

SOUTHWEST AIRLINES CO
Form 10-K/A
February 11, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
Amendment No. 1

(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, 2014

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

74-1563240

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

P.O. Box 36611

Dallas, Texas

75235-1611

(Address of principal executive offices)

(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 \$18,358,439,198 computed by reference to the closing sale price of the common stock on the New York Stock Exchange on June 30, 2014, 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 4, 2015: 675,993,892 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the Company's Annual Meeting of Shareholders to be held May 13, 2015, are incorporated into Part III of this Annual Report on Form 10-K.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (the “Amendment”) amends Southwest Airlines Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the “Form 10-K”), as filed with the Securities and Exchange Commission on February 6, 2015, in order to correct a typographical error in the 2013 and 2012 comparative information contained in the Operating expense per available seat mile table voluntarily provided in Item 7 of the Form 10-K. The Operating expense per available seat mile for Salaries, wages, and benefits in the table should have been 3.86 cents for 2013 instead of the 0.04 cents originally reported in the Form 10-K. This typographical error also caused the following totals and calculations in the table to be incorrect: the Per ASM change should have been 0.17 cents instead of the (3.65) cents originally reported, and the Total row within the table should have been 12.60 cents for 2013, (0.25) cents for the Per ASM change, and (1.9) for the percent change.

Pursuant to Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, we have included the entire text of Item 7 of the Form 10-K in this Amendment. The table being corrected was included voluntarily by the registrant to enhance understanding of its financial results and not in response to a specific disclosure requirement of Form 10-K. This typographical error did not impact any other areas of the Form 10-K filed on February 6, 2015. Furthermore, there have been no changes to the XBRL data filed in Exhibit 101 of the Form 10-K.

Except as expressly set forth above, this Amendment does not, and does not purport to, amend, update or restate the information in any other item of the Form 10-K (other than the updating of the Exhibits to include updated Certifications of the Chief Executive and Chief Financial Officers) or reflect any events that have occurred after the filing of the original Form 10-K.

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)

	Year ended December 31,		Percent	
	2014	2013	Change	
Fuel and oil expense, unhedged	\$5,321	\$5,645		
Add (Deduct): Fuel hedge losses (gains) included in Fuel and oil expense	(28	) 118		
Fuel and oil expense, as reported	\$5,293	\$5,763		
Deduct: Net impact from fuel contracts	(28	) (84)	
Fuel and oil expense, non-GAAP	\$5,265	\$5,679	(7.3)%
 Total operating expenses, as reported	 \$16,380	 \$16,421		
Add (Deduct): Reclassification between Fuel and oil and Other (gains) losses, net,	(4	) 3		
associated with current period settled contracts				
Deduct: Contracts settling in the current period, but for which gains have been	(24	) (87)	
recognized in a prior period*				
Deduct: Acquisition and integration costs	(126	) (86)	
Deduct: Labor ratification bonus	(9) —		
Total operating expenses, non-GAAP	\$16,217	\$16,251	(0.2)%
 Operating income, as reported	 \$2,225	 \$1,278		
Add (Deduct): Reclassification between Fuel and oil and Other (gains) losses, net,	4	(3)	
associated with current period settled contracts				
Add: Contracts settling in the current period, but for which gains have been recognized in	24	87		
a prior period*				
Add: Acquisition and integration costs	126	86		
Add: Labor ratification bonus	9	—		
Operating income, non-GAAP	\$2,388	\$1,448	64.9	%
 Net income, as reported	 \$1,136	 \$754		
Add (Deduct): Mark-to-market impact from fuel contracts settling in future periods	251	(103)	
Add: Ineffectiveness from fuel hedges settling in future periods	5	11		
Add: Other net impact of fuel contracts settling in the current or a prior period	24	87		
(excluding reclassifications)				
Income tax impact of fuel contracts	(104	) 2		
Add: Acquisition and integration costs (a)	79	54		
Add: Labor ratification bonus (a)	6	—		
Net income, non-GAAP	\$1,397	\$805	73.5	%
 Net income per share, diluted, as reported	 \$1.64	 \$1.05		
Add: Net impact to net income above from fuel contracts divided by	0.25	—		

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dilutive shares (a)				
Add: Impact of special items, net (a)	0.12	0.07		
Net income per share, diluted, non-GAAP	\$2.01	\$1.12	79.5	%
Operating expenses per ASM (Cents)	12.50	¢ 12.60	¢	
Deduct: Fuel expense divided by ASMs	(4.04	) (4.42)	
Deduct: Impact of special items	(0.10	) (0.07)	
Operating expenses per ASM, non-GAAP, excluding fuel and special items (cents)	8.36	¢ 8.11	¢ 3.1	%

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

(a) Amounts net of tax.

Return on Invested Capital (ROIC) (in millions) (unaudited)

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Operating Income, as reported	\$2,225	\$1,278	\$623
Add: Net impact from fuel contracts	28	84	32
Add: Acquisition and integration costs	126	86	183
Add: Labor ratification bonus	9	—	—
Operating Income, non-GAAP	\$2,388	\$1,448	\$838
Net adjustment for aircraft leases (1)	133	143	117
Adjustment for fuel hedge premium expense	(62)	(60)	(36)
Adjusted Operating Income, non-GAAP	\$2,459	\$1,531	\$919
Average invested capital (2)	\$11,470	\$11,664	\$12,580
Equity adjustment for hedge accounting	104	50	145
Adjusted average invested capital	\$11,574	\$11,714	\$12,725
ROIC, pre-tax	21.2	% 13.1	% 7.2

(1) Net adjustment related to presumption that all aircraft in fleet are owned (i.e., the impact of eliminating aircraft rent expense and replacing with estimated depreciation expense for those same aircraft).

(2) Average Invested Capital is an average of the five most recent quarter end balances of debt, net present value of aircraft leases, and equity adjusted for hedge accounting.

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. The Company believes these economic results provide a better measure of the impact of the Company's fuel hedges on its operating performance and liquidity since they exclude the unrealized, non-cash adjustments and reclassifications that are recorded in GAAP results in accordance with accounting guidance relating to derivative instruments, and they reflect all cash settlements related to fuel derivative contracts within Fuel and oil expense. This enables the Company's management, as well as investors, to consistently assess the Company's operating performance on a year-over-year or quarter-over-quarter basis after considering all efforts in place to manage fuel expense. However, because these

measures are not determined in accordance with GAAP, such measures are susceptible to varying calculations and not all companies calculate the measures in the same manner. As a result, the aforementioned measures, as presented, may not be directly comparable to similarly titled measures presented by other companies.

Further information on (i) the Company's fuel hedging program, (ii) the requirements of accounting for derivative instruments, and (iii) the causes of hedge ineffectiveness and/or mark-to-market gains or losses from derivative instruments is included in 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, including results that it refers to as "excluding special items," as a result of items that the Company believes are not indicative of its ongoing operations. These include expenses associated with the Company's acquisition and integration of AirTran and collective bargaining contract ratification bonuses. The Company believes that evaluation of its financial performance can be enhanced by a presentation of results that exclude the impact of these items in order to evaluate the results on a comparative basis with results in prior periods that do not include such items and as a basis for evaluating operating results in future periods. As a result of the Company's acquisition of AirTran, which closed on May 2, 2011, the Company has incurred substantial charges associated with integration of the two companies. Given that the AirTran integration process had been effectively completed as of December 31, 2014, the Company does not anticipate significant future integration expenditure requirements. While the Company cannot predict the exact timing or amounts of such charges, it does expect to treat these charges as special items in its future presentation of non-GAAP results.

The Company has also provided return on invested capital, which is a non-GAAP financial measure. The Company believes return on invested capital is a meaningful measure because it quantifies how well the Company generates operating income relative to the capital it has invested in its business. Although return on invested capital is commonly used as a measure of capital efficiency, definitions of return on invested capital may differ; therefore, the Company is providing an explanation of its calculation for return on invested capital (before taxes and excluding special items) in the accompanying reconciliation.

YEAR IN REVIEW

For the 42nd consecutive year, the Company was profitable, recording GAAP and non-GAAP results for 2014 and 2013 as follows:

(in millions, except per share amounts)	Year ended December 31,		Percent Change
	2014	2013	
GAAP			
Operating income	\$2,225	\$1,278	74.1
Net income	\$1,136	\$754	50.7
Net income per share, diluted	\$1.64	\$1.05	56.2
Non-GAAP			
Operating income	\$2,388	\$1,448	64.9
Net income	\$1,397	\$805	73.5
Net income per share, diluted	\$2.01	\$1.12	79.5

See the previous Note Regarding Use of Non-GAAP Financial Measures and the Reconciliation of Reported Amounts to Non-GAAP Financial Measures for additional detail regarding non-GAAP financial measures.

Year ended December 31, 2014 net income was a Company record \$1.1 billion, or \$1.64 per diluted share, a 50.7 percent increase year-over-year. This increase primarily was due to a 5.1 percent increase in Operating revenues, driven by strong demand for air travel and successful execution of the Company's strategic initiatives. Operating expenses remained relatively flat, also as a result of benefits from the Company's strategic initiatives and from lower fuel prices, which offset an increase in Salaries, Wages, and Benefits expense driven by the Company's record Employee Profitsharing expense of \$355 million. Excluding special items in both years, which consisted primarily of

Acquisition and integration costs associated with the AirTran acquisition and unrealized non-cash adjustments and reclassifications associated with hedge accounting, non-GAAP Net income was a record \$1.4 billion, or \$2.01 per diluted share, a 73.5

percent increase year-over-year. Year ended December 31, 2014 Operating income was \$2.2 billion and non-GAAP Operating income was \$2.4 billion. Both GAAP and non-GAAP annual Operating income results for 2014 were Company records and significantly surpassed the prior year performance.

During 2014, the Company continued to return significant value to its Shareholders through four separate accelerated share repurchase programs, the buyback of its common shares on the open market, and \$139 million in dividend payments. See Part II, Item 5 for further information on the Company's share repurchase authorization.

For the twelve months ended December 31, 2014, the Company's exceptional earnings performance, combined with its actions to prudently manage invested capital, produced a 21.2 percent pre-tax Return on invested capital, excluding special items ("ROIC"). This represented a significant increase compared with the Company's ROIC of 13.1 percent for the twelve months ended December 31, 2013. The increase in ROIC was achieved primarily through successful execution of the Company's strategic initiatives and declining fuel prices, especially during the second half of 2014.

The integration of AirTran

The Company's over three year long integration of Southwest's and AirTran's networks, fleets, systems, and People, was effectively completed in December 2014. AirTran's final passenger service occurred on December 28, 2014. The acquisition of AirTran in 2011 served to increase the Company's fleet size and expand its network into key U.S. markets, such as Atlanta and Washington, D.C. As a result of the acquisition, the Company estimates it achieved approximately \$500 million in net, pre-tax synergies during 2014 (excluding acquisition and integration expenses). In addition, the acquisition also aided the Company's expansion into near-international locations, such as the Caribbean and Mexico, which led to the historic launch of Southwest international service during second quarter 2014, and marked a significant achievement in the integration process. As of December 31, 2014, all 52 AirTran 737-700 aircraft either have been converted to the Southwest livery or have entered the conversion process and are expected to enter Southwest service during first quarter 2015.

Fleet modernization

The Company is scheduled to be the launch customer for Boeing's new, more fuel-efficient 737 MAX 8 aircraft, which is expected to enter service in 2017. The 737 MAX 8 is expected to reduce fuel burn and CO2 emissions 20 percent, compared with the original Next-Generation 737s when they first entered service. Southwest is also scheduled to be the launch customer for the Boeing 737 MAX 7 series aircraft, with deliveries expected to begin in 2019. Currently the Company has firm orders in place for 170 MAX 8 aircraft and 30 MAX 7 aircraft. During 2014, the Company retired five Classic (three 737-300 and two 737-500) aircraft from its fleet and intends to continue to replace these aircraft as well as the 717-200 aircraft through its current order book with Boeing and through the purchase and lease of additional pre-owned 737-700 aircraft from third parties. Following AirTran's final passenger service on December 28, 2014, the Company removed all remaining Boeing 717-200 aircraft from service. As of December 31, 2014, 52 of AirTran's 88 Boeing 717-200 aircraft had been delivered to Delta pursuant to a lease/sublease agreement and 36 717-200 aircraft were undergoing or awaiting conversion in preparation for delivery to Delta. See Note 7 to the Consolidated Financial Statements for further information.

The continued incorporation of a larger aircraft, the Boeing 737-800, into Southwest's fleet

To further support its fleet modernization efforts, the Company received a total of 33 Boeing 737-800s during 2014. As of December 31, 2014, the Company's fleet included 85 737-800s. The Boeing 737-800 (i) is better suited for certain potential new destinations, including near-international locations, (ii) provides the Company with the opportunity to generate additional revenue by replacing current aircraft on specified routes and locations that are restricted due to space constraints or slot controls, and (iii) operates at a lower unit cost than other aircraft in the Company's existing fleet.

International Capabilities and New Reservation System

The Company launched Southwest's international service on July 1, 2014, with its inaugural flights to three Caribbean destinations, Aruba, Nassau, and Montego Bay, followed by service to Cabo San Lucas/Los Cabos and Cancun which commenced on August 10, 2014, and service to the two remaining AirTran international destinations,

Mexico City and Punta Cana, which commenced on November 2, 2014. During third quarter 2014, the Company filed an application with the U.S. Department of Transportation to add its first destination in Central America with daily roundtrip service between Baltimore/Washington Thurgood Marshall International Airport (BWI) and Juan Santamaria International Airport (SJO) in San Jose, Costa Rica, beginning March 7, 2015. In addition, during fourth quarter 2014, the Company filed applications with the U.S. Department of Transportation to provide daily, nonstop service between John Wayne Airport, Orange County (SNA) and Licenciado Gustavo Diaz Ordaz International Airport (PVR) in Puerto Vallarta, Mexico, beginning June 7, 2015, as well as daily nonstop service between Houston's William P. Hobby Airport and Philip S. W. Goldson International Airport in Belize City, Belize beginning in October 2015. The service to Belize, as well as additional service to San Jose, Costa Rica and four destinations in Mexico (Cancun, Cabo San Lucas/Los Cabos, Puerto Vallarta, and Mexico City), is anticipated to be served from the Company's expected opening of a new five-gate international terminal with international passenger processing facilities at Houston Hobby airport, which is expected to be completed during the second half of 2015. See Note 4 to the Consolidated Financial Statements for further information.

After the successful launch of Amadeus' Altéa international reservation system, the Company announced in May 2014 that it selected Amadeus' Altéa reservations solution as the Company's future single reservation system for both domestic and international reservations. This single reservation system is expected to be delivered over a multi-year period.

Southwest's Rapid Rewards frequent flyer program

Southwest launched its current Rapid Rewards frequent flyer program in March 2011, under which members earn points for every dollar spent. The results of the program have exceeded the Company's expectations with respect to the number of new frequent flyer members, 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, the number of points sold to business partners, and the number of frequent flyer points purchased by program members.

Company Overview

During 2014, the Company took several steps designed to enhance its existing service in cities across the network or to connect existing cities with new service not previously offered by Southwest, most notably:

At Washington Reagan National Airport, the Company acquired 54 additional slots (for 27 additional daily roundtrip flights) during first quarter 2014, which were divested in connection with the merger between AMR Corporation, the parent company of American Airlines, Inc., and US Airways Group, Inc., increasing Southwest's service at Reagan from 17 daily departures to 44 daily departures, currently servicing 14 destinations: Atlanta, Akron/Canton, Austin, Chicago Midway, Dallas Love Field, Houston Hobby, Fort Myers, Indianapolis, Kansas City, Milwaukee, Nashville, New Orleans, St. Louis, and Tampa Bay.

At New York LaGuardia Airport, in the wake of the Company's acquisition of twelve additional slots (for six additional daily roundtrip flights) announced in fourth quarter 2013, the Company increased service between LaGuardia and Nashville, Houston (Hobby), Chicago (Midway), and Akron-Canton which commenced in May 2014. With the repeal of the Wright Amendment federal flight restrictions at Dallas Love Field on October 13, 2014, to destinations within the 50 States and to the District of Columbia, Southwest commenced service to seven new nonstop destinations from Love Field. Service from Love Field to eight additional nonstop destinations commenced on November 2, 2014, and service to two additional nonstop destinations began on January 6, 2015. This brings the total number of nonstop destinations out of Love Field to 33 compared with 16 prior to the repeal. Additionally, in January 2015, the Company announced that beginning in April 2015, it will offer daily nonstop flights to nine new cities from Dallas Love Field, including Memphis, Milwaukee, and Seattle, and will increase the number of nonstop flights to recently introduced destinations added after the October 2014 expiration of the Wright Amendment restrictions on long-haul flying at Love Field. The new flights will be made possible through a long-term sublease agreement that will transfer usage of two gates in the newly rebuilt 20-gate facility from United Airlines to Southwest.

At the current time, the Company plans to continue its route network and schedule optimization efforts. For 2015, the Company continues to manage to a baseline of roughly 700 aircraft and an approximate six percent year-over-year increase in ASMs, primarily due to more efficient flying of its existing fleet through increased aircraft gauge and stage length, with a modest increase in trips.

2014 compared with 2013

Operating Revenues

Passenger revenues for 2014 increased \$937 million, or 5.6 percent, compared with 2013. Holding other factors constant, approximately half of the increase in Passenger revenues was attributable to the 2.4 point increase in load factor and the majority of the remaining increase was attributable to higher passenger yields, both driven by strong Customer demand for air travel and successful execution of the Company's strategic initiatives. Passenger revenue included an increase due to a change in estimate, which was recorded on a prospective basis and effective October 1, 2014, of approximately \$55 million. See Note 1 regarding this change in accounting estimate. Based on current trends, the Company expects its first quarter 2015 passenger revenues to grow in line with the increase in its first quarter 2015 available seat mile capacity, both on a year-over-year basis. The Company currently estimates its first quarter and full year 2015 available seat mile capacity to increase, year-over-year, in the six to seven percent range.

Freight revenues for 2014 increased by \$11 million, or 6.7 percent, compared with 2013, primarily due to benefits from new and maturing markets as a result of the AirTran integration. The Company currently expects Freight revenues in first quarter 2015 to increase approximately six percent, compared with first quarter 2014.

Other revenues for 2014 decreased by \$42 million, or 5.2 percent, compared with 2013, primarily due to a decline in ancillary revenues. The majority of the decline in ancillary revenues was due to the adoption of Southwest's more Customer-friendly fee policies for Customers who purchase travel on AirTran through southwest.com, and the overall reduction in AirTran flights as a result of the integration process. This decline was partially offset by an increase in certain Southwest specific ancillary revenues, such as EarlyBird Check-in® and A1-15 select boarding positions sold at the gate. The Company currently expects Other revenues in first quarter 2015 to decrease, compared with first quarter 2014, similar to the year-over-year decrease in fourth quarter 2014.

Operating expenses

Operating expenses for 2014 decreased by \$41 million, or 0.2 percent, compared with 2013, while capacity increased 0.5 percent over the same period. Historically, except for changes in the price of fuel, changes in most Operating expenses for airlines are driven by changes in capacity, or ASMs. The following table presents the Company's Operating expenses per ASM for 2014 and 2013, followed by explanations of these changes on a per ASM basis and/or on a dollar basis:

(in cents, except for percentages)	Year ended December 31,		Per ASM change	Percent change		
	2014	2013				%
Salaries, wages, and benefits	4.14	¢ 3.86	¢ 0.28	¢ 7.3		%
Fuel and oil	4.04	4.42	(0.38)	) (8.6)	
Maintenance materials and repairs	0.75	0.83	(0.08)	) (9.6)	
Aircraft rentals	0.22	0.28	(0.06)	) (21.4)	
Landing fees and other rentals	0.85	0.85	—	—		
Depreciation and amortization	0.72	0.66	0.06	9.1		
Acquisition and integration	0.10	0.07	0.03	42.9		
Other operating expenses	1.68	1.63	0.05	3.1		
Total	12.50	¢ 12.60	¢ (0.10)	)¢ (0.8)%	

Operating expenses per ASM for 2014 decreased 0.8 percent, compared with 2013, primarily due to a decrease in Fuel and oil expense, partially offset by an increase in Salaries, wages, and benefits expense. On a non-GAAP basis, Operating expenses per ASM for 2014, excluding fuel and special items, increased 3.1 percent year-over-year primarily due to higher Salaries, wages, and benefits expense. Based on current cost trends, the Company expects its first quarter 2015 unit costs, excluding fuel, special items, and profitsharing to decrease in the one to two percent range, compared with first quarter 2014. See the previous Note Regarding Use of Non-GAAP Financial Measures.

Salaries, wages, and benefits expense for 2014 increased by \$399 million, or 7.9 percent, compared with 2013. Salaries, wages, and benefits expense per ASM for 2014 increased 7.3 percent, compared with 2013. On both a dollar and per ASM basis, approximately 60 percent of these increases were the result of higher salaries primarily due to increased training, additional headcount, and contractual increases. The majority of the remaining increase was the result of higher profitsharing expense due to increased profits in 2014. 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. Additionally, pursuant to the terms of the Company's ProfitSharing Plan (the "Plan"), acquisition and integration costs were excluded from the calculation of profitsharing expense from April 1, 2011, through December 31, 2013. These costs, totaling \$385 million, are being amortized on a pro rata basis as a reduction of operating profits, as defined by the Plan, from 2014 through 2018. In addition, Acquisition and integration costs incurred during 2014 and in future periods will reduce operating profits, as defined, in the calculation of profitsharing. Based on current cost trends, the Company expects first quarter 2015 Salaries, wages, and benefits expense per ASM, excluding profitsharing, to increase, compared with fourth quarter 2014.

The Company and its Customer Service Agents and Customer Representatives, represented by the International Association of Machinists and Aerospace Workers ("IAM"), reached an agreement in favor of a new four year contract during fourth quarter 2014. The following table sets forth the Company's unionized Employee groups that are currently in negotiations on collective-bargaining agreements:

Employee Group	Approximate Number of Employees	Representatives	Amendable Date
Southwest Pilots	7,500	Southwest Airlines Pilots' Association ("SWAPA")	August 2012
Southwest Flight Attendants	11,850	Transportation Workers of America, AFL-CIO, Local 556 ("TWU 556")	May 2013
Southwest Ramp, Operations, Provisioning, Freight Agents	10,000	Transportation Workers of America, AFL-CIO, Local 555 ("TWU 555")	June 2011
Southwest Material Specialists (formerly known as Stock Clerks)	250	International Brotherhood of Teamsters, Local 19 ("IBT 19")	August 2013
Southwest Mechanics	2,100	Aircraft Mechanics Fraternal Association ("AMFA")	August 2012
Southwest Facilities Maintenance Technicians	40	AMFA	N/A

Fuel and oil expense for 2014 decreased by \$470 million, or 8.2 percent, compared with 2013. On a per ASM basis, Fuel and oil expense for 2014 decreased 8.6 percent, compared with 2013. Excluding the impact of fuel hedge accounting, both the dollar and per ASM decreases were primarily attributable to lower jet fuel prices. The Company's average economic jet fuel price per gallon decreased 6.4 percent year-over-year, from \$3.12 for 2013 to \$2.92 for 2014. In addition, fuel efficiency improved slightly due to the Company's fleet modernization efforts, as fuel gallons consumed decreased 0.9 percent, compared with 2013, while year-over-year capacity increased 0.5 percent. As a result of the Company's fuel hedging program, the Company recognized net gains totaling \$28 million in Fuel and oil expense for 2014, compared to net losses totaling \$118 million for 2013. These totals include cash settlements realized

from the settlement of fuel derivative contracts totaling \$56 million received from counterparties for 2014, compared to \$34 million paid to counterparties for 2013, although such totals exclude gains and/or losses recognized from hedge ineffectiveness and from derivatives that do not qualify for hedge accounting. These impacts are recorded as a component of Other (gains) losses, net. See Note 10 to the Consolidated Financial Statements.

As of January 16, 2015, as a result of the significant decline in fuel prices during the second half of 2014, the Company had reduced its fuel hedging position for future years, and the Company had derivative contracts in place, on an economic basis, related to expected future fuel consumption as follows:

Period	Average percent of estimated fuel consumption covered by fuel derivative contracts at varying WTI/Brent Crude Oil, Heating Oil, and Gulf Coast Jet Fuel-equivalent price levels
2015 (1)	—
2016	Approx. 10%
2017	Approx. 30%
2018 (1)	—

(1) In response to the precipitous decline in oil and jet fuel prices during the second half of 2014, the Company took action to offset its 2015 and 2018 fuel derivative portfolios and is now effectively unhedged at current price levels. While the Company still holds derivative contracts as of December 31, 2014, that will settle during 2015 and 2018, the majority of the losses associated with those contracts are substantially locked in. However, if market prices were to increase or decrease significantly related to the 2015 positions prior to these contracts settling, the losses incurred at settlement could be slightly lower or higher than currently expected amounts during that period.

As a result of applying hedge accounting in prior periods, a portion of the amounts in Accumulated other comprehensive income (loss) ("AOCI") are considered "frozen," and these amounts will be recognized in earnings in future periods when the underlying fuel derivative contracts settle. The following table displays the Company's estimated fair value of remaining fuel derivative contracts (not considering the impact of the cash collateral provided to or received from counterparties (See Note 10 to the Consolidated Financial Statements for further information), as well as the amount of deferred gains/losses in AOCI at December 31, 2014, and the expected future periods in which these items are expected to settle and/or be recognized in earnings (in millions):

Year	Fair value of fuel derivative contracts at December 31, 2014	Amount of losses deferred in AOCI at December 31, 2014 (net of tax)
2015	\$(242	) \$(219)
2016	(472	) (347)
2017	(287	) (157)
2018	—	(17)
Total	\$(1,001	) \$(740)

Based on forward market prices and the amounts in the above table (and excluding any other subsequent changes to the fuel hedge portfolio), the Company's jet fuel costs per gallon could exceed market (i.e., unhedged) prices during some of these future periods. This is based primarily on expected future cash settlements associated with fuel derivatives, but excludes any impact associated with the ineffectiveness of fuel hedges or fuel derivatives that are marked to market because they do not qualify for hedge accounting. See Note 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 2015, and full year 2015, jet fuel prices at different crude oil assumptions as of January 16, 2015, and for expected premium costs associated with settling contracts each period, respectively.

Average Brent Crude Oil price per barrel	Estimated economic jet fuel price per gallon, including taxes	
	1Q 2015 (2)	Full Year 2015 (2)
\$30	\$1.15 - \$1.20	\$1.15 - \$1.25
\$40	\$1.50 - \$1.55	\$1.45 - \$1.55
Current Market (1)	\$1.85 - \$1.90	\$1.95 - \$2.05
\$60	\$2.15 - \$2.20	\$2.10 - \$2.20
\$70	\$2.45 - \$2.50	\$2.40 - \$2.50
Estimated Fuel Hedge Premium Expense (3)	\$25 - \$30 million	\$120 - \$130 million

(1) Brent crude oil average market prices as of January 16, 2015, were approximately \$51 and \$55 per barrel for first quarter 2015 and full year 2015, respectively.

(2) The economic fuel price per gallon sensitivities provided assume the relationship between Brent crude oil and refined products based on market prices as of January 16, 2015.

(3) Fuel hedge premium expense is recognized as a component of Other (gains) losses, net.

Maintenance materials and repairs expense for 2014 decreased by \$102 million, or 9.4 percent, compared with 2013. On a per ASM basis, Maintenance materials and repairs expense for 2014 decreased 9.6 percent, compared with 2013. On both a dollar and per ASM basis, approximately 70 percent of the decrease was attributable to the completion of the Evolve aircraft interior retrofit program during 2013, and the majority of the remaining decrease was attributable to lower engine and avionics repair expense as a result of the 717-200 aircraft transitioning out of the Company's fleet. The Company currently expects Maintenance materials and repairs expense per ASM for first quarter 2015 to be comparable to fourth quarter 2014.

Aircraft rentals expense for 2014 decreased by \$66 million, or 18.3 percent, compared with 2013. On a per ASM basis, Aircraft rentals expense decreased 21.4 percent, compared with 2013. On both a dollar and per ASM basis, the decrease primarily was due to the transition of leased 717-200 aircraft out of the Company's fleet for conversion and delivery to Delta. The Company currently expects Aircraft rentals expense per ASM for first quarter 2015 to decrease, compared with fourth quarter 2014.

Landing fees and other rentals expense for 2014 increased by \$8 million, or 0.7 percent, compared with 2013. On a per ASM basis, Landing fees and other rentals expense for 2014 were flat, compared with 2013. The dollar increase was primarily due to heavier landing weights for the -800 aircraft. The Company currently expects Landing fees and other rentals expense per ASM for first quarter 2015 to increase, compared with first quarter 2014.

Depreciation and amortization expense for 2014 increased by \$71 million, or 8.2 percent, compared with 2013. On a per ASM basis, Depreciation and amortization expense increased 9.1 percent, compared with 2013. On both a dollar and per ASM basis, approximately half the increase was attributable to technology projects that have been placed into service over the last twelve months and approximately half was due to the purchase of new and used aircraft over the last twelve months. The Company currently expects Depreciation and amortization expense per ASM for first quarter 2015 to increase slightly, compared with first quarter 2014.

The Company incurred \$126 million in Acquisition and integration costs in 2014, which primarily consisted of expense associated with the removal of the remaining B717 fleet from service during December 2014 (See Note 7 for further information), B717 fleet conversion costs, fleet integration, Employee training, facility integration, and technology integration projects. During 2013, the Company recorded \$86 million in Acquisition and integration

expense, which primarily consisted of B717 fleet conversion costs, fleet integration, Employee training, technology integration projects, and facility integration expenses.

Other operating expenses for 2014 increased by \$79 million, or 3.7 percent, compared with 2013. On a per ASM basis, Other operating expenses for 2014 increased 3.1 percent, compared with 2013. On both a dollar and per ASM basis, approximately 40 percent of the increase was the result of higher contract programming and consulting expenses, 20 percent of the increase was the result of maintenance agreement contract rate increases, and the remainder of the increase was due to individually insignificant items. The Company currently expects Other operating expenses per ASM for first quarter 2015 to be comparable with fourth quarter 2014.

Through the 2003 Emergency Wartime Supplemental Appropriations Act, the federal government has provided renewable, supplemental, first-party war-risk insurance coverage to commercial carriers. The government-provided supplemental coverage from the Wartime Act expired on September 30, 2014. However, the Company proactively canceled its FAA provided War Risk Insurance coverage on May 15, 2014, and effective the same date, purchased comparable coverage via the commercial insurance marketplace.

Other

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, 2014, and 2013:

(in millions)	Year ended December 31,	
	2014	2013
Mark-to-market impact from fuel contracts settling in future periods	\$251	\$(103)
Ineffectiveness from fuel hedges settling in future periods	5	11
Realized ineffectiveness and mark-to-market (gains) or losses	(4)	) 3
Premium cost of fuel contracts	62	60
Other	(5)	) (3)
	\$309	\$(32)

Income Taxes

The Company's effective tax rate was approximately 37.4 percent for 2014, compared with 37.6 percent for 2013. On a non-GAAP basis, the Company currently projects a full year 2015 effective tax rate of approximately 37 to 39 percent based on forecasted financial results. However, the Company's effective tax rate during interim periods of 2015 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)

	Year ended December 31,		Percent Change	
	2013	2012		
Fuel and oil expense, unhedged	\$5,645	\$5,963		
Add: Fuel hedge losses included in Fuel and oil expense	118	157		
Fuel and oil expense, as reported	\$5,763	\$6,120		
Deduct: Net impact from fuel contracts	(84)	(32)		
Fuel and oil expense, non-GAAP	\$5,679	\$6,088	(6.7)	%
Total operating expenses, as reported	\$16,421	\$16,465		
Add (Deduct): Reclassification between Fuel and oil and Other (gains) losses, net, associated with current period settled contracts	3	(42)		
Add (Deduct): Contracts settling in the current period, but for which gains and/or (losses) have been recognized in a prior period*	(87)	10		
Deduct: Acquisition and Integration costs	(86)	(183)		
Total operating expenses, non-GAAP	\$16,251	\$16,250	—	%
Operating income, as reported	\$1,278	\$623		
Add (Deduct): Reclassification between Fuel and oil and Other (gains) losses, net, associated with current period settled contracts	(3)	42		
Add (Deduct): Contracts settling in the current period, but for which gains and/or (losses) have been recognized in a prior period*	87	(10)		
Add: Acquisition and Integration costs	86	183		
Operating income, non-GAAP	\$1,448	\$838	72.8	%
Net income, as reported	\$754	\$421		
Deduct: Mark-to-market impact from fuel contracts settling in future periods	(103)	(221)		
Add: Ineffectiveness from fuel hedges settling in future periods	11	42		
Add (Deduct): Other net impact of fuel contracts settling in the current or a prior period (excluding reclassifications)	87	(10)		
Income tax impact of fuel contracts	2	73		
Add: Acquisition and Integration costs (a)	54	112		
Net income, non-GAAP	\$805	\$417	93.0	%
Net income per share, diluted, as reported	\$1.05	\$0.56		
Deduct: Net impact to net income above from fuel contracts divided by dilutive shares (a)	—	(0.15)		
Add: Impact of special items, net (a)	0.07	0.15		
Net income per share, diluted, non-GAAP	\$1.12	\$0.56	100.0	%
Operating expenses per ASM (cents)	12.60 ¢	12.85 ¢		
Deduct: Fuel expense divided by ASMs (cents)	(4.42)	(4.78)		

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Deduct: Impact of special items, net (cents)	(0.07)	(0.14)	
Operating expenses per ASM, non-GAAP, excluding fuel and special items (cents)	8.11	¢	7.93	¢	2.3 %

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

(a) Amounts net of tax

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

2013 compared with 2012

The Company's 2013 net income of \$754 million (\$1.05 per share, diluted) increased by \$333 million, or 79.1 percent, compared with its 2012 net income of \$421 million (\$0.56 per share, diluted). Excluding the impact of special items, the Company's 2013 net income on a non-GAAP basis increased 93.0 percent, compared with 2012. Both significant increases were primarily due to a combination of (i) higher passenger revenues, primarily achieved through higher average airfares, and (ii) lower fuel costs, primarily due to lower jet fuel prices.

Operating Revenues

Operating revenues for 2013 increased by \$611 million, or 3.6 percent, compared with 2012. The majority of this increase was due to a \$628 million, or 3.9 percent, increase in Passenger revenues. Approximately 60 percent of the increase in Passenger revenues was attributable to the 2.4 percent increase in Passenger yield and driven by increased fares. The remainder of the increase in Passenger revenues was due to the 1.7 percent increase in capacity.

Freight revenues for 2013 increased by \$4 million, or 2.5 percent, compared with 2012, primarily due to higher average rates charged as a result of fuel surcharges. Other revenues for 2013 decreased by \$21 million, or 2.5 percent, compared with 2012. This was primarily due to a decrease in ancillary revenues as a result of the adoption of Southwest's more Customer-friendly fee policies for Customers that purchased travel on AirTran through southwest.com. Other revenues for 2013 included approximately \$105 million in baggage fees collected from AirTran Customers, versus approximately \$146 million for 2012.

Operating expenses

Historically, except for changes in the price of fuel, changes in most Operating expenses for airlines are largely driven by changes in capacity, or ASMs. However, 2013 was affected by a significant decrease in Acquisition and integration expense which was not driven by capacity. The following table presents the Company's Operating expenses per ASM for 2013 and 2012, followed by explanations of these changes on a per ASM basis and/or on a dollar basis:

(in cents, except for percentages)	Year ended December 31,		Per ASM		Percent	
	2013	2012	change		change	
Salaries, wages, and benefits	3.86	¢ 3.69	¢ 0.17	¢	4.6	%
Fuel and oil	4.42	4.78	(0.36)	)	(7.5))
Maintenance materials and repairs	0.83	0.88	(0.05)	)	(5.7))
Aircraft rentals	0.28	0.28	—		—	
Landing fees and other rentals	0.85	0.81	0.04		4.9	
Depreciation and amortization	0.66	0.66	—		—	
Acquisition and integration	0.07	0.14	(0.07)	)	(50.0))
Other operating expenses	1.63	1.61	0.02		1.2	
Total	12.60	¢ 12.85	¢ (0.25)	)¢	(1.9))%

Operating expenses for 2013 decreased by \$44 million, or 0.3 percent, compared with 2012, while capacity increased 1.7 percent, compared with 2012. Operating expenses per ASM for 2013 decreased 1.9 percent, compared with 2012. Both the dollar and per ASM decreases were primarily due to a decrease in Fuel and oil expense and in Acquisition and integration expense. On a non-GAAP basis, the Company's Operating expenses per ASM for 2013, excluding fuel and special items, increased 2.3 percent, compared with 2012, primarily due to higher Salaries, wages, and benefits expense. See the previous Note Regarding Use of Non-GAAP Financial Measures.

Salaries, wages, and benefits expense for 2013 increased by \$286 million, or 6.0 percent, compared with 2012. Salaries, wages, and benefits expense per ASM for 2013 increased 4.6 percent, compared with 2012. Approximately half of these increases were a result of higher wage rates for a significant portion of the Company's workforce, and

approximately half were a result of higher contributions to Employee retirement plans, including profitsharing and 401(k) matching contributions. 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.

Fuel and oil expense for 2013 decreased by \$357 million, or 5.8 percent, compared with 2012. On a per ASM basis, Fuel and oil expense for 2013 decreased 7.5 percent, compared with 2012. Excluding the impact of fuel hedge accounting, approximately 75 percent of both the dollar and per ASM decreases were attributable to reduced fuel price per gallon, with the remainder attributed to improved fuel efficiency. During 2013, the Company's average economic jet fuel price per gallon, including fuel tax, was \$3.12, compared with \$3.28 during 2012, a decrease of 4.9 percent. In addition, fuel gallons consumed decreased 1.6 percent, compared with 2012, while year-over-year capacity increased 1.7 percent. The improvement in fuel efficiency was primarily due to the Company's continued replacement of older 737-300 and 737-500 aircraft with newer 737-700 and 737-800 aircraft.

As a result of the Company's fuel hedging program and inclusive of accounting for derivatives and hedging, the Company recognized net losses totaling \$118 million during 2013 in Fuel and oil expense relating to fuel derivative instruments versus net losses totaling \$157 million recognized in Fuel and oil expense in 2012. These totals were inclusive of cash settlements realized from the settlement of fuel derivatives, which were \$34 million paid to counterparties in 2013, versus \$125 million paid to counterparties in 2012. These totals exclude gains and/or losses recognized from hedge ineffectiveness and from derivatives that do not qualify for hedge accounting, these impacts are recorded as a component of Other (gains) losses, net.

Maintenance materials and repairs expense for 2013 decreased by \$52 million, or 4.6 percent, compared with 2012. On a per ASM basis, Maintenance materials and repairs expense for 2013 decreased 5.7 percent, compared with 2012. Both the dollar and per ASM decreases were primarily attributable to a reduction in engine repairs and materials expense due to (i) retirements of the Company's 737-300 and 737-500 aircraft, and (ii) the transition of the Company's 717-200 fleet out of active service for delivery to Delta.

Aircraft rentals expense for 2013 increased by \$6 million, or 1.7 percent, compared with 2012, primarily due to expense associated with two 737-800 aircraft received in 2013 and the full year impact of five Boeing 737-800 aircraft received in 2012, all of which are accounted for as operating leases. On a per ASM basis Aircraft rentals expense for 2013 was flat compared with 2012.

Landing fees and other rentals expense for 2013 increased by \$60 million, or 5.8 percent, compared with 2012. On a per ASM basis, Landing fees and other rentals expense for 2013 increased 4.9 percent, compared with 2012. Both the dollar and per ASM increases were due to higher fixed and variable rental rates charged by several airports during 2013 due to additional space being occupied by the Company in some locations and/or as a result of higher airport debt service costs passed through to the airlines in certain cities.

Depreciation and amortization expense for 2013 increased by \$23 million, or 2.7 percent, compared with 2012, primarily due to depreciation associated with large software projects that were placed into service during 2013. Aircraft depreciation was relatively flat year-over-year, as the increase in expense related to the purchase of new 737-800 aircraft was offset by a decline in expense from the retirement of older owned 737-300 and 737-500 aircraft. On a per ASM basis, Depreciation and amortization expense for 2013 was relatively flat, compared with 2012.

Acquisition and integration expense for 2013 decreased by \$97 million, or 53.0 percent, compared with 2012. The decrease was primarily due to charges recorded in 2012 related to the Company's 717-200 lease and sublease agreements.

Other operating expense for 2013 increased by \$87 million, or 4.3 percent, compared with 2012. On a per ASM basis, Other operating expense for 2013 increased 1.2 percent, compared with 2012. Approximately half of both the dollar and per ASM increases were the result of increased Customer usage of WiFi onboard the Company's aircraft and approximately half were the result of higher consulting and contract programming expenses, net of capitalized costs.

Other

Other expenses (income) include interest expense, capitalized interest, interest income, and other gains and losses. Interest expense for 2013 decreased by \$16 million, or 10.9 percent, compared with 2012, primarily due to the repayment of the Company's \$385 million 6.5% notes in March 2012.

Capitalized interest for 2013 increased by \$3 million, or 14.3 percent, compared with 2012, primarily due to an increase in average progress payment balances for scheduled future aircraft deliveries.

Interest income for 2013 decreased by \$1 million, or 14.3 percent, compared with 2012, primarily due to lower interest rates.

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, 2013, and 2012:

(in millions)	Year ended December 31,	
	2013	2012
Mark-to-market impact from fuel contracts settling in future periods	\$(103)	\$(221)
Ineffectiveness from fuel hedges settling in future periods	11	42
Realized ineffectiveness and mark-to-market (gains) or losses	3	(42)
Premium cost of fuel contracts	60	36
Other	(3)	4
	\$(32)	\$(181)

Income Taxes

The Company's effective tax rate was approximately 37.6 percent for 2013, compared with 38.5 percent for 2012.

Liquidity and Capital Resources

Net cash provided by operating activities for 2014, 2013, and 2012 was \$2.9 billion, \$2.5 billion, and \$2.1 billion, respectively. Operating cash inflows are primarily derived from providing air transportation to Customers. The vast majority of tickets were purchased prior to the day on which travel was provided and, in some cases, several months before the anticipated travel date. Operating cash outflows are related to the recurring expenses of airline operations. The operating cash flows for 2014, 2013, and 2012 were impacted primarily by the Company's results of operations, as adjusted for non-cash items, which increased significantly year-over-year for each period, as well as changes in the Air traffic liability and Accounts payable and accrued liabilities. Operating cash flows can also be significantly impacted by the Company's fuel and interest rate hedge positions and the corresponding cash collateral requirements associated with those positions. During 2014 the Company provided \$233 million in cash collateral to derivative counterparties, and in 2013 and 2012 the Company received \$57 million and \$233 million, respectively, in cash collateral from derivative counterparties. Cash flows associated with entering into new fuel derivatives, which are also classified as Other, net, operating cash flows, were net outflows of \$247 million in 2014, net inflows of \$60 million in 2013, and net inflows of \$23 million in 2012. Net cash provided by operating activities is primarily used to finance capital expenditures, repay debt, fund stock repurchases, pay dividends, and provide working capital.

Net cash used in investing activities for 2014, 2013, and 2012 was \$1.7 billion, \$1.4 billion, and \$833 million, respectively. Investing activities in 2014, 2013, and 2012 included payments for new aircraft delivered to the

Company, progress payments for future aircraft deliveries, as well as purchases and sales of short-term and noncurrent investments,

which fluctuate primarily based on anticipated working capital needs. Investing activities in 2014 also included payments associated with airport construction projects, denoted as Assets constructed for others. See Note 4 to the Consolidated Financial Statements for further information. During 2014, 2013, and 2012 the Company's purchases and sales of short-term and noncurrent investments resulted in net cash provided of \$105 million, \$63 million, and \$515 million, respectively. The Company currently estimates its 2015 capital expenditures to be in the \$1.7 billion to \$1.8 billion range, excluding assets constructed for others which is estimated to be in the \$50 million to \$100 million range, net of reimbursements.

Net cash used in financing activities for 2014, 2013, and 2012 was \$1.2 billion, \$851 million, and \$947 million, respectively. During 2014 the Company repaid \$561 million in debt and capital lease obligations, compared with repayments of \$313 million and \$578 million during 2013 and 2012, respectively. During 2014 the Company issued \$300 million 2.75% senior unsecured notes due 2019 under the shelf registration statement. See Note 6 to the Consolidated Financial Statements for further information. The Company repurchased approximately \$955 million of its outstanding common stock through authorized share repurchases during 2014, compared with repurchases of \$540 million and \$400 million during 2013 and 2012, respectively. The Company also paid \$139 million in dividends to Shareholders during 2014, compared to \$71 million in 2013 and \$22 million in 2012. Although the Company currently intends to continue paying dividends on a quarterly basis for the foreseeable future, 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 of Directors.

The Company is a "well-known seasoned issuer" and currently has an effective shelf registration statement registering an indeterminate amount of debt and equity securities for future sales. The Company currently intends to use the proceeds from any future securities sales of this shelf registration statement for general corporate purposes.

The Company has access to a \$1 billion unsecured revolving credit facility expiring in April 2018. Interest on the facility is based on the Company's credit ratings at the time of borrowing. At the Company's current ratings, the interest cost would be LIBOR plus a spread of 125 basis points. The facility contains a financial covenant requiring a minimum coverage ratio of adjusted pre-tax income to fixed obligations, as defined. As of December 31, 2014, the Company was in compliance with this covenant and there were no amounts outstanding under the revolving credit facility.

The Company entered into an accelerated share repurchase agreement with a third party financial institution during first quarter 2014, pursuant to which the Company paid \$200 million and received, in total, approximately nine million shares. Through May 9, 2014, the Company had repurchased, under its previously authorized \$1.5 billion share repurchase program, approximately 126 million shares for a total of approximately \$1.5 billion, completing the program. Furthermore, on May 14, 2014, the Company's Board of Directors approved a new \$1 billion share repurchase program. Following the Board of Directors' authorization of the Company's new \$1 billion share repurchase program, the Company entered into the following share repurchases:

Share repurchases	Shares received	Cash paid
Open market purchases	750,000	\$19,643,700
Second Quarter ASR Program	7,411,977	200,000,000
Third Quarter ASR Program	6,147,812	200,000,000
Fourth Quarter ASR Program	3,810,008	(1) 200,000,000
Total	18,119,797	\$619,643,700

(1) This transaction was recorded as a treasury share purchase for purposes of calculating earnings per share. The shares received represented an estimated 75 percent of the shares to be purchased by the Company under the Fourth Quarter ASR Program. See Part II, Item 5 for further information on the Company's share repurchase authorization

and the Fourth Quarter ASR Program.

On August 5, 2014, Moody's upgraded the Company's senior unsecured debt rating to "Baa2" from "Baa3," the five pass-through trust certificates ("PTCs") to "Baa1," and the A and C tranches of the AirTran Airways Series

1999-1 Enhanced Equipment Trust Certificates ("EETC") to "A3" from "Baa1" and to "Baa3" from "Ba1," respectively. The upgrade of the Company's senior unsecured debt rating was based on Moody's expectations of further strengthening of the Company's credit metrics, building on the improvements in cash flow, earnings and financial leverage that the Company has achieved since the end of 2012. The upgrade of the Company's ratings on its PTCs reflects Moody's estimates that the loan-to-value ("LTVs") for the two transactions maturing within the next 24 months are about 60 percent and 70 percent, while the three subsequent maturities have estimated LTVs at between 115 percent and 150 percent as older Boeing B737-700 aircraft secure these instruments. The upgrade of the AirTran Series 1999-1 EETC reflects that both tranches are guaranteed by Southwest and that two Boeing B717-200 aircraft that will be subleased to Delta Air Lines secure this financing. Moody's estimates the LTVs of this financing at between 50 percent and 60 percent.

On September 22, 2014, Fitch affirmed the Company's debt rating of "BBB" and revised the rating outlook from stable to positive. The positive outlook reflects Fitch's view that a positive rating action could be warranted over the intermediate term should the Company continue to strengthen its operating margins, control unit cost inflation, generate solid free cash flow, and exhibit stable or declining leverage. Fitch also noted that the operating risks relating to the integration of AirTran are now largely in the past as the Company was expected to effectively complete the integration process by year-end 2014.

On October 31, 2014, Standard and Poor's raised the Company's credit rating to 'BBB' from 'BBB-', based on the Company's improving financial profile. Standard and Poor's noted the Company's improved credit ratios due to rising earnings and cash flow, and expects further improvement over the next two years.

The Company has a large net deferred tax liability on its Consolidated Balance Sheet. The deferral of income taxes has resulted in a significant benefit to the Company and its liquidity position. Since the Company purchases the majority of the aircraft it acquires, it has been able to utilize accelerated depreciation methods (including bonus depreciation) available under the Internal Revenue Code in 2014 and in previous years, which has enabled the Company to defer the cash tax payments associated with these depreciable assets to future years. Based on the Company's scheduled future aircraft deliveries from Boeing and existing tax laws in effect, the Company will continue to defer a portion of cash income taxes to future years. The Company has paid in the past, and will continue to pay in the future, significant cash taxes to the various taxing jurisdictions where it operates. The Company expects to be able to continue to meet such obligations utilizing cash and investments on hand, as well as cash generated from its ongoing operations.

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. 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. See Note 4 to the Consolidated Financial Statements for a complete table of the Company's firm orders, options, and purchase rights with Boeing and other parties. 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.

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 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, 2014, the Company

had 190 leased aircraft, including 78 B717s subleased to Delta. Of these leased aircraft, 174 are under operating leases, including 76 B717s subleased to Delta. 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 7 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 and may choose to provide letters of credit in place of posting cash collateral related to its fuel hedging positions. Although the letters of credit are off-balance sheet, the majority of the obligations to which they relate are reflected as liabilities in the Consolidated Balance Sheet. Outstanding letters of credit totaled \$440 million at December 31, 2014.

The following table aggregates the Company's material expected contractual obligations and commitments as of December 31, 2014:

	Obligations by period (in millions)				Total
	2015	2016 - 2017	2018 - 2019	Beyond 2019	
Contractual obligations					
Long-term debt (1)	\$232	\$1,023	\$737	\$455	\$2,447
Interest commitments - fixed (2)	102	163	84	82	431
Interest commitments - floating (3)	15	31	22	—	68
Operating lease commitments (4)	684	1,228	926	2,317	5,155
Capital lease commitments (5)	33	87	87	202	409
Aircraft purchase commitments (6)	836	2,384	2,136	5,692	11,048
Other commitments	230	131	17	64	442
Total contractual obligations	\$2,132	\$5,047	\$4,009	\$8,812	\$20,000

(1) Includes principal only and includes \$68 million in 2015 associated with the Company's convertible senior notes due 2016. See Note 6 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, 2014 and can be subject to significant fluctuation.

(4) Includes Love Field Modernization Program commitment amounts, and includes the impact of the Boeing 717 lease/sublease transaction entered into in 2012. See Note 7 to the Consolidated Financial Statements.

(5) Includes interest on capital leases.

(6) Firm orders from Boeing and commitments with other parties.

Cumulative costs associated with the acquisition and integration of AirTran, as of December 31, 2014, totaled \$536 million (before profitsharing and taxes). The Company expects total acquisition and integration costs to be approximately \$550 million (before profitsharing and taxes) upon completing the transition of AirTran 717-200s out of the fleet in 2015. These costs have been, and are expected to continue to be, funded with cash from operations. Given that the AirTran integration process had been effectively completed as of December 31, 2014, the Company does not anticipate significant future integration expenditure requirements. The Company believes that its current liquidity position, including unrestricted cash and short-term investments of \$3.0 billion as of December 31, 2014, anticipated future internally generated funds from operations, and its fully available, unsecured revolving credit facility of \$1 billion that expires in April 2018, will enable it to meet its future known obligations in the ordinary course of business. However, if a liquidity need were to arise, the Company believes it has access to financing arrangements because of its current investment grade credit ratings, large value of unencumbered assets, and modest leverage, which should enable it to meet its ongoing capital, operating, and other liquidity requirements. The Company will continue to consider various borrowing or leasing options to maximize liquidity and supplement cash requirements as necessary.

Airport Projects

The Company has commitments associated with various airport improvement projects that will impact its future liquidity needs in differing ways. These projects include the construction of new facilities and the rebuilding or modernization of existing facilities and are discussed in more detail in Note 4 to the Consolidated Financial Statements.

Dallas Love Field

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For the rebuilding of the facilities at Dallas Love Field, the Company has guaranteed principal, premium, and interest on \$456 million in bonds issued by the Love Field Airport Modernization Corporation ("LFAMC") that have been utilized to fund the majority of the project. Repayment of the 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.

Prior to the issuance of the bonds by the LFAMC, the Company entered into two separate funding agreements: (i) a "Facilities Agreement" pursuant to which the Company is obligated to make debt service payments on the principal and interest amounts associated with the bonds ("Facilities Payments"), less other sources of funds the City of Dallas may apply to the repayment of the bonds (including but not limited to passenger facility charges collected from passengers originating from the airport); and (ii) 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 (i) use and lease agreements with other airlines, (ii) various concession agreements, and (iii) other airport miscellaneous revenues. The Company's liquidity could be impacted by this project to the extent there are timing differences 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 expect that to occur. The project is not expected to have a significant impact on the Company's capital resources or financial position.

Fort Lauderdale-Hollywood International Airport

The Company has committed to oversee and manage the design and construction of Fort-Lauderdale-Hollywood International Airport's Terminal 1 Modernization Project, including the design and construction of a new five-gate Concourse A with an international processing facility, at a cost not to exceed \$295 million. Funding for the project will come directly from Broward County aviation sources, but will flow through the Company in its capacity as manager of the project. In general, as work is being completed on the project by various contractors, invoices would be submitted to Broward County for initial payment to the Company, which would then make such payments to the contractors performing the work.

The Company's liquidity could be impacted by this project to the extent there are instances in which the Company chooses to make payments to contractors prior to receiving initial payment from Broward County, although the Company currently does not expect this to occur often based on its past experience with smaller projects conducted at the airport. The project is not expected to have a significant impact on the Company's capital resources or financial position. Construction on the project is not expected to begin until mid to late 2015.

Houston William P. Hobby Airport

The Company has committed to oversee and manage the construction, at Houston William P. Hobby Airport, of a new five-gate international terminal with international passenger processing facilities, expansion of the existing security checkpoint, and upgrades to the Southwest ticketing counter area. The Company and the City of Houston ("City") entered into an Airport Use and Lease Agreement ("Lease") to control the execution of this expansion and the financial terms thereof. The project is estimated to cost \$156 million, and the Company has agreed to provide the funding for, as well as management over, the project. In return, the Company will receive a monthly credit for the capital cost portions of the international terminal, from the date of initial occupancy of the terminal until expiration of the Lease. Additionally, some portion of the project is expected to qualify for rental credits that would be utilized upon completion of the facility against the Company's current lease space at the airport. At any time after the completion of the project, the City may buy out the Company's investment in the international terminal via a cash payment for the then-unamortized cost of the project.

The Company's liquidity will be impacted by this project from the point of initial funding until the time at which it receives monthly credits upon completion, and whether or not the City chooses to buy out the Company's investment prior to the full amortization of the project. The project is not expected to have a significant impact on the Company's capital resources or financial position. Construction began during third quarter 2013 and is estimated to be completed during the second half of 2015.

Los Angeles International Airport

In March 2013, the Company executed a lease agreement with Los Angeles World Airports ("LAWA"), which owns and operates Los Angeles International Airport. Under the lease agreement, which was amended in June 2014, the Company will oversee and manage the design, development, financing, construction and commissioning of the airport's Terminal 1 Modernization Project (the "Project") at a cost not to exceed \$525 million. The Project will be funded using the Regional Airports Improvement Corporation ("RAIC"), which is a quasi-governmental special purpose entity that will act as a conduit borrower under a syndicated credit facility provided by a group of lenders. Loans made under the credit facility will be used to fund the development of the Project, and the outstanding loans will be repaid with the proceeds of LAWA's payments to purchase completed Project phases. The Company has guaranteed the obligations of the RAIC under the credit facility.

The Company's liquidity could be impacted by this project under certain circumstances; however, the Company does not expect this to occur based on its past experience with other projects. The project is not expected to have a significant impact on the Company's capital resources or financial position. Construction on the project began during fourth quarter 2014.

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 both (i) are most important to the portrayal of the Company's financial condition and results and (ii) 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 primarily 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, which includes a portion of the Company's liability associated with its frequent flyer program, fluctuates throughout the year based on seasonal travel patterns, fare sale activity, and activity associated with the Company's frequent flyer program.

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 current "Contract of Carriage," all refundable tickets 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. 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. In September 2013, Southwest implemented a No Show policy that applies to nonrefundable fares that are not canceled or changed by a Customer at least ten minutes prior to a flight's scheduled departure. See Note 1 to the Consolidated Financial Statements for further information. 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.

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 2014, the Company revised assumptions regarding Customer behavior subsequent to the implementation of its No Show policy. Consequently, the Company's estimate of the amount of refunded, exchanged, or forfeited tickets recorded during 2014 was approximately 15 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.

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 567 Boeing 737 aircraft in the Company's fleet at December 31, 2014, which are either owned or on capital lease. The remaining 98 Boeing 737 aircraft in the Company's fleet at December 31, 2014, are operated under operating leases. The Company also has 12 Boeing 717 aircraft which are either owned or on capital lease, which are included in a lease agreement to another carrier. However, since these aircraft are not in service for the Company, they are not included in its fleet figures as of December 31, 2014. See Note 7 to the Consolidated Financial Statements for further information. 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:

	Estimated useful life	Estimated residual value
Airframes and engines	23 to 25 years	2 to 20 percent
Aircraft parts	Fleet life	4 percent
Ground property and equipment	5 to 30 years	0 to 10 percent

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 third quarter 2012, 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, as well as a significant change in the way the Company expected to utilize the fleet, the Company reduced the residual values of these aircraft. This determination was made based on the continuous assessment of the market 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 Company does not believe these changes in estimates towards the end of the useful lives for a given fleet type are unusual, especially given the rapid pace of technological advancement, volatile fuel prices, and recent significant transactions involving the Company’s fleet. See Note 1 to the Consolidated Financial Statements for further information. The impact of this change for the year ended December 31, 2012 was an increase to Depreciation expense of \$34 million.

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.

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, 2014, the Company was a party to over 1,100 separate financial derivative instruments related to its fuel hedging program for the years 2015 through 2018. 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 and in the second half of 2014. For example, during 2014, market “spot” prices for Brent crude oil peaked at a high of approximately \$115 per barrel and hit a low price of approximately \$57 per barrel. During 2013, market spot prices

ranged from a high of \$119 per barrel to a low of \$98 per barrel. Market price changes can be driven by factors such as supply and demand, inventory levels, weather events, refinery capacity, political agendas, the 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, put spreads, and fixed price swap agreements.

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 beyond approximately 24 months, 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 periods, because of increased volatility in energy markets, the Company has lost hedge accounting for certain types of commodities, including in the third quarter of 2013, when the Company lost hedge accounting for West Texas Intermediate crude oil instruments. At this time, the Company marks 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 any other periods presented. Although the Company continues to use a prospective assessment to determine that other commodities continue to 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 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 change 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 2014, 2013, and 2012, 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, 2014, these included auction rate security investments, valued at \$27 million, a portion of its fuel derivative option contracts, which were a net liability of \$1.1 billion, 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. The Company has determined the estimated fair values of these securities utilizing a 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, estimates of the next time the security is expected to have a successful auction or return to full par value, forecasted reset rates based on the London Interbank Offered Rate ("LIBOR") or the issuer's net loan rate, and a counterparty credit spread.

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 implied 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

The Company utilizes estimates in the recognition of liabilities associated with its frequent flyer program. 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. Frequent flyer account balances include points earned through flights taken, points sold to Customers, or points earned through business partners participating in the frequent flyer program.

Under the Southwest Rapid Rewards frequent flyer program, members earn points for every dollar spent. The amount of points earned under the program 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. Under the 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 and qualifying purchases with Rapid Rewards Partners, Rapid Rewards Members also have the ability to purchase points.

The Company utilizes the incremental cost method of accounting for points earned through flights taken in its frequent flyer program. A liability is recorded for the estimated incremental cost of providing free travel as points are being earned. The liability recorded represents the total number of points 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 fixed overhead costs or profit. At December 31, 2014, the incremental cost liability was approximately \$63 million.

The Company also sells frequent flyer points and related services to business partners participating in the frequent flyer program. The majority of the points sold to business partners are through the Southwest co-branded Chase Visa credit card. Funds received from the sale of points associated with these agreements are accounted for under the residual method. Under the residual method, as of both December 31, 2013, and 2014, the Company estimated that 100 percent of the amount received from frequent flyer points sold associated with Southwest's co-branded Chase Visa credit card relates to free travel. This is due to the increase in Southwest's average fare in recent years, while the average value received from business partners for the purchase of points has remained relatively flat. Therefore, for accounting purposes, the Company currently assigns no value associated with items such as business partner access to Southwest's frequent flyer program population for marketing/solicitation purposes, use of Southwest's logo on the co-branded Chase Visa credit cards, and other trademarks, designs, images, etc., of Southwest for use in marketing materials. The estimated amounts associated with free travel are deferred and recognized as Passenger revenue when the ultimate free travel awards are flown. For all points sold to business partners that are expected to expire unused, the Company recognizes spoilage in accordance with the redemption method. For any portion of funds received that is deemed not to be associated with future travel, the Company would recognize such revenue in 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. Any estimated amount that is not associated with free travel would be recognized in Other revenue in the period earned.

Under its current program, Southwest estimates the portion of frequent flyer points that will not be redeemed. In estimating spoilage, the Company takes into account the Member's past behavior, as well as several factors related to the Member's account that are expected to be indicative of the likelihood of future point redemption. These factors include, but are not limited to, tenure with program, points accrued in the program, and whether or not the customer has a co-branded credit card. During fourth quarter 2014, the Company obtained sufficient historical behavioral data to develop a predictive statistical model to analyze the amount of spoilage expected for points sold to business partners, which indicated an increase in the expected spoilage rate. This change in estimate, which is recorded on a prospective basis, as of October 1, 2014, resulted in an increase in Passenger revenue of approximately \$55 million for the quarter and the year ended December 31, 2014. The Company expects the higher spoilage rate to continue to increase Passenger revenue in 2015, but at a lower amount than the fourth quarter 2014 impact. The precise impact will not be determinable until the actual number of point redemptions for the period is known. For the year ended December 31, 2014, based on actual redemptions of points sold to business partners, a hypothetical one percentage point change in the estimated spoilage rate results in a change to Passenger revenue of approximately \$25 million (an increase in spoilage would have resulted in an increase in revenue and a decrease in spoilage would have resulted in a decrease in revenue). Given that Member behavior will continue to develop as the program matures, the Company expects the current estimates may change in future periods. However, the Company believes its current estimates are reasonable given current facts and circumstances.

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, 2014, the excess of the consideration transferred over the fair value of AirTran's assets and liabilities on the acquisition date. In addition, the Company has recorded other intangible assets totaling approximately \$363 million at December 31, 2014, 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. All of the Company's intangible assets, other than goodwill and owned takeoff and landing slots at domestic airports, are finite-lived and are being amortized over their estimated economic useful lives. Goodwill is not amortized, but will continue to be tested for impairment at least annually, or more frequently if events or circumstances indicate that an impairment may exist.

The Company applies a fair value based impairment test to the carrying value of goodwill and indefinite-lived intangible assets on an annual basis (as of October 1) and, or more frequently if certain events or circumstances indicate that an impairment loss may have been incurred. The FASB standard "Testing Indefinite-Lived Intangible Assets for Impairment" gives companies the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired rather than calculating the fair value of the indefinite-lived intangible asset. The Company adopted this standard and has applied the provisions to our annual indefinite-lived intangible asset impairment test for 2014.

The Company first utilizes a qualitative approach and analyzes various factors to determine if events and circumstances have affected the fair value of the goodwill and indefinite-lived intangible assets. If the Company determines it is more likely than not that the asset value may be impaired, the Company then uses the quantitative approach to assess the asset's fair value and amount of impairment. As a result of the Company's qualitative analyses performed during 2014 the Company concluded it was more likely than not that the fair values of its Goodwill and Indefinite-lived intangible assets was greater than the carrying value and; therefore, a quantitative assessment was not necessary.

In 2013 the Company made the determination that all of its owned domestic slots should be assigned an indefinite life and would thus not be subject to further amortization, including those that are owned but leased to other carriers. Among other factors, this was due to the Company's reassessment of the current size and importance of its operations at New York's LaGuardia Airport and Washington's Ronald Reagan National Airport versus when the Company first began service to these airports in recent years. The impact of this prospective change in accounting estimate had an

insignificant impact on amortization expense for 2014. The Company has selected October 1st as its annual testing date for indefinite-lived intangible impairment. As part of this evaluation the Company assesses whether changes in (i) macroeconomic conditions; (ii) industry and market conditions; (iii) cost factors; (iv) overall financial

performance; and (v) Company-specific events, had occurred which would impact the use and/or fair value of these assets. The Company conducted an annual impairment test during fourth quarter 2014 and no impairment was noted.

Future impairment of Goodwill and owned domestic slots 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 of Goodwill, holding other assumptions constant, could include, but are not limited to: (i) reduced passenger demand as a result of domestic or global economic conditions; (ii) significantly higher prices for jet fuel; (iii) lower fares or passenger yields as a result of increased competition or lower demand; (iv) a significant increase in future capital expenditure commitments; and (v) 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. Factors which could result in an impairment of owned domestic slots, holding other assumptions constant, could include, but are not limited to: (i) increased competition in the slotted airport; (ii) a change in competition in the slotted airport; (iii) significantly higher prices for jet fuel; and (iv) increased competition at a nearby airport.

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:

- 3.1 Restated Certificate of Formation of the Company, effective May 18, 2012 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 1-7259)).
- 3.2 Amended and Restated Bylaws of the Company, effective November 19, 2009 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated November 19, 2009 (File No. 1-7259)).
- 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)).
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10.1(a) Supplemental Agreement No. 89 to Purchase Agreement No. 1810, dated January 19, 1994, between The Boeing Company and the Company (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259)). (1)

10.1(b) Supplemental Agreement No. 90 to Purchase Agreement No. 1810, dated January 19, 1994, between The Boeing Company and the Company (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259)). (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

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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)

10.4 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)

10.5 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)

10.6 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)).

10.7 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)).

10.8 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)

- 10.9 Southwest Airlines Co. 2002 Bonus SWAPA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed August 27, 2002 (File No. 333-98761)).
- 10.10 Southwest Airlines Co. 2002 SWAPIA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed October 30, 2002 (File No. 333-100862)).
- 10.11 Southwest Airlines Co. Amended and Restated 2007 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 (File No. 1-7259)). (2)
- 10.12 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)
- 10.13 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)
- 10.14 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)
- 10.15 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)
- 10.16 Amended and Restated Southwest Airlines Co. 2005 Excess Benefit Plan (as amended and restated effective for plan years beginning on and after January 1, 2015) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (File No. 1-7259)). (2)
- 10.17 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)).
- 10.18 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, 2014 (File No. 1-7259)). (2)
- 10.19 \$1,000,000,000 Revolving Credit Facility Agreement among the Company, The Banks Party thereto, Morgan Stanley Senior Funding, Inc., as Syndication Agent, Bank of America, N.A., Barclays Bank PLC, Deutsche Bank Securities Inc., Goldman Sachs Bank USA, and Wells Fargo Bank, N.A., as Documentation Agents, Citibank, N.A. and JPMorgan Chase Bank, N.A., as Co-Administrative Agents, and Citibank, N.A., as Paying Agent, dated as of April 2, 2013 (incorporated by reference to Exhibit 10.1 to the Company's

Current Report on Form 8-K dated April 2, 2013 (File No. 1-7259)).

- 10.20 Purchase Agreement No. 3729 and Aircraft General Terms Agreement, dated December 13, 2011, between The Boeing Company and the Company (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 1-7259)); Supplemental Agreements Nos. 1 and 2 (incorporated by reference to Exhibits 10.3 and 10.4, respectively, to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (File No. 1-7259)); Supplemental Agreement No. 3 (incorporated by reference to Exhibit 10.27(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 1-7259)). (1)
- 10.21 Southwest Airlines Co. Senior Executive Short Term Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated January 30, 2013 (File No. 1-7259)). (2)
- 10.22 Southwest Airlines Co. Deferred Compensation Plan for Senior Leadership and Non-Employee Members of the Southwest Airlines Co. Board of Directors (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated May 13, 2014 (File No. 1-7259)). (2)

10.23	Southwest Airlines Co. Amended and Restated 2007 Equity Incentive Plan Form of Notice of Grant and Terms and Conditions for Performance-Based Restricted Stock Unit grants (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (File No. 1-7259)). (2)
21	Subsidiaries of the Company (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259)).
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259)).
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 (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259)). (3)
101.INS	XBRL Instance Document (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259))
101.SCH	XBRL Taxonomy Extension Schema Document (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259))
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259))
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259))
101.LAB	XBRL Extension Labels Linkbase Document (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259))
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259))

- (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.

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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.

SIGNATURES

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

SOUTHWEST AIRLINES CO.

February 11, 2015

By /s/ Tammy Romo

Tammy Romo
Senior Vice President Finance & Chief Financial Officer
(On behalf of the Registrant and in
her capacity as Principal Financial
& Accounting Officer)

INDEX TO THE EXHIBITS

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10.1(b) Supplemental Agreement No. 90 to Purchase Agreement No. 1810, dated January 19, 1994, between The Boeing Company and the Company (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259)). (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 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)

10.4 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)

10.5 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)

10.6 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)).

10.7 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)).

- 10.8 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)
- 10.9 Southwest Airlines Co. 2002 Bonus SWAPA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed August 27, 2002 (File No. 333-98761)).
- 10.10 Southwest Airlines Co. 2002 SWAPIA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed October 30, 2002 (File No. 333-100862)).

- 10.11 Southwest Airlines Co. Amended and Restated 2007 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 (File No. 1-7259)). (2)
- 10.12 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)
- 10.13 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)
- 10.14 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)
- 10.15 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)
- 10.16 Amended and Restated Southwest Airlines Co. 2005 Excess Benefit Plan (as amended and restated effective for plan years beginning on and after January 1, 2015) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (File No. 1-7259)). (2)
- 10.17 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)).
- 10.18 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, 2014 (File No. 1-7259)). (2)
- 10.19 \$1,000,000,000 Revolving Credit Facility Agreement among the Company, The Banks Party thereto, Morgan Stanley Senior Funding, Inc., as Syndication Agent, Bank of America, N.A., Barclays Bank PLC, Deutsche Bank Securities Inc., Goldman Sachs Bank USA, and Wells Fargo Bank, N.A., as Documentation Agents, Citibank, N.A. and JPMorgan Chase Bank, N.A., as Co-Administrative Agents, and Citibank, N.A., as Paying Agent, dated as of April 2, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 2, 2013 (File No. 1-7259)).
- 10.20 Purchase Agreement No. 3729 and Aircraft General Terms Agreement, dated December 13, 2011, between The Boeing Company and the Company (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 1-7259)); Supplemental Agreements Nos. 1 and 2 (incorporated by reference to Exhibits 10.3 and 10.4, respectively, to the Company's Quarterly Report on

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Form 10-Q for the quarter ended June 30, 2013 (File No. 1-7259)); Supplemental Agreement No. 3 (incorporated by reference to Exhibit 10.27(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 1-7259)). (1)

10.21 Southwest Airlines Co. Senior Executive Short Term Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated January 30, 2013 (File No. 1-7259)). (2)

10.22 Southwest Airlines Co. Deferred Compensation Plan for Senior Leadership and Non-Employee Members of the Southwest Airlines Co. Board of Directors (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated May 13, 2014 (File No. 1-7259)). (2)

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10.23	Southwest Airlines Co. Amended and Restated 2007 Equity Incentive Plan Form of Notice of Grant and Terms and Conditions for Performance-Based Restricted Stock Unit grants (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (File No. 1-7259)). (2)
21	Subsidiaries of the Company (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259)).
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259)).
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 (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259)). (3)
101.INS	XBRL Instance Document (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259))
101.SCH	XBRL Taxonomy Extension Schema Document (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259))
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259))
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259))
101.LAB	XBRL Extension Labels Linkbase Document (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259))
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed on February 6, 2015, as part of the original filing of this Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-7259))

- (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.

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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.