revenues. The 2010 enhancements also included improved navigation capabilities to make it easier for Customers to locate what they need. Any part of a trip can be planned directly from the southwest.com home page. In addition, southwest.com can recognize a Customer's home airport and provide offers relevant to the Customer. Southwest.com can also remember a Customer's most recent searches to make it easier for the Customer to shop for flights, cars, and hotels, and includes a shopping cart functionality that allows a Customer to purchase air, hotel, and car all at once. Customers can also book unaccompanied minor travel online. Southwest.com also highlights points of differentiation between Southwest and other air carriers, as well as the fact that southwest.com is the only place where Customers can purchase Southwest fares online.

AirTran.com

The Internet is also an integral part of AirTran's distribution network. Sales booked directly on airtran.com represent AirTran's largest and most cost-effective form of distribution. In addition to being user-friendly and simple, AirTran's website is designed to sell tickets efficiently. AirTran has added functionality to airtran.com that allows Customers to easily book and manage their travel, including the ability to retrieve and change future flight reservations, make seat selections, and checkin online. Sales through airtran.com produced approximately 53 percent of AirTran's revenues during 2011 and approximately 57 percent of total bookings in 2011.

Operating Strategies and Initiatives

Major Strategic Initiatives

During 2011, the Company continued to address high jet fuel prices and economic uncertainty through its strategic initiatives. In particular, the Company focused on four major strategic initiatives: (i) integration of AirTran, (ii) implementation of Southwest's All-New Rapid Rewards® frequent flyer program, (iii) incorporation of the Boeing 737-800 aircraft into the Southwest fleet and other fleet renewal and modernization strategies, and (iv) replacement of Southwest's reservation system.

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Integration of AirTran

During 2011, the Company began integrating AirTran into its operations. Although the Company anticipates full integration may take several years, it accomplished the following key integration milestones during 2011:

- The Company moved the vast majority of AirTran's headquarters functions from Orlando to Dallas.
- The Company began optimizing AirTran's network and released the first coordinated Southwest and AirTran flight schedules.
- The Company took initial steps towards integrating the frequent flyer programs of Southwest and AirTran.
- The Southwest Airlines Pilots' Association ("SWAPA"), the union representing Southwest Pilots, the Air Line Pilots Association ("ALPA"), the union representing the Pilots of AirTran, and the Company reached an agreement to integrate the two Pilot groups' seniority lists. The agreement was approved by SWAPA's Board of Directors and ALPA's Master Executive Council and was ratified by the membership of each union.
- The Transportation Workers of America, AFL-CIO, Local 556 ("TWU 556"), the union that represents Southwest Flight Attendants, the Association of Flight Attendants ("AFA"), the union that represents AirTran Flight Attendants, and the Company reached an agreement to integrate the two Flight Attendant groups' seniority lists. The agreement was approved by TWU 556's Executive Board and AFA's Master Executive Council and, in January 2012, was ratified by the membership of each union.
- The Aircraft Mechanics Fraternal Association ("AMFA"), the union representing Southwest Aircraft Mechanics, the International Brotherhood of Teamsters, Local 528 ("IBT 528"), the union representing the AirTran Mechanics, and the Company reached a tentative agreement subject to a ratification vote by the unions' respective memberships. The agreement would integrate the two groups' seniority lists and also create a single labor agreement.
- The Transportation Workers of America, AFL-CIO Local 557 ("TWU 557"), the union representing Southwest Flight Instructors, an Employee Committee representing the Flight Instructors of AirTran, and the Company reached an agreement to integrate the two groups' seniority lists. TWU 557's Executive Committee and the Employee Committee representing the AirTran Flight Instructors voted to pass the agreement forward to their respective members. The agreement was ratified by the respective memberships in January 2012.

During 2012, the Company expects to:

- receive approval from the Federal Aviation Administration (the "FAA") of a single operating certificate, which is significant from an operational policies and procedures perspective and, subject to satisfactory resolution and integration of applicable union contracts, will allow the Company to operate aircraft and perform maintenance operations for both Southwest and AirTran aircraft;
- begin conversion of AirTran's fleet to the Southwest livery and continue to convert AirTran products, gates, and services to Southwest's look;
- launch travel booking tools to allow Customers of both Southwest and AirTran to book flights on either carrier using either southwest.com or airtan.com;
- further integrate the Southwest and AirTran frequent flyer programs; and
- continue to further optimize and align the Southwest and AirTran networks, which is expected to be a multi-year undertaking.

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The Company believes the acquisition of AirTran has positioned it to better respond to the economic and competitive challenges of the industry because:

- it grows the Company's presence in key markets Southwest did not previously serve and represents a significant step toward positioning the Company for future growth;
- it allows the Company to offer more low-fare destinations by extending its network and diversifying into new markets, including significant opportunities to and from Atlanta, the largest domestic market Southwest has not served;
- it expands the Company's presence in slot-controlled markets where Southwest previously had little (New York LaGuardia) or no (Ronald Reagan Washington National Airport) service;
- it expands the Company's service in other key domestic markets, including Boston and Baltimore, and adds destinations to its route system;
- it increases the Company's share of current domestic market share capacity (as measured by available seat miles or passengers); and
- it provides access to near-international leisure markets in the Caribbean and Mexico, as well as smaller cities, and provides firsthand and meaningful insight into these new expansion opportunities.

Implementation of Southwest's All-New Rapid Rewards Frequent Flyer Program

In March 2011, the Company launched its All-New Rapid Rewards frequent flyer program. Under the Company's new frequent flyer program, members earn points for every dollar spent instead of credits for flight segments flown. The amount of points earned is based on the fare and fare class purchased, with higher fare products (*e.g.*, Business Select) earning more points than lower fare products (*e.g.*, Wanna Get Away). Each fare class is associated with a points earning multiplier, and points for flights are calculated by multiplying the fare for the flight by the fare class multiplier. Likewise, the amount of points required to be redeemed for a flight is based on the fare and fare class purchased. However, unlike the Company's previous program, under the new program (i) members are able to redeem their points for every available seat, every day, on every flight, with no blackout dates; and (ii) points do not expire so long as the Rapid Rewards Member has points-earning activity during a 24-month time period.

Rapid Rewards points earned for each fare type are as follows:

- Business Select: 12 points per dollar spent
- Anytime: 10 points per dollar spent
- Wanna Get Away: 6 points per dollar spent

Rapid Rewards points required for redemption for each fare type are as follows:

- Business Select: 120 points times the fare
- Anytime: 100 points times the fare
- Wanna Get Away: 60 points times the fare

Under the new program, flight awards are not automatically issued when a member's account reaches a certain threshold. Instead, members can decide when to redeem points for travel on any Southwest flight. As a result, the new program provides its members more flexibility and options for earning and redeeming their rewards. For example, members can earn more points (and/or achieve tiered status such as A-List and Companion Pass faster) by purchasing higher fare tickets. Members also have more flexibility in redeeming

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points, such as the opportunity to book in advance to take advantage of a lower fare (including a fare sale) ticket by redeeming fewer points or by being able to redeem more points and book at the last minute if seats are still available for sale. Rapid Rewards Members can also earn points through qualifying purchases with Rapid Rewards Partners (which include, for example, car rental agencies, hotels, restaurants, and retail locations), as well as by using Southwest's co-branded Chase® Visa credit card. In addition, holders of Southwest's co-branded Chase Visa credit card are able to redeem their points for items other than travel on Southwest, such as international flights on other airlines, cruises, hotel stays, rental cars, gift cards, event tickets, and more. In addition to earning points for revenue flights and qualifying purchases with Rapid Rewards Partners, Rapid Rewards Members also have the ability to purchase points.

The All-New Rapid Rewards frequent flyer program also features enhanced A-List and Companion Pass programs for the most active members and adds a new level of status, "A-List Preferred." Both A-List and A-List Preferred Members enjoy benefits such as "Fly By®" priority checkin and security lane access, where available, as well as dedicated phone lines, standby priority, and an earnings bonus on eligible revenue flights (25% for A-List and 100% for A-List Preferred). In addition, A-List Preferred Members enjoy free inflight WiFi on equipped flights. Rapid Rewards Members who attain A-List or A-List Preferred status receive priority boarding privileges for an entire year. When these Customers purchase travel at least 36 hours prior to flight time, they receive the best boarding pass number available (generally, an "A" boarding pass). "A-List" or "A-List Preferred" Customers are automatically checked in for their flight in advance of departure. Rapid Rewards Members who fly 100 qualifying one-way flights or earn 110,000 qualifying points in a calendar year automatically receive a Companion Pass, which provides for unlimited free roundtrip travel for one year to any destination available on Southwest for a designated companion of the qualifying Rapid Rewards Member. The Rapid Rewards Member and designated companion must travel together on the same flight, and the Rapid Rewards Member must purchase a ticket for the flight or use a travel award.

The All-New Rapid Rewards frequent flyer program has been designed to drive more revenue by (i) bringing in new Customers, including new Rapid Rewards Members, as well as new holders of Southwest's co-branded Chase Visa credit card; (ii) increasing business from existing Customers; and (iii) strengthening the Company's Rapid Rewards hotel, rental car, credit card, and retail partnerships. To date, the new program has exceeded the Company's expectations with respect to the number of frequent flyer members added, the number of Southwest's co-branded Chase Visa credit card holders added, the number of flights taken by members, incremental revenues associated with members booking flights, and the number of frequent flyer points purchased by program members.

During 2011, the Company began the process of integrating the frequent flyer programs of Southwest and AirTran by offering top-tier status members of both airlines' frequent flyer programs some limited reciprocal benefits. For example, AirTran A+ Rewards members who book on Southwest are eligible for "A-List" benefits on Southwest flights. In addition, Southwest "A-List" and "A-List Preferred" Rapid Rewards Members booking on AirTran are eligible for free Business Class upgrades, no baggage fees, and all other benefits that AirTran's A+ Rewards members enjoy.

AirTran's A+ Rewards frequent flyer program offers a number of ways to earn free travel including bonus earnings for Business Class travel. AirTran Customers may earn either free travel or Business Class upgrades or, under certain circumstances, free travel on other airlines. A+ Rewards members can earn a credit for each one-way trip flown or 1.5 credits for one-way Business Class travel. A+ Rewards credits may be redeemed as follows:

- One-way Business Class upgrade: 4 credits
- One-way Coach ticket: 8 credits
- One-way Business Class ticket: 16 credits

A+ Rewards credits can also be earned for purchases made with an AirTran Airways A+ Visa card, when renting from Hertz, for purchases from other A+ Rewards partners, and in conjunction with marketing

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promotions that AirTran may run from time to time. A+ Rewards members may purchase A+ Rewards credits, extend the expiration of A+ credits, or give A+ credits to another member to help earn a free flight faster. A+ Rewards credits earned by holders of AirTran's Visa card and elite A+ Rewards members have a two-year expiration date, as opposed to a one-year expiration date for general members.

For the Company's 2011 consolidated results, which include AirTran results from May 2, 2011 through December 31, 2011, Customers of Southwest and AirTran redeemed approximately 3.7 million flight awards, accounting for approximately 8.3 percent of revenue passenger miles flown. Southwest Customers redeemed approximately 3.2 million and 3.0 million flight awards during 2010 and 2009, respectively, accounting for approximately 7.9 percent and 7.7 percent of Southwest revenue passenger miles flown in those years. Although under Southwest's new frequent flyer program travel awards are no longer automatically generated, awards and credits earned under Southwest's previous frequent flyer program may still be redeemed until their original expiration date. As of December 31, 2011, there were approximately 1.3 million previously issued flight awards still outstanding under the previous program and approximately 2.6 million partially earned awards outstanding. However, the Company believes a significant portion of these flight awards and partially earned awards will expire without being used, as they are not transferable to the Company's new frequent flyer program. Award travel available to members of AirTran's A+ program as of December 31, 2011, was not significant to the Company. The amount of points redeemed by Southwest's members and the number of credits redeemed by AirTran's members during 2011 for items other than air travel was not material.

For frequent flyer points earned by members through flight activity, the Company currently accounts for its program obligations utilizing the incremental cost method. Under this method, the Company estimates the incremental cost of points that are expected to be redeemed for a future flight award. The estimated incremental cost of this liability includes direct passenger costs such as fuel, food, and other operational costs, but does not include any contribution to overhead or profit. The majority of the revenue from the sale of points to business partners participating in the Company's frequent flyer program is initially deferred and is subsequently recognized as Passenger revenue at the time of redemption. A portion of the revenue received is deemed unrelated to future travel and is recognized as Other revenue in the period earned. The Company's accounting policies with respect to its frequent flyer programs are discussed in more detail in Note 1 to the Consolidated Financial Statements. As a result of an increase in activity associated with Southwest's All New Rapid Rewards program in 2011 and the acquisition of AirTran, the Company's consolidated liability associated with frequent flyer programs, including amounts transacted with business partners, was \$545 million at December 31, 2011, versus \$246 million at December 31, 2010.

Introduction of the Boeing 737-800 and Other Fleet Renewal and Modernization Strategies

The Boeing 737-800. The Company expects to introduce the Boeing 737-800 into the Southwest fleet in the first quarter of 2012. The 737-800's all coach seating configuration of 175 will offer significantly more Customer seating capacity than Southwest's existing fleet. In addition to the added seating capacity, the planned configuration includes The Boeing Company's Sky Interior, which features a quieter cabin, improved operational security features, and LED reading and ceiling lighting. The Company expects the 737-800 will enable it to (i) more economically serve longhaul routes, including extended routes over water; (ii) improve scheduling flexibility and more economically serve high-demand, slot-controlled, and gate-restricted airports, such as New York LaGuardia, Newark, and Washington Reagan, by adding seats to such markets without increasing the number of flights; and (iii) boost fuel efficiency to reduce overall unit costs. Additionally, the Company expects the 737-800 will enable Southwest to profitably expand to new destinations and potentially fly to more distant markets such as Hawaii, Alaska, Canada, Mexico, and the Caribbean. The Company currently expects to take delivery of 33 Boeing 737-800 aircraft during 2012. The Company's fleet is discussed in more detail below under "Properties – Aircraft."

The Boeing 737 MAX. In December 2011, the Company announced that it will be the launch customer for the new Boeing 737 MAX aircraft. The Company has placed a firm order for 150 of the Boeing 737 MAX aircraft and expects to take delivery of the first Boeing 737 MAX aircraft in 2017. The Boeing 737 MAX is

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designed to be more fuel efficient and environmentally friendly, and the Company believes the 737 MAX will (i) have the lowest operating costs in the single-aisle segment and (ii) benefit the Company with an engine/airframe combination that is uniquely designed to optimize operating performance of the Company's fleet. In addition, the 737 MAX will enable the Company to replace certain Boeing 737 and/or Boeing 717 aircraft. The Company has determined the Boeing 717 aircraft does not fit within its long-term overall fleet plans. In addition, replacement of the Boeing 717 aircraft would enable the Company to return to operating with a single aircraft type, with the associated operational benefits discussed above under "Company Operations – Cost Structure."

The Boeing Next-Generation 737. In December 2011, the Company also announced that it expanded its current orders for the Boeing Next-Generation 737 aircraft from 142 to 200, which increased the Company's overall total firm orders with Boeing to 350 for 2012 through 2024. The orders are intended to predominately serve as replacement aircraft in the Company's fleet. The Company also has options to purchase an additional 92 Boeing 737 Next-Generation aircraft and an additional 150 Boeing 737 MAX aircraft. The Company expects its long-term, fuel efficient fleet modernization plan to provide substantial flexibility to manage its fleet needs in a variety of economic conditions. The Company's future aircraft delivery schedule is set forth in more detail under "Properties – Aircraft."

Southwest Cabin Refresh. In January 2012, the Company announced its introduction of a new cabin interior design that uses durable and environmentally responsible products to reduce waste and create weight savings onboard the aircraft, while at the same time increasing the number of seats and enhancing Customer comfort. The Company plans to begin retrofitting the Southwest current fleet of Boeing 737-700s in March 2012 and anticipates the retrofit will be completed in 2013. The Company plans to retrofit the AirTran current fleet of Boeing 737-700s as such aircraft are converted to Southwest livery beginning in 2012.

Reservation System

The Company intends to replace Southwest's existing reservation system with a system that would provide the ability to serve international destinations and that would allow for other revenue management and Customer Service enhancements. The Company anticipates the reservation system replacement will be a multi-year project, with other key technology projects, such as those related to AirTran integration, All-New Rapid Rewards, and the introduction of the Boeing 737-800, taking priority.

Other Strategic Initiatives

In addition to the Company's four major strategic initiatives discussed above, the Company has continued to design, implement, and manage other strategic initiatives to increase revenues, improve cost controls, and continue to attract and retain Customers.

Network Optimization and Revenue Management

During 2011, the Company continued to use profitability management tools to aggressively manage capacity and route expansion through optimization of its flight schedule to better match demand in certain markets. These efforts contributed to improved revenues and load factors during 2011. The Company also set the stage for long-term growth by beginning the process of aligning the Southwest and AirTran networks. For example, during 2011, the Company determined that high jet fuel prices have made the economics of many AirTran routes unprofitable. In response, the Company decided to remove AirTran flights from certain markets and reallocate them to other markets. The Company expects the connection and optimization of the Southwest and AirTran schedules and network to be a multi-year undertaking, but believes these efforts will yield significant synergies and financial benefits. The Company intends to continue to expand the depth, reach, and profitability of its overall network.

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Aggressive Promotion of the Company's Low-Fare Brand and Points of Differentiation from its Competitors

During 2011, the Company continued to benefit from, and aggressively market, Southwest's points of differentiation from its competitors. For example, Southwest continues to be the only major U.S. airline that does not impose additional fees for first or second checked bags. Through its "Bags Fly Free®" marketing campaign, Southwest has continued to aggressively promote this point of differentiation from its competitors. The Company believes its decision not to charge for first and second checked bags on Southwest, as reinforced by the Company's related marketing campaign, has driven an increase in Southwest's market share and a resulting increase in revenues.

Southwest is also the only major U.S. airline that does not impose a fee for a Customer's change in flight plans. In January 2011, the Company introduced a marketing campaign to promote this point of differentiation between Southwest and its competitors. The campaign highlights the importance to Southwest of Customer Service by showing that Southwest understands plans can change and therefore does not charge a change fee. While a Customer may pay a difference in airfare, the Customer will not be charged a change fee on top of any difference in airfare.

Also unlike most of its competitors, Southwest does not impose additional fees for items such as seat selection, fuel surcharges, snacks, curbside checkin, and telephone reservations. In addition, Southwest allows each ticketed Customer to check one stroller and one car seat free of charge, in addition to the two free checked bags.

Business Traveler Amenities

Southwest offers several products that have been designed to attract additional business/full fare travelers.

Business Select. As discussed above, Southwest's "Business Select" product includes perks such as priority boarding, a higher frequent flyer point multiplier than other Southwest fares, priority ticket counter and security checkpoint access in select airports, and one complimentary adult beverage coupon for the day of travel (for Customers of legal drinking age).

"Fly By" Priority Lanes. Southwest provides Fly By Priority Lane access for its Business Select Customers and Rapid Rewards A-List Members at many of its airports. Fly By Priority Lanes are priority access lanes located at select ticket counters and security checkpoints. The lanes allow Business Select Customers and Rapid Rewards A-List Members direct access to the front of the line at the ticket counter and/or security checkpoint. As of December 31, 2011, Fly By Priority Lane Access was available at 56 airports.

SWABIZ. SWABIZ is Southwest's business travel reservation web page. SWABIZ allows business travelers to plan, book, and purchase Ticketless Travel on Southwest and to efficiently obtain their lowest fares and maximum frequent flyer credit.

In addition, as discussed below under "Inflight Internet Connectivity," Southwest has continued to install equipment on its fleet to provide WiFi connectivity.

AirTran currently offers Business Class on every flight; however the Company has stated that it intends, upon full integration of AirTran, to have a consistent all-coach product offering.

Ancillary Services and Fees

During 2011, the Company continued to experience revenue benefits from service offerings such as Southwest's EarlyBird Check-in™ and Pets Are Welcome on Southwest (PAWS) products. EarlyBird Check-in allows Customers to obtain an early boarding position directly behind Business Select and A-List Customers by adding an additional \$10 to the price of a one-way fare (priority boarding privileges are already included in the

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purchase of a Business Select fare and are a benefit of being an A-List frequent flyer – see “Implementation of Southwest’s All-New Rapid Rewards Frequent Flyer Program” above). Southwest’s PAWS offering allows Customers to bring small cats and dogs into the aircraft cabin for a \$75 one-way fare. Southwest also charges an additional \$50 per one-way trip for unaccompanied minor travel to address the administrative costs and the extra care necessary to safely transport these Customers. The Company also expects to benefit from new ancillary revenue opportunities created by its All-New Rapid Rewards frequent flyer program.

AirTran currently charges fees for checked baggage, carriage of pets, liquor sales, advance seat assignments, call center services, priority seat selection, special services such as the transportation of unaccompanied minors, and extension or transfer of A+ Miles Rewards (in addition to fees for the purchase of A+ Miles Rewards). The Company has stated that it intends, upon full integration of AirTran, to have a consistent product offering without first or second bag fees or change fees.

Inflight Internet Connectivity

Southwest currently offers inflight satellite (broadband) WiFi service on over 165 of its aircraft and continues to work on installing this service on the remainder of its 737-700 aircraft. The Company’s arrangement with its WiFi provider enables the Company to control the pricing of the service, which is currently \$5.00 per flight for any device or flight length.

AirTran currently offers Gogo Inflight Internet connectivity on every flight. Gogo establishes the charges for such Inflight Internet connectivity.

Proactive Customer Communications

The Company’s Automated Outbound Messaging (“AOM”) service enables it to (i) proactively deliver customized automated voice, text, and e-mail messages to Southwest Customers when there has been a significant change (or potential disruption) to their flight, such as a cancellation, gate change, or flight delay; and (ii) give Southwest Customers the option to connect to a Customer Representative or rebook online in the case of cancelled flights. Southwest Customers who book their travel on southwest.com have the option to receive these notifications via telephone (landline or mobile), SMS texting, or email. In addition to providing flight information to Southwest Customers using their preferred contact method, if applicable, the Company directs Southwest Customers to rebook their flights online via southwest.com/rebook. The AOM strategy is designed to increase proactive Customer outreach and accommodations, reduce inbound calls, improve contact center management, save costs, and provide a better overall experience.

Cost Containment

Over the last several years, the Company has undertaken a number of cost-containment projects to preserve Southwest’s low-cost advantage and low-fare brand. These have included the network optimization and fleet modernization strategies discussed above. In addition, these have included fuel conservation mechanisms such as the following:

- installation of blended winglets, which reduce draft and increase fuel efficiency and which have been installed on 487 Southwest aircraft;
- engine washes, which conserve fuel;
- use of electric ground power for aircraft air and power at the gate;
- deployment of auto-throttle and vertical navigation to maintain optimum cruising speeds, which contributes to fuel savings and reduced carbon emissions; and
- reduced aircraft engine idle speed while on the ground, which increases engine life and reduces fuel burn and carbon emissions.

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In addition, the Company has taken significant steps towards Required Navigation Performance (“RNP”) operations. RNP is one of the cornerstones of the FAA’s strategy to modernize the U.S. Air Traffic Control System by addressing limitations on air transportation capacity and making more efficient use of airspace. RNP combines the capabilities of advanced aircraft avionics, GPS (Global Positioning System) satellite navigation (instead of less-precise ground-based navigation), and new flight procedures to (i) enable aircraft to carry navigation capabilities rather than relying on airports; (ii) improve operational capabilities by opening up many new and more direct approach paths to produce more efficient flight patterns; and (iii) conserve fuel, improve safety, and reduce carbon emissions. Southwest began developing GPS approach procedures during the first quarter of 2010, completed RNP training of nearly 6,000 pilots in November 2010, and commenced RNP procedures in revenue service in January 2011. In the first twenty days of RNP activation, Southwest performed 1,400 RNP approaches, and, by the end of 2011, Southwest had conducted 6,790 RNP approaches; however, for reasons out of its control, Southwest’s total number of RNP approaches has slowed to fewer than 400 per month. Southwest must rely on RNP approaches published by the FAA, and the rate of introduction of RNP approaches has been slower than expected, with RNP approaches currently available at only 17 airports. In addition, even at airports with approved RNP approaches, the clearance required from air traffic controllers to perform RNP approaches is often not granted. As a result, in the second half of 2011, the Company decided not to equip its Classic (737-300/500) aircraft with RNP capabilities.

Wireless Ramp Communication

In December 2011, the Company announced that Southwest will be the first U.S. airline to equip ramp Employees systemwide with hands-free wireless headsets to enable the ground crew and pilots to verbally coordinate the process of pushing back planes from concourse gates. The new devices are expected to add another level of safety to potentially dangerous situations. The headset system could also potentially help to improve departure times and fuel efficiency. The Company expects the headset system to be deployed at all Southwest gates nationwide during the first quarter of 2012.

Management Information Systems

The Company has continued its commitment to technology improvements to support its ongoing operations and initiatives. During 2010, the Company completed the integration of a new SAP Enterprise Resource Planning application, which replaced the Company’s general ledger, accounts payable, accounts receivable, payroll, benefits, cash management, and fixed asset systems. The conversion was designed to improve the Company’s key business processes by implementing an integrated tool to increase efficiency, consistency, data accuracy, and cost effectiveness. In addition, the Company has invested in significant technology necessary to support its All-New Rapid Rewards frequent flyer program, enhanced southwest.com website, and WiFi implementation. The Company intends to continue to devote significant technology resources to accommodate the introduction of the 737-800 into the Southwest fleet and to implement a new reservation system that will allow the Company to add international destinations and improve revenue management and Customer Service functionality.

Regulation

The airline industry is heavily regulated, especially by the federal government. Examples of regulations affecting the Company and/or the industry are discussed below.

Economic and Operational Regulation

The U.S. Department of Transportation

The U.S. Department of Transportation (the “DOT”) regulates aviation safety, as well as economic, consumer protection, and civil rights matters. The DOT may impose civil penalties on air carriers for violating its regulations.

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To provide passenger transportation in the United States, a domestic airline is required to hold a Certificate of Public Convenience and Necessity issued by the DOT. A certificate is unlimited in duration, and the Company's certificate generally permits it to operate among any points within the United States and its territories and possessions. Additional DOT authority, in the form of a certificate or exemption from certificate requirements, is required for a U.S. airline to serve foreign destinations either with its own aircraft or via codesharing with another airline. The DOT also has jurisdiction over international tariffs and pricing in certain markets. The DOT may revoke a certificate or exemption, in whole or in part, for intentional failure to comply with federal aviation statutes, regulations, orders, or the terms of the certificate itself.

The DOT's consumer protection and enforcement activities relate to areas such as unfair and deceptive practices and unfair competition by air carriers, deceptive airline advertising (e.g., fare, on-time performance, schedule, and codesharing), and violations of rules concerning denied boarding compensation, ticket refunds, and baggage liability requirements. The DOT is also charged with prohibiting discrimination by airlines and focuses on ensuring that individuals with disabilities obtain nondiscriminatory access to the air transportation system and that the public is not subjected to unlawful discrimination by airlines on the basis of race, religion, national origin, or sex during the course of their air transportation.

Airlines are also subject to a DOT consumer protection rule (the "Passenger Protection Rule"), which addresses, among other matters, tarmac delays and chronically delayed flights (i.e., flights that operate at least 10 times a month and arrive more than 30 minutes late more than 50 percent of the time during that month). Under the Passenger Protection Rule, U.S. passenger airlines are required to adopt contingency plans that include the following: (i) the assurance that no domestic flight will remain on the airport tarmac for more than three hours unless the pilot-in-command determines there is a safety-related or security-related impediment to deplaning passengers or air traffic control advises the pilot-in-command that returning to the gate or permitting passengers to disembark elsewhere would significantly disrupt airport operations; (ii) the assurance that air carriers will provide adequate food and potable drinking water no later than two hours after the aircraft leaves the gate (in the case of departure) or touches down (in the case of arrival) if the aircraft remains on the tarmac, unless the pilot-in-command determines that safety or security considerations preclude such service; and (iii) the assurance of operable lavatories, as well as adequate medical attention, if needed. Air carriers are required to publish their contingency plans on their websites.

The Passenger Protection Rule also subjects airlines to potential DOT enforcement action for unfair and deceptive practices in the event of chronically delayed flights. Airlines are required to (i) display ontime performance on their websites; (ii) adopt customer service plans, publish those plans on their website, and audit their own compliance with their plans; (iii) designate an employee to monitor the performance of their flights; and (iv) provide information to passengers on how to file complaints and respond in a timely and substantive fashion to consumer complaints. Airlines that violate the Passenger Protection Rule are subject to potential fines of up to \$27,500 per passenger, the maximum allowed for violating any aviation consumer rule. The DOT has expressed its intent to aggressively investigate alleged violations of the Passenger Protection Rule.

In August 2011, the DOT implemented new rules expanding the Passenger Protection Rule by, among other things, (i) increasing the maximum denied boarding compensation airlines must pay to passengers bumped from flights from \$800 to \$1,300; (ii) requiring airlines to refund any checked bag fee for permanently lost luggage; (iii) requiring airlines to prominently disclose all potential fees for optional services on their websites; and (iv) requiring airlines to refund passenger fees paid for ancillary services if a flight cancels or oversells and a passenger is unable to take advantage of such services.

Effective January 2012, the DOT further expanded the Passenger Protection Rule by implementing a new airfare advertising rule (the "full-fare advertising rule") that require all advertised airfares to include government-mandated taxes and fees, including fuel charges and security fees. Other new and expanded components of the Passenger Protection Rule require, among other things, that: (i) passengers be allowed to hold a reservation for up to 24 hours without making a payment; (ii) passengers be allowed to cancel a paid reservation without penalty for 24 hours after the reservation is made, as long as the reservation is made at least seven days in advance of

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travel; (iii) fares may not increase after purchase; (iv) baggage fees must be disclosed to the passenger at the time of booking; (v) the same baggage allowances and fees must apply throughout a passenger's trip; (vi) baggage fees must be disclosed on e-ticket confirmations; and (vii) passengers must be promptly notified in the event of delays of more than 30 minutes or if there is a cancellation or diversion of their flight.

In July 2011, the DOT proposed new rules that would require airlines to report more information to the DOT on the amount and types of fees collected from passengers, as well as the number of checked bags and mishandled wheelchairs. The proposal would revise current reporting requirements to increase data collection on the amount airlines receive from different, specific types of fees. The proposed rule would require airlines to report 18 categories of fee revenue. The DOT has not taken final action in this proceeding.

Aviation Taxes

The statutory authority for the federal government to collect most types of aviation taxes, which are used, in part, to finance the nation's airport and air traffic control systems, and the authority of the FAA to expend those funds must be periodically reauthorized by the U.S. Congress. Since September 30, 2007, this authority has been extended by Congress through a series of short-term extensions, with the most recent extension set to expire on February 17, 2012. On February 6, 2012, Congress passed the FAA Modernization and Reform Act of 2012, which the President is expected to sign into law prior to February 17, 2012. This legislation will extend most commercial aviation taxes through September 30, 2015. In addition to FAA-related taxes, there are additional federal taxes related to the Department of Homeland Security. These taxes do not need to be reauthorized periodically. In an effort to reduce the federal deficit, Congress may consider creating a new tax on commercial aviation or increasing an existing tax during the upcoming year. The White House has proposed increasing the security fee assessed on passengers as well as creating a new aircraft departure tax of \$100 per flight to help pay for deficit reduction.

The Wright Amendment

Section 29 of the International Air Transportation Competition Act of 1979, as amended (commonly known as the "Wright Amendment"), prohibited the carriage of non-stop and through passengers on commercial flights between Dallas Love Field and all states outside of Texas, with the exception of the following states (the "Wright Amendment States"): Alabama, Arkansas, Kansas, Louisiana, Mississippi, Missouri, New Mexico, and Oklahoma. Originally, the Wright Amendment permitted an airline to offer flights between Dallas Love Field and the Wright Amendment States only to the extent the airline did not offer or provide any through service or ticketing with another air carrier at Dallas Love Field and did not market service to or from Dallas Love Field and any point outside of a Wright Amendment State. In other words, a Customer could not purchase a single ticket between Dallas Love Field and any destination other than a Wright Amendment State. These restrictions did not apply to flights operated with aircraft having 56 or fewer passenger seats. The Wright Amendment also did not restrict Southwest's intrastate Texas flights or its air service to or from points other than Dallas Love Field.

In 2006, the Company entered into an agreement with the City of Dallas, the City of Fort Worth, American Airlines, Inc., and the DFW International Airport Board, pursuant to which the five parties sought enactment of legislation to amend the Wright Amendment. Congress responded by passing the Wright Amendment Reform Act of 2006, which immediately repealed the original through service and ticketing restrictions by allowing the purchase of a single ticket between Dallas Love Field and any U.S. destination (while still requiring the Customer to make a stop in a Wright Amendment State), and reduced the maximum number of gates available for commercial air service at Dallas Love Field from 32 to 20. The Company currently has access to 16 gates at Dallas Love Field. Pursuant to the Wright Amendment Reform Act and local agreements with the City of Dallas with respect to gates, the Company can expand scheduled service from Dallas Love Field. The Wright Amendment Reform Act also provides for substantial repeal of the remainder of the Wright Amendment in 2014. At such time Southwest will be able to fly to any U.S. destination from Dallas Love Field unless such destination is restricted or otherwise limited by law. Nonstop international service from Dallas Love Field will continue to be prohibited.

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Operational, Safety, and Health Regulation

Southwest, AirTran, and their third-party maintenance providers are subject to the jurisdiction of the FAA with respect to their aircraft maintenance and operations, including equipment, ground facilities, dispatch, communications, flight training personnel, and other matters affecting air safety. The FAA, acting through its own powers or through the appropriate U.S. Attorney, has the power to bring proceedings for the imposition and collection of fines for violation of the Federal Aviation Regulations.

To address compliance with its regulations, the FAA requires airlines to obtain, and Southwest and AirTran have obtained, operating, airworthiness, and other certificates. These certificates are subject to suspension or revocation for cause. In addition, pursuant to FAA regulations, Southwest and AirTran have established, and the FAA has approved or accepted, as applicable, Southwest's and AirTran's operations specifications and maintenance programs for their respective aircraft, ranging from frequent routine inspections to major overhauls. The Company has been working to obtain approval from the FAA of a single operating certificate that would allow the Company to operate aircraft and perform maintenance operations for both Southwest and AirTran aircraft.

In December 2011, the DOT and the FAA issued a rule to amend the FAA's existing flight, duty, and rest regulations. Among other things, the new rule, which will go into effect in 2014, requires a ten hour minimum rest period prior to a pilot's flight duty period, a two-hour increase over the old rules. The new rule also mandates that a pilot must have an opportunity for eight hours of uninterrupted sleep within the ten hour rest period. Pilots will also be limited to no more than nine hours of "flight time," which is considered by the FAA to be any time an airplane is moving on its own power, even if it is on the ground at an airport. Pilots will also be limited to 28 working days in a month and will be required to be given at least 30 consecutive hours free from duty on a weekly basis, a 25 percent increase over the current rules.

The Company is subject to various other federal, state, and local laws and regulations relating to occupational safety and health, including Occupational Safety and Health Administration and Food and Drug Administration regulations.

Security Regulation

Pursuant to the Aviation and Transportation Security Act ("ATSA"), the Transportation Security Administration (the "TSA"), a division of the U.S. Department of Homeland Security, is responsible for certain civil aviation security matters. ATSA and subsequent TSA regulations and procedures implementing ATSA address, among other things, (i) flight deck security; (ii) the use of federal air marshals onboard flights; (iii) airport perimeter access security; (iv) airline crew security training; (v) security screening of passengers, baggage, cargo, mail, employees, and vendors; (vi) training and qualifications of security screening personnel, (vii) provision of passenger data to U.S. Customs and Border Protection; and (viii) background checks. Under ATSA, substantially all security screeners at airports are federal employees, and significant other elements of airline and airport security are overseen and performed by federal employees, including federal security managers, federal law enforcement officers, and federal air marshals. TSA-mandated security procedures can affect the Company's operations, costs, and Customer experience. For example, in 2006, the TSA implemented security measures regulating the types of liquid items that can be carried onboard aircraft. In 2009, the TSA introduced its Secure Flight program. Secure Flight requires airlines to collect a passenger's full name (as it appears on a government-issued ID), date of birth, gender, and Redress Number (if applicable). Airlines must transmit this information to Secure Flight, which uses the information to perform matching against terrorist watch lists. After matching passenger information against the watch lists, Secure Flight transmits the matching results back to airlines. This serves to identify individuals for enhanced security screening and to prevent individuals on watch lists from boarding an aircraft. It also helps prevent the misidentification of passengers who have names similar to individuals on watch lists. In 2010, the TSA also implemented enhanced security procedures as part of its enhanced, multi-layer approach to airport security by employing advanced imaging technology (full body scans), as well as new physical pat down procedures, at security checkpoints. Such enhanced security procedures have raised privacy concerns by some air travelers.

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Enhanced security measures have also impacted the Company's business through the imposition of security fees on Southwest and AirTran and their Customers. Under ATSA, funding for passenger security is provided in part by a \$2.50 per enplanement security fee (the "9/11 Fee"), subject to a maximum of \$5.00 per one-way trip. In September 2011, the White House proposed to Congress an immediate increase of the 9/11 Fee to a minimum of \$5.00 per one-way trip and also proposed additional yearly increases that would raise the 9/11 Fee to \$7.50 per one-way trip by 2017. Congress may consider an increase in the 9/11 Fee, as well as other changes to ATSA, as part of future security-related legislation. ATSA also allows the TSA to assess an Aviation Security Infrastructure Fee ("ASIF") on each airline. Southwest's ASIF liability was originally set at \$26 million per year. Effective for calendar year 2005, the TSA unilaterally increased the amount by an additional \$24 million to a total of \$50 million annually. The Company and many other airlines joined in litigation against the TSA to challenge the agency's increase to their respective ASIF fees. In February 2009, the U.S. Court of Appeals for the District of Columbia Circuit ruled that the increased fees were excessive and remanded the matter to the TSA to determine the amount of the excess. In June 2010, the TSA made a partial refund of \$18 million to the Company for prior periods' excess fees and reduced Southwest's ASIF fees going forward by \$3.5 million annually. The Company and other airlines petitioned the Court of Appeals to invalidate the TSA's action and require it to make larger refunds and reductions. In 2011, the Court of Appeals denied the airlines' petition to overturn the TSA's 2010 calculation of refunds and reductions; therefore, the Company will not receive any further refunds.

The Company has made significant investments to address the effect of security regulations, including investments in facilities, equipment, and technology to process Customers and cargo efficiently and restore the airport experience; however, the Company is not able to predict the ongoing impact, if any, that various security measures will have on Passenger revenues and the Company's costs, either in the short-term or the long-term.

Environmental Regulation

The Company is subject to various federal laws and regulations relating to the protection of the environment, including the Clean Air Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act, as well as state and local laws and regulations. These laws and regulations govern aircraft drinking water and the discharge or disposal of materials such as chemicals, hazardous waste, and aircraft deicing fluid. Additionally, in conjunction with airport authorities, other airlines, and state and local environmental regulatory agencies, the Company, as a normal course of business, undertakes voluntary investigation or remediation of soil or groundwater contamination at several airport sites. The Company does not believe that any environmental liability associated with these airport sites will have a material adverse effect on the Company's operations, costs, or profitability, nor has it experienced any such liability in the past that has had a material adverse effect on its operations, costs, or profitability. Further regulatory developments pertaining to the control of engine exhaust emissions from ground support equipment could increase operating costs in the airline industry. The Company does not believe, however, that pending environmental regulatory developments in this area will have a material effect on the Company's capital expenditures or otherwise materially adversely affect its operations, operating costs, or competitive position.

The federal government, as well as several state and local governments, are considering legislative and regulatory proposals to address climate change by reducing greenhouse gas emissions. At the federal level, the Environmental Protection Agency's Endangerment Finding in January 2010 regarding greenhouse gas emissions set the stage for possible legislative or regulatory action to reduce greenhouse gas emissions from various segments of the economy, including from aviation. The airline industry could be affected directly through new unfunded mandates or indirectly through higher fuel costs as fuel providers pass on any additional costs to fuel consumers. Regardless of the method of regulation, policy changes with regards to climate change are possible, which could significantly increase operating costs in the airline industry and, as a result, adversely affect operations.

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The Airport Noise and Capacity Act of 1990 gives airport operators the right, under certain circumstances, to implement local noise abatement programs, so long as they do not unreasonably interfere with interstate or foreign commerce or the national air transportation system. Some airports have established airport restrictions to limit noise, including restrictions on aircraft types to be used and limits on the number of hourly or daily operations or the time of operations. These types of restrictions can cause curtailments in service or increases in operating costs and could limit the ability of the Company to expand its operations at the affected airports.

As part of its commitment to corporate sustainability, the Company has published the Southwest One Report™ describing the Company's sustainability strategies, which include efforts to reduce greenhouse gas emissions and address other environmental matters such as energy and water conservation, waste minimization, and recycling. As discussed above under "Operating Strategies and Initiatives - Cost Containment," the Company has also committed significant resources towards implementation of RNP procedures, which are designed to conserve fuel and reduce carbon emissions. In addition, the Company's "Green Team" targets areas of environmental improvement in all aspects of the Company's business, while at the same time remaining true to the Company's low-cost philosophy.

International Regulation

All international service is subject to the regulatory requirements of the appropriate authorities of the foreign countries involved. To the extent the Company seeks to provide additional international air transportation in the future, it will be required to obtain necessary authority from the DOT, as well as any applicable foreign government or other authority.

Insurance

The Company carries insurance of types customary in the airline industry and in amounts deemed adequate to protect the Company and its property and to comply both with federal regulations and certain of the Company's credit and lease agreements. The policies principally provide coverage for public and passenger liability, property damage, cargo and baggage liability, loss or damage to aircraft, engines, and spare parts, and workers' compensation.

Through the 2003 Emergency Wartime Supplemental Appropriations Act (the "Wartime Act"), the federal government has provided renewable, supplemental, first-party, war-risk insurance coverage to commercial carriers at substantially lower premiums than prevailing commercial rates and for levels of coverage not available in the commercial market. The government-provided supplemental coverage from the Wartime Act is currently set to expire on September 30, 2012. Although another extension beyond this date is expected, if such coverage is not extended by the government, the Company could incur substantially higher insurance costs or unavailability of adequate coverage in future periods.

Competition

Competition within the airline industry is intense and highly unpredictable, and Southwest and AirTran currently compete with other airlines on a majority of their routes. In addition, the airline industry generally has low barriers to entry. Key competitive factors within the airline industry include (i) pricing and cost structure; (ii) routes, schedules, and frequent flyer programs; and (iii) customer service, comfort, and amenities. Southwest and AirTran also compete for customers with other forms of transportation, as well as alternatives to travel.

Pricing and Cost Structure

Pricing in the airline industry can be driven by a variety of factors. For example, airlines often discount fares to drive traffic in new markets or to stimulate traffic when necessary to improve load factors and/or cash flow. In addition, some airlines have been able to lower their operating costs (and thereby have been able to reduce fares) as a result of reorganization within and outside of bankruptcy. Over the past ten years, several airlines have reorganized through bankruptcy. These factors can reduce the pricing power of the airline industry.

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as a whole. In addition, the increased availability of fare information on the Internet allows travelers to easily compare fares and identify competitor promotions and discounts. The Company believes its low-cost operating structure provides it with an advantage over its airline competitors by enabling Southwest and AirTran to continue to charge competitive fares. In addition, unlike all of its major competitors, Southwest does not charge additional fees for items such as first and second checked bags, flight changes, seat selection, fuel surcharges, snacks, curbside checkin, and telephone reservations.

Routes, Schedules, and Frequent Flyer Programs

The Company also competes based on markets served, flight schedules, and frequent flyer opportunities. Some major airlines have more extensive route structures than Southwest and AirTran, including significantly more extensive international routes. In addition, many competitors have entered into significant commercial relationships with other airlines, such as global alliances, codesharing, and capacity purchase agreements, which increase the airlines' opportunities to expand the routes they can offer. For example, an alliance or codesharing agreement enables an airline to offer flights that are operated by another airline and also allows the airline's customers to book travel that includes segments on different airlines through just one airline. As a result, depending on the nature of the specific alliance or codesharing arrangement, a participating airline may be able to (i) offer its customers access to more destinations than it would be able to serve on its own, (ii) gain exposure in markets it does not otherwise serve, or (iii) increase the perceived frequency of its flights on certain routes. Alliance and codesharing arrangements not only provide additional route flexibility for participating airlines, they can also allow these airlines to offer their customers more opportunities to earn and redeem frequent flyer miles. A capacity purchase agreement enables an airline to expand its route structure by paying another airline (e.g., a regional airline with smaller aircraft) to operate flights on its behalf in markets that it does not, or cannot, serve itself. The Company continues to evaluate and implement projects to better enable Southwest and AirTran to enter into relationships that offer additional international itineraries. Currently, Southwest Customers may book international flights by connecting with Volaris, Mexico's second largest airline. In addition, the Company's acquisition of AirTran enables the Company to expand its presence in key markets Southwest already serves, extend service to many smaller domestic cities Southwest did not previously serve, and provide access to key near-international markets in the Caribbean and Mexico.

Customer Service, Comfort, and Amenities

Southwest and AirTran also compete with other airlines in areas of Customer Service such as ontime performance, passenger amenities, equipment type, and comfort. According to statistics published by the DOT, Southwest consistently ranks at or near the top for Customer Satisfaction for having the lowest Customer complaint ratio. Some airlines, including AirTran, have more seating options and associated passenger amenities than does Southwest, including first-class, business class, and other premium seating and the amenities associated therewith. Additionally, some major U.S. airlines have announced plans to add a significant number of new aircraft to their fleets. Such efforts could provide cost benefits to these airlines through fleet simplification, better fuel efficiencies, and lower maintenance costs. Additionally, such new aircraft could have newer and different passenger amenities than those contained in the Company's existing fleet. The Company is addressing this competitive factor with its fleet modernization plans, which are discussed above under "Operating Strategies and Initiatives – Introduction of the Boeing 737-800 and Other Fleet Renewal and Modernization Strategies."

Other Forms of Competition

The airline industry is subject to varying degrees of competition from surface transportation by automobiles, buses, and trains. Inconveniences and delays associated with air travel security measures can increase surface competition. In addition, surface competition can be significant during economic downturns when consumers cut back on discretionary spending. Because of the relatively high percentage of shorthaul travel provided by Southwest, it is particularly exposed to competition from such surface transportation in these instances. The airline industry is also subject to competition from alternatives to travel such as videoconferencing and the Internet, which can increase in the event of travel inconveniences and economic downturns. The

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Company is subject to the risk that air travel inconveniences and economic downturns may, in some cases, result in permanent changes to consumer behavior in favor of surface transportation and electronic communications.

Seasonality

The Company's business is somewhat seasonal. Generally, in most markets the Company serves, demand for air travel is greater during the summer months, and therefore, revenues in the airline industry tend to be stronger in the second (April 1 – June 30) and third (July 1 – September 30) quarters of the year than in the first (January 1 – March 31) and fourth (October 1 – December 31) quarters of the year. As a result, in many cases, the Company's results of operations reflect this seasonality. Factors that could alter this seasonality include, among others, the price of fuel, general economic conditions, extreme or severe weather, fears of terrorism or war, or changes in the competitive environment. Therefore, the Company's quarterly operating results are not necessarily indicative of operating results for the entire year and historical operating results in a quarterly or annual period are not necessarily indicative of future operating results.

Employees

At December 31, 2011, the Company (including AirTran) had 45,392 active fulltime equivalent Employees, consisting of 19,647 flight, 3,135 maintenance, 20,185 ground, Customer, and fleet service, and 2,425 management, accounting, marketing, and clerical personnel. The Railway Labor Act establishes the right of airline employees to organize and bargain collectively. As of December 31, 2011, approximately 82 percent of the Company's Employees were represented by labor unions, including 82 percent of Southwest's Employees and 81 percent of AirTran's Employees. The various labor groups are covered by 18 different collective-bargaining agreements. Under the Railway Labor Act, collective-bargaining agreements ("CBAs") between an airline and a labor union generally do not expire, but instead become amendable as of an agreed date. By the amendable date, if either party wishes to modify the terms of the agreement, it must notify the other party in the manner required by the Railway Labor Act and/or described in the agreement. After receipt of the notice, the parties must meet for direct negotiations. If no agreement is reached, either party may request the National Mediation Board to appoint a federal mediator. If no agreement is reached in mediation, the National Mediation Board may determine an impasse exists and offer binding arbitration to the parties. If either party rejects binding arbitration, a 30-day "cooling off" period begins. At the end of this 30-day period, the parties may engage in "self-help," unless a Presidential Emergency Board is established to investigate and report on the dispute. The appointment of a Presidential Emergency Board maintains the "status quo" for an additional 60 days. If the parties do not reach agreement during this period, the parties may then engage in "self-help." "Self-help" includes, among other things, a strike by the union or the airline's imposition of any or all of its proposed amendments and the hiring of new employees to replace any striking workers. The following table sets forth the Company's and AirTran's Employee groups subject to CBAs and the status of the respective CBAs:

<u>Employee Group</u>	<u>Representatives</u>	<u>Status of Agreement</u>
Southwest Pilots	Southwest Airlines Pilots' Association ("SWAPA")	Amendable August 2012
Southwest Flight Attendants	Transportation Workers of America, AFL-CIO, Local 556 ("TWU 556")	Amendable May 2013
Southwest Ramp, Operations, Provisioning, Freight Agents	Transportation Workers of America, AFL-CIO, Local 555 ("TWU 555")	Currently in negotiations
Southwest Customer Service Agents, Customer Representatives	International Association of Machinists and Aerospace Workers, AFL-CIO ("IAM 142")	Amendable October 2012
Southwest Materials Specialists (formerly known as Stock Clerks)	International Brotherhood of Teamsters, Local 19 ("IBT 19")	Amendable August 2013

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<u>Employee Group</u>	<u>Representatives</u>	<u>Status of Agreement</u>
Southwest Mechanics	Aircraft Mechanics Fraternal Association (“AMFA”)	Amendable August 2012
Southwest Aircraft Appearance Technicians	AMFA	Currently in negotiations
Southwest Dispatchers	Transportation Workers of America, AFL-CIO, Local 550 (“TWU 550”)	Currently in negotiations
Southwest Flight Simulator Technicians	International Brotherhood of Teamsters (“IBT”)	Amendable October 2013
Southwest Flight Crew Training Instructors	Transportation Workers of America, AFL-CIO, Local 557 (“TWU 557”)	Amendable December 2015
AirTran Pilots	Air Line Pilots Association (“ALPA”)	Amendable December 2015
AirTran Flight Attendants	Association of Flight Attendants (“AFA”)	Amendable May 2013
AirTran Mechanics	International Brotherhood of Teamsters, Local 528 (“IBT 528”)	Amendable October 2013
AirTran Ground Instructors	IBT 528	Amendable March 2014
AirTran Stock Clerks	IBT 528	Amendable June 2013
AirTran Ground Service Employees	IBT 528	Amendable September 2013
AirTran Dispatchers	Transportation Workers Union of America, Local 540 (“TWU 540”)	Amendable March 2014
AirTran Fleet & Passenger Service Employees (customer service, ramp, reservations)	IAM 142	The parties have negotiated an interim collective bargaining agreement to be effective until affected AirTran Employees are transitioned to Southwest.

A key aspect of the Company’s integration of AirTran is integration of Employees. In the case of an airline merger, the process for integrating Employees subject to CBAs is governed by a combination of the Railway Labor Act, the McCaskill-Bond Act, and where applicable, the existing provisions of each company’s CBAs and union policies. Under the McCaskill-Bond Act, seniority integration (*i.e.*, in the Company’s case, an agreement regarding how AirTran Employees are merged into the respective seniority lists of the Southwest Employees covered by CBAs) must be accomplished in a “fair and equitable” manner consistent with the process set forth in Sections 3 and 13 of the Allegheny-Mohawk Labor Protective Provisions. This process consists first of direct negotiations between the incumbent unions with the assistance of the companies. If integration cannot be achieved through agreement, seniority integration is submitted to binding arbitration by a neutral arbitrator. For employee groups having the same representative at both carriers, the McCaskill-Bond Act provides that seniority integration must be accomplished pursuant to the union’s internal policies if such policies exist, which may, depending upon the internal policies, require arbitration. Employee dissatisfaction with the results of the seniority integration can lead to litigation or arbitration, which in some cases can delay seniority integration.

Under the Railway Labor Act, the National Mediation Board has exclusive authority to resolve representation disputes arising out of airline mergers. The disputes that the National Mediation Board has authority to resolve include (i) whether the merger has created a “single transportation system” for representation

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purposes, which is the step in the integration process that allows the various Southwest collective bargaining units to represent AirTran Employees; (ii) determination of the appropriate “craft or class” for representational purposes, including a determination of which positions are to be included within a particular craft or class; and (iii) certification of the system-wide representative organization, if any, for each craft or class at the Company following the merger.

Pending operational integration of AirTran with the Company, it will be necessary to maintain a “fence” between Southwest and AirTran Employee groups subject to CBAs, during which time the Company and AirTran will keep these Employee groups separate, each applying the terms of its own existing CBAs, unless other terms have been negotiated. In the meantime, the Company has been negotiating transition agreements, which modify existing CBAs to address circumstances unique to the transition process.

In September 2011, the Southwest Airlines Pilots’ Association (“SWAPA”), the union representing Southwest Pilots, the Air Line Pilots Association (“ALPA”), the union representing the pilots of AirTran, and the Company reached an agreement to integrate the two Pilot groups’ seniority lists. The agreement was approved by SWAPA’s Board of Directors and ALPA’s Master Executive Council and was ratified by the membership of each union in November 2011.

In December 2011, the Transportation Workers of America, AFL-CIO, Local 556 (“TWU 556”), the union that represents Southwest Flight Attendants, the Association of Flight Attendants (“AFA”), the union that represents AirTran Flight Attendants, and the Company reached an agreement to integrate the two Flight Attendant groups’ seniority lists. The agreement was approved by TWU 556’s Executive Board and AFA’s Master Executive Council and, in January 2012, was ratified by the membership of each union.

In December 2011, the Aircraft Mechanics Fraternal Association (“AMFA”), the union representing Southwest Aircraft Mechanics, the International Brotherhood of Teamsters, Local 528 (“IBT 528”), the union representing the AirTran Mechanics, and the Company reached a tentative agreement subject to a ratification vote by the unions’ respective memberships. The agreement would integrate the two groups’ seniority lists and also create a single labor agreement. The membership of each union is currently considering the tentative agreement.

In December 2011, the Transportation Workers of America, AFL-CIO Local 557 (“TWU 557”), the union representing Southwest Flight Instructors, an Employee Committee representing the Flight Instructors of AirTran, and the Company reached an agreement to integrate the two groups’ seniority lists. TWU 557’s Executive Committee and the Employee Committee representing the AirTran Flight Instructors voted to pass the agreement forward to their respective members. The agreement was ratified by the respective memberships in January 2012.

Additional Information About the Company

The Company was incorporated in Texas in 1967. The following documents are available free of charge through the Company’s website, www.southwest.com: the Company’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports that are filed with or furnished to the Securities and Exchange Commission (“SEC”) pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934. These materials are made available through the Company’s website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC.

DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

This Form 10-K 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, words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “will,” “should,” and similar expressions. Although 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. Known material risk factors that could cause these differences are set forth below under “Risk Factors.” Additional risks or uncertainties (i) that are not currently known to the Company, (ii) that the Company currently deems to be immaterial, or (iii) that could apply to any company, could also materially adversely affect the Company’s business, financial condition, or future results.

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 1A. *Risk Factors*

The Company’s business has been significantly impacted by high and/or volatile fuel prices; therefore, the Company’s strategic plans and future profitability are likely to be impacted by the Company’s ability to effectively address fuel prices.

Fuel prices continue to present one of the Company’s most significant challenges, as (i) the cost of fuel has been at historically high levels over the last few years and has been unpredictable, and (ii) airlines are inherently dependent upon energy to operate; therefore, even a small change in market fuel prices can significantly affect profitability. Fuel prices are unpredictable, in part, because of many external factors that are beyond the Company’s control. For example, fuel prices can be impacted by political and economic factors, such as (i) dependency on foreign imports of crude oil and the potential for hostilities or other conflicts in oil producing areas; (ii) limited refining capacity; (iii) worldwide demand for fuel, particularly in developing countries, which has resulted in inflated energy prices; (iv) changes in governmental policies on fuel production, transportation, taxes, and marketing; and (v) changes in exchange rates. The Company’s ability to react to fuel price volatility can also be affected by factors outside of its control. For example, the Company’s profitability is affected in part by Southwest’s and AirTran’s ability to increase fares in reaction to fuel price increases; however, fare increases are difficult to implement in difficult economic environments when low fares are often used to stimulate traffic. The ability to increase fares can also be limited by factors such as the low-fare reputation of both Southwest and AirTran, the portion of their Customer base that purchases travel for leisure purposes, the competitive nature of the airline industry generally, and the risk that higher fares will drive a decrease in demand.

Jet fuel and oil consumed for 2011 and 2010 represented approximately 38 percent and 33 percent of the Company’s operating expenses, respectively, and constituted the largest expense incurred by the Company in 2011 and the second largest expense in 2010. As a result, the price of fuel has impacted, and could continue to impact, the timing and nature of the Company’s growth plans and strategic initiatives.

The Company purchases jet fuel at prevailing market prices, but seeks to protect against significant increases in fuel costs by entering into over-the-counter fuel derivative contracts. In addition, the Company enters into fuel derivative contracts in an effort to reduce volatility in its operating expenses. As discussed in detail in Note 10 to the Consolidated Financial Statements, derivatives that are designated as hedges and deemed “effective” (*i.e.*, that meet certain requirements under applicable accounting standards) are granted hedge accounting treatment, which can reduce volatility in the Company’s operating expenses. Nevertheless, because

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energy prices can fluctuate significantly in a relatively short amount of time, the Company is subject to the risk that the fuel derivatives it uses will not provide adequate protection against significant increases in fuel prices. In addition, the Company is subject to the risk that its fuel derivatives will not be effective or that they will no longer qualify for hedge accounting under applicable accounting standards. For example, the majority of the fuel derivatives in the Company's hedge portfolio are based on the market price of West Texas intermediate crude oil (WTI). In recent periods, however, the spread between WTI and jet fuel has not followed historic norms, which has led to more of the Company's fuel hedges being ineffective. Therefore, adjustments in the Company's overall fuel hedging strategy, as well as the ability of the commodities used in fuel hedging (principally crude oil, heating oil, and unleaded gasoline) to qualify for special hedge accounting, are likely to continue to affect the Company's results of operations. In addition, there can be no assurance that the Company will be able to cost-effectively hedge against increases in fuel prices. The Company's fuel hedging arrangements and the impact of hedge accounting on the Company's results of operations are discussed in more detail under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 10 to the Consolidated Financial Statements.

The Company may be unable to successfully integrate AirTran's business and realize the anticipated benefits of its acquisition of AirTran. In addition, delays in integration could cause anticipated synergies to take longer than anticipated to realize.

Risk factors associated with the Company's acquisition and integration of AirTran are discussed below under "Risk Factors Related to the Company's Acquisition and Integration of AirTran."

The airline industry is particularly sensitive to changes in economic conditions; an increase in unfavorable economic conditions or continued economic uncertainty could negatively affect the Company's results of operations.

The airline industry, which is subject to relatively high fixed costs and highly variable and unpredictable demand, is particularly sensitive to changes in economic conditions. Unfavorable U.S. economic conditions have historically driven changes in travel patterns and have resulted in reduced spending for both leisure and business travel. For some consumers, leisure travel is an expendable discretionary expense, and short-haul travelers have the option to replace air travel with surface travel. Businesses are able to forego air travel by using communication alternatives such as videoconferencing and the Internet or may be more likely to purchase less expensive tickets to reduce costs, which can result in a decrease in average revenue per seat. Unfavorable economic conditions also hamper the ability of airlines to raise fares to counteract increased fuel, labor, and other costs. The Company continues to face economic uncertainty, and the weakened state of the U.S. and global economy could continue for an extended period of time. Continued unfavorable or even uncertain economic conditions could negatively affect the Company's results of operations and could cause the Company to adjust its business strategies.

The Company's low-cost structure is one of its primary competitive advantages, and many factors could affect the Company's ability to control its costs.

The Company's low-cost structure has historically been one of its primary competitive advantages, as it has enabled Southwest to offer low fares, drive traffic volume, and grow market share. The Company's low-cost structure has become increasingly important as a result of the Company's decision to control capacity growth in response to high fuel prices and uncertain economic conditions. While the Company has in the past been able to cover increasing costs through growth, the combination of capacity control and increasing costs has contributed to an increase in the Company's costs per available seat mile. This, along with other factors discussed below, has contributed to a narrowing in the cost gap between the Company and some of its competitors.

The Company has limited control over fuel and labor costs, as well as other costs such as regulatory compliance costs and aircraft airframe and engine repairs expense. Jet fuel and oil constituted approximately 38 percent of the Company's operating expenses during 2011, and the cost of fuel is subject to the external factors discussed in the first Risk Factor above. Salaries, wages, and benefits constituted approximately 29 percent of the

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Company's operating expenses during 2011. The Company's ability to control labor costs is limited by the terms of its CBAs, and increased labor costs have impacted the Company's low-cost competitive position. As discussed further under "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Company's unionized workforce, which makes up the majority of its Employees, have had pay scale increases as a result of increased seniority and contractual rate increases. Furthermore, as indicated above under "Business-Employees," a majority of the Southwest Employee groups have labor agreements that are either currently in negotiation or become amendable in 2012, which could continue to put pressure on the Company's labor costs. In addition, the Company anticipates that the combination of the various Southwest and AirTran labor contracts and frontline workforces will increase AirTran labor costs over their historical levels. As discussed above under "Business-Regulation," the airline industry is heavily regulated, and the Company's regulatory compliance costs are subject to potentially significant increases from time to time based on actions by the regulatory agencies. Additionally, when other airlines reduce their capacity, airport costs are then allocated among a fewer number of total flights, which has resulted in increased landing fees and other costs for the Company. The Company is also reliant upon third party vendors and service providers, and its low-cost advantage is also dependent in part on its ability to obtain and maintain commercially reasonable terms with those parties. As discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Company's maintenance costs have increased with the aging of its fleet, which has required the Company to spend more to maintain a portion of its fleet and to implement a related fleet modernization and replacement plan.

As discussed above under "Company Operations – Cost Structure," the Company's low-cost structure has historically been facilitated by, among other things, Southwest's use of a single aircraft type, the Boeing 737, its point-to-point route structure, and its service to and from many secondary or downtown airports. The Company's increased presence in bigger markets, as well as the addition of the Boeing 717 aircraft, could continue to add pressure to the Company's operating costs and diminish its low-cost advantage.

As discussed above under "Business-Insurance," the Company carries insurance of types customary in the airline industry and is also provided supplemental, first-party, war-risk insurance coverage by the federal government at substantially lower premiums than prevailing commercial rates. If the supplemental coverage is not extended, the Company could incur substantially higher insurance costs. In addition, an accident or other incident involving Southwest or AirTran aircraft could result in costs in excess of its related insurance coverage, which costs could be substantial. Any aircraft accident or other incident, even if fully insured, could also have a material adverse effect on the public's perception of the Company.

The Company cannot guarantee it will be able to maintain its current level of low-cost advantage. In response to volatile fuel prices and economic uncertainty, some of the Company's competitors have taken additional efficiency and cost reduction measures, such as capacity cuts and headcount reductions, which have reduced the Company's cost advantage. In addition, some competitors have announced plans to add a significant number of new aircraft to their fleets, which could potentially decrease their operating costs through fleet simplification, better fuel efficiencies, and lower maintenance costs. Prior to the recent economic downturn, some of the Company's competitors took advantage of reorganization in bankruptcy, and even the threat of bankruptcy, to decrease operating costs through renegotiated labor, supply, and financing agreements. Most recently, in November 2011, AMR Corporation, the parent company of American Airlines and American Eagle, sought bankruptcy protection through filing for Chapter 11 reorganization. In addition, some airlines have consolidated and reported significant expected cost synergies.

The Company is increasingly dependent on technology to operate its business and continues to implement substantial changes to its information systems; any failure or disruption in the Company's information systems could materially adversely affect its operations.

The Company is increasingly dependent on the use of complex technology and systems to run its ongoing operations, as well as to support its initiatives, including its integration of AirTran's operations and initiatives. As discussed above under "Business – Management Information Systems," during 2010 and 2011, the Company continued its commitment to technology improvements to support its ongoing operations and initiatives. Among

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other things, the Company completed the implementation of a new SAP Enterprise Resource Planning application, which replaced several of the Company's back office legacy systems, such as the general ledger, accounts payable, accounts receivable, payroll, benefits, cash management, and fixed asset systems. The Company has also invested in significant technology changes to support its All-New Rapid Rewards frequent flyer program, introduction of the Boeing 737-800 to its fleet beginning in 2012, enhanced southwest.com website, and WiFi implementation. In addition, the Company has announced its intent to replace its reservation system. Integration of complex systems and technology presents significant challenges in terms of costs, human resources, and development of effective internal controls. Integration also presents the risk of operational or security inadequacy or interruption, which could materially affect the Company's ability to effectively operate its business. The Company is also reliant upon third party performance for timely and effective completion of many of its technology initiatives.

In the ordinary course of business, the Company's systems will continue to require modification and refinements to address growth and changing business requirements, including requirements related to international operations. In addition, the Company's systems may require modification to enable the Company to comply with changing regulatory requirements. For example, the Company was required to invest in the redesign of the southwest.com and airtran.com websites in order to comply with the DOT's full-fare advertising rule that went into effect in January 2012. Modifications and refinements to the Company's systems may be expensive to implement and may divert management's attention from other key initiatives. In addition, the Company's operations could be adversely affected, or it could face imposition of regulatory penalties, if it is unable to timely or effectively modify its systems as necessary.

The Company may occasionally experience system interruptions and delays that make its websites and services unavailable or slow to respond, which could prevent the Company from efficiently processing Customer transactions or providing services. This in turn could reduce the Company's operating revenues and the attractiveness of its services. The Company's computer and communications systems and operations could be damaged or interrupted by catastrophic events such as fires, floods, earthquakes, tornadoes and hurricanes, power loss, computer and telecommunications failure, acts of war or terrorism, computer viruses, security breaches, and similar events or disruptions. Any of these events could cause system interruptions, delays, and loss of critical data, and could prevent the Company from processing Customer transactions or providing services, which could make its business and services less attractive and subject the Company to liability. Any of these events could damage the Company's reputation and be expensive to remedy.

The Company is currently dependent on single aircraft and engine suppliers, as well as single suppliers of certain other parts; therefore, the Company would be materially adversely affected if it were unable to obtain additional equipment or support from any of these suppliers or in the event of a mechanical or regulatory issue associated with their equipment.

The Company is dependent on Boeing as its sole supplier for aircraft and many of its aircraft parts and is dependent on other suppliers for certain other aircraft parts. In 2011, the Company announced its commitment to purchase a significant number of additional Boeing aircraft. Although the Company is able to purchase some aircraft from parties other than Boeing, most of its purchases are directly from Boeing. Therefore, if the Company were unable to acquire additional aircraft from Boeing, or Boeing were unable or unwilling to make timely deliveries of aircraft or to provide adequate support for its products, the Company's operations would be materially adversely affected. In addition, the Company would be materially adversely affected in the event of a mechanical or regulatory issue associated with the Boeing 737 or Boeing 717 aircraft type, whether as a result of downtime for part or all of the Company's fleet or because of a negative perception by the flying public. The Company believes, however, that its years of experience with the Boeing 737 aircraft type, as well as the efficiencies Southwest has achieved by operating with a single aircraft type, currently outweigh the risks associated with its single aircraft supplier strategy. The Company is also dependent on sole suppliers for aircraft engines and certain other aircraft parts and would therefore also be materially adversely affected in the event of the unavailability of, or a mechanical or regulatory issue associated with, engines and other parts.

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Any failure of the Company to maintain the security of certain Customer-related information could result in damage to the Company's reputation and could be costly to remediate.

The Company must receive information related to its Customers in order to run its business, and the Company's online operations depend upon the secure transmission of information over public networks, including information permitting cashless payments. This information is subject to the risk of intrusion, tampering, and theft. Although the Company maintains systems to prevent this from occurring, these systems require ongoing monitoring and updating as technologies change, and security could be compromised, confidential information could be misappropriated, or system disruptions could occur. The Company must also provide certain confidential, proprietary, and personal information to third parties in the ordinary course of its business. While the Company seeks to obtain assurances that these third parties will protect this information, there is a risk the confidentiality of data held by third parties could be breached. A compromise of the Company's security systems could adversely affect the Company's reputation and disrupt its operations and could also result in litigation against the Company or the imposition of penalties. In addition, it could be costly to remediate.

The Company's results of operations could be adversely impacted if it is unable to grow or to timely and effectively implement its revenue and other initiatives.

Southwest has historically been regarded as a growth airline; however, the combination of a difficult economic environment and growing costs led to the Company's decision to limit organic growth for the indefinite future. In addition, organic growth has become increasingly difficult, because (i) the number of opportunities for domestic expansion has declined; (ii) with the exception of AirTran's near-international service, the Company currently does not have international operations; and (iii) the Company has faced an increased presence of other low-cost carriers. As a result, the Company has become increasingly reliant on the success of revenue initiatives to help offset increasing costs and to continue to improve Customer Service. The timely and effective implementation of these initiatives has involved, and will continue to involve, significant investments by the Company of time and money and could be negatively affected by (i) the Company's ability to timely and effectively implement, transition, and maintain related information technology systems and infrastructure; (ii) the Company's ability to effectively balance its investment of incremental operating expenses and capital expenditures related to its initiatives against the need to effectively control costs; and (iii) the Company's dependence on third parties to assist with implementation of its initiatives. The Company cannot ensure the timing of implementation of certain of its initiatives or that they will be successful or profitable either over the short or long term.

Instability of credit, capital, and energy markets can result in pressure on the Company's credit ratings and can also negatively affect the Company's ability to obtain financing on acceptable terms and the Company's liquidity generally.

During 2009, the Company's credit ratings were pressured by weak industry revenue and the volatile fuel price environment. During 2011, the Company's credit ratings were pressured in connection with its acquisition of AirTran. While the Company's credit rating is "investment grade," factors such as future unfavorable economic conditions, a significant decline in demand for air travel, or instability of the credit and capital markets could result in future pressure on credit ratings, which could negatively affect (i) the Company's ability to obtain financing on acceptable terms, (ii) the Company's liquidity generally, and (iii) the availability and cost of insurance. A credit rating downgrade would subject the Company to credit rating triggers related to its credit card transaction processing agreements, the pricing related to any funds drawn under its revolving credit facility, and some of its hedging counterparty agreements. The potential effect of credit rating downgrades is discussed in more detail below under "Quantitative and Qualitative Disclosures About Market Risk."

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The Company's business is labor intensive; therefore, the Company would be adversely affected if it were unable to maintain satisfactory relations with its Employees or its Employees' Representatives.

The airline business is labor intensive. Salaries, wages, and benefits represented approximately 29 percent of the Company's operating expenses for the year ended December 31, 2011. In addition, as of December 31, 2011, approximately 82 percent of the Company's Employees (including AirTran Employees) were represented for collective bargaining purposes by labor unions, making the Company particularly exposed in the event of labor-related job actions. Employment-related issues that may impact the Company's results of operations, some of which are negotiated items, include hiring/retention rates, pay rates, outsourcing costs, work rules, and health care costs. The Company has historically maintained positive relationships with its Employees and its Employees' Representatives. However, as indicated above under "Business-Employees," a majority of the Southwest Employee groups have labor agreements that are either currently in negotiations or become amendable in 2012, which could contribute to the Company's labor cost pressures. Increasing labor costs, combined with curtailed growth, could negatively impact the Company's competitive position. In addition, disputes regarding the integration of AirTran Employees could negatively affect the Company's historically positive Employee culture.

The airline industry has faced on-going security concerns and related cost burdens; further threatened or actual terrorist attacks, or other hostilities, could significantly harm the airline industry and the Company's operations.

Terrorist attacks and threatened attacks have from time to time materially adversely affected the demand for air travel and have also resulted in increased safety and security costs for the Company and the airline industry generally. Safety measures create delays and inconveniences and can, in particular, reduce the Company's competitiveness against surface transportation for short-haul routes. Additional terrorist attacks, even if not made directly on the airline industry, or the fear of such attacks or other hostilities (including elevated national threat warnings or selective cancellation or redirection of flights due to terror threats) would likely have a further significant negative impact on the Company and the airline industry.

Airport capacity constraints and air traffic control inefficiencies could limit the Company's growth; changes in or additional governmental regulation could increase the Company's operating costs or otherwise limit the Company's ability to conduct business.

Almost all commercial service airports are owned and/or operated by units of local or state governments. Airlines are largely dependent on these governmental entities to provide adequate airport facilities and capacity at an affordable cost. Similarly, the federal government singularly controls all U.S. airspace, and airlines are completely dependent on the FAA to operate that airspace in a safe, efficient, and affordable manner. As discussed above under "Business — Regulation," airlines are also subject to other extensive regulatory requirements. These requirements often impose substantial costs on airlines. The Company's initiatives and results of operations could be negatively affected by changes in law and future actions taken by domestic and international governmental agencies having jurisdiction over its operations, including, but not limited to:

- increases in airport rates and charges;
- limitations on airport gate capacity or other use of airport facilities;
- limitations on route authorities;
- actions and decisions that create difficulties in obtaining access at slot-controlled airports;
- changes to environmental regulations;
- new or increased taxes;
- changes to laws that affect the services that can be offered by airlines in particular markets and at particular airports;

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- restrictions on competitive practices;
- changes in laws that increase costs for safety, security, compliance, or other Customer Service standards;
- changes in laws that may limit or regulate the Company's ability to promote the Company's business or fares, such as the DOT's full-fare advertising rule discussed above under "Business - Regulation"; and
- the adoption of more restrictive locally-imposed noise regulations.

Because expenses of a flight do not vary significantly with the number of passengers carried, a relatively small change in the number of passengers can have a disproportionate effect on an airline's operating and financial results. Therefore, any general reduction in airline passenger traffic as a result of any of the factors listed above could adversely affect the Company's results of operations. In addition, when the airline industry shrinks, airport operating costs are essentially unchanged and must be shared by the remaining operating carriers, which can therefore increase the Company's costs.

The airline industry is affected by many conditions that are beyond its control, which can impact the Company's business strategies.

In addition to the unpredictable economic conditions and fuel costs discussed above, the Company, like the airline industry in general, is affected by conditions that are largely unforeseeable and outside of its control, including, among others:

- adverse weather and natural disasters;
- outbreaks of disease;
- changes in consumer preferences, perceptions, spending patterns, or demographic trends;
- actual or potential disruptions in the air traffic control system;
- changes in the competitive environment due to industry consolidation, industry bankruptcies, and other factors;
- air traffic congestion and other air traffic control issues; and
- actual or threatened war, terrorist attacks, and political instability.

The airline industry is intensely competitive.

As discussed in more detail above under "Business — Competition," the airline industry is intensely competitive. The Company's competitors include other major domestic airlines, as well as regional and new entrant airlines, surface transportation, and alternatives to transportation such as videoconferencing and the Internet. The Company's revenues are sensitive to the actions of other carriers with respect to pricing, routes, capacity, scheduling, Customer Service, frequent flyer programs, comfort and amenities, cost structure, aircraft fleet, and codesharing and similar activities.

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Risk Factors Related to the Company's Acquisition and Integration of AirTran

The Company may be unable to effectively integrate AirTran's business and realize the anticipated benefits of the acquisition. In addition, delays in integration could cause anticipated synergies to take longer to realize than currently anticipated.

The Company must devote significant management attention and resources to integrating the business practices and operations of AirTran. Potential difficulties the Company may encounter as part of the integration process include the following:

- the inability to successfully combine the AirTran business with that of the Company in a manner that permits the Company to achieve anticipated net synergies and other anticipated benefits of the acquisition;
- the inability to successfully maintain passenger unit revenues upon converting AirTran into the Southwest business model;
- the challenges associated with operating an aircraft type new to the Company, the Boeing 717;
- the challenges associated with an expanded or new presence in more congested airports and markets;
- the challenges associated with new international operations, including compliance with international laws;
- the challenges associated with integrating complex systems, technology, aircraft fleets, networks, facilities, and other assets of the Company in a seamless manner that minimizes any adverse impact on Customers, suppliers, Employees, and other constituencies;
- the challenges associated with integrating the Company's workforce while maintaining focus on providing consistent, high quality Customer Service; and
- potential unknown liabilities, liabilities that are significantly larger than the Company currently anticipates, and unforeseen increased expenses or delays, including costs to integrate AirTran's business that may exceed the Company's estimates.

Any of the foregoing factors could adversely affect the Company's ability to maintain relationships with Customers, suppliers, Employees and other constituencies or the Company's ability to achieve the anticipated benefits of the acquisition on a timely basis, or at all, or could reduce the Company's earnings or otherwise adversely affect the business and financial results of the Company. In addition, integration requirements have caused, and may continue to cause, the Company to delay other strategic initiatives.

The Company's future results will suffer if it does not effectively manage its expanded operations.

Upon completion of the Company's acquisition of AirTran, the size of the Company's business increased significantly beyond the then current size of either the Company's or AirTran's businesses. The Company's future success depends, in part, upon its ability to manage this expanded business, which may pose substantial challenges for management, including challenges related to the management and monitoring of new operations, including new international operations, and associated increased costs and complexity. There can be no assurances that the Company will be successful or that it will realize the expected operating efficiencies, cost savings, revenue enhancements, and other benefits currently anticipated from the acquisition.

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The need to integrate AirTran's workforce presents the potential for delay in achieving expected synergies and other benefits, or labor disputes that could adversely affect the Company's operations and costs.

The successful integration of AirTran and achievement of the anticipated benefits of the acquisition depend significantly on integrating AirTran's Employees into the Company and on maintaining productive Employee relations. Failure to do so presents the potential for (i) delays in achieving expected synergies and other benefits of integration or (ii) labor disputes that could adversely affect the Company's operations and costs. Southwest and AirTran are both highly unionized. The process for integrating labor groups in an airline merger is governed by a combination of the Railway Labor Act, the McCaskill-Bond Act, and where applicable, the existing provisions of each company's collective bargaining agreements ("CBAs") and union policies. Under the McCaskill-Bond Act, seniority integration must be accomplished in a "fair and equitable" manner consistent with the process set forth in Sections 3 and 13 of the Allegheny-Mohawk Labor Protective Provisions. This process consists first of direct negotiations between the incumbent unions with the assistance of the companies. If integration cannot be achieved through agreement, the seniority integration is submitted to binding arbitration by a neutral arbitrator. For employee groups having the same representative at both carriers, the McCaskill-Bond Act provides that seniority integration must be accomplished pursuant to the union's internal policies if such policies exist, which may, depending upon the internal policies, require arbitration. Employee dissatisfaction with the results of the seniority integration may lead to litigation or arbitration, which in some cases can delay seniority integration.

Under the Railway Labor Act, the National Mediation Board has exclusive authority to resolve representation disputes arising out of airline mergers. The disputes that the National Mediation Board has authority to resolve include (i) whether the merger has created a "single transportation system" for representation purposes; (ii) determination of the appropriate "craft or class" for representational purposes, including a determination of which positions are to be included within a particular craft or class; and (iii) certification of the system-wide representative organization, if any, for each craft or class at the Company following the merger.

Pending operational integration of AirTran with the Company, it will be necessary to maintain a "fence" between Southwest and AirTran Employee groups subject to CBAs, during which time the Company and AirTran will keep the Employee groups separate, each applying the terms of its own existing CBAs, unless other terms have been negotiated. In the meantime, the Company has been negotiating transition agreements, which modify existing CBAs to address circumstances unique to the transition process.

There is also a possibility that employees or unions could engage in job actions such as slow-downs, work-to-rule campaigns, sick-outs, or other actions designed to disrupt the Company's or AirTran's normal operations in an attempt to pressure the companies in such negotiations. Although the Railway Labor Act generally makes such actions unlawful until the parties have been lawfully released by the National Mediation Board to pursue self-help, and the Company and AirTran might be able to seek injunctive relief or other remedies against premature self-help, such actions could cause significant harm even if the Company or AirTran were ultimately to be successful.

The Company is expected to continue to incur substantial expenses related to the acquisition and the integration of AirTran's business.

The Company is expected to continue to incur substantial integration and transition expenses in connection with the acquisition of AirTran, including the necessary costs associated with integrating the operations of Southwest and AirTran. There are a large number of processes, policies, procedures, operations, technologies, and systems that must be integrated, including reservations, frequent flyer, ticketing/distribution, maintenance, and flight operations. While the Company has assumed that a certain level of expenses will be incurred, there are many factors beyond its control that could affect the total amount or the timing of the integration expenses. Moreover, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. These expenses could, particularly in the near term, exceed the financial benefits the Company expects to achieve from the acquisition, including the elimination of duplicative expenses and the realization of economies of scale and

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cost savings. These integration expenses likely will continue to result in the Company taking significant charges against earnings in future periods, and the amount and timing of such charges are uncertain at present.

The Company's operations may be adversely affected by its expansion into non-U.S. jurisdictions and the related increase in laws to which it is subject.

The Company's expansion, through AirTran, of its operations into non-U.S. jurisdictions has expanded the scope of the laws to which the Company is subject, both domestically and internationally. In addition, operations in non-U.S. jurisdictions are in many cases subject to the laws of those jurisdictions rather than U.S. laws. Laws in some jurisdictions differ in significant respects from those in the United States, and these differences can affect the Company's ability to react to changes in its business and its rights or ability to enforce rights may be different than would be expected under U.S. law. Further, enforcement of laws in some jurisdictions can be inconsistent and unpredictable, which can affect both the Company's ability to enforce its rights and to undertake activities that it believes are beneficial to its business. As a result, the Company's ability to generate revenue and its expenses in non-U.S. jurisdictions may differ from what would be expected if U.S. law governed these operations.

The Company acquired AirTran's indebtedness upon consummation of the acquisition, which additional indebtedness may limit the Company's financial and operating flexibility.

Upon consummation of the acquisition, the Company acquired AirTran's outstanding indebtedness and became subject to the operating restrictions under the debt instruments governing such indebtedness. AirTran has significant indebtedness and other commitments, significant debt and lease obligations related to existing purchased and leased aircraft, and debt and lease obligations for existing and planned operating facilities. The increased indebtedness of the Company following the acquisition may:

- require a substantial portion of cash flows from operations for debt service payments and operating lease payments, thereby reducing the availability of the Company's cash flow to fund working capital, capital expenditures, acquisitions, and other general corporate purposes; and
- limit the Company's flexibility in planning for, or reacting to, changes in its business and the airline industry and, consequently, negatively affect the Company's competitive position; and

The Company will need to launch certain branding or rebranding initiatives in connection with the acquisition that may take a significant amount of time and involve substantial costs and that may not be favorably received by Customers.

The Company may incur substantial costs in rebranding AirTran's products and services, and it may not be able to achieve or maintain brand name recognition or status under the Southwest brand that is comparable to the recognition and status previously enjoyed by AirTran in any of AirTran's markets. The failure of any such rebranding initiative could adversely affect the Company's ability to attract and retain Customers, which could cause the Company not to realize some or all of the anticipated benefits contemplated to result from the acquisition.

The Company's ability to use AirTran's net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes may be limited as a result of the acquisition, or if taxable income does not reach sufficient levels.

As of the acquisition date, AirTran had Federal net operating loss carryforwards ("NOLs") of approximately \$542 million available to offset future taxable income, expiring between 2017 and 2029.

AirTran experienced an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), as a result of its acquisition by the Company. Section 382 of the Code imposes an annual limitation on the amount of post-ownership change taxable income generated that may be offset with

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pre-ownership change NOLs of the corporation that experiences an ownership change. The limitation imposed by Section 382 of the Code for any post-ownership change year generally would be determined by multiplying the value of such corporation's stock immediately before the ownership change by the applicable long-term tax-exempt rate. Any unused annual limitation may, subject to certain limits, be carried over to later years, and the limitation may, under certain circumstances, be increased by built-in gains or reduced by built-in losses in the assets held by such corporation at the time of the ownership change. The combined company's use of NOLs arising after the date of an ownership change would not be limited unless the combined company were to experience a subsequent ownership change.

The combined company's ability to use the NOLs will also depend on the amount of taxable income generated in future periods. The NOLs may expire before the combined company can generate sufficient taxable income to utilize the NOLs.

AirTran is currently subject to pending antitrust litigation, and if judgment were to be rendered against AirTran in the litigation, such judgment could adversely affect the Company's operating results.

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. The scheduled period for fact and expert discovery has ended, but plaintiffs have sought to reopen discovery because Delta discovered that it had not produced certain documents. Plaintiffs have also sought discovery sanctions against Delta but not against AirTran. The Court has not yet ruled on the sanctions motion or plaintiffs' request to reopen discovery. The schedule for summary judgment motions has been suspended until the discovery issues are resolved. While AirTran has denied all allegations of wrongdoing, including those in the Consolidated Amended Complaint, and intends to defend vigorously any and all such allegations, results of legal proceedings such as this one cannot be predicted with certainty. Regardless of its merit, this litigation and any potential future claims against the Company or AirTran may be both time consuming and disruptive to the Company's operations and cause significant expense and diversion of management attention. Should AirTran and the Company fail to prevail in this or other matters, the Company may be faced with significant monetary damages or injunctive relief that could materially adversely affect its business and might materially affect its financial condition and operating results.

The application of the acquisition method of accounting resulted in the Company recording a significant amount of goodwill, which could result in significant future impairment charges and negatively affect the Company's financial results.

In accordance with applicable acquisition accounting rules, the Company recorded goodwill on its Consolidated Balance Sheet to the extent the AirTran acquisition purchase price exceeded the net fair value of AirTran's tangible and intangible assets and liabilities as of the acquisition date. Goodwill is not amortized, but is

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tested for impairment at least annually. Impairment charges could be recorded in the Company's results of operations as a result of, among other items, extreme fuel price volatility, a significant decline in the fair value of certain tangible or intangible assets, unfavorable trends in forecasted results of operations and cash flows and the uncertain economic environment, as well as other uncertainties. The Company can provide no assurance that a significant impairment charge will not occur in one or more future periods. Any such charges may materially negatively affect the Company's financial results.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Aircraft

Southwest and AirTran operated a total of 698 Boeing aircraft as of December 31, 2011, of which 192 and 7 were under operating and capital leases, respectively.

The following table details information on the 698 active aircraft in the Company's combined fleet as of December 31, 2011:

<u>Type</u>	<u>Seats</u>	<u>Average Age (Yrs)</u>	<u>Number of Aircraft</u>	<u>Number Owned (1)</u>	<u>Number Leased</u>
717-200	117	10	88	8	80
737-300	137	20	161	96	65
737-500	122	21	25	16	9
737-700	137	7	424	379	45
Totals			<u>698</u>	<u>499</u>	<u>199</u>

(1) As discussed further in Note 7 to the Consolidated Financial Statements, 111 of Southwest's and 38 of AirTran's aircraft were pledged as collateral as of December 31, 2011.

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In total, at January 18, 2012, Southwest and AirTran firm orders, options, and purchase rights for the purchase of Boeing 737-700, 737-800, and 737 MAX aircraft were as follows:

737 FUTURE DELIVERY SCHEDULE

	The Boeing Company 737NG			Additional -800s	The Boeing Company 737 MAX		Total
	-700 Firm Orders	-800 Firm Orders	Options		Firm Orders	Options	
2012		28		5			33
2013		41					41
2014	35	4	15				54
2015	36		12				48
2016	31		12				43
2017	15		25		4		44
2018	10		28		15		53
2019					33		33
2020					34		34
2021					34	18	52
2022					30	19	49
2023						23	23
2024						23	23
Through 2027						67	67
Total	127(a)	73	92	5(b)	150(c)	150	597

(a) The Company has flexibility to substitute 737-800s or 737-600s in lieu of 737-700 firm orders

(b) New delivery leased aircraft

(c) The Company has flexibility to accept MAX 7 or MAX 8 deliveries

Ground Facilities and Services

Southwest leases terminal passenger service facilities at each of the airports it serves, to which it has made various leasehold improvements. AirTran leases terminal passenger service facilities at Hartsfield-Jackson Atlanta International Airport and at several other airports including Orlando International Airport, Baltimore/Washington International Airport, and Milwaukee's General Mitchell International Airport. The checkin counters, gates, and airport office facilities at most of the other airports AirTran serves are leased from the appropriate airport authority. Southwest leases the land and structures on a long-term basis for its aircraft maintenance centers (located at Dallas Love Field, Houston Hobby, Phoenix Sky Harbor, and Chicago Midway), its flight training center at Dallas Love Field (which houses eight 737 simulators), and its corporate headquarters, also located at Dallas Love Field.

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 "LFMAC," a Texas non-profit "local government corporation" established by the City to act on the City's behalf to facilitate the development of the LFMP), the Company is managing this project. Major construction commenced during 2010, with completion of the project scheduled for the second half of 2014. Although subject to change, at the current time the project is expected to include the renovation of the Airport airline terminals and 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. The LFMP is discussed in more detail below under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 4 to the Consolidated Financial Statements.

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As of December 31, 2011, Southwest operated six Customer Support and Services centers. The centers located in Chicago, Albuquerque, and Oklahoma City occupy leased space. The Company owns its Houston, Phoenix, and San Antonio centers. AirTran leases office space in Atlanta for use as a reservations center, a reservations center in Savannah, Georgia, a warehouse and engine repair facility in Atlanta, and a reservations center in Carrollton, Georgia.

The Company performs substantially all line maintenance on its aircraft and provides ground support services at most of the airports it serves. However, the Company has arrangements with certain aircraft maintenance firms for major component inspections and repairs for its airframes and engines, which comprise the majority of the Company's annual aircraft maintenance costs.

Item 3. *Legal Proceedings*

From September 28, 2010 to January 18, 2011, various purported class action lawsuits were filed by stockholders of AirTran Holdings, Inc. that challenged the acquisition of AirTran by the Company. While the Company believes that each of these lawsuits was without merit, all but two were settled and dismissed during the third quarter of 2011, which resolved and released on behalf of the entire class of former AirTran stockholders all claims that were or could have been brought challenging any aspect of the merger, the merger agreement, and any disclosure made in connection therewith, among other claims. An additional action was dismissed during the fourth quarter of 2011, and one action remains pending. These two actions are discussed below.

The one remaining action is a consolidation of four purported AirTran shareholder class action lawsuits that were filed in the Circuit Court of the Ninth Judicial Circuit in and for Orange County, Florida. Harry Hoffner filed a purported class action lawsuit on September 30, 2010 against AirTran, Robert L. Fornaro, AirTran's Chairman, President, and Chief Executive Officer, each member of the AirTran board of directors, and the Company. This was followed by lawsuits filed by Robert Debardelan on October 8, 2010, Thomas A. Rosenberger on October 12, 2010, and Robert Loretitsch on October 15, 2010, against the same defendants plus Guadalupe Holdings Corp. ("Merger Sub"). On November 15, 2010, these actions were consolidated into one action styled *In re AirTran Shareholder Litigation* (the "consolidated Florida action"), which on December 2, 2010, was stayed in its entirety pending resolution of the earlier filed merger-related lawsuits. The consolidated Florida action generally alleges that the consideration received by AirTran's stockholders in the merger was unfair and inadequate and that the AirTran officers and directors named as defendants (the "individual AirTran defendants") breached their fiduciary duties by approving the merger agreement through an unfair and flawed process and by approving certain deal protection mechanisms contained in the merger agreement. The consolidated Florida action further alleges that AirTran, the Company, and Merger Sub aided and abetted the individual AirTran defendants in the breach of their fiduciary duties to AirTran's stockholders. The consolidated Florida action sought injunctive relief to (i) enjoin the defendants from consummating the merger unless AirTran adopted and implemented a procedure or process to obtain the highest possible price for AirTran's stockholders and disclosed all material information to AirTran's stockholders, (ii) direct the individual AirTran defendants to exercise their fiduciary duties to obtain a transaction in the best interests of AirTran's stockholders, and (iii) rescind the merger agreement, including the deal protection devices that may have precluded premium competing bids for AirTran. The consolidated Florida action also seeks plaintiffs' costs and disbursements, including reasonable attorneys' and experts' fees, and such other and further equitable relief as the court may deem just and proper. As a result of the settlement and dismissal of the other merger-related lawsuits, as discussed above, the defendants in the consolidated Florida action are currently in the process of seeking dismissal of that action. The plaintiffs in the consolidated Florida action have filed a motion seeking an award of attorneys' fees in the amount of \$350,000, which the defendants have opposed. No hearing is currently set.

On January 18, 2011, William Nesbit filed a purported AirTran shareholder class action lawsuit in the United States District Court for the District of Nevada against the same defendants as in the consolidated Florida action. The allegations and claims set forth in the Nesbit lawsuit, as well as the relief requested, were generally the same as those set forth in the consolidated Florida action. The Nesbit lawsuit additionally alleged, as part of

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its breach of fiduciary duty claim, that the individual AirTran defendants received greater benefits under the merger agreement than other former AirTran stockholders. The Nesbit lawsuit also included claims for alleged violations of Sections 14 and 20 of the Securities Exchange Act of 1934 for allegedly providing misleading and incomplete information in the Form S-4 Registration Statement filed with the SEC on November 19, 2010. Specifically, it alleged that the disclosures contained in the Form S-4 Registration Statement omitted or misrepresented material information regarding the process of approving the merger agreement, the merger consideration, and the intrinsic value of AirTran. On May 16, 2011, the Nesbit lawsuit was stayed pending resolution of earlier filed merger-related complaints, and on October 26, 2011, pursuant to the settlement and dismissal of those complaints, the Nesbit lawsuit was similarly dismissed.

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. The scheduled period for fact and expert discovery has ended, but plaintiffs have sought to reopen discovery because Delta discovered that it had not produced certain documents. Plaintiffs have also sought discovery sanctions against Delta but not against AirTran. The Court has not yet ruled on the sanctions motion or plaintiffs’ request to reopen discovery. The schedule for summary judgment motions has been suspended until the discovery issues are resolved. 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 4. *Mine Safety Disclosures*

Not applicable.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The following information regarding the Company's executive officers is as of January 1, 2012.

<u>Name</u>	<u>Position</u>	<u>Age</u>
Gary C. Kelly	Chairman of the Board, President, & Chief Executive Officer	56
Robert E. Jordan	Executive Vice President & Chief Commercial Officer	51
Jeff Lamb	Executive Vice President & Chief People & Administrative Officer	49
Ron Ricks	Executive Vice President, Chief Legal & Regulatory Officer, & Corporate Secretary	62
Michael G. Van de Ven	Executive Vice President & Chief Operating Officer	50
Davis S. Ridley	Senior Vice President & Chief Marketing Officer	58
Laura H. Wright	Senior Vice President Finance, Chief Financial Officer, & Treasurer	51

Set forth below is a description of the background of each of the Company's executive officers.

Gary C. Kelly has served as the Company's Chairman of the Board since May 2008, as its President since July 2008, and as its Chief Executive Officer since July 2004. Mr. Kelly also served as Executive Vice President & Chief Financial Officer from June 2001 to July 2004 and Vice President Finance & Chief Financial Officer from 1989 to 2001. Mr. Kelly joined the Company in 1986 as its Controller.

Robert E. Jordan has served as the Company's Executive Vice President & Chief Commercial Officer since September 2011 and as President of AirTran Airways, Inc. since May 2011. Mr. Jordan also served as Executive Vice President Strategy & Planning from May 2008 to September 2011, Executive Vice President Strategy & Technology from September 2006 to May 2008, Senior Vice President Enterprise Spend Management from August 2004 to September 2006, Vice President Technology from 2002 to 2004, Vice President Purchasing from 2001 to 2002, Controller from 1997 to 2001, Director Revenue Accounting from 1994 to 1997, and Manager Sales Accounting from 1990 to 1994. Mr. Jordan joined the Company in 1988 as a programmer.

Jeff Lamb has served as the Company's Executive Vice President & Chief People & Administrative Officer since September 2011. Mr. Lamb also served as Senior Vice President Administration & Chief People Officer from October 2007 to September 2011, Vice President People & Leadership Development from February 2006 to October 2007, and as Senior Director People Development from December 2004 until February 2006. Prior to joining the Company, Mr. Lamb served in various leadership roles with The Staubach Company, Belo Corporation, and Mesa Petroleum.

Ron Ricks has served as the Company's Executive Vice President & Chief Legal & Regulatory Officer since September 2011 and as Corporate Secretary since May 2008. Mr. Ricks also served as Executive Vice President Corporate Services from May 2008 to September 2011, Executive Vice President Law, Airports, & Public Affairs from September 2006 to May 2008, and Senior Vice President Law, Airports, & Public Affairs from August 2004 until September 2006. Mr. Ricks joined the Company in 1986 as its Vice President Governmental Affairs.

Michael G. Van de Ven has served as the Company's Executive Vice President & Chief Operating Officer since May 2008. Mr. Van de Ven also served as Chief of Operations from September 2006 to May 2008, Executive Vice President Aircraft Operations from November 2005 through August 2006, Senior Vice President Planning from August 2004 to November 2005, Vice President Financial Planning & Analysis from 2001 to 2004, Senior Director Financial Planning & Analysis from 2000 to 2001, and Director Financial Planning & Analysis from 1997 to 2000. Mr. Van de Ven joined the Company in 1993 as its Director Internal Audit.

Davis S. Ridley has served as the Company's Senior Vice President & Chief Marketing Officer since December 2010. Mr. Ridley also served as Senior Vice President Marketing & Revenue Management from May 2008 to December 2010, Senior Vice President Marketing from November 2007 to May 2008, a consultant to the

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Company from January 2006 to November 2007, Senior Vice President People & Leadership Development from August 2004 to January 2006, Vice President Ground Operations from 1998 to 2004, and Vice President of Marketing & Sales from 1993 to 1998. Mr. Ridley joined the Company in 1988 as its Director of Marketing & Sales.

Laura H. Wright has served as the Company's Senior Vice President Finance & Chief Financial Officer since July 2004 and has also served as its Treasurer since November 2011. Ms. Wright also served as Vice President Finance & Treasurer from June 2001 to July 2004, Treasurer from 1998 to 2001, Assistant Treasurer from 1995 to 1998, and Director Corporate Finance from 1990 to 1995. Ms Wright joined the Company in 1988 as its Director Corporate Taxation.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities**

The Company's common stock is listed on the New York Stock Exchange and is traded under the symbol "LUV." The following table shows, for the periods indicated, the high and low sales prices per share of the Company's common stock, as reported on the NYSE Composite Tape, and the cash dividends per share declared on the Company's common stock.

<u>Period</u>	<u>Dividend</u>	<u>High</u>	<u>Low</u>
2011			
1st Quarter	\$ 0.00450	\$ 13.59	\$ 11.41
2nd Quarter	0.00450	12.87	10.68
3rd Quarter	0.00450	11.65	7.79
4th Quarter	0.00450	9.28	7.15
2010			
1st Quarter	\$ 0.00450	\$ 13.42	\$ 10.91
2nd Quarter	0.00450	13.97	11.06
3rd Quarter	0.00450	14.16	10.42
4th Quarter	0.00450	14.32	12.31

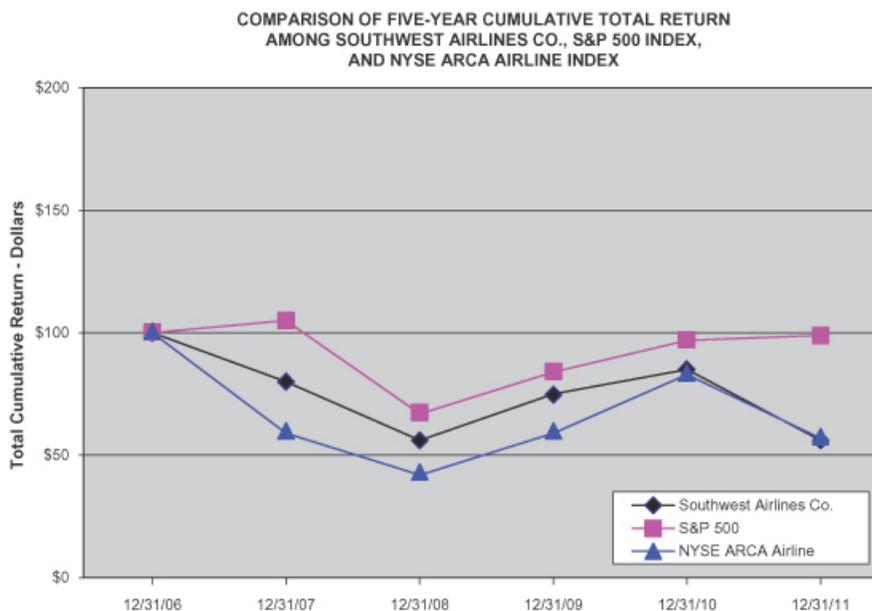
The Company currently intends to continue declaring dividends on a quarterly basis for the foreseeable future; however, the Company's Board of Directors may change the timing, amount, and payment of dividends on the basis of results of operations, financial condition, cash requirements, future prospects, and other factors deemed relevant by the Board. As of February 3, 2012, there were approximately 13,363 holders of record of the Company's common stock.

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Stock Performance Graph

The following Performance Graph and related information shall not be deemed “soliciting material” or “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934.

The following graph compares the cumulative total shareholder return on the Company’s common stock over the five-year period ended December 31, 2011, with the cumulative total return during such period of the Standard and Poor’s 500 Stock Index and the NYSE ARCA Airline Index, also known as the AMEX Airline Index. The comparison assumes \$100 was invested on December 31, 2006, in the Company’s common stock and in each of the foregoing indices and assumes reinvestment of dividends. The stock performance shown on the graph below represents historical stock performance and is not necessarily indicative of future stock price performance.



	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Southwest Airlines Co.	\$ 100	\$ 80	\$ 56	\$ 75	\$ 85	\$ 56
S&P 500	\$ 100	\$ 105	\$ 67	\$ 84	\$ 97	\$ 99
NYSE ARCA Airline	\$ 100	\$ 59	\$ 42	\$ 59	\$ 83	\$ 57

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Recent Sales of Unregistered Securities

During the fourth quarter of 2011, Herbert D. Kelleher, Chairman Emeritus of the Company, exercised options to purchase unregistered shares of the Company's Common Stock from the Company as follows:

<u>Number of shares purchased</u>	<u>Option exercise price per share</u>	<u>Date of exercise</u>	<u>Aggregate proceeds to the Company</u>
50,844	\$ 1.00	12/14/2011	\$ 50,844

The issuance of the above shares to Mr. Kelleher was exempt from registration under the Securities Act of 1933 pursuant to the provisions of Section 4(2) of the Securities Act because, among other things, of the limited number of participants in such transactions and the agreement and representation of Mr. Kelleher that he was acquiring such securities for investment and not with a view to distribution thereof. The issuance of such shares was not underwritten.

Issuer Repurchases

Issuer Purchases of Equity Securities (1)

<u>Period</u>	<u>(a) Total number of shares purchased</u>	<u>(b) Average price paid per share</u>	<u>(c) Total number of shares purchased as part of publicly announced plans or programs</u>	<u>(d) Maximum dollar value of shares that may yet be purchased under the plans or programs</u>
October 1, 2011 through October 31, 2011	—	\$ —	—	\$ 325,004,354
November 1, 2011 through November 30, 2011	5,600,000	\$ 7.78	5,600,000	\$ 281,426,034
December 1, 2011 through December 31, 2011	765,610	\$ 8.39	765,610	\$ 275,004,404
Total	<u>6,365,610</u>		<u>6,365,610</u>	

- (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. During 2011, the Company purchased approximately 27.5 million shares of its common stock for approximately \$225 million of the \$500 million in total currently authorized by the Board. Repurchases are made in accordance with applicable securities laws in the open market or in private transactions from time to time, depending on market conditions, and may be discontinued at any time.

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Item 6. Selected Financial Data

The following financial information for the five years ended December 31, 2011, has been derived from the Company's Consolidated Financial Statements. This information should be read in conjunction with the Consolidated Financial Statements and related notes thereto included elsewhere herein. This financial information includes the operations of AirTran since the May 2, 2011 acquisition date, but prior to that date only includes the operations of Southwest.

	Year ended December 31,				
	2011	2010	2009	2008	2007
Financial Data (in millions, except per share amounts):					
Operating revenues	\$ 15,658	\$ 12,104	\$ 10,350	\$ 11,023	\$ 9,861
Operating expenses	14,965	11,116	10,088	10,574	9,070
Operating income	693	988	262	449	791
Other expenses (income) net	370	243	98	171	(267)
Income before taxes	323	745	164	278	1,058
Provision for income taxes	145	286	65	100	413
Net income	\$ 178	\$ 459	\$ 99	\$ 178	\$ 645
Net income per share, basic	\$.23	\$.62	\$.13	\$.24	\$.85
Net income per share, diluted	\$.23	\$.61	\$.13	\$.24	\$.84
Cash dividends per common share	\$.0180	\$.0180	\$.0180	\$.0180	\$.0180
Total assets at period-end	\$ 18,068	\$ 15,463	\$ 14,269	\$ 14,068	\$ 16,772
Long-term obligations at period-end	\$ 3,107	\$ 2,875	\$ 3,325	\$ 3,498	\$ 2,050
Stockholders' equity at period-end	\$ 6,877	\$ 6,237	\$ 5,454	\$ 4,953	\$ 6,941
Operating Data:					
Revenue passengers carried	103,973,759	88,191,322	86,310,229	88,529,234	88,713,472
Enplaned passengers	127,551,012	106,227,521	101,338,228	101,920,598	101,910,809
Revenue passenger miles (RPMs) (000s)	97,582,530	78,046,967	74,456,710	73,491,687	72,318,812
Available seat miles (ASMs) (000s)	120,578,736	98,437,092	98,001,550	103,271,343	99,635,967
Load factor (1)	80.9%	79.3%	76.0%	71.2%	72.6%
Average length of passenger haul (miles)	939	885	863	830	815
Average aircraft stage length (miles)	679	648	639	636	629
Trips flown	1,317,977	1,114,451	1,125,111	1,191,151	1,160,699
Average passenger fare	\$ 141.72	\$ 130.27	\$ 114.61	\$ 119.16	\$ 106.60
Passenger revenue yield per RPM (cents)	15.10	14.72	13.29	14.35	13.08
Operating revenue per ASM (cents)	12.99	12.30	10.56	10.67	9.90
Operating expenses per ASM (cents)	12.41	11.29	10.29	10.24	9.10
Fuel costs per gallon, including fuel tax	\$ 3.19	\$ 2.51	\$ 2.12	\$ 2.44	\$ 1.80
Fuel consumed, in gallons (millions)	1,764	1,437	1,428	1,511	1,489
Active fulltime equivalent Employees	45,392	34,901	34,726	35,499	34,378
Aircraft in service at period-end (2)	698	548	537	537	520

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

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

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Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

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

	<u>Year ended December 31,</u>		Percent Change
	<u>2011</u>	<u>2010</u>	
Fuel and oil expense, unhedged	\$ 5,580	\$ 3,296	
Add: Fuel hedge losses included in Fuel and oil expense	64	324	
Fuel and oil expense, as reported	<u>\$ 5,644</u>	<u>\$ 3,620</u>	
Add (Deduct): Net impact from fuel contracts	—	(172)	
Fuel and oil expense, non-GAAP	<u>\$ 5,644</u>	<u>\$ 3,448</u>	63.7%
Operating income, as reported	\$ 693	\$ 988	
Add (Deduct): Reclassification between Fuel and oil and Other (gains) losses, net, associated with current period settled contracts	(35)	1	
Add: Contracts settling in the current period, but for which gains have been recognized in a prior period*	35	171	
Add: Acquisition and integration costs, net (a)	132	7	
Add: Charge for asset impairments, net of profitsharing	14	—	
Operating income, non-GAAP	<u>\$ 839</u>	<u>\$ 1,167</u>	(28.1)%
Net income, as reported	\$ 178	\$ 459	
Add (Deduct): Mark-to-market impact from fuel contracts settling in future periods	21	(21)	
Add (Deduct): Ineffectiveness from fuel hedges settling in future periods	33	(11)	
Add: Other net impact of fuel contracts settling in the current or a prior period (excluding reclassifications)	35	171	
Income tax impact of fuel contracts	(31)	(52)	
Add: Acquisition and integration costs, net (b)	85	4	
Add: Charge for asset impairments, net (b)	9	—	
Net income, non-GAAP	<u>\$ 330</u>	<u>\$ 550</u>	(40.0)%
Net income per share, diluted, as reported	\$ 0.23	\$ 0.61	
Add: Net impact to net income above from fuel contracts divided by dilutive shares	0.07	0.12	
Add: Impact of special items, net (b)	0.13	0.01	
Net income per share, diluted, non-GAAP	<u>\$ 0.43</u>	<u>\$ 0.74</u>	(41.9)%
Operating expenses per ASM (cents)	12.41	11.29	
Deduct: Fuel expense divided by ASMs	(4.68)	(3.68)	
Deduct: Impact of special items, net (a)	(0.12)	—	
Operating expenses per ASM, non-GAAP, excluding fuel and special items (cents)	<u>7.61</u>	<u>7.61</u>	— %

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

- (a) Amounts net of profitsharing impact on charges incurred through March 31, 2011. The Company amended its profitsharing plan during second quarter 2011 to defer the profitsharing impact of acquisition and integration costs incurred from April 1, 2011, through December 31, 2013. The profitsharing impact of these costs will be realized in 2014 and beyond.
- (b) Amounts net of taxes and profitsharing. See footnote (a) above.

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Note Regarding Use of Non-GAAP Financial Measures

The Company's Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States (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. 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 Note 10 to the Consolidated Financial Statements.

In addition to its "economic" financial measures, as defined above, the Company has also provided other non-GAAP financial measures as a result of items that the Company believes are not indicative of its ongoing operations. These include 2011 and 2010 charges of \$134 million and \$8 million, respectively, (before the impact of profitsharing and/or taxes) related to expenses associated with the Company's acquisition and integration of AirTran, a 2011 charge of \$17 million (before the impact of profitsharing and/or taxes) for an asset impairment related to the Company's decision not to equip its Classic (737-300/500) aircraft with "Required Navigation Performance" (RNP) capabilities, and a 2009 charge of \$66 million (before profitsharing and/or taxes) related to Freedom '09, a voluntary early retirement program. The Company believes that evaluation of its financial performance compared to prior and future periods can be enhanced by a presentation of results that exclude the impact of these items. 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 the charges as special items in its future presentation of non-GAAP results. See Note 2 and Note 9 to the Consolidated Financial Statements for further information on the AirTran acquisition and Freedom '09, respectively.

YEAR IN REVIEW

For the 39th consecutive year, the Company was profitable, earning \$178 million (\$.23 per share, diluted) in 2011, compared to the Company's 2010 net income of \$459 million (\$.61 per share, diluted). On a non-GAAP

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basis, the Company's 2011 net income was \$330 million (\$.43 per share, diluted), which was below the Company's 2010 net income of \$550 million (\$.74 per share, diluted), on a non-GAAP basis. Operating income for 2011 was \$693 million, which was a 29.9 percent decrease versus 2010. On a non-GAAP basis, the Company's 2011 operating income was \$839 million, or 28.1 percent lower than 2010. See the previous Note Regarding the Use of Non-GAAP Financial Measures. The decline in both net income and operating income, on both a GAAP and a non-GAAP basis, primarily was attributable to higher fuel costs. In fact, a 33.5 percent increase in the Company's economic jet fuel cost per gallon compared to 2010 drove the majority of an over \$2 billion year-over-year increase in economic Fuel and oil expense. However, the Company was able to combat the persistently high fuel costs by generating a 29.4 percent increase in operating revenues, thus enabling the Company to remain profitable. As discussed in Note 2 to the Consolidated Financial Statements, for GAAP reporting, the accompanying results of operations and cash flows contain AirTran's results beginning as of the date of the acquisition, while the prior year includes only the results of Southwest for all periods presented. In certain discussions that follow, primarily those involving forward-looking information used in the projection of future results, the Company has chosen to make comparisons to prior year "combined" results or measures in order to provide more meaningful information since all future results for Southwest will include AirTran results. Prior year combined results consist of the combination of Southwest and AirTran stand-alone results, without any retrospective application of acquisition-related accounting adjustments.

The Company focused a significant amount of its efforts during 2011 on various revenue improvement initiatives. The Company's major strategic initiatives include:

- The acquisition and integration of AirTran in order to grow the Company's network, gain access to key markets, and gain synergies through optimization of the combined carriers' operations;
- Implementation of Southwest's All-New Rapid Rewards frequent flyer program, which took place in first quarter 2011 and which has exceeded the Company's expectations with respect to the number of frequent flyer members added, the amount spent per member on airfare, the number of flights taken by members, the number of Southwest's co-branded Chase Visa credit card holders added, and the number of frequent flyer points purchased by program members;
- The addition of a larger aircraft, the Boeing 737-800, to Southwest's fleet, which is scheduled to begin in first quarter 2012 and is expected to allow the Company to profitably expand to new destinations, including near-international locations, generate additional revenue by replacing current aircraft on specified routes and locations that are restricted due to space constraints or slot controls, and operate at a lower seat mile cost;
- Acceleration of the Company's fleet modernization efforts. The Company announced in December 2011, that it will be the first airline to accept delivery of Boeing's new, more fuel-efficient 737-MAX, which is expected to enter service in 2017. In connection with its fleet modernization program, the Company placed orders for a total of 150 Boeing 737-MAX aircraft and added a total of 58 Boeing 737NG aircraft to its existing firm order book. The 737-MAX is expected to reduce CO2 emissions and improve fuel burn by an additional 10 to 11 percent over today's most fuel-efficient, single-aisle airplane. In January 2012, the Company also announced plans to retrofit its 737-700 fleet with an updated cabin interior. *Evolve: The New Southwest Experience* is intended to enhance Customer comfort, personal space, and the overall travel experience, while improving fleet efficiency and being environmentally responsible. By maximizing the space inside the plane, *Evolve* allows for the added benefit of six additional seats on each 737-700 aircraft, along with more climate-friendly and cost-effective materials. These retrofits for Southwest 737-700 aircraft are expected to begin in March 2012 and to be completed in 2013. The Company plans to retrofit the AirTran current fleet of 737-700s as such aircraft are converted to the Southwest livery beginning in 2012.
- Evaluation of short-term and long-term options to eventually replace Southwest's reservation system, which is currently limited to domestic service. This will allow the Company to add international destinations, as well as other important Customer Service automations and functionality.

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Each of these initiatives is expected to contribute significant incremental revenues once fully implemented.

The Company currently believes the acquisition of AirTran has the potential to yield net annual synergies of more than \$400 million in 2013, not including acquisition and integration costs. The Company incurred \$134 million in acquisition and integration expenses in 2011. Excluding acquisition and integration expenses estimated to total approximately \$500 million through 2014, the transaction was modestly accretive to the Company's earnings in 2011, excluding special items, is expected to be accretive in 2012, and is expected to be strongly accretive thereafter, upon full realization of the estimated net synergies. In addition, although Southwest and AirTran currently continue to operate as two separate airlines, the two carriers remain complementary with little route overlap. Strategically, both carriers have placed an emphasis on outstanding Customer Service, high quality low-cost operations, solid low-fare brands, and strong Employee cultures.

The Company continues to make progress with the integration of AirTran into its operations and existing processes. The Company has moved the vast majority of AirTran's headquarters functions from Orlando to Dallas and expects to have approval from the FAA to achieve a single operating certificate in the first quarter of 2012. The Company has begun converting space in airports where both carriers operate and plans to begin converting AirTran's fleet to the Southwest livery beginning in the first quarter of 2012. The Company has begun "optimizing" AirTran's network, and is also planning to launch booking tools in 2012 to allow Customers of both airlines to book flights on either carrier via southwest.com or airtran.com and to integrate the frequent flyer programs of the carriers.

Also, in fourth quarter 2011, the Company announced that the Southwest Airlines Pilots' Association ("SWAPA"), the union representing Southwest Pilots, the Air Line Pilots Association ("ALPA"), the union representing the pilots of AirTran, and the Company reached an agreement to integrate the two Pilot groups' seniority lists. The agreement was approved by SWAPA's Board of Directors and ALPA's Master Executive Council and was ratified by the membership of each union. In December 2011, the Transportation Workers of America, AFL-CIO, Local 556 ("TWU 556"), the union that represents Southwest Flight Attendants, the Association of Flight Attendants ("AFA"), the union that represents AirTran Flight Attendants, and the Company reached an agreement to integrate the two Flight Attendant groups' seniority lists. TWU 556's Executive Board and AFA's Master Executive Council both approved the agreement. The agreement was ratified by the respective memberships in January 2012. The Aircraft Mechanics Fraternal Association ("AMFA"), the union representing Southwest Aircraft Mechanics, the International Brotherhood of Teamsters, Local 528 ("IBT 528"), the union representing the AirTran Mechanics, and the Company reached a tentative agreement subject to a ratification vote by the unions' respective memberships. The agreement would integrate the two groups' seniority lists and also create a single labor agreement. The membership of each union is currently considering the tentative agreement. The Transportation Workers of America, AFL-CIO Local 557 ("TWU 557"), the union representing Southwest Flight Instructors, an Employee Committee representing the Flight Instructors of AirTran, and the Company reached an agreement to integrate the two groups' seniority lists. TWU 557's Executive Committee and the Employee Committee representing the AirTran Flight Instructors voted to pass the agreement forward to their respective members. The agreement was ratified by the respective memberships in January 2012.

Aside from the new destinations provided by the acquisition of AirTran, Southwest began service to three new markets during 2011—Charleston, South Carolina, Greenville/Spartanburg, South Carolina, and the New York-New Jersey area through Newark's Liberty International Airport. The Company has also announced Southwest will begin service to Atlanta, Georgia during first quarter 2012. Atlanta is currently AirTran's largest hub, and the Company will enhance AirTran's existing service utilizing Southwest aircraft and connecting this important destination to Southwest's vast domestic network. The efforts underway to fully integrate AirTran's network and schedule with Southwest's are expected to be a multi-year undertaking, but one that the Company believes will yield significant financial benefits.

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 2012. The Company currently expects to receive 33 737-800

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aircraft deliveries during 2012, 28 of which will be new aircraft from Boeing, and five of which will be new 737-800s that are being leased from a third party. The Company also expects to retire approximately 40 of its older 737-300s and 737-500s and expects 2012 ASMs to approximate the combined amount flown during 2011 by Southwest and AirTran.

RESULTS OF OPERATIONS

2011 compared with 2010

The Company's consolidated net income of \$178 million (\$.23 per share, diluted) in 2011 decreased by \$281 million, or 61.2 percent, compared to its 2010 net income of \$459 million (\$.61 per share, diluted). The results in each year were significantly impacted by the Company's fuel hedge program and the accounting requirements related to the derivative instruments used in the Company's hedging activities. As a result of the fuel hedges the Company had in place during 2011—including those that settled during 2011 and those that will settle in future years—the Company recognized a net total of \$259 million in losses allocated between Fuel and oil expense and Other (gains) losses, net, in the Consolidated Statement of Income. During 2010, the Company recognized a net total of \$426 million in losses as a result of its fuel hedging activities, allocated between Fuel and oil expense and Other (gains) losses, net. Each of these totals for 2011 and 2010 includes the net premium costs the Company paid to enter into a portion of its fuel derivative instruments such as option contracts which are classified as a component of Other (gains) losses, net. See Note 10 to the Consolidated Financial Statements for further information on fuel derivative instruments. The Company's results for 2011 also included a charge for asset impairment of \$17 million (before the impact of profitsharing or taxes) related to the Company's decision not to equip its Classic (737-300/500) aircraft with RNP capabilities and AirTran acquisition and integration-related expenses of \$134 million (before the impact of profitsharing or taxes). The Company's 2011 operating income of \$693 million was lower than the Company's 2010 operating income of \$988 million, as the 34.6 percent increase in operating expenses outpaced the 29.4 percent increase in operating revenues.

Operating revenues

The following table presents the consolidated operating revenues for the Company for the year ended December 31, 2011, compared to prior year reported results, as well as a reconciliation of the impact of the AirTran acquisition on the comparative results (in millions, except for percentage changes):

	Year ended December 31,		Dollar change	Dollar change attributable to AirTran results	Dollar change excluding AirTran results	Percent change excluding AirTran results
	2011	2010				
OPERATING REVENUES:						
Passenger	\$14,735	\$11,489	\$3,246	\$ 1,742	\$ 1,504	13.1%
Freight	139	125	14	—	14	11.2
Other	784	490	294	261	33	6.7
Total operating revenues	<u>\$15,658</u>	<u>\$12,104</u>	<u>\$3,554</u>	<u>\$ 2,003</u>	<u>\$ 1,551</u>	<u>12.8%</u>

Consolidated operating revenues increased by \$3.6 billion, or 29.4 percent, compared to 2010. The majority of the increase was attributable to the inclusion of the results of AirTran following the May 2, 2011 acquisition. Excluding the results of AirTran following the acquisition, operating revenues for 2011 increased by \$1.6 billion, or 12.8 percent, compared to 2010, primarily due to a \$1.5 billion, or 13.1 percent, increase in Passenger revenues. Holding other factors constant, over 40 percent of the increase in Passenger revenues was attributable to the 5.5 percent increase in Southwest's capacity, versus 2010. The remainder of the increase primarily was due to higher Passenger yields (Passenger revenues per RPM flown), as the Company implemented fare increases in an attempt to buffer a portion of the impact of higher fuel costs.

The Company's load factor also increased 1.6 points to 80.9 percent in 2011, which was a record for the Company. These strong revenue results were achieved due to better revenue management techniques and

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strategies, continued optimization of the Company's flight schedule to better match demand in certain markets, improving economic conditions, which led to higher demand for air travel versus 2010, and at times, targeted marketing campaigns in which the Company differentiated its product and service from competitors. For January 2012, the Company experienced a year-over-year increase in passenger unit revenues of approximately seven percent compared to passenger unit revenues on a combined basis in January 2011. Bookings and revenue trends, thus far, for the remainder of first quarter 2012 also remain strong.

Consolidated Freight revenues increased by \$14 million, or 11.2 percent, versus 2010, primarily due to higher average rates charged as a result of fuel surcharges and better economic conditions than the prior year. The Company currently expects freight revenues for first quarter 2012 to be in line with fourth quarter 2011 freight revenues.

Excluding the results of AirTran following the acquisition, Other revenues increased \$33 million, or 6.7 percent, compared to 2010. This increase was due to revenues from initiatives, such as the Company's EarlyBird product, for which Customers can pay \$10 to automatically receive an assigned boarding position before general checkin begins, and service charges for unaccompanied minors and pets. The increase in revenues from initiatives was partially offset by a year-over-year increase in the portion of the commissions earned from programs the Company sponsors with certain business partners that were classified as Passenger revenue. The classification of such amounts is influenced by average fares, among other factors. See Note 1 to the Consolidated Financial Statements for further information on the Company's frequent flyer program. Other revenues for AirTran for the period following the acquisition included approximately \$110 million in baggage fees collected from Customers. The Company expects consolidated Other revenues for first quarter 2012 to fall below combined results for first quarter 2011, due to a higher portion of expected revenues from business partners being classified as Passenger revenues.

Operating expenses

Consolidated operating expenses for 2011 increased by \$3.8 billion, or 34.6 percent, compared to 2010, while capacity increased 22.5 percent compared to 2010. The increase in consolidated operating expenses was primarily due to the inclusion of AirTran's 2011 operating expenses following the acquisition. Historically, except for changes in the price of fuel, changes in operating expenses for airlines are largely driven by changes in capacity, or ASMs. Excluding the results of AirTran following the acquisition, operating expenses increased 17.0 percent. The following tables present the Company's operating expenses per ASM for 2011 and 2010, and year-over-year dollar changes for the same periods showing a reconciliation of the impact of the AirTran acquisition on the comparative results, followed by explanations of these changes on a per-ASM basis and/or on a dollar basis:

<u>(in cents, except for percentages)</u>	<u>Year ended</u> <u>December 31,</u>		<u>Per-</u> <u>ASM</u> <u>change</u>	<u>Percent</u> <u>change</u>
	<u>2011</u>	<u>2010</u>		
Salaries, wages, and benefits	3.62¢	3.76¢	(.14)¢	(3.7)%
Fuel and oil	4.68	3.68	1.00	27.2
Maintenance materials and repairs	.79	.76	.03	3.9
Aircraft rentals	.26	.18	.08	44.4
Landing fees and other rentals	.80	.82	(.02)	(2.4)
Depreciation and amortization	.59	.64	(.05)	(7.8)
Acquisition and integration	.11	—	.11	n.a.
Other operating expenses	1.56	1.45	.11	7.6
Total	<u>12.41¢</u>	<u>11.29¢</u>	<u>1.12¢</u>	<u>9.9%</u>

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(in millions, except for percentages)	Year ended December 31,		Dollar change	Dollar change attributable to AirTran results	Dollar change excluding AirTran results	Percent change excluding AirTran results
	2011	2010				
OPERATING EXPENSES:						
Salaries, wages, and benefits	\$ 4,371	\$ 3,704	\$ 667	\$ 381	\$ 286	7.7%
Fuel and oil	5,644	3,620	2,024	811	1,213	33.5
Maintenance materials and repairs	955	751	204	175	29	3.9
Aircraft rentals	308	180	128	159	(31)	(17.2)
Landing fees and other rentals	959	807	152	117	35	4.3
Depreciation and amortization	715	628	87	41	46	7.3
Acquisition and integration	134	8	126	28	98	n.a.
Other operating expenses	1,879	1,418	461	250	211	14.9
Total operating expenses	<u>\$14,965</u>	<u>\$11,116</u>	<u>\$3,849</u>	<u>\$ 1,962</u>	<u>\$ 1,887</u>	<u>17.0%</u>

On a dollar basis, excluding the results for AirTran following the acquisition, operating expenses increased by \$1.9 billion for 2011 compared to 2010, approximately 64 percent of which was due to a higher average jet fuel cost per gallon. Consolidated operating expenses per ASM (unit costs) for 2011 increased 9.9 percent compared to 2010. Over 89 percent of this year-over-year cost per available seat mile increase was due to higher fuel costs, as the Company's average jet fuel cost per gallon increased 27.1 percent to \$3.19, including the impact of hedging activity. An increase in acquisition and integration expenses (incurred by Southwest) of \$98 million also contributed to the year-over-year increase in costs on both a dollar and a per-ASM basis during 2011. On a non-GAAP basis, the Company's 2011 consolidated operating expenses per ASM, excluding fuel, remained relatively flat compared to 2010. Based on current cost trends, the Company expects first quarter 2012 unit costs on a consolidated basis, excluding fuel, profitsharing, and special items, to increase compared to first quarter 2011's combined unit costs, excluding fuel, profitsharing, and special items. See the previous Note Regarding Use of Non-GAAP Financial Measures.

Excluding the results of AirTran following the acquisition, Salaries, wages, and benefits expense increased by \$286 million for 2011 compared to 2010. The majority of the year-over-year increase was due to the increase in Southwest's capacity and number of trips flown, which was partially offset by a decrease in profitsharing expense resulting from lower income available for profitsharing. 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. See Note 10 to the Consolidated Financial Statements for further information on fuel hedging. Consolidated Salaries, wages, and benefits expense per ASM for 2011 decreased 3.7 percent compared to 2010. On a per-ASM basis, the majority of this decrease was due to AirTran unit costs for Salaries, wages, and benefits being significantly lower than Southwest's. This decrease was partially offset by increases in average wage rates paid to the majority of Southwest's workforce. Based on current cost trends and anticipated capacity, the Company expects consolidated Salaries, wages, and benefits expense per ASM in first quarter 2012, excluding profitsharing, to increase from first quarter 2011's combined unit cost, excluding profitsharing.

Southwest's Materials Specialists (formerly known as Stock Clerks), totaling approximately 170 Employees, are subject to an agreement between the Company and the International Brotherhood of Teamsters, Local 19 ("IBT Local 19"). During first quarter 2011, Southwest's Materials Specialists ratified a new agreement that becomes amendable August 16, 2013.

Southwest's Aircraft Appearance Technicians, totaling approximately 240 Employees, are subject to a collective-bargaining agreement between the Company and the Aircraft Mechanics Fraternal Association ("AMFA"), which became amendable in February 2009. The Company and AMFA had tentatively agreed on a new contract, but during July 2011, the Aircraft Appearance Technicians voted not to ratify the agreement. The Company will continue to engage in discussions on a new agreement with AMFA.

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Southwest’s Dispatchers, totaling approximately 190 Employees, are subject to agreements between the Company and the Transportation Workers of America, AFL-CIO, Local 550 (“TWU 550”), which became amendable in 2009. The Company is currently in discussions on a new agreement with TWU 550.

Southwest’s Ramp, Operations, Provisioning, and Freight Agents, totaling approximately 8,800 Employees, are subject to an agreement between the Company and the TWU Local 555 (“TWU 555”), which became amendable in June 2011. The Company is currently in discussions on a new agreement with TWU 555.

Excluding the results of AirTran following the acquisition, Fuel and oil expense for 2011 increased \$1.2 billion, or 33.5 percent, versus 2010. On a per-ASM basis, 2011 consolidated Fuel and oil expense increased by 27.2 percent versus 2010. Both of these increases were primarily due to a 27.1 percent increase in the Company’s average fuel cost per gallon. On a consolidated basis, as a result of the Company’s fuel hedging program and inclusive of accounting for derivatives and hedging, the Company recognized net losses totaling \$64 million in 2011 in Fuel and oil expense relating to fuel derivative instruments versus net losses of \$324 million recognized in Fuel and oil expense in 2010. These totals are inclusive of cash settlements realized from the expiration/settlement of fuel derivatives, which were \$63 million paid to counterparties in 2011 versus \$153 million paid to counterparties for 2010. However, 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 10 to the Consolidated Financial Statements.

As of January 13, 2012, on an economic basis, the Company had combined derivative contracts in place related to expected future fuel consumption at the following levels:

Average WTI Crude Oil price per barrel	Percent of estimated fuel consumption covered by fuel derivative contracts	
	First Half 2012	Second Half 2012
\$80 to \$100		10-20% range
\$100 to \$125	(1)	approx. 50%
\$125 to \$150		approx. 20%
Above \$150		less than 5%

Period	Percent of estimated fuel consumption covered by fuel derivative contracts at varying WTI crude-equivalent price levels
2013	over 50%
2014	over 40%
2015	over 10%

(1) For first half 2012, the Company’s current estimated fuel consumption covered by fuel derivative contracts is minimal, with various fuel derivative contracts at WTI crude-equivalent intervals between \$80 and \$150 per barrel.

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As a result of prior hedging activities, the Company continues to have significant amounts “frozen” in Accumulated other comprehensive income (“AOCI”), and these amounts will be recognized in the Company’s Statement of Income 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 on a consolidated basis (not considering the impact of the cash collateral provided to or received from counterparties—See Note 10 to the Consolidated Financial Statements for further information) as well as the amount of deferred gains/losses in AOCI at December 31, 2011, and the expected future periods in which these items are expected to settle and/or be recognized in earnings (in millions):

Year	Fair value (liability) of fuel derivative contracts at December 31, 2011	Amount of gains (losses) deferred in AOCI at December 31, 2011 (net of tax)
2012	\$ (189)	\$ (92)
2013	(14)	(91)
2014	131	23
2015	28	(23)
Total	\$ (44)	\$ (183)

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 are expected to 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 10 to the 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 first quarter 2012, second quarter 2012, and second half 2012 jet fuel prices at different crude oil assumptions as of January 13, 2012, and for expected premium costs associated with settling contracts each period.

Average WTI Crude Oil price per barrel	Estimated difference in economic jet fuel price per gallon, above/(below) unhedged market prices, including taxes		
	1Q 2012	2Q 2012	Second Half 2012
\$75	\$0.12	\$0.12	\$0.15
\$90	\$0.12	\$0.09	\$0.11
\$99 (1)	\$0.12	\$0.06	\$0.06
\$115	\$0.12	\$0.06	(\$0.11)
\$130	\$0.11	\$0.06	(\$0.28)
Estimated premium costs (2)	\$6 million	\$5 million	\$37 million

- (1) Based on the first quarter 2012 average WTI forward curve and market prices as of January 13, 2012, and current estimated fuel consumption covered by fuel derivative contracts, first quarter 2012 economic fuel price per gallon, including taxes, is estimated to be approximately \$3.35 per gallon, or \$.12 above market prices.
- (2) Premium costs are recognized as a component of Other (gains) losses net.

Excluding the results of AirTran following the acquisition, Maintenance materials and repairs expense for 2011 increased \$29 million, or 3.9 percent, on a dollar basis compared to 2010. This increase primarily was attributable to higher airframe expense associated with routine heavy maintenance checks. On a per-ASM basis, consolidated Maintenance materials and repairs expense increased 3.9 percent primarily as a result of higher engine expense, as AirTran’s Boeing 717 fleet has higher engine costs, on a flight hour basis, than Southwest’s

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all-Boeing 737 fleet. In October 2011, the Company amended its engine maintenance contracts with GE Engine Services. Previously, the engines on both its Classic fleet (737-300/500s) and its 737-700s were subject to “power-by-the-hour” agreements under which the cost was based on the number of engine hours flown. The amended agreement for the Classic fleet no longer meets the risk-transfer criteria of a “power-by-the-hour” agreement, and thus expense will prospectively be recorded on a time and materials basis when an engine repair event takes place. The maintenance contract for the engines on the Company’s 737-700 fleet was amended primarily to incorporate the 52 Boeing 737-700s from the AirTran acquisition and to extend the term of that agreement until December 31, 2021. The amendments to both maintenance contracts were effective October 1, 2011. The Company currently expects consolidated Maintenance materials and repairs expense per ASM for first quarter 2012 to be comparable to combined first quarter 2011 results, based on currently scheduled airframe maintenance events, scheduled engine shop visits, Evolve retrofits, and projected engine hours flown.

Excluding the results of AirTran following the acquisition, Aircraft rentals expense for 2011 decreased \$31 million, or 17.2 percent, on a dollar basis compared to 2010 as a result of amortization associated with the unfavorable aircraft lease liability created as part of purchase accounting adjustments based on the estimated fair value of AirTran’s Boeing 717 leases. See Note 2 to the Consolidated Financial Statements. Excluding the impact of this amortization, year-over-year expense decreased slightly on a dollar basis. Consolidated Aircraft rentals expense per ASM for 2011 increased 44.4 percent compared to 2010. This increase on a per-ASM basis primarily was due to the fact that AirTran leases the majority of its aircraft fleet. Of the 140 aircraft in AirTran’s fleet, over 70 percent are on operating leases, versus approximately 16 percent for Southwest’s fleet at December 31, 2011. The Company currently expects consolidated Aircraft rentals expense per ASM for first quarter 2012 to be comparable to fourth quarter 2011’s consolidated results, based on expected amortization associated with the aforementioned unfavorable aircraft lease liability and lease rate reductions negotiated for the Boeing 717 leases.

Excluding the results of AirTran following the acquisition, Landing fees and other rentals expense for 2011 increased by \$35 million, or 4.3 percent, on a dollar basis compared to 2010. The majority of the dollar increase was due to the increase in number of trips flown versus the same prior year period. On a per-ASM basis compared to 2010, consolidated Landing fees and other rentals expense decreased by 2.4 percent. The decline on a per-ASM basis primarily was due to higher than anticipated credits (refunds) received in 2011 as a result of airports’ audits of prior period payments. The Company currently expects consolidated Landing fees and other rentals expense for first quarter 2012 to be higher than the combined first quarter 2011 results on a per-ASM basis.

Excluding the results of AirTran following the acquisition, Depreciation and amortization expense for 2011 increased \$46 million, or 7.3 percent, on a dollar basis compared to 2010. Approximately 66 percent of this increase was due to the amortization associated with the intangible assets recognized upon the acquisition of AirTran, such as customer relationships, trademarks, slots, domain name, and non-compete agreements, and approximately 23 percent was due to large projects that have been placed into service, such as the Company’s implementation of its All-New Rapid Rewards frequent flyer program. On a per-ASM basis, consolidated Depreciation and amortization expense decreased by 7.8 percent compared to 2010, primarily due to the majority of AirTran’s fleet being on operating leases. For first quarter 2012, the Company currently expects consolidated Depreciation and amortization expense per ASM to increase compared to first quarter 2011’s combined results, primarily due to the amortization of intangible assets and the Company’s plans to accelerate the retirement of its Classic fleet.

On a consolidated basis for 2011, the Company incurred \$134 million of acquisition and integration costs related to the acquisition of AirTran. These costs primarily consisted of financial advisory fees and consulting, severance, technology, and facility integration expenses. See Note 2 to the Consolidated Financial Statements.

Excluding the results of AirTran following the acquisition, Other operating expenses for 2011 increased \$211 million on a dollar basis compared to 2010. Approximately 20 percent of this increase was a result of

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revenue-related costs (such as credit card processing fees) associated with the 13.1 percent increase in Passenger revenues, approximately 17 percent was due to technology and consulting costs associated with completed and ongoing projects, and approximately 8 percent was a result of a \$17 million asset impairment related to the Company's decision not to equip its Classic aircraft with RNP capabilities. On a consolidated basis, Other operating expenses per ASM for 2011 increased 7.6 percent compared to 2010. Approximately 31 percent of the increase per ASM was a result of revenue-related costs and 16 percent was due to technology and consulting costs associated with projects. On a consolidated basis for first quarter 2012, the Company currently expects Other operating expenses per ASM to increase from first quarter 2011's combined results.

Through the 2003 Emergency Wartime Supplemental Appropriations Act, the federal government has continued to provide renewable, supplemental, first-party war-risk insurance coverage to commercial carriers at substantially lower premiums than prevailing commercial rates and for levels of coverage not available in the commercial market. The government-provided supplemental coverage from the Wartime Act is currently set to expire on September 30, 2012. Although another extension beyond this date is expected, if such coverage is not extended by the government, the Company could incur substantially higher insurance costs or experience unavailability of adequate coverage in future periods.

Other

Consolidated Other expenses (income) include interest expense, capitalized interest, interest income, and other gains and losses. Consolidated Interest expense for 2011 increased by \$27 million, or 16.2 percent, compared to 2010. The additional debt held by the Company in connection with the AirTran acquisition resulted in \$26 million additional interest expense for 2011. For first quarter 2012, the Company expects interest expense to decline from fourth quarter 2011's \$51 million, primarily as a result of the redemption of the Company's \$400 million 10.5% notes on December 15, 2011. See Note 2 to the Consolidated Financial Statements.

Consolidated Capitalized interest for 2011 decreased by \$6 million, or 33.3 percent, compared to 2010, primarily due to a decrease in average progress payment balances for scheduled future aircraft deliveries.

Consolidated Interest income for 2011 decreased by \$2 million, or 16.7 percent, compared to 2010, primarily due to lower rates earned on invested cash and short-term investments.

Consolidated Other (gains) losses, net, primarily includes amounts recorded as a result of the Company's hedging activities. See Note 10 to the 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 years ended December 31, 2011 and 2010:

<u>(in millions)</u>	Year ended December 31,	
	2011	2010
Mark-to-market impact from fuel contracts settling in future periods	\$ 21	\$ (21)
Ineffectiveness from fuel hedges settling in future periods	33	(11)
Realized ineffectiveness and mark-to-market (gains) or losses	35	(1)
Premium cost of fuel contracts	107	134
Other	2	5
	<u>\$ 198</u>	<u>\$ 106</u>

Income taxes

The Company's consolidated effective tax rate was approximately 45 percent for 2011, compared to 38 percent for 2010. The higher rate for 2011 primarily was driven by the Company's lower 2011 income before taxes (thus enhancing the impact of permanent tax differences), a portion of acquisition-related costs being non-deductible, additional income tax expense of \$5 million as a result of an IRS settlement agreed to in first quarter 2011 related to tax years 2007 through 2009, and a first quarter 2011 \$2 million charge as a result of a

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State of Illinois tax law change. On a non-GAAP basis, the Company currently projects a full year 2012 effective tax rate of approximately 38 to 40 percent based on currently forecasted financial results. However, the Company's effective tax rate during interim periods of 2012 may differ significantly from this full year estimate.

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

	<u>Year ended December 31,</u>		<u>Percent Change</u>
	<u>2010</u>	<u>2009</u>	
Fuel and oil expense, unhedged	\$ 3,296	\$ 2,577	
Add: Fuel hedge losses included in Fuel and oil expense	324	467	
Fuel and oil expense, as reported	\$ 3,620	\$ 3,044	
Add (Deduct): Net impact from fuel contracts	(172)	(222)	
Fuel and oil expense, non-GAAP	<u>\$ 3,448</u>	<u>\$ 2,822</u>	22.2%
Net income, as reported	\$ 459	\$ 99	
Add/(Deduct): Mark-to-market impact from fuel contracts settling in current and future periods	(21)	(73)	
Add/(Deduct): Ineffectiveness from fuel hedges settling in future periods	(11)	(97)	
Add/(Deduct): Other net impact of fuel contracts settling in the current or a prior period (excluding reclassifications)	171	184	
Income tax impact of fuel contracts	(52)	(5)	
Add: Acquisition and integration costs, net (b)	4	—	
Add: Charge for voluntary early out program, net (b)	—	35	
Net income, non-GAAP	<u>\$ 550</u>	<u>\$ 143</u>	n.a
Net income per share, diluted, as reported	\$.61	\$.13	
Add/(Deduct): Net impact to net income above from fuel contracts divided by dilutive shares	.12	.02	
Add: Impact of special items, net (b)	.01	.04	
Net income per share, diluted, non-GAAP	<u>\$.74</u>	<u>\$.19</u>	n.a
Operating expenses per ASM (cents)	11.29	10.29	
Deduct: Fuel expense divided by ASMs	(3.68)	(3.11)	
Deduct: Impact of special items, net (a)	—	(.05)	
Operating expenses per ASM, non-GAAP, excluding fuel and special items (cents)	<u>7.61</u>	<u>7.13</u>	6.7%

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

(a) Amounts net of profitsharing.

(b) Amounts net of taxes and profitsharing.

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

2010 compared with 2009

The Company's consolidated net income of \$459 million (\$.61 per share, diluted) in 2010 represented an increase of \$360 million, or 364 percent, compared to its 2009 net income of \$99 million (\$.13 per share, diluted). The results in each year were significantly impacted by the Company's fuel hedge program and the

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accounting requirements related to the derivative instruments used in the Company's hedging activities. As a result of the fuel hedges the Company had in place during 2010—including those that settled during 2010 and those that will settle in future years—the Company recognized a net total of \$426 million in losses allocated between Fuel and oil expense and Other (gains) losses, net, in the Consolidated Statement of Income. During 2009, the Company recognized a total of \$408 million in losses as a result of its fuel hedging activities, allocated between Fuel and oil expense and Other (gains) losses, net. Each of these totals for 2010 and 2009 includes the net premium costs the Company paid to enter into a portion of its fuel derivative instruments such as option contracts which are classified as a component of Other (gains) losses, net. See Note 10 to the Consolidated Financial Statements for further information on fuel derivative instruments. The Company's results for 2009 also included a one-time charge of \$66 million (before the impact of profitsharing or taxes) related to Freedom '09, a voluntary early retirement program that was accepted by 1,404 Employees. See Note 9 to the Consolidated Financial Statements for further information on this program. The Company's 2010 operating income was \$988 million, which was significantly better than the Company's 2009 operating income of \$262 million, as the 16.9 percent increase in operating revenues outpaced the 10.2 percent increase in operating expenses.

Operating revenues

Consolidated operating revenues increased \$1.8 billion, or 16.9 percent, primarily due to a \$1.6 billion, or 16.1 percent, increase in Passenger revenues. The majority of the increase in Passenger revenues was attributable to the 10.8 percent increase in Passenger yield (Passenger revenues per RPM flown), primarily due to higher average fares. The Company's load factor also increased 3.3 points to 79.3 percent in 2010. These strong revenue results were achieved due to better revenue management techniques and strategies, improving economic conditions which led to higher demand for air travel versus 2009, including a new and improved website at www.southwest.com, capacity restraint and reallocation by both the Company and the entire airline industry, fare increases, and targeted marketing campaigns designed to enhance the Company's already strong Brand and Customer Experience.

Consolidated Freight revenues increased \$7 million, or 5.9 percent, versus 2009, primarily due to higher average rates charged as a result of better economic conditions. Other revenues increased \$150 million, or 44.1 percent, compared to 2009. Approximately 63 percent of the increase was due to revenues from initiatives, such as the Company's EarlyBird product, for which Customers can pay \$10 to automatically receive an assigned boarding position before general checkin begins, and service charges for unaccompanied minors and for pets. The remainder of the increase primarily was due to higher commissions earned from programs the Company sponsors with certain business partners, such as Southwest's co-branded Chase Visa credit card.

Operating expenses

Consolidated operating expenses for 2010 increased \$1.0 billion, or 10.2 percent, compared to a slight increase in capacity. Historically, except for changes in the price of fuel, changes in operating expenses for airlines are largely driven by changes in capacity, or ASMs. The following presents the Company's operating expenses per ASM for 2010 and 2009 followed by explanations of these changes on a per ASM basis and/or on a dollar basis (in cents, except for percentages):

<u>(in cents, except for percentages)</u>	<u>Year ended December 31,</u>		<u>Per ASM change</u>	<u>Percent change</u>
	<u>2010</u>	<u>2009</u>		
Salaries, wages, and benefits	3.76¢	3.54¢	.22¢	6.2%
Fuel and oil	3.68	3.11	.57	18.3
Maintenance materials and repairs	.76	.73	.03	4.1
Aircraft rentals	.18	.19	(.01)	(5.3)
Landing fees and other rentals	.82	.73	.09	12.3
Depreciation and amortization	.64	.63	.01	1.6
Other operating expenses	1.45	1.36	.09	6.6
Total	<u>11.29¢</u>	<u>10.29¢</u>	<u>1.00¢</u>	<u>9.7%</u>

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The Company's 2010 CASM (cost per available seat mile) increased 9.7 percent compared to 2009. Over 55 percent of this year-over-year CASM increase was due to an 18.4 percent increase in the Company's average jet fuel cost per gallon. The Company's 2009 operating expenses also included the impact of Freedom '09, the early retirement plan offered by the Company, which resulted in a \$66 million charge. Excluding the impact of this charge, 2010 integration costs incurred in preparation for the acquisition of AirTran, and Fuel and oil expense for each year, 2010 CASM increased compared to 2009 primarily due to higher wage rates, higher profitsharing expense, and higher airport costs.

Salaries, wages, and benefits increased \$236 million on an absolute dollar basis, including the impact of the \$66 million charge recorded during third quarter 2009 as a result of Freedom '09, the early retirement plan offered by the Company that was accepted by 1,404 Employees. Excluding the impact of the Freedom '09 charge, approximately 55 percent of the year-over-year increase was from higher salaries and wages, primarily as a result of higher average wage rates. The remainder of the year-over-year increase primarily was attributable to a \$124 million increase in profitsharing, as a result of higher income available for profitsharing. 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. See Note 10 to the Consolidated Financial Statements for further information on fuel hedging. Salaries, wages, and benefits expense per ASM was 6.2 percent higher than 2009, primarily due to pay scale increases as a result of increased seniority and contractual rate increases for the Company's unionized workforce, who make up the majority of its Employees, while the Company's ASM capacity increased only slightly compared to 2009. These increases combined with relatively flat headcount resulted in higher average rates per Employee.

Fuel and oil expense increased \$576 million, or 18.9 percent, and on a per-ASM basis increased 18.3 percent versus 2009. Both the dollar and the per ASM increase were driven primarily by an 18.4 percent increase in the average price per gallon for jet fuel, including the impact of fuel derivatives used in hedging, and including related taxes. As a result of the Company's fuel hedging program and inclusive of the impact of the accounting guidance for derivatives and hedging, the Company recognized net losses totaling \$324 million in 2010 in Fuel and oil expense relating to fuel derivative instruments versus net losses of \$467 million recognized in Fuel and oil expense in 2009. These totals are inclusive of cash settlements realized from the expiration/settlement of fuel derivatives, which were \$153 million paid to counterparties in 2010 versus \$245 million paid to counterparties for 2009. However, these totals exclude gains and/or losses recognized from hedge ineffectiveness, which are recorded as a component of Other (gains) losses, net. See Note 10 to the Consolidated Financial Statements.

Maintenance materials and repairs increased 4.5 percent on a dollar basis, and increased 4.1 percent on a per-ASM basis compared to 2009. On both a dollar and a per-ASM basis, the increases were due to an increase in the number of scheduled airframe maintenance events versus 2009.

Aircraft rentals expense per ASM decreased 5.3 percent and, on a dollar basis, decreased \$6 million. Both decreases primarily were due to the renegotiation of several aircraft leases at lower rates.

Landing fees and other rentals increased \$89 million on a dollar basis and increased 12.3 percent on a per-ASM basis, compared to 2009. The majority of both the dollar increase and per-ASM increase was due to higher space rentals in airports as a result of higher rates charged by those airports due to either higher operating costs or to cover shortfalls caused by reductions in service by airlines over the past few years. When airlines reduce their capacity, airport costs are then allocated amongst a fewer number of total flights.

Depreciation and amortization expense increased \$12 million on a dollar basis compared to 2009, and was up 1.6 percent on a per-ASM basis. These increases were both primarily due to the amortization of capitalized software costs associated with various information technology upgrade and replacement projects the Company completed during 2010.

Other operating expenses increased \$89 million, and were up 6.6 percent on a per-ASM basis, compared to 2009. On both a dollar and a per-ASM basis, these increases primarily were due to an increase in revenue-related costs (such as credit card interchange fees) associated with the 16.1 percent increase in Passenger revenues.

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Other

Interest expense decreased by \$19 million, or 10.2 percent, primarily due to the Company's conversion of its \$400 million of 10.5% secured notes due 2011 and its \$300 million of 5.75% senior unsecured notes due 2016 to floating interest rates during fourth quarter 2009. Capitalized interest declined 14.3 percent, or \$3 million, compared to 2009, due to a reduction in progress payment balances for scheduled future aircraft deliveries and lower interest rates. Interest income decreased \$1 million, or 7.7 percent, primarily due to a decrease in average rates earned on invested cash and short-term investment balances.

Other (gains) losses, net, primarily includes amounts recorded as a result of the Company's fuel hedging activities. The following table displays the components of Other (gains) losses, net, for the years ended December 31, 2010 and 2009:

<i>(in millions)</i>	Year ended December 31,	
	2010	2009
Mark-to-market impact from fuel contracts settling in future periods	\$ (21)	\$ (73)
Ineffectiveness from fuel hedges settling in future periods	(11)	(97)
Realized ineffectiveness and mark-to-market (gains) or losses	(1)	(38)
Premium cost of fuel contracts	134	148
Other	5	6
	\$ 106	\$ (54)

See Note 10 to the Consolidated Financial Statements for further information on the Company's hedging activities.

Income taxes

The provision for income taxes, as a percentage of income before taxes, decreased to 38 percent in 2010 from 40 percent in 2009. The lower 2010 rate primarily was due to the Company's higher 2010 earnings, which diluted the impact of permanent tax differences, thus reducing the tax rate.

LIQUIDITY AND CAPITAL RESOURCES

On a consolidated basis, net cash provided by operating activities was \$1.4 billion in 2011, compared to \$1.6 billion provided by operating activities in 2010. Operating cash inflows primarily are derived from providing air transportation to Customers. The vast majority of tickets are purchased prior to the day on which travel is provided and, in some cases, several months before the anticipated travel date. Operating cash outflows primarily are related to the recurring expenses of airline operations. Operating cash flows can also be significantly impacted by the Company's fuel hedge positions and the significant fluctuation in fair value of those positions and the corresponding cash collateral requirements associated with those positions. In the Consolidated Statement of Cash Flows, increases and/or decreases to these cash deposits are reflected in operating cash flows as Cash collateral received from (provided to) fuel derivative counterparties. As of December 31, 2011, the net amount of cash provided to fuel hedge counterparties was \$226 million, and the net change in cash deposits for 2011 was a net operating outflow of \$195 million. Cash flows associated with entering into new fuel derivatives, which are also classified as operating cash flows, were net inflows of \$192 million in 2011, net outflows of \$359 million in 2010, and net outflows of \$86 million in 2009. Cash flows from operating activities for 2011 were also significantly impacted by the Company's net income (as adjusted for non-cash depreciation and amortization expense and non-cash unrealized losses on fuel derivative instruments). For further information on the Company's hedging program and counterparty deposits, see Note 10 to the Consolidated Financial Statements and "Item 7A. Quantitative and Qualitative Disclosures about Market Risk," respectively. Operating cash generated is used primarily to finance aircraft-related capital expenditures and to provide working capital.

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Net cash used in investing activities in 2011 totaled \$1.1 billion, versus \$1.3 billion used in 2010. Investing activities in both years included payments for new 737-700 aircraft delivered to the Company and progress payments for future aircraft deliveries. The Company purchased 18 new Boeing 737-700 aircraft in 2011, versus the purchase of 11 Boeing 737-700s in 2010. See Note 4 to the Consolidated Financial Statements. Investing activities for 2011 and 2010 also reflect \$48 million and \$772 million, respectively, related to changes in the balance of the Company's short-term investments.

Net cash used in financing activities was \$766 million in 2011. During 2011, the Company repaid \$557 million in debt and capital lease obligations that came due, repurchased approximately \$225 million of its outstanding common stock through a share repurchase program, and used \$81 million in cash to repay convertible note holders following the acquisition of AirTran. Net cash used in financing activities was \$149 million in 2010. During 2010, the Company repaid \$155 million in debt and capital lease obligations that came due, and also repaid \$44 million from a credit line borrowing associated with auction rate security instruments that were redeemed back to its counterparty. See Note 7 to the Consolidated Financial Statements for more information on the issuance and redemption of long-term debt.

OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS, AND CONTINGENT LIABILITIES AND COMMITMENTS

The Company has contractual obligations and commitments primarily with regard to future purchases of aircraft, payment of debt, and lease arrangements. In addition to aircraft acquired as a result of the AirTran acquisition, the Company received 20 Boeing 737-700 aircraft in 2011, 18 of which were new aircraft purchased from Boeing and two of which were leased from a third party. The Company also retired ten older leased and owned 737-300 aircraft from service during 2011. During December 2011, the Company and Boeing announced a significant revision to the Company's future firm aircraft order book. Among other items, the revision included the incorporation of AirTran's future orders into the Company's agreement, the addition of 58 new 737NG firm orders, and the Company's placement of a firm order for 150 of Boeing's new 737 MAX aircraft which is expected to enter service in 2017. In addition to these orders from Boeing, during July 2011, the Company executed an agreement to lease five new 737-800 aircraft from a third party. These aircraft are expected to be placed into service in mid-2012 and are expected to replace older aircraft, which are currently scheduled to be retired. Under the Company's agreement with Boeing, it has the option to substitute 737-600s for the 737-700s ordered with at least 24 months notice prior to the contractual delivery date and can substitute 737-800s for the 737-700s with at least twelve months notice. See Note 4 to the Consolidated Financial Statements for a complete table of the Company's firm orders, options, and purchase rights with Boeing. For aircraft commitments with Boeing, the Company is required to make cash deposits toward the purchase of aircraft in advance. These deposits are classified as Deposits on flight equipment purchase contracts in the 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 leasing of aircraft (including the sale and leaseback of aircraft) provides flexibility to the Company as a source of financing. Although the Company is responsible for all maintenance, insurance, and expense associated with operating leased aircraft, and retains the risk of loss for these aircraft, it has not made any guarantees to the lessors regarding the residual value (or market value) of the aircraft at the end of the lease terms. As of December 31, 2011, the Company, including AirTran, operated 199 leased aircraft, of which 192 are under operating leases. As prescribed by GAAP, assets and obligations under operating leases are not included in the Company's Consolidated Balance Sheet. Disclosure of the contractual obligations associated with the Company's leased aircraft is included below as well as in Note 8 to the Consolidated Financial Statements.

The Company is required to provide standby letters of credit to support certain obligations that arise in the ordinary course of business. Although the letters of credit are off-balance sheet, the majority of obligations to which they relate are reflected as liabilities in the Consolidated Balance Sheet. Outstanding letters of credit totaled \$230 million at December 31, 2011.

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The Company is a “well-known seasoned issuer” and has a universal shelf registration statement that allows it to register an indeterminate amount of debt or equity securities for future sales. The Company 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 following table aggregates the Company’s (including AirTran’s) material expected contractual obligations and commitments as of December 31, 2011:

Contractual obligations	Obligations by period (in millions)				Total
	2012	2013 - 2014	2015 - 2016	Beyond 2016	
Long-term debt (1)	\$ 556	\$ 719	\$ 816	\$ 1,481	\$ 3,572
Interest commitments - fixed (2)	129	226	167	144	666
Interest commitments - floating (3)	19	35	41	60	155
Operating lease commitments (4)	640	1,359	1,068	2,516	5,583
Capital lease commitments	6	12	12	26	56
Aircraft purchase commitments (5)	952	2,339	2,343	6,988	12,622
Other commitments	198	273	72	—	543
Total contractual obligations	<u>\$ 2,500</u>	<u>\$ 4,963</u>	<u>\$ 4,519</u>	<u>\$ 11,215</u>	<u>\$ 23,197</u>

- (1) Includes principal only and includes \$68 million associated with the Company’s convertible senior notes due 2016. See Note 7 to the Consolidated Financial Statements.
- (2) Related to fixed-rate debt only.
- (3) Interest obligations associated with floating-rate debt (either at issuance or through swaps) is estimated utilizing forward interest rate curves as of December 31, 2011 and can be subject to significant fluctuation.
- (4) Includes LFMP commitment amounts.
- (5) Firm orders from Boeing. The Company has flexibility as to the timing for certain of the firm orders in 2013 through 2017, but has classified the amounts in the earliest year they could be considered a commitment.

As discussed in Note 2 to the Consolidated Financial Statements, the Company expects to incur approximately \$500 million in integration and closing costs associated with the acquisition of AirTran, a portion of which were incurred in 2010 and 2011, and which have been, and are expected to continue to be, funded with cash. The Company believes that its current liquidity position, including unrestricted cash and short-term investments of \$3.1 billion as of December 31, 2011, anticipated future internally generated funds from operations, and its fully available, unsecured revolving credit facility of \$800 million, will enable it to meet these future integration expenditures. Additionally, as discussed in Note 7 to the Consolidated Financial Statements and as set forth above in the contractual obligations table, the Company has long-term debt maturities of \$385 million in March 2012, which are currently expected to be funded with cash and short-term investments on hand or expected to be generated from operations during 2012. The Company will continue to consider various borrowing or leasing options to maximize liquidity and supplement cash requirements as needed. The Company believes it has access to financing arrangements because of its current investment grade credit ratings, unencumbered assets, modest leverage, and consistent profitability, which should enable it to meet its ongoing capital, operating, and other liquidity requirements. As of December 31, 2011, the book value of the Company’s unencumbered aircraft totaled approximately \$6.2 billion.

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, up to \$500 million of the Company’s common stock following such authorization. During 2011, the Company purchased approximately 27.5 million shares of its common stock for approximately \$225 million of the \$500 million in total currently authorized by the Board.

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Repurchases are made in accordance with applicable securities laws in the open market or in private transactions from time to time, depending on market conditions, and may be discontinued at any time.

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 to act on the City's behalf to facilitate the development of the LFMP), the Company is managing this project. Major construction commenced during 2010, with completion of the project scheduled for the second half of 2014. Although subject to change, the project is expected to include the renovation of the Airport airline terminals and 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.

During fourth quarter 2010, the LFAMC issued \$310 million in tax-exempt facility revenue bonds (LFMP Bonds), the proceeds of which have been or will be used: (1) to finance a significant portion of the ongoing costs of the LFMP; and (2) to reimburse the Company for approximately \$80 million in early LFMP expenditures made (such expenditures and reimbursement were authorized pursuant to a June 25, 2008 Inducement Resolution approved by the Dallas City Council and subsequent Resolutions by the LFAMC). Repayment of the LFMP Bonds will be through the "Facilities Payments" described below. Reimbursement of the Company for its payment of Facilities Payments are expected to be made through recurring ground rents, fees, and other revenues collected at the Airport. The Company has guaranteed principal, premium, and interest on the issued bonds. Depending on funding needs and the timing of these funds from other sources, an additional tranche of bonds is expected to be issued during 2012. It is currently expected that the total amount spent on the LFMP project will be approximately \$519 million.

Prior to the issuance of the LFMP Bonds by the LFAMC, the Company entered into two separate funding agreements: (1) a "Facilities Agreement" pursuant to which the Company is obligated to make debt service payments on the principal and interest amounts associated with the LFMP Bonds (Facilities Payments), less other sources of funds the City of Dallas may apply to the repayment of the LFMP Bonds (including but not limited to passenger facility charges collected from passengers originating from the Airport); and (2) a "Revenue Credit Agreement" pursuant to which the City of Dallas will reimburse the Company for the Facilities Payments made by the Company.

A majority of the monies transferred from the City of Dallas to the Company under the Revenue Credit Agreement are expected to originate from a reimbursement account created in the "Use and Lease Agreement" between the City of Dallas and the Company. The Use and Lease Agreement is a 20-year agreement providing for, among other things, the Company's lease of space at the Airport from the City of Dallas. The remainder of such monies transferred from the City of Dallas to the Company under the Revenue Credit Agreement is expected to originate from (1) use and lease agreements with other airlines, (2) various concession agreements, and (3) other Airport miscellaneous revenues.

The Company's liquidity could be impacted by the LFMP to the extent there is not an additional future successful bond issuance or there is a timing difference between the Company's payment of the Facilities Payments pursuant to the Facilities Agreement and the transfer of monies back to the Company pursuant to the Revenue Credit Agreement; however, the Company does not currently anticipate the occurrence of either of these items. The LFMP is not expected to have a significant impact on the Company's capital resources or financial position. See Note 4 to the Consolidated Financial Statements for further information and accounting requirements related to the LFMP.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's Consolidated Financial Statements have been prepared in accordance with GAAP. The Company's significant accounting policies are described in Note 1 to the Consolidated Financial Statements. The preparation of financial statements in accordance with GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying footnotes. The Company's estimates and assumptions are based on historical experience and changes in the business environment. However, actual results may differ from estimates under different conditions, sometimes materially. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of the Company's financial condition and results and require management's most subjective judgments. The Company's most critical accounting policies and estimates are described below.

Revenue recognition

Tickets sold for Passenger air travel are initially deferred as Air traffic liability. Passenger revenue is recognized and Air traffic liability is reduced when the service is provided (i.e., when the flight takes place). Air traffic liability represents tickets sold for future travel dates and estimated future refunds and exchanges of tickets sold for past travel dates. The balance in Air traffic liability fluctuates throughout the year based on seasonal travel patterns and fare sale activity.

For air travel on Southwest, the amount of tickets that will expire unused are estimated and recognized in Passenger revenue once the scheduled flight date has passed. Estimating the amount of tickets that will expire unused, be refunded, or exchanged involves some level of subjectivity and judgment. The majority of Southwest's tickets sold are nonrefundable, which is the primary source of unused tickets. According to Southwest's "Contract of Carriage," tickets (whether refundable or nonrefundable) that are sold but not flown on the travel date can be reused for another flight, up to a year from the date of sale, or can be refunded (if the ticket is refundable). This policy also applies to unused Customer funds that may be left over from exchanging a less expensive ticket for a previously purchased ticket that was more expensive. A small percentage of tickets (or partial tickets) expire unused. Fully refundable tickets are rarely forfeited. Estimates of tickets that will expire unused are based on historical experience over many years. Southwest and other airlines have consistently applied this accounting method to estimate revenue from unused tickets at the date of scheduled travel. Holding other factors constant, a 10 percent change in the Company's (including AirTran's) estimate of the amount of tickets that will expire unused would have resulted in a \$37 million, or 0.25 percent, change in Passenger revenues recognized for 2011.

Events and circumstances outside of historical fare sale activity or historical Customer travel patterns can result in actual refunds, exchanges, or forfeited tickets differing significantly from estimates. The Company evaluates its estimates within a narrow range of acceptable amounts. If actual refunds, exchanges, or forfeiture experience results in an amount outside of this range, estimates and assumptions are reviewed and adjustments to Air traffic liability and to Passenger revenue are recorded, as necessary. Additional factors that may affect estimated refunds and exchanges include, but may not be limited to, changes to the Company's ticketing policies, the Company's refund, exchange, and unused funds policies, the mix of refundable and nonrefundable fares, promotional fare activity, and the impact of the economic environment on Customer behavior. The Company's estimation techniques have been consistently applied from year to year; however, as with any estimates, actual refund, exchange, and forfeiture activity may vary from estimated amounts. During 2009, as a result of the Company's efforts to stimulate demand through fare sales, Passenger revenues consisted of a higher percentage of discount tickets flown and a lower percentage of fully refundable tickets flown. In addition, during 2011, the Company revised its unused funds policy to restrict the ability of a Customer to transfer funds to another Customer, which has resulted in an increase in expiration of unused funds. Consequently, the Company's estimate of the amount of refunded, exchanged, or forfeited tickets recorded during 2009 and during 2011 was approximately 30 to 35 percent higher than what it believes its historical averages would indicate for those years. The Company believes these estimates are supported by actual data and are reasonable given the underlying fact patterns.

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The Company believes it is unlikely that materially different estimates for future refunds, exchanges, and forfeited tickets would be reported based on other reasonable assumptions or conditions suggested by actual historical experience and other data available at the time estimates were made.

Accounting for long-lived assets

Flight equipment and related assets make up the majority of the Company's long-lived assets. Flight equipment primarily relates to the 496 Boeing 737 aircraft and 10 Boeing 717 aircraft in the Company's (including AirTran's) fleet at December 31, 2011, which are either owned or on capital lease. The remaining 114 Boeing 737 aircraft and 78 Boeing 717 aircraft in the Company's (including AirTran's) fleet at December 31, 2011, are operated under operating leases. In accounting for long-lived assets, the Company must make estimates about the expected useful lives of the assets, the expected residual values of the assets, and the potential for impairment based on the fair value of the assets and their future expected cash flows.

The following table shows a breakdown of the Company's long-lived asset groups along with information about estimated useful lives and residual values for new assets generally purchased from the manufacturer:

	<u>Estimated Useful Life</u>	<u>Estimated Residual value</u>
Airframes and engines	23 to 30 years	5%-15%
Aircraft parts	Fleet life	4%
Ground property and equipment	5 to 30 years	0%-10%

In estimating the lives and expected residual values of its aircraft, the Company primarily has relied upon actual experience with the same or similar aircraft types, current and projected future market information, and recommendations from Boeing. Aircraft estimated useful lives are based on the number of "cycles" flown (one take-off and landing) as well as the aircraft age. The Company has made a conversion of cycles into years based on both historical and anticipated future utilization of the aircraft. Subsequent revisions to these estimates, which can be significant, could be caused by changes to aircraft maintenance programs, changes in utilization of the aircraft (actual cycles during a given period of time), governmental regulations on aging aircraft, and changing market prices of new and used aircraft of the same or similar types. The Company evaluates its estimates and assumptions each reporting period and, when warranted, adjusts these estimates and assumptions. Generally, these adjustments are accounted for on a prospective basis through depreciation and amortization expense. For example, during fourth quarter 2010, the Company changed the estimated residual values of its entire remaining fleet of owned 737-300 and 737-500 aircraft. Based on current and expected future market conditions related to these aircraft, the Company reduced the residual values of these aircraft from approximately 15 percent of original cost to approximately 10 percent of original cost. This determination was made due to the lack of buyers for these older aircraft, as many buyers of used aircraft prefer newer, more fuel efficient models, and the increase in the number of airlines retiring these older aircraft, which has increased the supply of older aircraft on the market. As this reduction in residual value is considered a change in estimate, it was accounted for on a prospective basis, and thus the Company has effectively accelerated the recording of depreciation expense over the remainder of the useful lives for each aircraft. The impact of this change was not material.

The Company evaluates its long-lived assets for impairment. Factors that would indicate potential impairment may include, but are not limited to, significant decreases in the market value of the long-lived asset(s), a significant change in the long-lived asset's physical condition, and operating or cash flow losses associated with the use of the long-lived asset. The Company has continued to operate virtually all of its aircraft, generate positive cash flow, and produce operating profits. Consequently, the Company has not identified any impairment related to its existing aircraft fleet. The Company will continue to monitor its long-lived assets and the airline operating environment.

The Company believes it is unlikely that materially different estimates for expected lives, expected residual values, and impairment evaluations would be made or reported based on other reasonable assumptions or conditions suggested by actual historical experience and other data available at the time estimates were made.

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Financial derivative instruments

The Company utilizes financial derivative instruments primarily to manage its risk associated with changing jet fuel prices. See “Quantitative and Qualitative Disclosures about Market Risk” for more information on these risk management activities, and see Note 10 to the Consolidated Financial Statements for more information on the Company’s fuel hedging program and financial derivative instruments.

All derivatives are required to be reflected at fair value and recorded on the Consolidated Balance Sheet. At December 31, 2011, the Company was a party to over 800 separate financial derivative instruments, related to its fuel hedging program, for the years 2012 through 2015. Changes in the fair values of these instruments can vary dramatically based on changes in the underlying commodity prices, as has been evident in recent years. For example, during 2010, market “spot” prices for crude oil peaked at a high of approximately \$91 per barrel and hit a low price of approximately \$68 per barrel. During 2011, market spot prices ranged from a low of \$76 per barrel to a high of \$114 per barrel. Market price changes can be driven by factors such as supply and demand, inventory levels, weather events, refinery capacity, political agendas, value of the U.S. dollar, geopolitical events, and general economic conditions, among other items. The financial derivative instruments utilized by the Company primarily are a combination of collars, purchased call options, call spreads, and fixed price swap agreements. The Company does not purchase or hold any derivative instruments for trading purposes.

The Company enters into financial derivative instruments with third party institutions in “over-the-counter” markets. Since the majority of the Company’s financial derivative instruments are not traded on a market exchange, the Company estimates their fair values. Depending on the type of instrument, the values are determined by the use of present value methods or standard option value models with assumptions about commodity prices based on those observed in underlying markets. Also, since there is not a reliable forward market for jet fuel, the Company must estimate the future prices of jet fuel in order to measure the effectiveness of the hedging instruments in offsetting changes to those prices. Forward jet fuel prices are estimated through the observation of similar commodity futures prices (such as crude oil, heating oil, and unleaded gasoline) and adjusted based on variations of those like commodities to the Company’s ultimate expected price to be paid for jet fuel at the specific locations in which the Company hedges.

Fair values for financial derivative instruments and forward jet fuel prices are estimated prior to the time that the financial derivative instruments settle and the time that jet fuel is purchased and consumed, respectively. However, once settlement of the financial derivative instruments occurs and the hedged jet fuel is purchased and consumed, all values and prices are known and are recognized in the financial statements. In some historical periods, because of increased volatility in energy markets, the Company has in fact lost hedge accounting for a certain type of commodity, such as all unleaded gasoline derivative instruments. There have also been instances in which the Company has lost hedge accounting in specific geographic locations for certain types of commodities used in hedging. At such times, the Company has marked all such derivatives to fair value in each quarterly period, with all changes in value reflected as a component of Other (gains) losses, net in the Consolidated Statement of Income. The Company did not lose hedge accounting for an entire commodity during 2011, 2010, or 2009. Although the Company’s prospective assessment has been utilized to ensure that the commodities used in most cases still qualify for hedge accounting in specific locations where the Company hedges, there are no assurances that these commodities will continue to qualify in the future. This is due to the fact that future price changes in these refined products may not be consistent with historical price changes. Increased volatility in these commodity markets for an extended period of time, especially if such volatility were to worsen, could cause the Company to lose hedge accounting altogether for the commodities used in its fuel hedging program, which would create further volatility in the Company’s financial results.

Estimating the fair value of these fuel derivative instruments and forward prices for jet fuel will also result in changes in their fair values from period to period and thus determine their accounting treatment. To the extent that the change in the estimated fair value of a fuel derivative instrument differs from the change in the estimated price of the associated jet fuel to be purchased, both on a cumulative and a period-to-period basis, ineffectiveness

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of the fuel hedge can result. This could result in the immediate recording of non-cash charges or income, representing the change in the fair value of the derivative, even though the derivative instrument may not expire/settle until a future period. Likewise, if a derivative contract ceases to qualify for hedge accounting, the changes in the fair value of the derivative instrument is recorded every period to Other (gains) and losses, net in the Consolidated Statement of Income in the period of the change.

Ineffectiveness is inherent in hedging jet fuel with derivative positions based in other crude oil related commodities, especially given the past volatility in the prices of refined products. Due to the volatility in markets for crude oil and related products, the Company is unable to predict the amount of ineffectiveness each period, including the loss of hedge accounting, which could be determined on a derivative by derivative basis or in the aggregate for a specific commodity. This may result, and has historically resulted, in increased volatility in the Company's financial statements. The amount of hedge ineffectiveness and unrealized gains and losses on the change in fair value of derivative contracts settling in future periods recorded during historical periods has been due to a number of factors. These factors include: the significant fluctuation in energy prices, the number of derivative positions the Company holds, significant weather events that have affected refinery capacity and the production of refined products, and the volatility of the different types of products the Company uses for mitigation of fuel price volatility. The discontinuation of hedge accounting for specific hedges and for specific refined products, such as unleaded gasoline, can also be a result of these factors. Depending on the level at which the Company is hedged at any point in time, as the fair value of the Company's hedge positions fluctuate in amount from period to period, there could be continued variability recorded in the Consolidated Statement of Income, and furthermore, the amount of hedge ineffectiveness and unrealized gains or losses recorded in earnings may be material. This is primarily because small differences in the correlation of crude oil related products could be leveraged over large volumes.

The Company continually looks for better and more accurate methodologies in forecasting expected future cash flows relating to its jet fuel hedging program. These estimates are an important component used in the measurement of effectiveness for the Company's fuel hedges. The current methodology used by the Company in forecasting forward jet fuel prices is primarily based on the idea that different types of commodities are statistically better predictors of forward jet fuel prices, depending on specific geographic locations in which the Company hedges. The Company then adjusts for certain items, such as transportation costs, that are stated in fuel purchasing contracts with its vendors, in order to estimate the actual price paid for jet fuel associated with each hedge. This methodology for estimating expected future cash flows (i.e., jet fuel prices) has been consistently applied during 2011, 2010, and 2009, and has not changed for either assessing or measuring hedge ineffectiveness during these periods.

The Company believes it is unlikely that materially different estimates for the fair value of financial derivative instruments and forward jet fuel prices would be made or reported based on other reasonable assumptions or conditions suggested by actual historical experience and other data available at the time estimates were made.

Fair value measurements

The Company utilizes unobservable (Level 3) inputs in determining the fair value of certain assets and liabilities. At December 31, 2011, these included auction rate security investments, valued at \$67 million, a portion of its fuel derivative option contracts, which were a net asset of \$417 million, and \$5 million in other investments.

All of the Company's auction rate security instruments are reflected at estimated fair value in the 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 auctions for most of these instruments failed, and, therefore, the Company has determined the estimated fair values of these securities utilizing a

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discounted cash flow analysis or other type of valuation model, which qualify the instruments as Level 3. The Company's analyses consider, among other items, the collateralization underlying the security investments, the expected future cash flows, including the final maturity, associated with the securities, and estimates of the next time the security is expected to have a successful auction or return to par value.

In association with this estimate of fair value, the Company has recorded a temporary unrealized decline in fair value of \$14 million, with an offsetting entry to AOCI. Given the quality and backing of the Company's auction rate securities held, the fact that the Company has not yet recorded a loss on the sale of any of these instruments, and the fact that it has been able to periodically sell instruments back to the issuer, it believes it can continue to account for the estimated reduction in fair value of its remaining securities as temporary. These conclusions will also continue to be evaluated and challenged in subsequent periods. The Company currently believes that this temporary decline in fair value is due entirely to liquidity issues, because the underlying assets for the majority of securities are almost entirely backed by the U.S. Government. In addition, these auction rate securities represented less than two percent of the Company's total cash, cash equivalents, and investment balance at December 31, 2011, which the Company believes allows it sufficient time for the auction rate securities to return to full value. At the time of the first failed auctions during first quarter 2008, the Company held a total of \$463 million in auction rate securities. Since that time, the Company has been able to redeem \$382 million of these instruments at par value.

The Company determines the fair value of fuel derivative option contracts utilizing an option 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 quoted by its counterparties. In situations where the Company obtains inputs via quotes from its counterparties, it verifies the reasonableness of these quotes via similar quotes from another counterparty as of each date for which financial statements are prepared. 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. Due to the fact that certain inputs used in determining estimated fair value of its option contracts are considered unobservable (primarily volatility), the Company has categorized these option contracts as Level 3.

As discussed in Note 10 to the Consolidated Financial Statements, any changes in fair value of cash flow hedges that are considered to be effective, as defined, are offset within AOCI until the period in which the expected future cash flow impacts earnings. Any changes in the fair value of fuel derivatives that are ineffective, as defined, or that do not qualify for hedge accounting, are reflected in earnings within Other (gains) losses, net, in the period of the change. Because the Company has extensive historical experience in valuing the derivative instruments it holds, and such experience is continually evaluated against its counterparties each period when such instruments expire and are settled for cash, the Company believes it is unlikely that an independent third party would value the Company's derivative contracts at a significantly different amount than what is reflected in the Company's financial statements. In addition, the Company also has bilateral credit provisions in some of its counterparty agreements, which provide for parties (or the Company) to provide cash collateral when the fair value of fuel derivatives with a single party exceeds certain threshold levels. Since this cash collateral is based on the estimated fair value of the Company's outstanding fuel derivative contracts, this provides further validation to the Company's estimate of fair values.

Frequent flyer accounting

Southwest and AirTran utilize estimates in the recognition of liabilities associated with their respective frequent flyer programs. These estimates primarily include the liability associated with frequent flyer member account balances that are expected to be redeemed for travel or other products at a future date, and frequent flyer awards that have been issued, are outstanding, and are expected to be redeemed at a future date. Frequent flyer account balances include points/credits earned through flights taken, points sold to Customers, or points/credits earned through business partners participating in the Company's frequent flyer program.

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In March 2011, Southwest launched its All-New Rapid Rewards frequent flyer program. Under the new program, members earn points for every dollar spent instead of credits for flight segments flown. The amount of points earned is based on the fare and fare class purchased, with higher fare products (*e.g.*, Business Select) earning more points than lower fare products (*e.g.*, Wanna Get Away). Each fare class is associated with a points earning multiplier, and points for flights are calculated by multiplying the fare for the flight by the fare class multiplier. Likewise, the amount of points required to be redeemed for a flight is based on the fare and fare class purchased. However, unlike Southwest's previous program, under the new program, (i) members are able to redeem their points for every available seat, every day, on every flight, with no blackout dates; and (ii) points do not expire so long as the Rapid Rewards Member has points-earning activity during a 24-month time period. In addition, Southwest co-branded Chase Visa credit card holders are able to redeem their points for items other than travel on Southwest Airlines, such as international flights, cruises, hotel stays, rental cars, gift cards, event tickets, and more. In addition to earning points for revenue flights, Rapid Rewards Members also have the ability to purchase points. As part of Southwest's transition to the new program, Southwest did not convert members' account balances under the previous program, but is allowing members to continue to redeem those balances for award travel under the prior program rules for a period of time.

AirTran operates its A+ Rewards frequent flyer program, which allows Customers the opportunity to earn free roundtrip travel awards or Business Class upgrades on AirTran flights. A+ Rewards credits are earned through flights, purchases made with an AirTran Airways A+ Visa card, qualifying car rentals from Hertz, purchases from other A+ Rewards partners, and in conjunction with certain marketing promotions. Under certain circumstances, Customers may also redeem frequent flyer awards for free travel on other airlines.

Both Southwest and AirTran utilize the incremental cost method of accounting for points and/or credits earned through flights taken in their respective frequent flyer programs. A liability is recorded for the estimated incremental cost of providing free travel as points and/or credits are being earned. The liability recorded represents the total number of points and/or credits expected to be redeemed by members, regardless of whether the members may have enough to qualify for a full travel award. The incremental cost liability is primarily composed of direct Passenger costs such as fuel, food, and other operational costs, but does not include any contribution to overhead or profit. At December 31, 2011, Southwest and AirTran's consolidated incremental cost liability, including both the liability remaining from Southwest's previous program and the liability associated with its new frequent flyer program, was approximately \$66 million.

Southwest and AirTran also sell frequent flyer points and/or credits and related services to business partners participating in the respective frequent flyer programs. The majority of the points and/or credits sold to business partners are through the Southwest co-branded Chase Visa credit card or the AirTran A+ Visa Card. Funds received from the sale of points and/or credits associated with these agreements are accounted for under the residual method. Although ASU No. 2009-13 "Revenue Agreements with Multiple Deliverables" disallows the use of the residual method with respect to new and modified revenue arrangements after its January 1, 2011, effective date, Southwest and AirTran are required to continue to utilize the residual method until such time as there is a material modification to such pre-existing agreements. As a result, the adoption of ASU No. 2009-13 currently has no impact on Southwest or AirTran. See Note 3 to the Consolidated Financial Statements for further information on ASU No. 2009-13. Under the residual method, as of December 31, 2011, Southwest estimates that approximately 92 percent of the amount received from frequent flyer points sold associated with Southwest's co-branded credit card relates to free travel, and the remaining 8 percent is associated with items such as access to its frequent flyer program population for marketing/solicitation purposes, use of the Southwest's logo on the co-branded credit cards, and other trademarks, designs, images, etc., of Southwest for use in marketing materials. This apportionment of value between free travel and marketing services is estimated based on several factors, including fares, the habits of Customers in redeeming free travel awards, and the contractual rate received for the points sold. Prior to 2011, the amount estimated to be associated with free travel had historically ranged from 75 percent to 82 percent. The estimated amounts associated with free travel are deferred and recognized as Passenger revenue when the ultimate free travel awards are flown or the amounts expire unused. For the portion of funds received that is deemed not to be associated with future travel, Southwest

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has determined that the period revenue is recognized is the period in which it has fulfilled its obligation under the contract signed with the particular business partner, which is on a monthly or quarterly basis, upon sale, as the related marketing services are performed or provided. The vast majority of these marketing services consist of the access granted, either monthly or quarterly, to various lists of Southwest's frequent flyer members. The estimated amount that is not associated with free travel is recognized in Other revenue in the period earned. For AirTran, 100 percent of amounts received for credits sold is estimated to relate to free travel and is deferred until the travel award is flown.

Under its new program, Southwest continues to estimate the portion of frequent flyer points that will not be redeemed. These estimates are based on experience in its previous program and expectations of customer behavior given the rules of the new program. However, since the program is new, these estimates may result in significant adjustments based on actual experience.

Goodwill and other intangible assets

As a result of the Company's acquisition of AirTran on May 2, 2011, the Company has reflected Goodwill on its Consolidated Balance Sheet in the amount of \$970 million at December 31, 2011, representing the excess of the fair value of AirTran's assets and liabilities over its book value on the acquisition date. In addition, the Company carries other intangible assets totaling approximately \$125 million at December 31, 2011, primarily consisting of leasehold rights to airport gates, take-off and landing slots at certain domestic slot-controlled airports, and certain intangible assets recognized as part of the valuation of AirTran's assets and liabilities as of the acquisition date. All of the Company's intangible assets are finite-lived and are being amortized over their estimated economic useful lives. Goodwill is not amortized, but will be tested for impairment at least annually, or more frequently if events or circumstances indicate that an impairment may exist. The Company has selected October 1 as its annual testing date and performed its initial annual Goodwill impairment test as of October 1, 2011.

The Company applies a fair value based methodology in testing the carrying value of Goodwill for its one reporting unit. Key assumptions and/or estimates made in the Company's 2011 Goodwill impairment test included the following: 1) a long-term projection of revenues, expenses, and cash flows; 2) an estimated weighted average cost of capital of 9.5 percent; and 3) a tax rate of 38.5 percent. The Company believes these assumptions are consistent with those a hypothetical market participant would use given circumstances that were present at the time the estimates were made. However, actual results and amounts may be significantly different from the Company's estimates.

Future impairment of Goodwill may result from changes in assumptions, estimates, or circumstances, some of which are beyond the Company's control. Factors which could result in an impairment, holding other assumptions constant, could include, but are not limited to: 1) reduced passenger demand as a result of domestic or global economic conditions; 2) higher prices for jet fuel; 3) lower fares or passenger yields as a result of increased competition or lower demand; 4) a significant increase in future capital expenditure commitments; and 5) significant disruptions to the Company's operations as a result of both internal and external events such as terrorist activities, actual or threatened war, labor actions by Employees, or further industry regulation.

As a result of the tests performed during fourth quarter 2011, no impairment was determined to exist for Goodwill or any of the Company's finite-lived intangible assets. In the Goodwill impairment analysis performed, the excess of fair value versus carrying value was estimated to be between 15 - 20 percent.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

The Company has interest rate risk in its floating-rate debt obligations and interest rate swaps, commodity price risk in jet fuel required to operate its aircraft fleet, and market risk in the derivatives used to manage its fuel hedging program and in the form of fixed-rate debt instruments. As of December 31, 2011, Southwest and

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AirTran operated a total of 199 aircraft under operating and capital leases. However, except for a small number of aircraft that have lease payments that fluctuate based in part on changes in market interest rates, the remainder of the leases are not considered market sensitive financial instruments and, therefore, are not included in the interest rate sensitivity analysis below. Commitments related to leases are disclosed in Note 8 to the Consolidated Financial Statements. The Company does not purchase or hold any derivative financial instruments for trading purposes. See Note 10 to the Consolidated Financial Statements for information on the Company's accounting for its hedging program and for further details on the Company's financial derivative instruments.

Hedging

The Company purchases jet fuel at prevailing market prices, but seeks to manage market risk through execution of a documented hedging strategy. The Company utilizes financial derivative instruments, on both a short-term and a long-term basis, as a form of insurance against the potential for significant increases in fuel prices. The Company believes there is significant risk in not hedging against the possibility of such fuel price increases. Inclusive of the operations of AirTran, the Company expects to consume approximately 1.9 billion gallons of jet fuel in 2012. Based on this anticipated usage, a change in jet fuel prices of just one cent per gallon would impact the Company's Fuel and oil expense by approximately \$19 million for 2012, excluding any impact associated with fuel derivative instruments held.

As of December 31, 2011, the Company held a net position of fuel derivative instruments that represented a hedge for a portion of its anticipated jet fuel purchases for each year from 2012 through 2015. See Note 10 to the Consolidated Financial Statements for further information. The Company may increase or decrease the size of its fuel hedge based on its expectation of future market prices, as well as its perceived exposure to cash collateral requirements contained in the agreements it has signed with various counterparties. The gross fair value of outstanding financial derivative instruments related to the Company's jet fuel market price risk at December 31, 2011, was a net liability of \$44 million. In addition, a total of \$226 million in cash collateral has been provided by the Company to three counterparties associated with these instruments. The fair values of the derivative instruments, depending on the type of instrument, were determined by use of present value methods or standard option value models with assumptions about commodity prices based on those observed in underlying markets. An immediate 10 percent increase or decrease in underlying fuel-related commodity prices from the December 31, 2011 (for all years from 2012 through 2015) prices would correspondingly change the fair value of the commodity derivative instruments in place by approximately \$400 million. Fluctuations in the related commodity derivative instrument cash flows may change by more or less than this amount based upon further fluctuations in futures prices as well as related income tax effects. In addition, this does not consider changes in cash collateral provided to or by counterparties, which would fluctuate in an amount equal to or less than this amount, depending on the type of collateral arrangement in place with each counterparty. This sensitivity analysis uses industry standard valuation models and holds all inputs constant at December 31, 2011 levels, except underlying futures prices.

The Company's credit exposure related to fuel derivative instruments is represented by the fair value of contracts with a net positive fair value 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 December 31, 2011, the Company had five counterparties in which the derivatives held were a net asset, totaling \$200 million. To manage credit risk, the Company selects and will periodically review counterparties based on credit ratings, limits its exposure to a single counterparty with collateral support agreements, and monitors the market position of the 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 December 31, 2011, the Company had agreements with all of its counterparties containing early termination rights triggered by credit rating thresholds 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

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and/or pledged aircraft are required to be posted whenever the net fair value of derivatives associated with those counterparties exceeds specific thresholds—cash is either posted by the counterparty if the value of derivatives is an asset to the Company, or cash and/or aircraft could be posted by the Company if the value of derivatives is a liability to the Company. Refer to the counterparty credit risk and collateral table provided in Note 10 to the Consolidated Financial Statements for the fair values of fuel derivatives, amounts posted as collateral, and applicable collateral posting threshold amounts as of December 31, 2011, at which such postings are triggered.

At December 31, 2011, of the entire \$226 million in cash collateral deposits posted with counterparties under the Company's bilateral collateral provisions, \$41 million in cash collateral deposits has been netted against noncurrent fuel derivative instruments within Other noncurrent liabilities and \$185 million in cash collateral deposits has been netted against current fuel derivative instruments within Accrued liabilities in the Consolidated Balance Sheet. No aircraft were pledged as collateral at December 31, 2011. 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 one-third from market prices as of December 31, 2011, given the Company's fuel derivative portfolio, its aircraft collateral facilities, and its investment grade credit rating, it would likely provide an additional \$700 million in cash and/or aircraft collateral to its current counterparties. However, the Company would expect to also benefit from lower market prices paid for fuel used in its operations.

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. The majority of fuel derivatives in the Company's hedge portfolio are based on the market price of West Texas intermediate crude oil (WTI). During early 2011, the spread between WTI and jet fuel widened beyond historic norms, which led to more ineffectiveness when measuring the Company's hedges. During that time, jet fuel prices more closely correlated with changes in the price of Brent crude oil (Brent). During fourth quarter 2011, the spread between WTI and jet fuel narrowed from its 2011 high, but still remains higher than historic norms; however, there is no assurance that this spread will not expand again in the future. Although the Company has some fuel derivatives based on the price of Brent, to the extent the spread between jet fuel and WTI stays at current levels or widens from current levels, the Company's hedges could continue to be ineffective and not provide adequate protection against jet fuel price volatility.

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. As of December 31, 2011, \$64 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, a total of \$32 million in cash collateral had been provided to two counterparties at December 31, 2011, as a result of net liability derivative positions with those counterparties. The outstanding interest rate net derivative positions with all other counterparties at December 31, 2011, were assets to the Company.

Due to the significance of the Company's fuel hedging program and the emphasis that the Company places on utilizing fuel derivatives to reduce its fuel price risk, the Company has created a system of governance and management oversight and has put in place a number of internal controls designed so that procedures are properly followed and accountability is present at the appropriate levels. For example, the Company has put in place controls designed to: (i) create and maintain a comprehensive risk management policy; (ii) provide for proper authorization by the appropriate levels of management; (iii) provide for proper segregation of duties; (iv) maintain an appropriate level of knowledge regarding the execution of and the accounting for derivative instruments; and (v) have key performance indicators in place in order to adequately measure the performance of its hedging activities. The Company believes the governance structure that it has in place is adequate given the size and sophistication of its hedging program.

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Financial market risk

The vast majority of the Company's tangible assets are aircraft, which are long-lived. The Company's strategy is to maintain a conservative balance sheet and grow capacity steadily and profitably under the right conditions. While the Company uses financial leverage, it strives to maintain a strong balance sheet and has a "BBB" rating with Fitch, a "BBB-" rating with Standard & Poor's, and a "Baa3" credit rating with Moody's as of December 31, 2011, which are considered "investment grade." The Company's 1999 and 2004 French Credit Agreements do not give rise to significant fair value risk but do give rise to interest rate risk because these borrowings were originally issued as floating-rate debt. In addition, as disclosed in Note 10 to the Consolidated Financial Statements, the Company and AirTran have converted certain of their long-term debt to floating rate debt by entering into interest rate swap agreements. Although there is interest rate risk associated with these floating rate borrowings, the risk for the 1999 and 2004 French Credit Agreements is somewhat mitigated by the fact that the Company may prepay this debt under certain conditions. See Notes 6 and 7 to the Consolidated Financial Statements for more information on the material terms of the Company's, including AirTran's, short-term and long-term debt.

As of December 31, 2011, excluding the notes or debentures that have been converted to a floating rate, the Company's fixed-rate senior unsecured notes outstanding included its \$350 million 5.25% senior unsecured notes due 2014 and its \$300 million 5.125% senior unsecured notes due 2017. Both of these notes had previously been converted to floating rates, but in January 2011, the Company terminated the fixed-to-floating interest rate swap agreements related to them. The effect of these terminations was that the interest associated with these debts prospectively reverted back to their original fixed rates. As a result of the gains realized on these transactions, which will be amortized over the remaining term of the corresponding notes, and based on projected interest rates at the date of termination, the Company does not believe its future interest expense, based on projected future interest rates at the date of termination, associated with these notes will significantly differ from the expense it would have recorded had the notes remained at floating rates. Although there is no longer interest rate risk associated with these notes, the Company is now exposed to fair value risk over their remaining terms. The Company believes the fixed interest rates associated with its \$350 million 5.25% senior unsecured notes due 2014 and its \$300 million 5.125% senior unsecured notes due 2017 are comparable to average rates prevailing for similar debt instruments over the last ten years. The following table displays the characteristics of the Company's (including AirTran's) secured fixed rate debt as of December 31, 2011:

	<u>Principal amount (in millions)</u>	<u>Effective fixed rate</u>	<u>Final maturity</u>	<u>Underlying collateral</u>
Term Loan Agreement	\$ 269	6.315%	5/6/2019	14 specified Boeing 737-700 aircraft
Term Loan Agreement	106	6.84%	7/1/2019	5 specified Boeing 737-700 aircraft
Term Loan Agreement	487	5.223%	5/9/2020	21 specified Boeing 737-700 aircraft

The carrying value of the Company's, including AirTran's, floating rate debt totaled \$1.1 billion, and this debt had a weighted-average maturity of 4.99 years at floating rates averaging 4.46 percent for the year ended December 31, 2011. In total, the Company's, including AirTran's, fixed-rate debt and floating rate debt represented 19.52 percent and 7.82 percent, respectively, of consolidated noncurrent assets at December 31, 2011.

The Company also has some risk associated with changing interest rates due to the short-term nature of its invested cash, which totaled \$829 million, and short-term investments, which totaled \$2.3 billion, at December 31, 2011. See Notes 1 and 10 to the Consolidated Financial Statements for further information. The Company currently invests available cash in certificates of deposit, highly rated money market instruments, investment grade commercial paper, treasury securities, US government agency securities, and other highly rated financial instruments, depending on market conditions and operating cash requirements. As a result of turmoil in credit markets, the Company has discontinued further investments in auction rate securities. Because of the short-term nature of these investments, the returns earned parallel closely with short-term floating interest rates. The Company has not undertaken any additional actions to cover interest rate market risk and is not a party to any other material market interest rate risk management activities.

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A hypothetical 10 percent change in market interest rates as of December 31, 2011, would not have a material effect on the fair value of the Company's, including AirTran's, fixed-rate debt instruments. See Note 11 to the Consolidated Financial Statements for further information on the fair value of financial instruments. A change in market interest rates could, however, have a corresponding effect on earnings and cash flows associated with the Company's, including AirTran's, floating-rate debt, invested cash (excluding cash collateral deposits held, if applicable), floating-rate aircraft leases, and short-term investments because of the floating-rate nature of these items. Assuming floating market rates in effect as of December 31, 2011, were held constant throughout a 12-month period, a hypothetical 10 percent change in those rates would have an immaterial impact to the Company's net earnings and cash flows. Utilizing these assumptions and considering the Company's cash balance (excluding the impact of cash collateral deposits held or provided to counterparties, if applicable), short-term investments, and floating-rate debt outstanding at December 31, 2011, an increase in rates would have a net negative effect on the Company's earnings and cash flows, while a decrease in rates would have a net positive effect on the Company's earnings and cash flows. However, a 10 percent change in market rates would not impact the Company's earnings or cash flow associated with the Company's, including AirTran's, publicly traded fixed-rate debt.

The Company is also subject to a financial covenant included in its revolving credit facility, and is subject to credit rating triggers related to its credit card transaction processing agreements, the pricing related to any funds drawn under its revolving credit facility, and some of its hedging counterparty agreements. Certain covenants include the maintenance of minimum credit ratings and/or triggers that are based on changes in these ratings. The Company's revolving credit facility contains a financial covenant requiring a minimum coverage ratio of adjusted pre-tax income to fixed obligations, as defined. As of December 31, 2011, the Company was in compliance with this covenant and there were no amounts outstanding under the revolving credit facility. However, if conditions change and the Company fails to meet the minimum standards set forth in the revolving credit facility, there could be a reduction in the availability of cash under the facility, or an increase in the costs to keep the facility intact as written. Seven of the Company's hedging counterparty agreements contain ratings triggers in which cash collateral would be required to be posted with the counterparty if the Company's credit rating were to fall below investment grade by two of the three major rating agencies, and if the Company were in a net liability position with the counterparty. See Note 10 to the Consolidated Financial Statements for further information. As of December 31, 2011, the Company had posted \$226 million in cash with its fuel hedge counterparties, because the Company was in a net fuel hedge liability position with those counterparties. The Company had the option of substituting aircraft in lieu of \$27 million in cash as of December 31, 2011, but opted to provide cash instead. If the Company's credit rating had been below investment grade as of that date, the Company would have been required to post approximately \$53 million in additional cash collateral deposits with fuel hedge counterparties.

The Company currently has agreements with organizations that process credit card transactions arising from purchases of air travel tickets by its Customers utilizing American Express, Discover and MasterCard/VISA. Credit card processors have financial risk associated with tickets purchased for travel because, although the processor generally forwards the cash related to the purchase to the Company soon after the purchase is completed, the air travel generally occurs after that time, and the processor will have liability if the Company does not ultimately provide the air travel. Under these processing agreements, and based on specified conditions, increasing amounts of cash reserves could be required to be posted with the counterparty.

A majority of the Company's sales transactions are processed by Chase Paymentech. Should chargebacks processed by Chase Paymentech reach a certain level, proceeds from advance ticket sales could be held back and used to establish a reserve account to cover such chargebacks and any other disputed charges that might occur. Additionally, cash reserves are required to be established if the Company's credit rating falls to specified levels below investment grade. Cash reserve requirements are based on the Company's public debt rating and a corresponding percentage of the Company's Air traffic liability.

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As of December 31, 2011, the Company was in compliance with all credit card processing agreements. However, the inability to enter into credit card processing agreements would have a material adverse effect on the business of the Company. The Company believes that it will be able to continue to renew its existing credit card processing agreements or will be able to enter into new credit card processing agreements with other processors in the future.

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SOUTHWEST AIRLINES CO.
CONSOLIDATED BALANCE SHEET
(in millions, except share data)

	DECEMBER 31,	
	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 829	\$ 1,261
Short-term investments	2,315	2,277
Accounts and other receivables	299	195
Inventories of parts and supplies, at cost	401	243
Deferred income taxes	263	214
Prepaid expenses and other current assets	238	89
Total current assets	<u>4,345</u>	<u>4,279</u>
Property and equipment, at cost:		
Flight equipment	15,542	13,991
Ground property and equipment	2,423	2,122
Deposits on flight equipment purchase contracts	456	230
	<u>18,421</u>	<u>16,343</u>
Less allowance for depreciation and amortization	<u>6,294</u>	<u>5,765</u>
	12,127	10,578
Goodwill	970	—
Other assets	626	606
	<u>\$18,068</u>	<u>\$15,463</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,057	\$ 739
Accrued liabilities	996	863
Air traffic liability	1,836	1,198
Current maturities of long-term debt	644	505
Total current liabilities	<u>4,533</u>	<u>3,305</u>
Long-term debt less current maturities	3,107	2,875
Deferred income taxes	2,566	2,493
Deferred gains from sale and leaseback of aircraft	75	88
Other noncurrent liabilities	910	465
Stockholders' equity:		
Common stock, \$1.00 par value: 2,000,000,000 shares authorized; 807,611,634 shares issued in 2011 and 2010	808	808
Capital in excess of par value	1,222	1,183
Retained earnings	5,395	5,399
Accumulated other comprehensive loss	(224)	(262)
Treasury stock, at cost: 35,050,991 and 60,177,362 shares in 2011 and 2010 respectively	(324)	(891)
Total stockholders' equity	<u>6,877</u>	<u>6,237</u>
	<u>\$18,068</u>	<u>\$15,463</u>

See accompanying notes.

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SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF INCOME
(in millions, except per share amounts)

	YEAR ENDED DECEMBER 31,		
	2011	2010	2009
OPERATING REVENUES:			
Passenger	\$ 14,735	\$ 11,489	\$ 9,892
Freight	139	125	118
Other	784	490	340
Total operating revenues	<u>15,658</u>	<u>12,104</u>	<u>10,350</u>
OPERATING EXPENSES:			
Salaries, wages, and benefits	4,371	3,704	3,468
Fuel and oil	5,644	3,620	3,044
Maintenance materials and repairs	955	751	719
Aircraft rentals	308	180	186
Landing fees and other rentals	959	807	718
Depreciation and amortization	715	628	616
Acquisition and integration	134	8	—
Other operating expenses	1,879	1,418	1,337
Total operating expenses	<u>14,965</u>	<u>11,116</u>	<u>10,088</u>
OPERATING INCOME	693	988	262
OTHER EXPENSES (INCOME):			
Interest expense	194	167	186
Capitalized interest	(12)	(18)	(21)
Interest income	(10)	(12)	(13)
Other (gains) losses, net	198	106	(54)
Total other expenses	<u>370</u>	<u>243</u>	<u>98</u>
INCOME BEFORE INCOME TAXES	323	745	164
PROVISION FOR INCOME TAXES	145	286	65
NET INCOME	<u>\$ 178</u>	<u>\$ 459</u>	<u>\$ 99</u>
NET INCOME PER SHARE, BASIC	<u>\$.23</u>	<u>\$.62</u>	<u>\$.13</u>
NET INCOME PER SHARE, DILUTED	<u>\$.23</u>	<u>\$.61</u>	<u>\$.13</u>
Cash dividends declared per common share	<u>\$.0180</u>	<u>\$.0180</u>	<u>\$.0180</u>

See accompanying notes.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in millions, except per share amounts)	YEAR ENDED DECEMBER 31, 2011, 2010, AND 2009					
	Common Stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balance at December 31, 2008	\$ 808	\$ 1,215	\$ 4,907	\$ (984)	\$(1,005)	\$4,941
Issuance of common and treasury stock pursuant to Employee stock plans	—	—	(22)	—	42	20
Net tax benefit (expense) of options exercised	—	(13)	—	—	—	(13)
Share-based compensation	—	14	—	—	—	14
Cash dividends, \$.018 per share	—	—	(13)	—	—	(13)
Comprehensive income (loss):						
Net income	—	—	99	—	—	99
Unrealized gain on fuel derivative instruments	—	—	—	366	—	366
Other	—	—	—	40	—	40
Total comprehensive income						505
Balance at December 31, 2009	\$ 808	\$ 1,216	\$ 4,971	\$ (578)	\$ (963)	\$5,454
Issuance of common and treasury stock pursuant to Employee stock plans	—	—	(18)	—	72	54
Net tax benefit (expense) of options exercised	—	(45)	—	—	—	(45)
Share-based compensation	—	12	—	—	—	12
Cash dividends, \$.018 per share	—	—	(13)	—	—	(13)
Comprehensive income (loss):						
Net income	—	—	459	—	—	459
Unrealized gain on fuel derivative instruments	—	—	—	330	—	330
Other	—	—	—	(14)	—	(14)
Total comprehensive income						775
Balance at December 31, 2010	\$ 808	\$ 1,183	\$ 5,399	\$ (262)	\$ (891)	\$6,237
Repurchase of common stock	—	—	—	—	(225)	(225)
Issuance of common and treasury stock pursuant to Employee stock plans	—	(3)	(14)	—	37	20
Issuance of stock to acquire AirTran	—	—	(127)	—	650	523
Issuance of stock for conversion of debt	—	34	(27)	—	105	112
Net tax benefit (expense) of options exercised	—	(5)	—	—	—	(5)
Share-based compensation	—	13	—	—	—	13
Cash dividends, \$.018 per share	—	—	(14)	—	—	(14)
Comprehensive income (loss):						
Net income	—	—	178	—	—	178
Unrealized gain on fuel derivative instruments	—	—	—	67	—	67
Other	—	—	—	(29)	—	(29)
Total comprehensive income						216
Balance at December 31, 2011	<u>\$ 808</u>	<u>\$ 1,222</u>	<u>\$ 5,395</u>	<u>\$ (224)</u>	<u>\$ (324)</u>	<u>\$6,877</u>

See accompanying notes.

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SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)	YEAR ENDED DECEMBER 31,		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 178	\$ 459	\$ 99
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	715	628	616
Unrealized (gain) loss on fuel derivative instruments	90	139	14
Deferred income taxes	123	133	72
Amortization of deferred gains on sale and leaseback of aircraft	(13)	(14)	(12)
Changes in certain assets and liabilities (excluding the effects of acquired business):			
Accounts and other receivables	(26)	(26)	40
Other current assets	(196)	(8)	(27)
Accounts payable and accrued liabilities	253	193	59
Air traffic liability	262	153	81
Cash collateral received from (provided to) derivative counterparties	(195)	265	(90)
Other, net	194	(361)	133
Net cash provided by operating activities	1,385	1,561	985
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment to acquire AirTran, net of AirTran cash on hand	(35)	—	—
Payments for purchase of property and equipment, net	(968)	(493)	(585)
Purchases of short-term investments	(5,362)	(5,624)	(6,106)
Proceeds from sales of short-term investments	5,314	4,852	5,120
Other, net	—	—	2
Net cash used in investing activities	(1,051)	(1,265)	(1,569)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt	—	—	455
Proceeds from credit line borrowing	—	—	83
Proceeds from sale leaseback transactions	—	—	381
Proceeds from Employee stock plans	20	55	20
Proceeds from termination of interest rate derivative instrument	76	—	—
Payments of long-term debt and capital lease obligations	(540)	(155)	(86)
Payments of convertible debt obligations	(81)	—	—
Payment of revolving credit facility obligations	—	—	(400)
Payment of credit line borrowing obligations	—	(44)	(97)
Payments of cash dividends	(14)	(13)	(13)
Repurchase of common stock	(225)	—	—
Other, net	(2)	8	(13)
Net cash provided by (used in) financing activities	(766)	(149)	330
NET CHANGE IN CASH AND CASH EQUIVALENTS	(432)	147	(254)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,261	1,114	1,368
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 829	\$ 1,261	\$ 1,114
CASH PAYMENTS FOR:			
Interest, net of amount capitalized	\$ 185	\$ 135	\$ 152
Income taxes	\$ 13	\$ 274	\$ 5
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:			
Fair value of equity consideration given to acquire AirTran	\$ 523	\$ —	\$ —
Fair value of common stock issued for conversion of debt	\$ 78	\$ —	\$ —

See accompanying notes.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011**

1. Summary of Significant Accounting Policies

Basis of Presentation

Southwest Airlines Co. (the "Company") operates Southwest Airlines, a major domestic airline that provides point-to-point, low-fare service. The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries, which include AirTran Holdings, LLC. 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 common stock of the Company and cash. Throughout these Notes, 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. The accompanying Consolidated Financial Statements include the results of operations and cash flows for AirTran from May 2, 2011 through December 31, 2011. See Note 2. All significant inter-entity balances and transactions have been eliminated. The preparation of financial statements in conformity with generally accepted accounting principles in the United States (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Cash and cash equivalents

Cash in excess of that necessary for operating requirements is invested in short-term, highly liquid, income-producing investments. Investments with original maturities of three months or less when purchased are classified as cash and cash equivalents, which primarily consist of certificates of deposit, money market funds, and investment grade commercial paper issued by major corporations and financial institutions. Cash and cash equivalents are stated at cost, which approximates fair value.

As of December 31, 2011 and 2010, the Company had provided cash collateral deposits to its fuel hedge counterparties totaling \$226 million and \$125 million, respectively. As of December 31, 2010, the Company also held cash collateral deposits of \$60 million from a counterparty. Cash collateral amounts provided or held associated with fuel derivative instruments are not restricted in any way and earn interest income at an agreed upon rate that approximates the rates earned on short-term securities issued by the U.S. Government. Depending on the fair value of the Company's fuel derivative instruments, the amounts of collateral deposits held or provided at any point in time can fluctuate significantly. See Note 10 for further information on these collateral deposits and fuel derivative instruments.

Short-term and noncurrent investments

Short-term investments consist of investments with original maturities of greater than three months but less than twelve months when purchased. These are primarily short-term securities issued by the U.S. Government and certificates of deposit issued by domestic banks. All of these investments are classified as available-for-sale securities and are stated at fair value, which approximates cost. For all short-term investments, at each reset period or upon reinvestment, the Company accounts for the transaction as Proceeds from sales of short-term investments for the security relinquished, and

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Purchases of short-investments for the security purchased, in the accompanying Consolidated Statement of Cash Flows. Unrealized gains and losses, net of tax, if any, are recognized in Accumulated other comprehensive income (loss) ("AOCI") in the accompanying Consolidated Balance Sheet. Realized net gains and losses on specific investments, if any, are reflected in Interest income in the accompanying Consolidated Statement of Income. Both unrealized and realized gains and/or losses associated with investments were immaterial for all years presented.

Noncurrent investments consist of investments with maturities of greater than twelve months. At December 31, 2011, these primarily consisted of the Company's auction rate security instruments that it expects will not be redeemed during 2012. See Note 11 for further information. Noncurrent investments are included as a component of Other assets in the Consolidated Balance Sheet.

Accounts and other receivables

Accounts and other receivables are carried at cost. They primarily consist of amounts due from credit card companies associated with sales of tickets for future travel, amounts due from business partners in the Company's frequent flyer program, and amounts due from counterparties associated with fuel derivative instruments that have settled. The allowance for doubtful accounts was immaterial at December 31, 2011, 2010, and 2009. In addition, the provision for doubtful accounts and write-offs for 2011, 2010, and 2009 were each immaterial.

Inventories

Inventories consist primarily of aircraft fuel, flight equipment expendable parts, materials, and supplies. All of these items are carried at average cost, less an allowance for obsolescence. These items are generally charged to expense when issued for use. The reserve for obsolescence was immaterial at December 31, 2011, 2010, and 2009. In addition, the Company's provision for obsolescence and write-offs for 2011, 2010, and 2009 were each immaterial.

Property and equipment

Property and equipment is stated at cost. Depreciation is provided by the straight-line method to estimated residual values over periods generally ranging from 23 to 30 years for flight equipment and 5 to 30 years for ground property and equipment once the asset is placed in service. Residual values estimated for aircraft generally range from 5 to 15 percent and for ground property and equipment generally range from 0 to 10 percent. Property under capital leases and related obligations are initially recorded at an amount equal to the present value of future minimum lease payments computed on the basis of the Company's incremental borrowing rate or, when known, the interest rate implicit in the lease. Amortization of property under capital leases is on a straight-line basis over the lease term and is included in Depreciation and amortization expense. Leasehold improvements generally are amortized on a straight-line basis over the shorter of the estimated useful life of the improvement or the remaining term of the lease.

The Company evaluates its long-lived assets used in operations for impairment when events and circumstances indicate that the undiscounted cash flows to be generated by that asset are less than the carrying amounts of the asset and may not be recoverable. Factors that would indicate potential impairment include, but are not limited to, significant decreases in the market value of the long-lived asset(s), a significant change in the long-lived asset's physical condition, and operating or cash flow losses associated with the use of the long-lived asset. If an asset is deemed to be impaired, an impairment loss is recorded for the excess of the asset book value in relation to its estimated fair value.

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Aircraft and engine maintenance

The cost of scheduled inspections and repairs and routine maintenance costs for all aircraft and engines are charged to Maintenance materials and repairs expense as incurred. The Company has “power-by-the-hour” agreements related to its Boeing 737-700 engines and AirTran’s Boeing 717-200 engines with external service providers. Under these agreements, which the Company has determined effectively transfer the risk associated with the maintenance on such engines to the counterparty, expense is recorded commensurate with each hour flown on an engine. The Company modified its engine maintenance contract for its Classic fleet (737-300/500s) during fourth quarter 2011 and although payments made under this contract are made under a “power-by-the-hour” basis, the risk-transfer concept under this agreement is no longer met, and the Company now records expense on a time and materials basis when an engine repair event takes place.

Modifications that significantly enhance the operating performance or extend the useful lives of aircraft or engines are capitalized and amortized over the remaining life of the asset.

Goodwill and intangible assets

Goodwill represents the excess of the consideration transferred over the fair value of AirTran’s assets and liabilities on the acquisition date. See Note 2. Goodwill is not amortized, but it is evaluated for impairment at least annually, or more frequently if events or circumstances indicate impairment may exist. A fair value-based methodology is utilized in testing the carrying value to Goodwill, utilizing assumptions including: (1) a long-term projection of revenues and expenses; (2) estimated discounted future cash flows; (3) observable earnings multiples of publicly-traded airlines; (4) weighted-average cost of capital; and (5) expected tax rate. Factors used in the valuation of goodwill include, but are not limited to, management’s plans for future operations, recent operating results and discounted projected future cash flows. These factors are considered Level 3 inputs within the fair value hierarchy. No goodwill impairment was noted during 2011.

Intangible assets primarily consist of acquired leasehold rights to certain airport owned gates at Chicago’s Midway International Airport, take-off and landing slots at certain domestic slot-controlled airports, and certain intangible assets recognized from the AirTran acquisition. See Note 2 for further information on acquired identifiable intangible assets. The following table is a summary of the Company’s intangible assets, weighted-average useful lives, and balance of accumulated amortization as of December 31, 2011:

	Gross carrying amount (in millions)	Weighted- average useful life (in years)	Accumulated amortization (in millions)
Customer relationships/marketing agreements	\$ 39	4	\$ 14
Trademarks/trade names	36	3	8
Domestic slots	63	23	4
Internally developed software	2	2	1
Noncompete agreements	5	2	1
Gate leasehold rights	60	19	22
Total	\$ 205	14	\$ 50

Estimated aggregate amortization expense for the five succeeding years and thereafter is as follows: 2012 – \$25 million, 2013 – \$19 million, 2014 – \$15 million, 2015 – \$13 million, 2016 – \$10 million, 2017 and thereafter – \$73 million.

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Revenue recognition

Tickets sold are initially deferred as Air traffic liability. Passenger revenue is recognized when transportation is provided. Air traffic liability primarily represents tickets sold for future travel dates and estimated refunds and exchanges of tickets sold for past travel dates. The majority of the Company's tickets sold are nonrefundable. Tickets that are sold but not flown on the travel date (whether refundable or nonrefundable) can be reused for another flight, up to a year from the date of sale, or refunded (if the ticket is refundable). A small percentage of tickets (or partial tickets) expire unused. The Company estimates the amount of tickets that expire unused and recognizes such amounts in Passenger revenue once the scheduled flight date has passed. Amounts collected from passengers for ancillary services such as baggage and other fees are generally recognized as Other revenue when the service is provided, which is typically the flight date.

The Company is also required to collect certain taxes and fees from Customers on behalf of government agencies and remit these back to the applicable governmental entity on a periodic basis. These taxes and fees include U.S. federal transportation taxes, federal security charges, and airport passenger facility charges.

These items are collected from Customers at the time they purchase their tickets, but are not included in Passenger revenue. The Company records a liability upon collection from the Customer and relieves the liability when payments are remitted to the applicable governmental agency.

Frequent flyer programs

The Company records a liability for the estimated incremental cost of providing free travel under its (and AirTran's) frequent flyer program for all amounts earned from flight activity that are expected to be redeemed for future travel. The estimated incremental cost includes direct passenger costs such as fuel, food, and other operational costs, but does not include any contribution to overhead or profit.

Southwest and AirTran also sell frequent flyer points and/or credits and related services to companies participating in their respective frequent flyer programs. Funds received from the sale of these points and/or credits are accounted for using the residual method. Under this method, the Company has determined the portion of funds received that relate to free travel, currently estimated at 92 percent of the amount received under Southwest's Rapid Reward program and 100 percent of amounts received under AirTran's A+ Reward program as of December 31, 2011. These amounts are deferred and recognized as Passenger revenue when the ultimate free travel awards are flown or the amounts expire unused. The remainder of the amount received per points sold (the residual), which is assumed not to be associated with future travel, includes items such as access to the Company's frequent flyer program population for marketing/solicitation purposes on a monthly or quarterly basis, use of the Company's logo on co-branded credit cards, and other trademarks, designs, images, etc. of the Company for use in marketing materials. This residual portion is recognized in Other revenue in the period earned, which the Company has determined is the period in which it has fulfilled its obligation under the contract signed with the particular business partner, which is on a monthly or quarterly basis, upon sale, as the related marketing services are performed or provided.

Advertising

Advertising costs are charged to expense as incurred. Advertising and promotions expense for the years ended December 31, 2011, 2010, and 2009 was \$237 million, \$202 million, and \$204 million, respectively, and was recorded as a component of Other operating expense in the accompanying Consolidated Statement of Income.

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Share-based Employee compensation

The Company has share-based compensation plans covering several of its Employee groups, including plans covering the Company's Board of Directors. The Company accounts for share-based compensation based on its grant date fair value. See Note 15.

Financial derivative instruments

The Company accounts for financial derivative instruments at fair value and applies hedge accounting rules where appropriate. The Company utilizes various derivative instruments, including crude oil, unleaded gasoline, and heating oil-based derivatives, to attempt to reduce the risk of its exposure to jet fuel price increases. These instruments consist primarily of purchased call options, collar structures, call spreads, and fixed-price swap agreements, and upon proper qualification are accounted for as cash-flow hedges. The Company also has interest rate swap agreements to convert a portion of its fixed-rate debt to floating rates and, including instruments acquired from AirTran, has swap agreements that convert certain floating-rate debt to a fixed-rate. These interest rate hedges are appropriately designated as either fair value hedges or as cash flow hedges.

Since the majority of the Company's financial derivative instruments are not traded on a market exchange, the Company estimates their fair values. Depending on the type of instrument, the values are determined by the use of present value methods or option value models with assumptions about commodity prices based on those observed in underlying markets. Also, since there is not a reliable forward market for jet fuel, the Company must estimate the future prices of jet fuel in order to measure the effectiveness of the hedging instruments in offsetting changes to those prices. Forward jet fuel prices are estimated through utilization of a statistical-based regression equation with data from market forward prices of like commodities. This equation is then adjusted for certain items, such as transportation costs, that are stated in the Company's fuel purchasing contracts with its vendors.

For the effective portion of settled fuel hedges, the Company records the associated gains or losses as a component of Fuel and oil expense in the Consolidated Statement of Income. For amounts representing ineffectiveness, as defined, or changes in fair value of derivative instruments for which hedge accounting is not applied, the Company records any gains or losses as a component of Other (gains) losses, net, in the Consolidated Statement of Income. Amounts that are paid or received in connection with the purchase or sale of financial derivative instruments (i.e., premium costs of option contracts) are classified as a component of Other (gains) losses, net, in the Consolidated Statement of Income in the period in which the instrument settles or expires. All cash flows associated with purchasing and selling derivatives are classified as operating cash flows in the Consolidated Statement of Cash Flows, within Changes in certain assets and liabilities. See Note 10 for further information on hedge accounting and financial derivative instruments.

The Company classifies its cash collateral provided to or held from counterparties in a "net" presentation on the Consolidated Balance Sheet against the fair value of the derivative positions with those counterparties. See Note 10 for further information.

Software capitalization

The Company capitalizes certain internal and external costs related to the acquisition and development of internal use software during the application development stages of projects. The Company amortizes these costs using the straight-line method over the estimated useful life of the software, which ranges from five to fifteen years. Costs incurred during the preliminary project or the post-implementation/operation stages of the project are expensed as incurred.

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Income taxes

The Company accounts for deferred income taxes utilizing an asset and liability method, whereby deferred tax assets and liabilities are recognized based on the tax effect of temporary differences between the financial statements and the tax basis of assets and liabilities, as measured by current enacted tax rates. The Company also evaluates the need for a valuation allowance to reduce deferred tax assets to estimated recoverable amounts.

The Company's policy for recording interest and penalties associated with uncertain tax positions is to record such items as a component of income before income taxes. Penalties are recorded in Other (gains) losses, net, and interest paid or received is recorded in Interest expense or Interest income, respectively, in the Consolidated Statement of Income. Amounts recorded for penalties and interest related to uncertain tax positions were immaterial for all years presented.

Concentration risk

Approximately 82 percent of the Company's fulltime equivalent Employees are unionized and are covered by collective bargaining agreements, including 82 percent of Southwest's Employees and 81 percent of AirTran's Employees. Historically, the Company has managed this risk by maintaining positive relationships with its Employees and its Employee's Representatives. Southwest's Ramp, Operations, Provisioning, and Freight Agents, Aircraft Appearance Technicians, and Dispatchers are under agreements that have become amendable and are in discussions on new agreements. In addition, Southwest's Pilots, Mechanics, and Customer Service Agents and Customer Service Representatives are subject to agreements that become amendable during 2012, which represent approximately 29 percent of the Company's (including AirTran's) fulltime equivalent Employees.

The Company attempts to minimize its concentration risk with regards to its cash, cash equivalents, and its investment portfolio. This is accomplished by diversifying and limiting amounts among different counterparties, the type of investment, and the amount invested in any individual security or money market fund.

To manage risk associated with financial derivative instruments held, the Company selects and will periodically review counterparties based on credit ratings, limits its exposure to a single counterparty, and monitors the market position of the program and its relative market position with each counterparty. The Company also has agreements with counterparties containing early termination rights and/or bilateral collateral provisions whereby security is required if market risk exposure exceeds a specified threshold amount or credit ratings fall below certain levels. Collateral deposits provided to or held from counterparties serve to decrease, but not totally eliminate, the credit risk associated with the Company's hedging program. See Note 10 for further information.

The Company (including AirTran) currently operates an all-Boeing fleet, the majority of which are variations of the Boeing 737. If the Company were unable to acquire additional aircraft or associated aircraft parts from Boeing, or Boeing were unable or unwilling to make timely deliveries of aircraft or to provide adequate support for its products, the Company's operations would be materially adversely impacted. In addition, the Company would be materially adversely impacted in the event of a mechanical or regulatory issue associated with the Boeing 737 or Boeing 717 aircraft type, whether as a result of downtime for part or all of the Company's fleet or because of a negative perception by the flying public. The Company is also dependent on sole suppliers for aircraft engines and certain other aircraft parts and would, therefore, also be materially adversely impacted in the event of the unavailability of, or a mechanical or regulatory issue associated with, engines and other parts. The Company considers its relationship with Boeing and other suppliers to be excellent and believes the advantages of operating with a single aircraft supplier currently outweigh the risks of such a strategy.

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The Company has historically entered into agreements with some of its co-brand, payment, and loyalty partners that contain exclusivity aspects which place certain confidential restrictions on the Company from entering into certain arrangements with other payment and loyalty partners. These arrangements generally extend for the terms of the partnerships, none of which currently extend beyond May 2017. The Company believes the financial benefits generated by the exclusivity aspects of these arrangements outweigh the risks involved with such agreements.

2. Airtran Acquisition and Related Matters

AirTran Holdings, Inc.

As discussed in Note 1, on May 2, 2011 (the “acquisition date”), the Company acquired AirTran. AirTran Airways offers scheduled airline services, using Boeing 717-200 aircraft and Boeing 737-700 aircraft, throughout the United States and to select international locations. Approximately half of AirTran Airways’ flights originate or terminate at its largest hub in Atlanta, Georgia. AirTran Airways also serves a number of markets with non-stop service from smaller bases of operation in Baltimore, Maryland; Milwaukee, Wisconsin; and Orlando, Florida. The Company believes the acquisition of AirTran positions it to respond better to the economic and competitive challenges of the industry because, among other reasons: (i) it allows the Company to offer more low-fare destinations by extending its network and diversifying into new markets, including significant opportunities to and from Atlanta, the busiest airport in the United States and the largest domestic market Southwest previously did not serve, (ii) it expands Southwest’s presence in slot-controlled markets (New York LaGuardia/Ronald Reagan Washington National Airport), and (iii) it provides access to near-international leisure markets in the Caribbean and Mexico.

In addition, as a result of the manner in which the acquisition and related transactions were structured, AirTran’s public debt is now a direct obligation of the Company, which eliminates the subsequent need for reporting of stand-alone AirTran financial results. For the year ended December 31, 2011, total operating revenues of \$2.0 billion and a net loss of \$23 million, respectively, are attributable to AirTran and are included in the Company’s Consolidated Statement of Income.

Equity transaction

Each share of AirTran Holdings common stock was exchanged for \$3.75 in cash and 0.321 shares of common stock of the Company. The common stock consideration was based on the average of the Company’s closing common stock price for the 20 trading days ending April 27, 2011, which was \$11.90. The transaction valued AirTran Holdings common stock at approximately \$7.57 per share, or \$1.0 billion in the aggregate. Stockholders of AirTran Holdings, including those holding restricted stock awards, received approximately 44 million shares of common stock of the Company, which represented approximately 5.6 percent of the Company’s common shares outstanding. Additionally, holders of AirTran Holdings equity received cash of \$518 million, including \$7 million in cash for the fair value of AirTran Holdings stock options and performance share units. Including AirTran debt outstanding at the acquisition date (including convertible notes outstanding at the acquisition date) and capitalized aircraft operating leases, the total transaction value was approximately \$3.2 billion. Subsequent to the acquisition date, a portion of the convertible notes previously held by AirTran Holdings note holders were either converted or called by the Company for an aggregate of approximately seven million shares of the Company’s common stock and \$81 million in cash. The equity transaction did not contain any contingent consideration arrangements.

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Expenses related to the AirTran acquisition

The Company is expected to continue to incur substantial integration and transition 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. For the year ended December 31, 2011, the Company incurred consolidated acquisition-related costs of \$134 million, primarily consisting of financial advisory fees and consulting, severance, and technology integration costs, and facility integration expenses. In the Company's Consolidated Statement of Income, these costs are classified as Acquisition and integration expenses.

Tax matters

AirTran experienced an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended, as a result of the acquisition. Section 382 of the Code imposes an annual limitation on the amount of taxable income generated subsequent to the ownership change that may be offset with Federal net operating loss carryforwards ("NOLs") of the corporation incurred before the ownership change. Any unused annual limitation may, subject to certain limits, be carried over to later years, and the limitation may, under certain circumstances, be increased by built-in gains or reduced by built-in losses in the assets held by such corporation at the time of the ownership change. The combined company's use of NOLs arising after the date of an ownership change would not be limited unless the combined company were to experience a subsequent ownership change. As of the acquisition date, AirTran had NOLs of \$542 million, which expire between 2017 and 2029, available to offset future taxable income, resulting in a deferred tax asset of \$190 million, which represents the expected tax benefit of the NOLs. No valuation allowance was necessary. The Company currently expects that the ownership change resulting from the AirTran acquisition will not significantly limit its ability to use AirTran's NOLs and alternative minimum tax credit carryforwards in the carryforward period.

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Recording of assets acquired and liabilities assumed

The transaction has been accounted for using the acquisition method of accounting (“purchase accounting”), which requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. No material assets or liabilities arose from contingencies recognized at the acquisition date. Certain estimated values are not yet finalized (see below) and are subject to change. Fair value adjustments made during the second half of 2011 primarily included a \$10 million increase in the value assigned to the deferred tax asset, a \$7 million reduction in the value assigned to the customer relationship intangible, a \$3 million increase in the value assigned to operating property and equipment, and the related impact on goodwill. The Company will finalize the amounts recognized as it obtains the information necessary to complete the analyses. The Company expects to finalize these amounts prior to March 31, 2012. The following table summarizes the assets acquired and liabilities assumed as of the acquisition date at estimated fair value:

<u>(in millions)</u>	<u>May 2, 2011</u>
Assets	
Cash and cash equivalents	\$ 477
Restricted cash	6
Other current assets	234
Operating property and equipment	1,154
Goodwill	970
Other identified intangibles	125
Deferred income taxes	160
Other noncurrent assets	45
Liabilities	
Long-term debt and capital leases, including current portion	(1,119)
Air traffic liability	(354)
Other liabilities assumed	(657)
Net assets acquired	<u>\$ 1,041</u>

The fair values of the assets acquired and liabilities assumed were determined using the market, income, and cost approaches. The market approach, which indicates value for a subject asset based on available market pricing for comparable assets, was utilized to estimate the fair value of AirTran’s aircraft and operating leases. The market approach used by the Company included prices and other relevant information generated by market transactions involving comparable assets, as well as industry pricing guides and other sources. The Company considered the current market for the aircraft, the maintenance condition of the aircraft and the expected proceeds from the sale of the assets, among other factors. The fair value of AirTran’s frequent flyer program liability was estimated based on the weighted average equivalent ticket value of outstanding frequent flyer credits that were expected to be redeemed as of May 2, 2011. The income approach was primarily used to value intangible assets, including customer relationships and marketing agreements, noncompete agreements with certain AirTran executives, the AirTran trademark and trade name, and certain domestic airport take-off and landing slots. The income approach indicates value for a subject asset based on the present value of future cash flows projected to be generated by the asset. Projected future cash flows are discounted at a required market rate of return that reflects the relative risk of achieving the cash flows and the time value of money. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used, as appropriate, for certain assets for

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which the market and income approaches could not be applied due to the nature of the asset. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the asset, less an allowance for loss in value due to depreciation.

Intangible assets

Identifiable intangibles were created as a result of the acquisition of AirTran, which are being amortized as follows:

- Customer Relationships: Amortized based on an accelerated amortization schedule to reflect the estimated free cash flows the customer relationships are expected to provide.
- Trademarks/Trade names: Amortized based on an accelerated amortization schedule to reflect the estimated free cash flows the assets are expected to provide.
- Domestic Slots: Straight-line amortization for owned slots based on the applicable estimated useful life. Straight-line amortization for leased slots over the applicable lease term.
- Internally developed software: Straight-line amortization over the expected useful life of the software.
- Non-compete agreements: Straight-line amortization over the term of the applicable contract.

See Note 1 for further information on intangible assets.

Leasehold Interest

Lease fair value adjustments for operating leases were created as a result of the acquisition of AirTran. The fair value adjustments represent the net present value of the differences between contractual lease rates and the estimated fair market lease rates for similar leased assets at the acquisition date. An asset (liability) results when the contractual lease rates are more (less) favorable than market lease terms at the valuation date. As of December 31, 2011, the lease fair value adjustments are classified within Other assets and Other non-current liabilities in the amounts of \$2 million and \$376 million, respectively. The lease fair value adjustments are amortized on a straight-line basis to aircraft rentals over the individual applicable remaining lease terms. The aggregate amortization income (reduction of expense) for the year ended December 31, 2011, was \$26 million. Estimated aggregate amortization income (reduction of expense) for the five succeeding years and thereafter is as follows: 2012 - \$39 million, 2013 - \$39 million, 2014 - \$39 million, 2015 - \$39 million, 2016 - \$39 million, 2017 and thereafter - \$155 million. The weighted-average useful life for the leasehold interest asset is 9 years and for the leasehold interest liability is 10 years, for a total weighted-average leasehold useful life of 10 years.

Goodwill

Goodwill in the amount of \$970 million has been recorded for the acquisition of AirTran. Goodwill is calculated as the excess of the consideration transferred over the fair value of net assets recognized and represents the estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill will not be amortized, but will be tested for impairment at least annually or more frequently if events and circumstances indicate impairment may exist. None of the goodwill is deductible for tax purposes. Specifically, the goodwill recorded as part of the acquisition of AirTran includes:

- The synergies and other benefits that are expected to result from combining the operations of AirTran with the operations of the Company; and
- Any intangible assets that do not qualify for separate recognition, such as the AirTran trained and assembled workforce.

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The recorded amounts for assets and liabilities are provisional and subject to change. However, the Company does not expect that any future adjustments will be material. The following are the more significant items that are subject to change:

- The fair value of specific executory contracts, and deferred income taxes and liabilities, pending finalization of valuation efforts; and
- The purchase price allocable to goodwill, as a result of changes to the aforementioned items.

A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. The Company's judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact its results of operations.

Pro forma impact of the acquisition

The unaudited pro forma results presented below include the effects of the AirTran acquisition as if it had been consummated as of January 1, 2010. The pro forma results include the amortization associated with estimates (certain of which are preliminary) for the acquired intangible assets, fair value adjustments for deferred revenue, favorable/unfavorable leasehold interests, property and equipment, and long-term debt. In addition, the pro forma results do not include any anticipated synergies, or the assumption of hedge accounting for AirTran's derivative instruments, or other expected benefits of the acquisition. Accordingly, the unaudited pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition been consummated as of January 1, 2010.

(in millions, except per share data)	Year ended December 31,	
	2011	2010
Total operating revenues	\$16,601	\$14,721
Net income	160	499
Net income per share, basic	.21	.63
Net income per share, diluted	.21	.63

3. Accounting Changes and New Accounting Pronouncements

On September 23, 2009, the Financial Accounting Standards Board ("FASB") ratified Accounting Standards Update ("ASU") No. 2009-13 (formerly referred to as Emerging Issues Task Force Issue No. 08-1), "Revenue Arrangements with Multiple Deliverables." ASU No. 2009-13 requires the allocation of consideration among separately identified deliverables contained within an arrangement, based on their relative selling prices. The Company utilizes current accounting guidance, also titled "Revenue Arrangements with Multiple Deliverables," in the timing of recognition of revenue associated with the sale of frequent flyer points and/or credits to business partners. The Company applies the residual method, which is allowed with respect to the Company's revenue arrangements in their current form, but which is prohibited under ASU No. 2009-13 with respect to new and modified revenue arrangements. ASU No. 2009-13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after January 1, 2011. Subsequent to adoption of ASU No. 2009-13, the Company has not entered into or materially modified any of its revenue arrangements, thus ASU No. 2009-13 currently has no impact on the Company. However, ASU No. 2009-13 could have a significant impact on future results as new or materially modified revenue arrangements with certain partners are established in the normal course of business.

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On December 29, 2010, the FASB ratified ASU No. 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." This ASU specifies that when a business combination occurs, the company must only disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. This ASU also expands the supplemental pro forma disclosures under Topic 805, "Business Combinations," formerly Statement of Financial Accounting Standards No. 141(R), to include a description of the nature and amount of material, non-recurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This ASU is effective prospectively for business combinations in which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Because the Company acquired AirTran on May 2, 2011, the Company implemented this ASU for the interim period ended June 30, 2011. The Company has prepared pro forma disclosures to include the effects of the AirTran acquisition as if it had been consummated as of January 1, 2010. There are no non-recurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. See Note 2.

On May 12, 2011, the FASB ratified ASU No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS." This ASU establishes a global standard for measuring amounts at fair value. This ASU will not have a material effect on the Company's financial position or results of operations, but will change the Company's disclosure policies for fair value. This ASU is effective for reporting periods (including interim periods) beginning after December 15, 2011. The Company will adopt this ASU for the interim period ending March 31, 2012. Early adoption is not permissible, and this ASU must be applied prospectively.

On June 16, 2011, the FASB ratified ASU No. 2011-05, "Presentation of Comprehensive Income." This ASU eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Upon adoption, other comprehensive income must be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This ASU will not have a material effect on the Company's financial position or results of operations, but will change the Company's disclosure policies for other comprehensive income. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. This ASU must be applied retrospectively and early adoption is permitted. The Company will adopt this ASU for the interim period ending March 31, 2012.

On September 15, 2011, the FASB ratified ASU No. 2011-08, "Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment." This ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not (a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. After assessing qualitative factors, if an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, no further testing is necessary. If an entity determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value, then the traditional two-step goodwill impairment test must be performed. As a result of the acquisition of AirTran on May 2, 2011, the Company recognized goodwill and performed its initial annual impairment test as of October 1, 2011. This ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, early adoption was permitted. Although it did not adopt ASU No. 2011-08 during 2011, the Company will evaluate the standard when performing its future goodwill impairment tests.

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On December 16, 2011, the FASB ratified ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities." The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. In addition, the standard requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. This ASU is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. This ASU will not have a material effect on the Company's financial position or results of operations, but will change the Company's disclosure policies for financial derivative instruments. The Company plans to adopt this ASU for the interim period ending March 31, 2013.

4. Commitments and Contingencies

The Company's contractual purchase commitments primarily consist of scheduled aircraft acquisitions from Boeing. As of December 31, 2011, the Company had the following contractual purchase commitments with Boeing for aircraft deliveries:

	The Boeing Company 737NG			Additional -800s	The Boeing Company 737MAX		Total	(in millions) Commitment
	-700 Firm Orders	-800 Firm Orders	Options		Firm Orders	Options		
2012		28		5			33	\$ 952
2013		41					41	1,188
2014	35	4	15				54	1,151
2015	36		12				48	1,186
2016	31		12				43	1,157
2017	15		25		4		44	905
2018	10		28		15		53	1,126
2019					33		33	1,461
2020					34		34	1,184
2021					34	18	52	1,214
2022					30	19	49	1,097
2023						23	23	—
2024						23	23	—
Through 2027						67	67	—
Total	127(a)	73	92	5(b)	150(c)	150	597	\$ 12,621(d)

(a) The Company has flexibility to substitute 737-800s or 737-600s in lieu of 737-700 firm orders.

(b) New delivery leased aircraft.

(c) The Company has flexibility to accept MAX 7 or MAX 8 deliveries.

(d) Firm orders from Boeing. The Company has flexibility as to the timing for certain of the firm orders in 2013 through 2017, but has classified the amounts in the earliest year they could be considered a commitment.

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 to act on the City's behalf to facilitate the development of the LFMP), the Company is managing this project. Major construction commenced during 2010, with completion of

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the project scheduled for the second half of 2014. Although subject to change, at the current time the project is expected to include the renovation of the Airport airline terminals and 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 amount spent on the LFMP project will be approximately \$519 million. Although the City of Dallas has received commitments from various sources that are expected to fund portions of the LFMP project, including the Federal Aviation Administration, the Transportation Security Administration, and the City's Aviation Fund, the majority of the funds used are expected to be from the issuance of bonds. During fourth quarter 2010, \$310 million of such bonds were issued by the LFAMC, and the Company has guaranteed principal and interest payments on the bonds. Depending on funding needs and the timing of these funds from other sources, an additional tranche of bonds is expected to be issued during 2012.

The Company has agreed to manage the majority of the LFMP project, and as a result, 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 December 31, 2011, the Company had incurred construction costs of \$202 million, classified as both an asset as a component of Ground property and equipment and a corresponding liability as a component of Other non-current liabilities, respectively, in its Consolidated Balance Sheet. Upon completion of the LFMP project, the Company expects to begin depreciating the assets over their estimated useful lives, and reduce the corresponding liabilities primarily through the Company's airport rental payments to the City of Dallas.

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.

5. Other Assets and Accrued Liabilities

<u>(in millions)</u>	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Derivative contracts	\$ 253	\$ 379
Intangible assets	155	60
Non-current investments	97	97
Other	121	70
Other assets	<u>\$ 626</u>	<u>\$ 606</u>

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<u>(in millions)</u>	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Retirement plans	\$ 110	\$ 171
Aircraft rentals	57	27
Vacation pay	248	200
Health	56	43
Derivative contracts	85	79
Workers compensation	162	142
Other	278	201
Accrued liabilities	<u>\$ 996</u>	<u>\$ 863</u>
<u>(in millions)</u>	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Postretirement obligation	\$ 107	\$ 94
Non-current leasehold interest	311	—
Construction obligation	202	86
Other	290	285
Other non-current liabilities	<u>\$ 910</u>	<u>\$ 465</u>

6. Revolving Credit Facility and Short-Term Borrowing

On April 28, 2011, the Company entered into a new \$800 million unsecured revolving credit facility expiring in April 2016 and terminated its previous \$600 million facility, which would have expired in October 2012. The Company also terminated AirTran's previous facility on the acquisition date. Other than an increased borrowing capacity, the Company's new facility is substantially the same as its previous facility. At the Company's option, interest on the new facility can be calculated on one of several different bases. The new facility also contains a financial covenant requiring a minimum coverage ratio of adjusted pre-tax income to fixed obligations, as defined. As of December 31, 2011 and 2010, the Company was in compliance with this covenant and there were no amounts outstanding under the previous or current revolving credit facility.

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7. Long-Term Debt

<u>(in millions)</u>	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
10.5% Notes due 2011	\$ —	\$ 404
French Credit Agreements due 2012	7	14
6.5% Notes due 2012	387	400
5.25% Notes due 2014	375	385
5.75% Notes due 2016	329	309
5.25% Convertible Senior Notes due 2016	118	—
5.125% Notes due 2017	336	345
Fixed-rate 717 Aircraft Notes payable through 2017—10.38%	67	—
French Credit Agreements due 2018	64	73
Fixed-rate 737 Aircraft Notes payable through 2018—7.02%	42	—
Term Loan Agreement due 2019 - 6.315%	269	296
Term Loan Agreement due 2019 - 6.84%	106	115
Term Loan Agreement due 2020 - 5.223%	487	522
Floating-rate 737 Aircraft Notes payable through 2020 - 1.91%	604	—
Pass Through Certificates due 2022	411	428
7.375% Debentures due 2027	135	117
Capital leases (Note 8)	40	—
	<u>3,777</u>	<u>3,408</u>
Less current maturities	644	505
Less debt discount and issuance costs	26	28
	<u>\$ 3,107</u>	<u>\$ 2,875</u>

AirTran Long-Term Debt

As discussed in Note 2, in connection with the acquisition of AirTran, the Company became the holder of \$1.1 billion of debt previously issued by AirTran Holdings. Subsequent to the acquisition date, holders of all of the approximately \$70 million (par value) in 5.5% convertible notes due 2015 converted such securities receiving \$73 million in cash and 6.2 million shares of the Company's common stock. All of the approximately \$5 million (par value) of 7.0% convertible notes due 2023 were called by Southwest and fully repaid with cash. In addition, the Company terminated AirTran Holdings' \$100 million combined revolving credit and letter of credit facility.

AirTran Holdings previously entered into aircraft purchase financing facilities, under which a total of 30 aircraft were financed as of December 31, 2011.

As of December 31, 2011, 27 Boeing 737 aircraft were financed under floating-rate facilities. Each note is secured by a first mortgage on the aircraft to which it relates. The notes bear interest at a floating rate per annum equal to a margin plus the three or six-month London Interbank Offered Rate ("LIBOR" or "LIBO rate") in effect at the commencement of each semi-annual or three-month period, as applicable. As of December 31, 2011, the weighted average interest rate is 1.91 percent. Principal and interest under the notes are payable semi-annually or every three months as applicable. As of December 31, 2011, the remaining debt outstanding may be prepaid without penalty under all aircraft loans provided under such facilities with the exception of two aircraft loans. Under the aircraft loans for such two aircraft, the right

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to prepay without penalty commences on the second anniversary or third anniversary of the date such loans were made, or March 2012 and January 2013, respectively. The notes mature in years 2016 to 2020. As discussed further in Note 10, a portion of the above floating-rate debt has been effectively converted to a fixed rate via interest rate swap agreements which expire between 2016 and 2020.

As of December 31, 2011, three Boeing 737 aircraft were financed under a fixed-rate facility. Each note is secured by a first mortgage on the aircraft to which it relates. As of December 31, 2011, the weighted average interest rate is 7.02 percent. Payments of principal and interest under the notes are due semi-annually. The remaining debt outstanding may be prepaid without penalty. The notes mature in years 2016 to 2018.

As of December 31, 2011, eight Boeing 717 aircraft were pledged as collateral for the obligations related to enhanced equipment trust certificates (EETCs). Principal and interest payments on the EETCs are due semi-annually through April 2017. The EETCs bear interest at a fixed rate of 10.38 percent.

In October 2009, AirTran Holdings completed a public offering of \$115 million of convertible senior notes due in 2016. Such notes bear interest at 5.25 percent payable semi-annually, in arrears, on May 1 and November 1. As a result of the acquisition and subsequent dividends declared by the Company, the convertible senior notes are convertible into AirTran conversion units of 164.2233 per \$1,000 in principal amount of such notes. Based on the terms of the merger agreement, the holders of these notes would receive shares of the Company's common stock at a conversion rate of 52.7157 shares and \$615.16 in cash per \$1,000 in principal amount of such notes. This conversion rate is subject to adjustment under certain circumstances such as: granting of stock and cash dividends, a make-whole fundamental change of ownership provision, the issuance of rights or warrants, and/or a distribution of capital stock. Subsequent to the acquisition, holders of \$5 million in principal amount elected to convert their notes. Remaining holders may convert their 5.25% convertible senior notes into cash and shares of common stock at their option at any time. As such, the Company has classified \$68 million, which is the cash portion the Company would be required to pay upon conversion, as current maturities in the Consolidated Balance Sheet. The 5.25% convertible senior notes are not redeemable at the Company's option prior to maturity. The holders of the 5.25% convertible senior notes may require the Company to repurchase such notes, in whole or in part, for cash upon the occurrence of a fundamental change, as defined in the governing supplemental indenture, at a repurchase price of 100 percent of the principal amount plus any accrued and unpaid interest.

As a result of triggering the fundamental change of ownership provision in the 5.25% convertible senior notes and as a result of the acquisition, an embedded conversion option is deemed to exist. In accordance with applicable accounting guidance, the embedded conversion option was effectively separated and accounted for as a free-standing derivative. A fair value calculation, utilizing similar market yields and the Company's common stock price, was performed for the debt with and without the equity to measure the equity component. The value allocated to the conversion option of \$35 million is classified as permanent equity. The estimated premium associated with the notes excluding the equity feature was \$10 million, and is being amortized to interest expense over the remaining life of the notes. The dilutive effect of the shares that would be issued if the convertible notes were converted is considered in the Company's net income per share calculations, unless such conversion would be considered antidilutive. See Note 12.

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Other Company Long-Term Debt

On July 1, 2009, the Company entered into a term loan agreement providing for loans to the Company aggregating up to \$124 million, to be secured by mortgages on five of the Company's 737-700 aircraft. The Company has borrowed the full \$124 million and secured this loan with the requisite five aircraft mortgages. The loan matures on July 1, 2019, and is repayable semi-annually in installments of principal that began January 1, 2010. The loan bears interest at a fixed rate of 6.84 percent, and interest is payable semi-annually, which payments began on January 1, 2010. The Company used the proceeds from the term loan for general corporate purposes.

On April 29, 2009, the Company entered into a term loan agreement providing for loans to the Company aggregating up to \$332 million, to be secured by mortgages on 14 of the Company's 737-700 aircraft. The Company borrowed the full \$332 million and secured the loan with the requisite 14 aircraft mortgages. The loan matures on May 6, 2019, and is being repaid via quarterly installments of principal that began August 6, 2009. The loan bears interest at the LIBO Rate (as defined in the term loan agreement) plus 3.30 percent, and interest is payable quarterly, which payments began on August 6, 2009. Pursuant to the terms of the term loan agreement, the Company entered into an interest rate swap agreement to convert the variable rate on the term loan to a fixed 6.315 percent until maturity. The Company used the proceeds from the term loan for general corporate purposes, including the repayment of the Company's revolving credit facility in 2009.

On December 30, 2008, the Company sold \$400 million of 10.5 percent secured notes due 2011 in a private placement. The notes were secured by a first priority perfected security interest in a specified pool of 17 Boeing 737-700 aircraft granted under a single mortgage. The notes matured and were redeemed on December 15, 2011, utilizing available cash on hand.

On May 6, 2008, the Company entered into a term loan agreement providing for loans to the Company aggregating up to \$600 million, to be secured by first-lien mortgages on 21 of the Company's 737-700 aircraft. On May 9, 2008, the Company borrowed the full \$600 million and secured these loans with the requisite 21 aircraft mortgages. The loans mature on May 9, 2020, and are repayable quarterly in installments of principal, with the first payment made on August 9, 2008. The loans bear interest at the LIBO Rate (as defined in the term loan agreement) plus .95 percent, and interest is payable quarterly. Pursuant to the terms of the term loan agreement, the Company entered into an interest rate swap agreement to convert the variable rate on the term loan to a fixed 5.223 percent until maturity. The Company used the net proceeds from the term loan for general corporate purposes.

On October 3, 2007, grantor trusts established by the Company issued \$500 million Pass Through Certificates consisting of \$412 million 6.15% Series A certificates and \$88 million 6.65% Series B certificates. A separate trust was established for each class of certificates. The trusts used the proceeds from the sale of certificates to acquire equipment notes in the same amounts, which were issued by the Company on a full recourse basis. Payments on the equipment notes held in each trust will be passed through to the holders of certificates of such trust. The equipment notes were issued for each of 16 Boeing 737-700 aircraft owned by the Company and are secured by a mortgage on each aircraft. Interest on the equipment notes held for the certificates is payable semi-annually, with the first payment made on February 1, 2008. Also beginning February 1, 2008, principal payments on the equipment notes held for both series of certificates are due semi-annually until the balance of the certificates mature on August 1, 2022. The Company utilized the proceeds from the issuance of the Pass Through Certificates for general corporate purposes. Prior to their issuance, the Company also

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entered into swap agreements to hedge the variability in interest rates on the Pass Through Certificates. The swap agreements were accounted for as cash flow hedges, and resulted in a payment by the Company of \$20 million upon issuance of the Pass Through Certificates. The effective portion of the hedge is being amortized to interest expense concurrent with the amortization of the debt and is reflected in the above table as a reduction in the debt balance. The ineffectiveness of the hedge transaction was immaterial.

During December 2006, the Company issued \$300 million senior unsecured notes due 2016. The notes bear interest at 5.75 percent, payable semi-annually in arrears, with the first payment made on June 15, 2007. The Company used the net proceeds from the issuance of the notes for general corporate purposes. During fourth quarter 2009, the Company entered into a fixed-to-floating interest rate swap to convert the interest on these unsecured notes to a floating rate until their maturity. See Note 10 for further information on the interest-rate swap agreement.

During February 2005, the Company issued \$300 million senior unsecured notes due 2017. The notes bear interest at 5.125 percent, payable semi-annually in arrears, with the first payment made on September 1, 2005. In January 2007, the Company entered into an interest rate swap agreement to convert this fixed-rate debt to a floating rate; however, the interest rate swap was terminated in January 2011. See Note 10 for more information on the interest rate swap agreement and termination.

In fourth quarter 2004, the Company entered into four identical 13-year floating-rate financing arrangements, whereby it borrowed a total of \$112 million from French banking partnerships. Although the interest rates on the borrowings float, the Company estimated at inception that, considering the full effect of the “net present value benefits” included in the transactions, the effective economic yield over the 13-year term of the loans will be approximately LIBOR minus 45 basis points. Principal and interest are payable semi-annually on June 30 and December 31 for each of the loans, and the Company may terminate the arrangements in any year on either of those dates, under certain conditions. The Company pledged four aircraft as collateral for the transactions.

In September 2004, the Company issued \$350 million senior unsecured notes due 2014. The notes bear interest at 5.25 percent, payable semi-annually in arrears on April 1 and October 1. Concurrently, the Company entered into an interest rate swap agreement to convert this fixed-rate debt to a floating rate; however, the interest rate swap was terminated in January 2011. See Note 10 for more information on the interest rate swap agreement and termination.

On March 1, 2002, the Company issued \$385 million senior unsecured notes due March 1, 2012. The notes bear interest at 6.5 percent, payable semi-annually on March 1 and September 1. During 2003, the Company entered into an interest rate swap agreement to convert this fixed-rate debt to a floating rate. See Note 10 for further information.

In fourth quarter 1999, the Company entered into two identical 13-year floating rate financing arrangements, whereby it borrowed a total of \$56 million from French banking partnerships. Although the interest rates on the borrowings float, the Company estimated at inception that, considering the full effect of the “net present value benefits” included in the transactions, the effective economic yield over the 13-year term of the loans will be approximately LIBOR minus 67 basis points. Principal and interest are payable semi-annually on June 30 and December 31 for each of the loans and the Company may terminate the arrangements in any year on either of those dates, subject to certain conditions. The Company pledged two aircraft as collateral for the transactions.

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On February 28, 1997, the Company issued \$100 million of senior unsecured 7.375% debentures due March 1, 2027. Interest is payable semi-annually on March 1 and September 1. The debentures may be redeemed, at the option of the Company, in whole at any time or in part from time to time, at a redemption price equal to the greater of the principal amount of the debentures plus accrued interest at the date of redemption or the sum of the present values of the remaining scheduled payments of principal and interest thereon, discounted to the date of redemption at the comparable treasury rate plus 20 basis points, plus accrued interest at the date of redemption. In January 2007, the Company entered into an interest rate swap agreement to convert this fixed-rate debt to a floating rate. See Note 10 for more information on the interest rate swap agreement.

The Company is required to provide standby letters of credit to support certain obligations that arise in the ordinary course of business. Although the letters of credit are an off-balance sheet item, the majority of the obligations to which they relate are reflected as liabilities in the Consolidated Balance Sheet. Outstanding letters of credit totaled \$230 million at December 31, 2011.

The net book value of the assets pledged as collateral for the Company's secured borrowings, primarily aircraft and engines, was \$2.6 billion at December 31, 2011. In addition, the Company has pledged a total of up to 49 of its Boeing 737-700 aircraft as collateral in the case that it has obligations related to its fuel derivative instruments with counterparties that exceed certain thresholds. See Note 10 for further information on these collateral arrangements.

As of December 31, 2011, aggregate annual principal maturities of debt and capital leases (not including amounts associated with interest rate swap agreements, interest on capital leases, and amortization of purchase accounting adjustments) for the five-year period ending December 31, 2016 and thereafter, were \$627 million in 2012, \$188 million in 2013, \$537 million in 2014, \$207 million in 2015, \$550 million in 2016, and \$1.5 billion thereafter.

8. Leases

The Company (including AirTran) had seven aircraft classified as capital leases at December 31, 2011, compared to five aircraft classified as capital leases at December 31, 2010. Amounts applicable to these aircraft that are included in property and equipment were:

<u>(in millions)</u>	<u>2011</u>	<u>2010</u>
Flight equipment	\$177	\$132
Less: accumulated amortization	132	125
	<u>\$ 45</u>	<u>\$ 7</u>

During 2009, the Company entered into sale and leaseback transactions with a third party aircraft lessor for the sale and leaseback of a total of 11 of the Company's Boeing 737-700 aircraft, resulting in proceeds received of \$381 million. These transactions resulted in net deferred gains of approximately \$9 million, which are being amortized over the terms of the respective leases, which range from 12 to 16 years. All of the leases from these sale and leaseback transactions are accounted for as operating leases. Under the terms of the lease agreements, the Company will continue to operate and maintain the aircraft. Payments under the lease agreements will be reset every six months based on changes in the six-month LIBO rate. The lease agreements contain standard termination events, including termination upon a breach of the Company's obligations to make rental payments and upon any other material breach of the Company's obligations under the leases, and standard maintenance and return

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condition provisions. Upon a termination of the lease due to a breach by the Company, the Company would be liable for standard contractual damages, possibly including damages suffered by the lessor in connection with remarketing the aircraft or while the aircraft is not leased to another party.

Total rental expense for operating leases, both aircraft and other, charged to operations in 2011, 2010, and 2009 was \$847 million, \$631 million, and \$596 million, respectively. The majority of the Company's and AirTran's terminal operations space, as well as 192 aircraft, were under operating leases at December 31, 2011. For aircraft operating leases and for terminal operations leases, expense is included in Aircraft rentals and in Landing fees and other rentals, respectively, in the Consolidated Statement of Income. Future minimum lease payments under capital leases and noncancelable operating leases with initial or remaining terms in excess of one year at December 31, 2011, were:

<u>(in millions)</u>	<u>Capital leases</u>	<u>Operating leases</u>
2012	\$ 6	\$ 640
2013	6	717
2014	6	642
2015	6	579
2016	6	489
Thereafter	26	2,516
Total minimum lease payments	56	<u>\$ 5,583</u>
Less amount representing interest	14	
Present value of minimum lease payments	42	
Less current portion	3	
Long-term portion	<u>\$ 39</u>	

The aircraft leases generally can be renewed for one to five years at rates based on fair market value at the end of the lease term. Most aircraft leases have purchase options at or near the end of the lease term at fair market value, generally limited to a stated percentage of the lessor's defined cost of the aircraft.

9. Early Retirement Offer

On April 16, 2009, the Company announced Freedom '09, a one-time voluntary early retirement program offered to eligible Employees, in which the Company offered cash bonuses, medical/dental coverage for a specified period of time, and travel privileges based on work group and years of service. The purpose of this voluntary initiative and other initiatives was to right-size headcount in conjunction with the Company's decision to reduce its capacity by approximately five percent in 2009, and to reduce costs. Virtually all of the Company's Employees hired before March 31, 2008, were eligible to participate in the program. Participants' last day of work primarily fell between July 31, 2009, and April 15, 2010, as assigned by the Company based on the operational needs of particular work locations and departments, determined on an individual-by-individual basis. A total of 1,404 Employees elected to participate in Freedom '09. The Company recorded total costs of approximately \$66 million during the third quarter of 2009 upon acceptance of the retirement offer by Employees—all of which was reflected in Salaries, wages, and benefits. The Company had no material remaining liability recorded for Freedom '09 as of December 31, 2011 or 2010.

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10. 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. Because jet fuel is not widely traded on an organized futures exchange, there are limited opportunities to hedge directly in jet fuel. However, the Company has found that financial derivative instruments in other commodities, such as West Texas Intermediate crude oil (“WTI”), Brent crude oil (“Brent”), 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 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. Although the use of collar structures and swap agreements can reduce the overall cost of hedging, these instruments carry more risk than purchased call options in that the Company could end up in a liability position when the collar structure or swap agreement settles. With the use of purchased call options and call spreads, the Company cannot be in a liability position at settlement.

The Company evaluates its hedge volumes strictly from an “economic” standpoint and thus does not consider whether the hedges 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. For 2011, the Company had fuel derivatives in place related to approximately 38 percent of its fuel consumption. As of December 31, 2011, the Company had fuel derivative instruments in place to provide coverage on a portion of its 2012 estimated fuel consumption. The following table provides information about the Company’s (inclusive of fuel derivative instruments acquired from Air Tran – See Note 2) volume of fuel hedging for the years 2012 through 2015 on an “economic” basis.

<u>Period (by year)</u>	<u>Fuel hedged as of December 31, 2011 (gallons in millions)</u>
2012	111
2013	1,000
2014	815
2015	395

Upon proper qualification, the Company accounts for its fuel derivative instruments as cash flow hedges. All derivatives designated as hedges that meet certain requirements are granted hedge accounting treatment. 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 AOCI until the underlying jet fuel is consumed. See Note 13. The Company’s results are subject to the possibility that periodic changes will not be effective, as defined, or that the derivatives will no longer qualify for hedge accounting. Ineffectiveness results when the change in the fair value of the derivative instrument exceeds the change in the value of the Company’s expected future cash outlay to purchase and

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consume jet fuel. 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 Consolidated Statement of 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 Consolidated Statement of 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. When the Company has sold derivative positions in order to effectively “close” or offset a derivative already held as part of its fuel derivative instrument portfolio, any subsequent changes in fair value of those positions are marked to market through earnings. Likewise, any changes in fair value of those positions that were offset by entering into the sold positions are concurrently marked to market through earnings. However, any changes in value related to hedges that were deferred as part of AOCI while designated as a hedge would remain until the originally forecasted transaction occurs. In a situation where it becomes probable that a 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 2009, 2010, or 2011.

Ineffectiveness is inherent in hedging jet fuel with derivative positions based in other crude oil related commodities. Due to the volatility in markets for crude oil and related products, the Company is unable to predict the amount of ineffectiveness each period, including the loss of hedge accounting, which could be determined on a derivative by derivative basis or in the aggregate for a specific commodity. This may result, and has resulted, in increased volatility in the Company’s financial results. Factors that have and may continue to lead to ineffectiveness and unrealized gains and losses on derivative contracts include: significant fluctuation in energy prices, the number of derivative positions the Company holds, significant weather events affecting refinery capacity and the production of refined products, and the volatility of the different types of products the Company uses in hedging. However, even though derivatives may not qualify for hedge accounting, the Company continues to hold the instruments as management believes derivative instruments continue to afford the Company the opportunity to stabilize jet fuel costs.

Accounting pronouncements pertaining to derivative instruments and hedging are complex with stringent requirements, including the documentation of a Company hedging strategy, statistical analysis to qualify a commodity for hedge accounting both on a historical and a prospective basis, and strict contemporaneous documentation that is required at the time each hedge is designated by the Company. The Company also examines the effectiveness of each individual hedge and its entire hedging program on a quarterly basis utilizing statistical analysis. This analysis involves utilizing regression and other statistical analyses that compare changes in the price of jet fuel to changes in the prices of the commodities used for hedging purposes.

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

(in millions)	Balance Sheet location	Asset derivatives		Liability derivatives	
		Fair value at 12/31/2011	Fair value at 12/31/2010	Fair value at 12/31/2011	Fair value at 12/31/2010
Derivatives designated as hedges*					
Fuel derivative contracts (gross)	Other current assets	\$ 17	\$ 151	\$ —	\$ 16
Fuel derivative contracts (gross)	Other assets	542	547	107	88
Fuel derivative contracts (gross)	Accrued liabilities	97	122	8	18
Fuel derivative contracts (gross)	Other noncurrent liabilities	93	71	24	9
Interest rate derivative contracts	Other assets	64	73	—	—
Interest rate derivative contracts	Accrued liabilities	2	—	—	—
Interest rate derivative contracts	Other noncurrent liabilities	—	—	132	4
Total derivatives designated as hedges		\$ 815	\$ 964	\$ 271	\$ 135
Derivatives not designated as hedges*					
Fuel derivative contracts (gross)	Other current assets	\$ 124	\$ 164	\$ 58	\$ 284
Fuel derivative contracts (gross)	Other assets	26	212	272	304
Fuel derivative contracts (gross)	Accrued liabilities	326	40	687	222
Fuel derivative contracts (gross)	Other noncurrent liabilities	9	33	122	257
Total derivatives not designated as hedges		\$ 485	\$ 449	\$ 1,139	\$ 1,067
Total derivatives		\$ 1,300	\$ 1,413	\$ 1,410	\$ 1,202

* 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 also had the following amounts associated with fuel derivative instruments and hedging activities in its Consolidated Balance Sheet:

(in millions)	Balance Sheet location	December 31, 2011	December 31, 2010
Cash collateral deposits provided to counterparties—noncurrent	Offset against Other noncurrent liabilities	\$ 41	\$ 125
Cash collateral deposits provided to counterparties—current	Offset against Accrued liabilities	185	—
Cash collateral deposits held from counterparty—noncurrent	Offset against Other assets	—	60
Due to third parties for settled fuel contracts	Accrued liabilities	21	—
Receivable from third parties for settled fuel contracts	Accounts and other receivables	3	1

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The following tables present the impact of derivative instruments and their location within the Consolidated Statement of Income for the years ended December 31, 2011 and 2010:

Derivatives in cash flow hedging relationships

(in millions)	(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)	
	Year ended December 31,		Year ended December 31,		Year ended December 31,	
	2011	2010	2011	2010	2011	2010
Fuel derivative contracts	\$ 44*	\$ (47)*	\$ 111*	\$ 283*	\$ 35	\$ (7)
Interest rate derivatives	32*	15*	—	—	—	—
Total	\$ 76	\$ (32)	\$ 111	\$ 283	\$ 35	\$ (7)

* 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

(in millions)	(Gain) loss recognized in income on derivatives		Location of (gain) loss recognized in income on derivatives
	Year ended December 31,		
	2011	2010	
Fuel derivative contracts	\$ 53	\$ (26)	Other (gains) losses, net

The Company also recorded expense associated with premiums paid for fuel derivative contracts that settled/expired during 2011, 2010, and 2009 of \$107 million, \$134 million, and \$148 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 Consolidated Statement of 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 December 31, 2011, were approximately \$93 million in unrealized losses, net of taxes, which are expected to be realized in earnings during the twelve months subsequent to December 31, 2011. In addition, as of December 31, 2011, the Company had already recognized cumulative net losses due to ineffectiveness and derivatives that do not qualify for hedge accounting treatment totaling \$68 million, net of taxes. These net losses were recognized in 2011 and prior periods, and are reflected in Retained earnings as of December 31, 2011, but the underlying derivative instruments will not expire/settle until 2012 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

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interest rate swap agreements accounted for as cash flow hedges, ineffectiveness is required to be measured at each reporting period.

The Company has floating-to-fixed interest rate swap agreements associated with its \$600 million floating-rate term loan agreement and its \$332 million term loan agreement that are accounted for as cash flow hedges. These interest rate hedges have fixed the interest rate on the \$600 million floating-rate term loan agreement at 5.223 percent until maturity, and for the \$332 million term loan agreement at 6.315 percent until maturity.

In January 2011, the Company terminated the fixed-to-floating interest rate swap agreements related to its \$350 million 5.25% senior unsecured notes due 2014 and its \$300 million 5.125% senior unsecured notes due 2017. The effect of these terminations is basically that the interest associated with these debts prospectively reverts back to their original fixed rates. As a result of the gains realized on these transactions, which will be amortized over the remaining term of the corresponding notes, and based on projected interest rates at the date of termination, the Company does not believe its future interest expense associated with these notes will significantly differ from the expense it would have recorded had the notes remained at floating rates.

The fair values of the interest rate swap agreements, which are adjusted regularly, have been aggregated by counterparty for classification in the Consolidated Balance Sheet. Agreements totaling an asset of \$64 million are classified as a component of Other assets and agreements totaling an asset of \$2 million are classified as a component of Accrued liabilities with a corresponding adjustment to the carrying value of the long-term debt. Agreements totaling a net liability of \$132 million are classified as a component of Other noncurrent liabilities. The corresponding adjustment related to the net liability associated with the Company's fair value hedges is to the carrying value of the long-term debt. The corresponding adjustment related to the net liability associated with the Company's cash flow hedges is to AOCI. See Note 13.

AirTran has also entered into a number of interest rate swap agreements, which convert a portion of AirTran's floating-rate debt to a fixed-rate basis for the remaining life of the debt, thus reducing the impact of interest rate changes on future interest expense and cash flows. Under these agreements, which expire between 2016 and 2020, it pays fixed rates between 4.34 percent and 6.435 percent and receives either three-month or six-month LIBOR on the notional values. The notional amount of outstanding debt related to interest rate swaps as of December 31, 2011, was \$442 million. These interest rate swap arrangements were designated as cash flow hedges as of the acquisition date. The ineffectiveness associated with all of the Company's and Air Tran's interest rate cash flow hedges for all periods presented was not material.

The following table contains the floating rates recognized during 2011, based on actual and forward rates at December 31, 2011, under the Company's fixed-to-floating interest rate agreements in existence at December 31, 2011:

<u>Debt instrument</u>	<u>Fixed rate associated with debt instrument</u>	<u>Average floating rate recognized in 2011</u>
\$385 million Notes due 2012	6.5%	2.91%
\$300 million Notes due 2016	5.75%	2.77%
\$100 million Debentures due 2027	7.375%	2.36%

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. These outstanding instruments expose the

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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 to a single counterparty, and monitors the market position of the fuel hedging program and its relative market position with each counterparty. At December 31, 2011, 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 or credit ratings fall below certain levels. The Company also had agreements with counterparties in which cash deposits 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 December 31, 2011, at which such postings are triggered:

(in millions)	Counterparty (CP)						Total
	A	B	C	D	E	Other(a)	
Fair value of fuel derivatives	\$ (9)	\$ (147)	\$ (87)	\$ 61	\$ 133	\$ 5	\$ (44)
Cash collateral held from (by) CP	(40)	(152)	(34)	—	—	—	(226)
If credit rating is investment grade, fair value of fuel derivative level at which:							
Cash is provided to CP	0 to (300) or >(700)	0 to (125) or >(625)	>(50)	>(75)	>(50)		
Cash is received from CP	>40	>150	>200(c)	>125(c)	>250		
Aircraft or cash can be pledged to CP	(300) to (700)(d)	(125) to (625)(d)	N/A	N/A	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 (125) or >(625)	(b)	(b)	(b)		
Cash is received from CP	(b)	(b)	(b)	(b)	(b)		
Aircraft can be pledged to CP	(300) to (700)	(125) to (625)	N/A	N/A	N/A		

- (a) Individual counterparties with fair value of fuel derivatives <\$15 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 or pledging aircraft as collateral. No aircraft were pledged as collateral as of December 31, 2011.

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. As of December 31, 2011, \$64 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, a total of \$32 million had been provided to two counterparties at December 31, 2011, as a result of net liability derivative positions with those counterparties. The outstanding interest rate net derivative positions with all other counterparties at December 31, 2011, were assets to the Company.

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Applicable accounting provisions require an entity to select a policy for how it records the offset rights to reclaim cash collateral associated with the related derivative fair value of the assets or liabilities of such derivative instruments. In the accompanying Consolidated Balance Sheet, the Company has elected to present its cash collateral utilizing a net presentation, in which cash collateral amounts held or provided have been netted against the fair value of outstanding derivative instruments. The Company's application of this policy 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 derivative amounts (those that will settle during the twelve months following the balance sheet date) associated with that counterparty until that balance is zero, and then any remainder is applied against the fair value of noncurrent outstanding derivative instruments (those that will settle beyond one year following the balance sheet date). 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 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 December 31, 2011, of the entire \$226 million in cash collateral deposits posted with counterparties under the Company's bilateral collateral provisions, \$41 million has been netted against noncurrent fuel derivative instruments within Other noncurrent liabilities and \$185 million has been netted against current fuel derivative instruments within Accrued liabilities in the Consolidated Balance Sheet. At December 31, 2010, the entire \$125 million in cash collateral deposits posted with counterparties under the Company's bilateral collateral provisions has been netted against noncurrent fuel derivative instruments within Other noncurrent liabilities. The \$60 million in cash collateral deposits held from counterparties at December 31, 2010, is netted against noncurrent fuel derivative instrument assets within Other assets in the Consolidated Balance Sheet.

11. 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 December 31, 2011, 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 and commercial paper 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 (OTC) 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

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agreements. See Note 10 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 determines the value of option contracts utilizing an option 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. Because certain of the 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. 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. 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 deferred compensation plan designed to hold Employee contributions in excess of limits established by Section 415 of the Internal Revenue Code. 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 trust and we remain 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 \$67 million at December 31, 2011, are classified as available-for-sale securities and are reflected at estimated fair value in the Consolidated Balance Sheet. In periods when an auction process successfully took place every 30-35 days, quoted market prices would be readily available, which would qualify the securities 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 determines the estimated fair values of these securities utilizing a discounted cash flow analysis or other type of valuation model. 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, and estimates of the next time the security is expected to have a successful auction or return to full par value.

In association with its estimate of fair value related to auction rate security instruments as of December 31, 2011, the Company has recorded a temporary unrealized decline in fair value of \$14 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 7 years to 36 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 \$382 million of these instruments at par value.

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The Company remains in discussions with its remaining counterparties to determine whether mutually agreeable decisions can be reached regarding the effective repurchase of its remaining auction rate securities. The Company continues to earn interest on its outstanding auction rate security instruments. Any future fluctuation in fair value related to these instruments that the Company deems to be temporary, including any recoveries of previous temporary write-downs, would be recorded to AOCI. If the Company determines that any future valuation adjustment is other than temporary, it will record a charge to earnings as appropriate.

The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2011 and December 31, 2010:

Description	December 31, 2011	Fair value measurements at reporting date using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
(in millions)				
Assets				
Cash equivalents				
Cash equivalents (a)	\$ 774	\$ 774	\$ —	\$ —
Commercial paper	48	—	48	—
Certificates of deposit	7	—	7	—
Short-term investments:				
Treasury bills	2,014	2,014	—	—
Certificates of deposit	221	—	221	—
Commercial paper	80	—	80	—
Noncurrent investments (b)				
Auction rate securities	67	—	—	67
Certificates of deposit	25	—	25	—
Interest rate derivatives (see Note 10)	66	—	66	—
Fuel derivatives:				
Option contracts (c)	709	—	—	709
Swap contracts (d)	180	—	180	—
Option contracts (d)	345	—	—	345
Other available-for-sale securities	43	38	—	5
Total assets	\$ 4,579	\$ 2,826	\$ 627	\$ 1,126
Liabilities				
Fuel derivatives:				
Swap contracts (c)	\$ (65)	\$ —	\$ (65)	\$ —
Option contracts (c)	(371)	—	—	(371)
Swap contracts (d)	(576)	—	(576)	—
Option contracts (d)	(266)	—	—	(266)
Interest rate derivatives (see Note 10)	(132)	—	(132)	—
Deferred compensation	(121)	(121)	—	—
Total liabilities	\$ (1,531)	\$ (121)	\$ (773)	\$ (637)

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

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

(c) In the Consolidated Balance Sheet, amounts are presented as a net asset, and are also net of cash collateral received from counterparties. See Note 10.

(d) In the Consolidated Balance Sheet, amounts are presented as a net liability, and are also net of cash collateral provided to counterparties. See Note 10.

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Description	December 31, 2010	Fair value measurements at reporting date using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
(in millions)				
Assets				
Cash equivalents	\$ 1,261	\$ 1,261	\$ —	\$ —
Short-term investments:				
Treasury bills	2,010	2,010	—	—
Certificates of deposit	267	—	267	—
Noncurrent investments (a)	93	—	—	93
Interest rate derivatives	73	—	73	—
Fuel derivatives:				
Swap contracts (b)	286	—	286	—
Option contracts (b)	788	—	—	788
Swap contracts (c)	33	—	33	—
Option contracts (c)	233	—	—	233
Other available-for-sale securities	39	34	—	5
Total assets	\$ 5,083	\$ 3,305	\$ 659	\$ 1,119
Liabilities				
Fuel derivatives:				
Swap contracts (b)	\$ (476)	\$ —	\$ (476)	\$ —
Option contracts (b)	(216)	—	—	(216)
Swap contracts (c)	(387)	—	(387)	—
Option contracts (c)	(119)	—	—	(119)
Interest rate derivatives	(4)	—	(4)	—
Deferred Compensation	(109)	(109)	—	—
Total liabilities	\$ (1,311)	\$ (109)	\$ (867)	\$ (335)

(a) Auction rate securities included in Other assets in the Consolidated Balance Sheet.

(b) In the Consolidated Balance Sheet, amounts are presented as a net asset, and are also net of cash collateral received from counterparties. See Note 10.

(c) In the Consolidated Balance Sheet, amounts are presented as a net liability, and are also net of cash collateral provided to counterparties. See Note 10.

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The Company had no transfers of assets or liabilities between any of the above levels during the years ended December 31, 2011 or 2010. 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 2011 and 2010:

(in millions)	Fair value measurements using significant unobservable inputs (Level 3)			
	Fuel derivatives	Auction rate securities	Other securities	Total
Balance at December 31, 2010	\$ 686	\$ 93	\$ 5	\$ 784
Total gains or (losses) (realized or unrealized)				
Included in earnings	(26)	—	—	(26)
Included in other comprehensive income	30	3	—	33
Purchases	449	—	—	449
Sales	(546)	(29)	—	(575)
Settlements	(176)	—	—	(176)
Balance at December 31, 2011	\$ 417	\$ 67(a)	\$ 5	\$ 489
The amount of total gains or (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2011	\$ 64	\$ —	\$ —	\$ 64

(a) Included in Other assets in the 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, 2009	\$ 140	\$ 174	\$ 8	\$ 322
Total gains or (losses) (realized or unrealized)				
Included in earnings	132	—	(3)	129
Included in other comprehensive income	68	—	—	68
Purchases	527	—	—	527
Sales	(172)	(81)	—	(253)
Settlements	(9)	—	—	(9)
Balance at December 31, 2010	\$ 686	\$ 93(a)	\$ 5	\$ 784
The amount of total gains or (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2010	\$ 142	\$ —	\$ —	\$ 142

(a) Included in Other assets in the Consolidated Balance Sheet.

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 10 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 2011 and 2010.

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The carrying amounts and estimated fair values of the Company's (including AirTran) long-term debt (including current maturities) at December 31, 2011, are contained in the below table. The estimated fair values of publicly held long-term debt were based on quoted market prices.

<u>(in millions)</u>	<u>Carrying value</u>	<u>Estimated fair value</u>
French Credit Agreements due 2012	\$ 7	\$ 7
6.5% Notes due 2012	387	382
5.25% Notes due 2014	375	393
5.75% Notes due 2016	329	355
5.25% Convertible Senior Notes due 2016	118	117
5.125% Notes due 2017	336	349
Fixed-rate 717 Aircraft Notes payable through 2017 - 10.38%	67	66
French Credit Agreements due 2018	64	65
Fixed-rate 737 Aircraft Notes payable through 2018 - 7.02%	42	43
Term Loan Agreement due 2019—6.315%	269	274
Term Loan Agreement due 2019—6.84%	106	113
Term Loan Agreement due 2020—5.223%	487	440
Floating-rate 737 Aircraft Notes payable through 2020 - 1.91%	604	578
Pass Through Certificates due 2022	411	435
7.375% Debentures due 2027	135	148

12. 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):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
NUMERATOR:			
Net income	\$178	\$459	\$ 99
DENOMINATOR:			
Weighted-average shares outstanding, basic	774	746	741
Dilutive effect of Employee stock options	1	1	—
Adjusted weighted-average shares outstanding, diluted	775	747	741
NET INCOME PER SHARE:			
Basic	\$.23	\$.62	\$.13
Diluted	\$.23	\$.61	\$.13
Potentially dilutive amounts excluded from calculations	48	62	79
5.25% Convertible Notes	6	—	—

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13. 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 years ended December 31, 2011, 2010, and 2009, were as follows:

<u>(in millions)</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net income	\$178	\$459	\$ 99
Unrealized gain (loss) on fuel derivative instruments, net of deferred taxes of \$42, \$205 and \$226	67	330	366
Unrealized gain (loss) on interest rate swaps, net of deferred taxes of (\$20), (\$9) and \$17	(32)	(15)	27
Other, net of deferred taxes of \$1, \$1 and \$8	3	1	13
Total other comprehensive income (loss)	<u>38</u>	<u>316</u>	<u>406</u>
Comprehensive income	<u>\$216</u>	<u>\$775</u>	<u>\$505</u>

A rollforward of the amounts included in AOCI, net of taxes, is shown below for 2011 and 2010:

<u>(in millions)</u>	<u>Fuel hedge derivatives</u>	<u>Interest rate derivatives</u>	<u>Other</u>	<u>Accumulated other comprehensive income (loss)</u>
Balance at December 31, 2009	\$ (580)	\$ (19)	\$ 21	\$ (578)
2010 changes in fair value	47	(15)	1	33
Reclassification to earnings	283	—	—	283
Balance at December 31, 2010	<u>\$ (250)</u>	<u>\$ (34)</u>	<u>\$ 22</u>	<u>\$ (262)</u>
2011 changes in fair value	(44)	(32)	3	(73)
Reclassification to earnings	111	—	—	111
Balance at December 31, 2011	<u>\$ (183)</u>	<u>\$ (66)</u>	<u>\$ 25</u>	<u>\$ (224)</u>

14. Common Stock

The Company has one class of capital stock, its common stock. Holders of shares of common stock are entitled to receive dividends when and if declared by the Board of Directors and are entitled to one vote per share on all matters submitted to a vote of the Shareholders. At December 31, 2011, the Company had 44 million shares of common stock reserved for issuance pursuant to Employee stock plans (of which 23 million shares had not been granted) through various share-based compensation arrangements. See Note 15.

15. Stock Plans

Share-based compensation

The Company has previously awarded share-based compensation pursuant to plans covering the majority of its Employee groups, including plans adopted via collective bargaining, plans covering the Company's Board of Directors, and options granted pursuant to a prior employment contract with the Chairman Emeritus of the Company. The Company accounts for share-based compensation utilizing fair value.

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The Consolidated Statement of Income for the years ended December 31, 2011, 2010, and 2009, reflects share-based compensation expense of \$13 million, \$12 million, and \$13 million, respectively. The total tax benefit recognized in earnings from share-based compensation arrangements for the years ended December 31, 2011, 2010, and 2009, was not material. As of December 31, 2011, there was \$21 million of total unrecognized compensation cost related to share-based compensation arrangements, which is expected to be recognized over a weighted-average period of 1.2 years.

Restricted stock units and stock grants

Under the Company's Amended and Restated 2007 Equity Incentive Plan ("2007 Equity Plan"), it granted restricted stock units ("RSUs") to Employees and members of its Board of Directors during 2010 and to Employees during 2011. In addition, during 2011, the Company granted unrestricted stock to members of its Board of Directors. The fair value of RSUs and unrestricted stock grants is based on the closing price of the Company's common stock on the date of grant. Outstanding RSUs vest over three years, subject to the Employee's continued employment or the Board member's continued service. The Company recognizes expense on a straight-line basis over the vesting period. A remaining balance of up to 12 million shares of the Company's common stock may be issued pursuant to grants under the 2007 Equity Plan. Aggregated information regarding the Company's RSUs and stock grants is summarized below:

	RESTRICTED STOCK UNITS	
	Units (000)	Wtd. Average Grant Date Fair Value
Outstanding December 31, 2009	—	\$ —
Granted	997	12.28
Vested	—	—
Surrendered	(7)	12.28
Outstanding December 31, 2010	990	12.28
Granted	1,007	12.27
Vested	(327)	12.28
Surrendered	(30)	12.28
Outstanding December 31, 2011	<u>1,640</u>	\$ 12.27

Stock options

The Company has previously awarded stock options under plans covering Employees subject to collective bargaining agreements (collective bargaining plans) and plans covering other Employees and members of the Board of Directors (other Employee plans). None of the collective bargaining plans were required to be approved by Shareholders. Options granted to Employees under collective bargaining plans are non-qualified, granted at or above the fair value of the Company's common stock on the date of grant, and generally have terms ranging from six to twelve years. Neither Executive Officers nor members of the Company's Board of Directors are eligible to participate in any of the collective bargaining plans. Options granted to Employees and members of the Board of Directors through other Employee plans are both qualified as incentive stock options under the Internal Revenue Code of 1986 and non-qualified stock options, granted at no less than the fair value of the Company's common stock on the date of grant, and have ten-year terms. All of the options included in other Employee plans have been approved by Shareholders, except one plan covering non-management, non-contract Employees, which had options outstanding to purchase one million shares of the

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Company's common stock as of December 31, 2011. Although the Company does not have a formal policy, upon option exercise, the Company will typically issue treasury stock, to the extent such shares are available.

Vesting terms for the collective bargaining plans differ based on the grant made, and have ranged in length from immediate vesting to vesting periods in accordance with the period covered by the respective collective bargaining agreement. For other Employee plans, options vest and generally become fully exercisable over three, five, or ten years of continued employment, depending upon the grant type. For grants in any of the Company's plans that are subject to graded vesting over a service period, the Company recognizes expense on a straight-line basis over the requisite service period for the entire award. None of the Company's grants include performance-based or market-based vesting conditions, as defined.

The Black-Scholes option valuation model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of subjective assumptions including expected stock price volatility. The Company estimates expected stock price volatility via observations of both historical volatility trends as well as implied future volatility observations as determined by independent third parties. No stock options were issued by the Company during 2011. For 2010 and 2009 stock option grants, the Company consistently estimated expected volatility utilizing a ratio of two-thirds implied future volatility and one-third historical volatility as of the grant date. In determining the expected life of the option grants, the Company observed the actual terms of prior grants with similar characteristics and the actual vesting schedule of the grant, and also assessed the expected risk tolerance of different optionee groups. The risk-free interest rates used were actual U.S. Treasury zero-coupon rates for bonds matching the expected term of the option as of the option grant date.

The fair value of each option grant is estimated on the date of grant using a modified Black-Scholes option pricing model. The following table provides the ranges of assumptions and weighted-average assumptions used for grants made under the option plans, as well as the range of fair values and weighted-average fair value of options granted for 2010 and 2009:

	2010	2009
Wtd-average risk-free interest rate	2.9%	4.9%
Range of risk-free interest rates	2.73% - 3.04%	0.93% - 4.97%
Wtd-average expected life of option (years)	6.0	5.9
Range of expected life of options (years)	6.0 - 6.0	1.0 - 6.0
Wtd-average expected stock volatility	33%	38%
Range of expected stock volatilities	33% - 33%	36% - 38%
Wtd-average expected dividend yield	.11%	.20%
Range of expected dividend yields	.11% - .11%	.18% - .28%
Wtd-average stock option fair value	\$ 4.44	\$ 3.03
Range of stock option fair values	\$ 4.40 - \$4.46	\$ 1.33 - \$3.03

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Aggregated information regarding Company issued stock options is summarized below:

	COLLECTIVE BARGAINING PLANS			
	Options (000)	Wtd. average exercise price	Wtd. average remaining contractual term	Aggregate intrinsic value (millions)
Outstanding December 31, 2008	55,412	\$13.90		
Granted	81	7.66		
Exercised	(11)	8.25		
Surrendered	(3,044)	16.29		
Outstanding December 31, 2009	52,438	\$13.75		
Granted	14	11.98		
Exercised	(2,676)	12.68		
Surrendered	(18,381)	12.88		
Outstanding December 31, 2010	31,395	\$14.34		
Granted	—	—		
Exercised	(38)	10.65		
Surrendered	(837)	14.87		
Outstanding December 31, 2011	30,520	\$14.33	1.0	\$ —
Vested or expected to vest at December 31, 2011	30,520	\$14.33	1.0	\$ —
Exercisable at December 31, 2011	30,469	\$14.33	1.0	\$ —

	OTHER EMPLOYEE PLANS			
	Options (000)	Wtd. average exercise price	Wtd. average remaining contractual term	Aggregate intrinsic value (millions)
Outstanding December 31, 2008	26,489	\$15.57		
Granted	1,824	6.75		
Exercised	(570)	10.36		
Surrendered	(1,999)	14.05		
Outstanding December 31, 2009	25,744	\$15.17		
Granted	10	12.04		
Exercised	(673)	9.55		
Surrendered	(5,494)	15.72		
Outstanding December 31, 2010	19,587	\$15.22		
Granted	—	—		
Exercised	(143)	6.97		
Surrendered	(2,640)	18.18		
Outstanding December 31, 2011	16,804	\$14.82	3.2	\$ 3
Vested or expected to vest at December 31, 2011	16,655	\$14.81	3.2	\$ 3
Exercisable at December 31, 2011	14,688	\$15.03	3.1	\$ 2

The total aggregate intrinsic value of options exercised for all plans during the years ended December 31, 2011, 2010, and 2009, was \$1 million, \$4 million, and \$1 million, respectively. The total grant date fair value of shares vesting during the years ended December 31, 2011, 2010, and 2009, was \$13 million, \$10 million, and \$12 million, respectively.

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Employee Stock Purchase Plan

Under the amended 1991 Employee Stock Purchase Plan (ESPP), which has been approved by Shareholders, the Company is authorized to issue up to a remaining balance of 5 million shares of the Company's common stock to Employees of the Company. These shares may be issued at a price equal to 90 percent of the market value at the end of each monthly purchase period. Common stock purchases are paid for through periodic payroll deductions. For the years ended December 31, 2011, 2010, and 2009, participants under the plan purchased 1.7 million shares, 1.3 million shares, and 2.2 million shares at average prices of \$9.73, \$11.25, and \$6.78, respectively. The weighted-average fair value of each purchase right under the ESPP granted for the years ended December 31, 2011, 2010, and 2009, which is equal to the ten percent discount from the market value of the Common Stock at the end of each monthly purchase period, was \$1.03, \$1.23, and \$.75, respectively.

Taxes

A portion of the Company's granted options qualify as incentive stock options for income tax purposes. As such, a tax benefit is not recorded at the time the compensation cost related to the options is recorded for book purposes due to the fact that an incentive stock option does not ordinarily result in a tax benefit unless there is a disqualifying disposition. Grants of non-qualified stock options result in the creation of a deferred tax asset, which is a temporary difference, until the time that the option is exercised. Due to the treatment of incentive stock options for tax purposes, the Company's effective tax rate from year to year is subject to variability.

16. Employee Retirement Plans

Defined contribution plans

Southwest has defined contribution plans covering substantially all its Employees and has announced that AirTran Employees will be eligible to participate in its plans beginning in 2012. The Southwest Airlines Co. Profit Sharing Plan (Profit Sharing Plan) is a defined contribution plan to which the Company contributes 15 percent of its eligible pre-tax profits, as defined, on an annual basis. No Employee contributions to the Profit Sharing Plan are allowed.

The Company also sponsors Employee savings plans under section 401(k) of the Internal Revenue Code, which include Company matching contributions. The 401(k) plans cover substantially all Employees. Contributions under all defined contribution plans are primarily based on Employee compensation and performance of the Company.

Company contributions to all defined contribution plans expensed in 2011, 2010, and 2009, reflected as a component of Salaries, wages, and benefits, were \$316 million, \$350 million, and \$203 million, respectively.

Postretirement benefit plans

Southwest and AirTran provide postretirement benefits to qualified retirees in the form of medical and dental coverage. Employees must meet minimum levels of service and age requirements as set forth by the Company, or as specified in collective bargaining agreements with specific workgroups. Employees meeting these requirements, as defined, may use accrued unused sick time to pay for medical and dental premiums from the age of retirement until age 65.

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Including AirTran as of the acquisition date, the following table shows the change in the accumulated postretirement benefit obligation (APBO) for the years ended December 31, 2011 and 2010:

<u>(in millions)</u>	<u>2011</u>	<u>2010</u>
APBO at beginning of period	\$ 91	\$86
Service cost	17	16
Interest cost	4	4
Benefits paid	(5)	(7)
Acquisition of AirTran	3	—
Actuarial (gain)/loss	(3)	(8)
APBO at end of period	<u>\$107</u>	<u>\$91</u>

The assumed healthcare cost trend rates have a significant effect on the amounts reported for the consolidated postretirement plans. A one percent change in all healthcare cost trend rates used in measuring the APBO at December 31, 2011, would have the following effects:

<u>(in millions)</u>	<u>1% increase</u>	<u>1% decrease</u>
Increase (decrease) in total service and interest costs	\$ 2	\$ (2)
Increase (decrease) in the APBO	\$ 8	\$ (7)

All plans are unfunded, and benefits are paid as they become due. For 2011 and 2010, contributions to the consolidated plans were \$5 million and \$7 million, respectively. Estimated future benefit payments expected to be paid for each of the next five years are \$6 million in 2012, \$7 million in 2013, \$9 million in 2014, \$11 million in 2015, \$14 million in 2016, and \$108 million for the next five years thereafter.

The funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its consolidated benefit plans are recognized in the Consolidated Balance Sheet, with a corresponding adjustment to AOCI. The following table reconciles the funded status of the plans to the accrued postretirement benefit cost recognized in Other non-current liabilities on the Company's Consolidated Balance Sheet at December 31, 2011 and 2010.

<u>(in millions)</u>	<u>2011</u>	<u>2010</u>
Funded status	\$(107)	\$(91)
Unrecognized net actuarial gain	(53)	(57)
Unrecognized prior service cost	1	2
Accumulated other comprehensive income	52	55
Cost recognized on Consolidated Balance Sheet	<u>\$(107)</u>	<u>\$(91)</u>

The consolidated periodic postretirement benefit cost for the years ended December 31, 2011, 2010, and 2009, included the following:

<u>(in millions)</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Service cost	\$17	\$16	\$10
Interest cost	4	4	4
Amortization of prior service cost	—	—	1
Recognized actuarial gain	(6)	(5)	(7)
Net periodic postretirement benefit cost	<u>\$15</u>	<u>\$15</u>	<u>\$ 8</u>

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Unrecognized prior service cost is expensed using a straight-line amortization of the cost over the average future service of Employees expected to receive benefits under the plans. Actuarial gains are amortized utilizing the minimum amortization method. The following actuarial assumptions were used to account for the Company's postretirement benefit plans at December 31:

	<u>2011⁽²⁾</u>	<u>2010</u>	<u>2009</u>
Wtd-average discount rate	4.05%	4.30%	4.80%
Assumed healthcare cost trend rate(1)	7.50%	7.50%	8.00%

(1) The assumed healthcare cost trend rate is assumed to remain at 7.5% for 2012, then decline gradually to 5.0% by 2024 and remain level thereafter.

(2) Includes AirTran plans.

The selection of a discount rate is made annually and is selected by the Company based upon comparison of the expected future cash flows associated with the Company's future payments under its consolidated postretirement obligations to a yield curve created using high quality bonds that closely match those expected future cash flows. The assumed healthcare trend rate is also reviewed at least annually and is determined based upon both historical experience with the Company's healthcare benefits paid and expectations of how those trends may or may not change in future years.

17. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred tax assets and liabilities at December 31, 2011 and 2010, are as follows:

<u>(in millions)</u>	<u>2011</u>	<u>2010</u>
DEFERRED TAX LIABILITIES:		
Accelerated depreciation	\$3,537	\$3,020
Other	84	112
Total deferred tax liabilities	3,621	3,132
DEFERRED TAX ASSETS:		
Fuel derivative instruments	155	194
Deferred gains from sale and leaseback of aircraft	44	49
Capital and operating leases	141	22
Accrued employee benefits	267	226
Share-based compensation	39	42
State taxes	78	74
Business partner income	207	129
Net operating losses and credit carrybacks	212	3
Other	175	114
Total deferred tax assets	1,318	853
Net deferred tax liability	<u>\$2,303</u>	<u>\$2,279</u>

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The provision for income taxes is composed of the following:

<u>(in millions)</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
CURRENT:			
Federal	\$ 4	\$198	\$(24)
State	13	19	(1)
Total current	<u>17</u>	<u>217</u>	<u>(25)</u>
DEFERRED:			
Federal	122	61	79
State	6	8	11
Total deferred	<u>128</u>	<u>69</u>	<u>90</u>
	<u>\$145</u>	<u>\$286</u>	<u>\$ 65</u>

The effective tax rate on income before income taxes differed from the federal income tax statutory rate for the following reasons:

<u>(in millions)</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Tax at statutory			
U.S. tax rates	\$114	\$261	\$ 58
Nondeductible items	13	8	5
State income taxes, net of federal benefit	13	18	6
Other, net	<u>5</u>	<u>(1)</u>	<u>(4)</u>
Total income tax provision	<u>\$145</u>	<u>\$286</u>	<u>\$ 65</u>

During 2011, as a result of the AirTran acquisition, the Company recorded a liability for unrecognized tax benefits of approximately \$5 million, the majority of which related to AirTran's prior years' tax positions. If recognized, the unrecognized tax benefits at December 31, 2011, would prospectively impact the Company's effective tax rate. The December 31, 2010 unrecognized tax benefits of \$4 million were settled with the IRS during the year ended December 31, 2011.

For the year ended December 31, 2011, the Company had net operating loss ("NOL") carryforwards of approximately \$548 million from its federal tax return. These NOL's are available to offset future taxable income. At a 35% federal statutory tax rate, these NOL's result in a deferred tax asset of \$192 million, which represents the expected future tax benefit of the NOL's. These NOL's will expire from 2017 to 2031 if not utilized. No valuation allowance was necessary. See Note 2 for further information on NOL's acquired from AirTran. The only periods subject to examination for the Company's federal tax return are the 2010 to 2012 tax years.

Report of Independent Registered Public Accounting Firm

**The Board of Directors and Shareholders
Southwest Airlines Co.**

We have audited the accompanying consolidated balance sheet of Southwest Airlines Co. as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southwest Airlines Co. at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Southwest Airlines Co.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 9, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas
February 9, 2012

Report of Independent Registered Public Accounting Firm

**The Board of Directors and Shareholders
Southwest Airlines Co.**

We have audited Southwest Airlines Co.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Southwest Airlines Co.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Annual Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Southwest Airlines Co. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Southwest Airlines Co. as of December 31, 2011 and 2010, and the related consolidated statement of income, stockholders' equity, and cash flows for the each of the three years in the period ended December 31, 2011 of Southwest Airlines Co. and our report dated February 9, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas
February 9, 2012

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QUARTERLY FINANCIAL DATA
(unaudited)

<u>(in millions except per share amounts)</u>	<u>THREE MONTHS ENDED</u>			
	<u>March 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>
2011*				
Operating revenues	\$ 3,103	\$4,136	\$4,311	\$4,108
Operating income	114	207	225	147
Income (loss) before income taxes	18	275	(226)	255
Net income (loss)	5	161	(140)	152
Net income (loss) per share, basic	.01	.21	(.18)	.20
Net income (loss) per share, diluted	.01	.21	(.18)	.20
	<u>March 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>
2010				
Operating revenues	\$ 2,630	\$3,168	\$3,192	\$3,114
Operating income	54	363	355	216
Income before income taxes	17	184	332	213
Net income	11	112	205	131
Net income per share, basic	.01	.15	.27	.18
Net income per share, diluted	.01	.15	.27	.18

* Includes the results of AirTran for May 2011 through December 2011. See Note 2 to the Consolidated Financial Statements for further information.

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Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures. The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act (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 SEC’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 Company’s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company’s disclosure controls and procedures as of December 31, 2011. 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 December 31, 2011, at the reasonable assurance level.

Management’s Annual Report on Internal Control over Financial Reporting. Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act). The Company’s internal control over financial reporting is a process, under the supervision of the Company’s Chief Executive Officer and Chief Financial Officer, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company’s internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on this evaluation, management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2011, the Company’s internal control over financial reporting was effective.

Ernst & Young, LLP, the independent registered public accounting firm who audited the Company’s Consolidated Financial Statements included in this Form 10-K, has issued a report on the Company’s internal control over financial reporting, which is included herein.

Changes in Internal Control over Financial Reporting. Except as discussed below, there were no changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting. On May 2, 2011, the Company completed the acquisition of AirTran. The Company is currently integrating policies, processes, People, technology, and operations for the combined Company. Management will continue to evaluate the Company’s internal controls over financial reporting as it continues its integration work.

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers, and Corporate Governance*

Directors and Executive Officers

The information required by this Item 10 regarding the Company's directors will be set forth under the heading "Proposal 1 — Election of Directors" in the Proxy Statement for the Company's 2012 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by this Item 10 regarding the Company's executive officers is set forth under the heading "Executive Officers of the Registrant" in Part I of this Form 10-K and is incorporated herein by reference.

Section 16(a) Compliance

The information required by this Item 10 regarding compliance with Section 16(a) of the Exchange Act will be set forth under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement for the Company's 2012 Annual Meeting of Shareholders and is incorporated herein by reference.

Corporate Governance

Except as set forth in the following paragraph, the remaining information required by this Item 10 will be set forth under the heading "Corporate Governance" in the Proxy Statement for the Company's 2012 Annual Meeting of Shareholders and is incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, and principal accounting officer or controller. The Company's Code of Ethics, as well as its Corporate Governance Guidelines and the charters of its Audit, Compensation, and Nominating and Corporate Governance Committees, are available on the Company's website, www.southwest.com. Copies of these documents are also available upon request to Investor Relations, Southwest Airlines Co., P.O. Box 36611, Dallas, TX 75235. The Company intends to disclose any amendments to, or waivers from, its Code of Ethics that apply to the Company's principal executive officer, principal financial officer, and principal accounting officer or controller on the Company's website, www.southwest.com, under the "About Southwest" caption, promptly following the date of any such amendment or waiver.

Item 11. *Executive Compensation*

The information required by this Item 11 will be set forth under the headings "Compensation of Executive Officers" and "Compensation of Directors" in the Proxy Statement for the Company's 2012 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Except as set forth below regarding securities authorized for issuance under equity compensation plans, the information required by this Item 12 will be set forth under the heading "Voting Securities and Principal Shareholders" in the Proxy Statement for the Company's 2012 Annual Meeting of Shareholders and is incorporated herein by reference.

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Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2011, regarding compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance.

Equity Compensation Plan Information

<u>Plan Category</u>	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights* (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans Approved by Security Holders	17,507,491(1)	\$ 13.51(2)	17,506,712(3)
Equity Compensation Plans not Approved by Security Holders	31,757,107	\$ 14.38	5,459,402
Total	49,264,598	\$ 14.07(2)	22,966,114

* As adjusted for stock splits.

- (1) Includes 15,867,459 shares of common stock issuable upon exercise of outstanding stock options and 1,640,032 restricted share units settleable in shares of the Company's common stock. The options and the restricted share units were issued under the Company's 2007 Equity Incentive Plan.
- (2) The weighted-average exercise price does not take into account the restricted share units discussed in footnote (1) above because the restricted share units do not have an exercise price upon vesting.
- (3) Of these shares, (i) 5,024,093 shares remained available for issuance under the Company's tax-qualified employee stock purchase plan; and (ii) 12,482,619 shares remained available for issuance under the Company's 2007 Equity Incentive Plan in connection with the exercise of stock options and stock appreciation rights, the settlement of awards of restricted stock, restricted stock units, and phantom shares, and the grant of unrestricted shares of common stock; however, no more than 866,973 shares remain available for grant in connection with awards of unrestricted shares of common stock, stock-settled phantom shares, and awards to non-Employee members of the Board. These shares are in addition to the shares reserved for issuance pursuant to outstanding awards included in column (a).

See Note 15 to the Consolidated Financial Statements for information regarding the material features of the above plans. Each of the above plans provides that the number of shares with respect to which options may be granted, the number of shares of common stock subject to an outstanding option, and the number of restricted share units granted shall be proportionately adjusted in the event of a subdivision or consolidation of shares or the payment of a stock dividend on common stock, and the purchase price per share of outstanding options shall be proportionately revised.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this Item 13 will be set forth under the heading "Certain Relationships and Related Transactions, and Director Independence" in the Proxy Statement for the Company's 2012 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 14. *Principal Accounting Fees and Services*

The information required by this Item 14 will be set forth under the heading "Relationship with Independent Auditors" in the Proxy Statement for the Company's 2012 Annual Meeting of Shareholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. *Financial Statements:*

The financial statements included in Item 8. Financial Statements and Supplementary Data above are filed as part of this annual report.

2. *Financial Statement Schedules:*

There are no financial statement schedules filed as part of this annual report, since the required information is included in the Consolidated Financial Statements, including the notes thereto, or the circumstances requiring inclusion of such schedules are not present.

3. Exhibits:

- 2.1 Agreement and Plan of Merger among the Company, AirTran Holdings, Inc., and Guadalupe Holdings Corp., dated as of September 26, 2010 (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated September 26, 2010 (File No. 1-7259)).
- 3.1 Restated Articles of Incorporation of the Company effective February 3, 1994; Articles of Amendment to the Articles of Incorporation of the Company effective May 31, 1996; Articles of Amendment to the Articles of Incorporation of the Company effective July 2, 1998; Articles of Amendment to the Articles of Incorporation of the Company effective June 2, 1999; Articles of Amendment to the Articles of Incorporation of the Company effective May 24, 2001; Articles of Amendment to the Articles of Incorporation of the Company effective June 5, 2007 (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (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)).
- 4.1 Specimen certificate representing common stock of the Company (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 1-7259)).
- 4.2 Indenture dated as of February 14, 2005, between the Company and The Bank of New York Trust Company, N.A., Trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated February 14, 2005 (File No. 1-7259)).
- 4.3 Indenture dated as of September 17, 2004, between the Company and Wells Fargo Bank, N.A., Trustee (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 filed October 30, 2002 (File No. 1-7259)).
- 4.4 Indenture dated as of February 25, 1997, between the Company and U.S. Trust Company of Texas, N.A. (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-7259)).

The Company is not filing any other instruments evidencing any indebtedness because the total amount of securities authorized under any single such instrument does not exceed 10 percent of its total consolidated assets. Copies of such instruments will be furnished to the Securities and Exchange Commission upon request.

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- 10.1 Purchase Agreement No. 1810, dated January 19, 1994, between The Boeing Company and the Company (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)); Supplemental Agreement No. 1 (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-7259)); Supplemental Agreements Nos. 2, 3, and 4 (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 1-7259)); Supplemental Agreements Nos. 5, 6, and 7 (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-7259)); Supplemental Agreements Nos. 8, 9, and 10 (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-7259)); Supplemental Agreements Nos. 11, 12, 13 and 14 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (File No. 1-7259)); Supplemental Agreements Nos. 15, 16, 17, 18 and 19 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (File No. 1-7259)); Supplemental Agreements Nos. 20, 21, 22, 23 and 24 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (File No. 1-7259)); Supplemental Agreements Nos. 25, 26, 27, 28 and 29 (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (File No. 1-7259)); Supplemental Agreements Nos. 30, 31, 32, and 33 (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-7259)); Supplemental Agreements Nos. 34, 35, 36, 37, and 38 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (File No. 1-7259)); Supplemental Agreements Nos. 39 and 40 (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (File No. 1-7259)); Supplemental Agreement No. 41 (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-7259)); Supplemental Agreements Nos. 42, 43 and 44 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (File No. 1-7259)); Supplemental Agreement No. 45 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 1-7259)); Supplemental Agreements Nos. 46 and 47 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (File No. 1-7259)); Supplemental Agreement No. 48 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (File No. 1-7259)); Supplemental Agreements Nos. 49 and 50 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 1-7259)); Supplemental Agreement No. 51 (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 1-7259)); Supplemental Agreement No. 52 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (File No. 1-7259)); Supplemental Agreement No. 53 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 1-7259)); Supplemental Agreements Nos. 54 and 55 (incorporated by reference to Exhibits 10.1 and 10.2, respectively, to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (File No. 1-7259)); Supplemental Agreement No. 56 (incorporated by reference to Exhibit 10.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 1-7259)); Supplemental Agreements Nos. 57, 58, and 59 (incorporated by reference to Exhibits 10.1, 10.2, and 10.3, respectively, to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 1-7259)); Supplemental Agreement No. 60 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 1-7259)); Supplemental Agreement No. 61 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 1-7259)); Supplemental Agreements Nos. 62 and 63 (incorporated by

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reference to Exhibits 10.1 and 10.2, respectively, to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-7259); Supplemental Agreement No. 64 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 1-7259)); Supplemental Agreement No. 65 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-7259)); Supplemental Agreement No. 66 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (File No. 1-7259)); Supplemental Agreement No. 67 (incorporated by reference to Exhibit 10.1(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 1-7259)); Supplemental Agreement No. 68 (incorporated by reference to Exhibit 10.1(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 1-7259)); Supplemental Agreement No. 69 (incorporated by reference to Exhibit 10.1(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 1-7259)); Supplemental Agreement No. 70 (incorporated by reference to Exhibit 10.1(d) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 1-7259)); Supplemental Agreement No. 71 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 1-7259)); Supplemental Agreement No. 72 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 1-7259)); Supplemental Agreement No. 73 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (File No. 1-7259)); Supplemental Agreement No. 74 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 1-7259)). (1)

- 10.1(a) Supplemental Agreement No. 75 to Purchase Agreement No. 1810 dated January 19, 1994, between The Boeing Company and the Company. (1)
- 10.2 Form of Amended and Restated Executive Service Recognition Plan Executive Employment Agreement between the Company and certain Officers of the Company (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-7259)). (2)
- 10.3 2001 Stock Option Agreements between the Company and Herbert D. Kelleher (incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 (File No. 1-7259)). (2)
- 10.4 Southwest Airlines Co. 1996 Incentive Stock Option Plan (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)). (2)
- 10.5 Southwest Airlines Co. 1996 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)). (2)
- 10.6 Letter Agreement between Southwest Airlines Co. and Gary C. Kelly, effective as of February 1, 2011 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated January 26, 2011 (File No. 1-7259)). (2)
- 10.7 Southwest Airlines Co. Amended and Restated Severance Plan for Directors (as amended and restated effective May 19, 2009) (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 1-7259)).

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- 10.8 Southwest Airlines Co. Outside Director Incentive Plan (as amended and restated effective May 16, 2007) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 1-7259)).
- 10.9 Southwest Airlines Co. 1998 SAEA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.17 to Southwest's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)).
- 10.10 Southwest Airlines Co. 1999 SWAPIA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)).
- 10.11 Southwest Airlines Co. LUV 2000 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed January 12, 2001 (File No. 333-53610)). (2)
- 10.12 Southwest Airlines Co. 2002 SWAPA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed August 27, 2002 (File No. 333-98761)).
- 10.13 Southwest Airlines Co. 2002 Bonus SWAPA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed August 27, 2002 (File No. 333-98761)).
- 10.14 Southwest Airlines Co. 2002 SWAPIA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed October 30, 2002 (File No. 333-100862)).
- 10.15 Southwest Airlines Co. 2002 Mechanics Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed October 30, 2002 (File No. 333-100862)).
- 10.16 Southwest Airlines Co. 2002 Ramp, Operations, Provisioning and Freight Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)).
- 10.17 Southwest Airlines Co. 2002 Customer Service/Reservations Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)); Amendment No. 1 to the Company's 2002 Customer Service/Reservations Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 filed April 2, 2003 (File No. 333-104245)).
- 10.18 Southwest Airlines Co. 2003 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (File No. 1-7259)). (2)
- 10.19 Southwest Airlines Co. Amended and Restated 2007 Equity Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated May 19, 2010 (File No. 1-7259)). (2)
- 10.20 Southwest Airlines Co. 2007 Equity Incentive Plan Form of Notice of Grant and Terms and Conditions for Stock Option Grant (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 1-7259)). (2)

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10.21	Southwest Airlines Co. Excess Benefit Plan (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-7259)). (2)
10.22	Amendment No. 1 to the Southwest Airlines Co. Excess Benefit Plan (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-7259)). (2)
10.23	Amendment No. 2 to the Southwest Airlines Co. Excess Benefit Plan (incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-7259)). (2)
10.24	Amended and Restated Southwest Airlines Co. 2005 Excess Benefit Plan (as amended and restated effective for plan years beginning on and after January 1, 2009) (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-7259)). (2)
10.25	Form of Indemnification Agreement between the Company and its Directors (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 15, 2009 (File No. 1-7259)).
10.26	Southwest Airlines Co. Amended and Restated 2007 Equity Incentive Plan Form of Notice of Grant and Terms and Conditions for Restricted Stock Unit grants (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-7259)). (2)
10.27	\$800,000,000 Revolving Credit Facility Agreement among the Company, The Banks Party thereto, Citibank, N.A., as Syndication Agent, Barclays Bank PLC, Deutsche Bank Securities Inc., Goldman Sachs Bank USA and Morgan Stanley Senior Funding, Inc., as Documentation Agents and JPMorgan Chase Bank, N.A., as Administrative Agent, dated as of April 28, 2011 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 28, 2011 (File No. 1-7259)).
10.28	Purchase Agreement No. PA-03729 and Aircraft General Terms Agreement, dated December 13, 2011, between The Boeing Company and the Company. (1)
21	Subsidiaries of the Company.
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32	Section 1350 Certification 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

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101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

- (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) This exhibit is being furnished rather than filed and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K.

A copy of each exhibit may be obtained at a price of 15 cents per page, \$10.00 minimum order, by writing to: Investor Relations, Southwest Airlines Co., P.O. Box 36611, Dallas, Texas 75235-1611.

INDEX TO THE EXHIBITS

- 2.1 Agreement and Plan of Merger among the Company, AirTran Holdings, Inc., and Guadalupe Holdings Corp., dated as of September 26, 2010 (the schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated September 26, 2010 (File No. 1-7259)).
- 3.1 Restated Articles of Incorporation of the Company effective February 3, 1994; Articles of Amendment to the Articles of Incorporation of the Company effective May 31, 1996; Articles of Amendment to the Articles of Incorporation of the Company effective July 2, 1998; Articles of Amendment to the Articles of Incorporation of the Company effective June 2, 1999; Articles of Amendment to the Articles of Incorporation of the Company effective May 24, 2001; Articles of Amendment to the Articles of Incorporation of the Company effective June 5, 2007 (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (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)).
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- The Company is not filing any other instruments evidencing any indebtedness because the total amount of securities authorized under any single such instrument does not exceed 10 percent of its total consolidated assets. Copies of such instruments will be furnished to the Securities and Exchange Commission upon request.
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the quarter ended September 30, 2002 (File No. 1-7259)); Supplemental Agreements Nos. 25, 26, 27, 28 and 29 (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (File No. 1-7259)); Supplemental Agreements Nos. 30, 31, 32, and 33 (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-7259)); Supplemental Agreements Nos. 34, 35, 36, 37, and 38 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (File No. 1-7259)); Supplemental Agreements Nos. 39 and 40 (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (File No. 1-7259)); Supplemental Agreement No. 41 (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-7259)); 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Supplemental Agreement No. 52 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (File No. 1-7259)); Supplemental Agreement No. 53 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 1-7259)); Supplemental Agreements Nos. 54 and 55 (incorporated by reference to Exhibits 10.1 and 10.2, respectively, to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (File No. 1-7259)); Supplemental Agreement No. 56 (incorporated by reference to Exhibit 10.1 to Southwest's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 1-7259)); Supplemental Agreements Nos. 57, 58, and 59 (incorporated by reference to Exhibits 10.1, 10.2, and 10.3, respectively, to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 1-7259)); Supplemental Agreement No. 60 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 1-7259)); Supplemental Agreement No. 61 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 1-7259)); Supplemental Agreements Nos. 62 and 63 (incorporated by reference to Exhibits 10.1 and 10.2, respectively, to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-7259)); Supplemental Agreement No. 64 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (File No. 1-7259)); Supplemental Agreement No. 65 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-7259)); Supplemental Agreement No. 66 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (File No. 1-7259)); Supplemental Agreement No. 67 (incorporated by reference to Exhibit 10.1(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 1-7259)); Supplemental Agreement No. 68 (incorporated by reference to Exhibit 10.1(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 1-7259)); Supplemental Agreement No. 69 (incorporated by reference to Exhibit 10.1(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 1-7259)); Supplemental Agreement No. 70 (incorporated by reference to Exhibit 10.1(d) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 1-7259)); Supplemental Agreement No. 71 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 1-7259)); Supplemental Agreement No. 72 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 1-7259)); Supplemental Agreement No. 73 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (File No. 1-7259)); Supplemental Agreement No. 74 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 1-7259)). 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- 10.1(a) Supplemental Agreement No. 75 to Purchase Agreement No. 1810 dated January 19, 1994, between The Boeing Company and the Company. (1)
- 10.2 Form of Amended and Restated Executive Service Recognition Plan Executive Employment Agreement between the Company and certain Officers of the Company (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-7259)). (2)
- 10.3 2001 Stock Option Agreements between the Company and Herbert D. Kelleher (incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 (File No. 1-7259)). (2)
- 10.4 Southwest Airlines Co. 1996 Incentive Stock Option Plan (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)). (2)
- 10.5 Southwest Airlines Co. 1996 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)). (2)
- 10.6 Letter Agreement between Southwest Airlines Co. and Gary C. Kelly, effective as of February 1, 2011 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated January 26, 2011 (File No. 1-7259)). (2)
- 10.7 Southwest Airlines Co. Amended and Restated Severance Plan for Directors (as amended and restated effective May 19, 2009) (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 1-7259)).
- 10.8 Southwest Airlines Co. Outside Director Incentive Plan (as amended and restated effective May 16, 2007) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 1-7259)).
- 10.9 Southwest Airlines Co. 1998 SAEA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.17 to Southwest's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)).
- 10.10 Southwest Airlines Co. 1999 SWAPIA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)).
- 10.11 Southwest Airlines Co. LUV 2000 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed January 12, 2001 (File No. 333-53610)). (2)
- 10.12 Southwest Airlines Co. 2002 SWAPA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed August 27, 2002 (File No. 333-98761)).
- 10.13 Southwest Airlines Co. 2002 Bonus SWAPA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed August 27, 2002 (File No. 333-98761)).

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- 10.14 Southwest Airlines Co. 2002 SWAPIA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed October 30, 2002 (File No. 333-100862)).
- 10.15 Southwest Airlines Co. 2002 Mechanics Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed October 30, 2002 (File No. 333-100862)).
- 10.16 Southwest Airlines Co. 2002 Ramp, Operations, Provisioning and Freight Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)).
- 10.17 Southwest Airlines Co. 2002 Customer Service/Reservations Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)); Amendment No. 1 to the Company's 2002 Customer Service/Reservations Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 filed April 2, 2003 (File No. 333-104245)).
- 10.18 Southwest Airlines Co. 2003 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (File No. 1-7259)). (2)
- 10.19 Southwest Airlines Co. Amended and Restated 2007 Equity Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated May 19, 2010 (File No. 1-7259)). (2)
- 10.20 Southwest Airlines Co. 2007 Equity Incentive Plan Form of Notice of Grant and Terms and Conditions for Stock Option Grant (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 1-7259)). (2)
- 10.21 Southwest Airlines Co. Excess Benefit Plan (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-7259)). (2)
- 10.22 Amendment No. 1 to the Southwest Airlines Co. Excess Benefit Plan (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-7259)). (2)
- 10.23 Amendment No. 2 to the Southwest Airlines Co. Excess Benefit Plan (incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-7259)). (2)
- 10.24 Amended and Restated Southwest Airlines Co. 2005 Excess Benefit Plan (as amended and restated effective for plan years beginning on and after January 1, 2009) (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-7259)). (2)
- 10.25 Form of Indemnification Agreement between the Company and its Directors (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 15, 2009 (File No. 1-7259)).

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10.26	Southwest Airlines Co. Amended and Restated 2007 Equity Incentive Plan Form of Notice of Grant and Terms and Conditions for Restricted Stock Unit grants (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-7259)). (2)
10.27	\$800,000,000 Revolving Credit Facility Agreement among the Company, The Banks Party thereto, Citibank, N.A., as Syndication Agent, Barclays Bank PLC, Deutsche Bank Securities Inc., Goldman Sachs Bank USA and Morgan Stanley Senior Funding, Inc., as Documentation Agents and JPMorgan Chase Bank, N.A., as Administrative Agent, dated as of April 28, 2011 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 28, 2011(File No. 1-7259)).
10.28	Purchase Agreement No. PA-03729 and Aircraft General Terms Agreement, dated December 13, 2011, between The Boeing Company and the Company. (1)
21	Subsidiaries of the Company.
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32	Section 1350 Certification 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 Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(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) This exhibit is being furnished rather than filed and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K.

A copy of each exhibit may be obtained at a price of 15 cents per page, \$10.00 minimum order, by writing to: Investor Relations, Southwest Airlines Co., P.O. Box 36611, Dallas, Texas 75235-1611.

Supplemental Agreement No. 75

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 December 13, 2011, 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:

WHEREAS, Buyer elects to exercise its option to purchase twenty-three (23) 737-7H4 Option Aircraft, described in Letter Agreement 6-1162-RLL-933R21 to the Purchase Agreement, as identified in Table I below. Furthermore, Buyer elects to substitute, concurrent with execution of this Supplemental Agreement, Boeing Model 737-8H4 aircraft for six (6) of such Option Aircraft in the delivery positions as identified in Table I below; and

TABLE I

<u>Contract Delivery Month</u>	<u>Quantity</u>	<u>Serial Number</u>
Model 737-8H4 aircraft		
Mar-2013	1	
Apr-2013	2	
May-2013	1	
Sep-2013	1	
Oct-2013	1	
Model 737-7H4 aircraft		
Apr-2014	1	
Sep-2014	2	
Oct-2014	1	
Nov-2014	1	
Dec-2014	1	
Nov-2015	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.**

TABLE I

<u>Contract Delivery Month</u>	<u>Quantity</u>	<u>Serial Number</u>
Jan-2017	1	
Feb-2017	1	
Mar-2017	1	
Apr-2017	1	
May-2017	1	
Jun-2017	1	
Aug-2017	1	
Sep-2017	1	
Oct-2017	1	
Nov-2017	1	

WHEREAS, Buyer elects to exercise its right to substitute Boeing Model 737-8H4 aircraft for the twenty-one (21) 737-7H4 Aircraft with delivery positions as shown in Table II below; and

TABLE II

<u>Contract Delivery Month</u>	<u>Quantity</u>	<u>Serial Number</u>
Jan-2013	3	36891, 36634, 36638
Feb-2013	2	36635, 36893
Mar-2013	1	36892
May-2013	1	36894
Jun-2013	2	36895, 36896
Jul-2013	1	36897
Aug-2013	2	36898, 36905
Sep-2013	2	36907, 36911
Oct-2013	2	36912, 36914
Nov-2013	1	36915
Dec-2013	2	36917, 36919
Jan-2014	2	36920, 36909

WHEREAS, Buyer and Boeing agree to add thirty-three (33) incremental firm aircraft to the Purchase Agreement in the model, quantity and delivery positions as shown in Table III below; and

TABLE III

<u>Contract Delivery Month</u>	<u>Quantity</u>	<u>Serial Number</u>
Model 737-8H4		
Jul-2013	1	
Aug-2013	2	
Sep-2013	1	
Oct-2013	1	
Nov-2013	3	
Dec-2013	2	
Jan-2014	1	
Model 737-7H4		
Feb-2014	1	
May-2014	2	
Jan-2015	1	
Feb-2015	1	

TABLE III

<u>Contract Delivery Month</u>	<u>Quantity</u>	<u>Serial Number</u>
Mar-2015	1	
Apr-2015	1	
May-2015	1	
Jun-2015	1	
Jul-2015	1	
Aug-2015	1	
Sep-2015	1	
Jan-2018	1	
Feb-2018	1	
Mar-2018	1	
Apr-2018	1	
May-2018	1	
Jun-2018	1	
Jul-2018	1	
Aug-2018	1	
Sep-2018	1	
Oct-2018	1	

WHEREAS, Buyer and Boeing agree to convert seventy-eight (78) Purchase Right Aircraft as described in 6-1162-RLL-933R21 to the Purchase Agreement, into 737-7H4 option aircraft in the delivery positions as shown in Table IV below. Furthermore, the parties acknowledge no further Purchase Right Aircraft exist; and

TABLE IV

<u>Delivery Month</u>	<u>Quantity</u>
Jun-2014	2
Jul-2014	4
Aug-2014	2
Sep-2014	2
Oct-2014	2
Nov-2014	2
Dec-2014	1
Jan-2015	2
Feb-2015	1
Mar-2015	1
Apr-2015	1
May-2015	2
Jun-2015	2
Jul-2015	2
Aug-2015	1
Jan-2016	1
Jul-2016	1
Nov-2016	1
Dec-2016	2
Jan-2017	2
Feb-2017	2
Mar-2017	3
Apr-2017	3
May-2017	2
Jun-2017	1
Jul-2017	1

TABLE IV

<u>Delivery Month</u>	<u>Quantity</u>
Sep-2017	1
Oct-2017	1
Nov-2017	1
Dec-2017	1
Jan-2018	2
Feb-2018	3
Mar-2018	3
Apr-2018	2
May-2018	2
Jun-2018	2
Jul-2018	2
Aug-2018	2
Sep-2018	2
Oct-2018	2
Nov-2018	3
Dec-2018	3

WHEREAS, Buyer and Boeing agree to transfer fifty-one (51) Boeing Model 737-700 firm aircraft and two (2) option aircraft from Purchase Agreement No. 2444, between Boeing and AirTran Airways, Inc. (an indirect wholly owned subsidiary of Buyer), to this Purchase Agreement with delivery positions as shown in Table V below (**Transferred Aircraft**). Buyer elects to exercise such two (2) option aircraft concurrent with execution of this Supplemental Agreement. Furthermore, Buyer elects to substitute, concurrent with execution of this Supplemental Agreement, Boeing Model 737-8H4 aircraft for fifteen (15) Transferred Aircraft with delivery positions as shown in Table V below; and

TABLE V

<u>Contract Delivery Month</u>	<u>Quantity</u>	<u>Serial Number</u>
Model 737-8H4		
Jun-2012	4	38807, 38808, 38809, 38810
Jul-2012	1	38811
Nov-2012	2	35966, 35969
Dec-2012	1	38818
Jan-2013	1	35964
May-2013	1	cqt opt
Jul-2013	1	cqt opt
Oct-2013	1	35973
Nov-2013	1	33939
Dec-2013	1	36731
Jan-2014	1	36732
Model 737-7H4		
Feb-2014	1	35968
Apr-2014	1	35971
Jun-2014	1	38804
Jul-2014	1	38805
Aug-2014	1	36729
Sep-2014	1	36733
Oct-2014	1	38806
Feb-2015	1	36722
Mar-2015	1	36727
Apr-2015	1	38815
May-2015	1	38817
Aug-2015	1	35967
Sep-2015	1	36730
Oct-2015	2	35974, 33940
Nov-2015	2	35975, 36715
Dec-2015	2	36734, 35976
Jan-2016	1	36735
Feb-2016	1	36737
Mar-2016	1	36738
Apr-2016	1	36723
May-2016	1	33937
Jul-2016	1	33942
Aug-2016	2	35965, 36728
Sep-2016	1	41530
Oct-2016	2	38812, 38813
Nov-2016	2	41531, 38814
Dec-2016	1	38816
Feb-2017	1	35970
Mar-2017	1	35972
Apr-2017	1	36736
May-2017	1	33941
Jun-2017	1	35963

WHEREAS, Buyer and Boeing agree to create two (2) new blocks of firm aircraft and reorganize the firm 737-7H4 Aircraft and 737-8H4 Aircraft with delivery months March 2012 through December 2018 in order to differentiate the applicable base year

dollars and business terms. Such new blocks are identified as “Block 700LUV Aircraft” which consists of one hundred twenty-seven (127) firm 737-7H4 aircraft and “Block 800LUV Aircraft” which consists of seventy-three (73) firm 737-8H4 aircraft; and

WHEREAS, the Boeing and Buyer have completed the final configuration of the 737-8H4 aircraft (**Aircraft**) and agree to amend the Purchase Agreement to document the final configuration; and

WHEREAS, Buyer and Boeing agree to establish pricing in 2011 base year dollars for the Block 700LUV Aircraft and 800LUV Aircraft; and

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. To aid administration of the Purchase Agreement, the new Table of Contents includes a section for Tables, Exhibits, and Letter Agreements to the Purchase Agreement that Boeing and Buyer agree are inactive or have been deleted from the Purchase Agreement.

2. Article 1, “Subject Matter of Sale,” is deleted in its entirety and a new Article 1 is attached hereto and incorporated into the Purchase Agreement by this reference. Such new Article 1 reflects the incorporation of the new blocks of aircraft; Block 700LUV Aircraft and Block 800LUV Aircraft.

3. Article 3, “Price of Aircraft,” is deleted in its entirety and a new Article 3 is attached hereto and incorporated into the Purchase Agreement by this reference. Such new Article 3 reflects the incorporation of the new blocks of aircraft; Block 700LUV Aircraft and Block 800LUV Aircraft.

4. Table 1, “Aircraft Information Table,” is hereby deleted in its entirety and replaced by a new Table 1, attached hereto and incorporated into the Purchase Agreement.

5. Table 1a, “Aircraft Information Table – Block 700LUV Aircraft,” is hereby added and, by this reference, is incorporated into the Purchase Agreement.

6. Table 1b, “Aircraft Information Table – Block 800LUV Aircraft,” is hereby added and, by this reference, is incorporated in the Purchase Agreement. Such Table 1b reflects the Special Features price resulting from incorporation of the final configuration identified in Exhibit A-6 as described below.

7. Table 2 (Letter Agreement No. 6-1162-RLL-933R20), “Option Aircraft Information Table,” is hereby deleted in its entirety.

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8. Exhibit A-5, "Aircraft Configuration – Block 700LUV Aircraft," is hereby added and, by this reference, is incorporated into the Purchase Agreement.
 9. Exhibit A-6, "Aircraft Configuration – Block 800LUV Aircraft," is hereby added and, by this reference, is incorporated into the Purchase Agreement.
 10. Page (I) of Exhibit B, *** is hereby deleted in its entirety and replaced with a new Page I of Exhibit B, attached hereto and incorporated into the Purchase Agreement. Such new Page (I) of Exhibit B reflects the incorporation of Buyer's 737-8H4 Aircraft.
 11. Exhibit C.2, "Customer Support Variables," is hereby deleted in its entirety and replaced with a new Exhibit C-2, "Customer Support Document," attached hereto and incorporated into the Purchase Agreement by this reference.
 12. Exhibit D-2, "Economic Price Adjustment," is hereby added and, by this reference is incorporated into the Purchase Agreement.
 13. Exhibit E, "Buyer Furnished Equipment Provisions Document," is hereby deleted in its entirety and replaced with a new Exhibit E, attached hereto and incorporated into the Purchase Agreement. Such new Exhibit E consolidates information for Buyer's 737-7H4 and 737-8H4 Aircraft into one exhibit.
 14. Exhibit E.2, "Buyer Furnished Equipment Variables," is hereby deleted in its entirety. This deletion is a result of the consolidation described above.
 15. Letter Agreement No. 1810-1, "Waiver of Aircraft Demonstration Flights," is deleted in its entirety and replaced with a revised Letter Agreement No. 1810-1R1, attached hereto, which incorporates Buyer's 737-8H4 Aircraft.
 16. Letter Agreement No 6-1162-RLL-932R2, *** is deleted in its entirety and replaced with a revised Letter Agreement No 6-1162-RLL-932R3, attached hereto and incorporated into the Purchase Agreement by this reference.
 17. Letter Agreement No. 6-1162-RLL-933R21, "Option Aircraft," is deleted in its entirety and replaced with a new Letter Agreement No. SWA-PA-1810-1105884, "Option Aircraft," attached hereto and incorporated into the Purchase Agreement by this reference.
 18. Letter Agreement No 6-1162-RLL-934R4, "Disclosure of Confidential Information," is deleted in its entirety and replaced with a revised Letter Agreement No 6-1162-RLL-934R5, attached hereto and incorporated in the Purchase Agreement by this reference.
 19. Letter Agreement No. 6-1162-NIW-890, *** is deleted in its entirety and replaced with a revised Letter Agreement No. 6-1162-NIW-890R1, attached hereto, ***

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20. Letter Agreement No. 6-1162-RLL-941R2, "Other Matters," is deleted in its entirety and replaced with a revised Letter Agreement No. 6-1162-RLL-941R3, attached hereto, which incorporates Buyer's 737-8H4 Aircraft.
 21. Letter Agreement No. 6-1162-RLL-943R1, *** and Letter Agreement No. 6-1162-KJJ-058R1, *** are deleted in their entirety and replaced with a new Letter Agreement No. SWA-PA-1810-1105883, *** attached hereto and incorporated into the Purchase Agreement.
 22. Letter Agreement No. 6-1162-KJJ-054R1, "Business Matters" is removed and replaced with the revised Letter Agreement No. 6-1162-KJJ-054R2, attached hereto, which provides clarification that the terms do not apply to aircraft delivered after December 31, 2011.
 23. Letter Agreement No. 6-1162-JMG-669R8,*** is deleted in its entirety and replaced with a revised Letter Agreement No. 6-1162-JMG-669R9, attached hereto***
 24. Letter Agreement No. SWA-PA-1810-LA-1001315, *** is deleted in its entirety and replaced with a revised Letter Agreement No. SWA-PA-1810-LA-1001315R1 attached hereto and incorporated into the Purchase Agreement by this reference.
 25. Letter Agreement No. SWA-PA-1810-LA-1003498, *** is removed and replaced with the revised Letter Agreement No. SWA-PA-1810-LA-1003498R1, attached hereto, which provides clarification of the defined term Covered Aircraft.
 26. Letter Agreement No. SWA-PA-1810-LA-1003490, is deleted in its entirety and replaced with a revised Letter Agreement No. SWA-PA-1810-LA-1003490R1, *** attached hereto and incorporated into the Purchase Agreement by this reference.
 27. Letter Agreement No. SWA-PA-1810-1003367, *** is deleted in its entirety and replaced with a revised Letter Agreement No. SWA-PA-1810-1003367R1, attached hereto. ***
 28. Letter Agreement No. SWA-PA-1810-1105885, *** is hereby added and, by this reference, is incorporated in the Purchase Agreement.
 29. Letter Agreement No. SWA-PA-1810-1105886, *** is hereby added and, by this reference, is incorporated in the Purchase Agreement.

30. Letter Agreement No. SWA-PA-1810-LA-1105887, *** is hereby added and, by this reference, is incorporated in the Purchase Agreement.

31. Letter Agreement No. SWA-PA-1810-LA-1105888, *** is hereby added and, by this reference, is incorporated in the Purchase Agreement.

32. Letter Agreement No. SWA-PA-1810-LA-1105889, *** is hereby added and, by this reference, is incorporated in the Purchase Agreement.

33. This Supplemental Agreement is contingent on execution of a separate agreement between AirTran Airways, Inc, an indirect wholly owned subsidiary of Buyer, and Boeing to remove the Transferred Aircraft from Purchase Agreement No. 2444 (AirTran SA-27).

34. This Supplemental Agreement will become effective upon execution of the AirTran SA-27 and this Supplemental Agreement, and receipt by the parties, on or before December 15, 2011, after which date this Supplemental Agreement will be null and void and have no force or effect.

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/ Cheri A Fischer
Its: Attorney-In-Fact

By: /s/ Michael Van de Ven
Its: EVP & Chief Operating Officer

P . A . No . 1810

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6-1162-RLL-932R3 ***	SA-75
6-1162-RLL-934R5 Disclosure of Confidential Information	SA-75
6-1162-NIW-890R1 ***	SA-75
6-1162-RLL-941R3 Other Matters	SA-39
6-1162-KJJ-054R2 Business Matters <i>(Not applicable to Block 700LUV & Block 800LUV Aircraft)</i>	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
6-1162-JMG-669R9 ***	SA-75
SWA-PA-1810-LA-1001315R1 ***	SA-75
SWA-PA-1810-LA-02710 ***	SA-54
SWA-PA-1810-LA-1003498 R1 ***	SA-75
SWA-PA-1810-LA-1003490R1 ***	SA-75
SWA-PA-1810-LA-1003367R1 ***	SA-75
SWA-PA-1810-LA-1105883 Aircraft Model Substitution	SA-75
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SWA-PA-1810-LA-1105885	***	SA-75
SWA-PA-1810-LA-1105886	***	SA-75
SWA-PA-1810-LA-1105887	***	SA-75
SWA-PA-1810-LA-1105888	***	SA-75
SWA-PA-1810-LA-1105889	***	SA-75

ADDITIONAL LETTERS (FOR REFERENCE)

6-1162-MSA-288	Business Offer – Enhanced Ground Proximity Warning System (EGPWS) – Activation – Peaks and Obstacles Feature <i>(Not applicable to Block 700LUV & Block 800LUV Aircraft)</i>	
6-1162-JMG-501R2	Business Offer – ACARS package <i>(Not applicable to Block 700LUV & Block 800LUV Aircraft)</i>	

INACTIVE / DELETED TABLES, EXHIBITS, AND LETTER AGREEMENTS

TABLE

<u>Table</u>	<u>Title</u>	<u>Last Updated under SA</u>	<u>Current Status</u>
2	Option Aircraft Information Table	SA-74	Deleted under SA-75

EXHIBITS

<u>Exhibits</u>	<u>Title</u>	<u>Last Updated under SA</u>	<u>Current Status</u>
A	Aircraft Configuration – 737-700	SA-36	Inactive
A-Winglet	Aircraft Configuration	SA-36	Inactive
A-1-Winglet	Aircraft Configuration	SA-36	Inactive

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<u>Exhibits</u>	<u>Title</u>	<u>Last Updated under SA</u>	<u>Current Status</u>
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
C.2	737-800 Customer Support Variables	SA-71	Deleted under SA-75
E.2	737-800 Buyer Furnished Equipment Provisions Document	SA-73	Deleted under SA-75

RESTRICTED LETTER AGREEMENTS

<u>Letter Agreement</u>	<u>Title</u>	<u>Last Updated under SA</u>	<u>Current Status</u>
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
6-1162-RLL-938	***		Inactive
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
6-1162-RLL-2037	Reconciliation of the Aircraft Basic Price	SA-1	Inactive

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<u>Letter Agreement</u>	<u>Title</u>	<u>Last Updated under SA</u>	<u>Current Status</u>	<u>SA Number</u>
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	

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ARTICLE 1. Subject Matter of Sale.

1.1 The Aircraft.

1.1.1 The Aircraft – Model 737-700 (Block A through L, Block T, and Block 700LUV). Subject to the terms and conditions of this Agreement, Boeing will manufacture and deliver to Buyer and Buyer will purchase and accept delivery from Boeing of the Boeing Model 737-7H4 aircraft listed in Table 1 and Table 1a, “Aircraft Information Table,” of this Agreement which are identified therein as the Block A through L Aircraft, Block T Aircraft (including Block T-W, T-W-1/T-W-1a, T-W-2/T-W-2a, T-W-2b, and T-W-2c), and Block 700LUV Aircraft, collectively referred to as the “737-7H4 Aircraft,” and manufactured in accordance with the configuration described in Exhibit A, Exhibit A-Winglet, Exhibit A-1-Winglet, Exhibit A-1A, Exhibit A-2, Exhibit A-3, Exhibit A-4, or Exhibit A-5 as applicable, as modified from time to time in accordance with this Agreement (**737-7H4 Detail Specification**).

1.1.2 The Aircraft – Model 737-800 (Block 800LUV). Subject to the terms and conditions of this Agreement, Boeing will manufacture and deliver to Buyer and Buyer will purchase and accept delivery from Boeing of the Boeing Model 737-8H4 aircraft listed in Table 1b, “Aircraft Information Table,” to this Agreement which are identified therein as the Block 800LUV Aircraft, referred to as the “737-8H4 Aircraft,” and manufactured in accordance with the configuration described in Exhibit A-6, as modified from time to time in accordance with this Agreement (**737-8H4 Detail Specification**).

1.1.3 The 737-7H4 Aircraft and 737-8H4 Aircraft described in this Article 1 shall be collectively referred to as the Aircraft (the **Aircraft**); and

1.1.4 The 737-7H4 Detail Specification and 737-8H4 Detail Specification described in this Article 1 shall be collectively referred to as the Detail Specification (**Detail Specification**).

1.2 Additional Goods and Services. In connection with the sale of the Aircraft, Boeing will also provide to Buyer certain other things under this Agreement, including data, documents, training and services, all as described in this Agreement.

1.3 Performance Guarantees. Any performance guarantees applicable to the Aircraft will be expressly included in this Agreement. Where performance guarantees are included in this Agreement other than within the Detail

Specification, such guarantees will be treated as being incorporated in the Detail Specification by this reference.

1.4 Defined Terms. For ease of use, certain terms are treated as defined terms in this Agreement. Such terms are identified with a capital letter and set forth and/or defined in Exhibit F.

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ARTICLE 3. Price of Aircraft.

3.1 Definitions.

3.1.1 Special Features are the features incorporated in Exhibit A, Exhibit A-Winglet, Exhibit A-1-Winglet, Exhibit A-1A, Exhibit A-3, Exhibit A-4, Exhibit A-5 or Exhibit A-6, collectively referred to as "Exhibit A," as applicable, which have been selected by Buyer.

3.1.2 Base Aircraft Price is the Aircraft Basic Price excluding the price of Special Features.

3.1.3 Aircraft Basic Price is comprised of the Base Aircraft Price and the price of the Special Features.

3.1.4 Economic Price Adjustment is the adjustment to the Aircraft Basic Price (Base Aircraft and Special Features) as calculated pursuant to Exhibit D, Exhibit D-1, or Exhibit D-2 as applicable.

3.1.5 Aircraft Price is the total amount Buyer is to pay for the Aircraft at the time of delivery.

3.2 Aircraft Basic Price.

3.2.1 The Aircraft Basic Price for Block A through L Aircraft, is expressed in July 1992 dollars.

3.2.2 The Aircraft Basic Price for Block T Aircraft, Block T-W Aircraft, Block T-W-1 Aircraft, Block T-W-1a Aircraft, Block T-W-2 Aircraft Block T-W-2a Aircraft, Block T-W-2b, and Block T-W-2c is expressed in July 1999 dollars as set forth in Table 1 of the Agreement.

3.2.3 The Aircraft Basic Price for Block 700LUV Aircraft and Block 800LUV Aircraft is expressed in July 2011 dollars as set forth in Table 1a and Table 1b, respectively, of the Agreement.

3.3 Aircraft Price. The Aircraft Price will be established at the time of delivery of such Aircraft to Buyer and will be the sum of:

3.3.1 the Aircraft Basic Price, which is *** ____ for the Block A, B, C, D and E Aircraft, *** for the Block F and G Aircraft, *** for the Block H Aircraft, *** for the Block I Aircraft,

*** for the Block J Aircraft, *** for the Block K Aircraft and *** for the Block L Aircraft, *** for the Block T Aircraft, *** for the Block T-W Aircraft, *** for the Block T-W-1 Aircraft, the Block T-W-1a Aircraft, the Block T-W-2 Aircraft, the Block T-W-2a, *** for the Block T-W-2b Aircraft, *** for the Block T-W-2c Aircraft, *** for the Block 700LUV Aircraft, and *** for the Block 800LUV Aircraft; plus

3.3.2 the Economic Price Adjustments for the Aircraft Basic Price, as calculated pursuant to the formulas set forth in Exhibit D (Price Adjustments Due to Economic Fluctuations - Aircraft) for Block A through L Aircraft; in Exhibit D-1 (Price Adjustments Due to Economic Fluctuations - Aircraft) for Block T Aircraft, Block T-W Aircraft, Block T-W-1 Aircraft, Block T-W-1a Aircraft, Block T-W-2 Aircraft, Block T-W-2a Aircraft, Block T-W-2b Aircraft, and Block T-W-2c Aircraft; and in Exhibit D-2 (Price Adjustment Due to Economic Fluctuations – Aircraft Price Adjustment) for Block 700LUV Aircraft and Block 800LUV Aircraft ; plus

3.3.3 other price adjustments made pursuant to this Agreement or other written agreements executed by Boeing and Buyer.

3.4 Advance Payment Base Price.

3.4.1 Advance Payment Base Price. For advance payment purposes, the following estimated delivery prices of the Aircraft (Advance Payment Base Price) have been established, using currently available forecasts of the escalation factors used by Boeing as of the date of signing this Agreement, or as of the date amended. The Advance Payment Base Price of each Aircraft is set forth in Table 1, Table 1a and Table 1b.

3.4.2 Adjustment of Advance Payment Base Prices - Long-Lead Aircraft (Aircraft with delivery prior to 2012). For Aircraft scheduled for delivery 36 months or more after the date of this Agreement, the Advance Payment Base Prices

appearing in Table 1 will be used to determine the amount of the first advance payment to be made by Buyer on the Aircraft. No later than 25 months before the scheduled month of delivery of each affected Aircraft, Boeing will increase or decrease the Advance Payment Base Price of such Aircraft as required to reflect the effects of (i) any adjustments in the Aircraft Basic Price pursuant to this Agreement and (ii) the then-current forecasted escalation factors used by Boeing. Boeing will provide the adjusted Advance Payment Base Prices for each affected Aircraft to Buyer, and the advance payment schedule will be considered amended to substitute such adjusted Advance Payment Base Price

**Table 1 to
Purchase Agreement No. 1810
Aircraft Information Table**

	Base Aircraft Price	Special Features	Aircraft Basic Price
Block A, B, C, D & E Aircraft	***	***	***
Block F & G Aircraft	***	***	***
Block H Aircraft	***	***	***
Block I Aircraft	***	***	***
Block J Aircraft	***	***	***
Block K Aircraft	***	***	***
Block K-W Aircraft	***	***	***
Block L Aircraft	***	***	***
Block T Aircraft	***	***	***
Block T-W Aircraft	***	***	***
Block T-W-1 / T-W-1a Aircraft	***	***	***
Block T-W-2 / T-W-2a Aircraft	***	***	***
Block T-W-2b Aircraft*	***	***	***
Block T-W-2c Aircraft***	***	***	***

notes:

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

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

Block T-W-1 / T-W-1a Aircraft: Firm Aircraft contracted to deliver from May 1, 2006 through June 2008 at the signing of SA-47 — (T-W-1a Aircraft — Advance Payment Schedule per LA 6-1162-JGM-669)

Block T-W-2 / T-W-2a Aircraft: U-W-1 Option Aircraft which became Firm Aircraft after signing of SA-47 and Firm Aircraft contracted to deliver in July 2008 forward at the signing of SA47 — (T-W-2a Aircraft — *** per LA 6-1162-JGM-669)

Exhibit A-2 applies to Block T-W-2 / T-W-2a Aircraft delivering through Dec 2009 and the first Aircraft delivering in Jan 2010

Exhibit A-3 applies to Block T-W-2 / T-W-2a Aircraft the second Aircraft delivering in Jan 2010 and on

Block T-W-2b Aircraft - *** per LA SWA-PA-1810-LA-1001315;

* Exhibit A-4 applies to Block T-W-2b Aircraft as identified in Exhibit A-4 to the Purchase Agreement^

*** Exhibit A-1A applies to Block T-W-2c Aircraft per SA69

<u>Delivery Date</u>	<u>Number of Aircraft</u>	<u>Aircraft Block</u>	<u>Escalation Adv Payment Base Price Per A/P</u>	<u>Serial Number</u>
Oct-1998	1	F	***	
Nov-1998	2	F	***	
Dec-1998	2	F	***	
Mar-1999	2	G	***	
Jun-1999	2	H	***	
Jul-1999	1	H	***	
Aug-1999	1	H	***	
Sep-1999	2	H	***	
Oct-1999	1	H	***	
Oct-1999	1	L	***	
Nov-1999	2	L	***	
Dec-1999	1	L	***	
Mar-2000	1	H	***	
Apr-2000	2	H	***	
Jun-2000	3	L	***	

**Table 1 to
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Aircraft Information Table**

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

May-2004	1	T	***
Jun-2004	2	K	***
Jun-2004	6	T	***
Jul-2004	2	K	***
Jul-2004	2	T	***
Aug-2004	6	T-W	***
Sep-2004	1	K-W	***
Sep-2004	4	T-W	***

**Table 1 to
Purchase Agreement No. 1810
Aircraft Information Table**

<u>Delivery Date</u>	<u>Number of Aircraft</u>	<u>Aircraft Block</u>	<u>Escalation Estimate Adv Payment Base Price Per A/P</u>	<u>Serial Number</u>
Oct-2004	4	K-W	***	
Oct-2004	0	T-W	***	
Nov-2004	3	T-W	***	
Dec-2004	3	T-W	***	
Jan-2005	5	T-W	***	
Feb-2005	3	T-W	***	
Mar-2005	4	T-W	***	
Apr-2005	4	T-W	***	
May-2005	2	T-W	***	
Jun-2005	4	T-W	***	
Jul-2005	2	T-W	***	
Aug-2005	2	T-W	***	
Sep-2005	3	T-W	***	
Oct-2005	2	T-W	***	
Nov-2005	2	T-W	***	
Dec-2005	1	T-W	***	
Jan-2006	1	T-W	***	
Feb-2006	4	T-W	***	
Mar-2006	3	T-W	***	
Apr-2006	2	T-W	***	
May-2006	5	T-W-1	***	
Jun-2006	5	T-W-1	***	
Jul-2006	3	T-W-1	***	
Aug-2006	3	T-W-1	***	
Sep-2006	3	T-W-1	***	
Oct-2006	1	T-W-1	***	
Nov-2006	2	T-W-1	***	
Dec-2006	2	T-W-1	***	
Jan-2007	2	T-W-1	***	
Feb-2007	3	T-W-1	***	
Mar-2007	2	T-W-1	***	
Apr-2007	3	T-W-1	***	
May-2007	3	T-W-1	***	
Jun-2007	2	T-W-1	***	
Jun-2007	1	T-W-1a	***	36528
Jul-2007	2	T-W-1	***	
Jul-2007	1	T-W-1a	***	36610
Aug-2007	2	T-W-1	***	
Aug-2007	3	T-W-1a	***	36611, 36632 & 36633
Sep-2007	2	T-W-1	***	
Sep-2007	1	T-W-1a	***	36612
Oct-2007	3	T-W-1	***	
Oct-2007	1	T-W-1a	***	36613
Nov-2007	1	T-W-1	***	
Nov-2007	1	T-W-1a	***	36614
Dec-2007	2	T-W-1	***	
Dec-2007	1	T-W-1a	***	36615
Jan-2008	1	T-W-1	***	

Jan-2008	2	T-W-1a	***	36616 & 36617
Jan-2008	1	T-W-2	***	36887
Feb-2008	1	T-W-1	***	
Feb-2008	3	T-W-1a	***	36618, 36619 & 36620
Mar-2008	1	T-W-1	***	
Mar-2008	2	T-W-1a	***	36621 & 36622
Mar-2008	1	T-W-2	***	36888
Apr-2008	1	T-W-1	***	

**Table 1 to
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Aircraft Information Table**

<u>Delivery Date</u>	<u>Number of Aircraft</u>	<u>Aircraft Block</u>	<u>Escalation Estimate Adv Payment Base Price Per A/P</u>	<u>Serial Number</u>
Apr-2008	2	T-W-1a	***	36623 & 36624
May-2008	1	T-W-1	***	
May-2008	2	T-W-1a	***	36625 & 36626
Jun-2008	1	T-W-1	***	
Jun-2008	2	T-W-1a	***	36627 & 36628
Jul-2008	2	T-W-2a	***	
Jul-2008	2	T-W-2	***	36889 & 36890
Aug-2008	1	T-W-2a	***	
Oct-2008	1	T-W-2a	***	
Nov-2008	1	T-W-2a	***	
Dec-2008	1	T-W-2a	***	
Jan-2009	1	T-W-2a	***	
Feb-2009	2	T-W-2a	***	
Mar-2009	2	T-W-2a	***	
Apr-2009	2	T-W-2a	***	
Apr-2009	1	T-W-2	***	36900
May-2009	2	T-W-2a	***	
Jan-2010	1	T-W-2	***	36913
Feb-2010	1	T-W-2a	***	36659
Mar-2010	1	T-W-2a	***	36660
Mar-2010	1	T-W-2	***	36918
May-2010	1	T-W-2a	***	36662
May-2010	1	T-W-2	***	36924
Jun-2010	1	T-W-2a	***	36663
Jul-2010	1	T-W-2a	***	36664
Aug-2010	1	T-W-2a	***	36665
Oct-2010	1	T-W-2b	***	36667
Dec-2010	1	T-W-2b	***	36668
Feb-2011	1	T-W-2b	***	36669
March-11	1	T-W-2b	***	36671
March-11	1	T-W-2c	***	36726
April-11	1	T-W-2b	***	36672
April-11	1	T-W-2c	***	33936
May-11	1	T-W-2b	***	36673
May-11	1	T-W-2b	***	41528
June-11	1	T-W-2b	***	36674
July-11	3	T-W-2b	***	36675, 36963, 36962
August-11	2	T-W-2b	***	36676, 36965
September-11	2	T-W-2b	***	36677, 36966
Oct-2011	1	T-W-2b	***	36967
Dec-2011	2	T-W-2b	***	36679, 41777

**Table 1a to
Purchase Agreement No. PA-1810
Aircraft Delivery, Description, Price and Advance Payments
Block 700LUV Aircraft**

Airframe Model/MTOW: 737-700	154500 pounds	Detail Specification:	D019A001SWA37P-1 Rev New
Engine Model/Thrust:		Airframe Base Aircraft Price Base Year/Escalation	
	CFM56-7B24	Formula:	Jul-11 ECI-MFG/CPI
Base Aircraft Price:	24000 pounds	Engine Price Base Year/Escalation Formula:	N/A N/A
Special Features:	***		
Sub-Total of Aircraft Base Price and Features:	***	Aircraft Price Escalation Data:	
Engine Price (Per Aircraft):	***	Base Year Index (ECI):	***
Aircraft Basic Price (Excluding BFE/SPE):	***	Base Year Index (CPI):	***
Buyer Furnished Equipment (BFE) Estimate:	***		
Seller Purchased Equipment (SPE) Estimate:	***		
Deposit per Aircraft:	***		

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)	Aircraft Serial Number	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
Feb-2014	4	***	36922, 36910, 35968, nf	***	***	***	***	***
Mar-2014	3	***	36943, 36927, 36925	***	***	***	***	***
Apr-2014	4	***	36944, 36929, 35971, of	***	***	***	***	***
May-2014	3	***	36946, nf, nf	***	***	***	***	***
Jun-2014	3	***	36968, 36949, 38804	***	***	***	***	***
Jul-2014	2	***	36951, 38805	***	***	***	***	***
Aug-2014	4	***	36928, 36952, 37019, 36729	***	***	***	***	***
Sep-2014	4	***	36954, 36733, of, of	***	***	***	***	***
Oct-2014	4	***	36957, 37034, 38806, of	***	***	***	***	***
Nov-2014	2	***	36971, of	***	***	***	***	***
Dec-2014	2	***	37037, of	***	***	***	***	***
Jan-2015	2	***	36899, nf	***	***	***	***	***
Feb-2015	3	***	36901, 36722, nf	***	***	***	***	***

**Table 1a to
Purchase Agreement No. PA-1810
Aircraft Delivery, Description, Price and Advance Payments
Block 700LUV Aircraft**

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)	Aircraft Serial Number	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 ***
Mar-2015	4	***	36902,36936, 36727, nf	***	***	***	***	***
Apr-2015	4	***	36649,36652, 38815, nf	***	***	***	***	***
May-2015	3	***	36903, 38817, nf	***	***	***	***	***
Jun-2015	3	***	36906, 36654, nf	***	***	***	***	***
Jul-2015	2	***	36655, nf	***	***	***	***	***
Aug-2015	3	***	36656, 35967, nf	***	***	***	***	***
Sep-2015	3	***	36657, 36730, nf	***	***	***	***	***
Oct-2015	3	***	36937, 35974, 33940	***	***	***	***	***
Nov-2015	3	***	35975, 36715, of	***	***	***	***	***
Dec-2015	3	***	36941, 36734, 35976	***	***	***	***	***
Jan-2016	2	***	36650, 36735	***	***	***	***	***
Feb-2016	3	***	36904, 36932, 36737	***	***	***	***	***
Mar-2016	2	***	36651, 36738	***	***	***	***	***
Apr-2016	3	***	36653, 36938, 36723	***	***	***	***	***
May-2016	3	***	36658, 36939, 33937	***	***	***	***	***
Jun-2016	1	***	36916	***	***	***	***	***
Jul-2016	3	***	36921, 36945, 33942	***	***	***	***	***
Aug-2016	4	***	36678, 36661, 35965, 36728	***	***	***	***	***
Sep-2016	3	***	36977, 36923, 41530	***	***	***	***	***
Oct-2016	3	***	36666, 38812, 38813	***	***	***	***	***
Nov-2016	3	***	36670, 38814, 41531	***	***	***	***	***
Dec-2016	1	***	38816	***	***	***	***	***
Jan-2017	1	***	of	***	***	***	***	***
Feb-2017	2	***	35970, of	***	***	***	***	***
Mar-2017	2	***	35972, of	***	***	***	***	***

**Table 1a to
Purchase Agreement No. PA-1810
Aircraft Delivery, Description, Price and Advance Payments
Block 700LUV Aircraft**

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)	Aircraft Serial Number	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
Apr-2017	2	***	36736, of	***	***	***	***	***
May-2017	2	***	33941, of	***	***	***	***	***
Jun-2017	2	***	35963, of	***	***	***	***	***
Aug-2017	1	***	of	***	***	***	***	***
Sep-2017	1	***	of	***	***	***	***	***
Oct-2017	1	***	of	***	***	***	***	***
Nov-2017	1	***	of	***	***	***	***	***
Jan-2018	1	***	nf	***	***	***	***	***
Feb-2018	1	***	nf	***	***	***	***	***
Mar-2018	1	***	nf	***	***	***	***	***
Apr-2018	1	***	nf	***	***	***	***	***
May-2018	1	***	nf	***	***	***	***	***
Jun-2018	1	***	nf	***	***	***	***	***
Jul-2018	1	***	nf	***	***	***	***	***
Aug-2018	1	***	nf	***	***	***	***	***
Sep-2018	1	***	nf	***	***	***	***	***
Oct-2018	1	***	nf	***	***	***	***	***
Total:	127							

**Table 1b to
Purchase Agreement No. PA-1810
Aircraft Delivery, Description, Price and Advance Payments
Block 800LUV Aircraft**

Airframe			Detail Specification:	D019A001SWA38P-1 Rev New
Model/MTOW:	737-800	174200 pounds	Airframe Base Aircraft Price Base Year/Escalation:	Jul-11 ECI-MFG/CPI
Engine Model/Thrust:	CFM56-7B26	26400 pounds	Engine Price Base Year/Escalation Formula:	N/A N/A
Base Aircraft Price:		***		
Special Features:		*** Notes 1 & 2		
Sub-Total of Aircraft Base Price and Features:		***	Aircraft Price Escalation Data:	
Engine Price (Per Aircraft):		***	Base Year Index (ECI):	***
Aircraft Basic Price (Excluding BFE/SPE):		***	Base Year Index (CPI):	***
Buyer Furnished Equipment (BFE) Estimate:		***		
Seller Purchased Equipment (SPE) Estimate:		***		
Deposit per Aircraft:		***		

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)	Price	Notes	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
Mar-2012	1	***	36680	Note 1 & 3	***	***	***	***	***
Mar-2012	1	***	36980	Note 2 & 3	***	***	***	***	***
Apr-2012	3	***	36681, 36983, 36683	Note 3	***	***	***	***	***
May-2012	3	***	36682, 36985, 36987	Note 3	***	***	***	***	***
Jun-2012	4	***	38807, 38808, 38809, 38810	Note 3	***	***	***	***	***
Jul-2012	3	***	36684, 36990, 38811	Note 3	***	***	***	***	***
Aug-2012	2	***	36685, 36992	Note 3	***	***	***	***	***
Sep-2012	2	***	36686, 36994	Note 3	***	***	***	***	***
Oct-2012	3	***	36687, 36997, 35966	Note 3	***	***	***	***	***
Nov-2012	3	***	37005, 37003, 35969	Note 3	***	***	***	***	***
Dec-2012	3	***	37006, 37009, 38818	Note 3	***	***	***	***	***

**Table 1b to
Purchase Agreement No. PA-1810
Aircraft Delivery, Description, Price and Advance Payments
Block 800LUV Aircraft**

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)	Aircraft Serial Number	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
Jan-2013	4	***	36891, 36634, 35964, 36638	***	***	***	***	***
Feb-2013	2	***	36635, 36893	***	***	***	***	***
Mar-2013	2	***	36892, of	***	***	***	***	***
Apr-2013	2	***	of, of	***	***	***	***	***
May-2013	3	***	36894, of, cqt opt	***	***	***	***	***
Jun-2013	2	***	36895, 36896	***	***	***	***	***
Jul-2013	3	***	36897, nf, cqt opt	***	***	***	***	***
Aug-2013	4	***	36898, 36905, nf, nf	***	***	***	***	***
Sep-2013	4	***	36907, 36911, of, nf	***	***	***	***	***
Oct-2013	5	***	36912, 36914, 35973, of, nf	***	***	***	***	***
Nov-2013	5	***	36915, 33939, nf, nf, nf	***	***	***	***	***
Dec-2013	5	***	36917, 36919, 36731, nf, nf	***	***	***	***	***
Jan-2014	4	***	36920, 36909, 36732, nf	***	***	***	***	***
Total:	73							

Notes:

- 1) ***
- 2) ***
- 3) ***

737-7H4

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Exhibit A-5 to Purchase Agreement Number 1810

Block 700LUV Aircraft

P.A. No. 1810

A-5- 1

SA-75

AIRCRAFT CONFIGURATION

Dated December 13, 2011

relating to

BOEING MODEL 737-7H4 AIRCRAFT
Block 700LUV Aircraft

The Detail Specification is Boeing document number D019A001SWA37P-1 Rev NEW, dated as of September 23, 2010. The Detail Specification provides further description of Buyer's configuration set forth in this Exhibit A-5. Such Detail Specification will be comprised of Boeing Configuration Specification D019A001, Rev H dated as of November 18, 2005 as amended to incorporate the Special Features listed in this Exhibit A-5, 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.

**Exhibit A-5
Block 700LUV Aircraft**

<u>Config Item No.</u>	<u>Title</u>	<u>2011S Price per A/C</u>
0000DC3182	MISCELLANEOUS DEVELOPEMENT CHANGES	***
0110CG3018	737-700 CONFIGURATION	***
0221A599A80	WET GROOVED RUNWAY OPERATIONS WITHANTISKID SYSTEM INOPERATIVE CERT.	***
0252MP3132	DISPATCH W/GEAR DWN FOR REVENUE FLT	***
0310CH3332	MTOGW TO 138,500	***
0315B572C40	MP - OPERATIONAL WEIGHTS - INCREASE MTOW	***
0352CG3023	A/P LOAD SYS WT. & BALANCE CONTROL	***
0370B572B79	MP - STRINGER DAMPING - REMOVE BETWEEN STATIONS 540-727	***
0370CH3014	AIR CONDITIONING TRANSITION DUCT UNDER FLOOR - ADD 17 MIL DAMPINGTAPE FOR NOISE REDUCTION	***
0370CH3019	INSTALLATION OF STRINGER DAMPING FROM STATION 540-727	***
1110A034B37	EXTERIOR COLOR REVISION	***
1110A077A10	EXT MARKINGS PRIMER REVISIONS	***
1110B458A27	MP - EXTERIOR MARKINGS AND PLACARDS REVISION	***
1110B642K10	MP - EXTERIOR COLOR SCHEMES AND MARKINGS - REVISION - PAINT SYSTEM PRIMER - SPE	***
1110B645J06	MP - EXTERIOR COLOR SCHEMES AND MARKINGS - REVISION - PRC DESOTO CA8800 DECORATIVE PAINT TOPCOAT	***
1110CH3003	EXT DECOR PAINT-CROWN METRO	***
1110MP3290	EXT DECO FNSH-DESOTO H.S TPCOAT	***
1110MP3354	EXTERIOR DECOR.FINISH-HS TOPCOATIN LIEU OF EXISTING TOPCOAT	***
1110MP3388	FLAP TRACK FAIRINGS -PAINT	***
1130A599A55	AFT CLOSET PLACARD-COLOR CHANGE	***
1130C410C11	MP - PLACARDS AND MARKINGS - INSTALLATION - INTERIOR PLACARDS - SWA	***
2123CH3042	AIR CONDITIONING SYSTEM REVISION -737-200 TYPE GASPER SYSTEM	***
2130A610B77	CABIN PRESSURE DESCENT RATE REV	***
2160CG3011	CABIN TEMPERATURE INDICATOR - DEGREES FAHRENHEIT IN LIEU OFCELSIUS	***
2210CG3204	DIGITAL FLIGHT CONTROL SYSTEM (DFCS) - PADDLE AUTOPILOT ENGAGEMODE CONTROL PANEL	***
2210MP3227	DFCS PUSH BUTTON AUTOPILOT ENGAGE	***
2230CH3028	AUTOTHROTTLE DEACTIVATION - UNIT TO REMAIN INSTALLED AND BITEFEATURES OPERATIONAL	***
2312B696C02	MP - VHF COMMUNICATIONS - INSTALLATION OF TRIPLE HONEYWELL RTA-44D VHF SYSTEM WITH ARINC 750 VDL MODE 2 CAPABLE TRANSCEIVERS P/N 064-50000-2000 - BFE	***
2312CH3284	DUAL VHF COMMUNICATIONS - INSTALLATION - BFE ALLIEDSIGNAL/GABLESENGINEERING INC	***
2318A599A08	CABIN TELECOMMUNICATION-REV-PHONECABLES-BFE	***
2318A599A67	PHONE SYS COMPONENT DELETION	***
2318B815C19	MP - TELEPHONE AND BEARER RADIO - PARTIAL PROVISIONS - DELETE	***
2319CH3020	CLAIRCOM AIR TO GROUND PASSENGER COMMUNICATION SYSTEM - COMPLETEBFE INSTALLATION PROVISIONS	***
2319MP3021	CLAIRCOM PHONES - CANCEL INSTALL.	***
2319MP3043	AT&T WIRELESS PHN SYST. INSTAL&CERT	***
2319MP3051	AT&T WIRELESS PHN SYSTEM-PART. REV.	***
2319MP3105	AT&T WIRELESS AIR TO GRND PHONE SYS	***
2320A150E34	MP- DELETION OF ATSCALL PARTIAL PROVISIONS FROM AFT ELECTRONICS PANEL	***
2320CH3020	ATSCALL INSTALLATION - PARTIAL PROVISIONS - AFT ELECTRONICS PANEL	***
2321CH3498	SELECTIVE CALLING EQUIPMENT - SELCAL - DELETE PARTIAL PROVISIONS	***
2322A150E39	MP- COMMUNICATIONS MANAGEMENT UNIT (CMU) -PARTIAL PROVISIONS FOR SINGLE ARINC 758 CMU	***
2322B696C01	MP - ACARS - HONEYWELL ARINC 758 LEVEL AOA MARK III COMMUNICATIONS MANAGEMENT UNIT (CMU) - INSTALLATION INTO EXISTIN PARTIAL PROVISIONS - BFE	***
2331CH3158	DELETION OF BFE MATSUSHITA PASSENGER ADDRESS TAPE REPRODUCER	***
2331CH3159	PASSENGER ADDRESS SYSTEM - COLLINSARINC 700 IN LIEU OF COLLINSARINC 560	***
2340MP3095	REV BFE BOOM MICROPHONE/HEADSET	***
2342MP3011	FLT ATT HNDSET REV TO FUNCT & FACEP	***
2350CH3139	PA MICROPHONE - ADD ELECTROVOICE P/N 602-4183	***
2350CH3162	DTMF MICROPHONE INSTALLATION - FIRST OBSERVER	***

**Exhibit A-5
Block 700LUV Aircraft**

2350CH3163	DIGITAL AUDIO REMOTE ELECTRONICS UNIT REVISION TO DELETE HEADSETAURAL ALERTS	***
2350MP3220	DIGITAL AUDIO REMOTE ELETRON-ADD	***
2351A599A29	BSS-HEADPHONE 1ST OBSERVER-REPLACE	***
2351A802B31	HAND HELD MICROPHONE CAP AND IST OFFICER DELETE	***
2351B162A52	HEADPHONE TELEX 616500-001	***
2370CG3166	SOLID STATE VOICE RECORDER - INSTALLATION - BFE ALLIEDSIGNAL INC	***
2371A051B44	SOLID STATE VOIC RECORDER	***
2400C410B99	MP - ELECTRICAL POWER - SPARE WIRE INSTALLATION TO FACILITATE POST DELIVERY MEDICAL COMMUNICATIONS SYSTEM	***
2500C547A51	MP - ATTENDANT AND PASSENGER LIFE VESTS - INSTALLATION - HOOVER INDUSTRIES - BFE	***
2500CH3453	DOOR WARNING STRAP - SHOCK CORD	***
2501CH3076	FORWARD MODULE WITH GALLEY G1 AND LAVATORY LA	***
2501MP3080	REVISE FORWARD MODULE WITH GALLEY G1 AND LAVATORY LA FROM SEATTRACK MOUNT TO HARDPOINT	***
2502CH3066	AFT MODULE WITH GALLEY G3, G4 AND LAVATORY LB	***
2502MP3069	REV MODUL WITH GALLEY G3, 4, & LAV	***
2510CH3058	FLIGHT COMPARTMENT - MISCELLANEOUSREVISIONS	***
2510CH3059	TRIP COUNTER REVISION - SFE - DEXTER WILSON	***
2510CH3060	CONTROL COLUMN CHECKLIST DELETION	***
2511A599A02	FLIGHT DECK-PADDED ROTARY BUCKLE	***
2511CG3057	SECOND OBSERVER'S STATION	***
2511CH3059	LOG BOOK POCKET INSTALLATION - ON SECOND OBSERVERS SEAT LEGS	***
2513B696E90	MP - LOG BOOK HOLDER - RELOCATION - FROM SECOND OBSERVER'S SEAT LEGS TO AFT FACE OF P8 AISLESTAND	***
2513B696E96	MP - FLIGHT COMPARTMENT ACCOMMODATIONS - INSTALLATION - FUEL CONVERSION PLACARD ON THE FACE OF CAPTAIN AND FIRST OFFICER'S CLIPBOARDS	***
2513C410C23	MP - FLIGHT COMPARTMENT ACCOMMODATIONS - INSTALLATION - EMERGENCY EVACUATION CHECKLIST PLACARD ON THE CAPTAIN AND FIRST OFFICERS CONTROL COLUMNS	***
2520A092119	INTERIOR COLOR AND MATERIAL REV	***
2520B642I61	MP - GALLEY MAT REVISION - REVISION - BFE	***
2520B642N11	MP - INTERIOR COLOR REVISION - AFT LEFTHAND CLOSET	***
2520CH3538	INTERIOR ARRANGEMENT - 137 TOURISTCLASS AT 33/32" PITCH WITH LAVSLA AND LB AND GALLEYS G1, G3 AND G4	***
2520MP3667	REV. STOW BIN ADD BULLNOSE ON INBRD	***
2523CH3109	PSU REVISION - ADD PLACARD TO PASSENGER VIEWING SURFACE IN LOUNGEAREAS ONLY	***
2523CH3112	INSTALL NON STANDARD COLOR PSU	***
2523MP3119	REVISION INTERIOR ARRANGEMENT	***
2524A599A45	DECO LAMINATE W/GRAPHIC FOR BFEWINDSCREEN	***
2524A694H23	AFT CENTERLINE CLOSET REVISION FROMMISC STOWAGE TO TRASH STOWAGE	***
2524B643D06	MP - FULL HEIGHT WINDSCREEN/CLOSET - AFT LH - REVISION - BFE	***
2524CH3431	BFE FWD RIGHT HAND WINDSCREEN/STOWAGE UNIT IN LIEU OF SFE	***
2524MP3488	FULL HGT BFE STOW UNIT REV ADD BFE	***
2524MP3500	REV PARTITION DECOR COVERING ULTRA	***
2524MP3513	EMERGENCY QUIPMENT BRACKET COMMONALITY-SFE	***
2525A599A17	ECONO CLASS PASS SEATING-REV	***
2525B645F30	MP - ECONOMY CLASS PASSENGER SEATS - REVISION - 3 INCH RECLINE IN LIEU OF 4 INCH RECLINE	***
2525MP3159	REV PAX SEAT ALL F/W FACING W/ 137	***
2528CH3189	SFE HALF HEIGHT STOWAGE UNIT/WINDSCREEN - AFT LH CABIN WITH THEAFT FACE AT STATION 955 - WITH MEGAPHONE	***
2528CH3191	SFE FULL HEIGHT STOWAGE UNIT/WINDSCREEN - FWD LH CABIN WITH THEAFT FACE AT STATION 355	***
2528CH3194	BFE HALF HEIGHT STOWAGE UNIT/WINDSCREEN - AFT LH CABIN WITH THEAFT FACE AT STATION 955 - WITH MEGAPHONE	***
2528CH3195	BFE FULL HEIGHT STOWAGE UNIT/WINDSCREEN IN LIEU OF SFE - FWD LHCABIN WITH THE AFT FACE AT STATION355	***
2528MP3205	CREW LUGGAGE SECURITY DEVISE	***
2528MP3217	CREW LUGGAGE SECURITY DEVICE	***

**Exhibit A-5
Block 700LUV Aircraft**

2529A699A57	ASSIST HANDLE-COLOR CHANGE	***
2529A802A85	WARNING STRAP RING-COLOR CHANGE	***
2530MP3613	REV G3 EXT DECOR COVERING ULTRALEAT	***
2530MP3860	BFE GALLEY REV COMOSITES UNLIM	***
2540C426C65	MP - LA LAVATORY SELECTABLES - INSTALLATION - BABY CARE TABLE	***
2540C547C53	MP - LA AND LB LAVATORIES - REVISION - ADD DEODRANT DISC BRACKET AND DELETE BAR SOAP AND PAPER CUP PROVISIONS	***
2541CH3034	LIQUID SOAP DISPENSER INSTALLATION	***
2550CH3153	CARGO COMPARTMENT LINING REVISION	***
2550CH3233	FWD AND AFT CARGO COMPARTMENT FLOOR PANEL REVISION - ALUMINUMPANELS IN LIEU OF CONOLITE AT ENTRYWAY	***
2550MP3259	TRANSVERSE CARGO NET INSTALLATION - FORWARD AND AFT CARGOCOMPARTMENTS	***
2550MP3267	FORWARD AND AFT CARGO COMPARTMENT CARGO RESTRAINT SYSTEM	***
2550MP3355	FRWRD & AFT CARGO CMPRTMNT	***
2560B696E74	MP - CREW LIFE VESTS - INSTALLATION - FLIGHT DECK WITH SECOND OBSERVER - HOOVER INDUSTRIES P/N HS3701C-SWA - BFE	***
2566A077A03	ESCAPE SLIDES COMPARTMENTS SFE TOBFE B.GOODRICH INSTALLED	***
2566A802C31	MP - ESCAPE SLIDES/COMPARTMENTS - CHANGE FROM BFE TO SFE - BF GOODRICH - INSTALLED	***
2622CH3013	APU FIRE BOTTLE REVISION - INTERCHANGEABLE WITH ENGINE BOTTLE	***
2841CG3095	FUEL QUANTITY INDICATORS ON RIGHT WING FUELING PANEL	***
2844CG3038	MEASURING STICK CONVERSION TABLES TO U.S. GALLONS	***
2910CG3087	ENGINE DRIVEN HYDRAULIC PUMP WITH VESPEL SPLINE - VICKERS10-62167-3 IN LIEU OF ABEX 10-62167-2	***
2910CH3082	HYDRAULIC PUMPS - AC ELECTRIC MOTOR DRIVEN - VICKERS IN LIEU OF ABEX	***
3040CH3041	INSTALL A TWO LRU WINDOW HEAT CONTROL SYSTEM - PED 1231-1 IN LIEUOF TBD	***
3040MP3049	INSTL 4 UNIT WINDOW HEAT CNTRL SYS	***
3040MP3053	INSTALL A BFE WINDOW HEAT CONTROLSYSTEM OLIN 231-3 IN LIEU OF 231-2	***
3041A034B24	INSTALL PRIMEX WINDOW HEAT CONT SYS	***
3041B458A01	WINDOW HEAT CONTROL STANDARD BFE	***
3043MP3022	REV WINDSHIELD WIPER SWTCH SINGLE	***
3120CH3016	CLOCK WIRING REVISION - FMC, DFDAUAND VOICE RECORDER INPUT FROMFIRST OFFICER'S CLOCK IN LIEU OF CAPTAIN'S CLOCK	***
3131A802B13	D.F.D.A.U.-HONEYWELL-BFE	***
3131CG3673	ACCELEROMETER - INSTALLATION - BFEALLIEDSIGNAL INC	***
3131CG3692	SOLID STATE DIGITAL FLIGHT DATA RECORDER - INSTALLATION - BFESUNDSTRAND - 128 WPS	***
3131CH3721	DIGITAL FLIGHT DATA ACQUISITION UNIT (DFDAU) - INSTALLATION - BFEALLIEDSIGNAL	***
3133A150E33	MP - INSTALLATION OF ARNIC 740 PRINTER PROVISIONS IN THE FLIGHT DECK AISLESTAND	***
3162A066A15	REVERSE VIDEO DISPLAY-COMMON DISPLASYS FAULT MESSAGE	***
3162A066A27	ILF LOCALIZER DEVIATION EXPANDEDSCALE	***
3162CG3013	EFIS/MAP DISPLAY FORMAT	***
3162CG3016	FLT DRCTR COMND DSPL-FIL INTGRT CUE	***
3162CG3017	MACH AIRSPEED DISPLAY	***
3162CG3019	RADIO ALTITUDE DISPLAY - ROUND DIAL	***
3162CG3020	RADIO ALTITUDE - ABOVE ADI	***
3162CG3022	RISING RUNWAY DISPLAY	***
3162CG3025	RADIO ALTITUDE HEIGHT ALERT DISPLAY - 2500 FEET	***
3162CG3026	ATTITUDE COMPARATOR - STEADY	***
3162CG3029	LOCALIZER BACKCOURSE POLARITY - REVERSAL	***
3162CG3032	MAP MODE ORIENTATION - TRACK UP	***
3162CG3038	MANUALLY TUNED VOR SELECTED COURSELINES - DISPLAYED	***
3162CG3041	ADF POINTER(S) IN MAP MODE - SUPPRESSED	***
3162CG3042	POSITION DIFFERENCE - AUTOMATIC DISPLAY	***
3162CG3046	WEATHER RADAR MODE/GAIN/TILT ANGLE- DISPLAYED	***
3162CG3050	TCAS TRAFFIC ON MAP	***
3162CG3052	TCAS RESOLUTION ADVISORY ON ADI	***
3162CG3053	TCAS RESOLUTION ADVISORY ON IVSI	***
3162CG3057	ANALOG FAILURE FLAGS-DISPLAYED	***
3162CH3066	MACH AIRSPEED INDICATOR BUG #5 - 80 KNOTS	***
3162CH3068	SUPPLEMENTAL METRIC DATA INDICATIONS - DEACTIVATION	***

**Exhibit A-5
Block 700LUV Aircraft**

3162CH3075	EFIS CONTROL PANEL - EFIS/MAP DISPLAY FORMAT	***
3162MP3128	DELETE ANALOG FAILURE FLAG	***
3162MP3129	SUPP METRIC DATA INDICATIONS ACTIV	***
3162MP3131	ENHANCED MACHINE AIRSPEED DISPLAY	***
3162MP3132	WX RADAR RANGE INDICATORS RANGE MRK	***
3240CH3220	NOSE LANDING GEAR WHEELS - BENDIX	***
3240CH3221	MAIN LANDING GEAR WHEELS AND BRAKES - BENDIX	***
3240MP3258	INSTL NOSE LANDING GEAR ALLIED SIGN	***
3240MP3288	NOSE LDG GEAR INSTL - 700 WHEELSILO -300 WHEELS	***
3245CH3029	TIRES - INSTALLATION OF SFE GOODYEAR TIRES	***
3321A694H26	COOL WHITE LIGHTS IN LIEU OF WARMWHITE PASSENGER CABIN	***
3321A802A50	PASS CABIN LIGHTING-TRIM COLOR CHGE	***
3324A092K63	PASS CAB INSTAL-NO SMOKING PERMANILLUMINATION	***
3324C547B16	MP - INFORMATION SIGNS - DEACTIVATION - PERMANENT SILKSCREENING OF NO SMOKING SYMBOL AND ADDITION IF KUFV VEST PLACARDING	***
3324CH3010	CEILING MOUNTED LIGHTED EXIT SIGN - RELOCATION	***
3343CH3034	ANTI-COLLISION LIGHT - SWITCH NOMENCLATURE REVISION	***
3345CH3020	LOGO LIGHTS - SYSTEM DEACTIVATION	***
3345MP3029	REACTIVATION OF LOGO LIGHTS	***
3350MP3079	EGRESS LIGHTING REVISION TOACCOMODATE ALL FOWARD FACINGSEAT CONFIGURATION.	***
3423CH3021	INSTALL BFE STANDBY ATTITUDE INDICATOR WITHOUT ILS DEVIATIONDISPLAY IN LIEU OF SFE INDICATOR	***
3423CH3026	STANDBY INDICATOR - SFE SEXTANT INLIEU OF BFE JET	***
3430B696D36	MP - ILS/GPS MULTI-MODE RECEIVER (MMR) - REVISION - HONEYWELL MMR IN LEIU OF ALLIEDSIGNAL MMR - BFE	***
3430MP3061	MULTI-MODE RECEIVER (MMR) - INSTALLATION OF ILS/GPS - BFEALLIEDSIGNAL INC	***
3430MP3069	MMR-GPS PROVISIONS-REP OF OH GPS	***
3431CG3051	ILS - INSTALLATION - BFE ALLIEDSIGNAL INC	***
3431MP3072	ILS-DELETION OF EXISTING ILS RECEIV	***
3433CG3058	LOW RANGE RADIO ALTIMETER (LRRA) -INSTALLATION - BFE ALLIEDSIGNALINC	***
3435CH3028	FLIGHT DYNAM.CAPTAIN ONLY HEAD UPGUIDANCE SYSTEM-PART PROVISIONS	***
3435MP3035	HEAD UP GUIDANCE SYS - BFE INSTL	***
3436A034B19	INSTALL 1500-1730-002 HUD COMPUTER	***
3436A150D47	HEAD UP GUIDANCE SYS-INSTALL FLTDYNAMICS HGS COMPUTER	***
3436A599A59	HEAD UP DISPLAY (HUD) PARTIAL PROVIS FOR CAT IIIA HGS 2350 FLT DYNAMIC	***
3436B572D13	MP - HEAD UP DISPLAY (HUD) SYSTEM - REPLACEMENT - FLIGHT DYNAMICS PHASE 3 HGS4000 SYSTEM INTO EXISTING COMMON HUG PARTIAL PROVISIONS IN LIEU OF HGS2350 HUD SYSTEM - BFE	***
3443CH3118	WEATHER RADAR SYSTEM - ARINC 708A SINGLE WEATHER RADAR SYSTEM WITHPREDICTIVE WINDSHEAR - PARTIAL PROVISIONS	***
3443CH3154	ARINC 708 WEATHER RADAR SYSTEM - INSTALLATION - BFE ALLIEDSIGNALINC (WITH DEACTIVATED PREDICTIVE WINDSHEAR FEATURE R/T RDR-4B)	***
3445B363B10	TRAFFIC ALERT & AVOIDANCE SYSTEM	***
3445B370E27	MP - TCAS SYSTEM - REPLACEMENT - HONEYWELL TCAS COMPUTER - TCAS CHANGE 7 COMPLIANT - HONEYWELL - BFE	***
3445CH3197	TCAS II - INSTALLATION - BFE ALLIEDSIGNAL INC	***
3446A561D04	EGPWS-ACTIVATION-PEAKS & OBSTACLESFEATURE	***
3451CG3005	VOR/MARKER BEACON - INSTALLATION -BFE ALLIEDSIGNAL INC	***
3455CG3120	DISTANCE MEASURING EQUIPMENT (DME)- INSTALLATION - BFEALLIEDSIGNAL INC (SCANNING)	***
3457B696A23	ADF PARTIAL PROVS ILO SGL SYS	***
3457CG3088	AUTOMATIC DIRECTION FINDER (ADF) -INSTALLATION - BFE ALLIEDSIGNALINC	***
3457CG3092	AUTOMATIC DIRECTION FINDER (ADF) CONTROL PANEL - INSTALLATION -BFE GABLES ENGINEERING INC	***
3457MP3132	ADD ADF CNTRL PANEL REV GABLES ILO	***
3457MP3133	ADD ADF ANTENNA REV ALLIED SIG ILO	***
3458CH3091	GPS PROVISIONS - ADD COMPONENTS REQUIRED TO PROVIDE COMPLETEPROVISIONS	***
3458CH3091.1	GPS PROVISIONS - ADD COMPONENTS REQUIRED TO PROVIDE COMPLETEPROVISIONS	***
3458CH3092	GLOBAL POSITIONING SYSTEM (GPS) - INSTALLATION - HONEYWELL INC(SUPPLEMENTAL NAVIGATION CERTIFICATION)	***
3461A051B70	FMC COLOR CDU/MCDU OPERATION ENABLE	***

**Exhibit A-5
Block 700LUV Aircraft**

3461A150D31	MP - FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - INSTALLATION OF DUAL FMC'S AND MCDU'S IN LIEU OF EXISTING DUAL FMC'S AND CDU'S - SFE	***
3461A150D32	FMC SYS AIRLINE OPERATIOINALCOMMUNICATIONS DATA LINK	***
3461CG3403	BUYER FURNISHED NAVIGATION DATA BASE	***
3461CH3485	VERTICAL NAVIGATION (VNAV) ACTIVATE/DEACTIVATE SERVICE BULLETIN	***
3461CH3489	FLIGHT MANAGEMENT COMPUTER SYSTEM REVISION - CERTIFICATION FORSINGLE COMPUTER OPERATION ONLY	***
3461MP3496	INSTALL FMC-SECOND 4MCU, UPDATE10 FMC W/256K NAVAGATION DATABASEINTO EXISITING PARTIAL PROVISIONS	***
3510CG3089	CREW OXYGEN - 114 CU. FT. IN LIEU OF 76 CU. FT. CYLINDER	***
3830MP3025	INSTL PNEUDRAULICS 4" SERV PANL LAV	***
3831MP3019	REV GRAY WATER DRAIN ROUT LEVEL LIN	***
3832CH3071	VACUUM LAVATORY SYSTEM IN LIEU OF RECIRCULATING LAVATORY - LAVS AAND B	***
3910A150E36	MP- AFT ELECTRONICS PANEL ARRANGEMENT-SOUTHWEST AIRLINES	***
3910CH3113	RELOCATE ATC CONTROL PANEL	***
3910CH3122	AFT ELECTRONICS PANEL ARRANGEMENT	***
4960MP3024	APU SOFTWARE LOADING-ONBOARD FROMFLIGHT DECK	***
5100CH3026	ADDITIONAL CORROSION PROTECTION BENEATH GALLEYS AND LAVS	***
5100CH3027	FWD AND AFT CARGO DOOR REVISION - INSTALL HEAVY DUTY SKIN	***
5100MP3030	REMOVE ADD CORR PROT. ADDED BY CR	***
5220MP3012	OVER/WNG HATCH ASSIST HNDLE REV INS	***
5310A599A04	RADOME-WEATHERMASTER-REV-EXT MKG	***
5312MP3004	INSTAL OF SFE WEATHERMASTER RADOMEIN LIEU OF SFE BASIC RADOME	***
5352A599A07	MP - RADOME INSTALL-REV-WEATHERMASTER UNPAINTED	***
5730B502D20	PRODUCTION INSTALLATION OF BFE WINGLETS	***
7200B572C87	MP - ENGINE - CFM56-7 ENGINES - 7B24 RATING IN LIEU OF 7B22	***
7200CG3244	A/P PRFRMC:CFM56-7 ENG W/THRUST 22K	***
7731MP3049	EVM SYST WITH ON-BOARD TRIM & BAL	***
7900CG3026	LUBRICATING OIL - ESSO/EXXON TURBOOIL 2380	***
MISC DOOR	FAA FLIGHT DECK DOOR	***
MISC/FAA4	FLAME PROPAGATION - INSULATION BLANKETS	***
Sub-Total Changes - Special Features-Exhibit A		***

Additional Master Change and Record Options		
1110C547C48	MP - EXTERIOR COLOR SCHEME AND MARKINGS - REVISION - ADDED US FLAG DECAL	***
1110C882K55	MP - EXTERIOR COLOR SCHEMES AND MARKINGS - REVISION - ADDITIONAL TOPCOAT	***
1130C882P15	MP - INTERIOR PLACARDS - REVISION - FRONT-ROW PLACARDS	***
2210A083A47	MP - AUTOFLIGHT - MODE CONTROL PANEL WITH SPEED AND ALTITUDE INTERVENTION	***
2210C430A09	MP - AUTOFLIGHT - GO-AROUND ROLL MODE - LNAV	***
2230A051B46	MP - AUTOTHROTTLE - FMCS - TAKEOFF PROFILE THRUST REDUCTION ALTITUDE	***
2230B696L43	MP - AUTOTHROTTLE - ACTIVATE AUTOTHROTTLE FUNCTIONALITY	***
2322C430J31	MP - COMMUNICATIONS MANAGEMENT UNIT (CMU) - REVISION - PARTIAL PROVISIONS - WIRING FOR VOICE RECORDER INTERFACE	***
2351A146A24	MP - CONTROL WHEEL PUSH TO TALK (PTT) SWITCH - REVISION - THREE POSITION WITH DETENT IN INTERPHONE POSITION	***
2371C593G95	MP - VOICE RECORDER - INSTALLATION - RECORDER INDEPENDENT POWER SUPPLY (RIPS) - AFT LOWERED CEILING	***
2433B696M14	MP - STANDBY BUS - LOADS ADDITION - CAPTAIN'S FMC, MCDU AND CDS INBOARD DISPLAY UNIT	***
2500C882N30	MP - GALLEYS AND WINDSCREENS - REPLACEMENT - DITCH AND POT COMPLIANT - COMPOSITES UNLIMITED - BFE	***
2500C882P06	MP - INTERIOR ARRANGEMENT - REVISION - PASSENGER SERVICE UNIT SIGNS	***
2500C882P55	MP - INTERIOR ARRANGEMENT - REPLACEMENT - GALLEYS AND CLOSET - COMPOSITES UNLIMITED - BFE	***
2525C882G60	RO - PASSENGER COMPARTMENT SEATS - REPLACEMENT - B/E AEROSPACE - BFE	***
2525C882N31	MP - ECONOMY CLASS PASSENGER SEATS - DELETION - INFLATABLE SEAT BELTS	***
2528C882L97	MP - OVERHEAD STOWAGE COMPARTMENTS - DELETION - MAGAZINE RACK	***
2540C806K50	MP - LAVATORIES - REPLACEMENT - SOAP DISPENSER	***
2560C410D13	MP - EMERGENCY EQUIPMENT - LIFE VESTS - REPLACEMENT - EASTERN AERO MARINE INC - BFE	***

**Exhibit A-5
Block 700LUV Aircraft**

3131B696M55	MP - DIGITAL FLIGHT DATA ACQUISITION UNIT (DFDAU) - REVISION - INSTALL P/N 967-0212-050 IN LIEU OF P/N 967-0212-002 AND ACTIVATE -3C DATA FRAME IN LIEU OF THE EXISTING -3B DATA FRAME - HONEYWELL - BFE	***
3131C430J20	MP - DIGITAL FLIGHT DATA RECORDER (DFDR) - REPLACEMENT - DFDR - L-3 COMMUNICATIONS P/N 2100-4045-22 WITH 1024 WPS MAXIMUM DATA RATE IN LIEU OF EXISTING HONEYWELL P/N 980-4700-042 WITH 256 WPS MAXIMUM DATA RATE - BFE	***
3131C430J33	MP - DIGITAL FLIGHT DATA ACQUISITION UNIT (DFDAU) - REPLACEMENT - TELEDYNE DFDAU WITH 512 WPS CAPABILITY AND 737-7 DATAFRAME ACTIVE IN LIEU OF EXISTING HONEYWELL DFDAU - BFE	***
3162B696M54	MP - COMMON DISPLAY SYSTEM (CDS) DISPLAY FORMAT - PFD/ND IN LIEU OF EFIS/MAP WITH SIDE-BY-SIDE ENGINE DISPLAY	***
3436C465E64	MP - HEAD UP DISPLAY (HUD) - REPLACEMENT - COMBINER - STC CERTIFIED - ROCKWELL COLLINS INC - BFE	***
3446B696L55	MP - GROUND PROXIMITY WARNING SYSTEM - ACTIVATION - ALTITUDE CALLOUTS - 100, 50, 30, 10	***
3461B372G37	MP - FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - SPEED PROPAGATION FROM THE CRUISE PAGE TO THE DESCENT PAGE - ENABLE	***
3461B696K98	MP - FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - REVISION - VERTICAL RNP DEFAULT VALUE	***
3461B696L42	MP - FLIGHT MANAGEMENT COMPUTING SYSTEM (FMCS) - ACTIVATE/DE-ACTIVATE OPTIONAL FEATURES	***
3461B696M50	RO - FLIGHT MANAGEMENT COMPUTING SYSTEM (FMCS) - INTENT DATA TRANSMITTED VIA THE FMC INTENT DATA DEDICATED OUTPUT BUS - ENABLE	***
3461C430H18	RO - FLIGHT MANAGEMENT COMPUTING SYSTEM (FMCS) - INTENT DATA TRANSMITTED TO ACARS - ENABLE	***
3461C430J06	MP - FLIGHT MANAGEMENT COMPUTING SYSTEM (FMCS) - INHIBIT - VOR UPDATING	***
3461C430J07	MP - FLIGHT MANAGEMENT COMPUTING SYSTEM (FMCS) - ENABLED - DEFAULT DME UPDATE ON SOFTWARE OPTION	***
3461C910A43	MP - FLIGHT MANAGEMENT COMPUTING SYSTEM (FMCS) - DE-ACTIVATE OPTIONAL FEATURE	***
3461C910D45	MP - FLIGHT MANAGEMENT COMPUTING SYSTEM (FMCS) - INSTALLATION - FMC OPERATIONAL PROGRAM SOFTWARE (OPS) UPDATE U10.7 IN LIEU OF UPDATE U10.8A	***
7900C910C58	MP - LUBRICATING OIL - REVISION - MOBIL JET II IN LIEU OF BP TURBO OIL 2380	***
MISC/FAA5	MISC/FAA5 - FIRE PENETRATION - BURNTHROUGH FAR 25.865(B)	***
Total		***
Grand Total		***

737-8H4

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Exhibit A-6 to Purchase Agreement Number 1810

Block 800LUV Aircraft

P.A. No 1810

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SA-75

AIRCRAFT CONFIGURATION

Dated December 13, 2011

relating to

BOEING MODEL 737-8H4 AIRCRAFT

The Detail Specification is Boeing document number D019A001SWA38P-1 Rev NEW, to be released on or about November 28, 2011. The Detail Specification provides further description of Buyer's configuration set forth in this Exhibit A-6. 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-6, 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.

P.A. No. 1810

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SA-75

**Exhibit A-6
737-800 Aircraft
Block 800LUV Aircraft**

Change No.	Title	2011 \$ A/P #1 Price Per A/C	2011 \$ A/P #2 F/O Price Per A/C	2011 \$ A/P #3 & On F/O Price 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	***	***	***

**Exhibit A-6
737-800 Aircraft
Block 800LUV Aircraft**

Change No.	Title	2011 \$ A/P #1 Price Per A/C	2011 \$ A/P #2 F/O Price Per A/C	2011 \$ A/P #3 & On F/O Price Per A/C
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	***	***	***
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	***	***	***

**Exhibit A-6
737-800 Aircraft
Block 800LUV Aircraft**

Change No.	Title	2011 \$ A/P #1 Price Per A/C	2011 \$ A/P #2 F/O Price Per A/C	2011 \$ A/ P #3 & On F/O Price Per A/C
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	***	***	***

**Exhibit A-6
737-800 Aircraft
Block 800LUV Aircraft**

Change No.	Title	2011 \$ A/P #1 Price Per A/C	2011 \$ A/P #2 F/O Price Per A/C	2011 \$ A/P #3 & On F/O Price Per A/C
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	***	***	***
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	***	***	***

**Exhibit A-6
737-800 Aircraft
Block 800LUV Aircraft**

Change No.	Title	2011 S A/P #1 Price Per A/C	2011 S A/P #2 F/O Price Per A/C	2011 S A/P #3 & On F/O Price Per A/C
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	***	***	***

**Exhibit A-6
737-800 Aircraft
Block 800LUV Aircraft**

Change No.	Title	2011 \$ A/P #1 Price Per A/C	2011 \$ A/P #2 F/O Price Per A/C	2011 \$ A/P #3 & On F/O Price Per A/C
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	AIRSPPEED 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	***	***	***
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	***	***	***

**Exhibit A-6
737-800 Aircraft
Block 800LUV Aircraft**

Change No.	Title	2011 \$ A/P #1 Price Per A/C	2011 \$ A/P #2 F/O Price Per A/C	2011 \$ A/P #3 & On F/O Price Per A/C
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 (SID'S) - 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	***	***	***

**Exhibit A-6
737-800 Aircraft
Block 800LUV Aircraft**

Change No.	Title	2011 \$ A/P #1 Price Per A/C	2011 \$ A/P #2 F/O Price Per A/C	2011 \$ A/P #3 & On F/O Price Per A/C
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 LKINK (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	***	***	***
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 TH 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/SPE (737-800)	***	***	***
7200-000125	CFM56-7 ENGINES - 7B26 RATING	***	***	***
7900-000116	LUBRICATING OIL - MOBIL JET II	***	***	***
MISC	INTERIOR ALLOWANCE	***	***	***

Exhibit A-6
737-800 Aircraft
Block 800LUV Aircraft

Change No.	Title	2011 \$ A/P #1 Price Per A/C	2011 \$ A/P #2 F/O Price Per A/C	2011 \$ A/P #3 & On F/O Price Per A/C
MISC DOOR	FAA FLIGHT DECK DOOR	***	***	***
MISC P & O	PEAKS & OBSTACLES	***	***	***
MISC/FAA4	FLAME PROPAGATION - INSULATION BLANKETS (FAA)	***	***	***
MISC/FAA5	FIRE PENETRATION - BURNTROUGH, FAR 25.856(b)	***	***	***
OPTIONS: 200	TOTALS:	***	***	***

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Dated January 19th, 1994

Relating to

BOEING MODEL 737-7H4 and 737-8H4 AIRCRAFT

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737-8H4
CUSTOMER SUPPORT DOCUMENT

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Exhibit C-2 to Purchase Agreement Number 1810

CUSTOMER SUPPORT DOCUMENT

relating to

BOEING MODEL 737-8H4 AIRCRAFT

This Exhibit C-2 contains the Customer Support Document applicable to the 737-8H4 Aircraft and incorporates all terms and conditions contained in the Customer Support Document applicable to the 737-7H4 Aircraft as Exhibit C to the Purchase Agreement.

Buyer currently operates an aircraft of the same model as the 737-8H4 Aircraft. Upon Buyer's request, Boeing will develop and schedule a customized Customer Support Program *** The customized program will be based upon and equivalent to the entitlements summarized below.

1. Maintenance Training.

- 1.1 Maintenance Training Minor Model Differences Course, if required, covering operational, structural or systems differences between Buyer's newly-purchased 737-8H4 Aircraft and an aircraft of the same model currently operated by Buyer; 1 class of 15 students;
- 1.2 Training materials, if applicable, will be provided to each student. In addition, one set of training materials as used in Boeing's training program, including visual aids, text and graphics will be provided for use in Buyer's own training program.

2. Flight Training.

Boeing will provide, if required, one classroom course to acquaint up to 15 students with operational, systems and performance differences between Buyer's newly-purchased 737-8H4 Aircraft and an aircraft of the same model currently operated by Buyer.

Any training materials used in Flight Training, if required, will be provided for use in Buyer's own training program.

3. Planning Assistance.

3.1 Maintenance Engineering. Notwithstanding anything in Exhibit C to the Purchase Agreement to the contrary, Boeing will provide the following Maintenance Engineering support:

- 3.1.1 Maintenance Planning Assistance. Upon request, Boeing will provide assistance in identifying the impact to Buyer's maintenance program resulting from minor

model differences between the 737-8H4 Aircraft and an aircraft of the same model currently operated by the Buyer.

3.1.2 ETOPS Maintenance Planning Assistance. Upon request, Boeing will provide assistance in identifying the impact to Buyer's ETOPS maintenance program resulting from minor model differences between the 737-8H4 Aircraft and an aircraft of the same model currently operated by the Buyer.

3.1.3 GSE/Shops/Tooling Consulting. Upon request, Boeing will provide assistance to Buyer in identifying the impact to Buyer's maintenance tools and ground support equipment resulting from the minor model differences between the 737-8H4 Aircraft and an aircraft of the same model currently operated by Buyer.

3.2 Spares.

Boeing will revise, as applicable, the customized Recommended Spares Parts List (RSPL) and Illustrated Parts Catalog (IPC).

4. Technical Data and Documents.

4.1 Boeing will revise, as applicable, technical data and documents provided with previously delivered aircraft.

4.2 Boeing will provide the most current computer based training (CBT) courses available for the 737-7H4 and 737-8H4 as well as any enhancements to the basic 737 courses (e.g. 360 degree view of cockpit).

4.3 Boeing will provide the Flight Crew Operating Manual (FCOM) for the 737-8H4 in color and modified to the Southwest specific configuration.

4.4 In addition to the formats provided in Exhibit C, Part D, if requested by Buyer, Boeing will provide documents in xml, pdf and Framemaker formats.

ECONOMIC PRICE ADJUSTMENT

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

**Exhibit D-2
to Purchase Agreement Number 1810**

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Exhibit D-2

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**ECONOMIC PRICE ADJUSTMENT
(July 2011 Base Year)**

relating to

BOEING MODEL 737-7H4 and 737-8H4 AIRCRAFT

1. Formula.

Base Aircraft Price and Special Features price adjustments (**Aircraft Price Adjustment**) are used to allow prices to be stated in current year dollars at the signing of this Purchase Agreement and to adjust the amount to be paid by Customer at delivery for the effects of economic fluctuation. The Aircraft Price Adjustment will be determined at the time of Aircraft delivery in accordance with the following formula:

$$P_a = (P) (L + M) - P$$

Where:

P_a = Aircraft Price Adjustment. (For Models 737-600, 737-700, 737-800, 737-900, 737-900ER 747-8, 777-200LR, 777-F, and 777-300ER the Base Aircraft Price includes the engine price at its basic thrust level.)

P = Base Aircraft Price plus the price of the Special Features (as set forth in Tables 1a and 1b of this Purchase Agreement).

$$L = .65 \times \frac{(ECI)}{(ECI_b)}$$

Where:

ECI_b is the base year airframe escalation index (as set forth in Tables 1a and 1b of this Purchase Agreement);

ECI is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics, Employment Cost Index for NAICS Manufacturing – Total Compensation (BLS Series ID CIU2013000000000I), calculated by establishing a three (3) month arithmetic average value (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th, and 13th months prior to the month of scheduled delivery of the applicable Aircraft. As the Employment Cost Index values are only released on a quarterly basis, the value released for the first quarter will be used for the months of January, February, and March; the value released for the second quarter will be used for the months of April, May, and June; the value released for the third quarter will be used for the months of July, August, and September; the value released for the fourth quarter will be used for the months of October, November, and December.

$$M = .35 \times \frac{(CPI)}{(CPI_b)}$$

Where:

CPI_b is the base year airframe escalation index (as set forth in Table 1 of this Purchase Agreement); and

CPI is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers (BLS Series ID CUUR0000SA0), calculated as a three (3) month arithmetic average of the released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th, and 13th months prior to the month of scheduled delivery of the applicable Aircraft.

As an example, for an Aircraft scheduled to be delivered in the month of July, the months of June, July, and August of the preceding year will be utilized in determining the value of ECI and CPI.

Note:

- (i) In determining the values of L and M, all calculations and resulting values will be expressed as a decimal rounded to the nearest ten-thousandth.
- (ii) .65 is the numeric ratio attributed to labor in the Aircraft Price Adjustment formula.
- (iii) .35 is the numeric ratio attributed to materials in the Aircraft Price Adjustment formula.
- (iv) The denominators (**base year indices**) are the actual average values reported by the U.S. Department of Labor, Bureau of Labor Statistics. The actual average values are calculated as a three (3) month arithmetic average of the released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th, and 13th months prior to the airframe base year. The applicable base year and corresponding denominator is provided by Boeing in Table 1 of this Purchase Agreement.
- (v) The final value of P_a will be rounded to the nearest dollar.
- (vi) (vi) The Aircraft Price Adjustment will not be made if it will result in a decrease in the Aircraft Basic Price.

2. Values to be Utilized in the Event of Unavailability.

2.1 If the Bureau of Labor Statistics substantially revises the methodology used for the determination of the values to be used to determine the ECI and CPI values (in contrast to benchmark adjustments or other corrections of previously released values), or for any reason has not released values needed to determine the applicable Aircraft Price Adjustment, the parties will, prior to the delivery of any such Aircraft, select a substitute from other Bureau of Labor Statistics data or similar data

reported by non-governmental organizations. Such substitute will result in the same adjustment, insofar as possible, as would have been calculated utilizing the original values adjusted for fluctuation during the applicable time period. However, if within twenty-four (24) months after delivery of the Aircraft, the Bureau of Labor Statistics should resume releasing values for the months needed to determine the Aircraft Price Adjustment, such values will be used to determine any increase or decrease in the Aircraft Price Adjustment for the Aircraft from that determined at the time of delivery of the Aircraft.

2.2 Notwithstanding Article 2.1 above, if prior to the scheduled delivery month of an Aircraft the Bureau of Labor Statistics changes the base year for determination of the ECI and CPI values as defined above, such re-based values will be incorporated in the Aircraft Price Adjustment calculation.

2.3 In the event escalation provisions are made non-enforceable or otherwise rendered void by any agency of the United States Government, the parties agree, to the extent they may lawfully do so, to equitably adjust the Aircraft Price of any affected Aircraft to reflect an allowance for increases or decreases consistent with the applicable provisions of paragraph 1 of this Exhibit D-2 in labor compensation and material costs occurring since August of the year prior to the price base year shown in the Purchase Agreement.

2.4 If within twelve (12) months of Aircraft delivery, the published index values are revised due to an acknowledged error by the Bureau of Labor Statistics, the Aircraft Price Adjustment will be re-calculated using the revised index values (this does not include those values noted as preliminary by the Bureau of Labor Statistics). A credit memorandum or supplemental invoice will be issued for the Aircraft Price Adjustment difference. Interest charges will not apply for the period of original invoice to issuance of credit memorandum or supplemental invoice.

Note:

- (i) The values released by the Bureau of Labor Statistics and available to Boeing thirty (30) days prior to the first day of the scheduled delivery month of an Aircraft will be used to determine the ECI and CPI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Aircraft Price Adjustment for the Aircraft invoice at the time of delivery. The values will be considered final and no Aircraft Price Adjustments will be made after Aircraft delivery for any subsequent changes in published Index values, subject always to paragraph 2.4 above.
- (ii) The maximum number of digits to the right of the decimal after rounding utilized in any part of the Aircraft Price Adjustment equation will be four (4), where rounding of the fourth digit will be increased to the next highest digit when the 5th digit is equal to five (5) or greater.

BUYER FURNISHED EQUIPMENT PROVISIONS DOCUMENT

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

Exhibit E to Purchase Agreement Number 1810

P.A. No. 1810
K/SWA

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BUYER FURNISHED EQUIPMENT PROVISIONS DOCUMENT

Dated January 19th, 1994

Relating to

BOEING MODEL 737-7H4 and 737-8H4 AIRCRAFT

This Buyer Furnished Equipment Provisions Document is Exhibit E to and forms a part of Purchase Agreement No. 1810, between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to the purchase of Boeing Model 737-7H4 and 737-8H4 aircraft (Aircraft).

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BUYER FURNISHED EQUIPMENT PROVISIONS DOCUMENT

1. General.

Certain equipment to be installed in the Aircraft is furnished to Boeing by Buyer at Buyer's expense. This equipment is designated "Buyer Furnished Equipment" (BFE) and is listed in the Detail Specification. On or before Boeing's implementation of the Aircraft, Boeing will provide to Buyer the BFE Requirements electronically through My Boeing Fleet (MBF) in My Boeing Configuration (MBC). These requirements may be periodically revised, setting forth the items, quantities, on-dock dates and shipping instructions relating to the in-sequence installation of BFE. For planning purposes, a preliminary BFE on-dock schedule is set forth in the Attachment A to this Exhibit for 737-7H4 Aircraft with delivery through 2011 and Attachment B to this Exhibit for 737-7H4 Aircraft and 737-8H4 with delivery 2012 through 2018.

2. Supplier Selection.

Buyer will:

2.1 Select and notify Boeing of the suppliers of the BFE items set forth in Attachments A and B to this Exhibit;

2.2 Meet with Boeing and such selected BFE suppliers promptly after such selection to:

2.2.1 complete BFE configuration design requirements for such BFE; and

2.2.2 confirm technical data submittal dates for BFE certification.

3. Buyer's Obligations.

Buyer will:

3.1 comply with and cause the supplier to comply with the provisions of the BFE Document or BFE Report;

3.1.1 deliver technical data (in English) to Boeing as required to support installation and FAA certification in accordance with the schedule provided by Boeing or as mutually agreed upon during the BFE meeting referred to above;

-
- 3.1.2 deliver BFE including production and/or flight training spares to Boeing in accordance with the quantities and schedule provided therein; and
 - 3.1.3 deliver appropriate quality assurance documentation to Boeing as required with each BFE part (D6-56586, "BFE Product Acceptance Requirements");
 - 3.2 authorize Boeing to discuss all details of the BFE directly with the BFE suppliers;
 - 3.3 authorize Boeing to conduct or delegate to the supplier quality source inspection and supplier hardware acceptance of BFE at the supplier location;
 - 3.3.1 require supplier's contractual compliance to Boeing defined source inspection and supplier delegation programs, including availability of adequate facilities for Boeing resident personnel; and
 - 3.3.2 assure that Boeing identified supplier's quality systems be approved to Boeing document D1-9000;
 - 3.4 provide necessary field service representation at Boeing's facilities to support Boeing on all issues related to the installation and certification of BFE;
 - 3.5 deal directly with all BFE suppliers to obtain overhaul data, provisioning data and related product support documentation;
 - 3.6 work closely with Boeing and the BFE suppliers to resolve any difficulties, including defective equipment, that arise;
 - 3.7 be responsible for modifying, adjusting and/or calibrating BFE as required for FAA approval and for all related expenses;
 - 3.8 warrant that the BFE will meet the requirements of the Detail Specification; and
 - 3.9 be responsible for providing equipment which is FAA certifiable at time of Aircraft delivery, or for obtaining waivers from the applicable regulatory agency for non-FAA certifiable equipment.

4. Boeing's Obligations.

Other than as set forth below, Boeing will provide for the installation of and install the BFE and obtain certification of the Aircraft with the BFE installed.

5. Nonperformance by Buyer.

If Buyer's nonperformance of obligations in this Exhibit or in the BFE Document causes a delay in the delivery of the Aircraft or causes Boeing to perform out-of-sequence or additional work, Buyer will reimburse Boeing for all resulting expenses and be deemed to have agreed to any such delay in Aircraft delivery. In addition Boeing will have the right to:

5.1 provide and install specified equipment or suitable alternate equipment and increase the price of the Aircraft accordingly; and/or

5.2 deliver the Aircraft to Buyer without the BFE installed.

6. Return of Equipment.

BFE not installed in the Aircraft will be returned to Buyer in accordance with Buyer's instructions and at Buyer's expense.

7. Title and Risk of Loss.

Title to and risk of loss of BFE will at all times remain with Buyer or other owner. Boeing will have only such liability for BFE as a bailee for mutual benefit would have, but will not be liable for loss of use.

8. Indemnification of Boeing.

Buyer hereby indemnifies and holds harmless Boeing from and against all claims and liabilities, including costs and expenses (including attorneys' fees) incident thereto or incident to successfully establishing the right to indemnification, for injury to or death of any person or persons, including employees of Buyer but not employees of Boeing, or for loss of or damage to any property, including any Aircraft, arising out of or in any way connected with any nonconformance or defect in any BFE and whether or not arising in tort or occasioned in whole or in part by the active, passive or imputed negligence of Boeing. This indemnity will not apply with respect to any nonconformance or defect caused solely by Boeing's installation of the BFE.

9. Patent Indemnity.

Buyer hereby indemnifies and holds harmless Boeing from and against all claims, suits, actions, liabilities, damages and costs arising out of any actual or alleged infringement of any patent or other intellectual property rights by BFE or arising out of the installation, sale or use of BFE by Boeing. The conditions and limitations as described in Exhibit B, Part D, Paragraph 3 of this Agreement will apply to Boeing.

10. Definitions.

For the purposes of the above indemnities, the term "Boeing" includes The Boeing Company, its divisions, subsidiaries and affiliates, the assignees of each, and their directors, officers, employees and agents.

BUYER FURNISHED EQUIPMENT VARIABLES

relating to

BOEING MODEL 737-7H4 and 737-8H4 AIRCRAFT

This Attachment B to Exhibit E of Purchase Agreement No. 1810 contains supplier selection dates, preliminary on-dock dates and other requirements applicable to the 737-7H4 Aircraft and 737-8H4 Aircraft.

1. Supplier Selection for 737-8H4 Aircraft.

Buyer will select and notify Boeing of the suppliers and part numbers of the following BFE items by the following dates:

Galley System	March 1, 2011 Completed
Galley Inserts	March 1, 2011 Completed
Seats (passenger)	January 17, 2011 Completed
Miscellaneous Emergency Equipment	March 1, 2011 Completed

2. Preliminary On-dock Dates for 737-7H4 Aircraft & 737-8H4 Aircraft.

For planning purposes, preliminary BFE on-dock dates are set forth below:

<u>Item</u>	<u>Preliminary On-Dock Dates</u>						
	<u>Month of Delivery</u>						
	<u>Mar 2012</u>	<u>Apr 2012</u>	<u>May 2012</u>	<u>Jun-2012</u>	<u>Jul 2012</u>	<u>Aug 2012</u>	<u>Sep 2012</u>
Seats	1/23/2012	2/21/2012	3/22/2012	4/20/2012	5/22/2012	6/21/2012	7/23/2012
Galleys/Furnishings	1/16/2012	2/14/2012	3/15/2012	4/13/2012	5/15/2012	6/14/2012	7/16/2012
Antennas & Mounting Equipment	11/23/2011	12/21/2011	1/23/2012	2/20/2012	3/22/2012	4/20/2012	5/23/2012
Avionics	1/16/2012	2/14/2012	3/15/2012	4/13/2012	5/15/2012	6/14/2012	7/16/2012
Cabin Systems Equipment	1/16/2012	2/14/2012	3/15/2012	4/13/2012	5/15/2012	6/14/2012	7/16/2012

Miscellaneous Emergency Equipment	1/16/2012	2/14/2012	3/15/2012	4/13/2012	5/15/2012	6/14/2012	7/16/2012
Textiles/Raw Material	9/29/2011	10/28/2011	12/1/2011	1/10/2012	2/9/2012	3/9/2012	4/9/2012
Cargo Systems (Single Aisle Programs)	1/3/2012	1/31/2012	3/1/2012	3/30/2012	5/1/2012	5/31/2012	7/2/2012
Provision Kits (Single Aisle Programs)	9/2/2011	9/30/2011	11/1/2011	11/30/2011	1/3/2012	1/31/2012	3/2/2012
Radomes (Single Aisle Programs)	12/16/2011	1/13/2012	2/15/2012	3/13/2012	4/16/2012	5/14/2012	6/15/2012

Preliminary On-Dock Dates
Month of Delivery

<u>Item</u>	<u>Oct 2012</u>	<u>Nov 2012</u>	<u>Dec 2012</u>	<u>Jan-2013</u>	<u>Feb-2013</u>	<u>Mar-2013</u>	<u>Apr-2013</u>
Seats	8/23/2012	9/20/2012	10/23/2012	11/20/2012	12/13/2012	1/23/2013	2/20/2013
Galleys/Furnishings	8/16/2012	9/13/2012	10/16/2012	11/13/2012	12/6/2012	1/16/2013	2/13/2013
Antennas & Mounting Equipment	6/22/2012	7/20/2012	8/23/2012	9/20/2012	10/12/2012	11/21/2012	12/20/2012
Avionics	8/16/2012	9/13/2012	10/16/2012	11/13/2012	12/6/2012	1/16/2013	2/13/2013
Cabin Systems Equipment	8/16/2012	9/13/2012	10/16/2012	11/13/2012	12/6/2012	1/16/2013	2/13/2013
Miscellaneous Emergency Equipment	8/16/2012	9/13/2012	10/16/2012	11/13/2012	12/6/2012	1/16/2013	2/13/2013
Textiles/Raw Material	5/10/2012	6/7/2012	7/11/2012	8/8/2012	8/29/2012	10/1/2012	10/29/2012
Cargo Systems (Single Aisle Programs)	8/2/2012	8/30/2012	10/2/2012	10/30/2012	11/21/2012	1/2/2013	1/30/2013
Provision Kits (Single Aisle Programs)	4/2/2012	4/30/2012	6/1/2012	6/29/2012	7/20/2012	9/4/2012	10/1/2012
Radomes (Single Aisle Programs)	7/16/2012	8/13/2012	9/17/2012	10/12/2012	11/6/2012	12/17/2012	1/13/2013

Preliminary On-Dock Dates
Month of Delivery

<u>Item</u>	<u>May-2013</u>	<u>Jun-2013</u>	<u>July 2013</u>	<u>Aug 2013</u>	<u>Sep 2013</u>	<u>Oct 2013</u>	<u>Nov 2013</u>
Seats	3/21/2013	4/22/2013	5/22/2013	6/20/2013	7/23/2013	8/22/2013	9/20/2013
Galleys/Furnishings	3/14/2013	4/15/2013	5/15/2013	6/13/2013	7/16/2013	8/15/2013	9/13/2013
Antennas & Mounting Equipment	1/21/2013	2/22/2013	3/22/2013	4/19/2013	5/23/2013	6/21/2013	7/19/2013
Avionics	3/14/2013	4/15/2013	5/15/2013	6/13/2013	7/16/2013	8/15/2013	9/13/2013
Cabin Systems Equipment	3/14/2013	4/15/2013	5/15/2013	6/13/2013	7/16/2013	8/15/2013	9/13/2013

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Miscellaneous Emergency Equipment	3/14/2013	4/15/2013	5/15/2013	6/13/2013	7/16/2013	8/15/2013	9/13/2013
Textiles/Raw Material	11/29/2012	1/9/2013	2/8/2013	4/5/2013	4/9/2013	5/9/2013	6/7/2013
Cargo Systems (Single Aisle Programs)	3/1/2013	4/1/2013	5/1/2013	5/30/2013	7/2/2013	8/1/2013	8/30/2013
Provision Kits (Single Aisle Programs)	11/1/2012	12/3/2012	1/2/2013	1/30/2013	3/1/2013	4/1/2013	4/30/2013
Radomes (Single Aisle Programs)	2/14/2013	3/15/2013	4/15/2013	5/13/2013	6/17/2013	7/15/2013	8/13/2013

Preliminary On-Dock Dates
Month of Delivery

<u>Item</u>	<u>Dec 2013</u>	<u>Jan 2014</u>	<u>Feb 2014</u>	<u>Mar-2014</u>	<u>Apr 2014</u>	<u>May 2014</u>	<u>Jun 2014</u>
Seats	10/23/2013	11/19/2013	12/13/2013	1/23/2014	2/20/2014	3/21/2014	4/22/2014
Galleys/Furnishings	10/16/2013	11/12/2013	12/6/2013	1/16/2014	2/13/2014	3/14/2014	4/15/2014
Antennas & Mounting Equipment	8/23/2013	9/19/2013	10/14/2013	11/22/2013	12/20/2013	1/21/2014	2/21/2014
Avionics	10/16/2013	11/12/2013	12/6/2013	1/16/2014	2/13/2014	3/14/2014	4/15/2014
Cabin Systems Equipment	10/16/2013	11/12/2013	12/6/2013	1/16/2014	2/13/2014	3/14/2014	4/15/2014
Miscellaneous Emergency Equipment	10/16/2013	11/12/2013	12/6/2013	1/16/2014	2/13/2014	3/14/2014	4/15/2014
Textiles/Raw Material	7/11/2013	8/7/2013	8/29/2013	10/1/2013	10/29/2013	11/27/2013	1/9/2014
Cargo Systems (Single Aisle Programs)	10/2/2013	10/29/2013	11/22/2013	1/2/2014	1/30/2014	3/1/2014	4/2/2014
Provision Kits (Single Aisle Programs)	6/3/2013	6/28/2013	7/22/2013	9/3/2013	9/30/2013	11/1/2013	12/2/2013
Radomes (Single Aisle Programs)	10/11/2013	10/11/2013	11/6/2013	12/16/2013	1/13/2014	2/14/2014	3/14/2014

Preliminary On-Dock Dates
Month of Delivery

<u>Item</u>	<u>Jul 2014</u>	<u>Aug 2014</u>	<u>Sep 2014</u>	<u>Oct 2014</u>	<u>Nov 2014</u>	<u>Dec 2014</u>	<u>Jan 2015</u>
Seats	5/21/2014	6/20/2014	7/23/2014	8/21/2014	9/23/2014	10/24/2014	11/18/2014
Galleys/Furnishings	5/14/2014	6/13/2014	7/16/2014	8/14/2014	9/16/2014	10/17/2014	11/11/2014
Antennas & Mounting Equipment	3/21/2014	6/13/2014	5/23/2014	6/20/2014	7/23/2014	8/25/2014	9/18/2014
Avionics	5/14/2014	4/21/2014	7/16/2014	8/14/2014	9/16/2014	10/17/2014	11/11/2014
Cabin Systems Equipment	5/14/2014	4/21/2014	7/16/2014	8/14/2014	9/16/2014	10/17/2014	11/11/2014

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Miscellaneous Emergency Equipment	5/14/2014	4/21/2014	7/16/2014	8/14/2014	9/16/2014	10/17/2014	11/11/2014
Textiles/Raw Material	2/7/2014	3/10/2014	4/9/2014	5/8/2014	6/10/2014	7/14/2014	8/6/2014
Cargo Systems (Single Aisle Programs)	5/1/2014	5/30/2014	7/2/2014	7/31/2014	9/2/2014	10/3/2014	10/28/2014
Provision Kits (Single Aisle Programs)	1/2/2014	1/30/2014	3/3/2014	3/31/2014	5/2/2014	8/4/2014	6/27/2014
Radomes (Single Aisle Programs)	4/14/2014	5/13/2014	6/16/2014	7/14/2014	8/15/2014	9/17/2014	10/10/2014

Preliminary On-Dock Dates
Month of Delivery.

<u>Item</u>	<u>Feb 2015</u>	<u>Mar 2015</u>	<u>Apr 2015</u>	<u>May 2015</u>	<u>Jun 2015</u>	<u>Jul 2015</u>
Seats	12/15/2014	1/22/2015	2/19/2015	3/23/2015	4/22/2015	5/21/2015
Galleys/Furnishings	12/8/2014	1/15/2015	2/12/2015	3/16/2015	4/15/2015	5/14/2015
Antennas & Mounting Equipment	10/15/2014	11/21/2014	12/19/2014	1/23/2015	2/23/2015	3/20/2015
Avionics	12/8/2014	1/15/2015	2/12/2015	3/16/2015	4/15/2015	3/13/2015
Cabin Systems Equipment	12/8/2014	1/15/2015	2/12/2015	3/16/2015	4/15/2015	5/14/2015
Miscellaneous Emergency Equipment	12/8/2014	1/15/2015	2/12/2015	3/16/2015	4/15/2015	5/14/2015
Textiles/Raw Material	8/29/2014	11/17/2014	10/28/2014	12/1/2014	1/9/2015	5/14/2015
Cargo Systems (Single Aisle Programs)	11/24/2014	1/2/2015	1/29/2015	3/2/2015	4/1/2015	4/30/2015
Provision Kits (Single Aisle Programs)	7/24/2014	9/2/2014	9/29/2014	11/2/2015	12/1/2014	12/23/2014
Radomes (Single Aisle Programs)	11/7/2014	12/15/2014	1/12/2015	2/16/2015	3/16/2015	4/14/2015

Preliminary On-Dock Dates
Month of Delivery.

<u>Item</u>	<u>Aug 2015</u>	<u>Sep 2015</u>	<u>Oct 2015</u>	<u>Nov 2015</u>	<u>Dec 2015</u>	<u>Jan 2016</u>
Seats	6/22/2015	7/23/2015	8/21/2015	9/22/2015	10/22/2015	11/18/2015
Galleys/Furnishings	6/15/2015	7/16/2015	8/14/2015	9/15/2015	10/15/2015	11/11/2015
Antennas & Mounting Equipment	4/22/2015	5/22/2015	6/22/2015	7/22/2015	8/21/2015	9/18/2016
Avionics	6/15/2015	7/16/2015	8/14/2015	9/15/2015	10/15/2015	11/11/2015
Cabin Systems Equipment	6/15/2015	7/16/2015	8/14/2015	9/15/2015	10/15/2015	11/11/2015

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Miscellaneous Emergency Equipment	6/15/2015	7/16/2015	8/14/2015	9/15/2015	10/15/2015	11/11/2015
Textiles/Raw Material	3/10/2015	4/9/2015	5/8/2015	6/9/2015	7/10/2015	8/6/2015
Cargo Systems (Single Aisle Programs)	5/1/2015	7/2/2015	8/1/2015	9/1/2015	10/1/2015	10/28/2015
Provision Kits (Single Aisle Programs)	2/2/2015	3/2/2015	4/1/2015	5/1/2015	6/1/2015	6/29/2015
Radomes (Single Aisle Programs)	5/15/2015	6/16/2015	7/14/2015	8/14/2015	9/15/2015	10/12/2015

Preliminary On-Dock Dates
Month of Delivery

<u>Item</u>	<u>Feb 2016</u>	<u>Mar 2016</u>	<u>Apr 2016</u>	<u>May 2016</u>	<u>Jun 2016</u>	<u>Jul 2016</u>
Seats	12/15/2015	1/21/2016	2/19/2016	3/23/2016	4/21/2016	5/20/2016
Galleys/Furnishings	12/8/2015	1/14/2016	2/12/2016	3/16/2016	4/14/2016	5/13/2016
Antennas & Mounting Equipment	10/15/2015	11/20/2015	12/18/2015	1/22/2016	2/22/2016	3/21/2016
Avionics	12/8/2015	1/14/2016	2/12/2016	3/16/2016	4/14/2016	5/13/2016
Cabin Systems Equipment	12/8/2015	1/14/2016	2/12/2016	3/16/2016	4/14/2016	5/13/2016
Miscellaneous Emergency Equipment	12/8/2015	1/14/2016	2/12/2016	3/16/2016	4/14/2016	5/13/2016
Textiles/Raw Material	8/31/2015	9/29/2015	10/28/2015	12/2/2015	1/11/2016	2/9/2016
Cargo Systems (Single Aisle Programs)	11/24/2015	12/23/2015	1/29/2016	3/2/2016	3/31/2016	4/29/2016
Provision Kits (Single Aisle Programs)	7/24/2015	8/24/2015	9/29/2015	11/2/2015	12/1/2015	12/23/2015
Radomes (Single Aisle Programs)	11/9/2015	12/14/2015	1/12/2016	2/16/2016	3/14/2016	4/13/2016

Preliminary On-Dock Dates
Month of Delivery

<u>Item</u>	<u>Aug 2016</u>	<u>Sep 2016</u>	<u>Oct 2016</u>	<u>Nov 2016</u>	<u>Dec 2016</u>	<u>Jan 2017</u>
Seats	6/22/2015	7/21/2016	8/23/2016	9/22/2016	10/21/2016	11/18/2016
Galleys/Furnishings	6/15/2016	7/14/2016	8/16/2016	9/15/2016	10/14/2016	11/11/2016
Antennas & Mounting Equipment	4/22/2016	5/20/2016	6/23/2016	7/22/2016	8/22/2016	9/19/2016
Avionics	6/15/2016	7/14/2016	8/16/2016	9/15/2016	10/14/2016	11/11/2016
Cabin Systems Equipment	6/15/2016	7/14/2016	8/16/2016	9/15/2016	10/14/2016	11/11/2016

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Miscellaneous Emergency Equipment	6/15/2016	7/14/2016	8/16/2016	9/15/2016	10/14/2016	11/11/2016
Textiles/Raw Material	3/10/2016	4/7/2016	5/10/2016	6/9/2016	7/11/2016	8/9/2016
Cargo Systems (Single Aisle Programs)	6/1/2016	7/1/2016	8/2/2016	9/1/2016	10/1/2016	10/28/2016
Provision Kits (Single Aisle Programs)	2/1/2016	3/1/2016	4/1/2016	5/2/2016	6/1/2016	6/28/2016
Radomes (Single Aisle Programs)	5/16/2016	5/13/2016	7/15/2016	8/15/2016	9/14/2016	10/11/2016

Preliminary On-Dock Dates
Month of Delivery

<u>Item</u>	<u>Feb 2017</u>	<u>Mar 2017</u>	<u>Apr 2017</u>	<u>May 2017</u>	<u>Jun 2017</u>	<u>Jul 2017</u>
Seats	12/14/2016	1/23/2017	2/20/2017	3/23/2017	4/20/2017	5/22/2017
Galleys/Furnishings	12/7/2016	1/16/2017	2/13/2017	3/16/2017	4/13/2017	5/15/2017
Antennas & Mounting Equipment	10/14/2016	11/23/2016	12/20/2016	1/23/2017	2/20/2017	3/22/2017
Avionics	12/7/2016	1/16/2017	2/13/2017	3/16/2017	4/13/2017	5/15/2017
Cabin Systems Equipment	12/7/2016	1/16/2017	2/13/2017	3/16/2017	4/13/2017	5/15/2017
Miscellaneous Emergency Equipment	12/7/2016	1/16/2017	2/13/2017	3/16/2017	4/13/2017	5/15/2017
Textiles/Raw Material	8/30/2016	9/29/2016	10/27/2016	12/1/2016	1/9/2017	2/8/2017
Cargo Systems (Single Aisle Programs)	11/23/2016	1/3/2017	1/30/2017	3/2/2017	3/30/2017	5/1/2017
Provision Kits (Single Aisle Programs)	7/22/2016	9/2/2016	9/30/2016	11/2/2016	11/30/2016	1/3/2017
Radomes (Single Aisle Programs)	12/14/2016	1/23/2017	1/13/2017	2/16/2017	3/13/2017	4/14/2017

Preliminary On-Dock Dates
Month of Delivery

<u>Item</u>	<u>Aug 2017</u>	<u>Sep 2017</u>	<u>Oct 2017</u>	<u>Nov 2017</u>	<u>Dec 2017</u>
Seats	6/22/2017	6/22/2017	8/23/2017	9/21/2017	10/23/2017
Galleys/Furnishings	6/15/2017	6/15/2017	8/16/2017	9/14/2017	10/18/2017
Antennas & Mounting Equipment	4/21/2017	4/21/2017	6/23/2017	7/21/2017	8/23/2017
Avionics	6/15/2017	6/15/2017	8/16/2017	9/14/2017	10/18/2017

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Cabin Systems Equipment	6/15/2017	6/15/2017	8/16/2017	9/14/2017	10/18/2017
Miscellaneous Emergency Equipment	6/15/2017	6/15/2017	8/16/2017	9/14/2017	10/18/2017
Textiles/Raw Material	3/10/2017	3/10/2017	5/10/2017	6/8/2017	7/11/2017
Cargo Systems (Single Aisle Programs)	6/1/2017	6/1/2017	8/2/2017	8/31/2017	10/4/2017
Provision Kits (Single Aisle Programs)	2/1/2017	2/1/2017	4/3/2017	4/28/2017	6/5/2017
Radomes (Single Aisle Programs)	5/15/2017	5/15/2017	7/17/2017	8/14/2017	9/18/2017

Preliminary On-Dock Dates for deliveries from January 2018 to December 2018 are TBD.

3. Additional Delivery Requirements - Import.

Buyer will be the “**importer of record**” (as defined by the U.S. Customs and Border Protection) for all BFE imported into the United States, and as such, it has the responsibility to ensure all of Buyer’s BFE shipments comply with U.S. Customs Service regulations. In the event Buyer requests Boeing, in writing, to act as importer of record for Buyer’s BFE, and Boeing agrees to such request, Buyer is responsible for ensuring Boeing can comply with all U.S. Customs Import Regulations by making certain that, at the time of shipment, all BFE shipments comply with the requirements in the “International Shipment Routing Instructions”, including the Customs Trade Partnership Against Terrorism (**C-TPAT**), as set out on the Boeing website referenced below. Buyer agrees to include the International Shipment Routing Instructions, including C-TPAT requirements, in each contract between Buyer and BFE supplier.

http://www.boeing.com/companyoffices/doingbiz/supplier_portal/index_general.html

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BOEING PROPRIETARY

1810-1R1

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

Subject: Letter Agreement No. 1810-1 to
Purchase Agreement No. 1810 -
Waiver of Aircraft Demonstration Flights

This Letter Agreement amends Purchase Agreement No. 1810 dated as of even date herewith (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 and 737-8H4 aircraft (the Aircraft).

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

1. Fuel Entitlement at Delivery.

At the time of delivery of the Aircraft, Boeing will provide to Buyer, at no charge, 1000 gallons of jet fuel.

2. Waiver of Demonstration Flight.

Notwithstanding the provisions of the Agreement requiring the Aircraft to be test flown prior to delivery for the purpose of demonstrating to Buyer the functioning of such Aircraft and its equipment, upon notice to Boeing 90 days prior to the scheduled date of the Aircraft delivery, or as agreed between the parties, Buyer may waive such flight. With respect to each Aircraft for which Buyer waives the demonstration flight, the following provisions will apply:

3. ***

P.A. No. 1810
K/SWA

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4. ***

P.A. No. 1810
K/SWA

SA 75

5. ***

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer
Its Attorney-In-Fact

ACCEPTED AND AGREED TO as of this

date: December 13, 2011

Southwest Airlines Co.

By Michael Van de Ven
Its EVP & Chief Operating Officer

P.A. No. 1810
K/SWA

SA 75

6-1162-RLL-932R3

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

Subject: ***

This Letter Agreement amends Purchase Agreement No. 1810 dated as of January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 aircraft (the Aircraft).

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

1. Planning Meeting.

Boeing will assist Buyer in the introduction of the Aircraft by providing to Buyer certain ***. Promptly after execution of the Agreement ***, Boeing *** will meet with Buyer's designated representatives to discuss the extent, selection and scheduling of the *** to be provided.

2. ***

P.A. No. 1810
N / SWA

SA-75

3. Additional Support.

*** may be provided by Boeing subject to the parties reaching mutual agreement as to the type of services, timing and price.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

date: December 13 , 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

P.A. No. 1810
N / SWA

SA-75

6-1162-RLL-934R5

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

Subject: Letter Agreement No. 6-1162-RLL-934R5 to
Purchase Agreement No. 1810 - Disclosure of Confidential Information

This Letter Agreement amends Purchase Agreement No. 1810 dated January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 and 737-8H4 aircraft (the Aircraft).

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

1. Buyer understands that certain commercial and financial information contained in the documents listed below (Confidential Documents) is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Buyer agrees to limit the disclosure of its contents in the Confidential Documents to (a) its directors and officers, (b) employees of Buyer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Letter Agreement) without the prior written consent of Boeing, and (c) any auditors and attorneys of Buyer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Letter Agreement, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by (i) applicable law or governmental regulations, or (ii) for financing the Aircraft in accordance with the provisions of Article 10 of the Agreement. Buyer shall be fully responsible to Boeing for compliance with such obligations.
2. In connection with any such disclosure or filing of the Confidential Documents, or the information contained therein, pursuant to any such applicable law or governmental regulation, Buyer will request and use its best reasonable efforts to obtain confidential treatment of such Confidential Documents and the information contained therein. Boeing agrees to cooperate with Buyer in making and supporting its request for confidential treatment.

P.A. No. 1810
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Schedule of Confidential Documents (as amended)

1. Letter Agreement No. 6-1162-RLL-932
2. Letter Agreement No. 6-1162-RLL-933
3. Letter Agreement No. 6-1162-RLL-934
4. Letter Agreement No. 6-1162-RLL-935
5. Letter Agreement No. 6-1162-RLL-936
6. Letter Agreement No. 6-1162-RLL-937
7. Letter Agreement No. 6-1162-RLL-938
8. Letter Agreement No. 6-1162-RLL-939
9. Letter Agreement No. 6-1162-RLL-940
10. Letter Agreement No. 6-1162-RLL-941
11. Letter Agreement No. 6-1162-RLL-942
12. Letter Agreement No. 6-1162-RLL-943
13. Letter Agreement No. 6-1162-RLL-944
14. Letter Agreement No. 6-1162-RLL-945
15. Letter Agreement No. 6-1162-RLL-1855
16. Letter Agreement No. 6-1162-RLL-1856
17. Letter Agreement No. 6-1162-RLL-1857
18. Letter Agreement No. 6-1162-RLL-1858
19. Letter Agreement No. 6-1162-RLL-2036
20. Letter Agreement No. 6-1162-RLL-2037
21. Letter Agreement No. 6-1162-RLL-2073
22. Letter Agreement No. 6-1162-KJJ-054
23. Letter Agreement No. 6-1162-KJJ-055
24. Letter Agreement No. 6-1162-KJJ-056
25. Letter Agreement No. 6-1162-KJJ-057
26. Letter Agreement No. 6-1162-KJJ-058
27. Letter Agreement No. 6-1162-KJJ-150
28. Letter Agreement No. 6-1162-CHL-217
29. Letter Agreement No. 6-1162-NIW-606
30. Letter Agreement No. 6-1162-NIW-889
- 31. Letter Agreement No. 6-1162-NIW-1142**
32. Letter Agreement No. 6-1162-NIW-1369
33. Letter Agreement No. 6-1162-NIW-1983
34. Letter Agreement No. SWA-PA-1810-LA-100419

- 35. Letter Agreement No. SWA-PA-1810-LA-02710
- 36. **Letter Agreement No. SWA-PA-1810-LA-1003498**
- 37. **Letter Agreement No. SWA-PA-1810-LA-1003490**
- 38. **Letter Agreement No. SWA-PA-1810-LA-1003367**
- 39. **Letter Agreement No. SWA-PA-1810-LA-1005883**
- 40. **Letter Agreement No. SWA-PA-1810-LA-1005884**
- 41. **Letter Agreement No. SWA-PA-1810-LA-1005885**
- 42. **Letter Agreement No. SWA-PA-1810-LA-1005887**
- 43. **Letter Agreement No. SWA-PA-1810-LA-1005889**
- 44. **Letter Agreement No. 6-1162-JMG-669**
- 45. **Letter Agreement No. 6-1162-NIW-890**

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO as of this

Date: December 13 ,2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

P.A. No. 1810
K / SWA

SA-75

6-1162-NIW-0890R1

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

Subject: Letter Agreement No. 6-1162-NIW-890 to Purchase Agreement No. 1810 – *** - 737-7H4 Aircraft with Winglets Installed in Production (the Winglet Aircraft)

This Letter Agreement amends and supplements the Purchase Agreement No. 1810 dated January 19, 1994 (the Purchase Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer). All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Notwithstanding paragraph 1 of Letter Agreement No. 6-1162-RLL-935, as amended, to the Purchase Agreement, Boeing provides Buyer with ***

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/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13 , 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

P.A. No. 1810

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MODEL 737-7H4 WITH WINGLETS ***
FOR SOUTHWEST AIRLINES CO.

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1 ***

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P.A. No. 1810
AERO-B-BBA4-M04-0783

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7 ***

P. A. No. 1810
AERO-B-BBA4-M04-0783

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6-1162-RLL-941R3

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

Subject: Letter Agreement No. 6-1162-RLL-941R3 to Purchase Agreement No. 1810 -Other Matters

This Letter Agreement amends Purchase Agreement No. 1810 dated as of even date herewith (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 and 737-8H4 aircraft (the Aircraft)

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

1. ***

2. ***

P.A. No. 1810
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3. ***

4. Confidential Treatment

Buyer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity, except as provided in Letter Agreement 6-1162-RLL-934, as amended.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of this

date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP and Chief Operating Officer

P.A. No. 1810
K/SWA

SA 75

6-1162-KJJ-054R2

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

Subject: Letter Agreement No. 6-1162-KJJ-054R1 to Purchase Agreement No. 1810 – Business Matters

This Letter Agreement amends Purchase Agreement No. 1810 dated January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to the sale by Boeing and the purchase by Buyer of ninety-four (94) additional Model 737-7H4 Block “T” Aircraft, and Letter Agreement 6-1162-RLL-933R9, dated even date herewith, entitled “Option Aircraft”, to the extent it relates to the sale by Boeing and the purchase by Buyer of twenty-five (25) Block “U” additional Model 737-7H4 aircraft (the Option Aircraft) and one hundred seventy-one (171) Block “V” Rollover Option Aircraft (the Rollover Option Aircraft). Such total of two hundred ninety (290) aircraft are referred herein as the “2000 Order Aircraft.” **Boeing and Buyer further agree that the terms of this Letter Agreement shall not apply to Aircraft delivering after December 31, 2011.**

For the purposes of clarification, the terms of the following Letter Agreements do not apply to the 2000 Order Aircraft described above:

6-1161-RLL-936, as amended, “Certain Contractual Matters”

6-1162-RLL-1855, as amended, “Additional Contractual Matters”

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

1. ***

P.A. No. 1810

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- 7. ***
- 8. ***

- 9. ***
- 10. ***
- 11. ***
- 12. ***

13. Confidential Treatment

Buyer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without prior written consent of Boeing disclose this Letter Agreement, except as provided in Letter Agreement 6-1162-RLL-934, as amended.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer
Its Attorney-in-Fact

ACCEPTED AND AGREED TO as of this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven
Its EVP & Chief Operating Officer

P.A. No. 1810

SA 75

6-1162-JMG-669R9

Southwest Airlines Co.
2702 Love Field Drive
PO Box 36611
Dallas, TX 75235-1611

Subject: ***

This Letter Agreement amends Purchase Agreement No. 1810 dated as of January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737 aircraft:

- 1) ***
- 2) ***

The terms of this Letter Agreement do not apply to Aircraft that will be delivered after December 31, 2011.

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

1. ***

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Southwest Airlines Co.
6-1162-JMG-669R9

2. ***

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3. ***

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- 4. ***
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- 6. ***

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6-1162-JMG-669R9

7. ***

8. ***

9. ***

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Southwest Airlines Co.
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- 10. ***
- 11. ***
- 12. ***

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13. ***

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Southwest Airlines Co.
6-1162-JMG-669R9

14. ***

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15. Confidential Treatment.

Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement No. 6-1162-RLL-934, as amended.

Southwest Airlines Co.
6-1162-JMG-669R9

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

date: December 13 , 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

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<u>Contract Delivery Month</u>	<u>Aircraft Serial Number</u>
August 2005	34259
September 2005	34290
October 2005	34333
November 2005	34450
January 2006	34592
March 2006	34630
March 2006	34631
March 2006	34632
April 2006	34713
April 2006	34714
May 2006	34863
May 2006	34864
June 2006	34951
July 2006	34972
July 2006	34973
October 2006	35554
April 2007	36153
May 2007	36441
June 2007	36528
July 2007	36610
August 2007	36611
August 2007	36632
August 2007	36633

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K/SWA

Southwest Airlines Co.
6-1162-JMG-669R9

September 2007	36612
October 2007	36613
November 2007	36614
December 2007	36615
January 2008	36616
January 2008	36617
January 2008	36887
February 2008	36618
February 2008	36619
February 2008	36620
March 2008	36621
March 2008	36622
March 2008	36888
April 2008	36623
April 2008	36624
May 2008	36625
May 2008	36626
June 2008	36627
June 2008	36628

All Aircraft Contracted to Deliver July 2008 through
December 2011

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P.A. No. 1810
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Southwest Airlines Co.

Project ID: 48667
Change No: 3400MK3098
Dated: July 16, 2007

Model: 737-300/-500

Project Title: AVIONICS UPGRADE - SECOND FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) AND INSTALLATION AND ACTIVATION OF DUAL GLOBAL POSITIONING SYSTEM SENSOR (GPSS) - PHASE I

Description of Change:

BACKGROUND:

This effort shall be accomplished in two phases:

Phase I - Second FMC installation and installation and activation of dual GPSS. No Required Navigation Performance Special Aircraft and Aircrew Authorization Required (RNP/SAAAR) capability will be provided during this phase.

Phase II - Installation of Large Area Displays with activation of RNP/SAAAR.

Each phase will be independently accomplished with a FAA certification and Service Bulletin at the completion of each phase.

PHASE I REQUIREMENTS

A. REVIEW SOUTHWEST AIRLINES (SWA) SUPPLEMENTAL TYPE CERTIFICATES (STCs) TO DETERMINE ACCEPTABILITY FOR REFERENCE UNDER BOEING TYPE DESIGN

1.0 CUSTOMER INFORMATION

1.1 Contracting Party: Southwest Airlines (SWA)

1.2 Requesting Party: Boeing Technical Services & Modifications Avionics Business Unit

2.0 PROJECT BACKGROUND

Southwest Airlines (SWA) is interested in implementing RNP/SAAAR and make the flight-instrument panel look like the 737-NG for their 737 fleet.

3.0 STATEMENT OF WORK

3.1 Boeing will review customer provided data on LRU locations, installed by STCs in order to avoid any conflict or interference with the Boeing design.

3.2 Boeing Deliverables to Customer:

The deliverables from this effort will be any findings that will affect the implementation of the enclosed work-statement. The findings will be communicated to the customer, Southwest Airlines.

3.3 Customer is responsible for delivery of all data on LRU locations installed by STCs that may impact the areas of change. Also, the Customer will be responsible for the re-certification of any impacted STC as a result of the modification installations.

Southwest Airlines Co.
Attachment C to 6-1162-JMG-669R8
3400MK3098

B. NAVIGATION - DUAL FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - INSTALLATION

EQUIPMENT NOTES:

PREREQUISITE NOTES:

ASSUMPTIONS NOTES:

P.A. No 1810
K/SWA

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C. FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - GPS ENABLE - FEATURE ACTIVATION

PREREQUISITE NOTES:

ASSUMPTIONS NOTES:

P.A. No 1810
K/SWA

D. DUAL GPSS – ROCKWELL COLLINS GPSS P/N 822-2189-001 - INSTALLATION

EQUIPMENT NOTES:

PREREQUISITE NOTES:

ASSUMPTIONS NOTES:

P.A. No 1810
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E. PROGRAM INTEGRATED AIRPLANE TEST, VALIDATION, & CERTIFICATION

REMOTE CERTIFICATION NOTES:

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Southwest Airlines Co.
Attachment C to 6-1162-JMG-669R8
3400MK3098

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Southwest Airlines Co.
Attachment C to 6-1162-JMG-669R8
3400MK3098

Special Notes:

Additional feature activation requires separate projects.

Additional Project Estimating Notes:

The following projects are listed to help with estimating this project.

TECHNICAL SERVICES AGREEMENT - REVIEW SOUTHWEST AIRLINES (SWA) SUPPLEMENTAL TYPE CERTIFICATES (STCs) TO DETERMINE ACCEPTABILITY FOR REFERENCE UNDER BOEING TYPE DESIGN (ref PID-26454)

NAVIGATION - DUAL FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - LEAN GLOBAL ENTERPRISE - INSTALLATION SUPPORTING RNAV & RNAV (GPS) OPERATIONAL CAPABILITY (ref PID-43332)

FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - GPS ENABLE - FEATURE ACTIVATION (PID- 47210)

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K/SWA

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Southwest Airlines Co.
Attachment C to 6-1162-JMG-669R8
3400MK3098

DUAL GNSSU - HONEYWELL KGS 200 - INSTALLATION – CERTIFICATION (PID- 43333)

LARGE AREA DISPLAY SYSTEM - SMITHS INDUSTRIES - INSTALLATION OF BFE SMART DISPLAY UNITS (DUAL CHANNEL) ON NON-EFIS AIRPLANES,
INTEGRATED STANDBY FLIGHT DISPLAY (ISFD) (ref PID-26496)

FLIGHT MANAGEMENT COMPUTER SYSTEM - (RNP/SAAAR, GLS CAT I & IAN) - IMPLEMENTATION AND CERTIFICATION (ref PID-26501)

PROGRAM INTEGRATED AIRPLANE TEST, VALIDATION, & CERTIFICATION (ref PID-26529)

Material/Equipment List:

Similar To	Part Number	CAT	Part Description	Supplier Name	Part Qty
S242A600-1001	BFE	1	CDU		
10-62225-003	BFE	1	FMC		
TBD	BFE	1	WXR Control Panel		
822-2189-001	BFE	2	GNS 4000S		
822-2033-001	BFE	2	GNS ANTENNA		
69-73713-17	BFE	1	Mode Select Panel		
69-37399-12	BFE	2	IRS MASTER CAUTION UNIT		

P.A. No 1810
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Southwest Airlines Co.

Project ID: 48668
Change No: 3100MK3017
Dated: July 16, 2007

Model: 737-300/-500

Project Title: AVIONICS UPGRADE - INSTALL LARGE AREA DISPLAY SYSTEM (LADS) AND ACTIVATION OF REQUIRED NAVIGATION PERFORMANCE SPECIAL AIRCRAFT AND AIRCREW AUTHORIZATION REQUIRED (RNP/SAAAR) - PHASE II

Description of Change:

BACKGROUND:

This effort shall be accomplished in two phases:

Phase I - Second FMC installation and installation and activation of dual GNSS. No Required Navigation Performance Special Aircraft and Aircrew Authorization Required (RNP/SAAAR) capability will be provided during this phase.

Phase II - Installation of Large Area Displays with activation of RNP/SAAAR.

Each phase will be independently accomplished with a FAA certification and Service Bulletin at the completion of each phase.

PHASE II REQUIREMENTS

A. REVIEW SOUTHWEST AIRLINES (SWA) SUPPLEMENTAL TYPE CERTIFICATES (STCs) TO DETERMINE ACCEPTABILITY FOR REFERENCE UNDER BOEING TYPE DESIGN

1.0 CUSTOMER INFORMATION

1.1 Contracting Party: Southwest Airlines (SWA)

1.2 Requesting Party: Boeing Technical Services & Modifications Avionics Business Unit

2.0 PROJECT BACKGROUND

Southwest Airlines (SWA) has requested a proposal to upgrade their 737-300/-500 fleet to include GPS (RNAV) and RNP/SAAR capability. The changes requested include an upgrade to the Flight Deck with a Large Area Display System (LADS) that will be similar to their 737NG aircraft.

3.0 STATEMENT OF WORK

Southwest Airlines Co.
Attachment C to 6-1162-JMG-669R8
3461MK3017

B. LARGE AREA DISPLAY SYSTEM - SMITHS INDUSTRIES - INSTALLATION OF BFE SMART DISPLAY UNITS (DUAL CHANNEL) ON NON-EFIS AIRPLANES
AND INTEGRATED STANDBY INSTRUMENT SYSTEM (ISIS)

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Southwest Airlines Co.
Attachment C to 6-1162-JMG-669R8
3461MK3017

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Southwest Airlines Co.
Attachment C to 6-1162-JMG-669R8
3461MK3017

Equipment Notes:

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Southwest Airlines Co.
Attachment C to 6-1162-JMG-669R8
3461MK3017

Assumption Notes:

C. AVIONICS UPGRADE to COMPLY WITH RNP/SAAAR REQUIREMENTS (REF.AC90-101)

The following equipment upgrades in addition to the Large Area Display System are required to implement RNP SAAAR requirements.

Flight Control Computer (FCC):

An update to the existing -4 FCC is required to introduce RNP/SAAAR capability as well as other FCC functions deemed necessary to ensure RNP/SAAAR implementation is operationally common with the 737NG. FCC updates are required to ensure appropriate communication exists between the FCC, FMC, and Large Display System for RNP/SAAAR capture and deviation commands.

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D. PROGRAM INTEGRATED AIRPLANE TEST, VALIDATION, & CERTIFICATION

This project captures all of the integrated flight test and certification activity associated with the following system incorporation into SWA 737-300/500 fleet.

Phase II Certification Activity

REMOTE CERTIFICATION NOTES:

P.A. No 1810
K/SWA

Southwest Airlines Co.
Attachment C to 6-1162-JMG-669R8
3461MK3017

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Material/Equipment List:

Similar To	Part Number	CAT	Part Description	Supplier Name	Part Qty
10-62038-new	BFE	2	Flight Control Computer		
TBD	BFE	2	Smart Display Unit		
TBD	BFE	2	EFIS Control Panel		
TBD	BFE	1	ISDS (Integrated Standby Display System)		
TBD	BFE	1	Dedicated Battery Charger		
TBD	BFE	1	OPS, Smart Display		
980-4700-042	BFE		Digital Flight Data Recorder		
967-0212-001	BFE		Digital Flight Data Acquisition Unit		
TBD	BFE	2	Display Control Panel		

P.A. No 1810
K/SWA

Southwest Airlines Co.
Attachment C to 6-1162-JMG-669R8
3162MK3580

Southwest Airlines Co.

Project ID: 47917
Change No: 3162MK3580
Dated: 5/25/2007

Model:
737-700

Project Title:
COMMON DISPLAY SYSTEM - NAVIGATION PERFORMANCE SCALES - ENABLE

Description of Change:

Provide an FAA approved service bulletin and required Common Display System (CDS) and Flight Management Computer System (FMCS) Operational Program Configuration (OPC) software diskettes to enable the Navigation Performance Scales (NPS) feature.

Feature Notes:

P.A. No 1810
K/SWA

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Material/Equipment List:

<u>Similar To</u>	<u>Part Number</u>	<u>CAT</u>	<u>Part Qty</u>	<u>Part Description</u>	<u>Supplier Name</u>
þ	998-2512-504	BF E	1	DFDAU Mandatory Software (disk 963-2000-025)	Honeywell
þ	998-2513-504	BF E	1	DFDAU 429 Broadcast Software (disk 963-2100-025)	Honeywell
þ	L034870003	BF E	1	DFDAU Software (disk 360-03834-003)	SAGEM
þ	3102-TDY-M14-01	BF E	1	DFDAU Software (disk 2237274-06) (requires -8XX LRU part number)	Teledyne

P.A. No 1810
K/SWA

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Southwest Airlines Co.
Attachment C to 6-1162-JMG-669R8
3461MK3AIY

Project ID: 47918
Change No: 3461MK3AIY
Dated: 5/25/2007

Southwest Airlines Co.

Model:
737-700

Project Title:
FLIGHT MANAGEMENT COMPUTER SYSTEM (FMCS) - FEATURE REVISIONS

Description of Change:

Provide an FAA approved service bulletin and Flight Management Computer System (FMCS) Operational Program Configuration (OPC) software, and/or wiring instructions, as required, to enable the following features in the FMC:

P.A. No 1810
K/SWA

SA-54

Southwest Airlines Co.
Attachment C to 6-1162-JMG-669R8
3461MK3AIY

Material/Equipment List:

<u>Similar To</u>	<u>Part Number</u>	<u>CAT</u>	<u>Part Qty</u>	<u>Part Description</u>	<u>Supplier Name</u>
p	4082260-939 (Boeing Spec #: 10-62038-239)	BFE	1	Mode Control Panel	Honeywell

P.A. No 1810
K/SWA

SA-54

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-1810-LA-1001315R1

Southwest Airlines Co.
2707 Love Field Drive
P.O. Box 36611
Dallas, Texas 75235

Subject: ***

This Letter Agreement amends Purchase Agreement No. 1810 dated as of January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 and 737-8H4 aircraft (Aircraft).

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

1. ***

2. ***

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3. ***

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4. ***

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5. ***

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6. Assignment

Notwithstanding any other provisions of the Agreement, the rights and obligations described in this Letter Agreement, *** have been provided to Buyer and cannot be assigned, in whole or in part.

7. Confidential Treatment

Buyer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Buyer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Buyer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Section) without the prior written consent of Boeing and (c) any auditors and attorneys of Buyer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Section, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Buyer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer
Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven
Its EVP & Chief Operating Officer

P.A. No. 1810

Letter Agmt SWA-PA-1810-LA-1001315R1; 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>	<u>***</u>
1	737-700	T-W-2b	36962	July-11	1999		***
2	737-700	T-W-2b	36963	July-11	1999		***
3	737-700	T-W-2b	36965	August-11	1999		***
4	737-700	T-W-2b	36967	October-11	1999		***
5	737-800	800LUV	36980	March-12	2011		
6	737-800	800LUV	36983	April-12	2011		
7	737-800	800LUV	36985	May-12	2011		
8	737-800	800LUV	36987	May-12	2011		
9	737-800	800LUV	36990	July-12	2011		
10	737-800	800LUV	36992	August-12	2011		
11	737-800	800LUV	36994	September-12	2011		
12	737-800	800LUV	37003	November-12	2011		
13	737-800	800LUV	37009	December-12	2011		
14	737-800	800LUV		January-13	2011		
15	737-800	800LUV		February-13	2011		
16	737-800	800LUV		April-13	2011		
17	737-800	800LUV		May-13	2011		
18	737-800	800LUV		July-13	2011		
19	737-800	800LUV		August-13	2011		
20	737-800	800LUV		August-13	2011		
21	737-800	800LUV		September-13	2011		
22	737-800	800LUV		September-13	2011		
23	737-800	800LUV		October-13	2011		
24	737-800	800LUV		October-13	2011		
25	737-800	800LUV		November-13	2011		
26	737-800	800LUV		November-13	2011		
27	737-800	800LUV		November-13	2011		
28	737-800	800LUV		December-13	2011		
29	737-800	800LUV		December-13	2011		
30	737-800	800LUV		January-14	2011		
31	737-800	800LUV	36909	January-14	2011		
32	737-700	700LUV		February-14	2011		
33	737-700	700LUV	36910	February-14	2011		
34	737-700	700LUV	36927	March-14	2011		
35	737-700	700LUV	36925	March-14	2011		
36	737-700	700LUV		April-14	2011		
37	737-700	700LUV	36929	April-14	2011		
38	737-700	700LUV		May-14	2011		
39	737-700	700LUV		May-14	2011		
40	737-700	700LUV	37019	August-14	2011		
41	737-700	700LUV		September-14	2011		
42	737-700	700LUV		September-14	2011		
43	737-700	700LUV		October-14	2011		
44	737-700	700LUV	37034	October-14	2011		
45	737-700	700LUV		November-14	2011		
46	737-700	700LUV		December-14	2011		
47	737-700	700LUV	37037	December-14	2011		
48	737-700	700LUV		January-15	2011		

49	737-700	700LUV		February-15	2011
50	737-700	700LUV		March-15	2011
51	737-700	700LUV		April-15	2011
52	737-700	700LUV		May-15	2011
53	737-700	700LUV		June-15	2011
54	737-700	700LUV		July-15	2011
55	737-700	700LUV		August-15	2011
56	737-700	700LUV		September-15	2011
57	737-700	700LUV		November-15	2011
58	737-700	700LUV	36938	April-16	2011
59	737-700	700LUV	36939	May-16	2011
60	737-700	700LUV	36945	July-16	2011
61	737-700	700LUV	36977	September-16	2011
62	737-700	700LUV		January-17	2011
63	737-700	700LUV		February-17	2011
64	737-700	700LUV		March-17	2011
65	737-700	700LUV		April-17	2011
66	737-700	700LUV		May-17	2011
67	737-700	700LUV		June-17	2011
68	737-700	700LUV		August-17	2011
69	737-700	700LUV		September-17	2011
70	737-700	700LUV		October-17	2011
71	737-700	700LUV		November-17	2011
72	737-700	700LUV		January-18	2011
73	737-700	700LUV		February-18	2011
74	737-700	700LUV		March-18	2011
75	737-700	700LUV		April-18	2011
76	737-700	700LUV		May-18	2011
77	737-700	700LUV		June-18	2011
78	737-700	700LUV		July-18	2011
79	737-700	700LUV		August-18	2011
80	737-700	700LUV		September-18	2011
81	737-700	700LUV		October-18	2011
82				<i>tbd</i>	
83				<i>tbd</i>	
84				<i>tbd</i>	
85				<i>tbd</i>	
86				<i>tbd</i>	
87				<i>tbd</i>	
88				<i>tbd</i>	
89				<i>tbd</i>	
90				<i>tbd</i>	

SWA-PA-1810-LA-1003498R1

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

Subject: ***

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



This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Boeing and Buyer wish to enter into an agreement pursuant to which each party will contribute equally *** the entry into service of the Aircraft as more specifically provided below.

1. Definitions.

1.1 ***

1.2 Covered Aircraft shall mean those twenty (20) Aircraft identified below:

<u>Delivery Month</u>	<u>No. Of Aircraft</u>	<u>MSN</u>
Mar-2012	2	36680 and 36980
Apr-2012	3	36681, 36683 and 36983
May-2012	3	36682, 36985, and 36987
Jul-2012	2	36684 and 36990
Aug-2012	2	36685 and 36992
Sep-2012	2	36686 and 36994
Oct-2012	2	36687 and 36997
Nov-2012	2	37005 and 37003
Dec-2012	2	37006 and 37009

1.3 Performance Period shall mean the period beginning one (1) year before and ending one (1) year after the scheduled delivery month of the first Covered Aircraft.

BOEING PROPRIETARY

PA 1810/SA75

2. ***

3. ***

BOEING PROPRIETARY

PA 1810/SA75

4. Project Approval.

Following the execution of this Letter Agreement, a Boeing Airline Marketing Services representative will meet with Buyer's designated representative to review and approve the extent, selection, scheduling, *** pursuant to this Letter Agreement.

5. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Buyer in consideration of Buyer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

6. Confidential Treatment.

Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement No. 6-1162-RLL-934, as amended.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13 , 2011

Southwest Airlines Co.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

BOEING PROPRIETARY

PA 1810/SA75



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-1810-LA-1003490R1

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

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 seventy-three (73) Block 800LUV Aircraft identified in Table 1b of the Purchase Agreement (**Block 800LUV Aircraft**). All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

SWA-PA-1810-LA-1003490R1

Page 1
SA-75

BOEING PROPRIETARY



2. ***

SWA-PA-1810-LA-1003490R1

Page 2
SA-75

BOEING PROPRIETARY



3. ***

4. Assignment.

Unless otherwise noted herein, *** described in this Letter Agreement are provided *** in consideration of Buyer's taking title to the Aircraft at time of delivery and becoming the operator of the Aircraft. This Letter Agreement cannot be assigned, in whole or in part, without the prior written consent of Boeing.

5. 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/ Cheri A Fischer
Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven
Its EVP & Chief Operating Officer

SWA-PA-1810-LA-1003490R1

BOEING PROPRIETARY



SWA-PA-1810-LA-1003367R1

Southwest Airlines Co.
2702 Love Field Drive
PO Box 36611
Dallas, TX 75235-1611

Subject: ***

Reference: Purchase Agreement No. PA-1810 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-800 aircraft (**737-8H4 Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the 737-8H4 Aircraft and cannot be assigned in whole or in part.

2. Confidential Treatment

Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing,

SWA-PA-1810-LA-1003367R1

BOEING PROPRIETARY



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/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13 , 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-1810-LA-1003367R1

BOEING PROPRIETARY

SA-75
LA Page 2

MODEL 737-800 WITH WINGLETS*
FOR SOUTHWEST AIRLINES CO.**

SECTION	CONTENTS
1	***
2	***
3	***
4	***
5	***
6	***
7	***

P.A. No. 1810
AERO-B-BBA4-M10-0985F

BOEING PROPRIETARY

SS11-0444

1 ***
2 ***

P.A. No. 1810
AERO-B-BBA4-M10-0985F

SS11-0444

3 ***

4 ***

5 ***

P.A. No. 1810
AERO-B-BBA4-M10-0985F

BOEING PROPRIETARY

SS11-0444

6 ***

7 ***

P.A. No. 1810
AERO-B-BBA4-M10-0985F

BOEING PROPRIETARY

SS11-0444

SWA-PA-1810-LA-1105883

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

Subject: ***

This Letter Agreement amends Purchase Agreement No. 1810 dated January 19, 1994 (the Purchase Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to the sale by Boeing and the purchase by Buyer of **Boeing** Model 737-7H4 aircraft (the Aircraft).

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

1. ***

P.A. No. 1810
K/SWA

SA-75

2. ***

3. ***

P.A. No. 1810
K/SWA

SA-75

P.A. No. 1810
K/SWA

SA-75

4. Confidential Treatment

Buyer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity, except as provided in Letter Agreement 6-1162-RLL-934, as amended.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer
Its Attorney-In-Fact

ACCEPTED AND AGREED TO as of this

date: December 13 , 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven
Its EVP & Chief Operating Officer

P.A. No. 1810
K/SWA

SA-75

SWA-PA-1810-LA-1105884

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

Subject: Option Aircraft

This Letter Agreement amends Purchase Agreement No. 1810 dated as of January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 aircraft (Aircraft).

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

In consideration of the purchase by Buyer of the Aircraft, Boeing hereby agrees to manufacture and sell to Buyer and Buyer shall have the option to purchase (Option or Options) the additional Model 737-7H4 aircraft as described in paragraph 1 of Attachment A hereto and listed in Attachment B hereto (Option Aircraft).

1. Delivery of Option Aircraft.

The Option Aircraft will be delivered to Buyer during or before the months set forth in Attachment B to this Letter Agreement.

2. Price.

2.1 The advance payment base prices of the Option Aircraft are set forth in Attachment B to this Agreement. The Option Aircraft pricing elements and associated pricing terms and conditions are given in Attachment A to this Letter Agreement.

2.2 The Advance Payment Base Prices of the Option Aircraft identified in Attachment B to this Letter Agreement do include an amount for special features in addition to those specifically described in Attachment A but do not include any amount for items of Buyer Furnished Equipment (BFE). An estimate for typical special features is*** per Option Aircraft (expressed in 2011 STE dollars) Attachment B to this Letter Agreement lists the Advance Payment Base Price per Option Aircraft.

SWA-PA-01810-LA-1105884 (58928-10.TXT)
K / SWA

2.3 The Option Aircraft purchase price will be the applicable basic price thereof at the time of Option Aircraft delivery adjusted in accordance with Boeing's Aircraft escalation provisions contained in the definitive agreement to purchase the Option Aircraft. The purchase price will include the price for Seller Purchased Equipment (SPE) if Buyer has elected to change Buyer Furnished Equipment (BFE) to SPE.

3. Option Aircraft Payment.

3.1 In consideration of the granting of the Options as set forth herein, on the date of execution of this Letter Agreement, Buyer will pay a deposit to Boeing of *** for each Option Aircraft (Deposit). In the event Buyer exercises its Options herein, the amount of the Deposit will be credited against the first advance payment due for such Option Aircraft pursuant to the advance payment schedule set forth in the definitive agreement for such Option Aircraft. In the event that Buyer does not exercise its Options to purchase the Option Aircraft pursuant to the terms and conditions set forth herein, Boeing will be entitled to retain the Deposits for the Option Aircraft except as provided in paragraph 4 herein.

3.2 Unless otherwise agreed by the parties, advance payments in the amount of *** of the advance payment base price will be payable on the Option Aircraft in accordance with Attachment B of this Letter Agreement. The remainder of the Option Aircraft purchase price is due at the time of delivery of the Option Aircraft.

4. Option Exercise.

4.1 To exercise its Option, Buyer will give written or telegraphic notice thereof to Boeing on or before eighteen (18) months prior to the first day of the delivery month of each Option Aircraft.

4.2 It is understood and agreed that Boeing may accelerate the Option exercise dates specified above if Boeing must make production decisions which are dependent on Buyer's decision to buy the Option Aircraft. If Boeing elects to accelerate the Option exercise dates, Boeing will do so by giving written or telegraphic notice thereof to Buyer. Such notice will

specify the revised Option exercise dates, which will not be earlier than 30 days after the date of transmittal of such notice, and the Option Aircraft delivery positions affected by such revision. If Buyer fails to exercise its Option for any Option Aircraft affected by such revised dates, the Deposit applicable to such Option Aircraft will be promptly refunded, with interest, to Buyer. The interest rate for calculation of the interest associated with such refund is the rate of two percent (2%) below the Citibank base rate in effect from time to time during the period the Option deposit is held by Boeing.

5. Contract Terms.

It is understood that Boeing and Buyer will use their best efforts to enter into a definitive agreement for the Option Aircraft within thirty (30) days after Buyer exercises an Option to purchase Option Aircraft pursuant to paragraph 4 covering the detailed terms and conditions for the sale of such Option Aircraft.

Such definitive agreement will include the terms and conditions contained herein together with the terms and conditions, not inconsistent herewith, contained in Boeing's then-current standard form of purchase agreement for the sale of Model 737-700 aircraft in effect as of the date of Option exercise and such additional terms and conditions as may be mutually agreed upon. In the event the parties have not entered into such an agreement within the time period contemplated herein, either party may, exercisable by written or telegraphic notice given to the other within thirty (30) days after such period, terminate the purchase of such Option Aircraft.

6. Termination of Option to Purchase.

Either Boeing or Buyer may terminate the Options to purchase an Option Aircraft if any of the following events are not accomplished by the respective dates contemplated in this letter agreement, or in the Agreement, as the case may be:

- (i) termination of the purchase of the Aircraft under the Agreement for any reason;
- (ii) payment by Buyer of the Deposit with respect to an Option Aircraft pursuant to paragraph 3.1 herein;

(iii) exercise of an Option to purchase an Option Aircraft pursuant to the terms hereof.

Any termination of an Option to purchase by Boeing which is based on the termination of the purchase of Aircraft under the Agreement will be on a one-for-one basis, for each Aircraft so terminated.

Any cancellation of an Option to purchase which is based on failure to make the required Deposit or to exercise the Option to purchase shall only apply to the Option Aircraft so canceled.

Termination of an Option to purchase provided by this letter agreement will be caused by either party giving written notice to the other within 10 days after the applicable date. Upon receipt of such notice, all rights and obligations of the parties with respect to an Option Aircraft for which the Option to purchase has been terminate will thereupon terminate.

7. Confidential Treatment. Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement No. 6-1162-RLL-934, as amended.

P.A. No. 1810
K/SWA

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer
Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

date: December 13 , 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven
Its EVP & Chief Operating Officer

Attachments

P.A. No. 1810
K/SWA

SA-75

Model 737-7H4 Aircraft

1. Option Aircraft Description and Changes.

1.1 Aircraft Description. The Option Aircraft is described by Boeing Detail Specification D019A001SWA37P-1 Rev New, Dated September 23, 2010.

1.2 Changes. The Detail Specification will be revised to include:

(1) Changes applicable to the basic Model 737-700 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of a definitive agreement to purchase the Option Aircraft.

(2) Changes mutually agreed upon.

(3) Changes required to obtain a Standard Certificate of Airworthiness.

(4) To provide sufficient Option Aircraft manufacturing and procurement lead time it is necessary for Boeing and Buyer to reach final agreement on the Option Aircraft configuration, including BFE/SPE vendor selection fifteen (15) months prior to delivery of each Option Aircraft. If such items are not resolved by the indicated dates, Boeing reserves the right to amend this letter agreement:

(i) to adjust the scheduled delivery of the Option Aircraft to a later time period and,

(ii) to make such other changes as are appropriate and consistent with the revised Option Aircraft deliveries.

1.3 Effect of Changes. Changes to the Detail Specification incorporated pursuant to the provisions of the clauses above will include the effects of such changes upon Option Aircraft weight, balance, design and performance. Performance guarantees for the Option Aircraft which are mutually acceptable to the parties will be included in the definitive agreement for the Option Aircraft.

2. Price Description

2.1 Price Elements Per Aircraft. The Aircraft Basic Price detailed in Attachment B to this Letter Agreement is added to the estimated Economic Price Adjustment to determine the Advance Payment Base Price of the Option Aircraft (also listed in Attachment B of this Letter Agreement).

2.2 ***

P.A. No. 1810
K/SWA

SA-75

**Attachment B to
Letter Agreement No. SWA-PA-1810-LA-1105884
Option Aircraft Delivery, Description, Price and Advance Payments**

Airframe Model/MTOW: 737-700 154500 pounds
Engine Model/Thrust: CFM56-7B24 24000 pounds
Base Aircraft Price: ***
Special Features: ***
Sub-Total of Aircraft Base Price and Features: ***
Engine Price (Per Aircraft): ***
Aircraft Basic Price (Excluding BFE/SPE): ***
Buyer Furnished Equipment (BFE) Estimate: ***
Seller Purchased Equipment (SPE) Estimate: ***
Non-Refundable Deposit/Aircraft at Def Agreement: ***

Detail Specification: D019A001SWA37P-1 Rev New
Airframe Price Base Year/Escalation Formula: Jul-11 ECI-MFG/CPI
Engine Price Base Year/Escalation Formula: N/A N/A

Aircraft Escalation Data:

Base Year Index (ECI): ***
Base Year Index (CPI): ***

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)	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
Jun-2014	2	***	***	***	***	***	***
Jul-2014	4	***	***	***	***	***	***
Aug-2014	2	***	***	***	***	***	***
Sep-2014	2	***	***	***	***	***	***
Oct-2014	2	***	***	***	***	***	***
Nov-2014	2	***	***	***	***	***	***
Dec-2014	1	***	***	***	***	***	***
Jan-2015	2	***	***	***	***	***	***
Feb-2015	1	***	***	***	***	***	***
Mar-2015	1	***	***	***	***	***	***
Apr-2015	1	***	***	***	***	***	***
May-2015	2	***	***	***	***	***	***
Jun-2015	2	***	***	***	***	***	***

**Attachment B to
Letter Agreement No. SWA-PA-1810-LA-1105884
Option Aircraft Delivery, Description, Price and Advance Payments**

<u>Delivery Date</u>	<u>Number of Aircraft</u>	<u>Escalation Factor (Airframe)</u>		<u>Escalation Estimate Adv Payment Base Price Per A/P</u>	<u>Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery):</u>			
					<u>At Signing</u> ***	<u>24 Mos.</u> ***	<u>21/18/12/9/6 Mos.</u> ***	<u>Total</u> ***
Jul-2015	2	***		***	***	***	***	***
Aug-2015	1	***		***	***	***	***	***
Jan-2016	1	***	Deposit paid prior to SA-75	***	***	***	***	***
Jan-2016	1	***		***	***	***	***	***
Jun-2016	1	***	Deposit paid prior to SA-75	***	***	***	***	***
Jul-2016	1	***		***	***	***	***	***
Aug-2016	1	***	Deposit paid prior to SA-75	***	***	***	***	***
Sep-2016	1	***	Deposit paid prior to SA-75	***	***	***	***	***
Oct-2016	1	***	Deposit paid prior to SA-75	***	***	***	***	***
Nov-2016	1	***	Deposit paid prior to SA-75	***	***	***	***	***
Nov-2016	1	***		***	***	***	***	***
Dec-2016	1	***	Deposit paid prior to SA-75	***	***	***	***	***
Dec-2016	2	***		***	***	***	***	***
Jan-2017	2	***		***	***	***	***	***
Feb-2017	2	***		***	***	***	***	***
Mar-2017	3	***		***	***	***	***	***
Apr-2017	3	***		***	***	***	***	***
May-2017	2	***		***	***	***	***	***
Jun-2017	1	***		***	***	***	***	***
Jul-2017	1	***	Deposit paid prior to SA-75	***	***	***	***	***
Jul-2017	1	***		***	***	***	***	***
Aug-2017	1	***	Deposit paid prior to SA-75	***	***	***	***	***
Sep-2017	1	***	Deposit paid prior to SA-75	***	***	***	***	***
Sep-2017	1	***		***	***	***	***	***
Oct-2017	1	***	Deposit paid prior to SA-75	***	***	***	***	***

**Attachment B to
Letter Agreement No. SWA-PA-1810-LA-1105884
Option Aircraft Delivery, Description, Price and Advance Payments**

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)		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
Oct-2017	1	***		***	***	***	***	***
Nov-2017	1	***	Deposit paid prior to SA-75	***	***	***	***	***
Nov-2017	1	***		***	***	***	***	***
Dec-2017	2	***	Deposit paid prior to SA-75	***	***	***	***	***
Dec-2017	1	***		***	***	***	***	***
Jan-2018	2	***		***	***	***	***	***
Feb-2018	3	***		***	***	***	***	***
Mar-2018	3	***		***	***	***	***	***
Apr-2018	2	***		***	***	***	***	***
May-2018	2	***		***	***	***	***	***
Jun-2018	2	***		***	***	***	***	***
Jul-2018	2	***		***	***	***	***	***
Aug-2018	2	***		***	***	***	***	***
Sep-2018	2	***		***	***	***	***	***
Oct-2018	2	***		***	***	***	***	***
Nov-2018	3	***		***	***	***	***	***
Dec-2018	3	***		***	***	***	***	***
Total:	92							

SWA-PA-01810-LA-1105884 (58928-10.TXT)

Boeing Proprietary

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SWA-PA-1810-LA-1105885

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 one hundred twenty-seven (127) 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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BOEING PROPRIETARY



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BOEING PROPRIETARY



- 2. ***
- 3. ***
- 4. ***

SWA-PA-01810-LA-1105885

BOEING PROPRIETARY



5. Assignment.

Unless otherwise noted herein, ***

This Letter Agreement cannot be assigned, in whole or in part, without the prior written consent of Boeing.

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/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13 , 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-01810-LA-1105885

BOEING PROPRIETARY



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-1810-LA-1105886

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

Subject: ***

Reference: 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 two hundred (200) Block 700LUV Aircraft and Block 800LUV Aircraft identified in Tables 1a and 1b, respectively, to the Purchase Agreement (**Firm Aircraft**), and the ninety-two (92) Option Aircraft identified in the Attachment to Letter Agreement No. SWA-PA-1810-LA-1105884 to the Purchase Agreement (**Option Aircraft**). All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

2. ***

P.A. No. 1810
SWA-PA-1810-LA-1105886

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Page 1

BOEING PROPRIETARY



3. Confidentiality.

Buyer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Buyer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Buyer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Buyer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Buyer shall be fully responsible to Boeing for compliance with such obligations.

4. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Buyer in consideration of Buyer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.



Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer
Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven
Its EVP & Chief Operating Officer

P.A. No. 1810
SWA-PA-1810-LA-1105886

BOEING PROPRIETARY

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The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-1810-LA-1105887

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

Subject: ***

Reference: Purchase Agreement No. PA-1810 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Buyer**) relating to Model 737-700 aircraft (**737-7H4 Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Buyer in consideration of Buyer's becoming the operator of the 737-7H4 Aircraft and cannot be assigned in whole or in part.

2. Confidential Treatment

Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing,

SWA-PA-1810-LA-1105887

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LA Page 1

BOEING PROPRIETARY



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/ Cheri A Fischer
Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven
Its EVP & Chief Operating Officer

SWA-PA-01810-LA-1005887

BOEING PROPRIETARY

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MODEL 737-700 WITH WINGLETS ***
FOR SOUTHWEST AIRLINES CO.

SECTION		CONTENTS
1	***	
2	***	
3	***	
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5	***	
6	***	
7	***	

P.A. No. 1810
AERO-B-BBA4-M11-0804B

BOEING PROPRIETARY

SS11-0444

1 ***

2 ***

P.A. No. 1810
AERO-B-BBA4-M11-0804B

BOEING PROPRIETARY

SS11-0444

3 ***

4 ***

5 ***

P.A. No. 1810
AERO-B-BBA4-M11-0804B

BOEING PROPRIETARY

SS11-0444

6 ***

7 ***

P.A. No. 1810
AERO-B-BBA4-M11-0804B

BOEING PROPRIETARY

SS11-0444



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-1810-LA-1105888

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

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. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

SWA-PA-1810-LA-1105888

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BOEING PROPRIETARY



2. Termination of Agreements relating to Large Area Display System. Boeing and Buyer hereby terminate all agreements relating to the installation of large area display systems on Buyer's 737-300/-500 aircraft in Buyer's fleet (**LADS Project**). ***

Boeing and Buyer hereby agree that neither party shall have any further obligations with respect to the LADS Project.

3. ***

SWA-PA-1810-LA-1105888

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BOEING PROPRIETARY



*** Aircraft by MSN

36717	33943
34861	33925
33923	36724
36718	33917
33929	34479
36399	34862
33927	35110
33928	33918
35109	33930
35788	33931
36091	33921
33926	33922
33919	36725
33934	33933
33924	36716

4. Assignment.

The business terms described in this Letter Agreement are provided *** in consideration of Buyer's taking title to the Firm Aircraft and Option Aircraft at time of delivery and becoming the operator of the Firm Aircraft and Option Aircraft. Under no circumstances will Buyer be permitted to assign the business terms set forth herein.

5. Confidentiality.

Buyer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Buyer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Buyer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this paragraph) without the prior written consent of Boeing and (c) any auditors and attorneys of Buyer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this paragraph, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Buyer shall be fully responsible to Boeing for compliance with such obligations.



Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13 , 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-1810-LA-1105888

BOEING PROPRIETARY

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SWA-PA-1810-LA-1105889

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

Subject: ***

Reference: Purchase Agreement No. PA-1810 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737NG aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

1.1 Customer currently leases model 717 aircraft from Boeing Capital Corporation (Leased 717 Aircraft).

1.2 ***

1.3 ***

1.4 ***

SWA-PA-1810-LA-1105889



2. Defined Terms: The following capitalized terms have the following meaning:

3. ***

SWA-PA-1810-LA-1105889

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BOEING PROPRIETARY



4. Assignment. Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or in part.

5. Confidentiality. Customer understands and agrees that the information contained herein represents confidential business information and has value precisely because it is not available generally or to other parties. Customer agrees to limit the disclosure of its contents to employees of Customer with a need to know the contents for purposes of helping Customer perform its obligations under the Purchase Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer
Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13 , 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven
Its EVP & Chief Operating Officer

SWA-PA-1810-LA-1105889

BOEING PROPRIETARY

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The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

6-1162-CAF-0390

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

Subject: ***

Reference: Purchase Agreement Nos. 1810 and 3729 between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-700, -800 and 737-7/8/9 aircraft (**Purchase Agreements**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreements. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreements.

6-1162-CAF-0390

BOEING PROPRIETARY

Page 1



Customer understands that certain information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations specifically relating to this Letter Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing and (c) attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this clause, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer
Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13 , 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven
Its EVP & Chief Operating Officer

6-1162-CAF-0390

BOEING PROPRIETARY

PURCHASE AGREEMENT NUMBER PA-03729

between

THE BOEING COMPANY

and

Southwest Airlines Co.

Relating to Boeing Model 737-8 Aircraft

*****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.**

SWA-PA-03729

BOEING PROPRIETARY

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Article 5

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Delivery Schedule
Price
Payment
Additional Terms

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A
B

Aircraft Configuration
Aircraft Delivery Requirements and Responsibilities

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AE1
BFE1
CS1
EE1
SLP1

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Escalation Adjustment/Airframe and Optional Features
BFE Variables
Customer Support Variables
Engine Escalation/Engine Warranty and Patent Indemnity
Service Life Policy Components

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SWA-PA-03729-LA-1106463
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Open Matters

BOEING PROPRIETARY

LETTER AGREEMENTS

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SWA-PA-03729-LA-1106472
SWA-PA-03729-LA-1106473
SWA-PA-03729-LA-1106474
SWA-PA-03729-LA-1106475
SWA-PA-03729-LA-1106476
SWA-PA-03729-LA-1106477
SWA-PA-03729-LA-1106478
SWA-PA-03729-LA-1106479
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SWA-PA-03729

TITLES

Substitute Aircraft

Option Aircraft

Purchase Agreement No. PA-03729

between

The Boeing Company

and

Southwest Airlines Co.

This Purchase Agreement No. PA-03729 between The Boeing Company, a Delaware corporation, (**Boeing**) and Southwest Airlines Co., a Texas corporation, (**Customer**) relating to the purchase and sale of Model 737-8 aircraft together with all tables, exhibits, supplemental exhibits, letter agreements and other attachments thereto, if any, (**Purchase Agreement**) incorporates the terms and conditions (except as specifically set forth below) of the Aircraft General Terms Agreement dated as of December 13, 2011 between the parties, identified as SWA-AGTA (**AGTA**).

1. Quantity, Model and Description.

The aircraft to be delivered to Customer will be designated as Model 737-8 aircraft (**Aircraft**). Boeing will manufacture and sell to Customer Aircraft conforming to the configuration described in Exhibit A in the quantities listed in Table 1 to the Purchase Agreement.

2. Delivery Schedule.

The scheduled months of delivery of the Aircraft are listed in the attached Table 1. Exhibit B describes certain responsibilities for both Customer and Boeing in order to accomplish the delivery of the Aircraft.

3. Price.

3.1 Aircraft Basic Price. The Aircraft Basic Price is listed in Table 1 and is subject to escalation in accordance with the terms of this Purchase Agreement.

3.2 Advance Payment Base Prices. The Advance Payment Base Prices listed in Table 1 were calculated utilizing the latest escalation factors available to Boeing on the date of this Purchase Agreement projected to the scheduled delivery month of each Aircraft.

4. Payment.

4.1 Boeing acknowledges receipt of a deposit in the amount shown in Table 1 for each Aircraft (**Deposit**).

4.2 The standard advance payment schedule for the Model 737-8 aircraft requires Customer ***, on the effective date of the Purchase Agreement for the

Aircraft. Additional advance payments for each Aircraft are due as specified in and on the first business day of the months listed in the attached Table 1.

4.3 For any Aircraft whose scheduled month of delivery is less than twenty-four (24) months from the date of this Purchase Agreement, the total amount of advance payments due for payment upon signing of this Purchase Agreement will include all advance payments which are past due in accordance with the standard advance payment schedule set forth in paragraph 4.2 above.

4.4 Customer will pay the balance of the Aircraft Price of each Aircraft at delivery.

5. Additional Terms.

5.1 Aircraft Information Table. Table 1 consolidates information contained in Articles 1, 2, 3 and 4 with respect to (i) quantity of Aircraft, (ii) applicable Detail Specification, (iii) month and year of scheduled deliveries, (iv) Aircraft Basic Price, (v) applicable escalation factors and (vi) Advance Payment Base Prices and advance payments and their schedules.

5.2 Escalation Adjustment/Airframe and Optional Features. Supplemental Exhibit AE1 contains the applicable airframe and optional features escalation formula.

5.3 Buyer Furnished Equipment Variables. Supplemental Exhibit BFE1 contains supplier selection dates, on dock dates and other variables applicable to the Aircraft.

5.4 Customer Support Variables. Information, training, services and other things furnished by Boeing in support of introduction of the Aircraft into Customer's fleet are described in Supplemental Exhibit CS1.

5.5 Engine Escalation Variables. Supplemental Exhibit EE1 contains the applicable engine escalation formula, the engine warranty and the engine patent indemnity for the Aircraft describes the applicable engine escalation formula and contains the engine warranty and the engine patent indemnity for the Aircraft.

5.6 Service Life Policy Component Variables. Supplemental Exhibit SLP1 lists the SLP Components covered by the Service Life Policy for the Aircraft.

5.7 Public Announcement. Each of Customer and Boeing reserves the right to make a public announcement regarding Customer's purchase of the Aircraft upon approval from the authorized representative of the other party hereto.

5.8 Negotiated Agreement; Entire Agreement. This Purchase Agreement, including the provisions of Article 8.2 of the AGTA relating to insurance, and Article 11 of Part 2 of Exhibit C of the AGTA relating to DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES, has been the subject of discussion and negotiation and is understood by the parties; the Aircraft Price and other agreements of the parties stated in this Purchase Agreement were arrived at in consideration of such provisions. This Purchase Agreement, including the AGTA,

contains the entire agreement between the parties and supersedes all previous proposals, understandings, commitments or representations whatsoever, oral or written, and may be changed only in writing signed by authorized representatives of the parties.

AGREED AND ACCEPTED this

December 13, 2011

Date

THE BOEING COMPANY

/s/ Cheri A Fischer

Signature

Cheri A Fischer

Printed name

Attorney-in-Fact

Title

SWA-PA-03729

SOUTHWEST AIRLINES CO.

/s/ Michael Van de Ven

Signature

Michael Van de Ven

Printed name

EVP & Chief Operating Officer

Title

BOEING PROPRIETARY

**Table 1 To
Purchase Agreement No. PA-03729
Aircraft Delivery, Description, Price and Advance Payments**

Airframe Model/MTOW:	737-8	175900 pounds	Detail Specification:	D019A001-TBD (10/27/2011)	
Engine Model/Thrust:	CFMLEAP-1B24	tbd pounds	Airframe Price Base Year/Escalation Formula:	Jul-11	ECI-MFG/CPI
Airframe Price:		***	Engine Price Base Year/Escalation Formula:	N/A	N/A
Optional Features:		***			
Sub-Total of Airframe and Features:		***	Airframe Escalation Data:		
Engine Price (Per Aircraft):		***	Base Year Index (ECI):		***
Aircraft Basic Price (Excluding BFE/SPE):		***	Base Year Index (CPI):		***
Buyer Furnished Equipment (BFE) Estimate:		***			
Seller Purchased Equipment (SPE) Estimate:		***			
Deposit per Aircraft:		***			

Delivery Date	Number of Aircraft	Escalation Factor (Airframe) ¹	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery):				Total
				At Signing	24 Mos.	21/18/12/9/6 Mos.	***	
2017	4	***	***	***	***	***	***	***
2018	15	***	***	***	***	***	***	***
2019	33	***	***	***	***	***	***	***
2020	34	***	***	***	***	***	***	***
2021	34	***	***	***	***	***	***	***
2022	30	***	***	***	***	***	***	***
Total:	150							

¹ The escalation factor estimate reflects a July escalation factor which is used for determining the annual average Advance Payment Base Price per Aircraft. ***

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

Southwest Airlines Co.

Exhibit A to Purchase Agreement Number PA-03729

SWA-PA-03729-EXA

Purchase Agreement 03729

EXA Page 1

BOEING PROPRIETARY

Exhibit A

AIRCRAFT CONFIGURATION

Dated December 13, 2011

relating to

BOEING MODEL 737-8 AIRCRAFT

The initial configuration of Customer's Model 737-8 Aircraft has been defined by Boeing 737-8 Airplane Description Document No. D019A007 Rev New dated November 4, 2011 and is more fully discussed in Letter Agreement SWA-PA-03729-LA-1106463 entitled "Open Matters."

SWA-PA-03729-EXA

Purchase Agreement 03729
EXA Page 2

BOEING PROPRIETARY

AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

between

THE BOEING COMPANY

and

Southwest Airlines Co.

Exhibit B to Purchase Agreement Number PA-03729

SWA-PA-03729-EXB

BOEING PROPRIETARY

Page 1

Exhibit B
AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES
relating to
BOEING MODEL 737-8 AIRCRAFT

Both Boeing and Customer have certain documentation and approval responsibilities at various times during the construction cycle of Customer's Aircraft that are critical to making the delivery of each Aircraft a positive experience for both parties. This Exhibit B documents those responsibilities and indicates recommended completion deadlines for the actions to be accomplished.

1. GOVERNMENT DOCUMENTATION REQUIREMENTS.

Certain actions are required to be taken by Customer in advance of the scheduled delivery month of each Aircraft with respect to obtaining certain government issued documentation.

1.1 Airworthiness and Registration Documents. Not later than **six (6) months prior to delivery** of each Aircraft, Customer will notify Boeing of the registration number to be painted on the side of the Aircraft. In addition, and not later than **three (3) months prior to delivery** of each Aircraft, Customer will, by letter to the regulatory authority having jurisdiction, authorize the temporary use of such registration numbers by Boeing during the pre-delivery testing of the Aircraft.

Customer is responsible for furnishing any Temporary or Permanent Registration Certificates required by any governmental authority having jurisdiction to be displayed aboard the Aircraft after delivery.

1.2 Certificate of Sanitary Construction.

1.2.1 U.S. Registered Aircraft. Boeing will obtain from the United States Public Health Service, a United States Certificate of Sanitary Construction to be provided by Boeing to Customer and displayed aboard each Aircraft after delivery to Customer.

1.2.2 Non-U.S. Registered Aircraft. If Customer requires a United States Certificate of Sanitary Construction at the time of delivery of the Aircraft, Customer will give written notice thereof to Boeing at least **three (3) months prior to delivery**. Boeing will then use commercially reasonable efforts to obtain the Certificate from the United States Public Health Service and present it to Customer at the time of Aircraft delivery. The above Boeing obligation only applies to commercial passenger-configured aircraft.

1.3 Customs Documentation.

1.3.1 Import Documentation. If the Aircraft is intended to be exported from the United States, Customer must notify Boeing not later than **three (3) months prior to delivery** of each Aircraft of any documentation required by the customs authorities or by any other agency of the country of import.

1.3.2 General Declaration - U.S. If the Aircraft is intended to be exported from the United States, Boeing will prepare Customs Form 7507, General Declaration, for execution by U.S. Customs immediately prior to the ferry flight of the Aircraft. For this purpose, Customer will furnish to Boeing not later than **twenty (20) days prior to delivery** all information required by U.S. Customs and Border Protection, including without limitation (i) a complete crew and passenger list identifying the names, birth dates, passport numbers and passport expiration dates of all crew and passengers and (ii) a complete ferry flight itinerary, including point of exit from the United States for the Aircraft.

If Customer intends, during the ferry flight of an Aircraft, to land at a U.S. airport after clearing Customs at delivery, Customer must notify Boeing not later than **twenty (20) days prior to delivery** of such intention. If Boeing receives such notification, Boeing will provide to Customer the documents constituting a Customs permit to proceed, allowing such Aircraft to depart after any such landing. Sufficient copies of completed Form 7507, along with passenger manifest, will be furnished to Customer to cover U.S. stops scheduled for the ferry flight.

1.3.3 Export Declaration - U.S. If the Aircraft is intended to be exported from the United States following delivery, and (i) Customer is a non-U.S. customer, Boeing will file an export declaration electronically with U.S. Customs and Border Protection (**CBP**), or (ii) Customer is a U.S. customer, it is the responsibility of the U.S. customer, as the exporter of record, to file the export declaration with CBP.

2. Insurance Certificates.

Unless provided earlier, Customer will provide to Boeing not later than **thirty (30) days prior to delivery** of the first Aircraft, a copy of the requisite annual insurance certificate in accordance with the requirements of Article 8 of the AGTA.

3. NOTICE OF FLYAWAY CONFIGURATION.

Not later than **twenty (20) days prior to delivery** of the Aircraft, Customer will provide to Boeing a configuration letter stating the requested "flyaway configuration" of the Aircraft for its ferry flight. This configuration letter should include:

- (i) the name of the company which is to furnish fuel for the ferry flight and any scheduled post-delivery flight training, the method of payment for such fuel, and fuel load for the ferry flight;
- (ii) the cargo to be loaded and where it is to be stowed on board the Aircraft, the address where cargo is to be shipped after flyaway and notification of any hazardous materials requiring special handling;
- (iii) any BFE equipment to be removed prior to flyaway and returned to Boeing BFE stores for installation on Customer's subsequent Aircraft;
- (iv) a complete list of names and citizenship of each crew member and non-revenue passenger who will be aboard the ferry flight; and
- (v) a complete ferry flight itinerary.

4. DELIVERY ACTIONS BY BOEING.

4.1 Schedule of Inspections. All FAA, Boeing, Customer and, if required, U.S. Customs Bureau inspections will be scheduled by Boeing for completion prior to delivery or departure of the Aircraft. Customer will be informed of such schedules.

4.2 Schedule of Demonstration Flights. All FAA and Customer demonstration flights will be scheduled by Boeing for completion prior to delivery of the Aircraft.

4.3 Schedule for Customer's Flight Crew. Boeing will inform Customer of the date that a flight crew is required for acceptance routines associated with delivery of the Aircraft.

4.4 Fuel Provided by Boeing. Boeing will provide to Customer, *** the amount of fuel shown in U.S. gallons in the table below for the model of Aircraft being delivered and full capacity of engine oil at the time of delivery or prior to the ferry flight of the Aircraft.

<u>Aircraft Model</u>	<u>Fuel Provided</u>
737	1,000

4.5 Flight Crew and Passenger Consumables. Boeing will provide reasonable quantities of food, coat hangers, towels, toilet tissue, drinking cups and soap for the first segment of the ferry flight for the Aircraft.

4.6 Delivery Papers, Documents and Data. Boeing will have available at the time of delivery of the Aircraft certain delivery papers, documents and data for execution and delivery with drafts, to the extent reasonably available, to be provided to Customer not less than five (5) days prior thereto. If title for the Aircraft will be transferred to Customer through a Boeing sales subsidiary and if the Aircraft will be registered with the FAA, Boeing will pre-position in Oklahoma City, Oklahoma, for filing with the FAA at the time of delivery of the Aircraft an executed original Form 8050-2, Aircraft Bill of Sale, indicating transfer of title to the Aircraft from Boeing's sales subsidiary to Customer.

4.6.1 Boeing agrees that to the extent that the Cape Town Convention may be applicable to the sale of the Aircraft to Customer, Boeing as seller shall consent to the sale as reasonably requested by Customer (at Customer's cost and expense) to permit Customer to register the sale of the Aircraft on the International Registry (as defined in the Cape Town Convention) in favor of Customer.

4.6.1.1 Definitions applicable to Article 0 herein.

- (i) **"Cape Town Convention"** means Convention on International Interests in Mobile Equipment, concluded in Cape Town, South Africa, on November 16, 2001 (including the Protocol and as amended, supplemented or modified from time to time).
- (ii) **"Protocol"** means Protocol to the Convention on International Interests in Mobile Equipment on Matters Specific to Aircraft (as amended, modified or supplemented from time to time)

4.7 Delegation of Authority. Boeing will present a certified copy of a Resolution of Boeing's Board of Directors, designating and authorizing certain persons to act on its behalf in connection with delivery of the Aircraft.

5. DELIVERY ACTIONS BY CUSTOMER.

5.1 Aircraft Radio Station License. At delivery Customer will provide its Aircraft Radio Station License to be placed on board the Aircraft following delivery.

5.2 Aircraft Flight Log. At delivery Customer will provide the Aircraft Flight Log for the Aircraft.

5.3 Delegation of Authority. Customer will present to Boeing at delivery of the Aircraft an original or certified copy of Customer's Delegation of Authority designating and authorizing certain persons to act on its behalf in connection with delivery of the specified Aircraft.

5.4 TSA Waiver Approval. Customer may be required to have an approved Transportation Security Administration (**TSA**) waiver for the ferry flight depending upon the Customer's en-route stop(s) and destination unless the Customer already has a TSA approved security program in place. Customer is responsible for application for the TSA waiver and obtaining TSA approval. Customer will provide a copy of the approved TSA waiver to Boeing upon arrival at the Boeing delivery center.

5.5 Electronic Advance Passenger Information System. Should the ferry flight of an Aircraft leave the United States, the Department of Homeland Security office requires Customer to comply with the Electronic Advance Passenger Information System (**eAPIS**). Customer needs to establish their own account with US Customs and Border Protection in order to file for departure. A copy of the eAPIS forms is to be provided by Customer to Boeing upon arrival of Customer's acceptance team at the Boeing delivery center.

**ESCALATION ADJUSTMENT
AIRFRAME AND OPTIONAL FEATURES**

between

THE BOEING COMPANY

and

Southwest Airlines Co.

**Supplemental Exhibit AE1
to Purchase Agreement Number PA-03729**

SWA-PA-03729-AE1

BOEING PROPRIETARY

Page 1

ESCALATION ADJUSTMENT
AIRFRAME AND OPTIONAL FEATURES
relating to
BOEING MODEL 737-8 AIRCRAFT

1. ***

SWA-PA-03729-AE1

BOEING PROPRIETARY

Page 2

BUYER FURNISHED EQUIPMENT VARIABLES

between

THE BOEING COMPANY

and

Southwest Airlines Co.

**Supplemental Exhibit BFE1
to Purchase Agreement Number PA-03729**

SWA-PA-03729-BFE1

BOEING PROPRIETARY

Page 1

BUYER FURNISHED EQUIPMENT VARIABLES

relating to

BOEING MODEL 737-8 AIRCRAFT

This Supplemental Exhibit BFE1 contains supplier selection dates, on-dock dates and other requirements applicable to the Aircraft.

1. Supplier Selection.

Customer will:

Select and notify Boeing of the suppliers and part numbers of the following BFE items by the following dates:

Galley System	tbd
Galley Inserts	tbd
Seats (passenger)	tbd
Overhead & Audio System	tbd
In-Seat Video System	tbd
Miscellaneous Emergency Equipment	tbd
Cargo Handling Systems* <i>(Single Aisle Programs only)</i>	tbd

* For a new certification, supplier requires notification ten (10) months prior to Cargo Handling System on-dock date.

2. On-dock Dates and Other Information.

On or before tbd, Boeing will provide to Customer the BFE Requirements electronically through My Boeing Fleet (**MBF** in My Boeing Configuration (**MBC**)). These requirements may be periodically revised, setting forth the items, quantities, on-dock dates and shipping instructions and other requirements relating to the in-sequence installation of BFE. For planning purposes, preliminary BFE on-dock dates are set forth below:

SWA-PA-03729-BFE1

BOEING PROPRIETARY

Page 2

<u>Item</u>	Preliminary On-Dock Dates
	[Month of Delivery]
Seats	Aircraft TBD
Galleys/Furnishings	TBD
Antennas & Mounting Equipment	TBD
Avionics	TBD
Cabin Systems Equipment	TBD
Miscellaneous Emergency Equipment	TBD
Textiles/Raw Material	TBD
Cargo Systems (Single Aisle Programs)	TBD
Provision Kits (Single Aisle Programs)	TBD
Radomes (Single Aisle Programs)	TBD

3. Additional Delivery Requirements - Import.

Customer will be the “**importer of record**” (as defined by the U.S. Customs and Border Protection) for all BFE imported into the United States, and as such, it has the responsibility to ensure all of Customer’s BFE shipments comply with U.S. Customs Service regulations. In the event Customer requests Boeing, in writing, to act as importer of record for Customer’s BFE, and Boeing agrees to such request, Customer is responsible for ensuring Boeing can comply with all U.S. Customs Import Regulations by making certain that, at the time of shipment, all BFE shipments comply with the requirements in the “International Shipment Routing Instructions”, including the Customs Trade Partnership Against Terrorism (C-TPAT), as set out on the Boeing website referenced below. Customer agrees to include the International Shipment Routing Instructions, including C-TPAT requirements, in each contract between Customer and BFE supplier.

http://www.boeing.com/companyoffices/doingbiz/supplier_portal/index_general.html

CUSTOMER SUPPORT VARIABLES

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

**Supplemental Exhibit CS1
to Purchase Agreement Number PA-03729**

SWA-PA-03729-CS1

BOEING PROPRIETARY

Page 1

BOEING PROPRIETARY

**ENGINE ESCALATION,
ENGINE WARRANTY AND PATENT INDEMNITY**

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

**Supplemental Exhibit EE1
to Purchase Agreement Number PA-03729**

SWA-PA-03729-EE1

BOEING PROPRIETARY

Page 1

ENGINE ESCALATION
ENGINE WARRANTY AND PATENT INDEMNITY
relating to
BOEING MODEL 737-8 AIRCRAFT

SWA-PA-03729-EE1

BOEING PROPRIETARY

Page 2

SERVICE LIFE POLICY COMPONENTS

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

**Supplemental Exhibit SLP1
to Purchase Agreement Number PA-03729**

SWA-PA-03729-SLP1

BOEING PROPRIETARY

Page 1

SERVICE LIFE POLICY COMPONENTS
relating to
BOEING MODEL 737-8 AIRCRAFT

This is the listing of SLP Components for the Aircraft which relate to Part 3, Boeing Service Life Policy of Exhibit C, Product Assurance Document to the AGTA and is a part of Purchase Agreement No. PA-03729.

1. Wing.

- (i) Upper and lower wing skins and stiffeners between the forward and rear wing spars.
- (ii) Wing spar webs, chords and stiffeners.
- (iii) Inspar wing ribs.
- (iv) Inspar splice plates and fittings.
- (v) Main landing gear support structure.
- (vi) Wing center section lower beams, spanwise beams and floor beams, but not the seat tracks attached to floor beams.
- (vii) Wing-to-body structural attachments.
- (viii) Engine strut support fittings attached directly to wing primary structure.
- (ix) Support structure in the wing for spoilers and spoiler actuators; for aileron hinges and reaction links; for leading edge devices and trailing edge flaps; and the winglets.
- (x) Trailing edge flap tracks and carriages.
- (xi) Aileron leading edge device and trailing edge flap internal, fixed attachment and actuator support structure.

2. Body.

- (i) External surface skins and doublers, longitudinal stiffeners, longerons and circumferential rings and frames between the forward pressure bulkhead and the vertical stabilizer rear spar bulkhead and structural support and enclosure for the APU but excluding all system components and related installation and connecting devices, insulation, lining, and decorative panels and related installation and connecting devices.
- (ii) Window and windshield structure but excluding the windows and windshields.
- (iii) Fixed attachment structure of the passenger doors, cargo doors and emergency exits, excluding door mechanisms and movable hinge components. Sills and frames around the body openings for the passenger doors, cargo doors and emergency exits, excluding scuff plates and pressure seals.

-
- (iv) Nose wheel well structure, including the wheel well walls, pressure deck, bulkheads, and gear support structure.
 - (v) Main gear wheel well structure including pressure deck and landing gear beam support structure.
 - (vi) Floor beams and support posts in the control cab and passenger cabin area, but excluding seat tracks.
 - (vii) Forward and aft pressure bulkheads.
 - (viii) Keel structure between the wing front spar bulkhead and the main gear wheel well aft bulkhead including splices.
 - (ix) Wing front and rear spar support bulkheads, and vertical and horizontal stabilizer front and rear spar support bulkheads including terminal fittings but excluding all system components and related installation and connecting devices, insulation, lining, and decorative panels and related installation and connecting devices.
 - (x) Support structure in the body for the stabilizer pivot and stabilizer screw.

3. Vertical Stabilizer.

- (i) External skins between front and rear spars.
- (ii) Front, rear and auxiliary spar chords, webs and stiffeners and attachment fittings.
- (iii) Inspar ribs.
- (iv) Rudder hinges and supporting ribs, excluding bearings.
- (v) Support structure in the vertical stabilizer for rudder hinges, reaction links and actuators.
- (vi) Rudder internal, fixed attachment and actuator support structure.

4. Horizontal Stabilizer.

- (i) External skins between front and rear spars.
- (ii) Front and rear spar chords, webs and stiffeners.
- (iii) Inspar ribs.
- (iv) Stabilizer center section including hinge and screw support structure.
- (v) Support structure in the horizontal stabilizer for the elevator hinges, reaction links and actuators.
- (vi) Elevator internal, fixed attachment and actuator support structure.

5. Engine Strut.

- (i) Strut external surface skin and doublers and stiffeners.
- (ii) Internal strut chords, frames and bulkheads.
- (iii) Strut to wing fittings and diagonal brace.
- (iv) Engine mount support fittings attached directly to strut structure and including the engine-mounted support fittings.

6. Main Landing Gear.

- (i) Outer cylinder.
- (ii) Inner cylinder, including axles.
- (iii) Upper and lower side struts, including spindles, universals and reaction links.
- (iv) Drag strut.
- (v) Orifice support tube.
- (vi) Downlock links including spindles and universals.
- (vii) Torsion links.
- (viii) Bell crank.
- (ix) Trunnion link.
- (x) Actuator beam, support link and beam arm.

7. Nose Landing Gear.

- (i) Outer cylinder.
- (ii) Inner cylinder, including axles.
- (iii) Orifice support tube.
- (iv) Upper and lower drag strut, including lock links.
- (v) Steering plates and steering collars.
- (vi) Torsion links.

NOTE: The Service Life Policy does not cover any bearings, bolts, bushings, clamps, brackets, actuating mechanisms or latching mechanisms used in or on the SLP Components.



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106463

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

Subject: Open Matters

Reference: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Given the long period of time between Purchase Agreement signing and delivery of the first Aircraft and the continued development of the 737-8 program, certain elements have not yet been defined. In consideration, Boeing and Customer agree to work together as the 737-8 program develops as follows:

1. Aircraft Delivery Schedule.

1.1 ***

1.2 Customer and Boeing will consult on a frequent basis to keep each other informed as to Customer's fleet plans and Boeing's production plans in order to meet the requirements of both parties. Based on such review and discussions, Boeing will use its best commercially reasonable efforts to meet Customer's fleet needs.

2. Aircraft Configuration.

2.1 The initial configuration of Customer's Model Aircraft has been defined by Boeing 737-8 Airplane Description Document No. D019A007 Rev New dated November 4, 2011 as described in Article 1 and Exhibit A of the Purchase Agreement (**Initial**)

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Open Matters

BOEING PROPRIETARY

Page 1



Configuration). ***

2.1.1 ***

2.1.2 ***

2.1.3 ***

2.1.4 ***

2.1.4.1 ***

2.1.4.2 ***

2.1.4.3 ***

2.1.4.4 ***

2.1.4.5 ***

SWA-PA-03729-LA-1106463
Open Matters

BOEING PROPRIETARY

Page 2

3. ***
4. Other Letter Agreements.
Boeing and Customer acknowledge that as they work together to develop the 737-8 program and as Boeing refines the definition of the Aircraft and associated production processes, there may be a need to execute additional letter agreements or amend letter agreements addressing one or more of the following:
- 4.1 Software. Additional provisions relating to software and software loading.
 - 4.2 Seller Purchased Equipment (SPE) and/or In-Flight Entertainment (IFE). Provisions relating to the terms under which Boeing may offer or install SPE in the Aircraft.
 - 4.3 Buyer Furnished Equipment (BFE). Provisions relating to the terms under which Boeing may install and certify Customer's BFE in the Aircraft.
5. Confidentiality.
Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its



obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106463
Open Matters

BOEING PROPRIETARY



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106464

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

Subject: ***

SWA-PA-03729-LA-1106464

BOEING PROPRIETARY

Page 1



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BOEING PROPRIETARY

Page 2



SWA-PA-03729-LA-1106464

BOEING PROPRIETARY

Page 3



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BOEING PROPRIETARY

Page 4



9. Order of Precedence.

In the event of any inconsistency between the terms of this Letter Agreement and the terms of any other provisions of the CSGTA, the terms of this Letter Agreement will control.

10. Confidentiality.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any

SWA-PA-03729-LA-1106464

Page 5

BOEING PROPRIETARY



other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106464



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106465

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

Subject: ***

SWA-PA-03729-LA-1106465

Page 1

BOEING PROPRIETARY



6. Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

SWA-PA-03729-LA-1106465

Page 2

BOEING PROPRIETARY



Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106465

Page 3

BOEING PROPRIETARY



SWA-PA-03729-LA-1106466

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

Subject: ***

Reference: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. Definitions.

1.1 **Commitment Limit** shall have the meaning set forth in Article 2, below.

1.2 **Covered Aircraft** shall mean those Aircraft identified on Table 1 to the Purchase Agreement as of the date of signing of this Letter Agreement.

1.3 ***

1.4 ***

1.5 ***

SWA-PA-03729-LA-1106466



2. ***

3. ***

4. ***

5. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part, without the prior written consent of Boeing.

SWA-PA-03729-LA-1106466

Page 2

BOEING PROPRIETARY



6. Confidential Treatment

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13 , 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106466

BOEING PROPRIETARY



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106467

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

Subject: ***

Reference: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

SWA-PA-03729-LA-1106467

BOEING PROPRIETARY

Page 1



2. ***
3. Assignment.
- Unless otherwise noted herein, ***described in this Letter Agreement are provided as a financial accommodation to Customer and in consideration of Customer's taking title to the Aircraft at time of delivery and becoming the operator of the Aircraft. This Letter Agreement cannot be assigned, in whole or in part, without the prior written consent of Boeing.

4. Confidentiality.
- Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

SWA-PA-03729-LA-1106467

BOEING PROPRIETARY

Page 2



Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106467

BOEING PROPRIETARY

Page 3



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106468

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

Subject: ***

Reference: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Definition of Terms:

SWA-PA-03729-LA-1106468

BOEING PROPRIETARY

Page 1



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106469

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

Subject: ***

References: 1) Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)
2) Letter Agreement SWA-PA-03729-LA-1106471, "Substitute Aircraft," to the Purchase Agreement (**Substitution Letter Agreement**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

SWA-PA-03729-LA-1106469

BOEING PROPRIETARY

Page 1



2. ***

3. ***

SWA-PA-03729-LA-1106469

BOEING PROPRIETARY

Page 2



4. ***

5. ***

6. ***

7. ***

8. ***

SWA-PA-03729-LA-1106469

BOEING PROPRIETARY

Page 3



9. ***
10. ***
11. Assignment.
- Unless otherwise noted herein, *** described in this Letter Agreement are provided *** to Customer and in consideration of Customer's taking title to the Aircraft at time of delivery and becoming the operator of the Aircraft. This Letter Agreement cannot be assigned, in whole or in part, without the prior written consent of Boeing.

12. Confidentiality.
- Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

SWA-PA-03729-LA-1106469

BOEING PROPRIETARY

Page 4



Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106469

BOEING PROPRIETARY

Page 5



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106470

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

Subject: ***

Reference: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

2. ***

3. ***

SWA-PA-03729-LA-1106470

BOEING PROPRIETARY

Page 1



4. ***

5. ***

6. ***

SWA-PA-03729-LA-1106470

BOEING PROPRIETARY

Page 2



7. ***

8. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

9. Confidential Treatment.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Section) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Section, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

SWA-PA-03729-LA-1106470

BOEING PROPRIETARY

Page 3



Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106470

Page 4

BOEING PROPRIETARY



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106471

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

Subject: Substitute Aircraft

- References:
- 1) Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)
 - 2) Letter Agreement No. SWA-PA-03729-LA-1106469, ***

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

2. ***

SWA-PA-03729-LA-1106471
Aircraft Model Substitution

BOEING PROPRIETARY

Page 1



3. ***

4. ***

SWA-PA-03729-LA-1106471
Aircraft Model Substitution

BOEING PROPRIETARY

Page 2



5. ***

SWA-PA-03729-LA-1106471
Aircraft Model Substitution

BOEING PROPRIETARY

Page 3



6. Assignment

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

7. Confidential Treatment

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,
THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Van

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106471
Aircraft Model Substitution

BOEING PROPRIETARY



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106472

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

Subject: ***

References: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

2. ***

SWA-PA-03729-LA-1106472

BOEING PROPRIETARY

Page 1



3. Confidentiality.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13 , 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-11064672

BOEING PROPRIETARY



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106473

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

Subject: ***

- References:
- 1) Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)
 - 2) Letter Agreement SWA-PA-03729-1106471 entitled "Aircraft Model Substitution" (**Substitution Letter**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

SWA-PA-03729-LA-1106473

BOEING PROPRIETARY



2. ***
3. Assignment.
Unless otherwise noted herein, *** to Customer and in consideration of Customer's taking title to the Substitute Aircraft at time of delivery and becoming the operator of the Substitute Aircraft. This Letter Agreement cannot be assigned, in whole or in part, without the prior written consent of Boeing.

4. Confidentiality.
Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

SWA-PA-03729-LA-1106473

BOEING PROPRIETARY

Page 2



Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106473

BOEING PROPRIETARY

Page 3



SWA-PA-03729-LA-1106474

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

Subject: Option Aircraft

References: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. Right to Purchase Option Aircraft.

Subject to the terms and conditions contained in this Letter Agreement, in addition to the Aircraft described in Table 1 to the Purchase Agreement as of the date of execution of this Letter Agreement, Customer will have the option to purchase additional Boeing Model 737-8 aircraft as option aircraft (**Option Aircraft**).

2. Delivery.

The number of aircraft and delivery years are listed in the Attachment 1 to this Letter Agreement.

3. Configuration.

3.1 Subject to the provisions of Article 3.2, below, the configuration for the Option Aircraft will be the Detail Specification for Boeing Model 737-8 aircraft at the revision level in effect at the time of Definitive Agreement (as defined in Article 8). Such Detail Specification will be revised to include (i) changes applicable to the Detail Specification that are developed by Boeing between the Option Exercise Date (as defined below) and the signing of the Definitive Agreement, (ii) changes required to obtain required regulatory certificates, and (iii) other changes as mutually agreed.

3.2 Boeing reserves the right to configure the Option Aircraft starting from a different configuration specification, provided that it can achieve the same configuration which would result pursuant to the provisions of Article 3.1.

SWA-PA-03729-LA-1106474
Option Aircraft

BOEING PROPRIETARY



4. ***

5. ***

6. ***

SWA-PA-03729-LA-1106474
Option Aircraft

BOEING PROPRIETARY

Page 2



7. ***

8. ***

9. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or in part.

SWA-PA-03729-LA-1106474

Option Aircraft

BOEING PROPRIETARY

Page 3



10. Confidentiality.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106474
Option Aircraft

BOEING PROPRIETARY

**Attachment 1 To
Letter Agreement No. SWA-PA-03729-LA-1106474
Option Aircraft Delivery, Description, Price and Advance Payments**

Airframe Model/MTOW:	737-8	175900 pounds	Detail Specification:	D019A007-NEW (11/4/2011)
Engine Model/Thrust:	CFMLEAP-1B24	TBD pounds	Airframe Price Base Year/Escalation Formula:	Jul-11 ECI-MFG/CPI
Airframe Price:		***	Engine Price Base Year/Escalation Formula:	N/A N/A
Optional Features:		***		
Sub-Total of Airframe and Features:		***	Airframe Escalation Data:	
Engine Price (Per Aircraft):		***	Base Year Index (ECI):	***
Aircraft Basic Price (Excluding BFE/SPE):		***	Base Year Index (CPI):	***
Buyer Furnished Equipment (BFE) Estimate:		***		
Seller Purchased Equipment (SPE) Estimate:		***		
Non-Refundable Deposit/Aircraft at Def Agreement:		***		

<u>Delivery Date</u>	<u>Number of Aircraft</u>	<u>Escalation ¹ Factor (Airframe)</u>	<u>Escalation Estimate Adv Payment Base Price Per A/P</u>	<u>Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery):</u>			
				<u>At Signing</u>	<u>24 Mos.</u>	<u>21/18/12/9/6 Mos.</u>	<u>Total</u>
Jul-2021	18	***	***	***	***	***	***
Jul-2022	19	***	***	***	***	***	***
Jul-2023	23	***	***	***	***	***	***
Jul-2024	23	***	***	***	***	***	***
Jul-2025	23	***	***	***	***	***	***
Jul-2026	23	***	***	***	***	***	***
Jul-2027	21	***	***	***	***	***	***
Total:	150						

¹ The escalation factors reflect July 2Q2011 external forecast factors and are used for determining the annual average estimated advance payment price per aircraft. ***



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106475

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

Subject: ***

- References:
- 1) Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)
 - 2) Letter Agreement SWA-PA-03729-6474 entitled "Option Aircraft" (**Option Aircraft Letter Agreement**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

SWA-PA-03729-LA-1106475

BOEING PROPRIETARY

Page 1



2. ***

3. Assignment.

Unless otherwise noted herein, ***

and in consideration of Customer's taking title to the Option Aircraft at time of delivery and becoming the operator of the Option Aircraft. This Letter Agreement cannot be assigned, in whole or in part, without the prior written consent of Boeing.

4. Confidentiality.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

SWA-PA-03729-LA-1106475

BOEING PROPRIETARY

Page 2



Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106475

BOEING PROPRIETARY

Page 3



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106476

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

Subject: ***

Reference: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

The Purchase Agreement incorporates the terms and conditions of Aircraft General Terms Agreement dated as of December 13, 2011 identified as SWA-AGTA between Boeing and Customer (**AGTA**). This Letter Agreement modifies certain terms and conditions of the AGTA with respect to the Aircraft.

1. ***

SWA-PA-03729-LA-1106476

BOEING PROPRIETARY

Page 1



2. ***

3. Assignment. Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

Confidentiality. Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and

SWA-PA-03729-LA-1106476

BOEING PROPRIETARY

Page 2



SWA-PA-03729-LA-1106477

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

Subject: ***

Reference: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Recitals

1. ***

2. ***

Agreement

1. Covered Aircraft.

The Program shall apply to each of the Aircraft operated by Customer on Customer's routes during the Program Term (**Covered Aircraft**).

2. ***

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



3. ***

4. ***

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



5. ***

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



6. ***

7. ***

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



8. ***

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



9. ***

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



SWA-PA-03729-LA-1106477

BOEING PROPRIETARY

Page 7



10. Notice.

10.1 All reports submitted to Boeing will be addressed to the attention of:

Director - BCA Warranty and Product Assurance
Boeing Commercial Airplanes
P.O. Box 3707 Mail Code 2L-46
Fax: 425-237-1706
Seattle, Washington 98124-2207

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



10.2 All reports submitted to Customer will be addressed to the attention of:

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

11. ***

12. ***

13. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

14. Confidential Treatment.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article)

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY

Page 9



Attachment B: ***

1. ***

2. ***

3. ***

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



4. ***

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



5. ***

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



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SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



SWA-PA-03729-LA-1106477

BOEING PROPRIETARY

Page 18



Attachment C: ***

To: Southwest Airlines Co.

Reference: Letter Agreement No. SWA-PA-03729-LA-1106477 to Agreement No. PA-03729 (**Purchase Agreement**) and ***

Subject: ***

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY

Page 19



Attachment D

To: ***

Reference: Letter Agreement No. SWA-PA-03729-LA-1106477 to Agreement No. PA-03729 (**Purchase Agreement**) and ***

Subject: Data reported pursuant to Article 6 of the referenced Letter Agreement.

Reporting Period No.

Beginning date ending date

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



Southwest Airlines Co.

By _____

Its

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



Attachment E

To: Southwest Airlines Co.

Reference: Letter Agreement No. SWA-PA-03729-LA-1106477 to Agreement No. PA-03729 (**Purchase Agreement**) and ***

Subject: Data reported pursuant to Article 7 of the referenced Letter Agreement.

Reporting Period No.

Beginning date ending date

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



THE BOEING COMPANY

Reported
By _____

Its

Date

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



Attachment F: ***

To: Southwest Airlines Co.

Reference: Letter Agreement No. SWA-PA-03729-LA-1106477 to Agreement No. PA-03729 (**Purchase Agreement**) and ***

Subject: Data reported pursuant to Article 5.3 of the referenced Letter Agreement.

One	\$	+	\$	+	\$	=
Two	\$	+	\$	+	\$	=
Three	\$	+	\$	+	\$	=
Four	\$	+	\$	+	\$	=
Five	\$	+	\$	+	\$	=

SWA-PA-03729-LA-1106477

BOEING PROPRIETARY



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106478

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

Subject: ***

References: 1) Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

2) Supplemental Exhibit CS1 to the Purchase Agreement (**Supplemental Exhibit CS1**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

SWA-PA-03729-LA-1106478

BOEING PROPRIETARY

Page 1



2. ***

3. Confidentiality.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

SWA-PA-03729-LA-1106478

BOEING PROPRIETARY



Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106478

BOEING PROPRIETARY

Page 3

SWA-PA-03729-LA-1106478

BOEING PROPRIETARY

SWA-PA-03729-LA-1106478

BOEING PROPRIETARY



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106479

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

Subject: ***

Reference: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

SWA-PA-03729-LA-1106479

BOEING PROPRIETARY

Page 1



2. Assignment. Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

3. Confidentiality. Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Section) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Section, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

SWA-PA-03729-LA-1106479

BOEING PROPRIETARY

Page 2



Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106479

BOEING PROPRIETARY



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106480

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

Subject: ***

Reference: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

2. ***

3. Assignment. Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

SWA-PA-03729-LA-1106480

BOEING PROPRIETARY

Page 1



Confidentiality. Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106480

BOEING PROPRIETARY



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106481

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

Subject: ***

Reference: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

2. ***

3. ***

SWA-PA-03729-LA-1106481

BOEING PROPRIETARY

Page 1



4. ***

5. ***

6. ***

7. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

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BOEING PROPRIETARY

Page 2



8. Confidentiality.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

Southwest Airlines Co.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106481

BOEING PROPRIETARY



SWA-PA-03729-LA-1106482

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

Subject: ***

Reference: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. ***

2. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

SWA-PA-03729-LA-1106482

BOEING PROPRIETARY



3. Confidentiality.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106482

BOEING PROPRIETARY



SWA-PA-03729-LA-1106483

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

Subject: ***

Reference: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1 ***

2. Assignment.

Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

3. Confidentiality.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its

SWA-PA-03729-LA-1106483

BOEING PROPRIETARY



obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106483

BOEING PROPRIETARY



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106484

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

Subject: ***

Reference: Purchase Agreement No. PA-03729 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

1. Defined Terms: The following capitalized terms have the following meaning:

1.1 ***

1.2 ***

1.3 **Program Aircraft** means each Aircraft specified in Table 1 of the Purchase Agreement as of the date of this Letter.

2. ***

3. ***

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BOEING PROPRIETARY

Page 1



4. ***

5. ***

SWA-PA-03729-LA-1106484

BOEING PROPRIETARY



6. ***

7. Assignment. Notwithstanding any other provisions of the Purchase Agreement, the rights and obligations described in this Letter Agreement are provided to Customer in consideration of Customer's becoming the operator of the Aircraft and cannot be assigned in whole or, in part.

8. Confidentiality. Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a

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confidentiality agreement in the same form and substance similar to this Article, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

SWA-PA-03729-LA-1106484

BOEING PROPRIETARY



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BOEING PROPRIETARY

Page 4



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1106485

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

Subject: ***

Reference: Aircraft General Terms Agreement No. SWA-AGTA (**AGTA**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**)
Purchase Agreement No. PA-03729 (**Purchase Agreement**) between Boeing and Customer relating to Model 737-8 aircraft (**Aircraft**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement, including the AGTA. 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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3. ***

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4. ***

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5. Confidential Treatment

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Article) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Article, or are otherwise

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bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

Southwest Airlines Co.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

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BOEING PROPRIETARY

AIRCRAFT GENERAL TERMS AGREEMENT

SWA-AGTA

between

THE BOEING COMPANY

and

Southwest Airlines Co.

SWA-AGTA-EXA

EXA Page 1

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AIRCRAFT GENERAL TERMS AGREEMENT NUMBER SWA-AGTA

Between

The Boeing Company

And

Southwest Airlines Co.

Relating to

BOEING AIRCRAFT

This Aircraft General Terms Agreement Number SWA-AGTA (**AGTA**) between The Boeing Company, a Delaware corporation, (**Boeing**) and Southwest Airlines Co., a Texas corporation, (**Customer**) will apply to all Boeing aircraft contracted for purchase from Boeing by Customer after the effective date of this AGTA.

Subject Matter of Sale.

Aircraft. Boeing will manufacture and sell to Customer and Customer will purchase from Boeing aircraft under purchase agreements that incorporate the terms and conditions of this AGTA.

Buyer Furnished Equipment. Exhibit A, Buyer Furnished Equipment Provisions Document to the AGTA, contains the obligations of Customer and Boeing with respect to equipment purchased and provided by Customer, which Boeing will receive, inspect, store, and install in an aircraft before delivery to Customer. This equipment is defined as Buyer Furnished Equipment (**BF**E).

Customer Support. Exhibit B, Customer Support Document to the AGTA, contains the obligations of Boeing relating to Materials (as defined in Part 3 thereof), training, services, and other things in support of aircraft.

Product Assurance. Exhibit C, Product Assurance Document to the AGTA, contains the obligations of Boeing and the suppliers of equipment installed in each aircraft at delivery relating to warranties, patent indemnities, software copyright indemnities, and service life policies.

Price, Taxes, and Payment.

Price.

Airframe Price is defined as the price of the airframe for a specific model of aircraft described in a purchase agreement. (For Models 737-600, 737-700, 737-800, 737-900, 737-7, 737-8, 737-9, 747-8, 777-200LR, and 777-300ER the Airframe Price includes the engine price at its basic thrust level.)

Optional Features Prices are defined as the prices for optional features selected by Customer for a specific model of aircraft described in a purchase agreement.

Engine Price is defined as the price set by the engine manufacturer for a specific engine to be installed on the model of aircraft described in a purchase agreement (not

applicable to Models 737-600, 737-700, 737-800, 737-900, 737-7, 737-8, 737-9, 747-8, 777-200LR and 777-300ER).

Aircraft Basic Price is defined as the sum of the Airframe Price, Optional Features Prices, and the Engine Price, if applicable.

Escalation Adjustment is defined as the price adjustment to the Airframe Price (which includes the basic engine price for Models 737-600, 737-700 737-800, 737-900, 737-7, 737-8, 737-9, 747-8, 777-200LR and 777-300ER) and the Optional Features Prices resulting from the calculation using the economic price formula contained in the Airframe and Optional Features Escalation Adjustment supplemental exhibit to the applicable purchase agreement. The price adjustment to the Engine Price for all other models of aircraft will be calculated using the economic price formula in the Engine Escalation Adjustment supplemental exhibit to the applicable purchase agreement.

Advance Payment Base Price is defined as the estimated price of an aircraft rounded to the nearest thousand U. S. dollars, as of the date of signing a purchase agreement, for the scheduled month of delivery of such aircraft using commercial forecasts of the Escalation Adjustment.

Aircraft Price is defined as the total amount Customer is to pay for an aircraft at the time of delivery, which is the sum of the Aircraft Basic Price, the Escalation Adjustment, and other price adjustments made pursuant to the purchase agreement.

Taxes.

Taxes are defined as all taxes, fees, charges, or duties and any interest, penalties, fines, or other additions to tax, including, but not limited to sales, use, value added, gross receipts, stamp, excise, transfer, and similar taxes imposed by any domestic or foreign taxing authority, arising out of or in connection with the performance of the applicable purchase agreement or the sale, delivery, transfer, or storage of any aircraft, BFE, or other things furnished under the applicable purchase agreement. Except for U.S. federal income taxes imposed on Boeing or Boeing's assignee, and Washington State business and occupation taxes imposed on Boeing or Boeing's assignee, Customer will be responsible for and pay all Taxes. Customer is responsible for filing all tax returns, reports, declarations and payment of any taxes related to or imposed on BFE.

Reimbursement of Boeing. Customer will promptly reimburse Boeing on demand, net of additional taxes thereon, for any Taxes that are imposed on and paid by Boeing or that Boeing is responsible for collecting.

Payment.

Advance Payment Schedule. Customer will make advance payments to Boeing for each aircraft in the amounts and on the dates indicated in the schedule set forth in the applicable purchase agreement.

Payment at Delivery. Customer will pay any unpaid balance of the Aircraft Price at the time of delivery of each aircraft.

Form of Payment. Customer will make all payments to Boeing by unconditional wire transfer of immediately available funds in United States Dollars in a bank account in the United States designated by Boeing.

Monetary and Government Regulations. Customer is responsible for complying with all monetary control regulations and for obtaining necessary governmental authorizations related to payments.

Regulatory Requirements and Certificates.

Certificates. Boeing will manufacture each aircraft to conform to the appropriate Type Certificate issued by the United States Federal Aviation Administration (FAA) for the specific model of aircraft and will obtain from the FAA and furnish to Customer at delivery of each aircraft either a Standard Airworthiness Certificate or an Export Certificate of Airworthiness issued pursuant to Part 21 of the Federal Aviation Regulations.

FAA or Applicable Regulatory Authority Manufacturer Changes.

A **Manufacturer Change** is defined as any change to an aircraft, data relating to an aircraft, or testing of an aircraft required by the FAA to obtain a Standard Airworthiness Certificate or by the country of import and/or registration to obtain an Export Certificate of Airworthiness.

Boeing will bear the cost of incorporating all Manufacturer Changes into the aircraft:

resulting from requirements issued by the FAA prior to the date of the Type Certificate for the applicable aircraft;

resulting from requirements issued by the FAA prior to the date of the applicable purchase agreement; and

for any aircraft delivered during the eighteen (18) month period immediately following the date of the applicable purchase agreement (regardless of when the requirement for such change was issued by the FAA).

Customer will pay Boeing's charges for incorporating all other Manufacturer Changes into the aircraft, including all changes for validation of an aircraft required by any governmental agency of the country of import and/or registration.

FAA Operator Changes.

An **Operator Change** is defined as a change in equipment that is required by Federal Aviation Regulations which (i) is generally applicable to transport category aircraft to be used in United States certified air carriage and (ii) the required compliance date is on or before the scheduled delivery month of the aircraft.

Boeing will deliver each aircraft with Operator Changes incorporated or, at Boeing's option, with suitable provisions for the incorporation of such Operator Changes, and Customer will pay Boeing's applicable charges.

Export License. If an export license is required by United States law or regulation for any aircraft or any other things delivered under the purchase agreement, it is Customer's obligation to obtain such license. If requested, Boeing will assist Customer in applying for any such export license. Customer will furnish any required supporting documents.

Detail Specification: Changes.

Configuration Changes. The **Detail Specification** is defined as the Boeing document that describes the configuration of each aircraft purchased by Customer. The Detail Specification for each aircraft may be amended (i) by Boeing to reflect the incorporation

of Manufacturer Changes and Operator Changes or (ii) by the agreement of the parties. In either case the amendment will describe the particular changes to be made and any effect on design, performance, weight, balance, scheduled delivery month, Aircraft Basic Price, Aircraft Price, and/or Advance Payment Base Price.

Development Changes. **Development Changes** are defined as changes to aircraft that do not affect the Aircraft Price or scheduled delivery month, and do not adversely affect guaranteed weight, guaranteed performance, or compliance with the interchangeability or replaceability requirements set forth in the applicable Detail Specification. Boeing may, at its option, incorporate Development Changes into the Detail Specification and into an aircraft prior to delivery to Customer.

Notices. Boeing will promptly notify Customer of any amendments to a Detail Specification.

Representatives, Inspection, Demonstration Flights, Test Data and Performance Guarantee Compliance.

Office Space. Twelve (12) months before delivery of the first aircraft purchased, and continuing until the delivery of the last aircraft on firm order, Boeing will furnish, free of charge, suitable office space and equipment for the accommodation of up to three representatives of Customer in or conveniently located near the assembly plant.

Inspection. Customer's representatives may inspect each aircraft at any reasonable time, provided such inspection does not interfere with Boeing's performance.

Demonstration Flights. Prior to delivery, Boeing will fly each aircraft up to four hours to demonstrate to Customer the function of the aircraft and its equipment using Boeing's production flight test procedures. Customer may designate up to five representatives to participate as observers.

Test Data; Performance Guarantee Compliance. **Performance Guarantees** are defined as the written guarantees in a purchase agreement regarding the operational performance of an aircraft. Boeing will furnish to Customer flight test data obtained on an aircraft of the same model to evidence compliance with the Performance Guarantees. Performance Guarantees will be met if reasonable engineering interpretations and calculations based on the flight test data establish that the particular aircraft being delivered under the applicable purchase agreement would, if actually flown, comply with the guarantees.

Special Aircraft Test Requirements. Boeing may use an aircraft for flight and ground tests prior to delivery, without reduction in the Aircraft Price, if the tests are considered necessary by Boeing (i) to obtain or maintain the Type Certificate or Certificate of Airworthiness for the aircraft or (ii) to evaluate potential improvements that may be offered for production or retrofit incorporation.

Delivery.

Notices of Delivery Dates. Boeing will notify Customer of the approximate delivery date of each aircraft at least thirty (30) days before the scheduled month of delivery and again at least fourteen (14) days before the scheduled delivery date.

Place of Delivery. Each aircraft will be delivered at a facility selected by Boeing in the same state as the primary assembly plant for the aircraft.

Bill of Sale. At delivery of an aircraft, Boeing will provide Customer a bill of sale conveying good title, free of encumbrances.

Delay. If Customer delays acceptance of an aircraft beyond the scheduled delivery date, Customer will reimburse Boeing for all costs incurred by Boeing as a result of the delay.

Excusable Delay.

General. Boeing will not be liable for any delay in the scheduled delivery month of an aircraft or other performance under a purchase agreement caused by (i) acts of God; (ii) war or armed hostilities; (iii) government acts or priorities; (iv) fires, floods, or earthquakes; (v) strikes or labor troubles causing cessation, slowdown, or interruption of work; (vi) inability, after due and timely diligence, to procure materials, systems, accessories, equipment or parts; or (vii) any other cause to the extent such cause is beyond Boeing's control and not occasioned by Boeing's fault or negligence. A delay resulting from any such cause is defined as an **Excusable Delay**.

Notice. Boeing will give written notice to Customer (i) of a delay as soon as Boeing concludes that an aircraft will be delayed beyond the scheduled delivery month due to an Excusable Delay and, when known, (ii) of a revised delivery month based on Boeing's appraisal of the facts.

Delay in Delivery of Twelve (12) Months or Less. If the revised delivery month is twelve (12) months or less after the scheduled delivery month, Customer will accept such aircraft when tendered for delivery, subject to the following:

The calculation of the Escalation Adjustment will be based on the previously scheduled delivery month.

The advance payment schedule will be adjusted to reflect the revised delivery month.

All other provisions of the applicable purchase agreement, including the BFE on-dock dates for the delayed aircraft, are unaffected by an Excusable Delay.

Delay in Delivery of More Than Twelve (12) Months. If the revised delivery month is more than twelve (12) months after the scheduled delivery month, either party may terminate the applicable purchase agreement with respect to such aircraft within 30 days of the notice. If either party does not terminate the applicable purchase agreement with respect to such aircraft, all terms and conditions of the applicable purchase agreement will remain in effect.

Aircraft Damaged Beyond Repair. If an aircraft is destroyed or damaged beyond repair for any reason before delivery, Boeing will give written notice to Customer specifying the earliest month possible, consistent with Boeing's other contractual commitments and production capabilities, in which Boeing can deliver a replacement. Customer will have thirty (30) days from receipt of such notice to elect to have Boeing manufacture a replacement aircraft under the same terms and conditions of purchase, except that the calculation of the Escalation Adjustment will be based upon the scheduled delivery month in effect immediately prior to the date of such notice, or, failing such election, the applicable purchase agreement will terminate with respect to such aircraft. Boeing will not be obligated to manufacture a replacement aircraft if reactivation of the production line for the specific model of aircraft would be required.

Termination. Termination under this Article will discharge all obligations and liabilities of Boeing and Customer with respect to any aircraft and all related undelivered Materials (as defined in Exhibit B, Customer Support Document), training, services, and other things terminated under the applicable purchase agreement, except that Boeing will return to Customer, without interest, an amount equal to all advance payments paid by

Customer for the aircraft. If Customer terminates the applicable purchase agreement as to any aircraft, Boeing may elect, by written notice to Customer within thirty (30) days, to purchase from Customer any BFE related to the aircraft at the invoice prices paid, or contracted to be paid, by Customer.

Exclusive Rights. The termination rights in this Article are in substitution for all other rights of termination or any claim arising by operation of law due to delays in performance covered by this Article.

Risk Allocation/Insurance.

Title and Risk with Boeing.

Boeing's Indemnification of Customer. Until transfer of title to an aircraft to Customer, Boeing will indemnify and hold harmless Customer and Customer's observers from and against all claims and liabilities, including all expenses and attorneys' fees incident thereto or incident to establishing the right to indemnification, for injury to or death of any person(s), including employees of Boeing but not employees of Customer, or for loss of or damage to any property, including an aircraft, arising out of or in any way related to the operation of an aircraft during all demonstration and test flights conducted under the provisions of the applicable purchase agreement, whether or not arising in tort or occasioned by the negligence of Customer or any of Customer's observers.

Definition of Customer. For the purposes of this Article, "**Customer**" is defined as Southwest Airlines Co., its divisions, subsidiaries, affiliates, the assignees of each, and their respective directors, officers, employees, and agents.

Insurance.

Insurance Requirements. Customer will purchase and maintain insurance acceptable to Boeing and will provide a certificate of such insurance that names Boeing as an additional insured for any and all claims and liabilities for injury to or death of any person or persons, including employees of Customer but not employees of Boeing, or for loss of or damage to any property, including any aircraft, arising out of or in any way relating to Materials, training, services, or other things provided under Exhibit B of the AGTA, which will be incorporated by reference into the applicable purchase agreement, whether or not arising in tort or occasioned by the negligence of Boeing, except with respect to legal liability to persons or parties other than Customer or Customer's assignees arising out of an accident caused solely by a product defect in an aircraft. Customer will provide such certificate of insurance at least thirty (30) days prior to the scheduled delivery of the first aircraft under a purchase agreement. The insurance certificate will reference each aircraft delivered to Customer pursuant to each applicable purchase agreement. Annual renewal certificates will be submitted to Boeing before the expiration of the policy periods. The form of the insurance certificate, attached as Appendix I, states the terms, limits, provisions, and coverages required by this Article 8.2.1. The failure of Boeing to demand compliance with this Article 8.2.1 in any year will not in any way relieve Customer of its obligations hereunder nor constitute a waiver by Boeing of these obligations.

Noncompliance with Insurance Requirements. If Customer fails to comply with any of the insurance requirements of Article 8.2.1 or if any of the insurers fails to pay a claim covered by the insurance or otherwise fails to meet any of insurer's obligations required by Appendix I, Customer will provide the same protection to Boeing as that required by Article 8.2.1 above.

Definition of Boeing. For purposes of this article, **Boeing** is defined as The Boeing Company, its divisions, subsidiaries, affiliates, assignees of each, and their respective directors, officers, employees, and agents.

Assignment, Resale, or Lease.

Assignment. This AGTA and each applicable purchase agreement are for the benefit of the parties and their respective successors and assigns. No rights or duties of either party may be assigned or delegated, or contracted to be assigned or delegated, without the prior written consent of the other party, except:

Either party may assign its interest to a corporation that (i) results from any merger, reorganization, or acquisition of such party and (ii) acquires substantially all the assets of such party;

Boeing may assign any of its rights and duties to any wholly-owned subsidiary of Boeing.

Transfer by Customer at Delivery. Boeing will take any requested action reasonably required for the purpose of causing an aircraft, at time of delivery, to be subject to an equipment trust, conditional sale, lien, or other arrangement for Customer to finance the aircraft. However, no such action will require Boeing to divest itself of title to or possession of the aircraft until delivery of and payment for the aircraft. A sample form of assignment acceptable to Boeing is attached as Appendix II.

Post-Delivery Sale or Lease by Customer. If, following delivery of an aircraft, Customer sells or leases the aircraft (including any sale and lease-back to seller for financing purposes), Customer may assign some or all of its rights with respect to the aircraft under the applicable purchase agreement to the purchaser or lessee of such aircraft, and all such rights will inure to the benefit of such purchaser or lessee effective upon Boeing's receipt of the written agreement of the purchaser or lessee, in a form satisfactory to Boeing, to comply with all applicable terms and conditions of the applicable purchase agreement. Sample forms of notice to Boeing of such assignments giving examples of language acceptable to Boeing are attached as Appendices III, IV, VIII, IX and X.

Notice of Post-Delivery Sale or Lease. Customer will give notice to Boeing as soon as practicable of the sale or lease of an aircraft, including in the notice the name of the entity or entities with title and/or possession of such aircraft.

Exculpatory Clause in Post-Delivery Sale or Lease. If, following the delivery of an aircraft, Customer sells or leases such aircraft and obtains from the transferee any form of exculpatory clause protecting Customer from liability for loss of or damage to the aircraft, and/or related incidental or consequential damages, including without limitation loss of use, revenue, or profit, Customer shall obtain for Boeing the purchaser's or lessee's written agreement to be bound by terms and conditions substantially as set forth in Appendix V. This Article 9.5 applies only if purchaser or lessee has not provided to Boeing the written agreement described in Article 9.3 above.

Appointment of Agent - Warranty Claims. If, following delivery of an aircraft, Customer appoints an agent to act directly with Boeing for the administration of claims relating to the warranties under the applicable purchase agreement, Boeing will deal with the agent for that purpose, effective upon Boeing's receipt of the agent's written agreement, in a form satisfactory to Boeing, to comply with all applicable terms and conditions of the

applicable purchase agreement. A sample form of agreement acceptable to Boeing is attached as Appendix VI.

No Increase in Boeing Liability. No action taken by Customer or Boeing relating to the resale or lease of an aircraft or the assignment of Customer's rights under the applicable purchase agreement will subject Boeing to any liability beyond that in the applicable purchase agreement or modify in any way Boeing's obligations under the applicable purchase agreement.

Termination of Purchase Agreements for Certain Events.

Termination. If either party:

ceases doing business as a going concern, or suspends all or substantially all its business operations, or makes an assignment for the benefit of creditors, or generally does not pay its debts as they become due, or admits in writing its inability to pay its debts; or

petitions for or acquiesces in the appointment of any receiver, trustee or similar officer to liquidate or conserve its business or any substantial part of its assets; commences any legal proceeding such as bankruptcy, reorganization, readjustment of debt, dissolution, or liquidation available for the relief of financially distressed debtors; or becomes the object of any such proceeding, unless the proceeding is dismissed or stayed within a reasonable period, not to exceed sixty (60) days,

the other party may terminate any purchase agreement with respect to any undelivered aircraft, Materials, training, services, and other things by giving written notice of termination.

Repayment of Advance Payments. If Customer terminates the applicable purchase agreement under this Article, Boeing will repay to Customer, without interest, an amount equal to any advance payments received by Boeing from Customer with respect to undelivered aircraft.

Notices.

All notices required by this AGTA or by any applicable purchase agreement will be written in English, will be effective on the date of receipt, and will be delivered or transmitted by any customary means to the appropriate address or number listed below:

Customer	Mail:	Southwest Airlines Co. Attention: Laura Wright, Treasurer 2707 Love Field Drive P.O. Box 36611 Dallas, Texas 75235
	Email:	laura.wright@wnco.com
	Facsimile:	(214) 792-4022
	Telephone:	(214) 792-4459

Boeing
Delivery or
Courier: Boeing Commercial Airplanes
1901 Oakesdale Avenue SW
Renton, Washington 98055 U.S.A.

Attention: Vice President - Contracts
Mail Code 21-34

Mail: Boeing Commercial Airplanes P.O. Box 3707
Seattle, Washington 98124-2207 U.S.A.

Attention: Vice President - Contracts
Mail Code 21-34

Facsimile: (425) 237-1706
Telephone: (206) 766-2400

Miscellaneous.

Government Approval. Boeing and Customer will assist each other in obtaining any governmental consents or approvals required to effect certification and sale of aircraft under the applicable purchase agreement.

Headings. Article and paragraph headings used in this AGTA and in any purchase agreement are for convenient reference only and are not intended to affect the interpretation of this AGTA or any purchase agreement.

GOVERNING LAW. THIS AGTA AND ANY PURCHASE AGREEMENT WILL BE INTERPRETED UNDER AND GOVERNED BY THE LAWS OF THE STATE OF WASHINGTON, U.S.A., EXCEPT THAT WASHINGTON'S CHOICE OF LAW RULES SHALL NOT BE INVOKED FOR THE PURPOSE OF APPLYING THE LAW OF ANOTHER JURISDICTION.

Waiver/Severability. Failure by either party to enforce any provision of this AGTA or any purchase agreement will not be construed as a waiver. If any provision of this AGTA or any provision of any purchase agreement is held unlawful or otherwise ineffective by a court of competent jurisdiction, the remainder of the AGTA or the applicable purchase agreement will remain in effect.

Survival of Obligations. The Articles and Exhibits of this AGTA including but not limited to those relating to insurance, DISCLAIMER AND RELEASE and the EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES will survive termination or cancellation of any purchase agreement or part thereof.

AGTA Changes. The intent of the AGTA is to simplify the standard contracting process for terms and conditions which are related to the sale and purchase of all Boeing aircraft. This AGTA has been mutually agreed to by the parties as of the date indicated below. From time to time the parties may elect, by mutual agreement to update, or modify the existing articles as written. If such changes are made, any existing executed Purchase Agreement(s) will be governed by the terms and conditions of the Revision level of the AGTA in effect on the date of the executed Purchase Agreement.

AGREED AND ACCEPTED this

December 13, 2011
Date

THE BOEING COMPANY

/s/ Cheri A Fischer
Signature

C. A. Fischer
Printed name

Attorney-in-Fact
Title

SWA-AGTA-EXA

SOUTHWEST AIRLINES CO.

/s/ Michel Van de Ven
Signature

Michael Van de Ven
Printed name

Chief Operating Officer
Title

AGTA Page 12

EXHIBIT A

to

AIRCRAFT GENERAL TERMS AGREEMENT

SWA-AGTA

between

THE BOEING COMPANY

and

Southwest Airlines Co.

BUYER FURNISHED EQUIPMENT PROVISIONS
DOCUMENT

SWA-AGTA-EXA

EXA Page 1

EXHIBIT A
BUYER FURNISHED EQUIPMENT PROVISIONS DOCUMENT

1. General.

Certain equipment to be installed in the aircraft is furnished to Boeing by Customer at Customer's expense. This equipment is designated Buyer Furnished Equipment (**BFE**) and is listed in the Detail Specification. Boeing will provide to Customer a BFE Requirements On-Dock/Inventory Document (**BFE Document**) or an electronically transmitted BFE Report which may be periodically revised, setting forth the items, quantities, on-dock dates and shipping instructions relating to the in sequence installation of BFE as described in the applicable supplemental exhibit to a purchase agreement at the time of aircraft purchase.

2. Supplier Selection.

Customer will:

- 2.1 Select and notify Boeing of the suppliers of BFE items by those dates appearing in the applicable supplemental exhibit to a purchase agreement at the time of aircraft purchase.
- 2.2 Meet with Boeing and such selected BFE suppliers promptly after such election to:
 - 2.2.1 complete BFE configuration design requirements for such BFE; and
 - 2.2.2 confirm technical data submittal requirements for BFE certification.

3. Customer's Obligations.

Customer will:

- 3.1 comply with and cause the supplier to comply with the provisions of the BFE Document or BFE Report; including, without limitation,
 - 3.1.1 deliver technical data (in English) to Boeing as required to support installation and FAA certification in accordance with the schedule provided by Boeing or as mutually agreed upon during the BFE meeting referred to in Article 2.2 above;
 - 3.1.2 deliver BFE including production and/or flight training spares and BFE Aircraft Software to Boeing in accordance with the quantities, schedule, and other instructions provided therein; and
 - 3.1.3 ensure that all BFE Aircraft Software is delivered in compliance with Boeing's then current standards for loadable systems;
 - 3.1.4 ensure that all BFE parts are delivered to Boeing with appropriate quality assurance documentation;
- 3.2 authorize Boeing to discuss all details of the BFE directly with the BFE suppliers;
- 3.3 authorize Boeing to conduct or delegate to the supplier quality source inspection and supplier hardware acceptance of BFE at the supplier location;
 - 3.3.1 require supplier's contractual compliance to Boeing defined quality assurance requirements, source inspection programs and supplier delegation programs, including availability of adequate facilities for Boeing resident personnel; and

3.3.2 ensure that all BFE supplier's quality systems are approved to Boeing's then current standards for such systems;

3.4 obtain from supplier a non-exclusive, perpetual, royalty-free, irrevocable license for Boeing to copy BFE Aircraft Software. The license is needed to enable Boeing to load the software copies in (i) the aircraft's mass storage device (**MSD**), (ii) media (e.g., diskettes, CD-ROMs, etc.), (iii) the BFE hardware and/or (iv) an intermediate device or other media to facilitate copying of the BFE Aircraft Software into the aircraft's MSD, BFE hardware and/or media, including media as Boeing may deliver to Customer with the aircraft;

3.5 grant Boeing a license, extending the same rights set forth in paragraph 3.4 above, to copy: (i) BFE Aircraft Software and data Customer has modified and/or (ii) other software and data Customer has added to the BFE Aircraft Software;

3.6 provide necessary field service representation at Boeing's facilities to support Boeing on all issues related to the installation and certification of BFE;

3.7 obtain, directly from BFE suppliers, the overhaul data, provisioning data, related product support documentation and any warranty provisions applicable to the BFE;

3.8 resolve any difficulties that arise, including defective equipment, by working closely with Boeing and BFE suppliers;

3.9 modify, adjust, calibrate, re-test and/or update BFE and data to the extent necessary to obtain applicable FAA and U.S. Food and Drug Administration (**FDA**) approval and shall bear the resulting expenses;

3.10 ensure that a proprietary information agreement is in place between Boeing and BFE suppliers prior to Boeing providing any documentation to such suppliers;

3.11 warrant that the BFE will comply with all applicable FARs and FDA sanitation requirements for installation and use in the aircraft at the time of delivery;

3.12 warrant that the BFE will meet the requirements of the applicable detail specification; and

3.13 provide equipment which is FAA certifiable at time of aircraft delivery, or obtain waivers from the applicable regulatory agency for non-FAA certifiable equipment.

4. Boeing's Obligations.

Other than as set forth below, Boeing will provide for the installation of and install the BFE and obtain certification of the aircraft with the BFE installed.

5. Nonperformance by Customer.

If Customer's nonperformance of obligations in this Exhibit and in the applicable supplemental exhibit to a purchase agreement, BFE Document or BFE Report causes a delay in the delivery of the aircraft or causes Boeing to perform out-of-sequence or additional work, Customer will reimburse Boeing for all resulting expenses and be deemed to have agreed to any such delay in aircraft delivery. In addition Boeing will have the right to:

5.1 provide and install specified equipment or suitable alternate equipment and increase the price of the aircraft accordingly; and/or

5.2 deliver the aircraft to Customer without the BFE installed.

6. Return of Equipment.

BFE not installed in the aircraft will be returned to Customer in accordance with Customer's instructions and at Customer's expense.

7. Title and Risk of Loss.

Title to and risk of loss of BFE will at all times remain with Customer or other owner. Boeing will have only such liability for BFE as a bailee for mutual benefit would have, but will not be liable for loss of use.

8. Interchange of BFE.

To properly maintain Boeing's production flow and to preserve Boeing's delivery commitments, Boeing reserves the right, if necessary, due to equipment shortages or failures, to interchange new items of BFE acquired from or for Customer with new items of the same part numbers acquired from or for other customers of Boeing. Used BFE acquired from Customer or from other customers of Boeing will not be interchanged.

9. Indemnification of Boeing.

Customer hereby indemnifies and holds harmless Boeing from and against all claims and liabilities, including costs and expenses (including attorneys' fees) incident thereto or incident to successfully establishing the right to indemnification, for injury to or death of any person or persons, including employees of Customer but not employees of Boeing, or for loss of or damage to any property, including any aircraft, arising out of or in any way connected with any nonconformance or defect in any BFE and whether or not arising in tort or occasioned by the negligence of Boeing. This indemnity will not apply with respect to any nonconformance or defect caused solely by Boeing's installation of the BFE.

10. Patent Indemnity.

Customer hereby indemnifies and holds harmless Boeing from and against all claims, suits, actions, liabilities, damages and costs arising out of any actual or alleged infringement of any patent or other intellectual property rights by BFE or arising out of the installation, sale or use of BFE by Boeing.

11. Definitions.

For the purposes of the above indemnities, the term "**Boeing**" includes The Boeing Company, its divisions, subsidiaries and affiliates, the assignees of each, and their directors, officers, employees and agents.

EXHIBIT B

to

AIRCRAFT GENERAL TERMS AGREEMENT

SWA-AGTA

between

THE BOEING COMPANY

and

Southwest Airlines Co.

CUSTOMER SUPPORT DOCUMENT

This document contains:

- Part 1: Boeing Maintenance and Flight Training Programs; Operations Engineering Support
- Part 2: Field and Engineering Support Services
- Part 3: Technical Information and Materials
- Part 4: Alleviation or Cessation of Performance
- Part 5: Protection of Proprietary Information and Proprietary Materials

SWA-AGTA-EXB

EXB Page 1

EXHIBIT B
CUSTOMER SUPPORT DOCUMENT
PART 1: BOEING MAINTENANCE AND FLIGHT TRAINING PROGRAMS;
OPERATIONS ENGINEERING SUPPORT

1. Boeing Training Programs.

1.1. Boeing will provide maintenance training and flight training programs to support the introduction of a specific model of aircraft into service. The training programs will consist of general and specialized courses and will be described in a Supplemental Exhibit to the applicable purchase agreement.

1.2. Boeing will conduct all training at Boeing's primary training facility for the model of aircraft purchased unless otherwise agreed.

1.3. All training will be presented in the English language. If translation is required, Customer will provide interpreters.

1.4. Customer will be responsible for all expenses of Customer's personnel. Boeing will transport Customer's personnel between their local lodging and Boeing's training facility.

2. Training Planning Conferences.

Customer and Boeing will conduct planning conferences approximately twelve (12) months before the scheduled delivery month of the first aircraft of a model to define and schedule the maintenance and flight training programs.

3. Operations Engineering Support.

3.1. As long as an aircraft purchased by Customer from Boeing is operated by Customer in scheduled revenue service, Boeing will provide operations engineering support. Such support will include:

3.1.1. assistance with the analysis and preparation of performance data to be used in establishing operating practices and policies for Customer's operation of aircraft;

3.1.2. assistance with interpretation of the minimum equipment list, the definition of the configuration deviation list and the analysis of individual aircraft performance;

3.1.3. assistance with solving operational problems associated with delivery and route-proving flights;

3.1.4. information regarding significant service items relating to aircraft performance or flight operations; and

3.1.5. if requested by Customer, Boeing will provide operations engineering support during an aircraft ferry flight.

4. Training at a Facility Other Than Boeing's.

If requested by Customer, Boeing will conduct the classroom portions of the maintenance and flight training (except for the Performance Engineer training courses) at a mutually acceptable alternate training site, subject to the following conditions:

- 4.1. Customer will provide acceptable classroom space, simulators (as necessary for flight training) and training equipment required to present the courses;
- 4.2. Customer will pay Boeing's then current per diem charge for each Boeing instructor for each day, or fraction thereof, that the instructor is away from their home location, including travel time;
- 4.3. Customer will reimburse Boeing for the actual costs of round-trip transportation for Boeing's instructors and the shipping costs of training Materials between the primary training facility and the alternate training site;
- 4.4. Customer will be responsible for all taxes, fees, duties, licenses, permits and similar expenses incurred by Boeing and its employees as a result of Boeing's providing training at the alternate site or incurred as a result of Boeing providing revenue service training; and
- 4.5. Those portions of training that require the use of training devices not available at the alternate site will be conducted at Boeing's facility or at some other alternate site.

5. General Terms and Conditions.

5.1. Boeing flight instructor personnel will not be required to work more than five days per week, or more than eight hours in any one 24 hour period, of which not more than five hours per eight hour workday will be spent in actual flying. These foregoing restrictions will not apply to ferry assistance or revenue service training services, which will be governed by FAA rules and regulations.

5.2. **Normal Line Maintenance** is defined as line maintenance that Boeing might reasonably be expected to furnish for flight crew training at Boeing's facility, and will include ground support and aircraft storage in the open, but will not include provision of spare parts. Boeing will provide Normal Line Maintenance services for any aircraft while the aircraft is used for flight crew training at Boeing's facility in accordance with the Boeing Maintenance Plan (Boeing document D6-82076) and the Repair Station Operation and Inspection Manual (Boeing document D6-25470). Customer will provide such services if flight crew training is conducted elsewhere. Regardless of the location of such training, Customer will be responsible for providing all maintenance items (other than those included in Normal Line Maintenance) required during the training, including, but not limited to, fuel, oil, landing fees and spare parts.

5.3. If the training is based at Boeing's facility, and the aircraft is damaged during such training, Boeing will make all necessary repairs to the aircraft as promptly as possible. Customer will pay Boeing's reasonable charge, including the price of parts and materials, for making the repairs. If Boeing's estimated labor charge for the repair exceeds Twenty-five Thousand U.S. Dollars (\$25,000), Boeing and Customer will enter into an agreement for additional services before beginning the repair work.

5.4. If the flight training is based at Boeing's facility, several airports in surrounding states may be used, at Boeing's option. Unless otherwise agreed in the

flight training planning conference, it will be Customer's responsibility to make arrangements for the use of such airports.

5.5. If Boeing agrees to make arrangements on behalf of Customer for the use of airports for flight training, Boeing will pay on Customer's behalf any landing fees charged by any airport used in conjunction with the flight training. At least thirty (30) days before flight training, Customer will provide Boeing an open purchase order against which Boeing will invoice Customer for any landing fees Boeing paid on Customer's behalf. The invoice will be submitted to Customer approximately sixty (60) days after flight training is completed, when all landing fee charges have been received and verified. Customer will pay to Boeing within thirty (30) days of the date of the invoice.

5.6. If requested by Boeing, in order to provide the flight training or ferry flight assistance, Customer will make available to Boeing an aircraft after delivery to familiarize Boeing instructor or ferry flight crew personnel with such aircraft. If flight of the aircraft is required for any Boeing instructor or ferry flight crew member to maintain an FAA license for flight proficiency or landing currency, Boeing will be responsible for the costs of fuel, oil, landing fees and spare parts attributable to that portion of the flight.

5.7. If any part of the training described in Article 1.1 of this Exhibit is not used by Customer within twelve (12) months after the delivery of the last aircraft under the relevant purchase agreement, Boeing will not be obligated to provide such training.

EXHIBIT B
CUSTOMER SUPPORT DOCUMENT
PART 2: FIELD AND ENGINEERING SUPPORT SERVICES

1. Field Service Representation.

Boeing will furnish field service representation to advise Customer with respect to the maintenance and operation of an aircraft (**Field Service Representatives**).

1.1. Field Service representation will be available at or near Customer's main maintenance or engineering facility beginning before the scheduled delivery month of the first aircraft and ending twelve (12) months after delivery of the last aircraft covered by a specific purchase agreement.

1.2. Customer will provide at no charge to Boeing suitable enclosed office space with walls and a lockable door that is separated from other OEMs and the airline, located at the Customer's facility or other site as mutually agreed. Customer will provide the necessary infrastructure (i.e. Local Area Network (**LAN**) lines) to enable wired high-speed internet capability in the office. As required, Customer will assist each Field Service Representative with visas, work permits, customs, mail handling, identification passes and formal introduction to local airport authorities.

1.3. Boeing Field Service Representatives are assigned to various airports around the world. Whenever Customer's aircraft are operating through any such airport, the services of Boeing's Field Service Representatives are available to Customer.

2. Engineering Support Services.

Boeing will, if requested by Customer, provide technical advisory assistance for any aircraft and Boeing Product (as defined in Part I of Exhibit C). Technical advisory assistance, provided from the Seattle area or at a base designated by Customer as appropriate, will include:

2.1 Operational Problem Support. If Customer experiences operational problems with an aircraft, Boeing will analyze the information provided by Customer to determine the probable nature and cause of the problem and to suggest possible solutions.

2.2 Schedule Reliability Support. If Customer is not satisfied with the schedule reliability of a specific model of aircraft, Boeing will analyze information provided by Customer to determine the nature and cause of the problem and to suggest possible solutions.

2.3 Maintenance Cost Reduction Support. If Customer is concerned that actual maintenance costs of a specific model of aircraft are excessive, Boeing will analyze information provided by Customer to determine the nature and cause of the problem and to suggest possible solutions.

2.4 Aircraft Structural Repair Support. If Customer is designing structural repairs and desires Boeing's support, Boeing will analyze and comment on Customer's engineering releases relating to structural repairs not covered by Boeing's Structural Repair Manual.

2.5 Aircraft Modification Support. If Customer is designing aircraft modifications and requests Boeing's support, Boeing will analyze and comment on

Customer's engineering proposals for changes in, or replacement of, systems, parts, accessories or equipment manufactured to Boeing's detailed design. Boeing will not analyze or comment on any major structural change unless Customer's request for such analysis and comment includes complete detailed drawings, substantiating information (including any information required by applicable government agencies), all stress or other appropriate analyses, and a specific statement from Customer of the substance of the review and the response requested.

2.6 Maintenance Engineering. Boeing will, at Customer's request, provide certain maintenance and ground operations support to Customer as further described in Supplemental Exhibit CS1 to the applicable purchase agreement.

2.7 Post-Delivery Service Support. Boeing will, at Customer's request, perform work on an aircraft after delivery but prior to the initial departure flight or upon the return of the aircraft to Boeing's facility prior to completion of that flight. In that event the following provisions will apply.

2.7.1 Boeing may rely upon the commitment authority of the Customer's personnel requesting the work.

2.7.2 As title and risk of loss has passed to Customer, the insurance provisions of Article 8.2 of the AGTA apply.

2.7.3 The provisions of the Boeing warranty in Part 2 of Exhibit C of this AGTA apply.

2.7.4 Customer will pay Boeing for requested work not covered by the Boeing warranty, if any.

2.7.5 The DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions in Article 11 of Part 2 of Exhibit C of this AGTA apply.

2.8 Additional Services. Boeing may, at Customer's request, provide additional services for an aircraft after delivery, which may include, but not be limited to, retrofit kit changes (kits and/or information), training, flight services, maintenance and repair of aircraft. Such additional services will be subject to a mutually acceptable price, schedule, scope of work and other applicable terms and conditions. The DISCLAIMER AND RELEASE and the EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions in Article 11 of Part 2 of Exhibit C of this AGTA and the insurance provisions in Article 8.2 of this AGTA will apply to any such work. Title to and risk of loss of any such aircraft will always remain with Customer.

EXHIBIT B
CUSTOMER SUPPORT DOCUMENT
PART 3: TECHNICAL INFORMATION AND MATERIALS

1. General.

Materials are defined as any and all items that are created by Boeing or a third party, which are provided directly or indirectly from Boeing and serve primarily to contain, convey or embody information. Materials may include either tangible embodiments (for example, documents or drawings), or intangible embodiments (for example, software and other electronic forms) of information but excludes Aircraft Software. **Aircraft Software** is defined as software that is installed on and used in the operation of the aircraft.

Boeing will furnish to Customer certain Materials to support the maintenance and operation of the aircraft to Customer. Such Materials will, if applicable, be prepared generally in accordance with Air Transport Association of America (ATA) iSpec 2200, entitled "Information Standards for Aviation Maintenance". Materials not covered by iSpec 2200 will be provided in a structure suitable for the Material's intended use. Materials will be in English and in the units of measure used by Boeing to manufacture an aircraft.

2. Materials Planning Conferences.

Customer and Boeing will conduct planning conferences approximately twelve (12) months before the scheduled delivery month of the first aircraft of a model in order to mutually determine the proper format and quantity of Materials to be furnished to Customer in support of the aircraft.

Customer may select one Boeing digital format as the delivery medium. Should a Boeing digital format not be available, Customer may select a reasonable quantity of printed format.

3. Information and Materials - Incremental Increase.

Should the delivery medium be of printed format, until one year after the month of delivery of the last aircraft covered by a specific purchase agreement, Customer may annually request in writing a reasonable increase in the quantity of printed Materials. Boeing will provide the additional quantity of printed Materials at no additional charge beginning with the next normal revision cycle. Customer may request a decrease in revision quantities at any time.

4. Advance Representative Copies.

All advance representative copies of Materials will be selected by Boeing from available sources. Such advance copies will be for advance planning purposes only.

5. Customized Materials.

All customized Materials will reflect the configuration of each aircraft as delivered.

6. Revisions.

6.1. Revision Service. The schedule for updating certain Materials will be identified in the planning conference. Such updates will reflect changes to Materials developed by Boeing.

6.2. Revisions Based on Boeing Service Bulletin Incorporation. If Boeing receives written notice that Customer intends to incorporate, or has incorporated, any Boeing service bulletin in an aircraft, Boeing will issue revisions to Materials with revision service reflecting the effects of such incorporation into such aircraft.

7. Supplier Technical Data.

7.1. For supplier-manufactured programmed airborne avionics components and equipment classified as Seller Furnished Equipment (**SFE**) which contain computer software designed and developed in accordance with Radio Technical Commission for Aeronautics Document No. RTCA/DO-178B dated December 1, 1992 (with an errata issued on March 26, 1999), or later as available, Boeing will request that each supplier of the components and equipment make software documentation available to Customer.

7.2 The provisions of this Article will not be applicable to items of BFE.

7.3 Boeing will furnish to Customer a document identifying the terms and conditions of the product support agreements between Boeing and its suppliers requiring the suppliers to fulfill Customer's requirements for information and services in support of the specific model of aircraft.

8. Buyer Furnished Equipment Data.

Boeing will incorporate BFE maintenance information into the customized Materials providing Customer makes the information available to Boeing at least nine (9) months prior to the scheduled delivery month of each of Customer's aircraft purchased under a purchase agreement. Boeing will incorporate such BFE maintenance information into the Materials prior to delivery of each such aircraft reflecting the configuration of that aircraft as delivered. Upon Customer's request, Boeing may provide update service after delivery to such information subject to the terms of Part 2, Article 2.8 (**Additional Services**). Customer agrees to furnish all BFE maintenance information in Boeing's standard digital format if Materials are to be delivered in Boeing's standard digital format.

9. Materials Shipping Charges.

Boeing will pay the reasonable transportation costs of the Materials. Customer is responsible for any customs clearance charges, duties, and taxes.

10. Customer's Shipping Address.

The Materials furnished to Customer hereunder are to be sent to a single address to be specified. Customer will promptly notify Boeing of any change to the address.

EXHIBIT B
CUSTOMER SUPPORT DOCUMENT
PART 4: ALLEVIATION OR CESSATION OF PERFORMANCE

1. Boeing will not be required to provide any services, training or other things at a facility designated by Customer if any of the following conditions exist:

1.1. a labor stoppage or dispute in progress involving Customer;

1.2. wars or warlike operations, riots or insurrections in the country where the facility is located;

1.3. any condition at the facility which, in the opinion of Boeing, is detrimental to the general health, welfare or safety of its personnel or their families;

1.4. the United States Government refuses permission to Boeing personnel or their families to enter into the country where the facility is located, or recommends that Boeing personnel or their families leave the country; or

1.5. After the location of Boeing personnel at the facility, Boeing further reserves the right, upon the occurrence of any of such events, to immediately and without prior notice to Customer relocate its personnel and their families.

1.6. Boeing will not be required to provide any Materials at a facility designated by Customer if the United States Government refuses permission to Boeing to deliver Materials to the country where the facility is located.

EXHIBIT B
CUSTOMER SUPPORT DOCUMENT
PART 5: PROTECTION OF PROPRIETARY INFORMATION
AND PROPRIETARY MATERIALS

1. General.

All Materials provided by Boeing to Customer and not covered by a Boeing CSGTA or other agreement between Boeing and Customer defining Customer's right to use and disclose the Materials and included information will be covered by, and subject to the terms of this AGTA. Title to all Materials containing, conveying or embodying confidential, proprietary or trade secret information (**Proprietary Information**) belonging to Boeing or a third party (**Proprietary Materials**), will at all times remain with Boeing or such third party. Customer will treat all Proprietary Materials and all Proprietary Information in confidence and use and disclose the same only as specifically authorized in this AGTA.

2. License Grant.

Boeing grants to Customer a worldwide, non-exclusive, non-transferable license to use and disclose Proprietary Materials in accordance with the terms and conditions of this AGTA. Customer is authorized to make copies of Materials (except for Materials bearing the copyright legend of a third party), and all copies of Proprietary Materials will belong to Boeing and be treated as Proprietary Materials under this AGTA. Customer will preserve all proprietary legends, and all copyright notices on all Materials and insure the inclusion of those legends and notices on all copies.

3. Use of Proprietary Materials and Proprietary Information.

Customer is authorized to use Proprietary Materials and Proprietary Information for the purpose of: (i) operation, maintenance, repair, or modification of Customer's aircraft for which the Proprietary Materials and Proprietary Information have been specified by Boeing and (ii) development and manufacture of training devices and maintenance tools for use by Customer.

4. Providing of Proprietary Materials to Contractors.

Customer is authorized to provide Proprietary Materials to Customer's contractors for the sole purpose of maintenance, repair, or modification of Customer's aircraft for which the Proprietary Materials have been specified by Boeing. In addition, Customer may provide Proprietary Materials to Customer's contractors for the sole purpose of developing and manufacturing training devices and maintenance tools for Customer's use. Before providing Proprietary Materials to its contractor, Customer will first obtain a written agreement from the contractor by which the contractor agrees (i) to use the Proprietary Materials only on behalf of Customer, (ii) to be bound by all of the restrictions and limitations of this Part 5, and (iii) that Boeing is a third party beneficiary under the written agreement. Customer agrees to provide copies of all such written agreements to Boeing upon request and be liable to Boeing for any breach of those agreements by a contractor. A sample agreement acceptable to Boeing is attached as Appendix VII.

5. Providing of Proprietary Materials and Proprietary Information to Regulatory Agencies.

When and to the extent required by a government regulatory agency having jurisdiction over Customer or an aircraft, Customer is authorized to provide Proprietary Materials and to disclose Proprietary Information to the agency for use in connection with Customer's operation, maintenance, repair, or modification of such aircraft. Customer agrees to take all reasonable steps to prevent the agency from making any distribution, disclosure, or additional use of the Proprietary Materials and Proprietary Information provided or disclosed. Customer further agrees to notify Boeing immediately upon learning of any (i) distribution, disclosure, or additional use by the agency, (ii) request to the agency for distribution, disclosure, or additional use, or (iii) intention on the part of the agency to distribute, disclose, or make additional use of Proprietary Materials or Proprietary Information.

EXHIBIT C
to
AIRCRAFT GENERAL TERMS AGREEMENT
SWA-AGTA
between
THE BOEING COMPANY
and
Southwest Airlines Co.
PRODUCT ASSURANCE DOCUMENT

This document contains:

- Part 1: Exhibit C Definitions
- Part 2: Boeing Product Warranty
- Part 3: Boeing Service Life Policy
- Part 4: Supplier Warranty Commitment
- Part 5: Boeing Interface Commitment
- Part 6: Boeing Indemnities against Patent and Copyright Infringement

SWA-AGTA-EXC

EXC Page 1

EXHIBIT C
PRODUCT ASSURANCE DOCUMENT
PART 1: EXHIBIT C DEFINITIONS

Authorized Agent - Agent appointed by Customer to perform corrections and to administer warranties (see Appendix VI to the AGTA for a form acceptable to Boeing).

Average Direct Hourly Labor Rate - The average hourly rate (excluding all fringe benefits, premium-time allowances, social charges, business taxes and the like) paid by Customer to its Direct Labor employees.

Boeing Product - Any system, accessory, equipment, part or Aircraft Software that is manufactured by Boeing or manufactured to Boeing's detailed design with Boeing's authorization.

Boeing Warranty - The organization within Boeing responsible for administration of warranties between Boeing and Customer.

Correct(s) - To repair, modify, provide modification kits or replace with a new product.

Correction - A repair, a modification, a modification kit or replacement with a new product.

Corrected Boeing Product - A Boeing Product which is free of defect as a result of a Correction.

Direct Labor - Labor spent by Customer's direct labor employees to access, remove, disassemble, modify, repair, inspect and bench test a defective Boeing Product, and to reassemble, reinstall a Corrected Boeing Product and perform final inspection and testing.

Direct Materials - Items such as parts, gaskets, grease, sealant and adhesives, installed or consumed in performing a Correction, excluding allowances for administration, overhead, taxes, customs duties and the like.

Rogue Unit - A Boeing Product, on which an unscheduled removal due to breach of warranty occurs three or more times both (i) within the warranty period and (ii) within either twelve (12) consecutive months or one thousand (1,000) consecutive operating hours.

Specification Control Drawing (SCD) - A Boeing document defining specifications for certain Supplier Products.

Supplier - The manufacturer of a Supplier Product.

Supplier Product - Any system, accessory, equipment, Part or Aircraft Software that is not manufactured to Boeing's detailed design. This includes but is not limited to parts manufactured to a SCD, all standards, and other parts obtained from non-Boeing sources.

EXHIBIT C
PRODUCT ASSURANCE DOCUMENT
PART 2: BOEING PRODUCT WARRANTY

1. Applicability.

This warranty applies to all Boeing Products. Warranties applicable to Supplier Products are in Part 4. Warranties applicable to engines will be provided by Supplemental Exhibits to individual purchase agreements.

2. Warranty.

2.1 Coverage. Boeing warrants that at the time of delivery:

- (i) the aircraft will conform to the Detail Specification except for portions stated to be estimates, approximations or design objectives;
- (ii) all Boeing Products will be free from defects in material, process of manufacture and workmanship, including the workmanship utilized to install Supplier Products, engines and BFE, and;
- (iii) all Boeing Products will be free from defects in design, including selection of materials and the process of manufacture, in view of the state of the art at the time of design.

2.1 Exceptions. The following conditions do not constitute a defect under this warranty:

- (i) conditions resulting from normal wear and tear;
- (ii) conditions resulting from acts or omissions of Customer; and
- (iii) conditions resulting from failure to properly service and maintain a Boeing Product.

3. Warranty Periods.

3.1 Warranty. The warranty period begins on the date of aircraft or Boeing Product delivery (**Delivery**) and ends at the applicable time specified in subsections 3.1 (i) through 3.1 (iii) below:

- (i) for Boeing aircraft models 777F, 777-200, -300, 737-600, -700, -800, -900, 737-7, -8, -9, 787 or new aircraft models designed and manufactured with similar, new technology and for the model 747-8, the warranty period ends forty-eight (48) months after Delivery;
- (ii) in addition, for a Boeing Product installed at the time of delivery in a 787 model aircraft but not inspected during the initial forty-eight (48) month warranty period, the warranty period continues until the date upon which Customer first inspects such Boeing Product pursuant to its Boeing Maintenance Planning

Data Document but not later than twelve (12) years after Delivery of such 787 aircraft;
(iii) for any other Boeing aircraft model the warranty period ends thirty-six (36) months after Delivery.

3.2 Warranty on Corrected Boeing Products. The warranty period applicable to a Corrected Boeing Product shall begin on the date of delivery of the Corrected Boeing Product or date of delivery of the kit or kits furnished to Correct the Boeing Product and shall be for the period specified immediately below:

- (i) For Corrected Boeing Products which have been Corrected because of a defect in material, the applicable warranty period is the remainder of the initial warranty period for the defective Boeing Product.
- (ii) For Corrected Boeing Products which have been Corrected because of defect in workmanship, the applicable warranty period is the remainder of the initial warranty or twelve (12) months following the date of delivery of the Corrected Boeing Product, whichever is longer.
- (iii) For Corrected Boeing Products which have been Corrected because of a defect in design, the applicable warranty period is eighteen (18) months or the remainder of the initial warranty period, whichever is longer.

3.3 Survival of Warranties. All warranty periods are stated above. The Performance Guarantees will not survive delivery of the aircraft.

4. Remedies.

4.1 Correction Options. Customer may, at its option, either perform a Correction of a defective Boeing Product or return the Boeing Product to Boeing for Correction. During the warranty period, Boeing will not charge Customer for tests on Boeing Products returned to Boeing for Correction on which Boeing is unable to confirm the failure claimed, provided:

- (i) Boeing's written instructions were followed by the Customer for testing the Boeing Product prior to its return to Boeing, and
- (ii) Customer's claim includes all applicable documentation of such tests with the returned Boeing Product, including but not limited to: Central Maintenance Computer (**CMC**), Flight Maintenance Computer System, (**FMCS**), Fault Isolation Manual (**FIM**), Engine Indicating and Crew Alerting System (**EICAS**) or Built In Test Equipment (**BITE**) messages.

4.2 Warranty Inspections. In addition to the remedies to Correct defects in Boeing Products described in Article 7.3, below, Boeing will reimburse Customer for the cost of Direct Labor to perform certain inspections of the aircraft to determine the occurrence of a condition Boeing has identified as a covered defect, provided the

inspections are recommended by a service bulletin or service letter issued by Boeing during the warranty period.

Such reimbursement will not apply to any inspections performed after a Correction is available to Customer and Customer has had a reasonable time to incorporate the Correction, given the Customer's fleet size and maintenance schedule.

4.3 Rogue Units.

4.3.1 Upon written request, Boeing will lend Customer at no charge an interchangeable Boeing Product in exchange for a Rogue Unit. Within ten (10) calendar days of its receipt of the loaned Boeing Product, Customer will ship the Rogue Unit to Boeing. Customer will provide with the Rogue Unit verification of the following requirements:

- (i) The removed Boeing Product failed three times within twelve (12) consecutive months or one thousand (1,000) consecutive operating hours during the warranty period following initial delivery,
- (ii) Removals were performed in compliance with flight or maintenance manuals approved by the FAA or the comparable regulatory agency for the country in which the aircraft is registered, and
- (iii) Any Corrections or tests to the Boeing Product were performed by Customer according to the latest revision of the Boeing Component Maintenance Manual (CMM), according to written instructions from Boeing, or by Boeing.

4.3.2 Upon receipt of a Rogue Unit and the required verifications, Boeing will, at no-charge to Customer, either replace the Rogue Unit with a new Boeing Product or, if otherwise agreed, allow Customer to retain the loaned, Boeing Product.

5. Discovery and Notice.

5.1 For notice to be effective:

- (i) the defect must be discovered during the warranty period; and
- (ii) Boeing Warranty must receive written notice of the discovery no later than one hundred eighty (180) days after expiration of the warranty period. The notice must include sufficient information to substantiate the claim.

5.2 Receipt of Customer's or its Authorized Agent's notice of the discovery of a defect secures Customer's rights to remedies under this Exhibit C, even though a Correction is performed after the expiration of the warranty period.

5.3 Once Customer has given valid notice of the discovery of a defect, a claim will be submitted as soon as practicable after performance of the Correction.

5.4 Boeing may release service bulletins or service letters advising Customer of the availability of certain warranty remedies. When such advice is provided, Customer will be deemed to have fulfilled the requirements for discovery of the defect

and submittal of notice under this Exhibit C as of the in-warranty date specified in industry support information in a service bulletin or service letter.

6. Filing a Claim.

6.1 Authority to File. Claims may be filed by Customer or its Authorized Agent. Appointment of an Authorized Agent will only be effective upon Boeing's receipt of the Authorized Agent's express written agreement, in a form satisfactory to Boeing, to be bound by and to comply with all applicable terms and conditions of this Aircraft General Terms Agreement.

6.2 Claim Information.

6.2.1 Claimant is responsible for providing sufficient information to substantiate Customer's rights to remedies under this Exhibit C. Boeing may reject a claim for lack of sufficient information. At a minimum, such information must include:

- (i) identity of claimant;
- (ii) serial or block number of the aircraft on which the defective Boeing Product was delivered;
- (iii) part number and nomenclature of the defective Boeing Product;
- (iv) purchase order number and date of delivery of the defective spare part;
- (v) description and substantiation of the defect;
- (vi) date the defect was discovered;
- (vii) date the Correction was completed;
- (viii) the total flight hours or cycles accrued, if applicable;
- (ix) an itemized account of direct labor hours expended in performing the Correction;
- (x) an itemized account of any direct materials incorporated in the Correction; and
- (xi) for 787 model aircraft claims submitted after the forty-eight (48) month warranty period, the specific reference within the Boeing Maintenance Planning Data Document to the inspection requirement for such Boeing Product.

6.2.2 Additional information may be required based on the nature of the defect and the remedies requested.

6.3 Boeing Claim Processing.

6.3.1 Any claim for a Boeing Product returned by Customer or its Authorized Agent to Boeing for Correction must accompany the Boeing Product. Any claim not associated with the return of a Boeing Product must be submitted signed and in writing directly by Customer or its Authorized Agent to Boeing Warranty by any of the methods identified in Article 11, "Notice," of the AGTA or through an internet portal and process specified by Boeing.

6.3.2 Boeing will promptly review the claim and will give notification of claim approval or rejection. If the claim is rejected, Boeing will provide a written explanation.

7. Corrections Performed by Customer or Its Authorized Agent.

7.1 Facilities Requirements. Provided Customer, its Authorized Agent or its third party contractor, as appropriate, are certified by the appropriate Civil Aviation Authority or Federal Aviation Authority, Customer or its Authorized Agent may, at its option, Correct defective Boeing Products at its facilities or may subcontract Corrections to a third party contractor.

7.2 Technical Requirements. All Corrections done by Customer, its Authorized Agent or a third party contractor must be performed in accordance with Boeing's applicable service manuals, bulletins or other written instructions, using parts and materials furnished or approved by Boeing.

7.3 Reimbursement.

7.3.1 Boeing will reimburse Customer's reasonable costs of Direct Materials and Direct Labor **by credit memorandum** (excluding labor hours expended for overhaul) at Customer's Warranty Labor Rate to Correct a defective Boeing Product. Claims for reimbursement must contain sufficient information to substantiate Direct Labor hours expended and Direct Materials consumed. Customer or its Authorized Agent may be required to produce invoices for materials.

7.3.2 Customer's established Warranty Labor Rate will be the greater of the standard labor rate or one hundred fifty percent (150%) of Customer's Average Direct Hourly Labor Rate. The standard labor rate paid by Boeing to its customers is established and published annually. Prior to or concurrently with submittal of Customer's first claim for Direct Labor reimbursement, Customer may notify Boeing of Customer's then current Average Direct Hourly Labor Rate and thereafter notify Boeing of any material change in such rate. Boeing will require information from Customer to substantiate such rates.

7.3.3 Reimbursement for Direct Labor hours to perform Corrections stated in a service bulletin will be based on the labor estimates in the service bulletin.

7.3.4 Boeing will provide to Customer a single, lump sum credit memorandum for Customer's Direct Labor hours expended to incorporate the Corrections (other than of random anomalies) identified in service bulletins and service letters in all in-warranty aircraft covered by such service bulletins or service letters after Customer's submission of a warranty claim and verification of the incorporation of such Corrections with respect to the first affected in-warranty aircraft. Such credit memoranda will not be provided in response to any other requests for reimbursement including, without limitation, those arising out of program letters or other special offers provided by Boeing.

7.3.5 Boeing will reimburse Customer's freight charges associated with a Correction of a defect on a Boeing Product performed by its Authorized Agent or a third party contractor.

7.3.6 Maximum Reimbursement. Unless previously agreed in writing, the maximum reimbursement for Direct Labor and Direct materials for repair of a defective Boeing Product will not exceed 65% of Boeing's then current sales price for a new replacement Boeing Product. Inspection, removal, reinstallation labor, final testing,

inspection and transportation costs are separate and are not to be included in the cost elements used to determine the 65% limit. By mutual agreement between Customer and Boeing, Boeing may provide a replacement Product to Customer in lieu of credit reimbursement.

7.4 Disposition of Defective Boeing Products Beyond Economical Repair.

7.4.1 A defective Boeing Product found to be beyond economical repair (see paragraph 7.3.6) will be retained for a period of thirty (30) days from the date Boeing receives Customer's claim. During the thirty (30) day period, Boeing may request return of such Boeing Products for inspection and confirmation of a defect.

7.4.2 After the thirty (30) day period, a defective Boeing Product with a value of Four Thousand dollars (\$4,000) or less may be scrapped without notification to Boeing. Boeing will reimburse Customer or its Authorized Agent for the charge for any item determined to be defective under this Aircraft General Terms Agreement. If such Boeing Product has a value greater than Four Thousand dollars (\$4,000), Customer must obtain confirmation of unrepairability by Boeing's on-site field service representative prior to scrapping. Confirmation may be in the form of the representative's signature on Customer's claim or through direct communication between the representative and Boeing Warranty.

8. Corrections Performed by Boeing.

8.1 Freight Charges. Customer or its Authorized Agent will pre-pay freight charges to return a Boeing Product to Boeing. If during the period of the applicable warranty Boeing determines the Boeing Product to be defective, Boeing will pre-pay shipping charges to return the Corrected Boeing Product. Boeing will reimburse Customer or its Authorized Agent for freight charges for Boeing Products returned to Boeing for Correction and determined to be defective.

8.2 Customer Instructions. The documentation shipped with the returned defective Boeing Product may include specific technical instructions for additional work to be performed on the Boeing Product. The absence of such instructions will evidence Customer's authorization for Boeing to perform all necessary Corrections and work required to return the Boeing Product to a serviceable condition.

8.3 Correction Time Objectives.

8.3.1 Boeing's objective for making Corrections is ten (10) working days for avionics and electronic Boeing Products, thirty (30) working days for Corrections of other Boeing Products performed at Boeing's facilities and forty (40) working days for Corrections of other Boeing Products performed at a Boeing subcontractor's facilities. The objectives are measured from the date Boeing receives the defective Boeing Product and a valid claim to the date Boeing ships the Corrected Boeing Product.

8.3.2 If Customer has a critical parts shortage because Boeing has exceeded a Correction time objective and Customer has procured spare Boeing Products for the defective Boeing Product in quantities shown in Boeing's Recommended Spare Parts List then Boeing will either expedite the Correction or provide an interchangeable Boeing Product, on a no charge loan basis, until the Corrected Boeing Product is returned.

8.4 Title Transfer and Risk of Loss.

8.4.1 Title to and risk of loss of any Boeing Product returned to Boeing will at all times remain with Customer or any other title holder of such Boeing Product.

While Boeing has possession of the returned Boeing Product, Boeing will have only such liabilities as a bailee for mutual benefit would have but will not be liable for loss of use.

8.4.2 If a Correction requires shipment of a new Boeing Product, then at the time Boeing ships the new Boeing Product, title to and risk of loss for the returned Boeing Product will pass to Boeing, and title to and risk of loss for the new Boeing Product will pass to Customer.

9. Returning an Aircraft.

9.1 Conditions. An aircraft may be returned to Boeing's facilities for Correction only if:

- (i) Boeing and Customer agree a covered defect exists;
- (ii) Customer lacks access to adequate facilities, equipment or qualified personnel to perform the Correction; and
- (iii) it is not practical, in Boeing's estimation, to dispatch Boeing personnel to perform the Correction at a remote site.

9.2 Correction Costs. Boeing will perform the Correction at no charge to Customer. Subject to the conditions of Article 9.1, Boeing will reimburse Customer for the costs of fuel, oil, other required fluids and landing fees incurred in ferrying the aircraft to Boeing and back to Customer's facilities. Customer will minimize the length of both flights.

9.3 Separate Agreement. Prior to the return of an aircraft to Boeing, Boeing and Customer will enter into a separate agreement covering return of the aircraft and performance of the Correction. Authorization by Customer for Boeing to perform additional work that is not part of the Correction must be received within twenty-four (24) hours of Boeing's request. If such authorization is not received within twenty-four (24) hours, Customer will be invoiced for work performed by Boeing that is not Part of the Correction.

10. Insurance.

The provisions of Article 8.2 "Insurance", of this AGTA, will apply to any work performed by Boeing in accordance with Customer's specific technical instructions to the extent any legal liability of Boeing is based upon the content of such instructions.

11. Disclaimer and Release; Exclusion of Liabilities.

11.1 DISCLAIMER AND RELEASE. THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF BOEING AND THE REMEDIES OF CUSTOMER IN THIS EXHIBIT C ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND CUSTOMER HEREBY WAIVES, RELEASES AND RENOUNCES, ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF BOEING AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES OF CUSTOMER AGAINST BOEING, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY NONCONFORMANCE OR DEFECT IN ANY AIRCRAFT, MATERIALS, TRAINING, SERVICES OR OTHER THING PROVIDED UNDER THIS AGTA AND THE APPLICABLE PURCHASE AGREEMENT, INCLUDING, BUT NOT LIMITED TO:

- (i) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;

-
- (ii) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
 - (iii) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY IN TORT, WHETHER OR NOT ARISING FROM THE NEGLIGENCE OF BOEING;
AND
 - (iv) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OF OR DAMAGE TO ANY AIRCRAFT.

11.2 EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES. BOEING WILL HAVE NO OBLIGATION OR LIABILITY, WHETHER ARISING IN CONTRACT (INCLUDING WARRANTY), TORT, WHETHER OR NOT ARISING FROM THE NEGLIGENCE OF BOEING, OR OTHERWISE, FOR LOSS OF USE, REVENUE OR PROFIT, OR FOR ANY OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY NONCONFORMANCE OR DEFECT IN ANY AIRCRAFT, MATERIALS, TRAINING, SERVICES OR OTHER THING PROVIDED UNDER THIS AGTA AND THE APPLICABLE PURCHASE AGREEMENT.

11.3 Definitions. For the purpose of this Article, "BOEING" or "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each, and their respective directors, officers, employees and agents.

EXHIBIT C
PRODUCT ASSURANCE DOCUMENT
PART 3: BOEING SERVICE LIFE POLICY

1. Definitions.

Service Life Policy (SLP) Component - any of the primary structural elements (excluding industry standard parts), such as landing gear, wing, fuselage, vertical or horizontal stabilizer, listed in the applicable purchase agreement for a specific model of aircraft, either installed in the aircraft at time of delivery or purchased from Boeing by Customer as a spare part. The detailed SLP Component listing will be in Supplemental Exhibit SLP1 to each Purchase Agreement.

2. Service Life Policy.

2.1. SLP Commitment. If a failure is discovered in a SLP Component within the time periods specified in Article 2.2 below, Boeing will provide Customer a replacement SLP Component at the price calculated pursuant to Article 3.1, below. If requested by Customer as an alternative remedy, Boeing will reimburse Customer in accordance with the provisions of Exhibit C, Part 2, Article 7.3, for Direct Labor and Direct Material for repair of a failed SLP Component an amount not to exceed the difference between Boeing's then current spare parts price for such SLP Component and the price determined pursuant to Article 3, below.

2.2. SLP Policy Periods.

2.2.1. The policy period for SLP Components initially installed on an aircraft is twelve (12) years after the date of delivery of the aircraft except that for SLP Components initially installed on a 787 aircraft the policy period is fifteen (15) years after the date of delivery of the aircraft.

2.2.2. The policy period for SLP Components purchased from Boeing by Customer as spare parts is twelve (12) years from delivery of such SLP Component or twelve (12) years from the date of delivery of the last aircraft produced by Boeing of a specific model, whichever first expires, except that for the 787 aircraft such policy period is fifteen (15) years from delivery of such SLP Component or fifteen (15) years from the date of delivery of the last 787 aircraft produced by Boeing, whichever first expires.

3. Price.

The price Customer will pay for replacement of a failed SLP Component will be calculated pursuant to the following formulas:

(i) For 787 aircraft only:

$$P = \frac{C(T-48)}{132}$$

where:

P = price to Customer for the replacement part

C = SLP Component sales price at time of replacement

T = total age in months of the failed SLP Component from the date of delivery to Customer to the date of discovery of such condition and is greater than forty-eight (48) months.

(ii) For all other aircraft models:

$$P = \frac{CT}{144}$$

where:

P = price to Customer for the replacement part

C = SLP Component sales price at time of replacement

T = total age in months of the failed SLP Component from the date of delivery to Customer to the date of discovery of such condition.

4. Conditions.

Boeing's obligations under this Part 3 of Exhibit C, "Boeing Service Life Policy," (**Policy**) are conditioned upon the following:

4.1. Customer must notify Boeing in writing of the failure within three months after it is discovered.

4.2. Customer must provide reasonable evidence that the claimed failure is covered by this Policy and if requested by Boeing, that such failure was not the result of:

4.2.1.1.1. a defect or failure in a component not covered by this Policy,

4.2.1.1.2. an extrinsic force,

4.2.1.1.3. an act or omission of Customer, or

4.2.1.1.4. operation or maintenance contrary to applicable governmental regulations or Boeing's instructions.

4.3. If return of a failed SLP Component is practicable and requested by Boeing, Customer will return such SLP Component to Boeing at Boeing's expense.

4.4. Customer's rights and remedies under this Policy are limited to the receipt of a Correction pursuant to Article 2 above.

5. Disclaimer and Release; Exclusion of Liabilities.

This Part 3 and the rights and remedies of Customer and the obligations of Boeing are subject to the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions of Article 11 of Part 2 of this Exhibit C.

SWA-AGTA-EXC

EXC Page 12

EXHIBIT C
PRODUCT ASSURANCE DOCUMENT
PART 4: SUPPLIER WARRANTY COMMITMENT

1. Supplier Warranties and Supplier Patent and Copyright Indemnities.

Boeing will use diligent efforts to obtain warranties and indemnities against patent and copyright infringement enforceable by Customer from Suppliers of Supplier Products (except for BFE and engines) installed on the aircraft at the time of delivery that were selected and purchased by Boeing, but not manufactured to Boeing's detailed design. Boeing will furnish copies of the warranties and patent and copyright indemnities to Customer contained in Supplier Product Support and Assurance Agreements, prior to the scheduled delivery month of the first aircraft under the initial purchase agreement to the AGTA.

2. Boeing Assistance in Administration of Supplier Warranties.

Customer will be responsible for submitting warranty claims directly to Suppliers; however, if Customer experiences problems enforcing any Supplier warranty obtained by Boeing for Customer, Boeing will conduct an investigation of the problem and assist Customer in the resolution of those claims.

3. Boeing Support in Event of Supplier Default.

3.1 If the Supplier defaults in the performance of a material obligation under its warranty, and Customer provides evidence to Boeing that a default has occurred, then Boeing will furnish the equivalent warranty terms as provided by the defaulting Supplier.

3.2 At Boeing's request, Customer will assign to Boeing, and Boeing will be subrogated to, its rights against the Supplier provided by the Supplier warranty.

EXHIBIT C
PRODUCT ASSURANCE DOCUMENT
PART 5: BOEING INTERFACE COMMITMENT

1. Interface Problems.

An Interface Problem is defined as a technical problem in the operation of an aircraft or its systems experienced by Customer, the cause of which is not readily identifiable by Customer but which Customer believes to be attributable to either the design characteristics of the aircraft or its systems or the workmanship used in the installation of Supplier Products. In the event Customer experiences an Interface Problem, Boeing will, without additional charge to Customer, promptly conduct an investigation and analysis to determine the cause or causes of the Interface Problem. Boeing will promptly advise Customer at the conclusion of its investigation of Boeing's opinion as to the causes of the Interface Problem and Boeing's recommendation as to corrective action.

2. Boeing Responsibility.

If Boeing determines that the Interface Problem is primarily attributable to the design or installation of any Boeing Product, Boeing will Correct the design or workmanship to the extent of any then existing obligations of Boeing under the provisions of the applicable Boeing Product warranty.

3. Supplier Responsibility.

If Boeing determines that the Interface Problem is primarily attributable to the design or installation of a Supplier Product, Boeing will assist Customer in processing a warranty claim against the Supplier.

4. Joint Responsibility.

If Boeing determines that the Interface Problem is partially attributable to the design or installation of a Boeing Product and partially to the design or installation of a Supplier Product, Boeing will seek a solution to the Interface Problem through the cooperative efforts of Boeing and the Supplier and will promptly advise Customer of the resulting corrective actions and recommendations.

5. General.

Customer will, if requested by Boeing, assign to Boeing any of its rights against any supplier as Boeing may require to fulfill its obligations hereunder.

6. Disclaimer and Release; Exclusion of Liabilities.

This Part 5 and the rights and remedies of Customer and the obligations of Boeing herein are subject to the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions of Article 11 of Part 2 of this Exhibit C.

EXHIBIT C
PRODUCT ASSURANCE DOCUMENT
PART 6: BOEING INDEMNITIES AGAINST PATENT AND COPYRIGHT INFRINGEMENT

1. Indemnity Against Patent Infringement.

Boeing will defend and indemnify Customer with respect to all claims, suits and liabilities arising out of any actual or alleged patent infringement through Customer's use, lease or resale of any aircraft or any Boeing Product installed on an aircraft at delivery.

2. Indemnity Against Copyright Infringement.

Boeing will defend and indemnify Customer with respect to all claims, suits and liabilities arising out of any actual or alleged copyright infringement through Customer's use, lease or resale of any Boeing created Materials and Aircraft Software installed on an aircraft at delivery.

3. Exceptions, Limitations and Conditions.

3.1. Boeing's obligation to indemnify Customer for patent infringement will extend only to infringements in countries which, at the time of the infringement, were party to and fully bound by either: (i) Article 27 of the Chicago Convention on International Civil Aviation of December 7, 1944, or (ii) the International Convention for the Protection of Industrial Property (**Paris Convention**).

3.2. Boeing's obligation to indemnify Customer for copyright infringement is limited to infringements in countries which, at the time of the infringement, are members of The Berne Union and recognize computer software as a "work" under The Berne Convention.

3.3. The indemnities provided under this Part 6 will not apply to any BFE engines, Supplier Product, Boeing Product used other than for its intended purpose, or Aircraft Software not created by Boeing.

3.4. Customer must deliver written notice to Boeing (i) within ten (10) days after Customer first receives notice of any suit or other formal action against Customer and (ii) within twenty (20) days after Customer first receives any other allegation or written claim of infringement covered by this Part 6.

3.5. At any time, Boeing will have the right at its option and expense to: (i) negotiate with any party claiming infringement, (ii) assume or control the defense of any infringement allegation, claim, suit or formal action, (iii) intervene in any infringement suit or formal action, and/or (iv) attempt to resolve any claim of infringement by replacing an allegedly infringing Boeing Product or Aircraft Software with a noninfringing equivalent.

3.6. Customer will promptly furnish to Boeing all information, records and assistance within Customer's possession or control which Boeing considers relevant or material to any alleged infringement covered by this Part 6.

3.7. Except as required by a final judgment entered against Customer by a court of competent jurisdiction from which no appeals can be or have been filed, Customer will obtain Boeing's written approval prior to paying, committing to pay,

assuming any obligation or making any material concession relative to any infringement covered by these indemnities.

3.8. BOEING WILL HAVE NO OBLIGATION OR LIABILITY UNDER THIS PART 6 FOR LOSS OF USE, REVENUE OR PROFIT, OR FOR ANY OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGES. THE OBLIGATIONS OF BOEING AND REMEDIES OF CUSTOMER IN THIS PART 6 ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND CUSTOMER HEREBY WAIVES, RELEASES AND RENOUNCES ALL OTHER INDEMNITIES, OBLIGATIONS AND LIABILITIES OF BOEING AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES OF CUSTOMER AGAINST BOEING, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY ACTUAL OR ALLEGED PATENT, COPYRIGHT OR OTHER INTELLECTUAL PROPERTY INFRINGEMENT OR THE LIKE BY ANY AIRCRAFT, AIRCRAFT SOFTWARE, MATERIALS, TRAINING, SERVICES OR OTHER THING PROVIDED UNDER THIS AGTA AND THE APPLICABLE PURCHASE AGREEMENT.

3.9. For the purposes of this Part 6, "BOEING or Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each and their respective directors, officers, employees and agents.

SWA-AGTA-EXC

EXC Page 16

Appendix I
SAMPLE
Insurance Certificate
BROKER'S LETTERHEAD

Date: +

Certificate of Insurance

ISSUED TO: The Boeing Company
Post Office Box 3707
Mail Code 13-57
Seattle, Washington 98124
Attn: Manager - Aviation Insurance for
Vice President - Employee Benefits,
Insurance and Taxes

CC: Boeing Commercial Airplanes
P.O. Box 3707
Mail Code 21-34
Seattle, Washington 98124-2207
U.S.A.
Attn: Vice President - Contracts

NAMED INSURED: Southwest Airlines Co.

We hereby certify that in our capacity as Brokers to the Named Insured, the following described insurance is in force on this date:

<u>Insurer</u>	<u>Policy No.</u>	<u>Participation</u>
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POLICY PERIOD: From [date and time of inception of the Policy(ies)] to [date and time of expiration].

GEOGRAPHICAL LIMITS: Worldwide (however, as respects "Aircraft Hull War and Allied Perils" Insurance, as agreed by Boeing).

SWA-AGTA-APPEND

Appendix I Page A-1

Appendix I
SAMPLE
Insurance Certificate

AIRCRAFT INSURED: All Boeing manufactured aircraft owned or operated by the Named Insured which are the subject of the following purchase agreement(s), entered into between The Boeing Company and (hereinafter **Aircraft**):

Purchase Agreement No.	dated	, 20
Purchase Agreement No.	dated	, 20

COVERAGES:

2. Aircraft "all risks" Hull (Ground and Flight)
3. Aircraft Hull War and Allied Perils (as per LSW 555, or its successor wording)
4. Airline Liability

Including, but not limited to, Bodily Injury, Property Damage, Aircraft Liability, Liability War Risks, Passenger Legal Liability, //Premises/Operations// Liability, Completed //Operations/Products// Liability, Baggage Legal Liability (checked and unchecked), Cargo Legal Liability, Contractual Liability and Personal Injury.

The above-referenced Airline Liability insurance coverage is subject to War and Other Perils Exclusion Clause (AV48B) but all sections, other than Section (b) are reinstated as per AV52C, or their successor endorsements.

LIMITS OF LIABILITY: To the fullest extent of the Policy limits that the Named Insured carries from the time of delivery of the first Aircraft under the first Purchase Agreement listed under "Aircraft Insured" and thereafter at the inception of each policy period, but in any event no less than the following:

Combined Single Limit Bodily Injury and Property Damage: U.S. Dollars (\$) any one occurrence each Aircraft (with aggregates as applicable).

Appendix I
SAMPLE
Insurance Certificate

(737-500/600)	US\$350,000,000
(737-300/700)	US\$400,000,000
(737-400)	US\$450,000,000
(737-800/900)	US\$500,000,000
(737-7/8/9)	TBD
(757-200)	US\$525,000,000
(757-300)	US\$550,000,000
(767-200)	US\$550,000,000
(767-300)	US\$700,000,000
(767-400ERX)	US\$750,000,000
(787)	US\$700,000,000
(777)	US\$800,000,000
(747)	US\$900,000,000

(In regard to all other models and/or derivatives, to be specified by Boeing).

(In regard to Personal Injury coverage, limits are Twenty-five million U.S. Dollars (\$25,000,000) any one //offense/aggregate//.)

DEDUCTIBLES / SELF-INSURANCE: Any deductible and/or self-insurance amount (other than standard market deductibles) are to be disclosed and agreed by Boeing.

SPECIAL PROVISIONS APPLICABLE TO BOEING: It is certified that Insurers are aware of the terms and conditions of SWA-AGTA and the following purchase agreements:

Purchase Agreement No.	dated	, 20
Purchase Agreement No.	dated	, 20
Purchase Agreement No.	dated	, 20

Each Aircraft manufactured by Boeing which is delivered to the Insured pursuant to the applicable purchase agreement during the period of effectivity of the policies represented by this Certificate will be covered to the extent specified herein.

Insurers have agreed to the following:

1. In regard to Aircraft "all risks" Hull Insurance and Aircraft Hull War and Allied Perils Insurance, Insurers agree to waive all rights of subrogation or recourse against Boeing in accordance with SWA-AGTA which was incorporated by reference into the applicable purchase agreement.

Appendix I
SAMPLE
Insurance Certificate

2. In regard to Airline Liability Insurance, Insurers agree:

2.1. To include Boeing as an additional insured in accordance with Customer's undertaking in Article 8.2.1 of SWA-AGTA which was incorporated by reference into the applicable purchase agreement.

2.2. To provide that such insurance will be primary and not contributory nor excess with respect to any other insurance available for the protection of Boeing;

2.3. To provide that with respect to the interests of Boeing, such insurance shall not be invalidated or minimized by any action or inaction, omission or misrepresentation by the Insured or any other person or party (other than Boeing) regardless of any breach or violation of any warranty, declaration or condition contained in such policies;

2.4. To provide that all provisions of the insurance coverage's referenced above, except the limits of liability, will operate to give each Insured or additional insured the same protection as if there were a separate Policy issued to each.

3. In regard to all of the above referenced policies:

3.1. Boeing will not be responsible for payment, set-off, or assessment of any kind or any premiums in connection with the policies, endorsements or coverage's described herein;

3.2. If a policy is canceled for any reason whatsoever, or any substantial change is made in the coverage which affects the interests of Boeing or if a policy is allowed to lapse for nonpayment of premium, such cancellation, change or lapse shall not be effective as to Boeing for thirty (30) days (in the case of war risk and allied perils coverage seven (7) days after sending, or such other period as may from time to time be customarily obtainable in the industry) after receipt by Boeing of written notice from the Insurers or the authorized representatives or Broker of such cancellation, change or lapse; and

3.3. For the purposes of the Certificate, "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each and their respective directors, officers, employees and agents.

Subject to the terms, conditions, limitations and exclusions of the relative policies.

[Signature]

Name:

Title:

SWA-AGTA-APPEND

Appendix I Page A-4

Appendix II
SAMPLE
Purchase Agreement Assignment

THIS PURCHASE AGREEMENT ASSIGNMENT (**Assignment**) dated as of _____, 20____ is between _____, a company organized under the laws of _____ (**Assignor**) and _____, a company organized under the laws of _____ (**Assignee**). Capitalized terms used herein without definition will have the same meaning as in the Boeing Purchase Agreement.

Assignor and The Boeing Company, a Delaware corporation (**Boeing**), are parties to the Boeing Purchase Agreement, providing, among other things, for the sale by Boeing to Assignor of certain aircraft, engines and related equipment, including the Aircraft.

Assignee wishes to acquire the Aircraft and certain rights and interests under the Boeing Purchase Agreement and Assignor, on the following terms and conditions, is willing to assign to Assignee certain of Assignor's rights and interests under the Boeing Purchase Agreement. Assignee is willing to accept such assignment.

It is agreed as follows:

1. For all purposes of this Assignment, the following terms will have the following meanings:

Aircraft - one Boeing Model _____ aircraft, bearing manufacturer's serial number _____, together with all engines and parts installed on such aircraft on the Delivery Date.

Boeing - Boeing shall include any wholly-owned subsidiary of Boeing, and its successors and assigns.

Boeing Purchase Agreement - Purchase Agreement No. _____ dated as of _____ between Boeing and Assignor, as amended, but excluding _____, providing, among other things, for the sale by Boeing to Assignor of the Aircraft, as said agreement may be further amended to the extent permitted by its terms. The Purchase Agreement incorporated by reference Aircraft General Terms Agreement SWA-AGTA (**AGTA**).

Delivery Date - the date on which the Aircraft is delivered by Boeing to Assignee pursuant to and subject to the terms and conditions of the Boeing Purchase Agreement and this Assignment.

2. Assignor does hereby assign to Assignee all of its rights and interests in and to the Boeing Purchase Agreement, as and to the extent that the same relate to the Aircraft and the purchase and operation thereof, except as and to the extent expressly reserved below, including, without limitation, in such assignment: **[TO BE COMPLETED BY THE PARTIES.]**

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Appendix II
SAMPLE
Purchase Agreement Assignment

{EXAMPLES

- (i) the right upon valid tender to purchase the Aircraft pursuant to the Boeing Purchase Agreement subject to the terms and conditions thereof and the right to take title to the Aircraft and to be named the "Buyer" in the bill of sale for the Aircraft;*
- (ii) the right to accept delivery of the Aircraft;*
- (iii) all claims for damages arising as a result of any default under the Boeing Purchase Agreement in respect of the Aircraft;*
- (iv) all warranty and indemnity provisions contained in the Boeing Purchase Agreement, and all claims arising thereunder, in respect of the Aircraft; and*
- (v) any and all rights of Assignor to compel performance of the terms of the Boeing Purchase Agreement in respect of the Aircraft.}*

Reserving exclusively to Assignor, however:

{EXAMPLES

- (i) all Assignor's rights and interests in and to the Boeing Purchase Agreement as and to the extent the same relates to aircraft other than the Aircraft, or to any other matters not directly pertaining to the Aircraft;*
- (ii) all Assignor's rights and interests in or arising out of any advance or other payments or deposits made by Assignor in respect of the Aircraft under the Boeing Purchase Agreement and any amounts credited or to be credited or paid or to be paid by Boeing in respect of the Aircraft;*
- (iii) the right to obtain services, training, information and demonstration and test flights pursuant to the Boeing Purchase Agreement; and*
- (iv) the right to maintain plant representatives at Boeing's plant pursuant to the Boeing Purchase Agreement.}*

SWA-AGTA

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Appendix II
SAMPLE
Purchase Agreement Assignment

Assignee hereby accepts such assignment.

3. Notwithstanding the foregoing, so long as no event of default or termination under [specify document] has occurred and is continuing, Assignee hereby authorizes Assignor, to the exclusion of Assignee, to exercise in Assignor's name all rights and powers of Customer under the Boeing Purchase Agreement in respect of the Aircraft.
4. For all purposes of this Assignment, Boeing will not be deemed to have knowledge of or need recognize the occurrence, continuance or the discontinuance of any event of default or termination under [specify document] unless and until Boeing receives from Assignee written notice thereof, addressed to its Vice President - Contracts, Boeing Commercial Airplanes at P.O. Box 3707, Seattle, Washington 98124, if by mail, or to 425-237-1706, if by facsimile. Until such notice has been given, Boeing will be entitled to deal solely and exclusively with Assignor. Thereafter, until Assignee has provided Boeing written notice that any such events no longer continue, Boeing will be entitled to deal solely and exclusively with Assignee. Boeing may act with acquittance and conclusively rely on any such notice.
5. It is expressly agreed that, anything herein contained to the contrary notwithstanding: (a) prior to the Delivery Date Assignor will perform its obligations with respect to the Aircraft to be performed by it on or before such delivery, (b) Assignor will at all times remain liable to Boeing under the Boeing Purchase Agreement to perform all obligations of Customer thereunder to the same extent as if this Assignment had not been executed, and (c) the exercise by Assignee of any of the assigned rights will not release Assignor from any of its obligations to Boeing under the Boeing Purchase Agreement, except to the extent that such exercise constitutes performance of such obligations.
6. Notwithstanding anything contained in this Assignment to the contrary (but without in any way releasing Assignor from any of its obligations under the Boeing Purchase Agreement), Assignee confirms for the benefit of Boeing that, insofar as the provisions of the Boeing Purchase Agreement relate to the Aircraft, in exercising any rights under the Boeing Purchase Agreement, or in making any claim with respect to the Aircraft or other things (including, without limitation, Material, training and services) delivered or to be delivered, the terms and conditions of the Boeing Purchase Agreement, including, without limitation, the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES in Article 11 of Part 2 of Exhibit C to the Aircraft General Terms Agreement which was incorporated by reference into the Boeing Purchase Agreement and the insurance provisions in Article 8.2 of the Aircraft General Terms Agreement which was incorporated by reference into the Boeing Purchase Agreement therein, will apply to and be binding on Assignee to the same extent as if Assignee had been the original "Customer" thereunder. Assignee further agrees, expressly for the benefit of Boeing, upon the written request of Boeing, Assignee will promptly execute and deliver such further assurances and documents and take such further action as Boeing may reasonably request in order to obtain the full benefits of Assignee's agreements in this paragraph.

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Appendix II
SAMPLE
Purchase Agreement Assignment

7. Nothing contained herein will subject Boeing to any liability to which it would not otherwise be subject under the Boeing Purchase Agreement or modify in any respect the contract rights of Boeing thereunder, or require Boeing to divest itself of title to or possession of the Aircraft or other things until delivery thereof and payment therefore as provided therein.

8. Notwithstanding anything in this Assignment to the contrary, after receipt of notice of any event of default or termination under [specify document], Boeing will continue to owe to Assignor moneys in payment of claims made or obligations arising before such notice, which moneys may be subject to rights of set-off available to Boeing under applicable law. Similarly, after receipt of notice that such event of default or termination no longer continues, Boeing will continue to owe to Assignee moneys in payment of claims made or obligations arising before such notice, which moneys may be subject to rights of set-off available to Boeing under applicable law.

9. Effective at any time after an event of default has occurred, and for so long as such event of default is continuing, Assignor does hereby constitute Assignee, Assignor's true and lawful attorney, irrevocably, with full power (in the name of Assignor or otherwise) to ask, require, demand, receive, and give acquittance for any and all moneys and claims for moneys due and to become due under or arising out of the Boeing Purchase Agreement in respect of the Aircraft, to the extent assigned by this Assignment.

10. Assignee agrees, expressly for the benefit of Boeing and Assignor that it will not disclose, directly or indirectly, any terms of the Boeing Purchase Agreement; provided, that Assignee may disclose any such information (a) to its special counsel and public accountants, (b) as required by applicable law to be disclosed or to the extent that Assignee may have received a subpoena or other written demand under color of legal right for such information, but it will first, as soon as practicable upon receipt of such requirement or demand, furnish an explanation of the basis thereof to Boeing, and will afford Boeing reasonable opportunity, to obtain a protective order or other reasonably satisfactory assurance of confidential treatment for the information required to be disclosed, and (c) to any bona fide potential purchaser or lessee of the Aircraft. Any disclosure pursuant to (a) and (c) above will be subject to execution of a confidentiality agreement substantially similar to this paragraph 10.

11. This Assignment may be executed by the parties in separate counterparts, each of which when so executed and delivered will be an original, but all such counterparts will together constitute but one and the same instrument.

12. This Assignment will be governed by, and construed in accordance with, the laws of

SWA-AGTA

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**Appendix II
SAMPLE
Purchase Agreement Assignment**

as Assignor

as Assignee

By _____

By _____

Name:

Name:

Title:

Title:

[If the Assignment is further assigned by Assignee in connection with a financing, the following language needs to be included.]

Attest:

The undersigned, as *//Indenture Trustee/Agent//* for the benefit of the Loan *//Participants/Mortgagee//* and as assignee of, and holder of a security interest in, the estate, right, and interest of the Assignee in and to the foregoing Purchase Agreement Assignment and the Purchase Agreement pursuant to the terms of a certain *//Trust Indenture/Mortgage//* dated as of _____, 20____, agrees to the terms of the foregoing Purchase Agreement Assignment and agrees that its rights and remedies under such *//Trust Indenture/Mortgage//* shall be subject to the terms and conditions of the foregoing Purchase Agreement Assignment, including, without limitation, paragraph 6.

[Name of Entity]

as *//Indenture Trustee/Agent//*

By: _____

Name:

Title:

SWA-AGTA

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Appendix II
SAMPLE
Purchase Agreement Assignment

CONSENT AND AGREEMENT OF
THE BOEING COMPANY

THE BOEING COMPANY, a Delaware corporation (**Boeing**), hereby acknowledges notice of and consents to the foregoing Purchase Agreement Assignment (**Assignment**) as it relates to Boeing in respect of the Aircraft. Boeing confirms to Assignee that: all representations, warranties, indemnities and agreements of Boeing under the Boeing Purchase Agreement with respect to the Aircraft will, subject to the terms and conditions thereof and of the Assignment, inure to the benefit of Assignee to the same extent as if Assignee were originally named "Customer" therein.

This Consent and Agreement will be governed by, and construed in accordance with, the law of the State of Washington, excluding the conflict of laws principles thereof.

Dated as of _____, 20__ .

THE BOEING COMPANY

By _____
Name:

Title: Attorney-in-Fact

Aircraft Manufacturer's Serial Number(s)

SWA-AGTA

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Appendix II Page A-10

**Appendix III
SAMPLE
Post-Delivery Sale Notice**

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention: Vice President - Contracts
Mail Code 21-34

In connection with the sale by Southwest Airlines Co. (**Seller**) to (**Purchaser**) of the aircraft identified below, reference is made to Purchase Agreement No. _____ dated as of _____, 20____, between The Boeing Company (**Boeing**) and Seller (**Purchase Agreement**) under which Seller purchased certain Boeing Model _____ aircraft, including the aircraft bearing Manufacturer's Serial No.(s) _____ (**Aircraft**). The Purchase Agreement incorporated by reference Aircraft General Terms Agreement SWA-AGTA (**AGTA**).

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

Seller has sold the Aircraft, including in that sale the assignment to Purchaser of all remaining rights related to the Aircraft under the Purchase Agreement. To accomplish this transfer of rights, as authorized by the provisions of the Purchase Agreement:

1. Purchaser acknowledges it has reviewed those provisions of the Purchase Agreement related to those rights assigned and agrees to be bound by and comply with all applicable terms and conditions of the Purchase Agreement, including, without limitation, the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES in Article 11 of Part 2 of Exhibit C to the AGTA and the insurance provisions in Article 8.2 of the AGTA. Purchaser further agrees upon the written request of Boeing, to promptly execute and deliver such further assurances and documents and take such further action as Boeing may reasonably request in order to obtain the full benefits of Purchaser's agreements in this paragraph; and
2. Seller will remain responsible for any payments due Boeing as a result of obligations relating to the Aircraft incurred by Seller to Boeing prior to the effective date of this letter.

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**Appendix III
SAMPLE
Post-Delivery Sale Notice**

We request that Boeing acknowledge receipt of this letter and confirm the transfer of rights set forth above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

Southwest Airlines Co.

Purchaser

By _____

By _____

Its

Its

Dated

Dated

Receipt of the above letter is acknowledged and the assignment of rights under the Purchase Agreement with respect to the Aircraft described above is confirmed, effective as of this date.

THE BOEING COMPANY

By _____

Its Attorney-in-Fact

Dated

Aircraft Manufacturer's Serial Number

SWA-AGTA

October 28, 2011
Appendix III Page A-12

Appendix IV
SAMPLE
Post-Delivery Lease Notice

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention: Vice President - Contracts
Mail Code 21-34

In connection with the lease by Southwest Airlines Co. (**Lessor**) to _____ (**Lessee**) of the aircraft identified below, reference is made to Purchase Agreement No. _____ dated as of _____, 20____, between The Boeing Company (**Boeing**) and Lessor (**Purchase Agreement**) under which Lessor purchased certain Boeing Model _____ aircraft, including the aircraft bearing Manufacturer's Serial No.(s) _____ (**Aircraft**). The Purchase Agreement incorporated by reference Aircraft General Terms Agreement SWA-AGTA (**AGTA**).

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

Lessor has leased the Aircraft, including in that lease the transfer to Lessee of all remaining rights related to the Aircraft under the Purchase Agreement. To accomplish this transfer of rights, as authorized by the provisions of the Purchase Agreement:

1. Lessor authorizes Lessee to exercise, to the exclusion of Lessor, all rights and powers of Lessor with respect to the remaining rights related to the Aircraft under the Purchase Agreement. This authorization will continue until Boeing receives written notice from Lessor to the contrary, addressed to Vice President – Contracts, Mail Code 21-34, Boeing Commercial Airplanes, P.O. Box 3707, Seattle, Washington 98124-2207. Until Boeing receives such notice, Boeing is entitled to deal exclusively with Lessee with respect to the Aircraft under the Purchase Agreement. With respect to the rights and obligations of Lessor under the Purchase Agreement, all actions taken or agreements entered into by Lessee during the period prior to Boeing's receipt of this notice are final and binding on Lessor. Further, any payments made by Boeing as a result of claims made by Lessee will be made to the credit of Lessee.

SWA-AGTA

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Appendix IV
SAMPLE
Post-Delivery Lease Notice

2. Lessee accepts the authorization above, acknowledges it has reviewed those provisions of the Purchase Agreement related to the authority granted and agrees to be bound by and comply with all applicable terms and conditions of the Purchase Agreement including, without limitation, the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES in Article 11 of Part 2 of Exhibit C of the AGTA and the insurance provisions in Article 8.2 of the AGTA. Lessee further agrees, upon the written request of Boeing, to promptly execute and deliver such further assurances and documents and take such further action as Boeing may reasonably request in order to obtain the full benefits of Lessee's agreements in this paragraph.

3. Lessor will remain responsible for any payments due Boeing as a result of obligations relating to the Aircraft incurred by Lessor to Boeing prior to the effective date of this letter.

We request that Boeing acknowledges receipt of this letter and confirm the transfer of rights set forth above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

Southwest Airlines Co.

Lessee

By _____

By _____

Its

Its

Dated

Dated

Receipt of the above letter is acknowledged and transfer of rights under the Purchase Agreement with respect to the Aircraft described above is confirmed, effective as of this date.

THE BOEING COMPANY

By _____

Its Attorney-in-Fact

Dated

Aircraft Manufacturer's Serial Number

SWA-AGTA

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Appendix IV Page A-14

Appendix V
SAMPLE
Purchaser's/Lessee's Agreement

Boeing Commercial Airplanes
P. O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention Vice President – Contracts
Mail Code 21-34

In connection with the sale/lease by Southwest Airlines Co. (**//Seller/Lessor//**) to (**//Purchaser/Lessee//**) of the aircraft identified below, reference is made to the following documents:

- (i) Purchase Agreement No. _____ dated as of _____, 20____, between The Boeing Company (**Boeing**) and **//Seller/Lessor//** (**Purchase Agreement**) under which **//Seller/Lessor//** purchased certain Boeing Model _____ aircraft, including the aircraft bearing Manufacturer's Serial No.(s) _____ (**Aircraft**); and
- (ii) Aircraft **//Sale/Lease//** Agreement dated as of _____, 20____, between Seller/Lessor and **//Purchaser/Lessee//** (**Aircraft Agreement**) under which **//Seller/Lessor//** is **//selling/leasing//** the Aircraft.

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

1. **//Seller/Lessor//** has sold/leased the Aircraft under the Aircraft Agreement, including therein a form of exculpatory clause protecting **//Seller/Lessor//** from liability for loss of or damage to the aircraft, and/or related incidental or consequential damages, including without limitation loss of use, revenue or profit.

2. Disclaimer and Release; Exclusion of Consequential and Other Damages.

2.1. In accordance with **//Seller/Lessor//** obligation under Article 9.5 of the AGTA which was incorporated by reference into the Purchase Agreement, Purchaser/Lessee hereby agrees that:

SWA-AGTA

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Appendix V
SAMPLE
Purchaser's/Lessee's Agreement

2.2. DISCLAIMER AND RELEASE. IN CONSIDERATION OF THE SALE/LEASE OF THE AIRCRAFT, PURCHASER/LESSEE HEREBY WAIVES, RELEASES AND RENOUNCES ALL WARRANTIES, OBLIGATIONS AND LIABILITIES OF BOEING AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES OF PURCHASER/LESSEE AGAINST BOEING, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY NONCONFORMANCE OR DEFECT IN ANY AIRCRAFT, BOEING PRODUCT, MATERIALS, TRAINING, SERVICES OR OTHER THING PROVIDED UNDER THE AIRCRAFT AGREEMENT, INCLUDING, BUT NOT LIMITED TO:

- (i) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;
- (ii) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
- (iii) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY IN TORT, WHETHER OR NOT ARISING FROM THE NEGLIGENCE OF BOEING;
AND
- (iv) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OF OR DAMAGE TO ANY AIRCRAFT.

2.3. EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES. BOEING WILL HAVE NO OBLIGATION OR LIABILITY, WHETHER ARISING IN CONTRACT (INCLUDING WARRANTY), TORT, WHETHER OR NOT ARISING FROM THE NEGLIGENCE OF BOEING, OR OTHERWISE, FOR LOSS OF USE, REVENUE OR PROFIT, OR FOR ANY OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY NONCONFORMANCE OR DEFECT IN ANY AIRCRAFT, MATERIALS, TRAINING, SERVICES OR OTHER THING PROVIDED UNDER THE AIRCRAFT AGREEMENT.

2.4. Definitions. For the purpose of this paragraph 2, **BOEING** or **Boeing** is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each, and their respective directors, officers, employees and agents.

SWA-AGTA

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Appendix V Page A-16

Appendix V
SAMPLE
Purchaser's/Lessee's Agreement

Very truly yours,

Southwest Airlines Co.

//Purchaser/Lessee//

By _____

By _____

Its

Its

Dated

Dated

SWA-AGTA

October 28, 2011
Appendix V Page A-17

Appendix VI
SAMPLE
Post-Delivery Owner Appointment of Agent - Warranties

Boeing Commercial Airplanes
P. O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention Vice President – Contracts
Mail Code 21-34

Reference is made to Purchase Agreement No. _____ dated as of _____, 20 (Purchase Agreement), between The Boeing Company (Boeing) and Southwest Airlines Co. (Customer), under which Customer purchased certain Boeing Model _____ aircraft including the aircraft bearing Manufacturer's Serial No(s) _____ (Aircraft). The Purchase Agreement incorporated by reference Aircraft General Terms Agreement SWA-AGTA (AGTA).

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

To accomplish the appointment of an agent, Customer confirms:

1. Customer has appointed _____ as agent (Agent) to act directly with Boeing with respect to the remaining warranties under the Purchase Agreement and requests Boeing to treat Agent as Customer for the administration of claims with respect to such warranties; provided however, Customer remains liable to Boeing to perform the obligations of Customer under the Purchase Agreement.
2. Boeing may continue to deal exclusively with Agent concerning the matters described herein unless and until Boeing receives written notice from Customer to the contrary, addressed to Vice President - Contracts, Mail Code 21-34, Boeing Commercial Airplanes, P.O. Box 3707, Seattle, Washington 98124-2207, U.S.A. With respect to the rights and obligations of Customer under the Purchase Agreement, all actions taken by Agent or agreements entered into by Agent during the period prior to Boeing's receipt of such notice are final and binding on Customer. Further, any payments made by Boeing as a result of claims made by Agent will be made to the credit of Agent unless otherwise specified when each claim is submitted.
3. Customer will remain responsible for any payments due Boeing as a result of obligations relating to the Aircraft incurred by Customer to Boeing prior to the effective date of this letter.

SWA-AGTA

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Appendix VI
SAMPLE
Post-Delivery Owner Appointment of Agent - Warranties

We request that Boeing acknowledge receipt of this letter and confirm the appointment of Agent as stated above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

Southwest Airlines Co.

By _____

Its

Dated

SWA-AGTA

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Appendix VI Page A-19

Appendix VI
SAMPLE
Post-Delivery Owner Appointment of Agent - Warranties

AGENT'S AGREEMENT

Agent accepts the appointment as stated above, acknowledges it has reviewed the those portions of the Purchase Agreement related to the authority granted it under the Purchase Agreement and agrees that, in exercising any rights or making any claims thereunder, Agent will be bound by and comply with all applicable terms and conditions of the Purchase Agreement including, without limitation, the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES in Article 11 of Part 2 of Exhibit C to the AGTA. Agent further agrees, upon the written request of Boeing, to promptly execute and deliver such further assurances and documents and take such further action as Boeing may reasonably request in order to obtain the full benefits of the warranties under the Purchase Agreement.

Very truly yours,

Southwest Airlines Co.
Agent

By _____

Its

Dated

Receipt of the above letter is acknowledged and the appointment of Agent with respect to the above-described rights under the Purchase Agreement is confirmed, effective as of this date.

THE BOEING COMPANY

By _____

Its

Dated

Aircraft Manufacturer's Serial Number

SWA-AGTA

October 28, 2011
Appendix VI Page A-20

Appendix VII
SAMPLE
Contractor Confidentiality Agreement

Boeing Commercial Airplanes
P. O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention Vice President – Contracts
Mail Code 21-34

This agreement (**Agreement**) is entered into between (Contractor) and Southwest Airlines Co. (**Customer**) and will be effective as of the date set forth below.

In connection with Customer's provision to Contractor of certain Materials, Proprietary Materials and Proprietary Information; reference is made to Purchase Agreement No. _____ dated as of _____ between The Boeing Company (**Boeing**) and Customer (**Purchase Agreement**), which incorporates by this reference SWA-AGTA.

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

Boeing has agreed to permit Customer to make certain Materials, Proprietary Materials and Proprietary Information relating to Customer's Boeing Model _____ aircraft, Manufacturer's Serial Number _____, Registration No. _____ (**Aircraft**) available to Contractor in connection with Customer's contract with Contractor to maintain/repair/modify the Aircraft (**Contract**). In consideration of the Contract, and as a condition of receiving the Proprietary Materials and Proprietary Information, Contractor agrees as follows:

1. For purposes of this Agreement:

Aircraft Software means software intended to fly with and be utilized in the operation of an Aircraft, but excludes software furnished by Customer.

Materials means any and all items that are created by Boeing or a Third Party, are provided directly or indirectly to Contractor from Boeing or from Customer, and serve primarily to contain, convey or embody information. Materials may include either tangible forms (for example, documents or drawings) or intangible embodiments (for example, software and other electronic forms) of information, but excludes Aircraft Software and software furnished by Customer.

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Appendix VII
SAMPLE
Contractor Confidentiality Agreement

Proprietary Information means any and all proprietary, confidential and/or trade secret information owned by Boeing or a Third Party which is contained, conveyed or embodied in Materials.

Proprietary Materials means Materials that contain, convey, or embody Proprietary Information.

Third Party means anyone other than Boeing, Customer and Contractor.

2. Boeing has authorized Customer to grant to Contractor a worldwide, non-exclusive, personal and nontransferable license to use Proprietary Materials and Proprietary Information, owned by Boeing, internally in connection with performance of the Contract or as may otherwise be authorized by Boeing in writing. Contractor will keep confidential and protect from disclosure to any person, entity or government agency, including any person or entity affiliated with Contractor, all Proprietary Materials and Proprietary Information. Individual copies of all Materials and Aircraft Software are provided to Contractor subject to copyrights therein, and all such copyrights are retained by Boeing or, in some cases, by Third Parties. Contractor is authorized to make copies of Materials (except for Materials bearing the copyright legend of a Third Party) provided, however, Contractor preserves the restrictive legends and proprietary notices on all copies. All copies of Proprietary Materials will belong to Boeing and be treated as Proprietary Materials under this Agreement.

3. Contractor specifically agrees not to use Proprietary Materials or Proprietary Information in connection with the manufacture or sale of any part or design. Unless otherwise agreed with Boeing in writing, Proprietary Materials and Proprietary Information may be used by Contractor only for work on the Aircraft for which such Proprietary Materials have been specified by Boeing. Customer and Contractor recognize and agree that they are responsible for ascertaining and ensuring that all Materials are appropriate for the use to which they are put.

4. Contractor will not attempt to gain access to information by reverse engineering, decompiling, or disassembling any portion of any software or Aircraft Software provided to Contractor pursuant to this Agreement.

5. Upon Boeing's request at any time, Contractor will promptly return to Boeing (or, at Boeing's option, destroy) all Proprietary Materials, together with all copies thereof and will certify to Boeing that all such Proprietary Materials and copies have been so returned or destroyed.

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Appendix VII
SAMPLE
Contractor Confidentiality Agreement

6. When and to the extent required by a government regulatory agency having jurisdiction over Contractor, Customer or the Aircraft, Contractor is authorized to provide Proprietary Materials and disclose Proprietary Information to the agency for the agency's use in connection with Contractor's authorized use of such Proprietary Materials and/or Proprietary Information in connection with Contractor's maintenance, repair, or modification of the Aircraft. Contractor agrees to take reasonable steps to prevent such agency from making any distribution or disclosure, or additional use of the Proprietary Materials and Proprietary Information so provided or disclosed. Contractor further agrees to promptly notify Boeing upon learning of any (i) distribution, disclosure, or additional use by such agency, (ii) request to such agency for distribution, disclosure, or additional use, or (iii) intention on the part of such agency to distribute, disclose, or make additional use of the Proprietary Materials or Proprietary Information.

7. Boeing is an intended third party beneficiary under this Agreement, and Boeing may enforce any and all of the provisions of the Agreement directly against Contractor. Contractor hereby submits to the jurisdiction of the Washington state courts and the United States District Court for the Western District of Washington with regard to any Boeing claims under this Agreement. It is agreed that Washington law (excluding Washington's conflict-of-law rules) will apply to this Agreement and to any claim or dispute under this Agreement.

8. No disclosure or physical transfer by Boeing or Customer to Contractor, of any Proprietary Materials or Proprietary Information covered by this Agreement will be construed as granting a license, other than as expressly set forth in this Agreement or any ownership right in any patent, patent application, copyright or proprietary information.

9. The provisions of this Agreement will apply notwithstanding any markings or legends, or the absence thereof, on any Proprietary Materials.

10. This Agreement is the entire agreement of the parties regarding the ownership and treatment of Proprietary Materials and Proprietary Information, and no modification of this Agreement will be effective as against Boeing unless embodied in writing and signed by authorized representatives of Contractor, Customer and Boeing.

11. Failure by either party to enforce any of the provisions of this Agreement will not be construed as a waiver of such provisions. If any of the provisions of this Agreement are held unlawful or otherwise ineffective by a court of competent jurisdiction, the remainder of the Agreement will remain in full force.

12. The obligations of Customer and Contractor relating to Proprietary Materials and Proprietary Information under this Agreement will remain in effect and will survive cancellation or termination of this Agreement.

SWA-AGTA

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Appendix VII Page A-23

**Appendix VII
SAMPLE
Contractor Confidentiality Agreement**

AGREED AND ACCEPTED this

Date:

Contractor

Southwest Airlines Co.

Signature

Signature

Printed Name

Printed Name

Title

Title

SWA-AGTA

**October 28, 2011
Appendix VII Page A-24**

Appendix VIII
SAMPLE
Post-Delivery Sale with Lease to Seller

[Notice from Owner/Seller and subsequent Buyer regarding post-delivery sale and lease back of an aircraft and transfer of all remaining Purchase Agreement rights.]

Boeing Commercial Airplanes
P. O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention Vice President – Contracts
Mail Code 21-34

In connection with _____'s (**Seller's**) sale to and lease back from _____ (**Buyer**) of the aircraft identified below, reference is made to the following documents:

1. Purchase Agreement No. _____ dated as of _____, between The Boeing Company (**Boeing**) and Seller (**Agreement**) under which Seller purchased certain Boeing Model _____ aircraft, including the aircraft bearing Manufacturer's Serial No.(s) _____ (**Aircraft**). The Agreement incorporates by reference the terms of SWA-AGTA dated _____, between Seller and Boeing.
2. Aircraft Sale Agreement dated as of _____, between Seller and _____ (**Buyer**).
3. Aircraft Lease Agreement dated as of _____, between Buyer and Seller.

Capitalized terms used herein without definition will have the same meaning as in the Agreement.

Seller confirms for the benefit of Boeing it owns and controls the rights it purports to assign herein.

Seller has sold the Aircraft, including in that sale the transfer to Buyer of all remaining rights related to the Aircraft under the Agreement. To accomplish this transfer of rights, as authorized by the provisions of the Agreement:

SWA-AGTA

October 28, 2011
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Appendix VIII
SAMPLE
Post-Delivery Sale with Lease to Seller

1. Buyer acknowledges it has reviewed the Agreement and agrees that in exercising any rights under the Agreement or asserting any claims with respect to the Aircraft or other things (including without limitation, Materials, training and services) delivered or to be delivered, it is bound by and will comply with all applicable terms, conditions, and limitations of the Agreement including but not limited to those related to any exclusion or limitation of liabilities or warranties, indemnity and insurance; and
2. Buyer authorizes Seller to exercise, to the exclusion of Buyer all rights and powers of "Customer" with respect to the remaining rights related to the Aircraft under the Agreement. This authorization will continue until Boeing receives written notice from Buyer to the contrary, addressed to Vice President - Contracts, Mail Code 21-34, Boeing Commercial Airplanes, P.O. Box 3707, Seattle, Washington 98124-2207 (if by mail) or (425) 237-1706 (if by facsimile). Until Boeing receives this notice, Boeing is entitled to deal exclusively with Seller as "Customer" with respect to the Aircraft under the Agreement. With respect to the rights, powers, duties and obligations of "Customer" under the Agreement, all actions taken by Seller or agreements entered into by Seller during the period prior to Boeing's receipt of that notice are final and binding on Buyer. Further, any payments made by Boeing as a result of claims made by Seller prior to receipt of such notice are to be made to the credit of Seller.
3. Seller accepts the authorization set forth in paragraph 2 above, acknowledges it has reviewed the Agreement and agrees that in exercising any rights under the Agreement or asserting any claims with respect to the Aircraft or other things (including without limitation, Materials, training and services) delivered or to be delivered, it is bound by and will comply with all applicable terms, conditions, and limitations of the Agreement including but not limited to those relating to any exclusion or limitation of liabilities or warranties, indemnity and insurance.
4. Seller agrees to remain responsible for any payments due Boeing as a result of obligations relating to the Aircraft incurred by Seller to Boeing prior to the effective date of this letter.

We request that Boeing acknowledge receipt of this letter and confirm the transfer of rights set forth above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

SWA-AGTA

October 28, 2011
Appendix VIII Page A-26

Appendix VIII
SAMPLE
Post-Delivery Sale with Lease to Seller

Very truly yours,

Seller

Buyer

By _____

By _____

Its

Its

Dated

Dated

Receipt of the above letter is acknowledged and transfer of rights under the Agreement with respect to the Aircraft described above is confirmed, effective as of the date indicated below.

THE BOEING COMPANY

By _____

Its Attorney-in-Fact

Dated

SWA-AGTA

October 28, 2011
Appendix VIII Page A-27

**Appendix IX
SAMPLE
SALE WITH LEASE**

[NOTE: From 1st tier Owner/Seller and subsequent Buyer regarding post-delivery sale and lease of an aircraft. Remaining PA rights have been assigned to the new owner; the new owner authorizes a lessee to exercise such rights during the term of a lease.]

Boeing Commercial Airplanes
P. O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention Vice President – Contracts
Mail Code 21-34

In connection with the sale by (Seller) to (Purchaser) and subsequent lease of the aircraft identified below, reference is made to the following documents:

1. Purchase Agreement No. _____ dated as of _____, _____, between The Boeing Company (**Boeing**) and Seller (**Agreement**) under which Seller purchased certain Boeing Model _____ aircraft, including the aircraft bearing Manufacturer's Serial No(s) _____ (**Aircraft**).
2. Aircraft sale agreement dated as of _____, between Seller and Purchaser.
3. Aircraft lease agreement dated as of _____, between Purchaser and _____ (**Lessee**)(**Lease**).

Capitalized terms used herein without definition will have the same meaning as in the Agreement.

Seller has sold the Aircraft, including in that sale the assignment to Purchaser of all remaining rights related to the Aircraft under the Agreement. To accomplish this transfer of rights, as authorized by the provisions of the Agreement:

- 3.1. Seller confirms for the benefit of the Manufacturer it owns and controls the rights it purports to have assigned.

SWA-AGTA

October 28, 2011
Appendix IX Page A-28

Appendix IX
SAMPLE
SALE WITH LEASE

3.2. Purchaser agrees that in exercising any rights under the Agreement or asserting any claims with respect to the Aircraft or other things (including without limitation, [data and documents/Materials], training and services) delivered or to be delivered, it is bound by and will comply with all applicable terms, conditions, and limitations of the Agreement including but not limited to those related to any exclusion or limitation of liabilities or warranties, indemnity and insurance; and

3.3. Seller will remain responsible for any payment due Boeing as a result of obligations relating to the Aircraft incurred by Seller to Boeing prior to the effective date of this letter.

3.4. Purchaser authorizes Lessee during the term of the Lease to exercise, to the exclusion of Purchaser all rights and powers of Buyer/Customer with respect to the remaining rights related to the Aircraft under the Agreement. This authorization will continue until Boeing receives written notice from Purchaser to the contrary, addressed to Vice President - Contracts, Mail Code 21-34, Boeing Commercial Airplanes, P.O. Box 3707, Seattle, Washington 98124-2207 (if by mail) or (425)237-1706 (if by facsimile). Until Boeing receives this notice, Boeing is entitled to deal exclusively with Lessee as Buyer/Customer with respect to the Aircraft under the Agreement. With respect to the rights, powers, duties and obligations of Buyer/Customer under the Agreement, all actions taken by Lessee or agreements entered into by Lessee during the period prior to Boeing's receipt of that notice are final and binding on Purchaser. Further, any payments made by Boeing as a result of claims made by Lessee prior to receipt of this notice are to be made to the credit of Lessee.

3.5. Lessee accepts the authorization set forth in paragraph 3 above, acknowledges it has reviewed the Agreement and agrees that in exercising any rights under the Agreement or asserting any claims with respect to the Aircraft or other things (including without limitation, data and documents/Materials, training and services) delivered or to be delivered, it is bound by and will comply with all applicable terms, conditions, and limitations of the Agreement including but not limited to those related to any exclusion or limitation of liabilities or warranties, indemnity and insurance.

We request that Boeing acknowledge receipt of this letter and confirm the transfer of rights set forth above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

SWA-AGTA

October 28, 2011
Appendix IX Page A-29

**Appendix IX
SAMPLE
SALE WITH LEASE**

Very truly yours,

Seller

Purchaser

By _____

By _____

Its

Its

Dated

Dated

(Lessee)

By

Its

Dated

SWA-AGTA

**October 28, 2011
Appendix IX Page A-30**

**Appendix IX
SAMPLE
SALE WITH LEASE**

Receipt of the above letter is acknowledged and the transfers of rights under the Agreement with respect to the Aircraft described above are confirmed, effective as of the date indicated below.

THE BOEING COMPANY

By _____

Its Attorney-in-Fact

Dated

MSN

SWA-AGTA

October 28, 2011
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Appendix X
SAMPLE
Post-Delivery Security

Boeing Commercial Airplanes
P. O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention Vice President – Contracts
Mail Code 21-34

Reference is made to Purchase Agreement No. _____ dated as of _____, (**Agreement**) between The Boeing Company (**Boeing**) and _____ (**Borrower**) pursuant to which Borrower purchased from Boeing one (1) Boeing model _____ aircraft bearing Manufacturer's Serial Number _____ (**Aircraft**). The Agreement incorporates by reference the terms of Aircraft General Terms Agreement SWA-AGTA (**AGTA**), dated _____, between Borrower and Boeing.

Capitalized terms used herein without definition will have the same meanings as in the Agreement.

Borrower confirms for the benefit of Boeing it owns and controls the rights it purports to assign herein.

In connection with Borrower's financing of the Aircraft, Borrower is entering into a Trust Indenture/Mortgage, dated as of _____, between Borrower and Indenture Trustee/Mortgagee (**Trust Indenture/Mortgage**), which grants a security interest in [the warranty rights/ all of its rights] contained in the Agreement related to the Aircraft (**Assigned Rights**). Borrower is authorized to exercise the Assigned Rights until such time as the Indenture Trustee/Mortgagee notifies Boeing as provided below that an Event of Default under the Trust Indenture/Mortgage has occurred and is continuing. In connection with this assignment for security purposes, as authorized by the provisions of the Agreement:

SWA-AGTA

October 28, 2011
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Appendix X
SAMPLE
Post-Delivery Security

1. Indenture Trustee/Mortgagee, as assignee of, and holder of a security interest in, the estate, right, and interest of the Borrower in and to the Agreement pursuant to the terms of a certain Trust Indenture/Mortgage, acknowledges that it has received copies of the applicable provisions of the Agreement and agrees that in exercising any rights under the Agreement or asserting any claims with respect to the Aircraft or other things (including without limitation, Materials, training and services) delivered or to be delivered, its rights and remedies under the Trust Indenture/Mortgage shall be subject to the terms and conditions of the Agreement including but not limited to those related to any exclusion or limitation of liabilities or warranties, indemnity and insurance.
2. Borrower is authorized to exercise, to the exclusion of [Indenture Trustee/Mortgagee] all rights and powers of "Customer" under the Agreement, unless and until Boeing receives a written notice from Indenture Trustee/Mortgagee, addressed to its Vice President - Contracts, Boeing Commercial Airplanes at P.O. Box 3707, Seattle, Washington 98124, Mail Code 21-34 (if by mail), or (425) 237-1706 (if by facsimile) that an event of default under the Trust Indenture/Mortgage has occurred and is continuing. Until such notice has been given, Boeing will be entitled to deal solely and exclusively with Borrower. Thereafter, until Indenture Trustee/Mortgagee has provided Boeing written notice that any such event no longer continues, Boeing will be entitled to deal solely and exclusively with Indenture Trustee/Mortgagee. Boeing may act with acquittance and conclusively rely on any such notice.

Borrower will remain responsible to Boeing for any amounts due Boeing with respect to the Aircraft under the Agreement prior to Boeing's receipt of such notice. We request that Boeing acknowledge receipt of this letter and confirm the transfer of rights set forth above by signing its acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

Indenture Trustee/Mortgagee

By _____

By _____

Its

Its

Dated

Dated

SWA-AGTA

October 28, 2011
Appendix X Page A-33

Appendix X
SAMPLE
Post-Delivery Security

Receipt of the above letter is acknowledged and the transfer of rights under the Agreement with respect to the Aircraft described above is confirmed, effective as of the date indicated below.

THE BOEING COMPANY

By _____

Its Attorney-in-Fact

Dated

MSN

SWA-AGTA

October 28, 2011
Appendix X Page A-34



The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

6-1162-CAF-0390

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

Subject: ***

Reference: Purchase Agreement Nos. 1810 and 3729 between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Customer**) relating to Model 737-700, -800 and 737-7/8/9 aircraft (**Purchase Agreements**)

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreements. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreements.

6-1162-CAF-0390

BOEING PROPRIETARY

Page 1



Customer understands that certain information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations specifically relating to this Letter Agreement and who understand they are not to disclose its contents to any other person or entity without the prior written consent of Boeing and (c) attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this clause, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Cheri A Fischer

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: December 13, 2011

SOUTHWEST AIRLINES CO.

By /s/ Michael Van de Ven

Its EVP & Chief Operating Officer

6-1162-CAF-0390

BOEING PROPRIETARY

**Southwest Airlines Co.
Subsidiaries**

Name	State or Other Jurisdiction of Incorporation or Organization
AirTran Airways 717 Leasing Corporation	Delaware
AirTran Airways, Inc.	Delaware
AirTran Fuel Services, Inc.	Delaware
AirTran Holdings, LLC	Texas
AirTran Risk Management, Inc.	Delaware
API Terminal, Inc.	Texas
Southwest ABQ Res Center, Inc.	Texas
Southwest Jet Fuel Co.	Texas
Triple Crown Insurance Co., Ltd.	Bermuda

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Forms S-8, Nos. 33-20275, 33-57327, 33-40652, 33-40653, 333-64431, 333-67627, 333-67631, 333-82735, 333-89303, 333-52388, 333-52390, 333-53610, 333-53616, 333-57478, 333-46560, 333-98761, 333-100862, 333-104245, 333-117802, 333-139362, 333-146891, 333-160762, 333-166980, Form S-3 No. 333-158397 and Form S-4 No. 333-170742) of Southwest Airlines Co. and in the related Prospectuses of our reports dated February 9, 2012, with respect to the consolidated financial statements of Southwest Airlines Co., and the effectiveness of internal control over financial reporting of Southwest Airlines Co., included in this Annual Report (Form 10-K) for the year ended December 31, 2011.

/s/ Ernst & Young LLP

Dallas, Texas
February 9, 2012

CERTIFICATION

I, Gary C. Kelly, Chairman of the Board, President, & Chief Executive Officer of Southwest Airlines Co., certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2011, 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: February 9, 2012

By: /s/ Gary C. Kelly
Gary C. Kelly
Chairman of the Board, President, & Chief
Executive Officer

CERTIFICATION

I, Laura H. Wright, Chief Financial Officer of Southwest Airlines Co., certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2011, 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: February 9, 2012

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

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Southwest Airlines Co. (the "Company") for the period ended December 31, 2011, as filed with the Securities and Exchange Commission (the "Report"), Gary C. Kelly, Chairman of the Board, President, & Chief Executive Officer of the Company, and Laura H. Wright, 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: February 9, 2012

By: /s/ Gary C. Kelly
Gary C. Kelly
Chairman of the Board, President, & Chief
Executive Officer

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